

State Water Project Tax Discussion

September 27, 2016



Topics

1. State Water Project Tax

- Background
- History
- SWP Tax by Zone of Benefit
- Palo Alto & Purissima Hills
- SWP Tax & The California Water Fix

2. Board Policy Questions and Alternatives

SWP Background

What is the State Water Project?

- A conveyance system stretching from Lake Oroville in Northern California to Lake Perris in Southern California
- South Bay Aqueduct conveys water to Santa Clara County from the Sacramento-San Joaquin Delta
- Managed by the California Department of Water Resources (DWR)
- SCVWD entered into contract with DWR in 1961 for water supply
- SCVWD is one of 29 state water contractors
- Contract obligates levy of tax if other funding sources insufficient
- Water Code section 11652 also obligates levy of tax to ensure sufficient payment of water contract when necessary

SWP Background

What is the State Water Project (SWP) Tax?

- Override tax – a tax in excess of the one-percent cap imposed to pay voter-approved indebtedness
- State voters approved the State Water Project and its financing with state bonds in 1960 (Burns-Porter Act)
- Tax implemented by SCVWD in FY 1979-80 after passage of Prop 13 reduced the District's "5 cent" property tax revenues by 58%
- SWP tax is collected county-wide
- SCVWD relies on SWP tax to pay for 100% of SWP contractual obligations
 - SWP Tax can only be used for SWP contractual obligations
 - Current assumption: SWP Tax to pay for SWP portion of California Water Fix
- SWP tax accounts for 11% of Water Utility revenue for FY 16

SWP Background

Each year Board sets the SWP tax amount by resolution

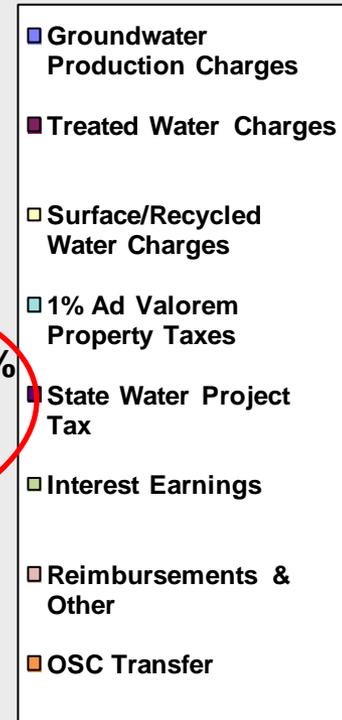
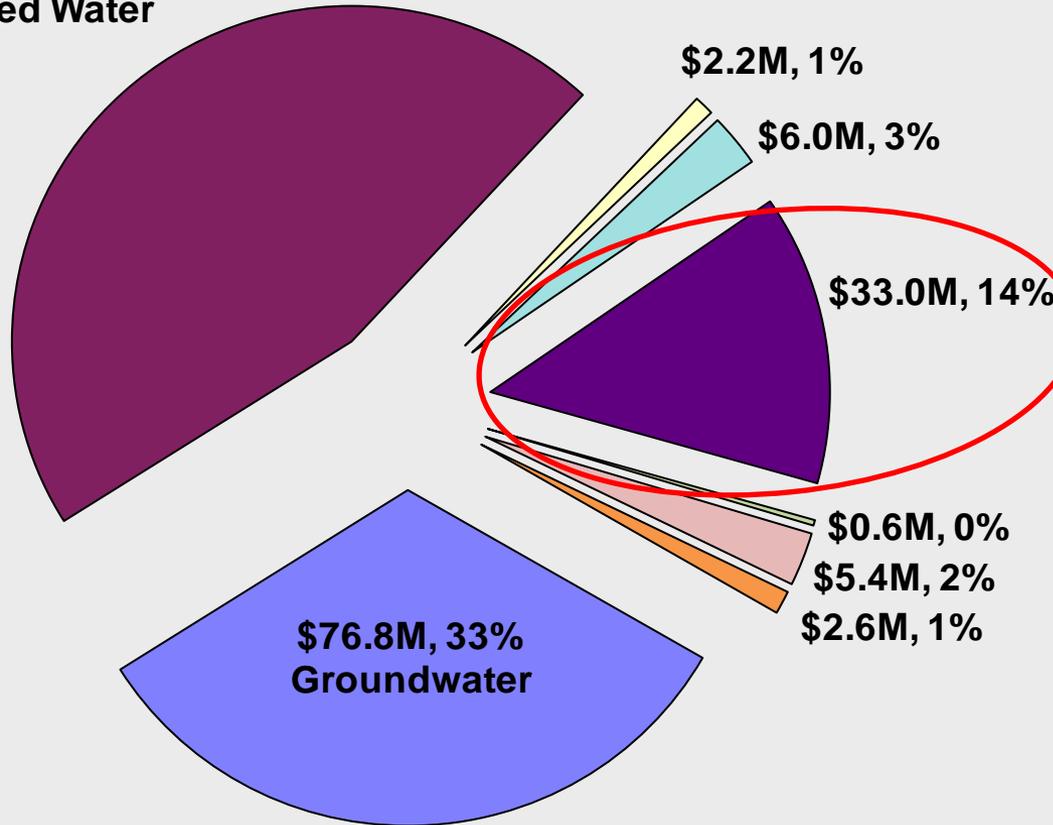
Excerpt from Resolution 16-33:

“WHEREAS, the Board, after reviewing and considering all the facts, information and reports provided by District staff, and information communicated to the Board during public meetings in which the District's Fiscal Year 2016-17 budget and proposed increase of rates and charges were considered, **has determined that it is necessary to raise the amounts hereinafter specified as an ad valorem real property tax, and that it is not practicable to raise said sums from water rates or other sources; and ...**”

Breakdown of FY 17 WU Revenue Budget

SCVWD Water Utility Revenue Sources FY 17

\$107.8M, 46%
Treated Water



- FY 17 budgeted Water Utility revenue plus Open Space Credit transfer = \$235.1M
- 14% or \$33M of Water Utility Revenue comes from the SWP tax

History

- Pre 1961 – Several cities contract with SFPUC for Hetch-Hetchy (HH) water supply
- July 1961 – 5-cent county-wide tax established to start water importation program
- Nov. 1961 – SCVWD contracts with DWR for State Water Project (SWP) water
- March 1963 – Board establishes policy for in-county credit to agencies that receive HH water
- June 1963 – Residents in Zone W-1 approve \$42M bond for in-county distribution & treatment facilities to optimally use SWP imported water. Paid for by W-1 debt service tax.
- July 1964 – Groundwater production charges are established
- June 1978 – Proposition 13 passes. District no longer receives ad valorem taxes as established, but instead receives a portion of the 1% ad valorem tax (~58% reduction).
- July 1979 – The SWP override tax is first levied to pay for SWP contract obligations
- June 1981 – Board adopts resolution 81-44 declaring that in-county credit is no longer justified
- June 1984 – In-county credit is phased out
- July 2000 – A portion of Water Utility ad valorem taxes are reprogrammed to Watersheds

Do other SWP contractors rely on SWP tax?

100% reliance on SWP tax

- SCVWD
- Antelope Valley East Kern Water Agency
- Coachella Valley Water District
- San Bernardino Valley Municipal WD
- Castaic Lake Water Agency

No reliance on SWP tax

- Tulare Lake Basin Water Storage District
- Central Coast Water Authority
- Ventura County Watershed Protection District
- County of Kings

Less than 100% reliance on SWP tax

- Metropolitan Water District (8-10%)
- Kern County Water Agency (10-14%)
- Mojave Water Agency (84%)
- Zone 7 (50%)

Based on legislative cap

Remainder of SWP costs billed directly to member units

Current practice = variable SWP costs paid by rates, fixed SWP costs paid by SWP tax

SWP Tax by Zone of Benefit

- SWP tax collected county-wide beginning July 1979
- South County Zone W-5 began in 1987 with Gavilan Water District merger
- SWP tax revenue credited 94% to North County, 6% to South County
 - Based on the zone in or near where the tax is collected
- SWP cost allocated 100% to North County, 0% to South County
 - South County Zone W-5 does not directly receive SWP water

<u>SWP Tax Fund</u>	<u>North Zone W-2</u>	<u>South Zone W-5</u>
100% SWP Tax	94% of SWP Tax credited to North	6% of SWP Tax credited to South
100% SWP Costs	100% of SWP Cost allocated to North	0% of SWP Cost allocated to South

SWP taxes collected within and near zone reduce Groundwater Production Charge in that zone

Palo Alto and Purissima Hills

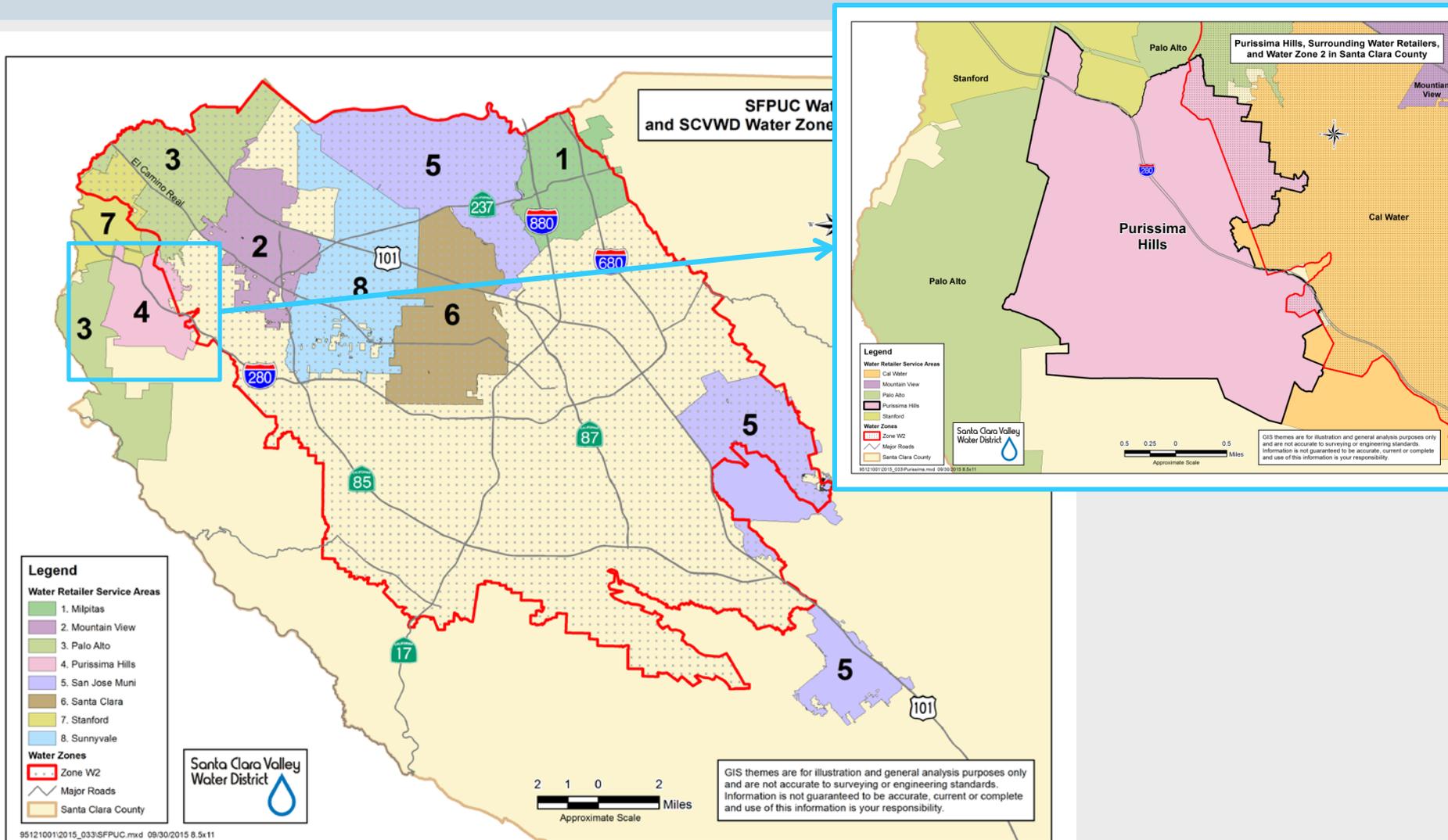
Both elected bodies are concerned about District reliance on SWP tax

- Concern includes SCVWD assumption to pay for SWP portion of California Water Fix costs with SWP tax

Background Information:

- They rely 100% on Hetch Hetchy water supplied by the SFPUC
- They rely on SCVWD for emergency supply
 - Palo Alto via groundwater
 - Both via SFPUC intertie
- They benefit from SWP water (additional water supply, subsidence & saltwater intrusion prevention, increased economic growth)
- They provide similar benefits to Santa Clara County via provision of Hetch Hetchy water

Palo Alto and Purissima Hills



Zone W-2 partially overlays both Palo Alto and Purissima Hills WD

California Water Fix Cost Projection and SWP Tax

CWF Cost Update

High Deliveries, 100% Participation, 50/50 SWP/CVP Cost Split Scenario

\$K	CVP	SWP	Total	North	South
				Cost/mo*	Cost/mo*
FY 17	1,350	375	1,725	\$0.29	\$0.17
FY 18	1,501	834	2,335	\$0.35	\$0.24
FY 19	1,501	834	2,335	\$0.35	\$0.24
FY 20	5,289	2,938	8,227	\$1.22	\$0.65
FY 21	6,551	3,639	10,190	\$1.44	\$0.83
FY 22	6,551	3,639	10,190	\$1.43	\$0.83
FY 23	11,395	6,330	17,725	\$2.42	\$1.41
FY 24	13,009	7,227	20,237	\$2.76	\$1.62
FY 25	13,009	7,227	20,236	\$2.75	\$1.62
FY 26	18,087	10,048	28,136	\$3.80	\$2.24
10 Yr Subtotal	78,243	43,093	121,336		

* CVP and SWP impacts in terms of cost per month for average household

To Be Paid by water charges

To Be Paid by SWP tax

- Analysis assumes costs associated with conveyance of State Water Project supply would be paid for by SWP tax

SWP Tax Projection

April 2016 SWP Tax projection (\$K)

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
SWP	33,000	36,166	36,166	40,062	46,361	48,361	55,670	59,773	66,773	71,952
CWF	-	834	834	2,938	3,639	3,639	6,330	7,227	7,227	10,048
Total	33,000	37,000	37,000	43,000	50,000	52,000	62,000	67,000	74,000	82,000

Average Annual Single Family Residence SWP Tax bill

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
SWP	\$54.72	\$59.11	\$58.25	\$63.59	\$72.52	\$74.55	\$84.58	\$89.49	\$98.53	\$104.63
CWF	\$0.00	\$1.36	\$1.34	\$4.66	\$5.69	\$5.61	\$9.62	\$10.82	\$10.66	\$14.61
Total	\$54.72	\$60.47	\$59.59	\$68.25	\$78.21	\$80.16	\$94.19	\$100.31	\$109.19	\$119.24

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2. Board Policy Questions and Alternatives

Policy Questions & Alternatives

Should District continue current practice to rely on SWP tax to pay 100% of SWP contractual obligations including SWP portion of California Water Fix (CWF)?

Alternatives:

- 1) Rely on SWP tax to pay 100% of SWP costs including CWF — CURRENT ASSUMPTION
- 2) Rely on SWP tax to pay 100% of SWP costs excluding CWF
- 3) Rely on SWP tax to pay fixed portion (~85%) of SWP costs only excl. CWF
- 4) Rely on SWP tax to pay <85% of SWP costs excluding CWF

Pros of reduced reliance on SWP tax:

- Reduced property tax bill for county residents

Cons of reduced reliance on SWP tax:

- Would increase Groundwater Production Charge to recoup lost revenue
- Reduces “fixed” revenue source & adds financial volatility

Policy Questions & Alternatives

Financial Impact versus Current Assumption:

- 2) Rely on SWP tax to pay 100% of SWP costs excluding CWF
 - Reduce average annual tax bill by \$1.36 in FY 18
 - Reduce average annual tax bill by \$14.61 in FY 26
 - Incremental \$5/AF in FY 18, & \$47/AF by FY 26 for North County M&I GW charge
 - Incremental \$1/AF in FY 18, & \$12/AF by FY 26 for South County M&I GW charge
 - Open Space Credit higher by \$271K in FY 26

- 3) Rely on SWP tax to pay fixed portion (~85%) of SWP costs only excl. CWF
 - Reduce average annual tax bill by \$9 in FY 18
 - Incremental \$36/AF in FY 18, & \$99/AF by FY 26 for North County
 - Incremental \$8/AF in FY 18, & \$24/AF by FY 26 for South County
 - Open Space Credit higher by \$563K in FY 26

- 4) Rely on SWP tax to pay <85% of SWP costs excluding CWF
 - Depends on % reliance

Policy Questions & Alternatives

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