

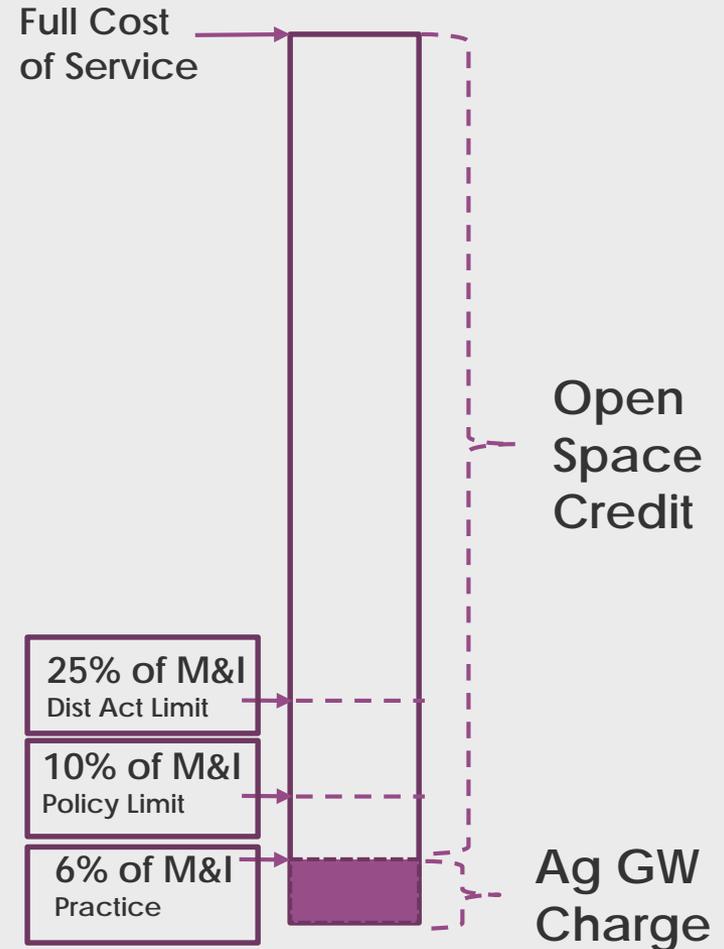
Open Space Credit Policy Discussion

December 5, 2018

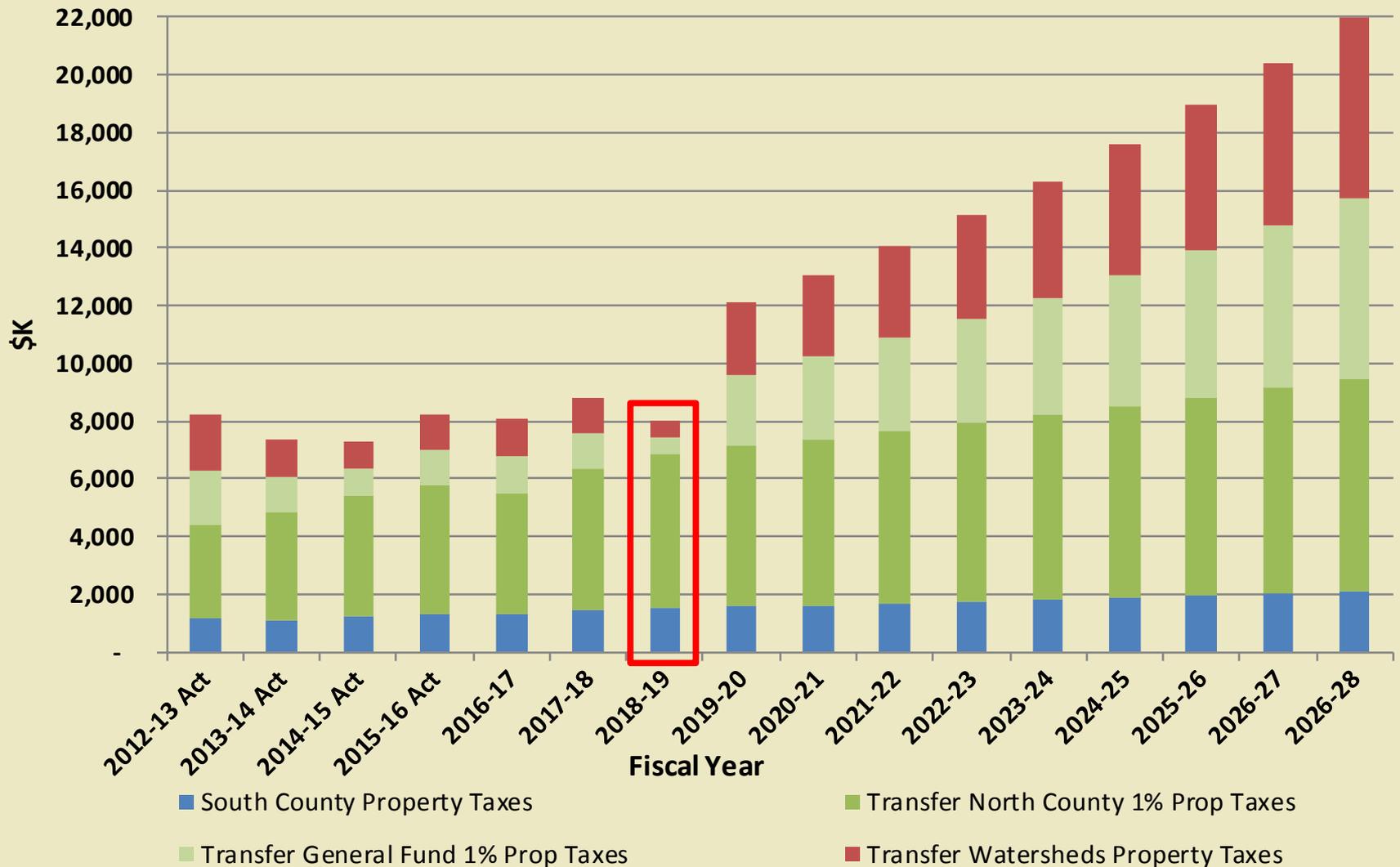


What is the Open Space Credit (OSC)?

- ▶ 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: April 2018 Projection



Background on OSC Policy Discussions

- 2013
 - ▶ Staff completes extensive OSC policy review and stakeholder engagement process
 - ▶ Board maintains OSC policy as is
 - ▶ South County Ag charge maintained at 6% of M&I

- 2014 - 2016
 - ▶ Board confirms direction to maintain OSC policy as is

- 2017
 - ▶ Presidents Day Flood occurs, CIP Committee explores OSC reductions to free up funding for flood protection projects

- Feb 2018
 - ▶ Special Ag Advisory Committee meeting convened to discuss OSC Policy

Background on OSC Policy Discussions

April 2018

▶ Board directs staff to:

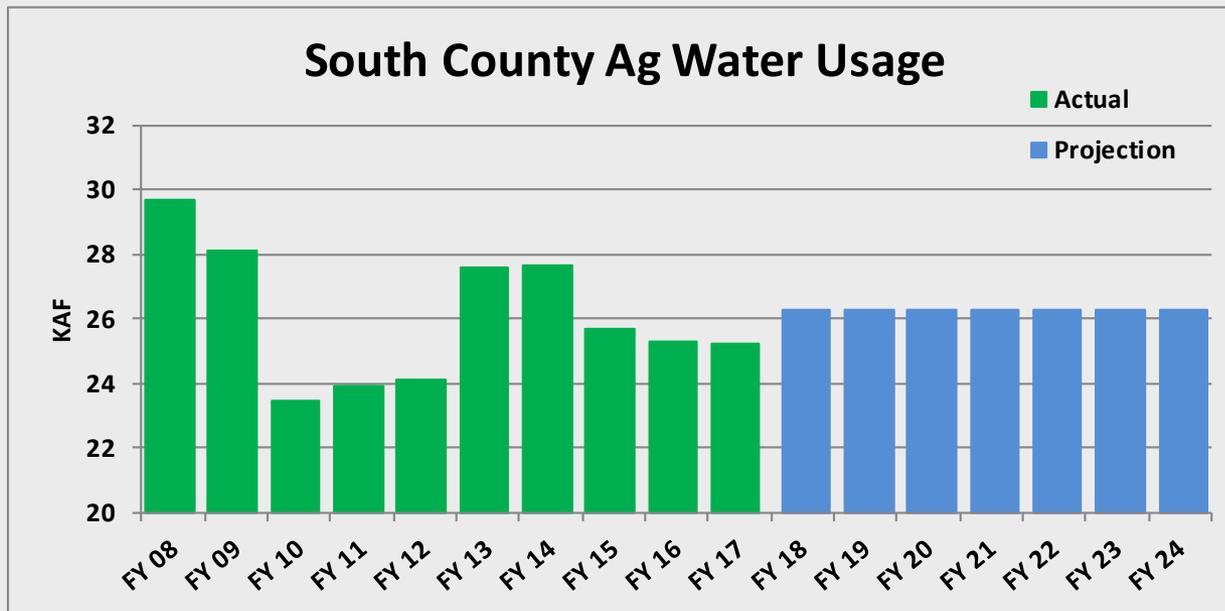
1. Analyze ag water usage trend scenarios and potential impact on Open Space Credit projection
2. Research feasibility of a reduced ag charge for Williamson Act participants
3. Seek contributions from local private companies or other governmental agencies to fund Open Space Credit

May 2018

▶ Board continues past practice of setting Ag Charge at 6.0% of South County M&I charge for FY 19

Agricultural Water Use Projection

- ▶ Santa Clara Farm Bureau confirms that flat ag water use projection for next 5 to 10 years is reasonable
 - ▶ Consistent with current staff projection



- ▶ If ag water use ramps down to 90% of current projection by FY 30, then OSC savings would be \$11M over that timeframe

Williamson Act & Conservation Easements

- ▶ Williamson Act provides tax benefits to property owners who do not develop their land
- ▶ Conservation Easements permanently extinguish development rights

	Williamson Act Parcels	Conservation Easement Parcels	Average % of Total Ag Water Use
North County	3	0	1%
South County	171	10	32%
Total	174	10	33%

Williamson Act & Conservation Easements

- ▶ **Ag Charge Adjustment Program Alternative for Consideration**
 - ▶ Predicated on Williamson Act or conservation easement participation
 - ▶ If: Ag charge increased to >6% of M&I
 - ▶ Then: Adjust back to 6% for Williamson Act and Conservation easement properties
 - ▶ Staff could implement with minimal effort

- ▶ **Example: Increase Ag charge to 10% of M&I over 7-year timeframe (from FY 20 to FY 26)**

Anticipated Savings to Open Space Credit							
FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Total
\$ 63	\$ 131	\$ 204	\$ 283	\$ 367	\$ 459	\$ 557	\$ 2,064

Note: Dollars are in thousands

Williamson Act & Conservation Easements

Conservation Organizations support an Ag Charge Adjustment program for Williamson Act and conservation easement properties:

- ▶ Santa Clara Valley Open Space Authority
- ▶ Peninsula Open Space Trust
- ▶ Midpeninsula Regional Open Space

Seeking help to fund Open Space Credit

▶ Work In Process

- ▶ Staff researching avenues to receive donations from individual and corporate sponsors

Recommendation

- ▶ Direct staff to develop an adjustment for Williamson Act and Conservation Easement participation that would hold agricultural water charge to 6% of M&I
- ▶ Provide further direction as necessary for the FY 20 rate setting cycle

Back Up Slides

History of Open Space Credit

- Pre-1991
 - ▶ Ag charge set at 25% of M&I charge
- 1991
 - ▶ Board implements “Open Space Credit” to avoid spike in Ag charge (caused by drought) that would have threatened viability of agriculture in the county
 - ▶ Board establishes practice of setting Ag charge at 10% of M&I
- 1999
 - ▶ Board practice to set Ag charge at 10% of M&I becomes policy under Resolution 99-21
- 2011
 - ▶ Open Space Credit methodology changes to conform to Proposition 218

Open Space Credit: Extensive Review Conducted in 2013

At February 12, 2013 Board meeting, Board expressed concern about the sustainability of the Open Space Credit and requested stakeholder engagement.

1. Contracted with Economic Consultant, era economics LLC
2. Established a Working Group
3. Conducted Community Stakeholder Meeting
4. Obtained feedback from 3 Advisory Committees
5. Reviewed Findings with Board on 11/12/13

Open Space Credit: Result of 2013 Economic Study

▶ Constructed an economic model of agriculture in Santa Clara County

▶ 3 scenarios with 10 year phase-in

- ▶ Baseline (Maintain Ag Charge at 6% of M&I rate)
- ▶ 10 % of M&I rate
- ▶ 25 % of M&I rate

Scenario	Permanent Fallow (acres)	% Change in Irrigated Acres	Irrigated Acres ¹
Baseline	-	-	15,668
10% of M&I	17	0.11%	15,651
25% of M&I	549	3.50%	15,119

¹ Harvested acreage includes an additional 3,650 acres of grain hay

Open Space Credit: Board Direction in November 2013

1. Maintain Open Space Credit Policy language as is (limit Ag charge to 10% of M&I charge)
 - Staff to continue referring to the Board's policy as the "Open Space Credit Policy"
2. Explore other sources of funding to improve the financial health of the Watershed Stream Stewardship Fund
3. Maintain the South County agricultural charge at 6% of M&I
 - Continue practice of setting the North County Ag charge equal to South County Ag charge

Board direction as of November 2016 has been consistent

Agricultural Commissioner's Office Study – Jan 2016

- Study prepared by era economics LLC
- Ecosystem service benefits of Agricultural lands quantified below:

Service	Low Value per acre	High Value per acre
Flood Control	\$40	\$85
Recharge	\$55	\$70
Water Quality	\$25	\$30
Pollination	\$20	\$65
Biodiversity	\$20	\$30
Open Space	\$450	\$1,000
Total	\$610	\$1,280

THIS PAGE INTENTIONALLY LEFT BLANK