



Santa Clara Valley Water District Board of Directors Meeting

City of Morgan Hill, 17575 Peak Avenue, Morgan Hill, CA 95037
Join Zoom Meeting: <https://valleywater.zoom.us/j/84454515597>

SPECIAL SOUTH COUNTY MEETING AGENDA

Wednesday, April 22, 2026
7:00 PM

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

DISTRICT BOARD OF DIRECTORS
Tony Estremera, Chair-District 6
Richard P. Santos, Vice Chair-District 3
John L. Varela-District 1
Shiloh Ballard-District 2
Jim Beall-District 4
Nai Hsueh-District 5
Rebecca Eisenberg-District 7

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 630-2277.

MELANIE RICHARDSON
Interim Chief Executive
Officer

CANDICE KWOK-SMITH
Clerk, Board of the Directors
(408) 630-3193
www.valleywater.org

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

**Santa Clara Valley Water District
Board of Directors
SPECIAL SOUTH COUNTY MEETING
AGENDA**

Wednesday, April 22, 2026

7:00 PM

City of Morgan Hill, 17575 Peak Avenue, Morgan Hill, CA 95037

Join Zoom Meeting:

<https://valleywater.zoom.us/j/84454515597>

*****IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS*****

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as hybrid meetings, conducted in-person as well as by telecommunication, and are compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while maintaining transparency and public access, members of the public have the option to participate via teleconference/video conference or attend in person. To participate in the meeting via teleconference/video conference, please refer to the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at <https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf>

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item listed on the agenda, may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself in order to speak, at the time the item is called. Speakers will be acknowledged by the Board/Committee Chair in the order that requests are received and granted speaking access to address the Board. Written comments on any item on the agenda may be submitted to clerkoftheboard@valleywater.org or board@valleywater.org.

- Members of the Public may test their connection to Zoom Meetings at: <https://zoom.us/test>
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: <https://www.youtube.com/watch?v=TojJpYCxXm0>

Valley Water, in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Board of Directors/Board Committee meetings to please contact the Clerk of the Board's office at (408) 630-2277, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of

California, including but not limited to, Government Code Sections 54950 et. seq., and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes, or other obligations. Any projections, plans, or other forward-looking statements included in the information on this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at <https://emma.msrb.org/> and <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

Join Zoom Meeting:

<https://valleywater.zoom.us/j/84454515597>

Meeting ID: 844 5451 5597

Join by Phone:

1 (669) 900-9128, 84454515597#

1. CALL TO ORDER/ROLL CALL:

- 1.1. Roll Call.
- 1.2. Pledge of Allegiance/National Anthem.
- 1.3. Time Open for Public Comment on any Item not on the Agenda.

Notice to the public: Members of the public who wish to address the Board/Committee on matters not listed on the agenda may do so by completing a Speaker Card and submitting it to the Clerk, or by using the "Raise Hand" feature within the Zoom meeting application to request recognition. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and, when recognized, will be granted speaking access to address the Board/Committee.

Public comments shall be limited to three (3) minutes per speaker, or such other time as determined by the Chair. State law does not permit the Board/Committee to take action on, or engage in extended discussion of, any item not appearing on the posted agenda, except as otherwise authorized under applicable law. If Board/Committee action is requested, the matter may be scheduled for consideration at a future meeting.

All public comments requiring a response will be referred to staff for a written reply. The Board/Committee may take action on any item of business appearing on the posted agenda.

2. 7:00 PM - TIME CERTAIN:

- 2.1. Conduct the Continued Public Hearing on the February 2026 Annual Report on the Protection and Augmentation of Water Supplies and Recommended Increases in Groundwater Production Charges, Surface Water Charges, and Recycled Water Charges for Fiscal Year 2026-27; Consider Staff's Recommendation Concerning Setting of State Water Project Tax.

[25-0875](#)

(Continued from April 14, 2026)

Recommendation:

- A. Conduct the continued Public Hearing pursuant to Section 26.6 of the District Act to consider Santa Clara Valley Water District's Fiscal Year (FY) 2026-27 Annual Report on the Protection and Augmentation of Water Supplies and recommended increases to groundwater production charges (between 6.6% to 9.4%), surface water charges (between 6.9% to 9.4%) and recycled water charges (between 4.8% to 6.8%);
- B. Hear public comments from groundwater producers and any interested persons regarding the Report and recommendations;
- C. Consider any written protests to proposed surface water rate increases;
- D. Consider staff's recommendation to set the State Water Project tax in an amount sufficient to pay next year's State Water Project costs (excluding Delta Conveyance Project costs) to avoid severe water rate impacts and keep rates feasible;
- E. Direct staff to review such Report with, and solicit comments from, Santa Clara Valley Water District's advisory committees; and
- F. Continue the Public Hearing regarding this Report and proposed charges to the April 28, 2026, Closed Session and Regular meeting at 1:00 pm.

Manager: Aaron Baker, 408-630-2135

Attachments: [Attachment 1: Staff Report](#)
[Attachment 2: PowerPoint](#)
[Attachment 3: Resolution No. 12-10](#)

Est. Staff Time: 60 Minutes.

3. ADJOURN:

- 3.1. The Board will convene for the next Closed Session and Regular meeting at 11:00 a.m. on Tuesday, April 28, 2026, in the Santa Clara Valley Water District Headquarters Building Boardroom, 5700 Almaden Expressway, San Jose, California, and via Zoom teleconference.



Santa Clara Valley Water District

File No.: 25-0875

Agenda Date: 4/22/2026

Item No.: 2.1.

BOARD AGENDA MEMORANDUM

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Conduct the Continued Public Hearing on the February 2026 Annual Report on the Protection and Augmentation of Water Supplies and Recommended Increases in Groundwater Production Charges, Surface Water Charges, and Recycled Water Charges for Fiscal Year 2026-27; Consider Staff's Recommendation Concerning Setting of State Water Project Tax.
(Continued from April 14, 2026)

RECOMMENDATION:

- A. Conduct the continued Public Hearing pursuant to Section 26.6 of the District Act to consider Santa Clara Valley Water District's Fiscal Year (FY) 2026-27 Annual Report on the Protection and Augmentation of Water Supplies and recommended increases to groundwater production charges (between 6.6% to 9.4%), surface water charges (between 6.9% to 9.4%) and recycled water charges (between 4.8% to 6.8%);
- B. Hear public comments from groundwater producers and any interested persons regarding the Report and recommendations;
- C. Consider any written protests to proposed surface water rate increases;
- D. Consider staff's recommendation to set the State Water Project tax in an amount sufficient to pay next year's State Water Project costs (excluding Delta Conveyance Project costs) to avoid severe water rate impacts and keep rates feasible;
- E. Direct staff to review such Report with, and solicit comments from, Santa Clara Valley Water District's advisory committees; and
- F. Continue the Public Hearing regarding this Report and proposed charges to the April 28, 2026, Closed Session and Regular meeting at 1:00 pm.

SUMMARY:

Section 26.5 of Santa Clara Valley Water District's (Valley Water) District Act requires that Valley Water annually prepare a "written report upon the District's activities in the protection and augmentation of the water supplies of the District." Section 26.6 of the District Act requires Valley Water to hold a Public Hearing regarding this annual "Protection and Augmentation of Water Supplies" report on or before the fourth Tuesday of April.

This Public Hearing is conducted to inform the community of the activities performed by Valley Water

to ensure a reliable water supply and staff's recommended groundwater production charges and other water charges needed to pay for those activities. The Hearing provides opportunity for any interested person to submit comments to the Board. This year's groundwater production charge setting process is being conducted consistently with the District Act and Resolution No. 99-21. The raw surface water charge setting process includes a formal protest procedure consistent with Resolution No. 12-10 (See attachment 3). If written protests are filed by a majority of surface water operators, the surface water charge cannot be increased.

The Protection and Augmentation of Water Supplies (PAWS) Report can be found at www.valleywater.org <<http://www.valleywater.org>>.

Need for Water Charges

Groundwater production charges are necessary to pay for ongoing operations and maintenance of the existing water utility system, investments in water supply infrastructure rehabilitation and upgrades, and new water supply reliability investments. Investing in key rehabilitation and upgrade projects and securing new water supply has resulted in a multi-year era of investment for the water utility. Investing now remains the prudent path to ensure that our water utility projects continue to do their job of providing safe, clean, and reliable water to all of Santa Clara County.

The proposed maximum groundwater production charges for FY 2026-27 are necessary to (1) advance the Anderson Dam Seismic Retrofit, which will improve public safety and restore operational capacity; (2) to fund key baseline projects such as the Rinconada Water Treatment Plant reliability improvement and the 10-year Pipeline Rehabilitation Program; (3) to participate in the B.F. Sisk Dam Raise and Sites Reservoir projects, which would provide additional water storage capacity; and, (4) to pay for general inflation.

Groundwater Production and Treated Water Charge Recommendations

Staff proposes a 9.1% increase in the North County Zone W-2 Municipal and Industrial (M&I) groundwater production charge, from \$2,450.00 per acre foot (AF) to \$2,673.00/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 \$5.63 or about 19 cents a day.

In the South County Zone W-5, staff proposes a 6.6% increase in the M&I groundwater production charge from \$624.50/AF to \$665.50/AF. The proposal equates to a monthly bill increase for the average household of \$1.04 or about 3 cents per day.

In the South County Zone W-7, staff proposes a 9.4% increase in the M&I groundwater production charge from \$834.50/AF to \$913.00/AF. The proposal equates to a monthly bill increase for the average household of \$1.98 or about 7 cents per day.

In the South County Zone W-8, staff proposes an 8% increase in the M&I groundwater production charge from \$464.00/AF to \$501.00/AF. The proposal equates to a monthly bill increase for the average household of \$0.93 or about 3 cents per day.

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

For agricultural groundwater users, staff proposes an increase of 8 percent from the prior year, which equates to setting the agricultural groundwater charge at 9.25 percent of the lowest M&I rate (Zone W-8). The proposed agricultural groundwater production charge in any groundwater benefit zone would change from \$43.00/AF to \$46.50/AF, or roughly a \$0.58 increase per month per acre, assuming two acre-feet of water usage per acre per year.

Surface Water and Recycled Water Charge Recommendations

Staff recommends a 9.1% increase to the surface water master charge from \$67.00/AF to \$73.00/AF to align revenues with costs related to managing, operating and billing for surface water diversions. This increase results in a proposed 9.1% increase to the North County (Zone W-2) M&I surface water charge, to \$2,746.00/AF.

For South County zones, staff proposes the following M&I surface water charge increases: for Zone W-5, a 6.8 percent increase to \$738.50/AF; for Zone W-7, a 9.4 percent increase to \$986.00/AF; for Zone W-8, an 8.1 percent increase to \$574.00/AF.

Staff recommends that the total agricultural surface water charge be increased 8.6 percent in all zones, to \$119.50/AF.

For recycled water (Zone W-5), staff recommends increasing the M&I charge by 6.8 percent, to \$645.50/AF, and increasing the agricultural charge by 4.8 percent, to \$76.85/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.”

Open Space Credit

According to Section 26.1 of the District Act, agricultural water is “water primarily used in the commercial production of agricultural crops or livestock.” Valley Water’s Board has historically recognized that agriculture brings value to Santa Clara County in the form of open space and local produce. To promote the maintenance of agricultural and open lands, the Board’s current pricing policy limits the agricultural groundwater production charge to 10% of the M&I Charge. Currently, the zone with the lowest M&I charge is used to set the agricultural groundwater production charge (Zone W-8).

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.

Proposed State Water Project Tax

Staff also recommends setting the State Water Project (SWP) Tax at \$28 million for FY 2026-27 to pay all anticipated FY 2026-2027 SWP costs other than Delta Conveyance Project costs. This translates to a property tax bill for the average single-family residence of roughly \$46.00 per year. A SWP tax in this amount is necessary to avoid severe increases to Valley Water's water rates and rate payors, keeping them feasible. If the recommended FY 2026-27 State Water Project Tax is not approved, the impact translates to a needed increase in the M&I groundwater production charge of an additional \$158/AF in North County Zone W-2 and in South County an additional \$37/AF in Zone W-5, \$49/AF in Zone W-7 and \$38/AF in Zone W-8 in South County. The open space credit would increase by roughly \$962,533.

Valley Water's 55th Annual Report on the Protection and Augmentation of Water Supplies, among other information, contains a financial analysis of Valley Water's water utility system and additional details about the above recommendations. This report can be found at www.valleywater.org <<http://www.valleywater.org>>.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

FINANCIAL IMPACT:

If the Board approves the recommended groundwater production and other water charges, the Water Utility should have sufficient funding for planned operations and capital improvement projects for FY 2026-27.

CEQA:

The establishment of groundwater production charges and other water charges is not a project under CEQA Guidelines Section 15273(a) (CEQA does not apply to establishment or modification of charges by public agencies which the public agency finds are for the purpose of meeting operating expenses; purchasing or leasing supplies, equipment and materials; meeting financial reserve needs/requirements; and obtaining funds for capital projects needed to maintain service within existing service areas).

ATTACHMENTS:

- Attachment 1: Staff Report
- Attachment 2: PowerPoint
- Attachment 3: Resolution No. 12-10

UNCLASSIFIED MANAGER:

Aaron Baker, 408-630-2135

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 27, 2026.

The Report is the 55th 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) 2026-27.

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 2026-27.

Staff Recommendations

Exhibit 1 shows the recommended groundwater production charges and other charges for FY 2026-27.

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

		Dollars Per Acre Foot			
	Basic User/Groundwater Production Charge	FY 2024-25	FY 2025-26	Recommended FY 2026-27	
Zone W-2 (North County)	Municipal and Industrial	2,229.00	2,450.00	2,673.00	
	Agricultural	39.80	43.00	46.50	
	Surface Water Charge				
	Surface Water Master Charge	61.00	67.00	73.00	
	Total Surface Water, Municipal and Industrial*	2,290.00	2,517.00	2,746.00	
	Total Surface Water, Agricultural*	100.80	110.00	119.50	
	Treated Water Charges				
	Contract Surcharge	115.00	115.00	115.00	
	Total Treated Water Contract Charge**	2,344.00	2,565.00	2,788.00	
	Non-Contract Surcharge	200.00	200.00	200.00	
Total Treated Water Non-Contract Charge***	2,429.00	2,650.00	2,873.00		
Zone W-5 (Llagas Subbasin)	Basic User/Groundwater Production Charge				
	Municipal and Industrial	579.00	624.50	665.50	
	Agricultural	39.80	43.00	46.50	
	Surface Water Charge				
	Surface Water Master Charge	61.00	67.00	73.00	
	Total Surface Water, Municipal and Industrial*	640.00	691.50	738.50	
	Total Surface Water, Agricultural*	100.80	110.00	119.50	
	Recycled Water Charges				
	Municipal and Industrial	559.00	604.50	645.50	
	Agricultural	70.15	73.35	76.85	
Zone W-7 (Coyote Valley)	Basic User/Groundwater Production Charge				
	Municipal and Industrial	750.50	834.50	913.00	
	Agricultural	39.80	43.00	46.50	
	Surface Water Charge				
	Surface Water Master Charge	61.00	67.00	73.00	
	Total Surface Water, Municipal and Industrial*	811.50	901.50	986.00	
	Total Surface Water, Agricultural*	100.80	110.00	119.50	
Zone W-8 (Uvas/ Chesbro)	Basic User/Groundwater Production Charge				
	Municipal and Industrial	430.00	464.00	501.00	
	Agricultural	39.80	43.00	46.50	
	Surface Water Charge				
	Surface Water Master Charge	61.00	67.00	73.00	
	Total Surface Water, Municipal and Industrial*	491.00	531.00	574.00	
Total Surface Water, Agricultural*	100.80	110.00	119.50		

*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 9.1% increase in the North County Zone W-2 Municipal and Industrial groundwater production charge from \$2,450.00 per acre foot (AF) to \$2,673.00/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 \$5.63 or about 19 cents a day.

In the South County Zone W-5, staff proposes a 6.6% increase in the M&I groundwater production charge from \$642.50/AF to \$665.50/AF. The proposal equates to a monthly bill increase for the average household of \$1.04 or about 3 cents per day.

In the South County Zone W-7, staff proposes a 9.4% increase in the M&I groundwater production charge from \$834.50/AF to \$913.00/AF. The proposal equates to a monthly bill increase for the average household of \$1.98 or about 7 cents per day.

In the South County Zone W-8, staff proposes an 8% increase in the M&I groundwater production charge from \$464.00/AF to \$501.00/AF. The proposal equates to a monthly bill increase for the average household of \$0.93 or about 3 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 \$43.00/AF to \$46.50/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 \$0.58 per month per acre, assuming 2 (two) acre-feet of water usage per acre per year.

Staff recommends a 9.1% increase to the surface water master charge from \$67.00/AF to \$73.00/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in an 8.7% increase in the overall North County municipal and industrial surface water charge, to \$2,788.00/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: \$738.50/AF, or a 6.8% increase for Zone W-5; \$986.00/AF, or a 9.4% increase for Zone W-7; and \$574.00/AF, or an 8.1% increase for Zone W-8. The total agricultural surface water charge in any zone represents up to an 8.6% increase at \$119.50/AF.

For recycled water, staff recommends increasing the M&I charge by 6.8% to \$645.50/AF. For agricultural recycled water, the proposed increase is 4.8% to \$76.85/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 2026-27 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.

Staff recommends setting the State Water Project Tax at \$28 million for FY 2026-27. This translates to a property tax bill for the average single-family residence of roughly \$46.00 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 2026-27 will be at least \$35.5 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 2024-25 was estimated at approximately 219,000 AF, which is roughly 3,000 AF lower than budgeted. For the current year, FY 2025-26, water use was budgeted at 219,000 AF, reflecting relatively flat use when compared to FY 2024-25 actuals. FY 2025-26 actuals are anticipated to come in lower than budget due to lower treated water deliveries from a pipeline maintenance project; staff anticipates there will be some higher groundwater pumping to offset the reduced treated water deliveries to certain Water Retailers. Water use for FY 2026-27 is projected at 221,500 AF reflecting slightly increased usage due to continued rebound from the 2023 drought.

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

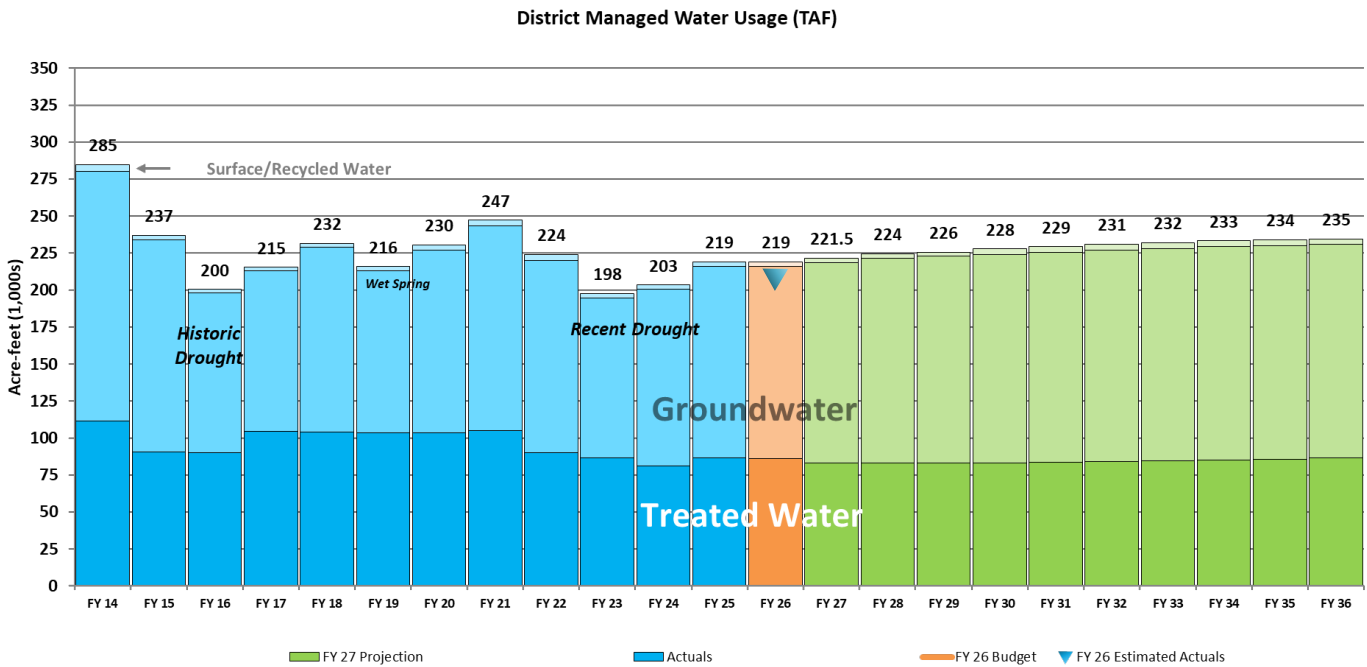


Exhibit 3 shows key financial indicators with staff’s recommendation projected to FY 2031-32. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

Exhibit 3 **5-Year Water Charge and Financial Indicator Projection**

Base Case	Adopted Budget						
	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32
No. County (W-2) M&I GWP charge (\$/AF)	\$2,450	\$2,673	\$2,916	\$3,181.50	\$3,471	\$4,004	\$4,300.50
Y-Y Growth %	9.9%	9.1%	9.1%	9.1%	9.1%	7.4%	7.4%
So. County (W-5) M&I GWP charge (\$/AF)	\$624.50	\$665.50	\$709.50	\$756.50	\$806.50	\$859.50	\$916
Y-Y Growth %	7.9%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
So. County (W-7) M&I GWP charge (\$/AF)	\$834.50	\$913	\$999	\$1,093	\$1,195.50	\$1,308	\$1,431
Y-Y Growth %	11.2%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
So. County (W-8) M&I GWP charge (\$/AF)	\$464	\$501	\$541	\$584	\$631	\$681	\$735
Y-Y Growth %	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Operating & Capital Reserve	\$74,567	\$60,588	\$66,653	\$71,205	\$74,686	\$77,742	\$83,017
Supplemental Water Supply Reserve (\$K)	\$8,677	\$12,077	\$15,477	\$18,877	\$19,277	\$19,677	\$20,077
Drought Contingency Reserve (\$K)	\$1,000	\$4,000	\$8,000	\$12,000	\$16,000	\$20,000	\$20,000
Sr. Lien Debt Service Coverage Ratio (1.25 min)	2.09	2.27	2.16	2.24	2.37	2.49	2.62
South County (Deficit)/Reserves (\$K)	\$9,044	\$8,914	\$4,810	\$931	\$661	\$769	\$3,283

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 \$7.0 billion in capital investments are planned for the next 10 years. Approximately \$1.7 billion of the program is allocated to seismically retrofit Anderson Dam, our county’s largest reservoir. Roughly \$600 million in preliminary costs is for the Dam Safety Program for Almaden, Calero, Coyote and Guadalupe Dams.

Two new projects were approved by the Board to be included in the Capital Improvement Plan (CIP) FY 2027-31 Five-Year Plan in January 2026. Pure Water Silicon Valley Project Full-Scale Facility, which previously had project costs as a placeholder, is now in the CIP FY 2027–31 Five-Year Plan, with an estimated cost of \$2.45 billion. The first step in this project is the development of the Pure Water Silicon Valley Project –Demonstration Facility, which is in the currently adopted CIP and has already begun. The Full-Scale Facility will be able to produce up to 24,000 AF of water per year, providing a locally controlled, drought-resilient water supply upon completion, which is estimated in 2036. The Santa Teresa Water Treatment Plant Infrastructure Rehabilitation project was recommended from the Water Treatment Plant Master Plan Implementation effort currently underway and will replace aging assets throughout the plant while increasing plant reliability. This project is anticipated to be completed in 2034 with an estimated cost of \$243 million.

The remaining portion of the capital program is primarily dedicated to asset management of Water Utility Enterprise facilities throughout the county. Staff annually conducts a validation process examining the business case for capital solutions in comparison with alternative operations, maintenance, and non-asset based solutions to ensure that Valley Water invests in the right solutions or projects at the right time for the right costs and for the right reasons. All newly proposed projects undergo the validation process prior to being proposed for inclusion in the CIP.

Over the next 10 years, operating outlays are projected to increase an average of 5.0% per year driven by: 1) the ramp up of payments associated with both the Delta Conveyance Project; and 2) the inclusion of the 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 \$108.6 million in FY 2026-27 to \$300.8 million in FY 2035-36 as a result of periodic debt issuances to fund the capital program.

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

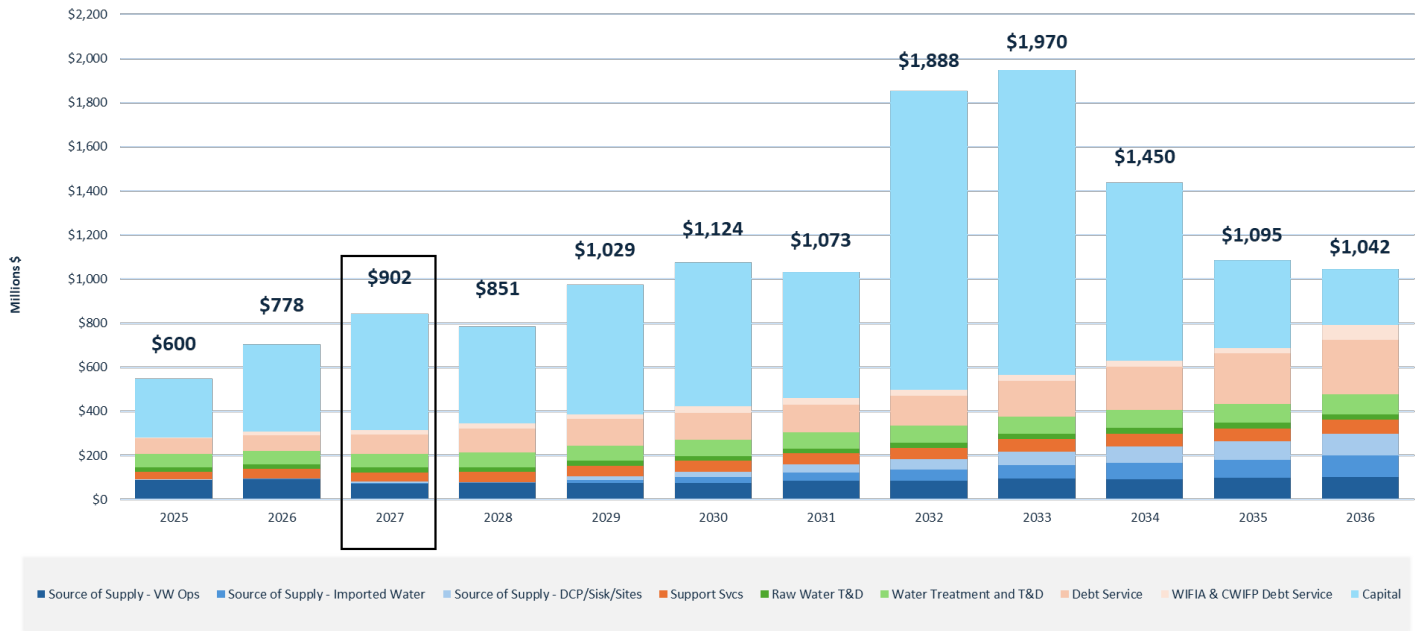


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2025-26 and funding of the draft CIP FY 2027-31 Five-Year Plan. Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in the projection.

Exhibit 5 10-Year Groundwater Charge Projection

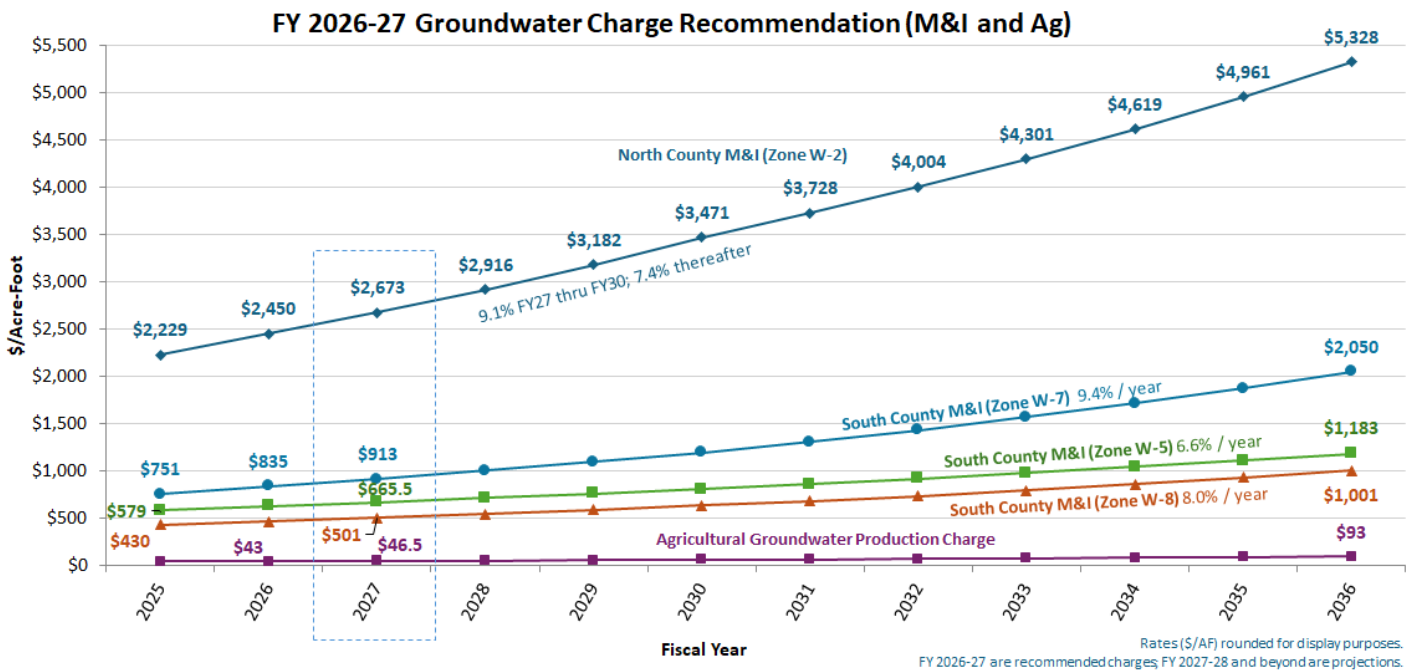


Exhibit 6 shows a comparison of the adjusted proposed groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan Water District, Orange County Water District, San Diego County Water Authority, San Francisco PUC (Hetch Hetchy),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

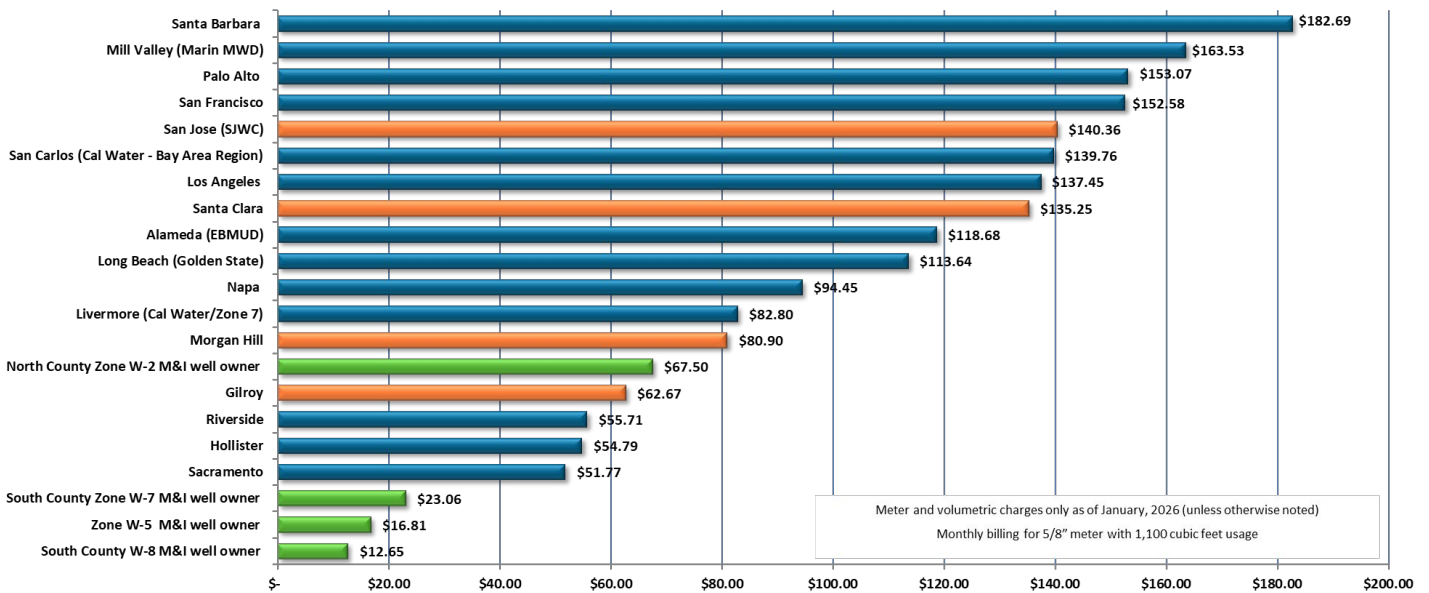
Anticipated FY 2025-26 Water Charge Increases for Similar Agencies

Agency			% inc.				% inc.	
	FY 24	FY24 to FY25	FY 25	FY25 to FY26	FY 26	FY26 to FY27	FY 27	
SCVWD North W-2 (Groundwater prdctn per AF) ¹	\$1,974	12.9%	\$2,229	9.9%	\$2,450	9.1%	\$2,673	
SCVWD North W-2 (Treated Water per AF) ¹	\$2,089	12.2%	\$2,344	9.4%	\$2,565	8.7%	\$2,788	
SCVWD South W-5 (Groundwater prdctn per AF) ¹	\$544	6.6%	\$579	6.6%	\$625	6.6%	\$665.5	
SCVWD South W-7 (Groundwater prdctn per AF) ¹	\$658	14.2%	\$751	14.2%	\$835	9.4%	\$913	
SCVWD South W-8 (Groundwater prdctn per AF) ¹	\$398	8.0%	\$430	8.0%	\$464	8.0%	\$501	
Metropolitan WD (Untreated Water per AF) ²	\$1,070	2.5%	\$1,097	7.6%	\$1,181	0.7%	\$1,189	
Metropolitan WD (Treated Water per AF) ²	\$1,423	11.0%	\$1,580	9.1%	\$1,725	0.5%	\$1,733	
Orange County WD (Groundwater per AF)	\$624	10.3%	\$688	3.3%	\$711	0.0%	\$711	
San Diego County WA (Treated Water per AF) ²	\$2,147	10.4%	\$2,369	11.7%	\$2,647	1.7%	\$2,691	
San Francisco PUC (Treated Water per AF) ^{3,3}	\$2,430	8.0%	\$2,625	2.7%	\$2,696	7.4%	\$2,895	
Zone 7 (Treated Water per AF) ²	\$1,853	4.3%	\$1,932	1.2%	\$1,956	0.0%	\$1,956	

1. Amounts may be rounded to the nearest dollar.
2. MWD, SDCWA and Zone 7 rates based on calendar year (i.e., 2026 rate would be effective on 1/1/2026)
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 2026-27. 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 2026-27 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 2026-27, staff is proposing a transfer of \$4.35M in 1% ad valorem property taxes from the General Fund and the Watershed Stream Stewardship Fund into the Water Utility Fund. The true-up adjustments related to FY 2023-24 increased the amount of Open Space Credit needed in FY 2026-27.

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 27 Projection (\$ in Thousands)	Zone W-2					Total W-2
	Groundwater		Treated Water	Surface Water		
	M&I	AG	M&I	M&I	Ag	
1 Operating Outlays						
2 Operations/Operating Projects	66,029	546	132,521	1,035	0	200,132
3 SWP Imported Water Costs	9,252	77	26,123	396	0	35,848
4 Debt Service	26,843	225	81,250	309	0	108,627
5 Total Operating Outlays	102,124	849	239,894	1,740	0	344,607
6 Capital & Transfers						
7 Operating Transfers Out	8,412	70	8,980	65	0	17,527
8 Capital Outlays excl. carryforward	155,882	1,305	343,988	1,199	0	502,375
9 Total Capital & Transfers	164,294	1,376	352,968	1,264	0	519,902
10 Total Annual Program Costs	266,417	2,225	592,862	3,005	0	864,509
11 Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes					
12 Capital Cost Recovery	(5,636)	(47)	(6,017)	(44)	(0)	(11,745)
13 Debt Proceeds	(125,729)	(1,053)	(277,449)	(967)	(0)	(405,198)
14 Inter-governmental Services	(629)	(5)	(672)	(5)	(0)	(1,311)
15 SWP Property Tax	(6,793)	(57)	(19,179)	(291)	(0)	(26,320)
16 South County Deficit/Reserve	(2,161)	(18)	(2,307)	(17)	(0)	(4,503)
17 Interest Earnings	(3,768)	(32)	(4,022)	(29)	(0)	(7,851)
18 Inter-zone Interest	50	0	54	0	0	105
19 Capital Contributions	(242)	(2)	(258)	(2)	(0)	(504)
20 Transfers In	(519)	(4)	(554)	(4)	(0)	(1,081)
21 Other	(771)	(6)	(762)	(11)	(0)	(1,551)
22 Reserve Requirements	16,517	86	40,008	127	0	56,738
23 Adjusted Revenue Requirement (FY 27)	136,736	1,086	321,703	1,763	0	461,289
24 Adjusted Revenue Requirement (FY 24 adj)	8,337	-	(27,696)	(711)	-	(20,070)
25 Total Adjusted Revenue Requirement	145,073	1,086	294,007	1,052	0	441,218
26 Volume (KAF)	77.6	0.7	82.9	0.6	0.0	161.7
27 Revenue Requirement (\$ per AF)	\$ 1,869	\$ 1,671	\$ 3,548	\$ 1,753	\$ 2,847	\$ -
28 Adjustments for Agricultural Preservation	Step 5 - Develop unit costs by customer class					
29 Allocate WU 1% Ad Valorem Prop Tax	-	(1,056)	-	-	(0)	(1,056)
30 Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
31 Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
32 Revenue Requirement (\$ per AF)	\$ 1,869	\$ 46	\$ 3,548	\$ 1,753	\$ 120	\$ -
33 Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design					
34 Reallocate TW/SW/RW costs	62,395	-	(62,990)	596	-	0
35 Water Charge (\$ per AF)	\$ 2,673.00	\$ 46.50	\$ 2,788.00	\$ 2,746.00	\$ 119.50	\$ -
36 Total Revenue (\$K)	\$ 207,468	\$ 30	\$ 231,016	\$ 1,648	\$ 0	\$ 440,162

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

FY 27 Projection (\$ in Thousands)	Zone W-5							Total W-5
	Groundwater		Surface Water		Recycled Water			
	M&I	AG	M&I	AG	M&I	AG		
1 Operating Outlays								
2 Operations/Operating Projects	9,319	10,763	201	342	263	225	21,113	
3 SWP Imported Water Costs	-	-	-	-	-	-	-	
4 Debt Service	-	-	-	-	-	-	-	
5 Total Operating Outlays	9,319	10,763	201	342	263	225	21,113	
6 Capital & Transfers								
7 Operating Transfers Out	-	-	-	-	-	-	-	
8 Capital Outlays excl. carryforward	-	-	-	-	-	-	-	
9 Total Capital & Transfers	-	-	-	-	-	-	-	
10 Total Annual Program Costs	9,319	10,763	201	342	263	225	21,113	
11 Revenue Requirement Offsets								
12 Capital Cost Recovery	2,513	2,936	37	64	838	718	7,106	
13 Debt Proceeds	-	-	-	-	-	-	-	
14 Inter-governmental Services	(34)	(40)	(1)	(1)	-	-	(75)	
15 SWP Property Tax	(561)	(655)	(8)	(14)	(21)	(18)	(1,277)	
16 South County Deficit/Reserve	1,111	711	(8)	16	369	19	2,218	
17 Interest Earnings	-	-	-	-	-	-	-	
18 Inter-zone Interest	(33)	(38)	(0)	(1)	(1)	(1)	(75)	
19 Capital Contributions	-	-	-	-	-	-	-	
20 Transfers In	(46)	(53)	(1)	(1)	(2)	(1)	(104)	
21 Other	(63)	(73)	(0)	(1)	(1)	(1)	(140)	
22 Reserve Requirements	-	-	-	-	-	-	-	
23 Adjusted Revenue Requirement (FY 27)	12,207	13,549	220	404	1,445	941	28,767	
24 Adjusted Revenue Requirement (FY 24 adj)	(381)	201	17	(199)	(347)	(165)	(874)	
25 Total Adjusted Revenue Requirement	11,826	13,750	237	204	1,098	777	27,892	
26 Volume (KAF)	18.8	21.9	0.3	0.5	0.7	0.6	42.8	
27 Revenue Requirement (\$ per AF)	\$ 629	\$ 627	\$ 846	\$ 426	\$ 1,569	\$ 1,294		
28 Adjustments for Agricultural Preservation								
29 Allocate WU 1% Ad Valorem Prop Tax	-	(11,636)	-	-	-	-	(11,636)	
30 Transfer GF 1% Ad valorem Prop Tax	-	(547)	-	(74)	-	(365)	(986)	
31 Transfer WS 1% Ad Valorem Prop Tax	-	(547)	-	(74)	-	(365)	(986)	
32 Revenue Requirement (\$ per AF)	\$ 629	\$ 47	\$ 846	\$ 120	\$ 1,569	\$ 77		
33 Adjustments to Facilitate Conjunctive Use								
34 Reallocate TW/SW/RW costs	677	-	(30)	-	(646)	-	-	
35 Water Charge (\$ per AF)	\$ 665.50	\$ 46.50	\$ 738.50	\$ 119.50	\$ 645.50	\$ 76.85		
36 Total Revenue (\$K)	\$12,503	\$1,020	\$207	\$57	\$452	\$46	\$14,285	

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

FY 27 Projection (\$ in Thousands)	Zone W-7				Total W-7
	Groundwater		Surface Water		
	M&I	AG	M&I	AG	
1 Operating Outlays					
2 Operations/Operating Projects	7,925	1,894	160	236	10,216
3 SWP Imported Water Costs	-	-	-	-	-
4 Debt Service	-	-	-	-	-
5 Total Operating Outlays	7,925	1,894	160	236	10,216
6 Capital & Transfers					
7 Operating Transfers Out	-	-	-	-	-
8 Capital Outlays excl. carryforward	-	-	-	-	-
9 Total Capital & Transfers	-	-	-	-	-
10 Total Annual Program Costs	7,925	1,894	160	236	10,216
11 Revenue Requirement Offsets	Step 3 - Allocate costs to customer classes				
12 Capital Cost Recovery	3,620	917	23	34	4,594
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	2,379	105	(114)	4	2,373
17 Interest Earnings	-	-	-	-	-
18 Inter-zone Interest	(22)	(6)	(0)	(0)	(28)
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 27)	13,523	2,815	66	271	16,675
24 Adjusted Revenue Requirement (FY 24 adj)	(2,001)	(591)	117	(264)	(2,738)
25 Total Adjusted Revenue Requirement	11,522	2,224	183	7	13,937
26 Volume (KAF)	12.7	3.2	0.1	0.1	16.2
27 Revenue Requirement (\$ per AF)	\$ 905	\$ 689	\$ 2,292	\$ 58	
28	Step 5 - Develop unit costs by customer				
29 Allocate WU 1% Ad Valorem Prop Tax	-	-	-	7	7
30 Transfer GF 1% Ad valorem Prop Tax	-	(1,037)	-	-	(1,037)
31 Transfer WS 1% Ad Valorem Prop Tax	-	(1,037)	-	-	(1,037)
32 Revenue Requirement (\$ per AF)	\$ 905	\$ 47	\$ 2,292	\$ 120	
33 Adjustments to Facilitate Conjunctive Use	Step 6 - Rate Design				
34 Reallocate TW/SW/RW costs	104	-	(104)	-	-
35 Water Charge (\$ per AF)	\$ 913.00	\$ 46.50	\$ 986.00	\$ 119.50	
36 Total Revenue (\$K)	\$11,627	\$150	\$79	\$14	\$11,870

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

FY 27 Projection (\$ in Thousands)	Zone W-8				Total W-8	Total South County
	Groundwater		Surface Water			
	M&I	AG	M&I	AG		
1 Operating Outlays						
2 Operations/Operating Projects	259	293	23	-	575	31,904
3 SWP Imported Water Costs	-	-	-	-	-	-
4 Debt Service	-	-	-	-	-	-
5 Total Operating Outlays	259	293	23	-	575	31,904
6 Capital & Transfers						
7 Operating Transfers Out	-	-	-	-	-	-
8 Capital Outlays excl. carryforward	-	-	-	-	-	-
9 Total Capital & Transfers	-	-	-	-	-	-
10 Total Annual Program Costs	259	293	23	-	575	31,904
11 Revenue Requirement Offsets						
12 Capital Cost Recovery	20	22	2	-	44	11,745
13 Debt Proceeds	-	-	-	-	-	-
14 Inter-governmental Services	(0)	(0)	(0)	-	(0)	(152)
15 SWP Property Tax	(15)	(17)	(2)	-	(34)	(1,680)
16 South County Deficit/Reserve	(103)	14	1	-	(88)	4,503
17 Interest Earnings	-	-	-	-	-	-
18 Inter-zone Interest	(1)	(1)	(0)	-	(1)	(105)
19 Capital Contributions	-	-	-	-	-	-
20 Perchlorate Response	(2)	(2)	(0)	-	(5)	(113)
21 Other	(1)	(1)	(0)	-	(2)	(171)
22 Reserve Requirements	-	-	-	-	-	-
23 Adjusted Revenue Requirement (FY 27)	157	307	25	-	489	45,930
24 Adjusted Revenue Requirement (FY 24 adj)	28	49	-	(26)	52	(3,561)
25 Total Adjusted Revenue Requirement	185	356	25	(26)	541	42,370
26 Volume (KAF)	0.4	0.4	0.0	0.0	0.8	59.8
27 Revenue Requirement (\$ per AF)	\$ 496	\$ 847	\$ 618	\$ -		
28						
29 Allocate WU 1% Ad Valorem Prop Tax	-	(7)	-	-	(7)	(11,636)
30 Transfer GF 1% Ad valorem Prop Tax	-	(165)	-	13	(152)	(2,175)
31 Transfer WS 1% Ad Valorem Prop Tax	-	(165)	-	13	(152)	(2,175)
32 Revenue Requirement (\$ per AF)	\$ 496	\$ 47	\$ 618	\$ 120		
33 Adjustments to Facilitate Conjunctive Use						
34 Reallocate TW/SW/RW costs	2	-	(2)	-	-	-
35 Water Charge (\$ per AF)	\$ 501.00	\$ 46.50	\$ 574.00	\$ 119.50		
36 Total Revenue (\$K)	\$187	\$20	\$23	\$0	\$229	\$26,385

Open Space Credit

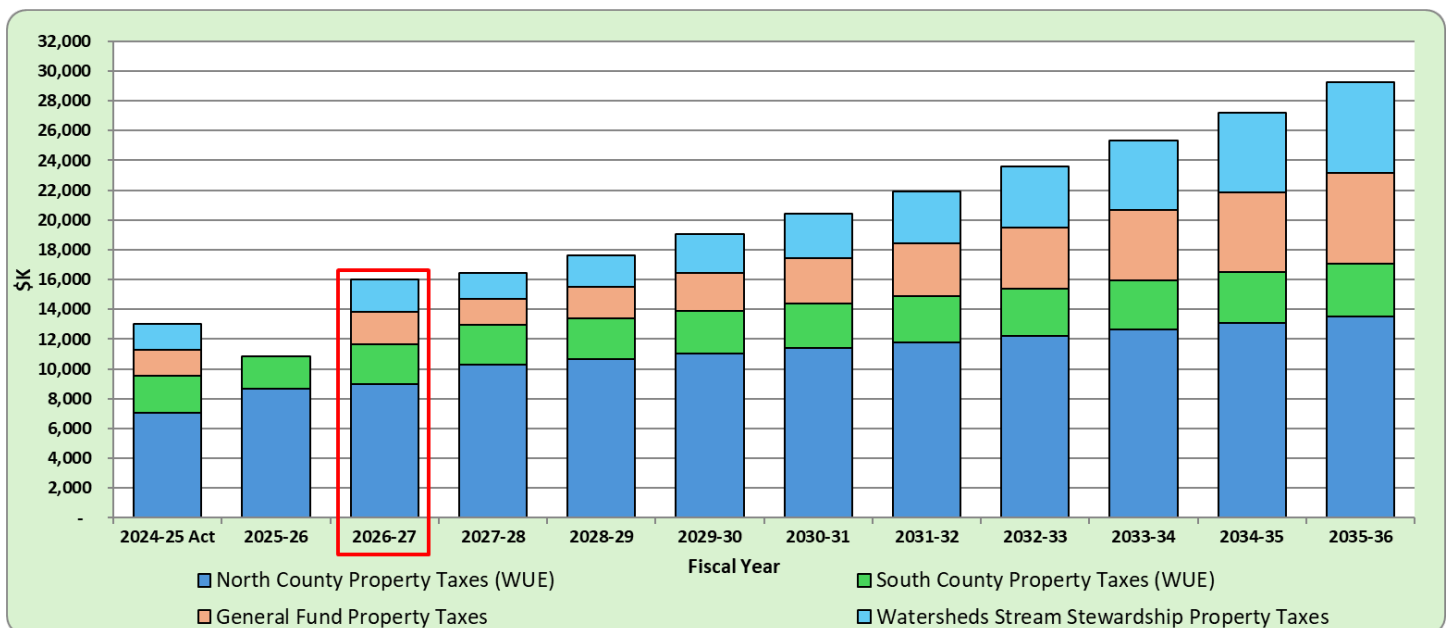
The District Act limits agricultural groundwater production charges to a maximum of 25% of the M&I groundwater production charges. Current board policy adds an “open space” credit to agricultural revenues. The purpose of the credit is to preserve the open space benefits provided by agricultural lands 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 1.7% of M&I charges in North County Zone W-2, 7.0% of M&I charges in South County Zone W-5, and 5.1% of M&I charges in South County Zone W-7. The current FY 2025-26 agricultural groundwater production charge is \$43.00/AF, or 9.25% of the South County Zone W-8 M&I charge of \$464/AF. The FY 2026-27 proposed agricultural groundwater production charge is 9.25% of M&I for Zone W-8, or an increase from \$43.00/AF in FY 2025-26 to \$46.50/AF in FY 2026-27, translating to an increase of up to \$0.58 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 \$16 million in FY 2026-27 (funded by 1% ad valorem property taxes). This incorporates an adjustment that reconciles FY 2023-24 actuals against what was projected for that year. The \$16 million is comprised of an \$8.9 million transfer from North County Water Utility 1% ad valorem property taxes, a \$2.7 million transfer from South County Water Utility 1% ad valorem property taxes, and \$2.175 million transfer from both the General Fund and the Watersheds Stream Stewardship Fund % ad valorem property taxes. As shown in Exhibit 10, the Open Space Credit is projected to grow to \$29.0 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 – 2026

Date	Hearing/Meeting
January 5	Agricultural Water Advisory Committee Meeting
January 13	Board Meeting: Preliminary Groundwater Charge Analysis
January 21	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
January 28	Water Commission Meeting: Prelim Groundwater Charge Analysis
February 10	Board Meeting: Set time and place of Public Hearing
February 27	Mail notice of public hearing and file PAWS report
March 10	Board Meeting: Budget development update
March 11	Water Retailers Meeting: FY 27 Groundwater Charge Recommendation
April 6	Agricultural Water Advisory Committee Meeting
April 8	Water Commission Meeting
April 14	Open Public Hearing
April 22	Continue Public Hearing (Informational Open House with South County focus)
April 28	Conclude Public Hearing
April 29-30	Board Meeting: Budget work study session
May 12	Adopt Biennial Budget & Groundwater Production and Other Water Charges



FISCAL YEAR 2026-27

Public Hearing: Water Charge Recommendations

Presented by: **Carmen Narayanan**, Financial Planning & Revenue Manager
April 22, 2026

Public Hearing has Three Specific Objectives

2

- 1. Present annual report on Valley Water’s activities and recommended ground water production charges**
- 2. Provide opportunity for any interested person to “...appear and submit evidence concerning the subject of the written report” to the Board of Directors**
- 3. Determine and affix Groundwater Production and Other Water Charges for FY 2026-27**

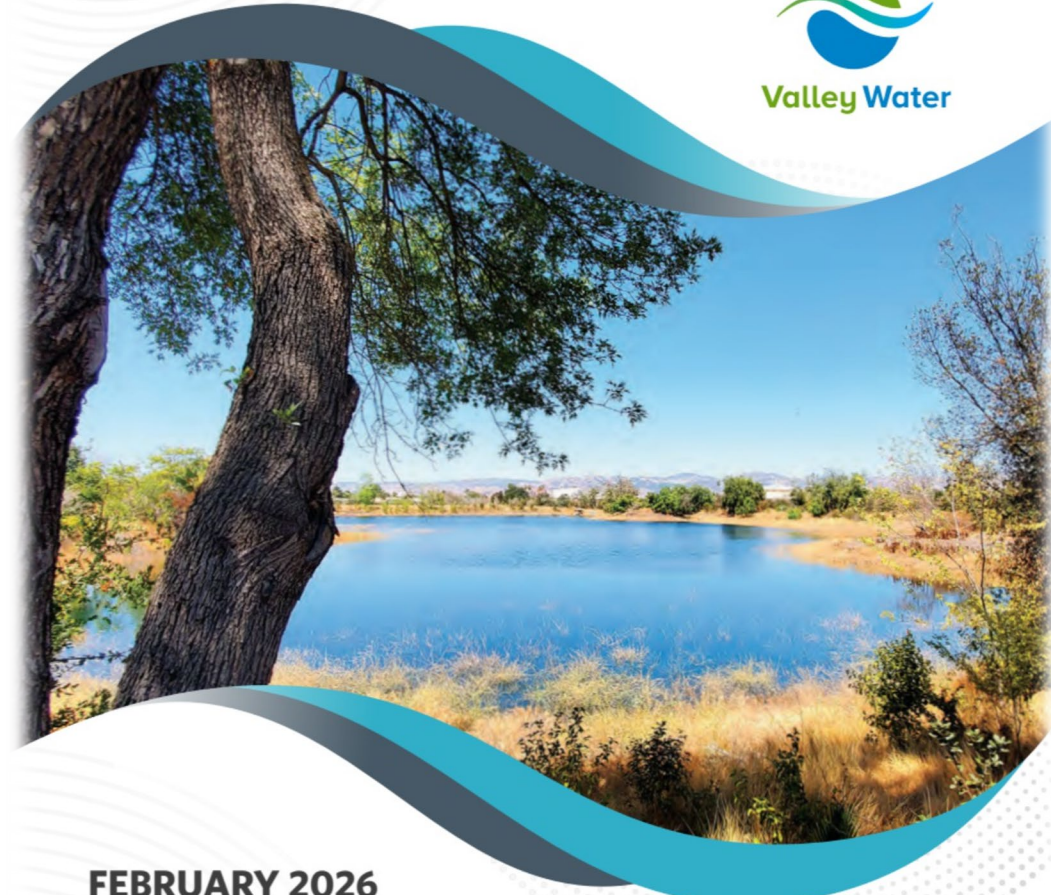
55th Annual Report Released

**Annual Protection and Augmentation of
Water Supplies Report provides
information & accountability**

Filed February 27, 2026

Available Online:

www.valleywater.org/ProposedWaterCharges



FEBRUARY 2026
55th Annual Report
FY 2026-27

**Protection and Augmentation
of Water Supplies**

Topics for Today's Public Hearing

Background

Water Usage

Cost Projections

Key Assumptions for FY 2026-27

Groundwater Production Charges

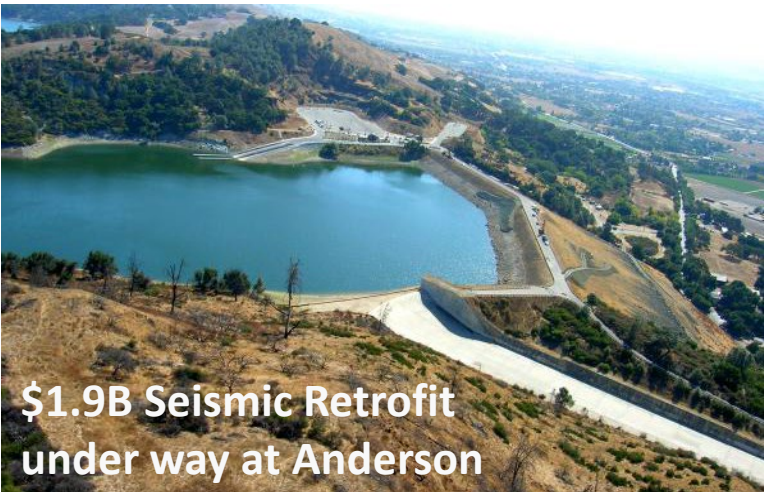
State Water Project Tax

Schedule/Wrap up

Why do well owners pay SCVWD to pump water from the ground?

6

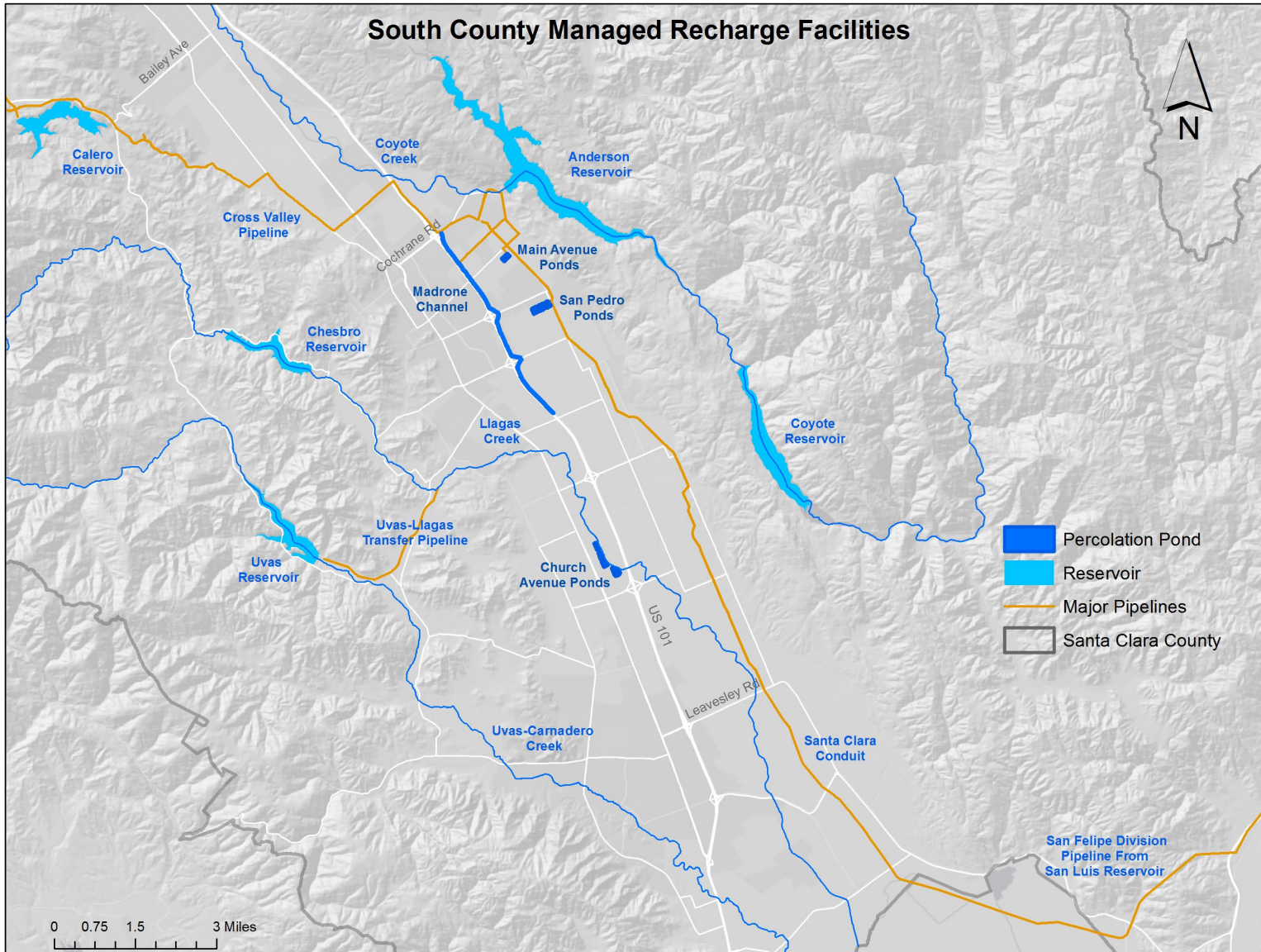
Construction at Anderson Reservoir, 1951



\$1.9B Seismic Retrofit under way at Anderson

- Local rainfall cannot sustain South County water needs
- Planning in early 1900's called for construction of reservoirs to capture rainwater to percolate into the ground
- Groundwater Production Charge is a reimbursement mechanism
 - Pays for efforts to protect and augment water supply
 - Fee for service, not a tax

South County facilities help ensure reliability

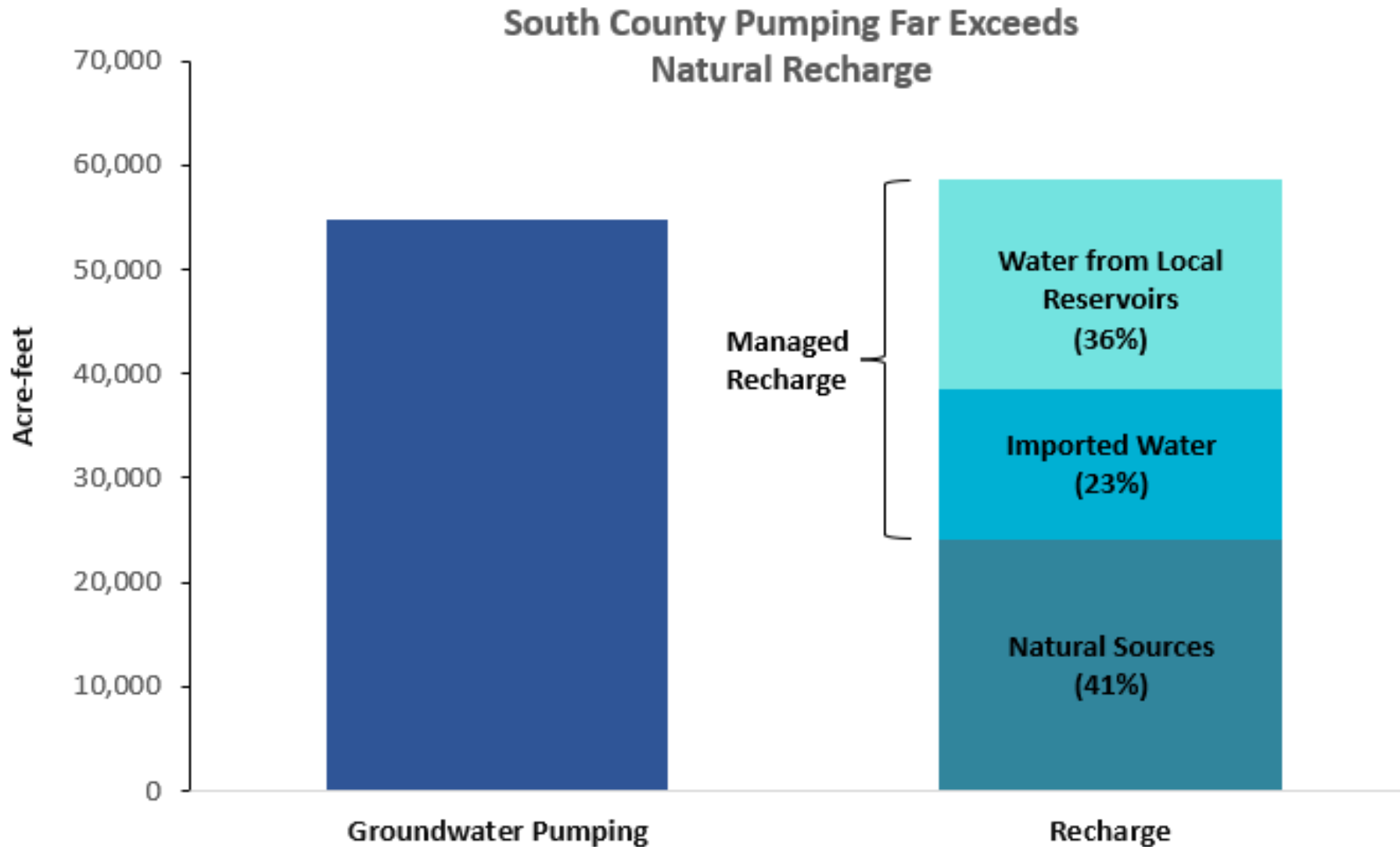


Main Avenue Recharge Ponds



Madrone Channel

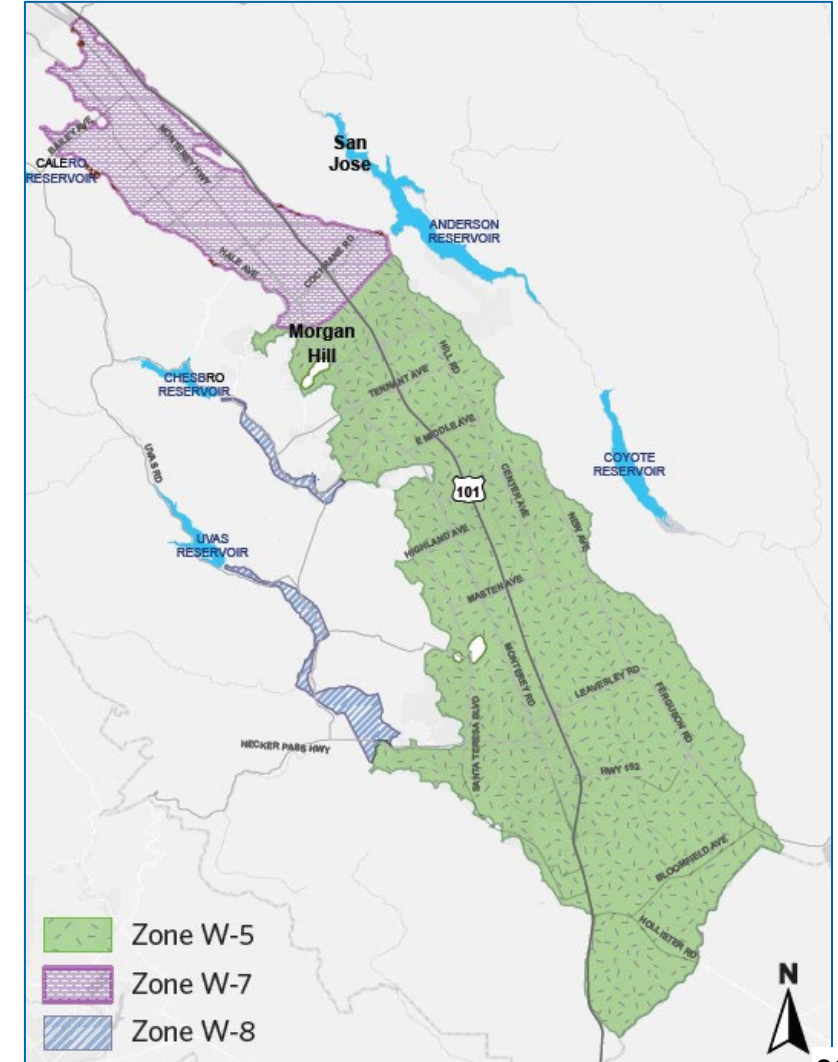
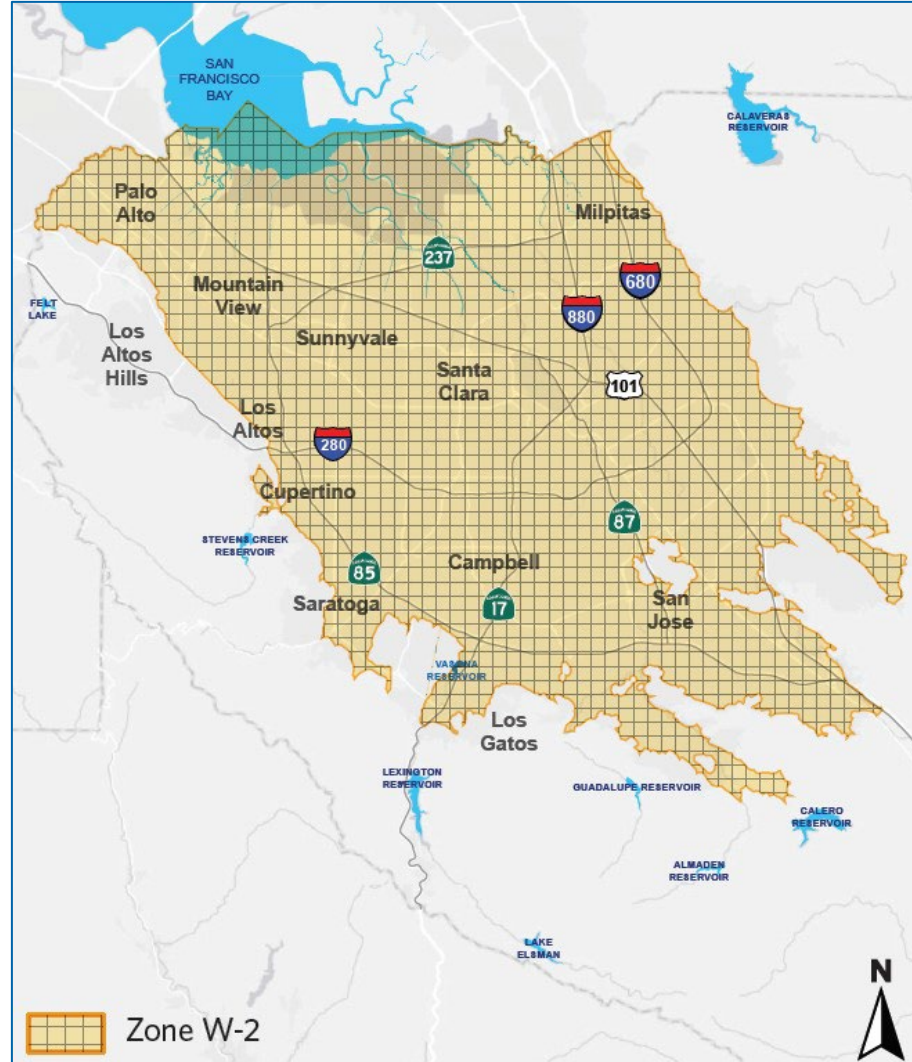
Recharge needed to offset groundwater pumping



Valley Water Groundwater Charge Zones of Benefit

Board Pricing Policy Summary

- 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



Rate setting process is consistent with Props 218 & 26

10

- **Groundwater charge setting process is consistent with Prop 26**
 - Certain Prop 218 requirements continue, like holding a public hearing, and noticing well owners, which are consistent with District Act

- **Surface Water Charge setting process is consistent with Prop 218**
 - Includes protest procedure as defined in Board Resolution 12-10

Strategic Outlook

11

- **Valley Water remains in an era of investment**
 - **To upgrade, rehabilitate, replace existing water supply infrastructure that was built decades ago**
 - **To invest in new infrastructure in response to changing weather patterns**
- **Focus on securing water supplies through regional projects participation**
- **Baseline water rate case investment assumptions**
 - **Maintain alignment with Draft CIP FY27-31 5-Year Plan**
 - **Reflect lower rate projections driven by August 26, 2025 decision by the Board to suspend development of the Pacheco Reservoir Expansion Project**

FY 2026-27 Rate Setting Assumptions

Baseline Case

12

- Plan for slightly increased District-managed water use of 221,500 AF (58,600 AF in South County)
- Maintain Agricultural Rate set at 9.25% of lowest M&I rate (Zone W-8)
- Maintain current level of service and ongoing operations and maintenance
- Anderson Dam Seismic Retrofit
- Master Plan projects: SCADA, Water Treatment Plants & Distribution
- Dam Safety Program: Almaden, Calero, Coyote, & Guadalupe
- Delta Conveyance project participation *
- San Luis Reservoir: B.F. Sisk Dam Raise with up to 63 TAF Storage *
- Sites Reservoir project participation *
- State Water Project Tax pays for 100% of State Water Project costs *Excludes SWP portion of Delta Conveyance*

Capital Investments in South County – FY27 through FY36

13

PROGRESS CONTINUES ON THE ANDERSON DAM SEISMIC RETROFIT PROJECT

The Anderson Dam Seismic Retrofit Project (ADSRP) in east Morgan Hill will rebuild the dam in compliance with today's seismic safety standards and regulations. The project will increase the dam's spillway and outlet capacities to allow rapid drawdown in an emergency.

Construction continues on the ADSRP, with crews progressing on the final concrete lining for the new 24-foot diameter outlet tunnel, which will feed into Coyote Creek when the project is complete. Improvements to Coyote Creek are progressing, including the completion of the Coyote Creek Flood Management Measures Project and the first phase of the new Coyote Creek Percolation Dam. Phase 2 of the Coyote Creek Percolation Dam project, which is designed to improve fish passage, is set to begin fall of 2026.

For further details please visit valleywater.org/project-updates/c1-anderson-dam-seismic-retrofit.

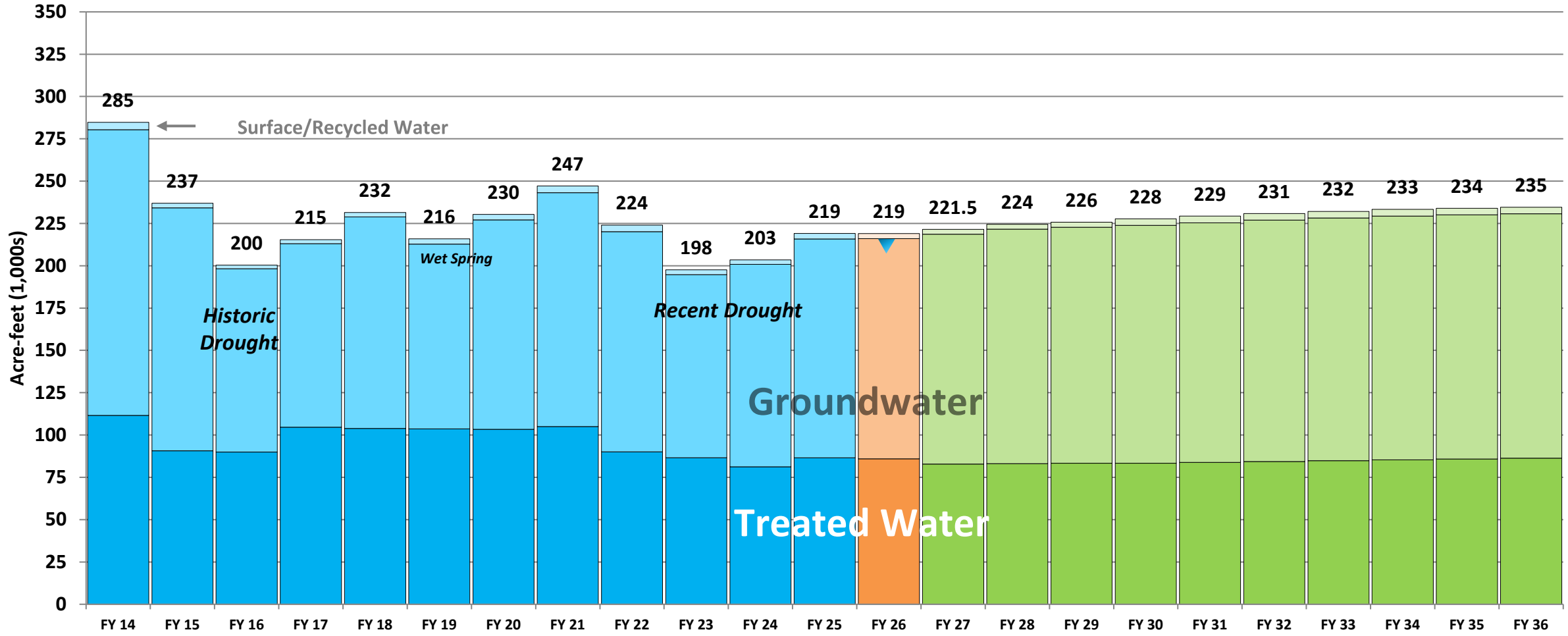


Anderson Dam

District Managed Water Usage

Reflects Lower Water User Projections Post 2023 Drought Rebound

District Managed Water Usage (TAF)



FY 27 Projection

Actuals

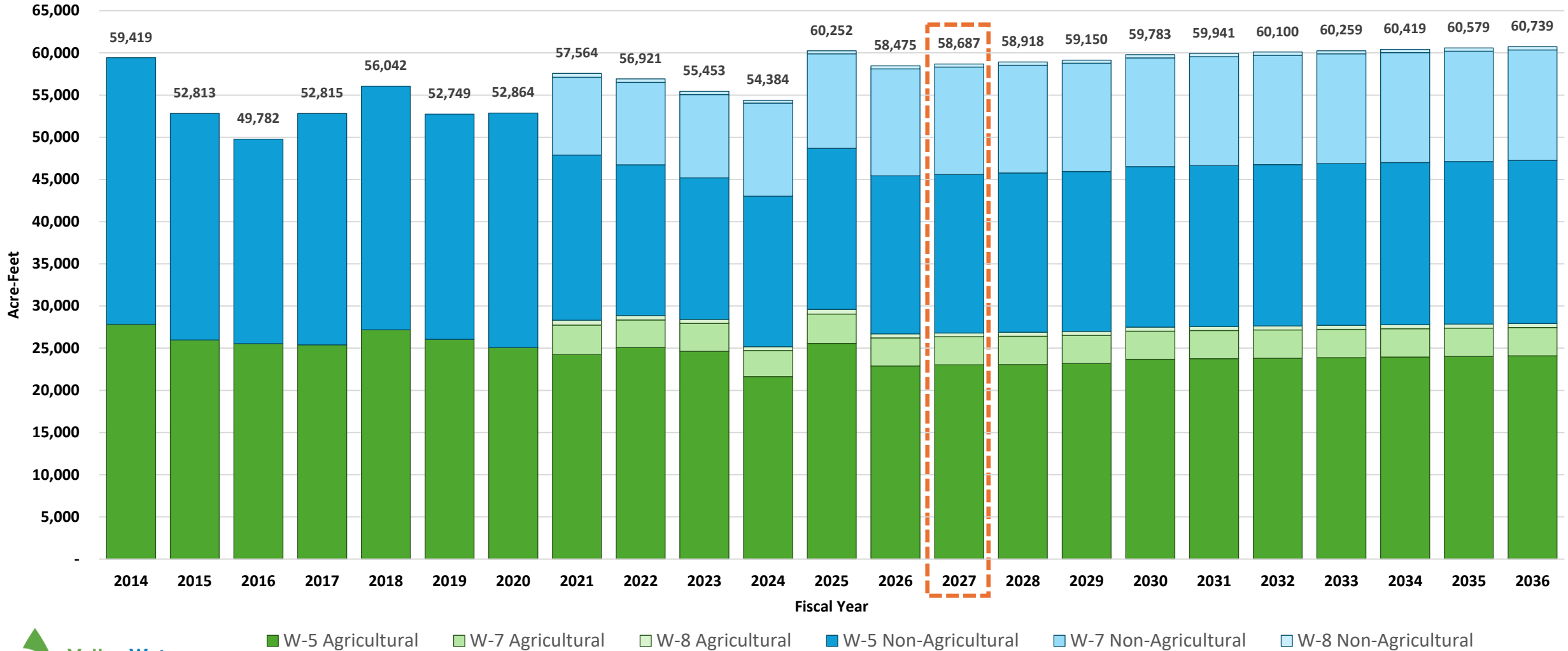
FY 26 Budget

FY 26 Estimated Actuals

Water Usage Trend in South County (Zone W-5, W-7 & W-8)

15

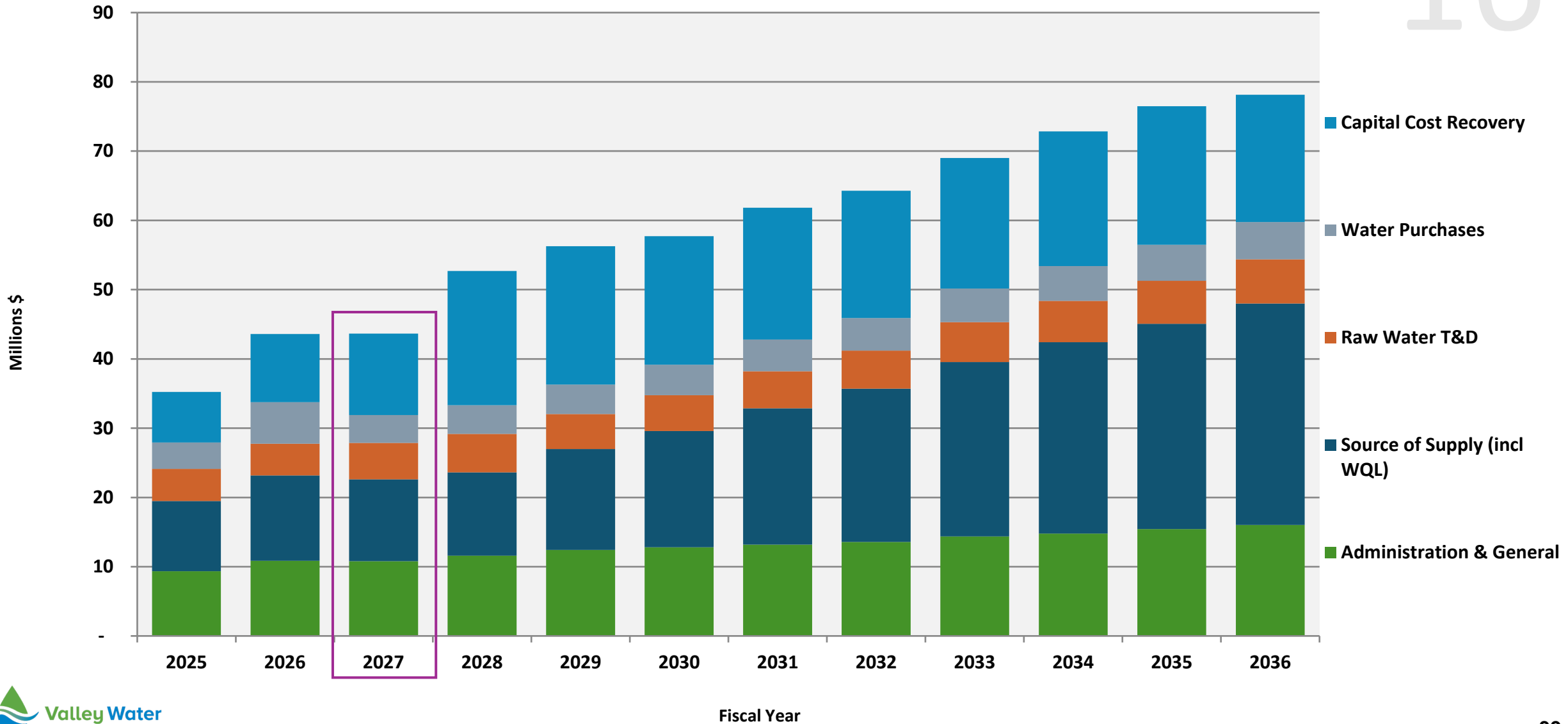
South County Water Use (Acre-Feet) by Fiscal Year & Zone



■ W-5 Agricultural
 ■ W-7 Agricultural
 ■ W-8 Agricultural
 ■ W-5 Non-Agricultural
 ■ W-7 Non-Agricultural
 ■ W-8 Non-Agricultural

South County Long Term Cost Projection

16



Recommended Groundwater Production Charges

Infrastructure

DRIVES 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
- *Shared facilities do not benefit Zone W-8*

South County

- Reservoirs –
 - Chesbro
 - Uvas
 - *Does not benefit Zone W-7*
- SCRWA Recycled Water System
 - *Benefits Zone W-5 only*

FY 2026-27 Groundwater Production Charge Projection

Municipal & Industrial Rate by Zone	FY 2025-26 GW Production Charge	Recommended % Increase FY 2026-27	FY 2026-27 Recommended GW Production Charge	Increase to Average Monthly Bill (11 HCF/month)
North County W-2	\$2,450.00	9.9%* 9.1%	\$2,673.00	\$5.63
South County W-5	\$624.50	7.9%* 6.6%	\$665.50	\$1.04
South County W-7	\$834.50	11.2%* 9.4%	\$913.00	\$1.98
South County W-8	\$464.00	8.0%	\$501.00	\$0.93
Agricultural	\$43.00	8.0%	\$46.50	\$0.58 **

* Reflects prior rate increases (%) projected during the FY2025-26 planning cycle.

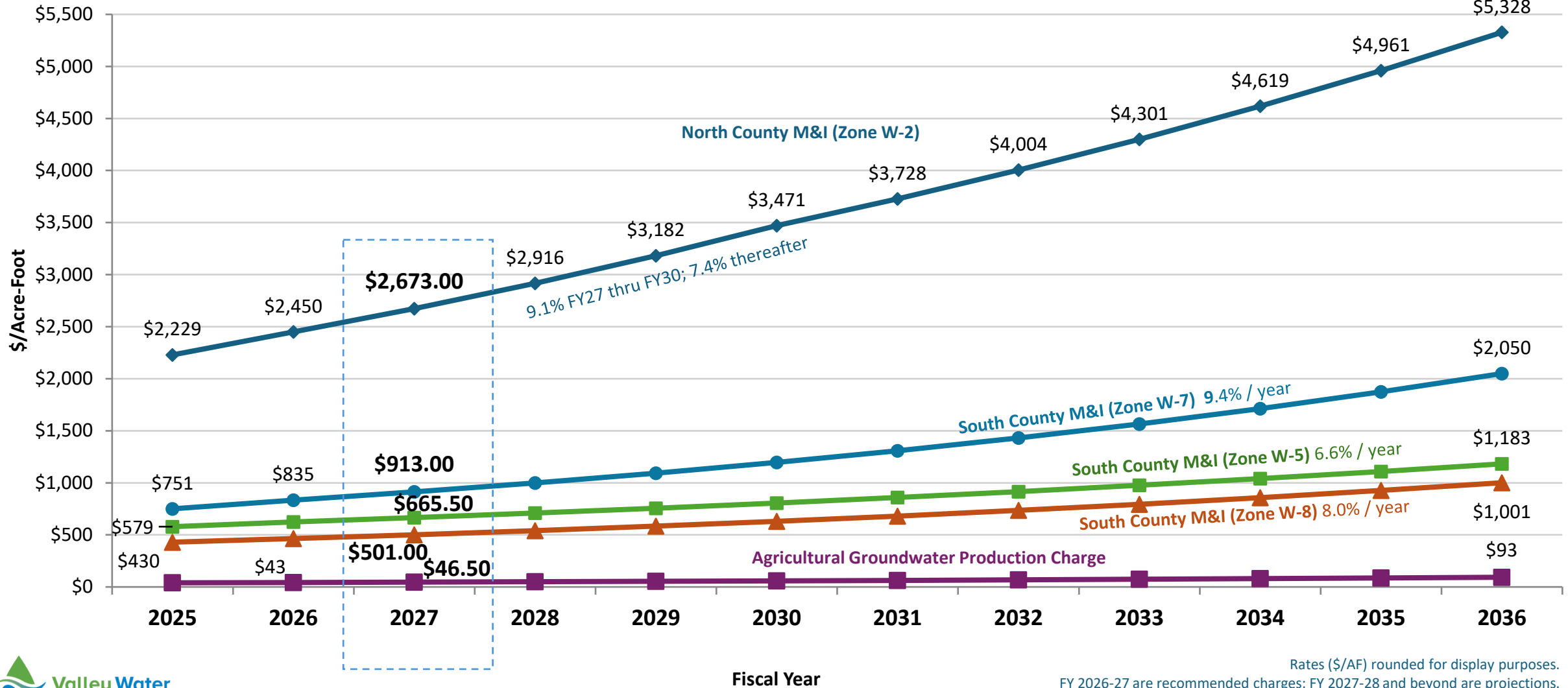
** Assumes Agricultural users who pump 2 AF of water, per acre, per year.

Groundwater Production Charge Recommendation

As published in the PAWS Report February 27, 2026

20

FY 2026-27 Groundwater Charge Recommendation (M&I and Ag)



Rates (\$/AF) rounded for display purposes.
FY 2026-27 are recommended charges; FY 2027-28 and beyond are projections.

Groundwater Charge Increase Projection

As published in the PAWS Report February 27, 2026

21

Municipal & Industrial Groundwater Charge Year to Year Growth %

Baseline Scenario 1	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
South County Zone W-5	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
<i>Prior Year</i>	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	
South County Zone W-7	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
<i>Prior Year</i>	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	
South County Zone W-8	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
<i>Prior Year</i>	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	



Groundwater Charge Increase Projection

As published in the PAWS Report February 27, 2026

Municipal & Industrial Groundwater Charge Monthly Impact to Average Household (11 HCF/Month)

Baseline Scenario 1	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
South County Zone W-5	\$1.04	\$1.11	\$1.19	\$1.26	\$1.34	\$1.43	\$1.53	\$1.63	\$1.73	\$1.84
South County Zone W-7	\$1.98	\$2.17	\$2.37	\$2.59	\$2.84	\$3.11	\$3.40	\$3.71	\$4.07	\$4.44
South County Zone W-8	\$0.93	\$1.01	\$1.09	\$1.19	\$1.26	\$1.36	\$1.49	\$1.62	\$1.74	\$1.87

Note: Does not include any increase that a retailer would layer on top



FY 2026-27 South County Zone W-5 Proposed Charges

23

Zone W-5 (Llagas Subbasin)	Dollars Per Acre Foot		
	FY 2024-25	FY 2025-26	Proposed FY 2026-27
Basic User/Groundwater Production Charge			
Municipal & Industrial	579.00	624.50	665.50
Agricultural	39.80	43.00	46.50
Surface Water Charge			
Surface Water Master Charge	61.00	67.00	73.00
Total Surface Water, Municipal & Industrial*	640.00	691.50	738.50
Total Surface Water, Agricultural*	100.80	110.00	119.50
Recycled Water Charges			
Municipal & Industrial	559.00	604.50	645.50
Agricultural	70.15	73.35	76.85



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



M&I Increase approximately \$1.04 per month increase to the average household user.
 Note: Does not include any increase that a retailer would layer on top

FY 2026-27 South County Zone W-7 Proposed Charges

24

Zone W-7 (Coyote Valley)	Dollars Per Acre Foot		
	FY 2024-25	FY 2025-26	Proposed FY 2026-27
Basic User/Groundwater Production Charge			
Municipal & Industrial	750.50	834.50	913.00
Agricultural	39.80	43.00	46.50
Surface Water Charge			
Surface Water Master Charge	61.00	67.00	73.00
Total Surface Water, Municipal & Industrial*	811.50	901.50	986.00
Total Surface Water, Agricultural*	100.80	110.00	119.50



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

M&I Increase approximately \$1.98 per month increase to the average household user.

Note: Does not include any increase that a retailer would layer on top



FY 2026-27 South County Zone W-8 Proposed Charges

25

Zone W-8 (Uvas / Chesbro)	Dollars Per Acre Foot		
	FY 2024–25	FY 2025-26	Proposed FY 2026–27
Basic User/Groundwater Production Charge			
Municipal & Industrial	430.00	464.00	501.00
Agricultural	39.80	43.00	46.50
Surface Water Charge			
Surface Water Master Charge	61.00	67.00	73.00
Total Surface Water, Municipal & Industrial*	491.00	531.00	574.00
Total Surface Water, Agricultural*	100.80	110.00	119.50



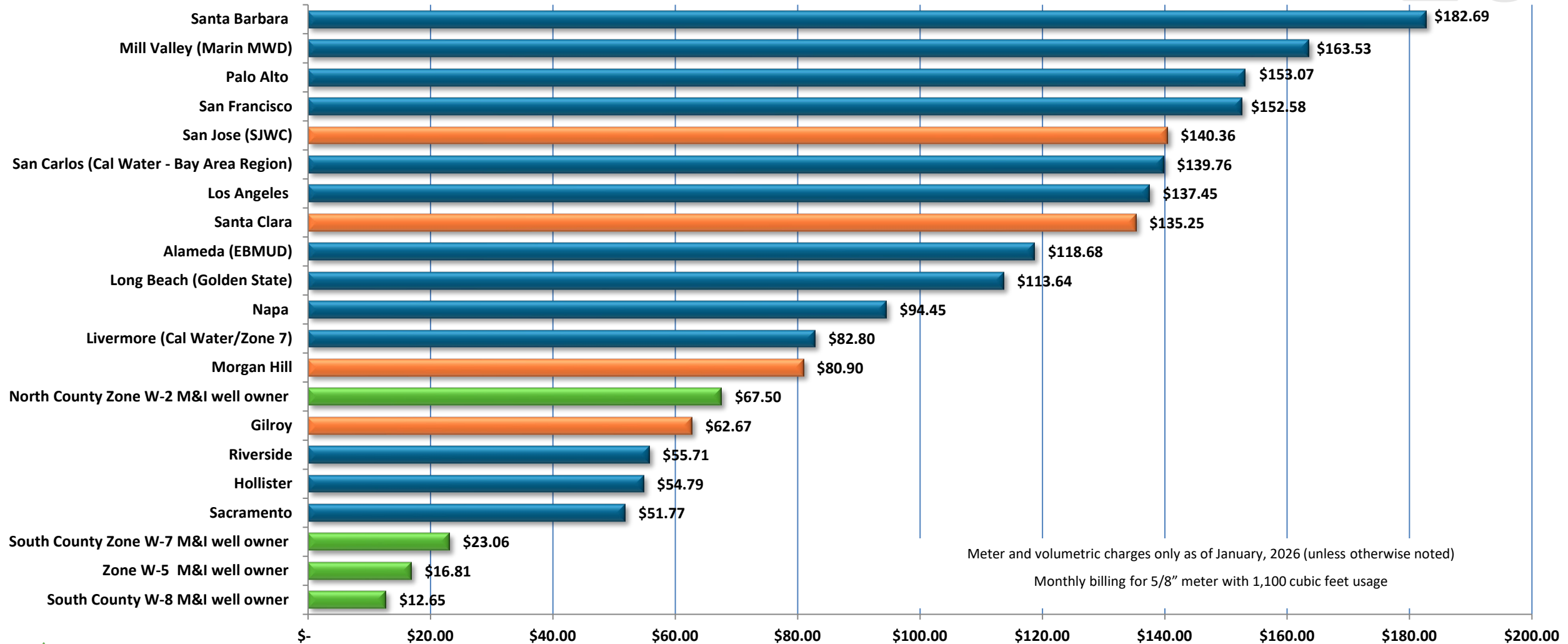
* The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge



M&I Increase approximately \$0.93 per month increase to the average household user.

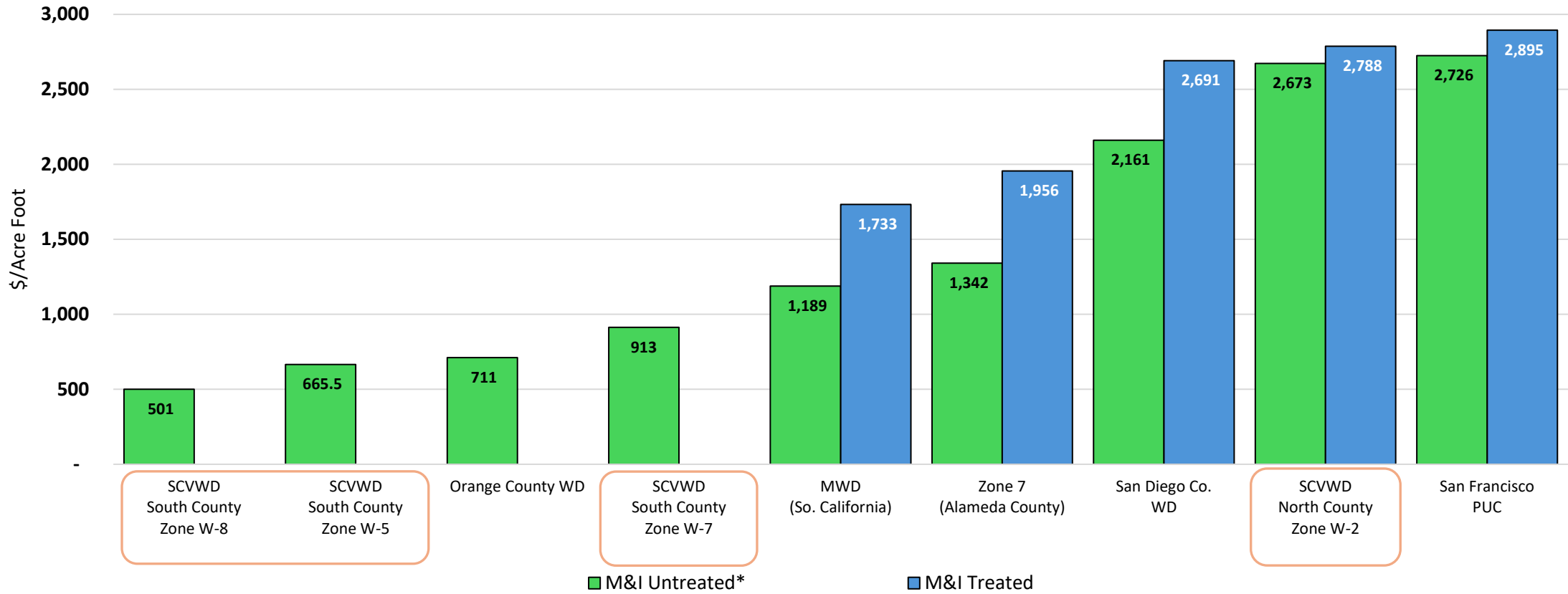
Note: Does not include any increase that a retailer would layer on top

Retail Agency Benchmarks



Wholesale Agency Rate Comparison

Wholesale Agency Rate Comparison
Municipal & Industrial (M&I) Water



* SCVWD groundwater production charge is equivalent to SCVWD raw surface water basic user charge

Note: some rates rounded to the nearest dollar.

Agricultural Benchmarks

Agency (As of March 2026) ¹		Agricultural Rate (\$/AF)	Non-Agricultural Rate (\$/AF)	Ag as % of Non-AG
Modesto ID (\$/AF for first 2 AF)	Untreated SW	\$2.00 to \$40.00	N/A	
San Benito ²	Groundwater (Quality issues)	\$14.30	\$14.30	100%
SCVWD South	Groundwater		\$665.50	7%
	Zone W-5	\$46.50	\$913.00	5%
	Zone W-7		\$501.00	9%
Zone W-8				
Merced ID	Untreated SW	\$50.00	N/A	
SCVWD South	Untreated SW		\$738.50	16%
	Zone W-5	\$119.50	\$986.00	12%
	Zone W-7		\$574.00	21%
Zone W-8				
Westlands WD	Pressurized	\$178.59	\$908.72	20%
Lost Hills	Untreated SW	\$195.73 to \$364.76	N/A	
Zone 7	Untreated SW	\$287.00	N/A	
San Benito	Pressurized	\$263.00	\$554.00	47%
Merced ID	Groundwater ³	N/A	N/A	

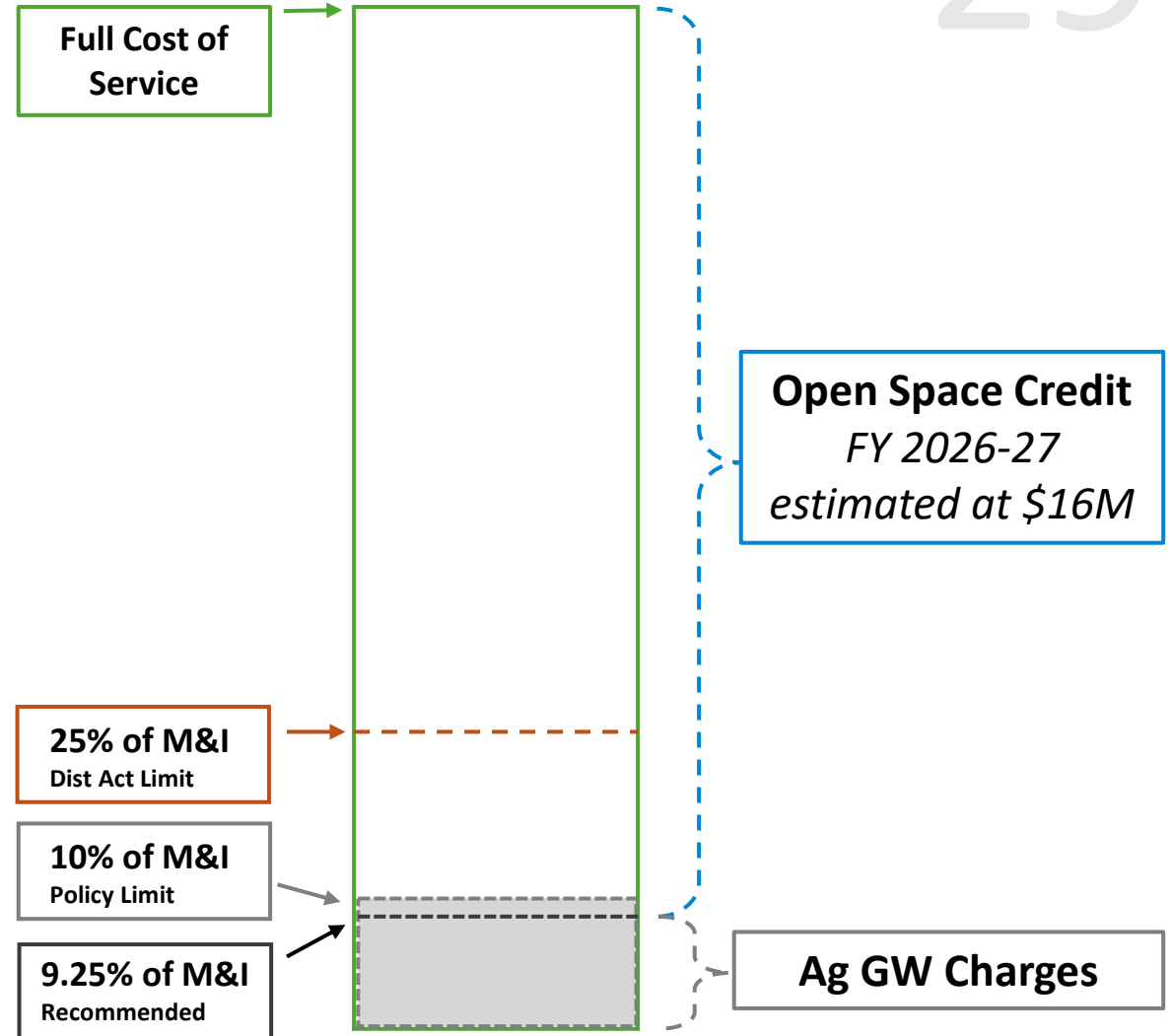
1. Reflects Valley Water proposed FY 2026-27 rates against current adopted rates for comparator agencies.

2. San Benito County Water District adopted groundwater charges for FY 2026-27 setting Non-Agricultural (M&) and Agricultural rates the same \$/AF.

3. Merced Irrigation District is not offering their Supplemental Water Supply Pool Program (Groundwater) for the 2026 irrigation season and is encouraging growers to conserve groundwater.

Benefits of the Open Space Credit (OSC)

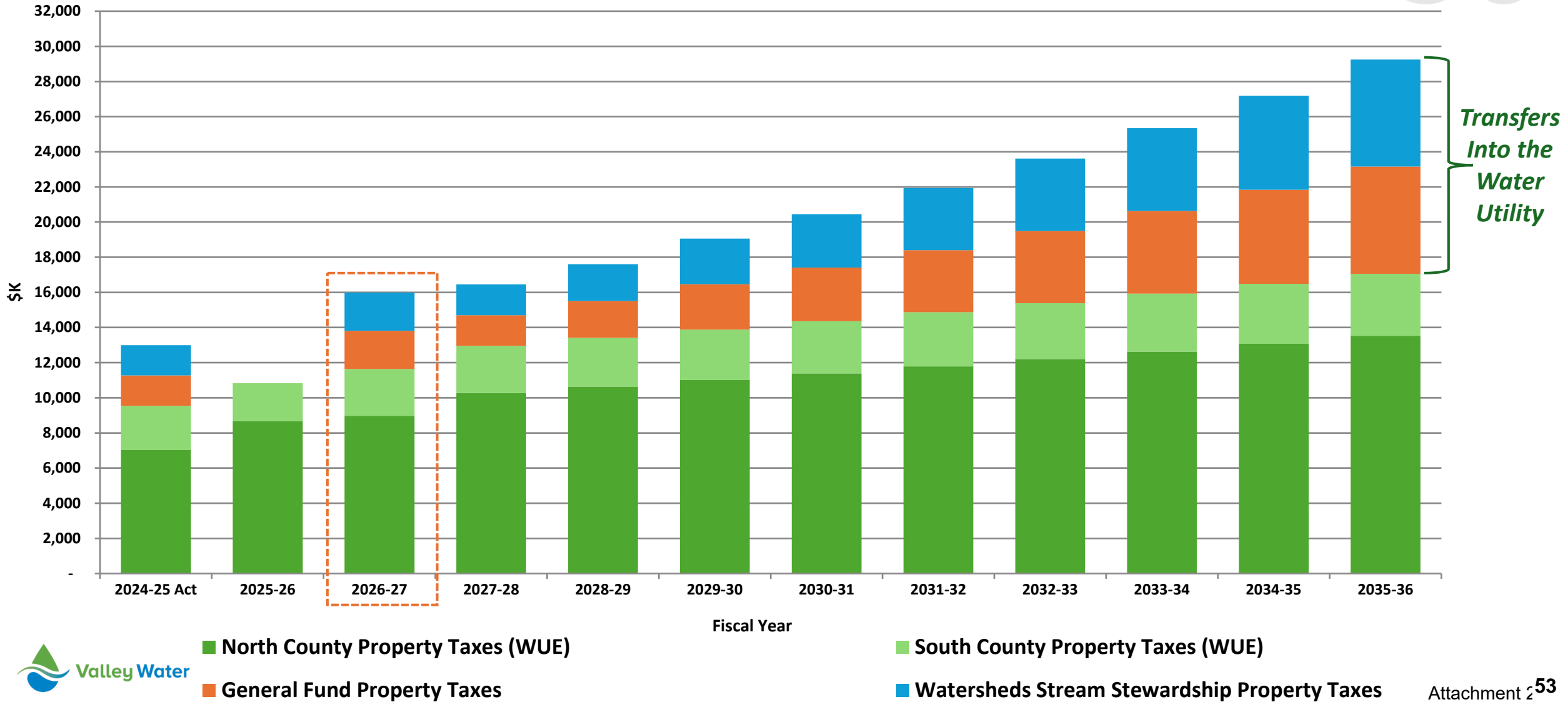
- **Formal definition: “The use of non-rate related revenue to offset reduced agricultural revenue as a result of keeping agricultural rates lower than needed to recoup the full cost of service”**
- **Applies to agricultural water users only, not to all open space**
- **Open Space Credit covers 90% of full cost of service for Agricultural Water customers**



Open Space Credit Projection

10-year Total Benefit to Open Space Credit: \$217M

30



- North County Property Taxes (WUE)
- South County Property Taxes (WUE)
- General Fund Property Taxes
- Watersheds Stream Stewardship Property Taxes

Rate Setting Schedule FY 2026-27

31

- Jan 5 Agricultural Water Advisory Committee
- Jan 13 Board Meeting: Preliminary Groundwater Charge Analysis
- Jan 21 Water Retailers Meeting: Preliminary Groundwater Charge Analysis
- Jan 28 Water Commission Meeting: Preliminary Groundwater Charge Analysis

- Feb 10 Board Meeting: Set time & place of Public Hearing
- Feb 27 Mail notice of public hearing and file PAWS report

- Mar 10 Board Meeting: Budget development update
- Mar 11 Water Retailers Meeting: FY 27 Groundwater Charge Recommendation

- Apr 6 Agricultural Water Advisory Committee
- Apr 8 Water Commission Meeting
- Apr 14 Open Public Hearing
- **Apr 22 Continue Public Hearing in South County (Morgan Hill)**
- **Apr 28 Conclude Public Hearing**
- **Apr 29-30 Board Meeting: Budget work study session**

- **May 12 Adopt budget, 5-Year CIP & groundwater production and other water charges**

Feedback from Advisory Committees and Community

32

Water Retailers

Agricultural Water Advisory Committee

Santa Clara Valley Water Commission

Members of the Public

Summary & Next Steps

33

Valley Water remains in an era of investment:

- Upgrading, rehabilitating, & replacing existing water supply infrastructure that was built decades ago
- Actively participating in regional infrastructure projects to secure additional water storage and supply

Proposed FY 27 Groundwater Production Charge for North County in terms of average household increase are:

- Increase of \$5.63 per month in Zone W-2 for groundwater and treated water

Proposed FY 27 Groundwater Projection Charges for South County in terms of average household increase are:

- Increase of \$1.04 per month in Zone W-5
- Increase of \$1.98 per month in Zone W-7
- Increase of \$0.93 per month in Zone W-8

Next Steps

- Continue Public Hearing on April 28th



Valley Water

Clean Water • Healthy Environment • Flood Protection

Backup Slides

Groundwater Charge Increase Projection

As published in the PAWS Report February 27, 2026

Municipal & Industrial Groundwater Charge
Year to Year Growth %

Baseline Scenario 1	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
North County Zone W-2	9.1%	9.1%	9.1%	9.1%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
<i>Prior Year</i>	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	7.0%	

Municipal & Industrial Groundwater Charge
Monthly Impact to Average Household (11 HCF/Month)

Baseline Scenario 1	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
North County Zone W-2	\$5.63	\$6.14	\$6.70	\$7.31	\$6.49	\$6.97	\$7.49	\$8.03	\$8.64	\$9.27

FY 2026-27 North County Zone W-2 Proposed Charges

37

Zone W-2 (North County)	Dollars Per Acre Foot		
	FY 2024-25	FY 2025-26	Proposed FY 2026-27
Basic User/Groundwater Production Charge			
Municipal & Industrial	2,229.00	2,450.00	2,673.00
Agricultural	39.80	43.00	46.50
Surface Water Charge			
Surface Water Master Charge	61.00	67.00	73.00
Total Surface Water, Municipal & Industrial*	2,290.00	2,517.00	2,746.00
Total Surface Water, Agricultural*	100.80	110.00	119.50
Treated Water Charges			
Contract Surcharge	115.00	115.00	115.00
Total Treated Water Contract Charge**	2,344.00	2,565.00	2,788.00
Non-Contract Surcharge	200.00	200.00	200.00
Total Treated Water Non-Contract Charge***	2,429.00	2,650.00	2,873.00



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

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

*** 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

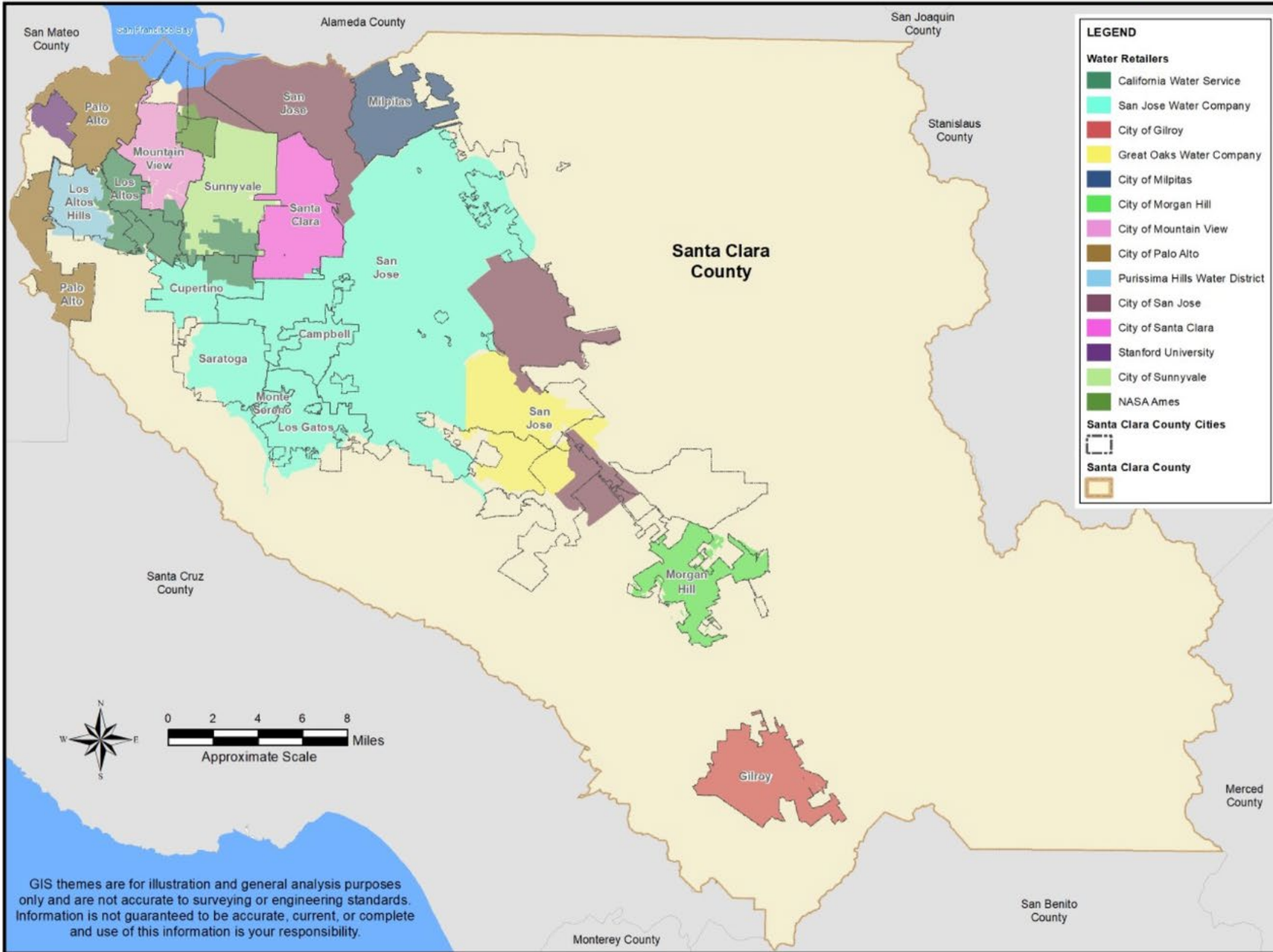


M&I Increase approximately \$5.63 per month increase to the average household user.
 Note: Does not include any increase that a retailer would layer on top

Water Retailers in Santa Clara County



Water Retailers in Santa Clara County



GIS themes are for illustration and general analysis purposes only and are not accurate to surveying or engineering standards. Information is not guaranteed to be accurate, current, or complete and use of this information is your responsibility.

THIS PAGE INTENTIONALLY LEFT BLANK

RESOLUTION NO. 12- 10

A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE SANTA CLARA VALLEY WATER DISTRICT ADOPTING PROCEDURES
FOR THE IMPOSITION OF SURFACE WATER CHARGES

WHEREAS, pursuant to Section 4 of the District Act, the purposes of the District Act are to authorize the District to provide comprehensive water management for all beneficial uses within Santa Clara County; and

WHEREAS, Section 5(5) of the District Act authorizes District to do any and every lawful act necessary to be done that sufficient water may be available for beneficial uses within Santa Clara County; and

WHEREAS, Section 5(12) authorizes the District to make contracts and do all acts necessary for the full exercise of all powers vested in the District; and

WHEREAS, Proposition 218, adopted on November 6, 1996, added Articles XIIC and XIID to the California Constitution which impose certain procedural and substantive requirements with respect to the imposition of certain new or increased fees and charges; and

WHEREAS, whether legally required or not, the District Board believes it to be in the best interest of the community to align its practices with respect to the imposition of surface water charges to mirror the majority protest requirements of Article XIII D, section 6 applicable to charges for water services to the extent possible; and

WHEREAS, the District Board believes it to be in the best interest of the community to record its decisions regarding implementation of the provisions relating to imposition of surface water charges and to provide the community with a guide to those decisions and how they have been made; and

NOW, THEREFORE, the Board of Directors of Santa Clara Valley Water District does hereby resolve as follows:

SECTION 1. Statement of Legislative Intent. It is the Board of Directors' intent in adopting this resolution, to adopt the notice, hearing, and majority protest procedure proceedings that are consistent, and in conformance with, Articles XIIC and XIID of the California Constitution and with the Proposition 218 Omnibus Implementation Act and the provisions of other statutes authorizing imposition of surface water charges. To the extent that these requirements are legally required to supercede the requirements set forth in the District Act, these provisions are intended to prevail.

SECTION 2. Definitions.

- A. Record Owner.** The District will provide the required notice to the Record Owner. "Record Owner" means the record owner of the property on which the surface water use-facility is present, and the tenant(s) who are District surface water permittees liable for the payment of the surface water charge.

A Resolution of the Board of Directors of the Santa Clara Valley Water District Adopting
Procedures for the Imposition of Surface Water Charges

- B. Charge Zone.** "Charge Zone" means the District zone (i.e. Zone W-2 or Zone W-5) that a surface water user's turnout is located, which is applicable in identifying the proposed surface water charge. Surface water users that receive surface water outside of either Zone W-2 or Zone W-5 are deemed to be located in the zone to which the surface water user's turnout is most nearly located.

SECTION 3. Surface Water Charge Proceeding. The following procedures will be used:

- A. Those Subject to the charge.** The Record Owners of the existing surface use-facilities.
- B. Amount of Charge.** A formula or schedule of charges by which the customer can easily calculate the potential surface water charge will be included in the notice. The surface water charge is comprised of a basic user charge and a surface water master charge. The surface water charge must comply with the following substantive requirements:
1. Revenues derived from the surface water charge will not be used for any purpose other than that for which the charge is imposed.
 2. Revenues derived from the surface water charge will not exceed the direct and indirect costs required to provide the service.
 3. The amount of the surface water charge must not exceed the proportional cost of the service attributable to the property.
 4. No charge may be imposed for a service unless the service is actually used by, or immediately available to the property owner (or, if applicable, the tenant).
 5. No charge can be imposed for general governmental services where the service is available to the public at large in substantially the same manner as it is to property owners.
- C. Notice.** The following guidelines apply to giving notice of the surface water charge.
1. Record Owner(s) of each parcel subject to the surface water charge, meaning any parcel with a surface water use-facility, will be determined from the last equalized property tax roll. If the property tax roll indicates more than one owner, each owner will be sent the notice. District surface water permittees liable for the payment of the surface water charge will also be provided with the notice.
 2. The notice must be sent at least forty-five (45) days prior to the date set for the public hearing on the surface water charge.
 3. Failure of any person to receive the notice will not invalidate the proceedings.

A Resolution of the Board of Directors of the Santa Clara Valley Water District Adopting
Procedures for the Imposition of Surface Water Charges

D. Surface Water Charge Protest. The following guidelines apply to the surface water charge protest procedure:

1. The notice will be mailed to all affected Record Owners at least forty-five (45) days prior to the date of the public hearing on the proposed surface water charge.
2. Written protests must be forwarded to the Clerk of the Board by mail or in person, sealed in an envelope which conceals the contents, with the property address or APN written on the outside of the envelope. To be counted, protests must be received no later than the date for return of protests stated on the notice, or the close of the public hearing, whichever is later.
3. A protest must be signed under penalty of perjury. For properties with more than one Record Owner, a protest from any one surface water user-facility will count as a protest for the property. No more than one protest will be counted for any given property.
4. Only protests with original signatures will be accepted. Photocopied signatures will not be accepted. Protests will not be accepted via e-mail. Protests must be submitted in sealed envelopes identifying the property on which the surface water user-facility is located, and include the legibly printed name of the signator. Protests not submitted as required by this Resolution will not be counted.
5. This proceeding is not an election.
6. Written Protests must remain sealed until the tabulation of protests commences at the conclusion of the public hearing. A written protest may be submitted or changed by the person who submitted the protest prior to the conclusion of the public testimony on the proposed charge at the public hearing.
7. Prior to the public hearing, neither the protest nor the envelope in which it is submitted will be treated as a public record, pursuant to the Government Code section 6254(c) and any other applicable law, in order to prevent potential unwarranted invasions of the submitter's privacy and to protect the integrity of the protest process.

E. Tabulating Protests. The following guidelines apply to tabulating protests:

1. It will be the responsibility of the Clerk of the Board to determine the validity of all protests. The Clerk will accept as valid all protests except those in the following categories:
 - a. A photocopy which does not contain an original signature;
 - b. An unsigned protest;
 - c. A protest without a legible printed name;
 - d. A protest which appears to be tampered with or otherwise invalid based upon its appearance or method of delivery or other circumstances;

A Resolution of the Board of Directors of the Santa Clara Valley Water District Adopting Procedures for the Imposition of Surface Water Charges

- e. A protest submitted to the District via e-mail;
- f. A protest submitted in an envelope that does not have the address or APN written on the outside of the envelope;
- g. A protest signed by someone other than the Record Owner for the APN.

The Clerk's decision, after consultation with the District Counsel, that a protest is invalid is final.

- 2. An impartial person, designated by the governing board, who does not have a vested interest in the outcome of the proposed charge will tabulate the written protests submitted, and not withdrawn. The impartial person may be a member of the Clerk of the Board Office.
- 3. A Record Owner who has submitted a protest may withdraw that protest at any time up until the conclusion of the final public hearing on the surface water charge.
- 4. A property owner's failure to receive notice of the surface water charge will not invalidate the proceedings conducted under this procedure.

F. Public Hearing.

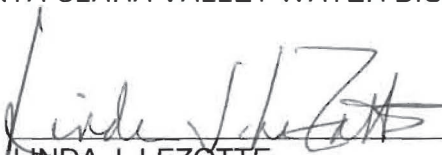
- 1. At the public hearing, the District Board will hear and consider all public testimony regarding the proposed surface water charge and accept written protests until the close of the public hearing, which hearing may be continued from time to time.
- 2. The District Board may impose reasonable time limits on both the length of the entire hearing and the length of each speaker's testimony.
- 3. At the conclusion of the hearing, the Clerk of the Board, or other neutral person designated to do the tabulation will complete tabulation of the protests from Record Owners, including those received during public hearing.
- 4. If it is not possible to tabulate the protests on the same day as the public hearing, or if additional time is necessary for public testimony, the District Board may continue the public hearing to a later date to receive additional testimony, information or to finish tabulating the protests; or may close the public hearing and continue the item to a future meeting to finish tabulating the protests.
- 5. If according to the final tabulation of the protests from Record Owners, the number of protests submitted against the proposed surface water charge (or increase of the surface water charge) within a Charge Zone exceeds 50% plus one of either: (i) the identified number of parcels within that Charge Zone, or (ii) the identified number of owners and tenants who are subject to the surface water charge within that Charge Zone, then a "majority protest" exists and the District Board of Directors will not impose the surface water charge within that Charge Zone.

A Resolution of the Board of Directors of the Santa Clara Valley Water District Adopting
Procedures for the Imposition of Surface Water Charges

PASSED AND ADOPTED by the Board of Directors of Santa Clara Valley Water District by the
following vote on February 14, 2012.

AYES: Directors T. Estremera, D. Gage, J. Judge, P. Kwok, R. Santos, B. Schmidt,
L. LeZotte
NOES: Directors None
ABSENT: Directors None
ABSTAIN: Directors None

SANTA CLARA VALLEY WATER DISTRICT

By: 
LINDA J. LEZOTTE
Chair/Board of Directors

ATTEST: MICHELE L. KING, CMC


Clerk/Board of Directors

This page intentionally left blank.