

Public Hearing

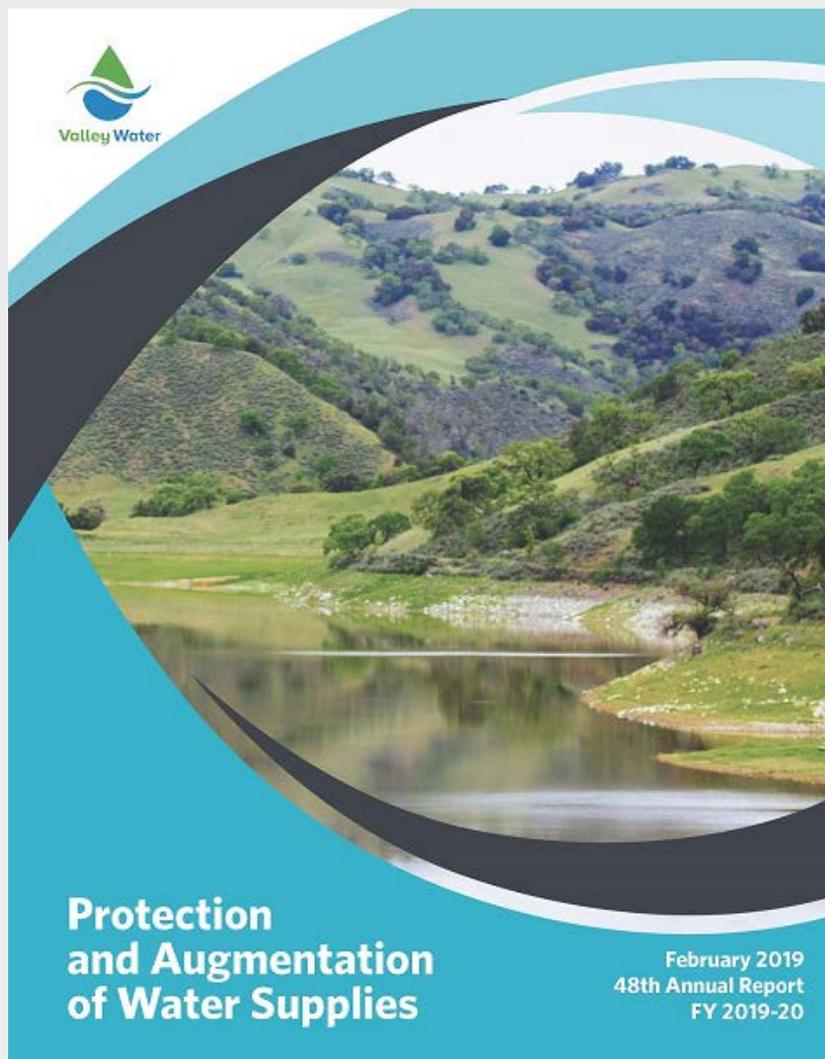
Groundwater Production & Other Water Charges
April 11, 2019



Public Hearing has Three Specific Objectives

1. Present annual report on Santa Clara Valley Water District's activities and recommended groundwater 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 2019-20

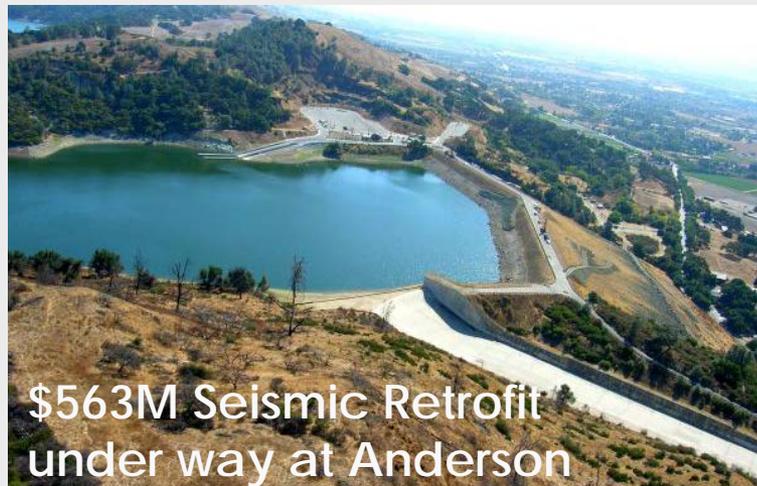
48th Annual Report Provides Information and Accountability



2019 Protection and Augmentation of Water Supplies Report

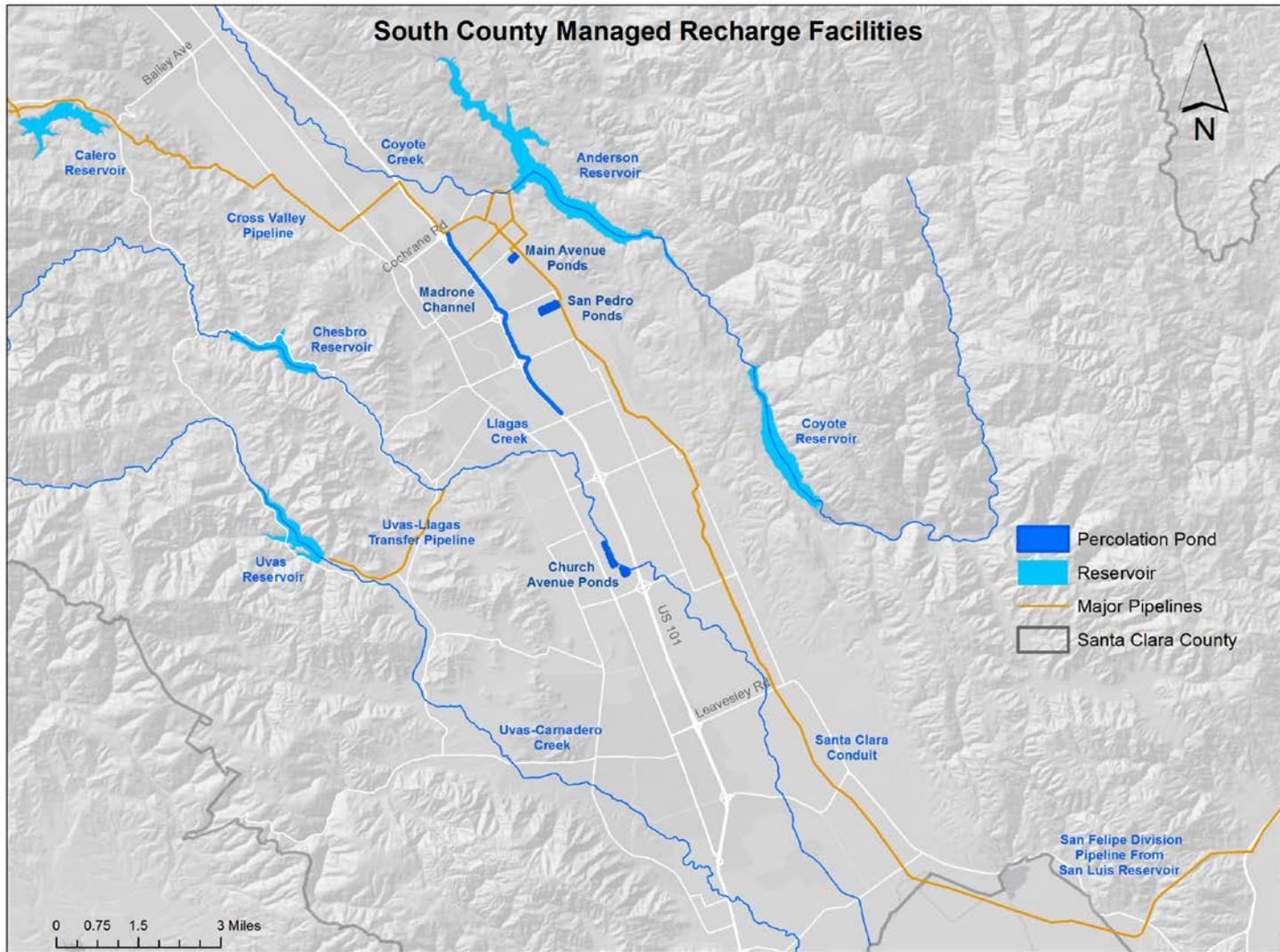
Why do well owners pay SCVWD to pump water from the ground?

Construction at Anderson Reservoir, 1951



- ▶ 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



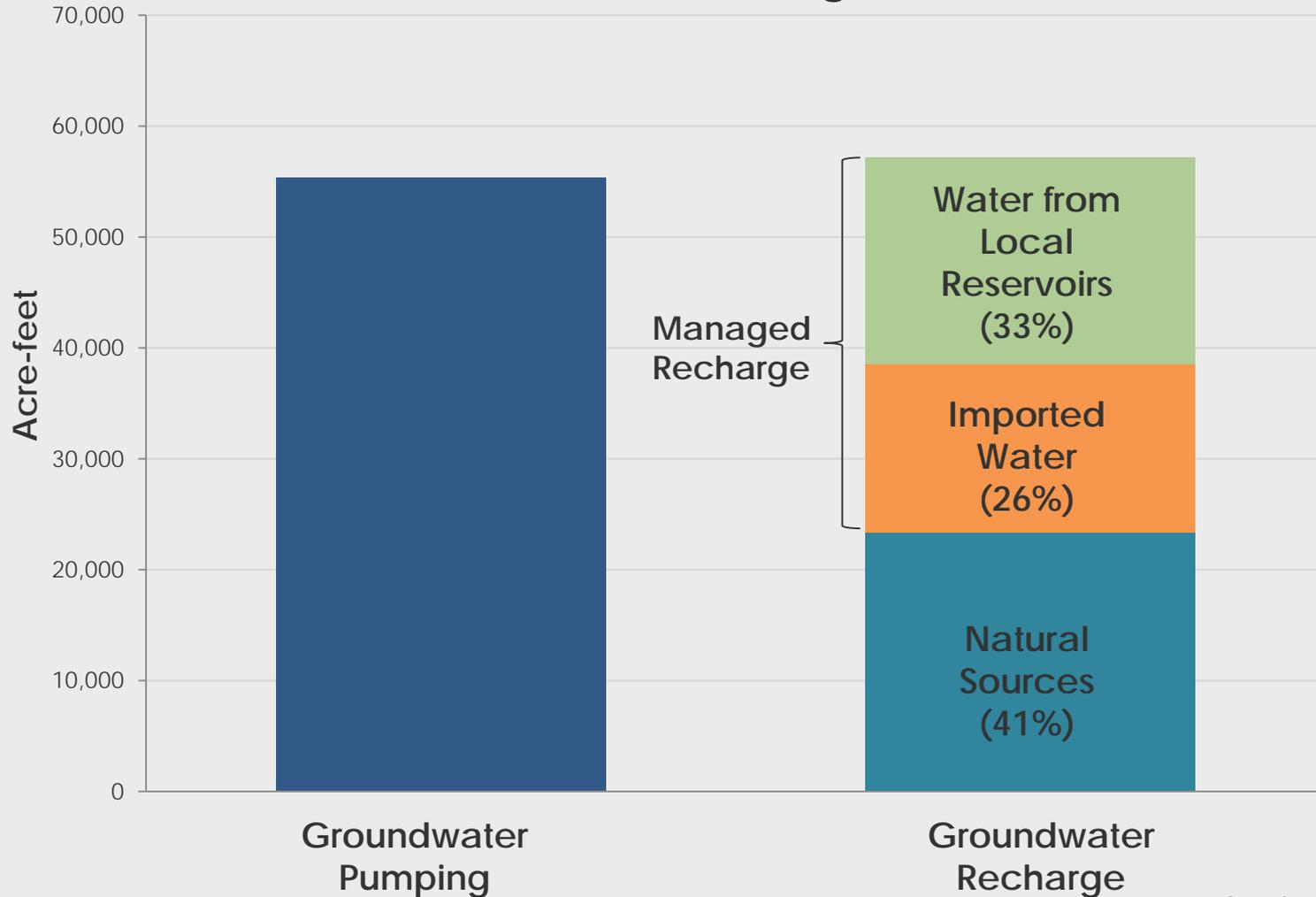
Main Avenue Recharge Ponds



Madrone Channel

Recharge needed to offset groundwater pumping

South County Pumping Far Exceeds Natural Recharge



Based on average annual data from 2005 to 2015

Topics For Today's Public Hearing

- ▶ **Rate Setting Process**
- ▶ **FY 20 financial analysis and projections**
 - ▶ Cost Projection
 - ▶ Water Usage
 - ▶ Recommended Groundwater Production Charges
 - ▶ Open Space Credit Policy
- ▶ **Schedule/Wrap up**

Rate Setting Process

Prop 218 not applicable to Groundwater Charge-setting process

- ▶ Supreme Court found Prop 218 not applicable to groundwater charges
 - ▶ Certain Prop 218 requirements continue, like holding a public hearing, and noticing well owners, which are consistent with District Act

- ▶ Supreme Court found Prop 26 is applicable to groundwater charges

- ▶ To qualify as a nontax fee under Prop 26, GW charge must satisfy both:
 1. GW charge established at amount that is no more than necessary to cover reasonable costs of government activity
 2. Manner in which costs are allocated to payor bear a fair or reasonable relationship to payor's burdens on, or benefits received from government activity

The Surface Water Charge-setting Process is Consistent with Prop 218 Process for Water Service Charges

- ▶ Includes cost of service analysis by customer class
- ▶ Includes protest procedure as defined in Board Resolution 12-10

Historical Majority Protest Procedure Results

Fiscal Year	2013	2014	2015	2016	2017	2018
Surface Water						
North County	0%	0%	0%	0%	0%	0%
South County	0%	0%	0%	1.3%	0%	0%

FY 20 Financial Analysis and Projections

FY 20 Key Assumptions

1) WSMP 90% Level Of Service (LOS)

- ▶ Baseline Projects
- ▶ CWF (State side)
 - ▶ Paid for by water charges, not SWP Tax
- ▶ CWF (CVP side)
- ▶ No Regrets Package
- ▶ Potable Reuse Phase 1 to produce 24KAF by FY 28
 - ▶ Based on \$690M capital project, District contributes 30% “pay as you go”
 - ▶ P3 reserve at \$8M in FY 20 growing to \$20M by FY 28
- ▶ Pacheco Reservoir
- ▶ Transfer-Bethany Pipeline
- ▶ South County Recharge
 - ▶ Timing = beyond FY 29

Also Includes:

- ▶ \$200M contingency placeholder for dams & WTP's
- ▶ Guiding Principle #5

North 8.1%, South 7.7% avg. annual incr.

9) WSMP 80%, Pacheco w/ \$250M WIIN, WIFIA loan & Partners Pay 20%

- ▶ Baseline Projects
- ▶ CWF (State side)
 - ▶ Paid for by water charges, not SWP Tax
- ~~▶ CWF (CVP side)~~
- ▶ No Regrets Package
- ▶ Potable Reuse Phase 1 to produce 24KAF by FY 28
 - ▶ Based on \$690M capital project, District contributes 30% “pay as you go”
 - ▶ P3 reserve at \$8M in FY 20 growing to \$20M by FY 28
- ▶ **Pacheco Reservoir**
 - ▶ **\$250M WIIN funding + WIFIA loan**
 - ▶ **Partner Agencies pay 20% of project**
- ▶ Transfer-Bethany Pipeline
- ▶ South County Recharge
 - ▶ Timing = beyond FY 29

Also Includes:

- ▶ \$200M contingency placeholder for dams & WTP's
- ▶ Guiding Principle #5

North 6.4%, South 6.6% avg. annual incr.

Scenario 9 Adjusted

Includes all Scenario 9 projects and assumptions plus the following adjustments:

- ▶ **PERS contribution contingency**
 - ▶ **\$3.9M per year beginning FY 22**
- ▶ **CIP projection refinements**
- ▶ **Updated OH and Benefits rates**
- ▶ **+\$3M for Drought Reserve in FY 20**
 - ▶ **FY 20 balance is \$10M**

North 6.6%, South 6.9% avg. annual incr.

Key South County Capital project funding FY 20 thru FY 29

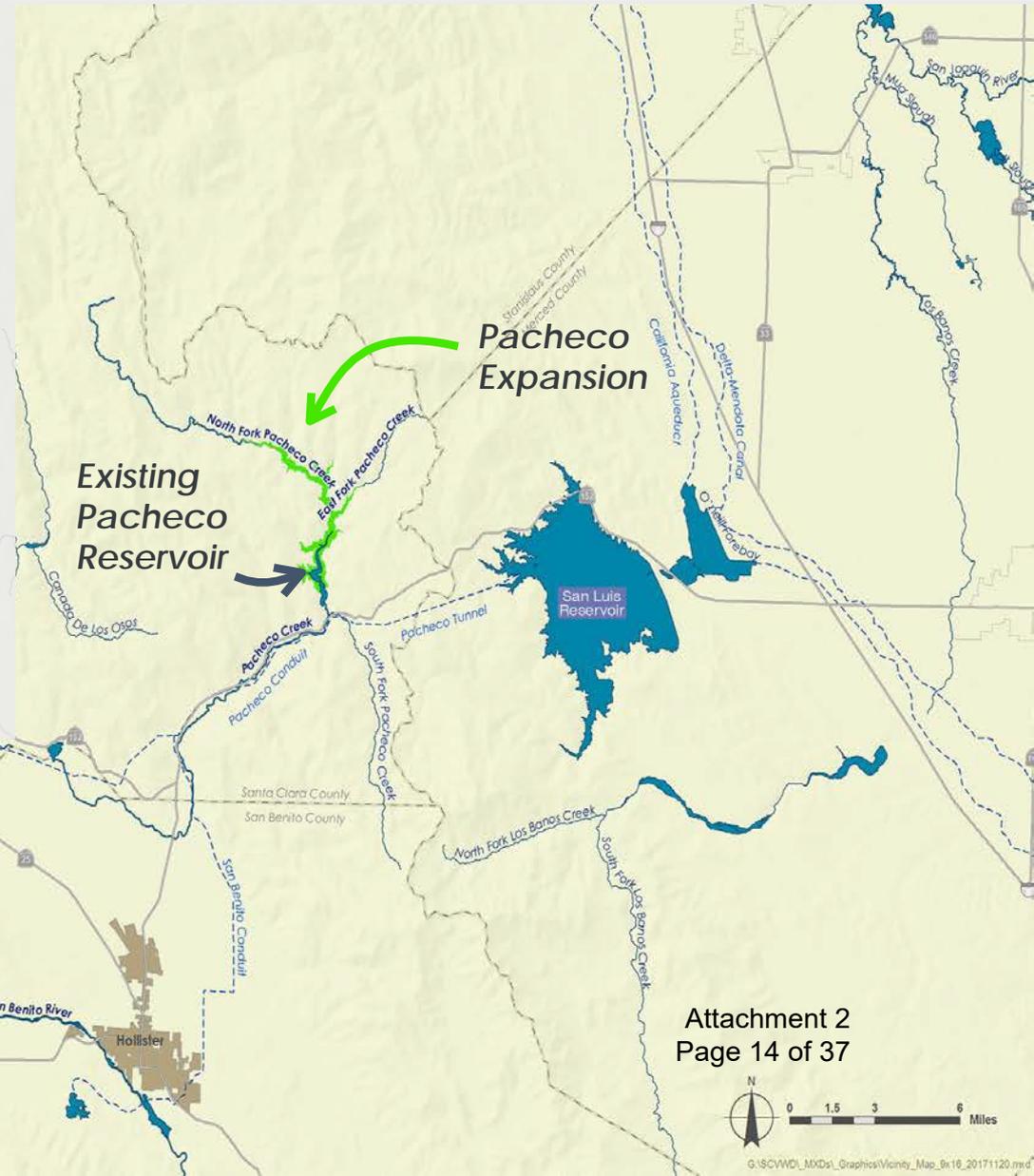
- Anderson Dam Seismic Retrofit (\$513M)
 - \$66M (12% of total \$563M project) to be reimbursed by Safe Clean Water Measure
- Recycled Water Pipeline Expansion (\$20.8M)



New Capital Investments for FY 20 through FY 29 – Pacheco Reservoir

Funding strategy for \$1.345B Project:

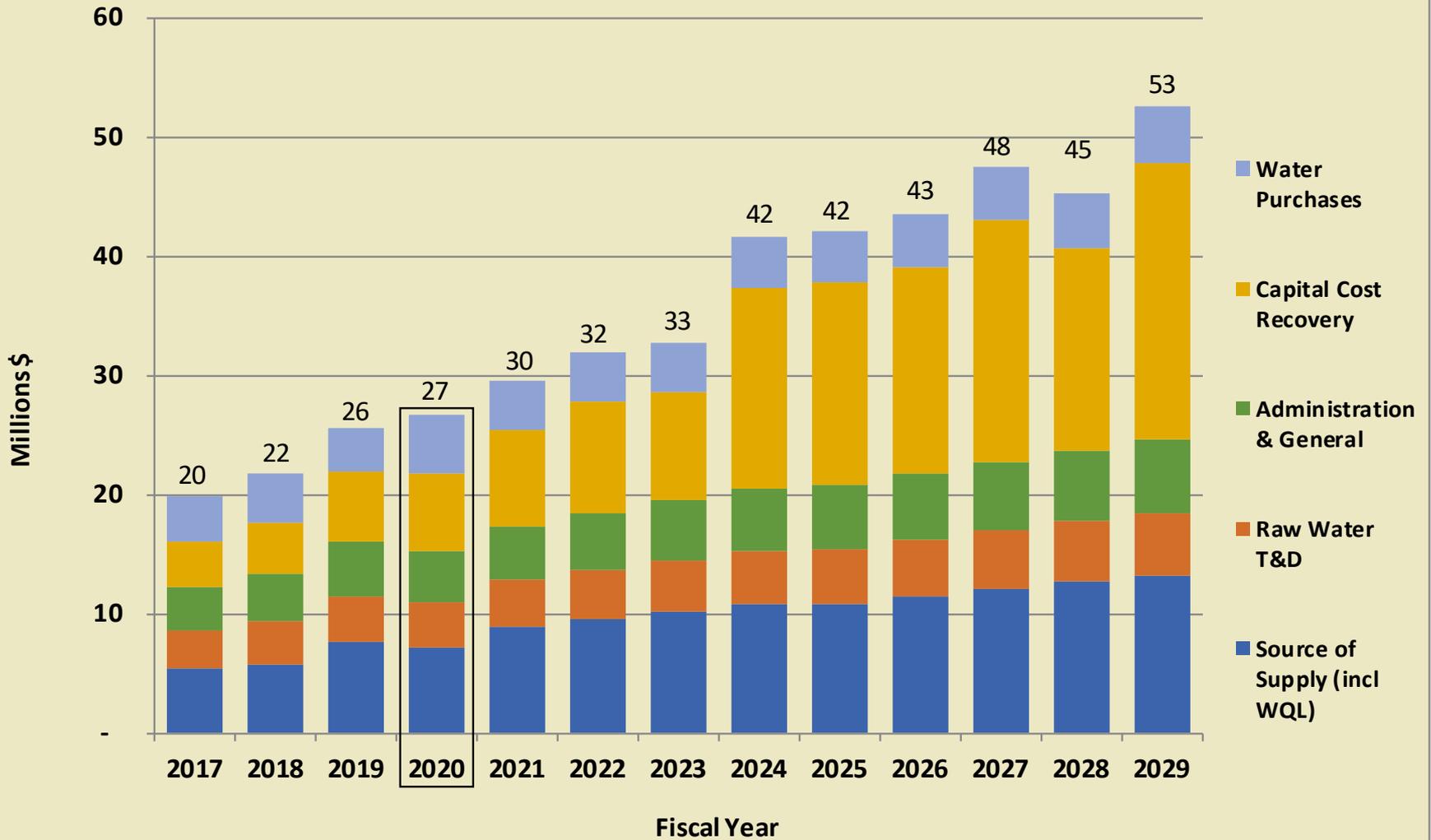
- ▶ Received \$485M WSIP Prop 1 funding
 - ▶ Including \$24.2M early funding
- ▶ Pursuing \$250M federal funding under WIIN Act
- ▶ Contemplating WIFIA loan
- ▶ SBCWD will partner up to 10%
- ▶ Other agencies may partner
- ▶ Considering Special Tax Measure
- ▶ Water Charges



Validated, Unfunded Water Supply Projects

Validated, Unfunded Water Supply Projects	Est. Cost (\$ Million)
Dam Seismic Retrofit at Chesbro & Uvas	\$90 M
Long-Term Purified Water Program Elements	\$104 M
Long-Term SCADA Improvements	\$20 M
So. County Recycled Water New Storage Tank	\$7 M
Alamitos Diversion Dam Improvements	\$3 M
Coyote Diversion Dam Improvements	\$2 M
Land Rights - South County Recycled Water Pipeline	\$6 M
TOTAL	\$232 M

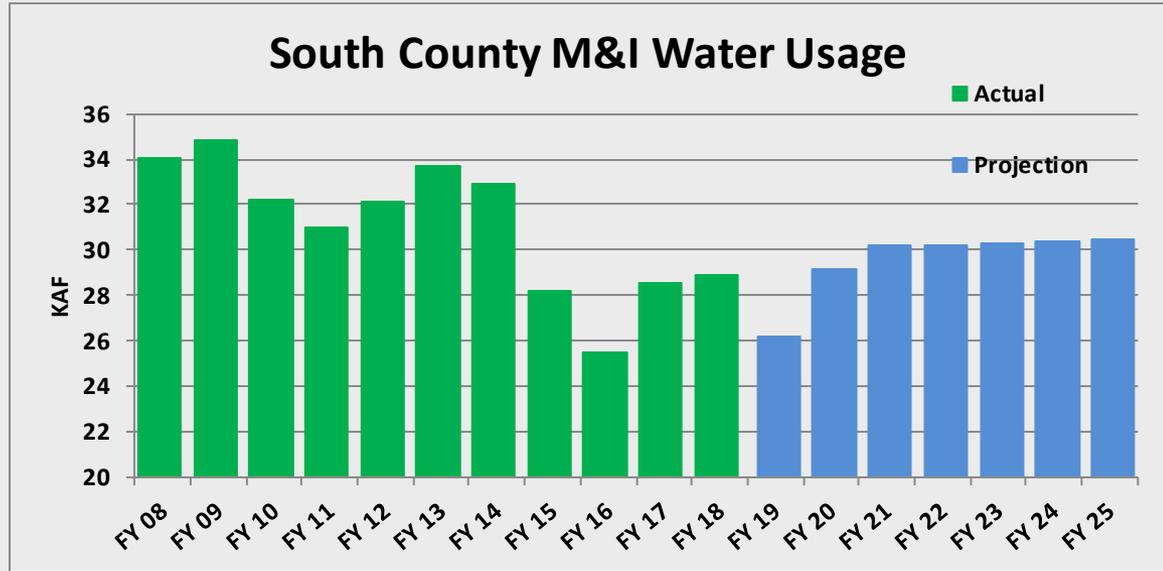
South County Cost Projection



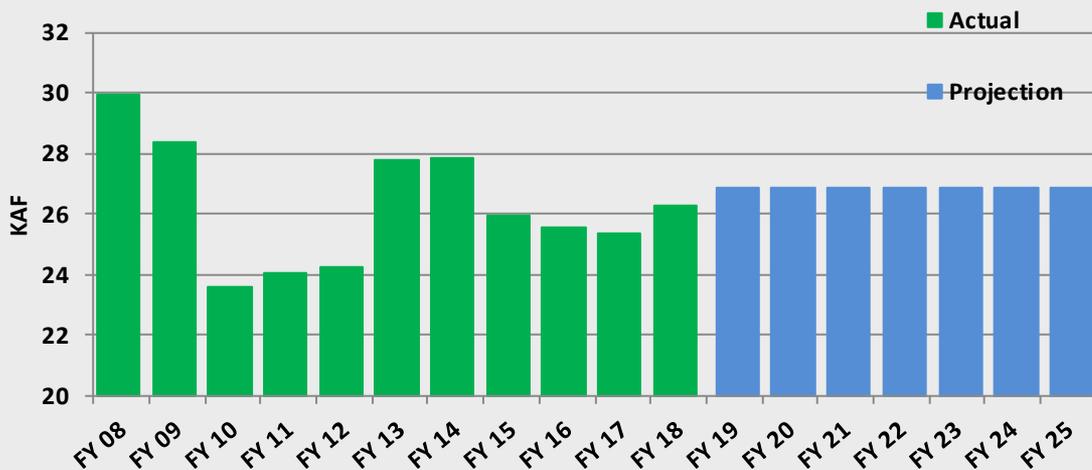
Water Usage Trend South County

Water Usage

(Groundwater & Surface Water)



South County Ag Water Usage



Staff Recommended Groundwater Production Charges

FY 2020: South County Proposed Maximum Charges

**Staff
recommendation
as of 4/8/19**

6.9% increase for M&I groundwater production

6.7% increase for M&I surface water

7.2% increase for M&I recycled water

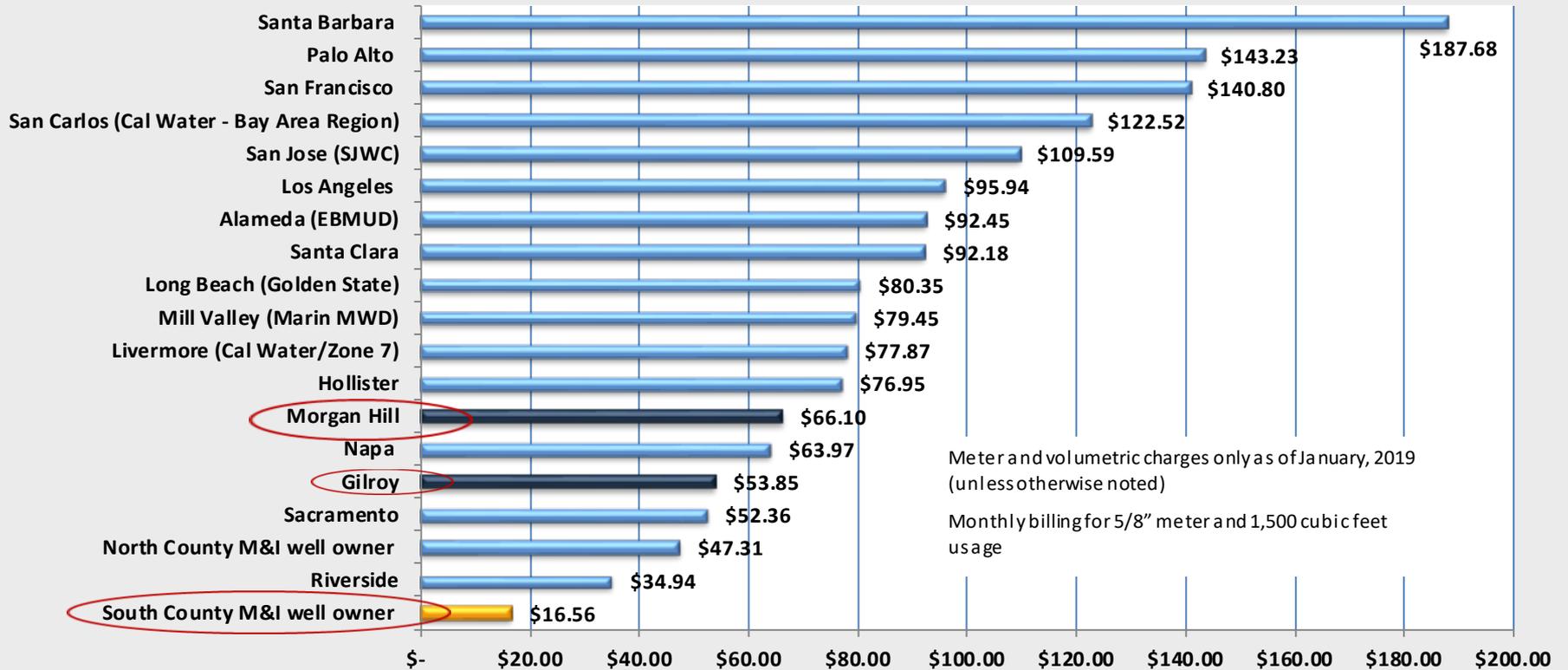
Ag groundwater reflects max per District Act (25% of South County M&I while Board deliberates Open Space Credit Policy)

	Dollars Per Acre Foot			
	FY 2017-18	FY 2018-19	Proposed Maximum FY 2019-20	
Zone W-5 (South County)				
Basic User/Groundwater Production Charge				
Municipal & Industrial	418.00	450.00	481.00	
Agricultural	25.09	27.02	120.25	32.23
Surface Water Charge				
Surface Water Master Charge	33.36	35.93	37.50	
Total Surface Water, Municipal & Industrial*	451.36	485.93	518.50	
Total Surface Water, Agricultural*	58.45	62.94	157.75	69.73
Recycled Water Charges				
Municipal & Industrial	398.00	430.00	461.00	
Agricultural	48.88	54.41	147.64	59.62

*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

\$1.07 per month average household increase

Retail Agency Benchmarks



Notes:

- SCVWD retailer rates shown include staff recommended increase for FY 2019-20, but do not include increases that retailers may impose
- Well owner rates exclude pumping costs (e.g. electricity) and well maintenance costs

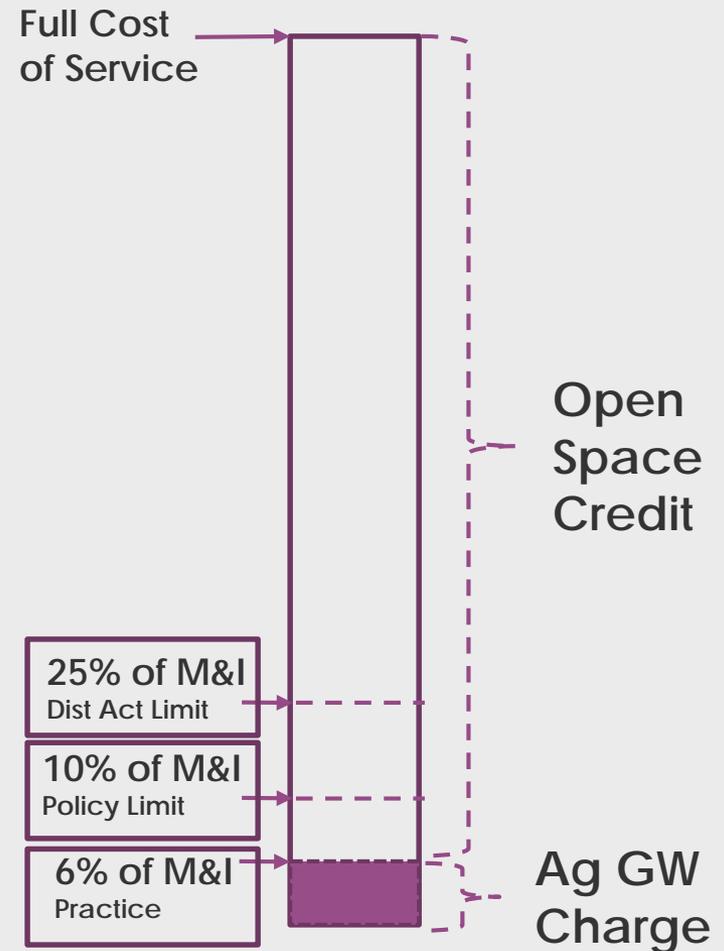
Agricultural Benchmarks

Agency (As of March 2019)	Ag \$/AF	Non-Ag \$/AF	Ag as % of Non-AG
San Benito Groundwater (Quality issues)	\$7.95	\$24.25	33%
Modesto ID Untreated SW (\$2/AF for first 2 AF)	\$2.00 to \$40.00	N/A	
SCVWD South Groundwater	\$27.02	\$450.00	6%
Merced ID Untreated SW	\$40.00	N/A	
SCVWD South Untreated SW	\$62.94	\$485.93	13%
Merced ID Groundwater	\$100.00	N/A	
Lost Hills Untreated SW	\$145.90 to \$223.44	N/A	
Zone 7 Untreated SW	\$167.00	N/A	
Westlands WD Pressurized	\$206.94	\$845.06	24%
San Benito Pressurized	\$289.25	\$443.25	65%

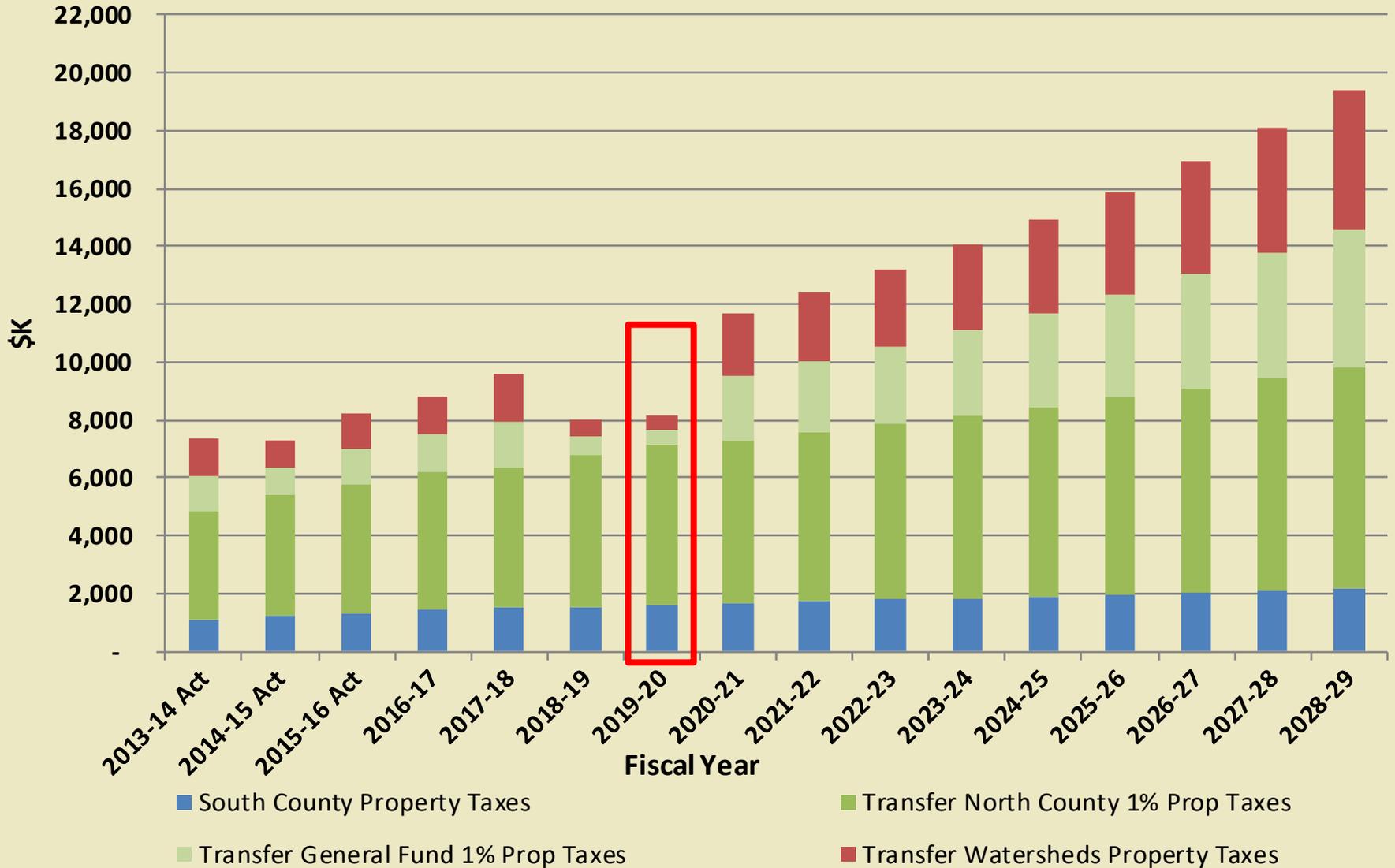
Open Space Credit Policy Discussion- Continuation

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: Projection



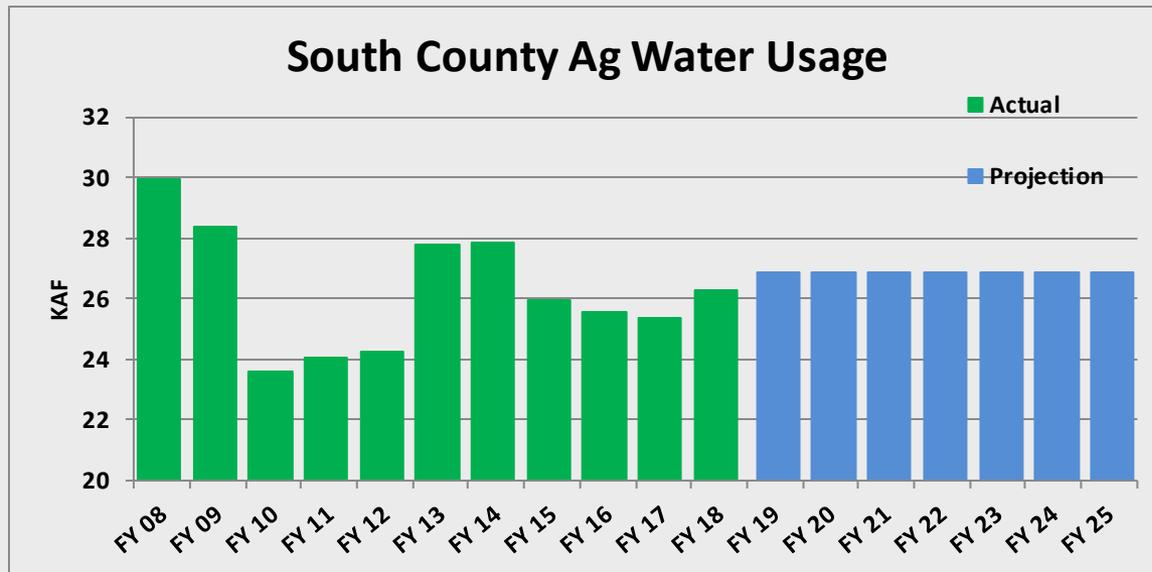
April 2018

▶ 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

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%

- ▶ **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

Board Requested Outreach

Agricultural Water Advisory Committee

- ▶ Opposed increases in Ag charge for any farmer whether large or small

Water Commission

- ▶ Took no action, however...
- ▶ Question: If Ag charges are increased, could Open Space Credit savings be used for conservation easement purchases?

Water Retailers

- ▶ Supported increasing Ag charge (Low Ag charge doesn't send proper conservation signal)

Environmental and Water Resources Committee

- ▶ Recommended keeping Ag charges as low as possible and equitable among larger and smaller farmers

Joint Water Resources Committee

- ▶ No comments – ran out of time

- ▶ **Cannabis Cultivation in Santa Clara County**
- ▶ **Agriculture in Fixed Structures**
- ▶ **Permanent Crops**

- ▶ All cannabis cultivation in Santa Clara County is indoor
- ▶ Water Source is treated water at non-agricultural rate
- ▶ Approximately 8 entities hold 17 licenses
- ▶ Estimated water usage is 29 AF per year

Agriculture in Fixed Structures*

Mushrooms:

Year	Acres	Water Acre Feet	Groundwater Charges
2017	145	435	\$10,262

Seed Crops: (Veg. and Flower)

Year	Acres	Water Acre Feet	Groundwater Charges
2017	557	1114	\$26,279

*Source: County of Santa Clara 2017 Crop Report
Approximately 7 District Customers

Permanent Fruit & Nuts*

Walnuts:	Year	Acres	Water Acre Feet	Groundwater Charges
	2017	236	703	\$16,590

Apricots:	Year	Acres	Water Acre Feet	Groundwater Charges
	2017	149	456	\$10,756

Cherries:	Year	Acres	Water Acre Feet	Groundwater Charges
	2017	980	2862	\$67,505

Grapes:	Year	Acres	Water Acre Feet	Groundwater Charges
	2017	1601	1601	\$37,768

*Source: County of Santa Clara 2017 Crop Report

Staff Recommendations related to Open Space Credit Policy

- ▶ Increase Agricultural charge to 10% of M&I over a 7 year period
 - ▶ Would increase Ag charge to 6.7% of M&I for FY 20, \$32.23/AF
- ▶ Proceed with an adjustment program for Williamson Act and Conservation Easement participants that would hold their agricultural water charge to 6% of M&I, or \$28.86/AF
- ▶ Investigate concept of fund raising via donations to help preserve agricultural land or open space
- ▶ No unique agricultural charge for fixed structure, or permanent fruit & nut crops due to unfavorable cost/benefit

Schedule & Wrap Up

FY 2019-2020 Schedule

- ✓ Jan 8 Board Meeting: Preliminary Groundwater Charge Analysis
- ✓ Jan 16 Water Retailers Meeting: Preliminary Groundwater Charge Analysis
- ✓ Jan 23 Water Commission Meeting: Prelim Groundwater Charge Analysis

- ✓ Feb 12 Board Meeting: Review draft CIP & Budget development update
- ✓ Feb 22 Mail notice of public hearing and file PAWS report

- ✓ Mar 20 Water Retailers Meeting: FY 20 Groundwater Charge Recommendation
- ✓ Mar 26 Board Meeting: Budget development update

- ✓ Apr 2 Landscape Committee Meeting
- ✓ Apr 8 Ag Water Advisory Committee
- ✓ Apr 9 Open Public Hearing
- ✓ Apr 10 Water Commission Meeting
- Apr 11 Continue Public Hearing in South County
- Apr 15 Environmental and Water Resources Committee
- Apr 23 Conclude Public Hearing
- Apr 24-26 Board Meeting: Budget work study session

- May 14 Adopt budget & groundwater production and other water charges

Summary and Next Steps

Summary

- ▶ FY 20 increase driven by critical investments in the water supply infrastructure, and investments in future supplies
- ▶ Proposed FY 20 Groundwater Production Charge increase equates to an increase of \$1.07 per month in South County to average household

Next Steps

- ▶ Obtain Feedback from Environmental & Water Resources Committee
- ▶ Continue Hearing to April 23 at District Headquarters

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