

Michele King

From: jim.kuhl@comcast.net
Sent: Saturday, April 06, 2024 11:36 AM
To: Clerk of the Board; Board of Directors; John Varela; Tony Estremera; Barbara Keegan; Richard Santos; Jim Beall; Nai Hsueh; Rebecca Eisenberg
Subject: Revised "Comment" for Tuesday April 9, 2024 Valley Water Board of Directors 11 AM Meeting Agenda Item 3.4 - Identification of Prime Cost Drivers
Attachments: VW Wholesale Water Cost pjctn 3-30.24.pdf
Follow Up Flag: Follow up
Flag Status: Flagged

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To: Valley Water (VW) Board of Directors
Date: Tuesday, April 2, 2024 *Revision: 2 Dated 4/6/24*

Subject: *Revised* "Comment" on additional Information desired for Tuesday April 9, 2024 Valley Water Board of Directors 11 AM Meeting Agenda Item 3.4 - Groundwater Production Charges

In *italics text* is the *4/6/24 revision* to the 4/3/24 "Comment." The revised "Comment" text better captures and clarifies the desired information. If possible, please employ the *revised text version* in any feedback planned for the April 9th Board Meeting.

Enhance the planned attached Valley Water Wholesale Water Rate Presentation to include the following information:

1. Show Water Rate Changes with and without 'Inflation' integrated into relevant presentation material.
2. Identify North County Zone 2 'Dominant Cost Drivers' causing water rate increases *from* FY23 Baseline for FY28, FY31 and FY34.
3. Show North County Zone 2 Water Rates *from* FY23 Baseline for FY28, FY31 and FY34 with and without planned decisional partnerless Pacheco Reservoir Expansion Project (PREP), *San Luis Reservoir* Sisk Dam Rise, *Los Vaqueros Reservoir Expansion* and Delta Tunnel Project share.

"Comment" Background

Introduction

For non-water experts receiving this email "Comment" to Valley Water (VW) Board, a brief topic introduction is needed. Table1 below shows Valley Water's projected proposed wholesale groundwater rate from FY23 through FY34 embodied in VW's planned attached presentation with focus on proposed 'North County Zone W2' water rate increases. 'North County W2 Zone' is VW's wholesale groundwater rate applicable to all Santa Clara County retail water utilities (e.g., San Jose Water Company) servicing water consumers north of Bailey Road in Coyote Valley.

Ex-mayor Sam Liccardo championed countywide affordable water rates by challenging selectively VW infrastructure project decisions intended to increasing water supply reliability. Specifically, Liccardo challenged pursuit of \$5.6B Pacheco Reservoir Expansion Project (PREP) versus other alternatives. Liccardo is now mute on water topics. Recently, Rebecca Eisenberg, D7 VW Board Member, has been vocal seeking a reliable water supply at affordable water rates by challenging PREP as the best solution. Eisenberg is now censored and the only Board Member out of 7 expressing concerns. **No effective political leader now exists to represent water consumers in this important subject of water affordability and reliability project selection decision making within VW even though billions of dollars are involved**

and the key projects involved have 30-year development timelines. Highly judgmental decisions have been made within VW without providing comparative analytical project mix optimization justification. Mistakes can't be made given the importance of having a reliable affordable water supply.

In the 2040 Master Water Supply Plan, Valey Water did not document alternative infrastructure project mix analyses to demonstrate what was the best set to achieve the most affordable reliable water supply. This analysis must be performed and published for public review and assessment in the next few months ahead. VW's FY24 budget for PREP \$20M is already way too high considering the lack of supportive infrastructure project mix analysis described.

Proposed Water Rate Increase Overview Analysis

In the Valley Water planned *attached* presentation, examine pages 15, 16, 17, 22, and 23, for significant water rate data and grafts reference information.

See the Table 1 below. **Simple analysis shows the 'North County Zone W2' Wholesale Groundwater Rate doubling in 5 years.** A clear understanding of the underlying key drivers for the water rate increase is needed.

Table1: Valley Water Propose Groundwater Increased Wholesale Water Rates for North County Zone W2

Groundwater Charge Increase Projection	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
	Baseline										
North County Zone W2 Water Rate Increases		14.5%	12.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%
See attached Presentation Page 15											
W2 Growth from FY23	1	1.1	1.3	1.5	1.7	2.0	2.4	2.9	3.8	5.2	8.0
W2 Growth Goss Multiplier from FY23	1					2X			4X		
CPI Inflation Rate	3.4%	2.1%	2.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Inflation Growth Impact from FY23	1	1.02	1.04	1.06	1.09	1.11	1.13	1.15	1.18	1.20	1.22

Questions

Is projected Inflation a major cost driver in the projected water rate increases?

'Back of envelop' analysis in the table above demonstrates Consumer Price Index (CPI) inflation will likely contribute only 11% of the projected FY28 water rate increase over the 5-year time frame. Clarity is needed in the presentation on how much of the increase is due to projected inflation to identify whether it is a primary driver of the projected water rates increases.

What are Valley Water's primary cost drivers causing the doubling (2X) of North County Zone W2 water rates in 5 years, a quadrupling (4X) in 8 years and increasing 12X in 11 years?

It seems reasonable to assume the Valley Water's planned investment in major water supply improvement infrastructure projects identified in the 2040 Water Supply Master Plan are the prime drivers of the projected water rate increases. These planned infrastructure projects can be divided into two classes: 'Must Dos' and 'Decisional'. It is reasonable to assume existing seismic reservoir facility upgrades (e.g., Anderson) are classified as 'Must Dos' for public safety reasons (i.e., prevent flooding) and to make reliable existing water supply capabilities. While arguable, the 'Decisional' class of major water supply expansion projects include planned partnerless \$5.6B Pacheco Reservoir Expansion Project (PREP), \$2B San Luis Reservoir Sisk Dam Raise at San Luis

Reservoir, *\$2.5B Los Vaqueros Expansion* and VW's share of the \$16B Delta Tunnel Project. The fact that these infrastructure projects don't as yet exist makes them decisional.

- *Expanding 5,000 AF Pacheco Reservoir by 135,000 AF [to total capacity 140K AF] for \$2.5B (\$5.6B with interest) yields \$4,148/AF for additional stored water capacity.*
- *Expanding 2,000,000 AF San Luis Reservoir (B.F. Sisk Dam Raise) by 130,000 AF [to total capacity 2.13 MAF] for \$1B (\$2.0B with interest) yields \$1,538/AF for additional stored water capacity.*
- *Expanding 160,00 AF Los Vaqueros Reservoir by 275,000 AF [to total capacity 435K AF] for \$1.25B (\$2.5B with interest) yields \$909/AF for additional stored water capacity.*

4. For North County Zone 2 water rate changes, what is the contribution (%) of the increase with and without planned decisional partnerless Pacheco Reservoir Expansion Project (PREP), *San Luis Reservoir* Sisk Dam Rise, *Los Vaqueros Reservoir Expansion* and Delta Tunnel Project share?

If Valley Water Board or Staff Members need additional clarification on this "Comment," please contact me.

Best Regards,

Jim

Jim Kuhl, Civic Issue Activist & Environmental Advocate



FISCAL YEAR 2024-25 Public Hearing

Presented by:
Carmen Narayanan, Financial Planning and Revenue Unit Manager

April 9, 2024

Public Hearing has Three Specific Objectives

- 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 2024-25**

53rd Annual Report Released

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

Filed February 23, 2024

Available Online:

<https://www.valleywater.org/ProposedWaterCharges>



Topics for Today's Public Hearing

Background

Water Usage

Cost Projections

Key Assumptions for FY 2024-25

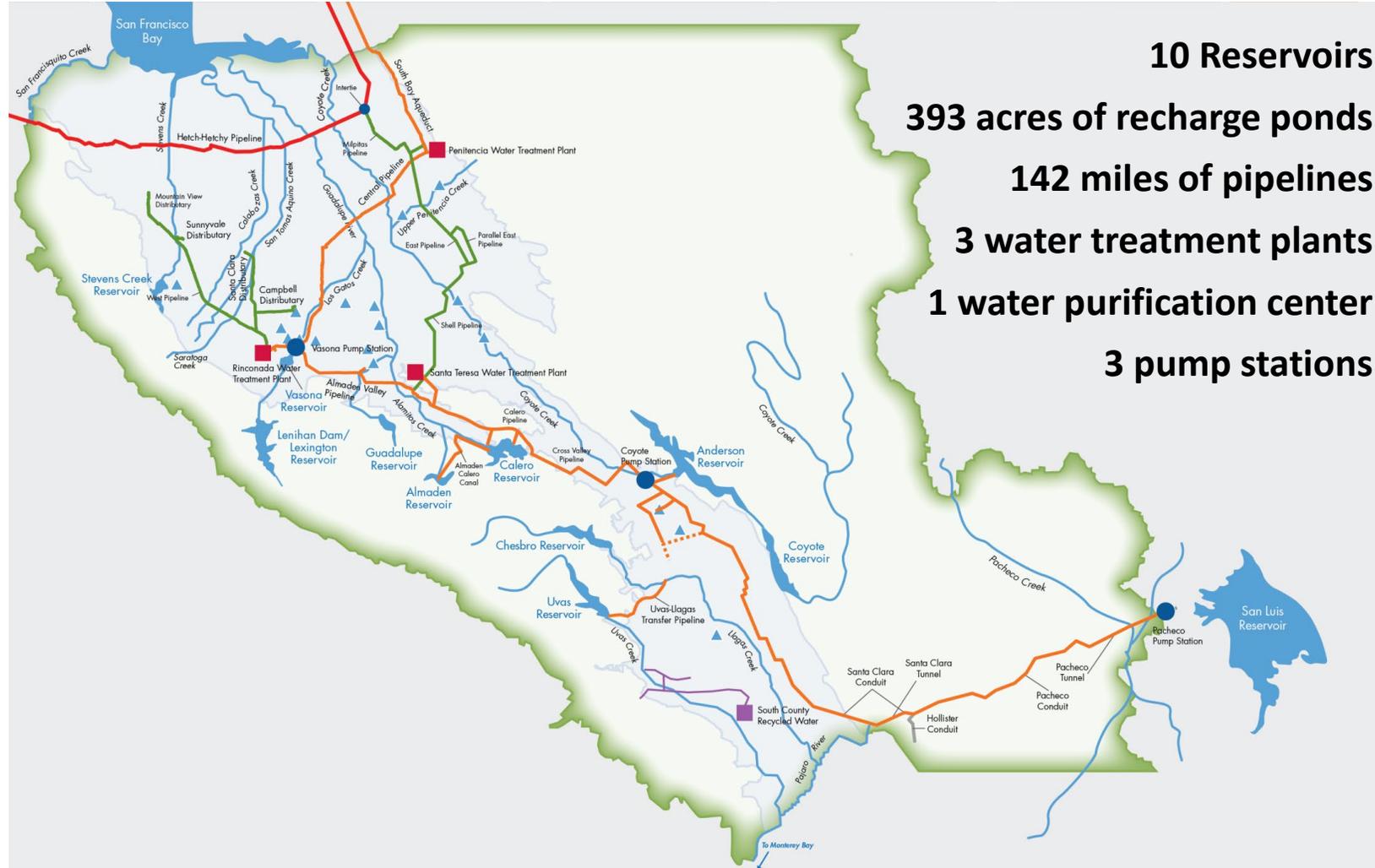
Groundwater Production Charges

State Water Project Tax

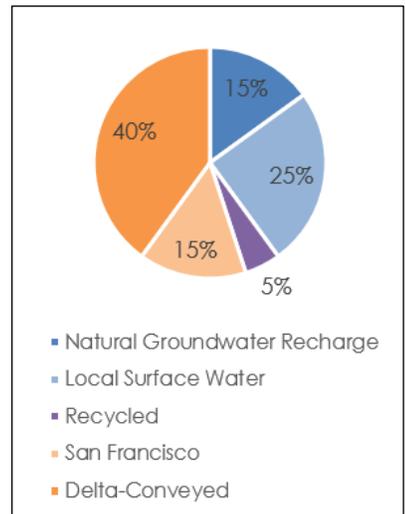
Schedule/Wrap up

A comprehensive, flexible water system

SERVING OVER 2.0 MILLION PEOPLE



10 Reservoirs
393 acres of recharge ponds
142 miles of pipelines
3 water treatment plants
1 water purification center
3 pump stations

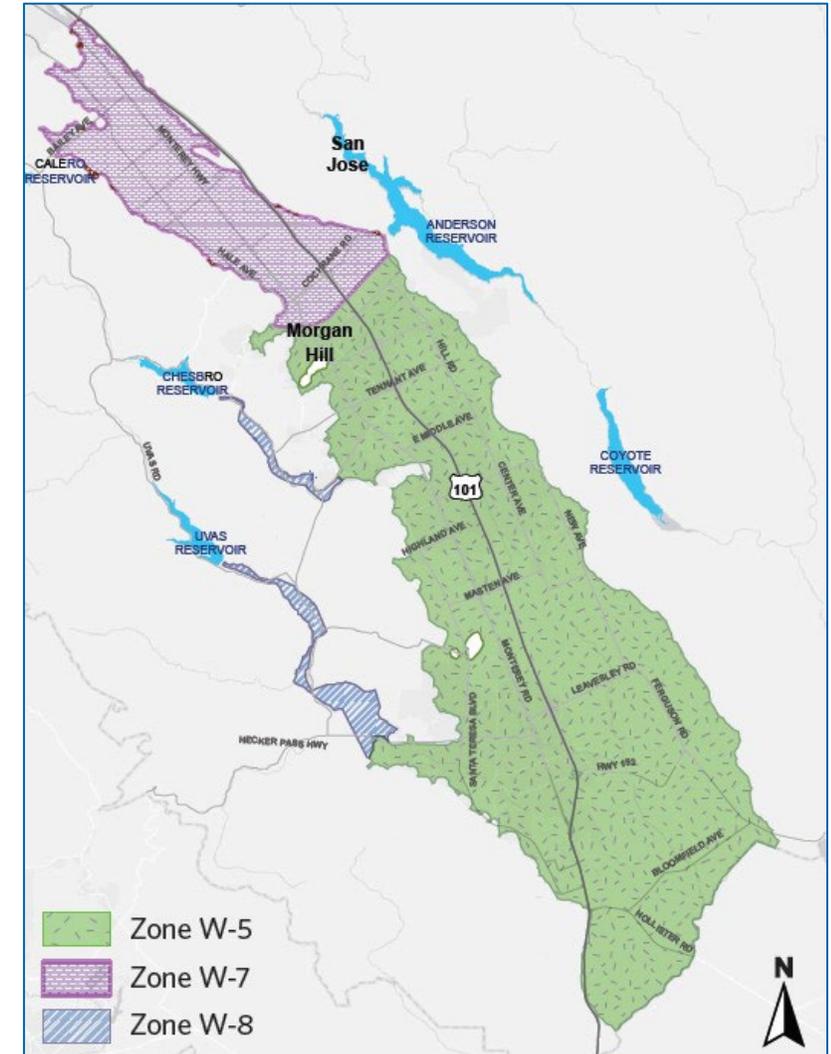
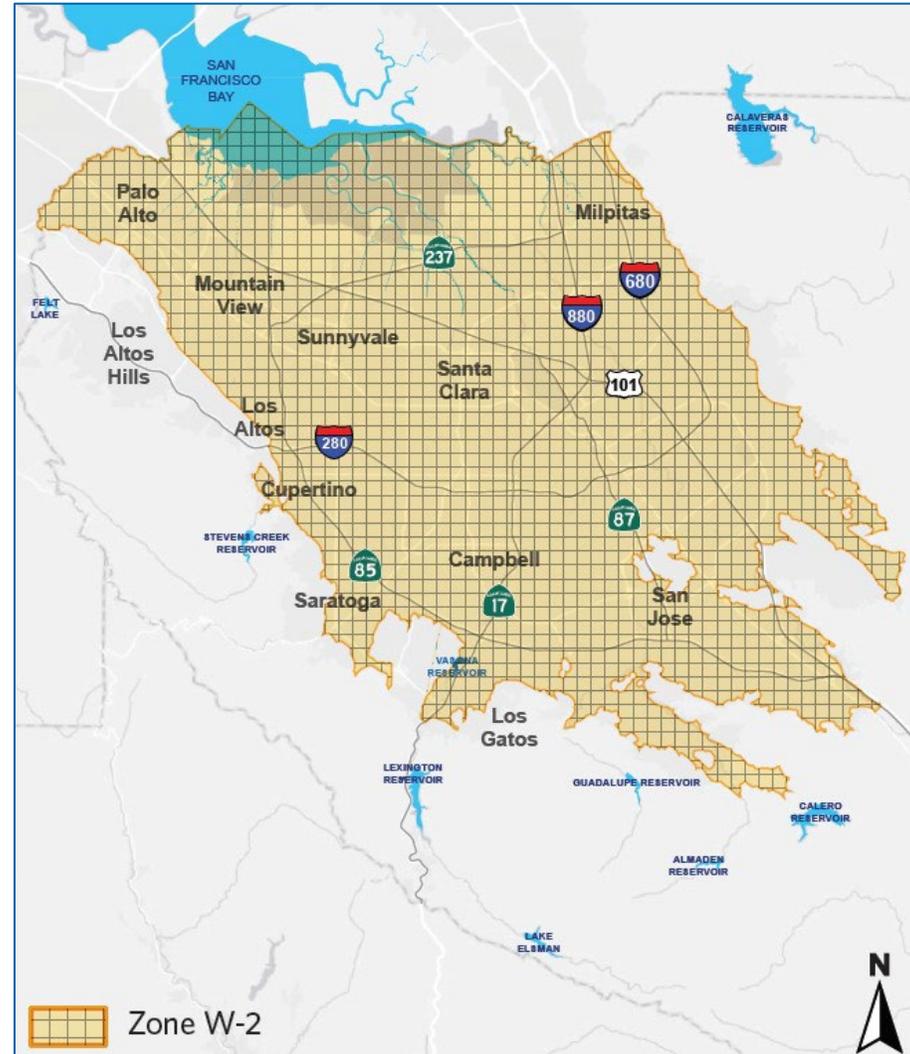


Valley Water Groundwater Charge Zones of Benefit

SERVING OVER 2.0 MILLION PEOPLE

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

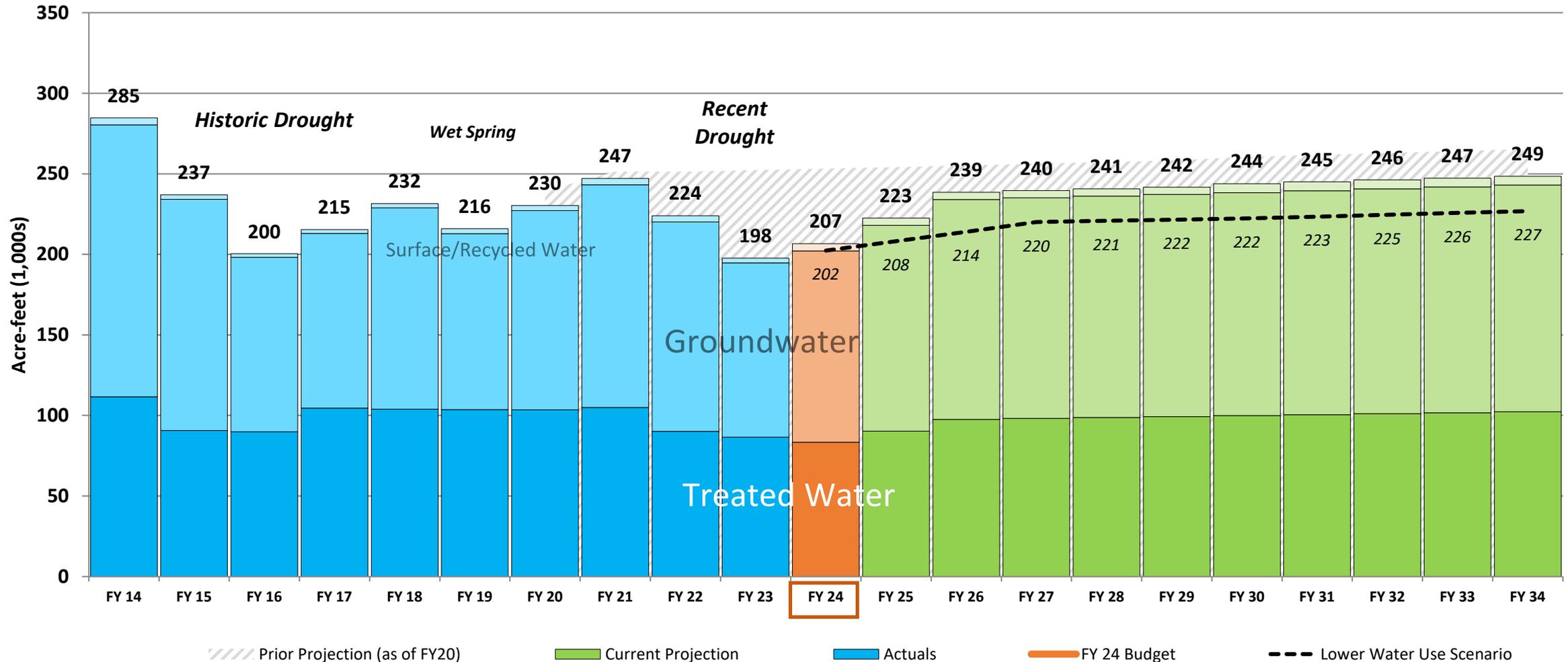


Rate setting process is consistent with Props 218 and 26

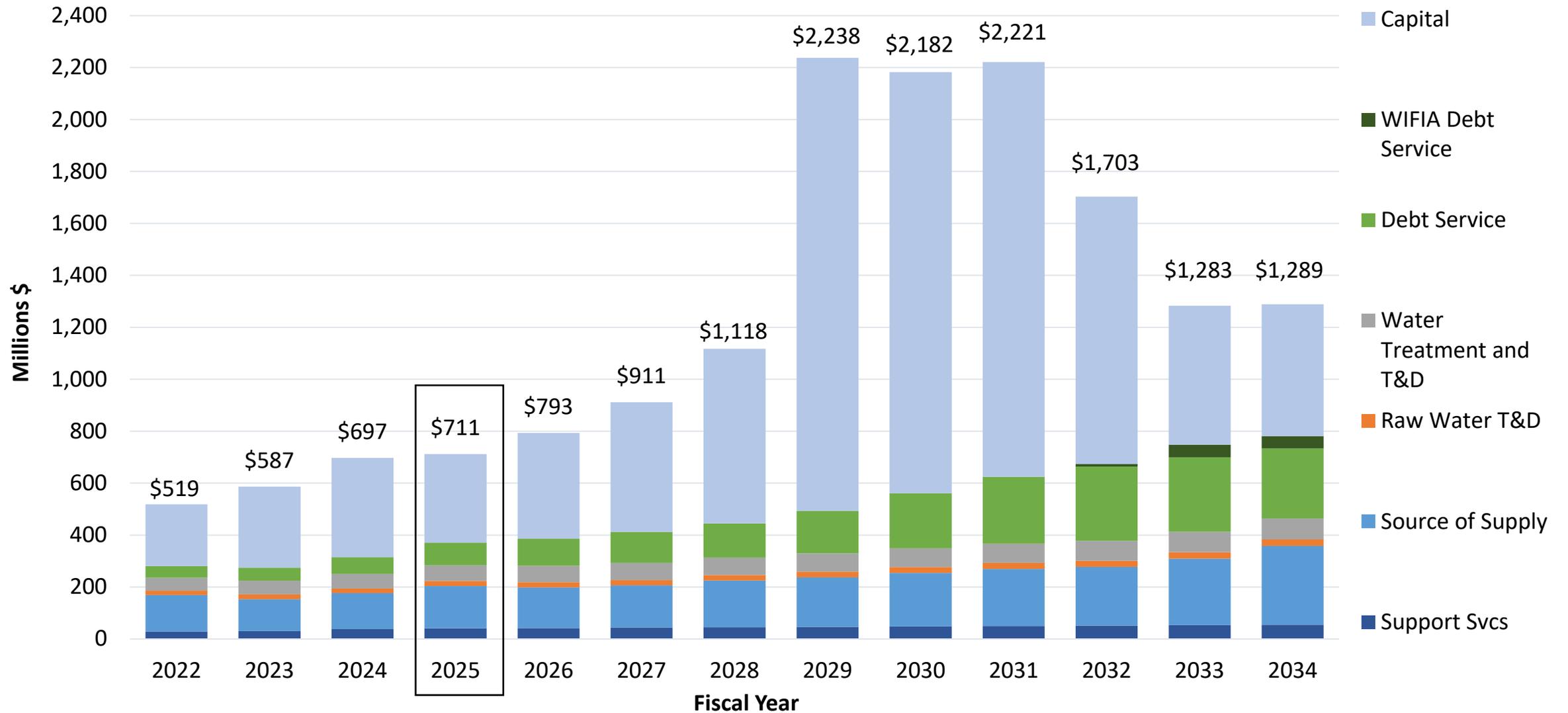
- **Groundwater charge setting process is consistent with Prop 26**
 - Certain Prop 218 requirements continue, like holding a public hearing, and noticing well owners, which are consistent with District Act
- **Surface Water Charge setting process is consistent with Prop 218**
 - Includes protest procedure as defined in Board Resolution 12-10

Water Usage (District Managed)

Water Usage (District Managed in TAF)



Long Term Cost Projection



Outlook

- **Recent inflation trends have put upward pressure on water rates**
- **Valley Water is in era of investment as existing water supply infrastructure was built decades ago**
 - **Fixing Anderson Dam** – Address public health and safety concerns and relieve operational restrictions
 - **Upgrading Rinconada Water Treatment Plant** – Extend service life of plant for next 50 years and expand plant capacity
 - **Address seismic deficiencies at Almaden, Calero, Coyote, and Guadalupe Dams** – DSOD requested expedited project implementation schedule
- **Climate change has brought need for new infrastructure investments**
 - **Building local storage with Pacheco Reservoir Expansion Project** – Add water storage to help face extended droughts
 - **Expanding Purified Water** – Provide incremental drought proof water supply
 - **Investing in out-of-county storage with Los Vaqueros Reservoir Expansion & Sisk Dam Raise** – Maintaining out-of-county storage is critical in securing water supply reliability and for storage diversification
- **Water Supply Master Plan 2050 will shed more light on what new infrastructure investments are recommended to be built**

Planning
work

Rate setting strategy for FY 2024-25

FY 25 RATE ASSUMPTIONS:

Water Usage (District-Managed)

- Continued rebound from the drought – water use projected at 222 kAF (vs. 207 kAF in FY24)

Secure Existing Supplies and Infrastructure

- Baseline Projects ¹
- Anderson Dam Seismic Retrofit with WIFIA loan (up to 49% of TPC)
- NEW** • Dam Safety Program (*preliminary placeholder*): Almaden, Calero, Coyote & Guadalupe Dams
- Master Plan Projects Placeholder: Assumes \$326M from FY26-FY34 ²
- SWP Tax pays for 100% of SWP costs (excludes SWP portion of Delta Conveyance)
- Delta Conveyance SWP portion continues at 3.23% ^{3,4}

Expand Conservation and Reuse

- San Jose Purified Water Project (SJPPW) Phase 1 Demonstration Facility ⁴
- NEW** • San Jose Purified Water Project (*preliminary placeholder*) Phase 2 Full-Scale Facility ⁴

Increase System Reliability & Flexibility

- Pacheco Reservoir Expansion Project (PREP) with \$504M Proposition 1 grants, WIFIA loan (up to 49% of TPC) and Partnership Participation at 35% of TPC ⁴
- Los Vaqueros (Transfer Bethany Pipeline) with up to 50 kAF Storage ^{3,4}
- Sisk Dam Raise at San Luis Reservoir with up to 60 kAF Storage ^{3,4}

1 Includes but not limited to dam seismic retrofits, Rinconada WTP reliability improvement, 10-year pipeline rehabilitation program.

2 Master Plan Project Placeholder includes anticipated costs for new pipelines, pipeline rehabilitations, treatment plant upgrades & SCADA implementation projects.

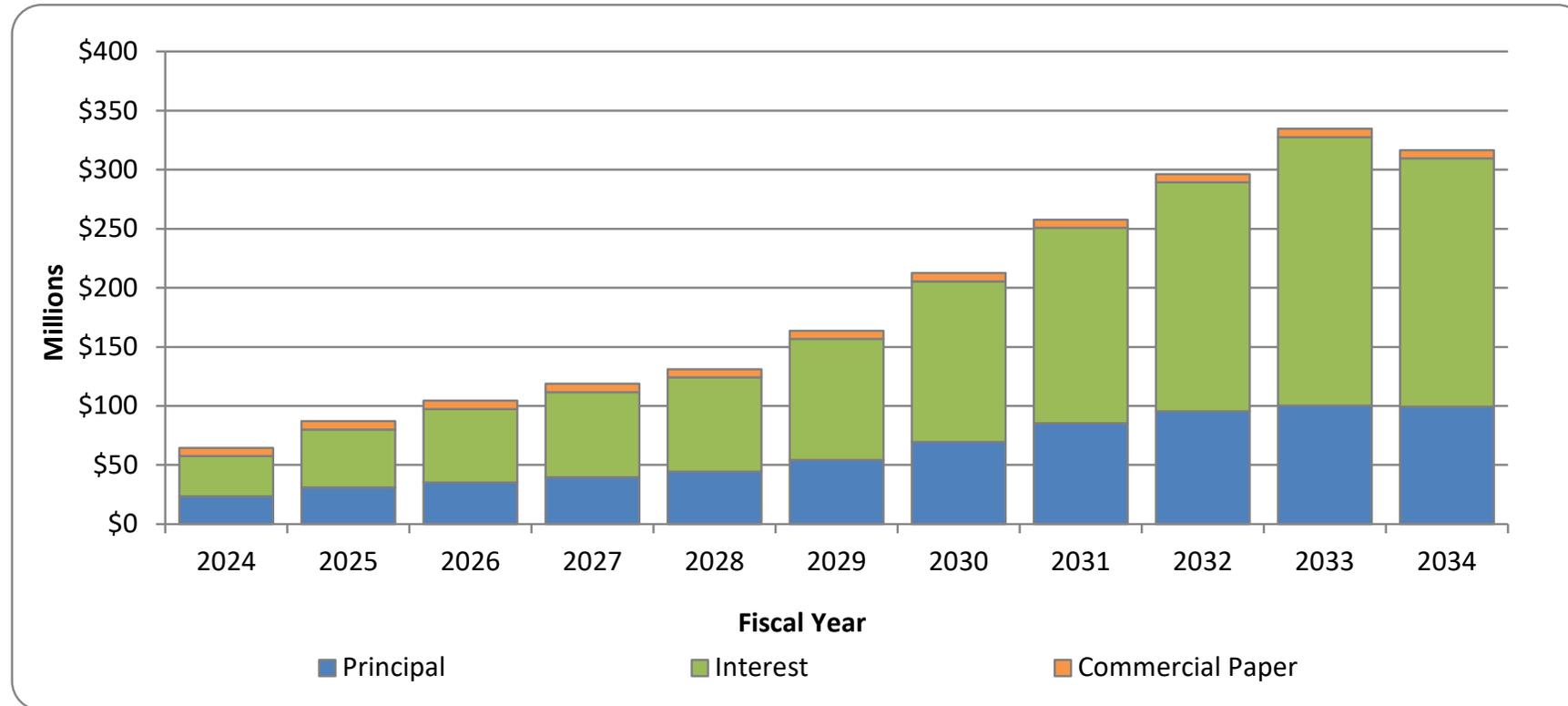
3 Project costs are reflected as Operations & Maintenance.

4 Project is included in Water Supply Master Plan 2050 Update analysis.

TPC: Total Project Cost

kAF: Thousand Acre-Feet

Implementation of CIP results in debt service increases



\$87.2M in FY 2024-25

\$316.5M in FY 2033-34

- **Debt service coverage ratio (DSCR) targeted at 2.0 helps ensure financial stability and high credit ratings**

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
 - Pacheco
- 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*

Groundwater Charge Increase Projection

As published in the PAWS Report February 23, 2024

M&I Groundwater Charge Year to Year Growth %

Baseline Scenario	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
North County Zone W-2	12.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	7.0%
<i>Prior Year</i>	14.5%	9.9%	9.9%	9.9%	9.9%	9.9%	6.3%	6.3%	6.3%	
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>	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
South County Zone W-7	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%
<i>Prior Year</i>	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	
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

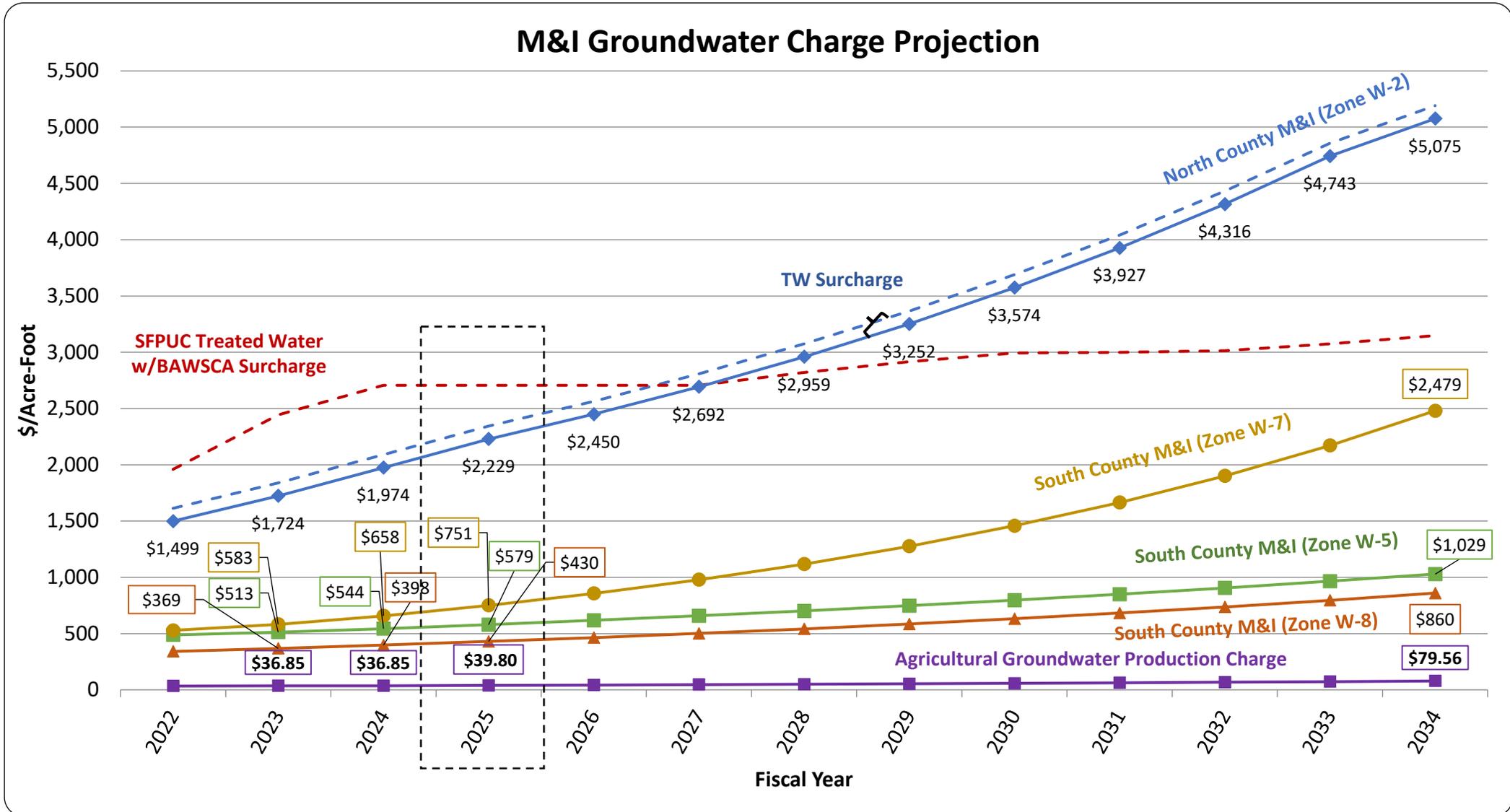
As published in the PAWS Report February 23, 2024

M&I Groundwater Charge – Monthly Impact To Average Household

Baseline Scenario	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
North County Zone W-2	\$8.78	\$7.60	\$8.35	\$9.18	\$10.09	\$11.09	\$12.18	\$13.39	\$14.72	\$11.44
South County Zone W-5	\$1.22	\$1.32	\$1.40	\$1.50	\$1.59	\$1.70	\$1.81	\$1.93	\$2.06	\$2.19
South County Zone W-7	\$3.20	\$3.67	\$4.19	\$4.79	\$5.47	\$6.24	\$7.13	\$8.14	\$9.30	\$10.62
South County Zone W-8	\$1.10	\$1.18	\$1.28	\$1.38	\$1.49	\$1.61	\$1.74	\$1.88	\$2.03	\$2.19

Does not include any additional increases a Retailer may add.

FY 2024-25 Recommended Groundwater Charge Projection



FY 2024-25 North County Zone W-2 Maximum Proposed Charges

Zone W-2 (North County)	Dollars Per Acre Foot		
	FY 2022–23	FY 2023–24	Proposed Maximum FY 2024–25
Basic User/Groundwater Production Charge			
Municipal & Industrial	1,724.00	1,974.00	2,229.00
Agricultural	36.85	36.85	39.80
Surface Water Charge			
Surface Water Master Charge	47.10	54.00	61.00
Total Surface Water, Municipal & Industrial*	1,771.10	2,028.00	2,290.00
Total Surface Water, Agricultural*	83.95	90.85	100.80
Treated Water Charges			
Contract Surcharge	115.00	115.00	115.00
Total Treated Water Contract Charge**	1,839.00	2,089.00	2,344.00
Non-Contract Surcharge	200.00	200.00	200.00
Total Treated Water Non-Contract Charge***	1,924.00	2,174.00	2,429.00



* 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 \$8.78 per month increase to the average household user.
Note: Does not include any increase that a retailer would layer on top

FY 2024-25 South County Zone W-5 Maximum Proposed Charges

Zone W-5 (Llagas Subbasin)	Dollars Per Acre Foot		
	FY 2022-23	FY 2023-24	Proposed Maximum FY 2024-25
Basic User/Groundwater Production Charge			
Municipal & Industrial	513.00	543.50	579.00
Agricultural	36.85	36.85	39.80
Surface Water Charge			
Surface Water Master Charge	47.10	54.00	61.00
Total Surface Water, Municipal & Industrial*	560.10	597.50	640.00
Total Surface Water, Agricultural*	83.95	90.85	100.80
Recycled Water Charges			
Municipal & Industrial	493.00	523.50	559.00
Agricultural	64.25	67.20	70.15



* 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 \$1.22 per month increase to the average household user.
Note: Does not include any increase that a retailer would layer on top

FY 2024-25 South County Zone W-7 Maximum Proposed Charges

Zone W-7 (Coyote Valley)	Dollars Per Acre Foot		
	FY 2022–23	FY 2023–24	Proposed Maximum FY 2024–25
Basic User/Groundwater Production Charge			
Municipal & Industrial	582.50	657.50	750.50
Agricultural	36.85	36.85	39.80
Surface Water Charge			
Surface Water Master Charge	47.10	54.00	61.00
Total Surface Water, Municipal & Industrial*	629.60	711.50	811.50
Total Surface Water, Agricultural*	83.95	90.85	100.80



* 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 \$3.20 per month increase to the average household user.
Note: Does not include any increase that a retailer would layer on top

FY 2024-25 South County Zone W-8 Maximum Proposed Charges

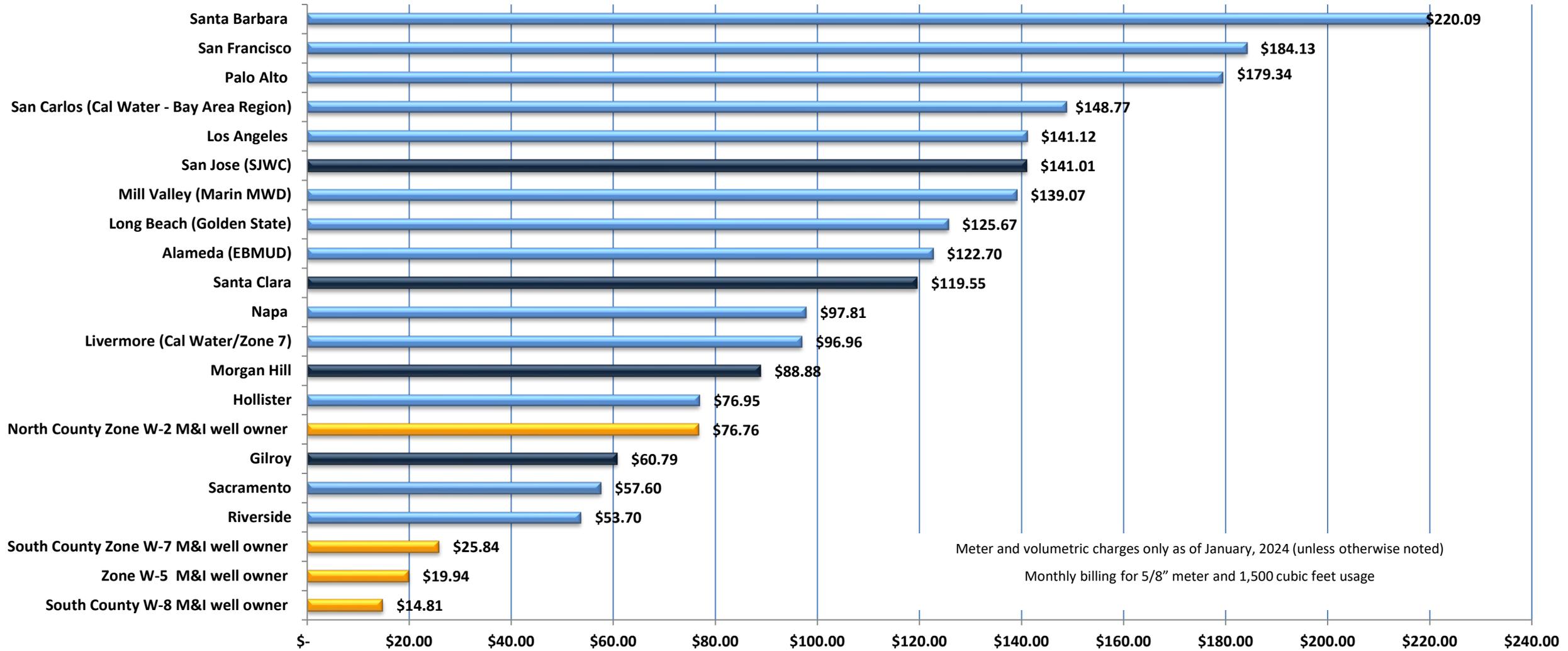
Zone W-8 (Uvas / Chesbro)	Dollars Per Acre Foot		
	FY 2022–23	FY 2023–24	Proposed Maximum FY 2024–25
Basic User/Groundwater Production Charge			
Municipal & Industrial	368.50	398.00	430.00
Agricultural	36.85	36.85	39.80
Surface Water Charge			
Surface Water Master Charge	47.10	54.00	61.00
Total Surface Water, Municipal & Industrial*	415.60	452.00	491.00
Total Surface Water, Agricultural*	83.95	90.85	100.80



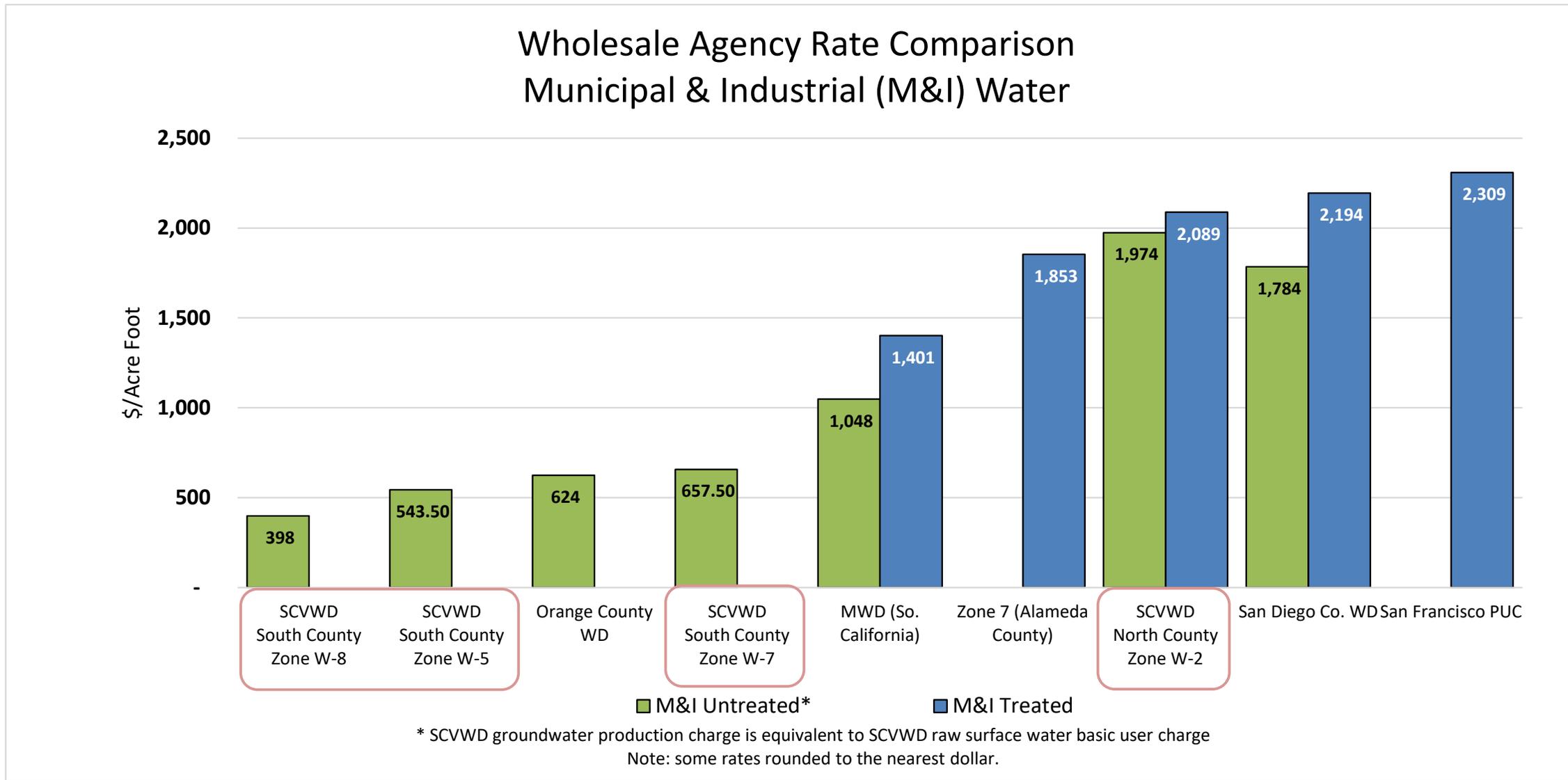
* The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

M&I Increase approximately \$1.10 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



Valley Water FY 25 Proposed Maximums Shown versus FY 25 projected comparator rates

FY 2024-25 State Water Project Tax Recommendation

- Staff recommends setting the SWP tax at \$28M (current FY 2023-24 SWP tax is \$27M)
- The annual SWP tax bill for the average single-family residence would be about \$42.00
- Impact if SWP tax not approved:
 - \$155/AF additional increase in terms of North County M&I groundwater production charge
 - In terms of South County M&I groundwater production charge, additional increases of:
 - \$33/AF for Zone W-5
 - \$55/AF for Zone W-7
 - \$29/AF for Zone W-8
 - Placing all SWP expenses on groundwater rates would impact affordability
 - \$786,588 additional increase in terms of Open Space Credit

TAXING AGENCY	VALUE	RATES (%)	PRORATION (%)	AMOUNT
LAND, IMPROVEMENTS, PERSONAL PROPERTY				
1% MAXIMUM LEVY				
CO BOND 2008 HOSP FAC	1,718,310	1.000000		
CO LIBRARY RETIREMENT	1,718,310	0.006900		
CO RETIREMENT LEVY	1,718,310	0.002400		
CO. HOUSING BOND 2016	1,718,310	0.038800		
COMM COLLEGE BONDS	1,718,310	0.010000		
ELEM OR UNIF SCH BONDS	1,718,310	0.019900		
TOTAL ASSESSED VALUE TAXES	1,718,310	1.182600		
LAND AND IMPROVEMENTS				
SCVWD-STATE WATER PROJ	1,718,310	0.004100	50.00	10,160.37
TOTAL LAND & IMPROVEMENT TAXES	1,718,310	0.004100		
			50.00	35.23
ROUNDING ADJUSTMENT				0.00
TAXES DUE				\$10,195.60

Schedule/Wrap up

2024 Schedule

Jan 8	Agricultural Water Advisory Committee: Preliminary Groundwater Charge Analysis
Jan 9	Board Meeting: Preliminary Groundwater Charge Analysis
Jan 17	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
Jan 24	Water Commission Meeting: Preliminary Groundwater Charge Analysis
Feb 13	Board Meeting: Set time & place of Public Hearing
Feb 23	Mail notice of public hearing and file PAWS report
Mar 12	Board Meeting: Second Pass Budget development update
Mar 20	Water Retailers Meeting: FY 25 Groundwater Charge Recommendation
Apr 8	Agricultural Water Advisory Committee
Apr 9	Open Public Hearing
Apr 10	Water Commission Meeting
Apr 11	Continue Public Hearing in South County
Apr 23	Conclude Public Hearing
Apr 24-25	Board Meeting: Budget work study session
May 14	Adopt budget & groundwater production and other water charges

- **Water Retailers**
- **Ag Advisory**
- **Public Phone Calls**

Summary and Next Steps

Valley Water remains in an era of investment

- Coupled with climate change, driving planning efforts for new infrastructure investments

Water Supply Master Plan 2050 will shed more light on what new infrastructure investments are recommended to be built.

Proposed Maximum FY 25 Groundwater Production Charge for North County in terms of average household increase are:

- Increase of \$8.78 per month in Zone W-2 for groundwater and treated water

Proposed Maximum FY 25 Groundwater Projection Charges for South County in terms of average household increase are:

- Increase of \$1.22 per month in Zone W-5
- Increase of \$3.20 per month in Zone W-7
- Increase of \$1.10 per month in Zone W-8

Next Steps

- Obtain Feedback from Water Commission
- Continue Public Hearing on April 11th



Valley Water

Clean Water • Healthy Environment • Flood Protection