



Santa Clara Valley Water District Board of Directors Meeting

Morgan Hill City Council Chambers
17555 Peak Ave., Morgan Hill, California

7:00 P.M. SPECIAL SOUTH COUNTY PUBLIC HEARING AGENDA

**Thursday, April 11, 2019
7:00 PM**

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

DISTRICT BOARD OF DIRECTORS

Linda J. LeZotte, Chair, District 4
Nai Hsueh, Vice Chair, District 5
John L. Varela, District 1
Barbara Keegan, District 2
Richard P. Santos, District 3
Tony Estremera, District 6
Gary Kremen, 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 for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, 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 attend Board of Directors' meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

NORMA CAMACHO
Chief Executive Officer

MICHELE L. KING, CMC
Clerk of the Board
(408) 265-2600
Fax (408) 266-0271
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.

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**Santa Clara Valley Water District
Board of Directors**

**7:00 P.M. SPECIAL SOUTH COUNTY PUBLIC HEARING
AGENDA**

Thursday, April 11, 2019

7:00 PM

Morgan Hill City Council Chambers, 17555 Peak
Ave., Morgan Hill, California

1. CALL TO ORDER:

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: This item is reserved for persons desiring to address the Board on any matter not on this agenda. Members of the public who wish to address the Board on any item not listed on the agenda should complete a Speaker Card and present it to the Clerk of the Board. The Board Chair will call individuals to the podium in turn. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Board action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Board may take action on any item of business appearing on the posted agenda.

2. TIME CERTAIN:

7:00 PM

- 2.1. Public Hearing - Annual Report on the Protection and Augmentation of Water Supplies - February 2019 and Recommended Groundwater Production and Other Water Charges for Fiscal Year 2019-2020 (FY 2019-20). [19-0323](#)

Recommendation:

- A. Continue the public hearing pursuant to Section 26.6 of the District Act to consider the District FY 2019-20 Annual Report on the Protection and Augmentation of Water Supplies, and direct staff to review such report with, and solicit comments from the District's advisory committees;
- B. Hear public comments from groundwater producers and any interested persons regarding such report; and
- C. Continue the public hearing regarding such report to the April 23, 2019 regular meeting, at 6:00 p.m.

Manager: Nina Hawk, 408-630-2736

Attachments: [Attachment 1: Staff Report](#)
[Attachment 2: PowerPoint](#)
[Attachment 3: SCVWD Resolution 12-10](#)

Est. Staff Time: 30 Minutes

REGULAR AGENDA:

3. ADJOURN:

- 3.1. Clerk Review and Clarification of Board Requests.
- 3.2. Adjourn to 4:00 P.M. Closed Session and 6:00 P.M. Regular Meeting on April 23, 2019, in the Santa Clara Valley Water District Headquarters Building Boardroom, 5700 Almaden Expressway, San Jose, California.

File No.: 19-0323

Agenda Date: 4/11/2019

Item No.: 2.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

Public Hearing - Annual Report on the Protection and Augmentation of Water Supplies - February 2019 and Recommended Groundwater Production and Other Water Charges for Fiscal Year 2019-2020 (FY 2019-20).

RECOMMENDATION:

- A. Continue the public hearing pursuant to Section 26.6 of the District Act to consider the District FY 2019-20 Annual Report on the Protection and Augmentation of Water Supplies, and direct staff to review such report with, and solicit comments from the District's advisory committees;
- B. Hear public comments from groundwater producers and any interested persons regarding such report; and
- C. Continue the public hearing regarding such report to the April 23, 2019 regular meeting, at 6:00 p.m.

SUMMARY:

Section 26.6 of the District Act requires a public hearing regarding the Protection and Augmentation of Water Supplies report be held 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 reliable water supply and the recommended groundwater production and other water charges 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 consistent with the District Act, and Board Resolution 99-21. The raw surface water charge setting process includes a formal protest procedure consistent with Board Resolution 12-10 (See attachment 3). If written protests are filed by a majority of surface water operators, the surface water charge cannot be increased.

Staff proposes a 6.6% increase in the North County (Zone W-2) Municipal and Industrial groundwater production charge. Staff recommends maintaining the treated water surcharge at \$100 per acre-foot and the non-contract treated water surcharge at \$50 per acre-foot. The average household in Zone W-2 would experience an increase in their monthly bill of \$2.93 or about 10 cents a day.

In the South County (Zone W-5), staff recommends a 6.9% increase in the M&I groundwater production charge. The average household in Zone W-5 would experience an increase in their

monthly bill of \$1.07 or about 4 cents per day.

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

The staff proposed increase to the agricultural groundwater production charge is 19.3% for both zones. An agricultural water user who pumps 2 acre-feet per acre per year would experience an increase of \$0.87 per month per acre.

Staff recommends a 4.4% increase to the surface water master charge. This increase results in a 6.5% increase in the overall North County municipal and industrial surface water charge and 6.7% increase in the overall South County municipal and industrial surface water charge. The staff recommended overall agricultural surface water charge in either zone would increase by 10.8%. Due to the severity of the recent drought from 2012 to 2016, the water district suspended nearly all raw surface water deliveries in 2014. Now that the historic drought is over, the district has restored surface water for permitted users who requested it.

For recycled water, staff recommends increasing the M&I charge by 7.2%. For agricultural recycled water, staff recommends a 9.6% increase. The recommended increases would maximize cost recovery while concurrently providing an economic incentive to use recycled water as opposed to potable water. The 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 increases in water charges are necessary to pay for critical investments in water supply infrastructure rehabilitation and upgrades, and the development of future drought-proof supplies. Those investments include the Pacheco Reservoir Expansion project, which would provide emergency water supply, and the state's proposed California WaterFix, to improve the reliability and quality of 40% of the county's water supply that is imported into the county through those facilities.

Staff recommends maintaining the State Water Project Tax at \$18 million for FY 2019-20. This translates to a property tax bill for the average single family residence of roughly \$27.00 per year. The recommended SWP tax is consistent with past practice. If the recommended FY 2019-20 State Water Project Tax is not approved, the M&I groundwater production charge would need to be increased by an additional \$92/AF in North County and \$19/AF in South County. The open space credit would increase by roughly \$523,000.

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

Open Space Credit

At their January 8 meeting, the Board requested that staff obtain feedback from various advisory committees on the proposed agricultural water charge adjustment for Williamson Act and conservation easement properties. In summary, staff received the following feedback:

-
- Agricultural Advisory Committee - Opposed increases in Ag charge for any farmer whether large or small.
 - Water Commission - Took no action, however, one member raised the following question: If Ag charges are increased, could Open Space Credit savings be used for conservation easement purchases?
 - Water Retailers - Supported increasing the Agricultural charge citing that a low Agricultural charge doesn't send the 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.

The summary feedback from Advisory committees is included in Attachment 2, which also includes information on certain crop production including cannabis, crops grown in fixed structures as opposed to open space, and certain permanent fruit and nut crops.

Background

The District Board has historically recognized that agriculture brings value to Santa Clara County in the form of open space and local produce. In an effort to help preserve this value, the District Act limits the agricultural charge to be no more than 25% of the M&I charge. In 1999, to further its support for agricultural lands, a policy was put into place further limiting the agricultural groundwater production charge to no more than 10% of the M&I charge. The agricultural community currently benefits from low groundwater charges that are 2% of M&I charges in North County and 6% of M&I charges in South County. According to Section 26.1 of the District Act, agricultural water is "water primarily used in the commercial production of agricultural crops or livestock."

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, the District redirects a portion of the 1% ad valorem property taxes generated in the Water Utility, General and Watershed Stream Stewardship Funds. The South County Open Space Credit is currently estimated to be \$8.0 million in FY 2018-19 and projected to continually increase in the years that follow.

Since 2013, the Board has continued the past practice of setting the agricultural charge at 6.0% of the South County M&I charge. On September 18, 2017, in response to the President's Day Flood event, the Board's Capital Improvement Program Committee analyzed scenarios to decrease the Open Space Credit and therefore provide more funding for flood protection projects. Accordingly, alternatives were prepared to reduce the Open Space Credit by increasing the agricultural charge to 10% or 25% of the M&I charge over a multi-year timeframe. For FY 2018-19, staff recommended increasing the agricultural charge to 6.8% of the M&I charge. On May 8, 2018, the Board chose to continue the past practice of setting the agricultural charge at 6.0% of the South County M&I charge for FY 2018-19.

Background on the Williamson Act and Conservation Easement Classification

The Williamson Act enables local governments to enter into contracts with private landowners for the

purpose of restricting specific parcels of land to agricultural or related open space use. Under these voluntary contracts, landowners gain substantially reduced property tax assessments. A land owner whose property is devoted to agricultural use and is within an agricultural preserve may file an application for a Williamson Act contract with the County. Per the Santa Clara County of Ordinances section C13-12, to be eligible for a Williamson Act contract:

1. The property proposed for inclusion in the contract is at least ten acres in size in the case of prime agricultural land, and 40 acres in size in the case of nonprime agricultural land;
2. All parcels proposed for inclusion in the contract are devoted to agricultural use; and
3. There are no existing or permitted uses or development on the land that would significantly displace or interfere with the agricultural use of the land.

Even if all of the criteria are met, the Board of Supervisors may, in its discretion, choose not to approve the application.

Conservation easement is a power invested in a qualified organization or government to constrain, as to a specified land area, the exercise of rights otherwise held by a landowner so as to achieve certain conservation purposes. For example, a land owner whose property constitutes open-space land as defined in Government Code §§ 51075(a) and 65560 may file an application for an agreement with the County.

Per the Santa Clara County of Ordinances section C13-36, to be eligible for an Open Space Easement Agreement with the County:

1. The land proposed for inclusion in the agreement is at least 20 acres in size;
2. All parcels proposed for inclusion in the agreement are devoted to open-space;
3. There are no other existing or permitted uses or development on the land that would significantly impair the open-space value of the land; and
4. The Board of Supervisors makes the required findings in Government Code § 51084.

Even if all of the criteria in are met, the Board of Supervisors may, in its discretion, choose not to approve the application.

There are also three open space authorities that have jurisdiction to enter into conservation easements in Santa Clara County.

There are 174 Williamson Act parcels and 10 conservation easement parcels in the combined Zone W-2 and Zone W-5. The parcels comprise roughly 33% of total agricultural water use on average.

Consideration of an Agricultural Water Charge Adjustment

An agricultural water charge adjustment could be predicated on Williamson Act or conservation easement participation and paid for by the Open Space Credit. Staff recommends implementing an

adjustment such that if the District were to increase the agricultural water charge to something greater than 6% of the M&I charge, then an adjustment would be applied to all Williamson Act and conservation easement properties, that would result in a net agricultural charge of 6% of M&I charges for those properties. The Williamson Act or Conservation Easement property classification would be determined by the authorities managing those programs, not the District. There would be no need for an application process, and as such the incremental costs associated with the adjustment would be negligible. The District currently receives from the County the list of Williamson Act properties and would use properties of record in February and August for the upcoming billing cycle. Staff would obtain the conservation easement property information direct from the open space organizations in parallel during the February and August timeframe. Property status changes occurring after staff data collection would be handled on a case-by-case basis for the potential proration of rates, if applicable. Agricultural wells are predominately charged bi-annually in areas in January and June.

If the District were to increase the agricultural charge to 10% of the M&I charge over a 7-year timeframe, and adjust back to 6% of the M&I charge for Williamson Act and conservation easement properties, then staff anticipates a cumulative savings to the Open Space Credit of roughly \$2.1 million over that 7-year timeframe. Savings would be \$1.4M if the transition occurred over a 5-year timeframe, and would be \$3.4M if the transition occurred over a 10-year timeframe. The savings could be reduced if additional eligible properties were to change status to be classified as Williamson Act or Conservation Easement properties. Staff estimates that there are 245 agricultural properties that may qualify, but are not classified as Williamson Act or Conservation Easement properties.

FINANCIAL IMPACT:

There is no financial impact associated with holding the hearing. If at a subsequent meeting, the Board approves the recommended groundwater production and other water charges or obtains alternate funding mechanisms, the Water Utility should have sufficient funding for planned operations and capital improvement projects for fiscal year 2019-20.

CEQA:

The recommended action, the holding of a public hearing is not a project under CEQA. Further, establishment of groundwater production charges is not a project under CEQA. CEQA Guidelines Section 15273(a) reads as follows: 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

File No.: 19-0323

Agenda Date: 4/11/2019
Item No.: 2.1.

Attachment 3: SCVWD Resolution 12-10

UNCLASSIFIED MANAGER:

Nina Hawk, 408-630-2736

Staff Report

In accordance with the District Act, District staff has prepared an annual report on the Protection and Augmentation of Water Supplies, which was filed with the Clerk of the Board on February 22, 2019.

The Report is the 48th 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 2019–20.

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. In light of the Supreme Court finding that Proposition 218 is inapplicable to groundwater production charges, only the surface water charge setting process will mirror the process described in Proposition 218 for property-related fees for water services. 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.

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 2019–20.

Staff Recommendations

Exhibit 1 shows the recommended groundwater production charges and other charges for FY 2019–20. The staff recommendation for the various types of agricultural water is significantly different than the proposed maximums shown in Valley Water's Annual Report on the Protection and Augmentation of Water Supplies (PAWS). The proposed maximum agricultural charges in the PAWS report reflect the maximum rate allowed by the District Act, and was a placeholder to allow flexibility for the Board in deliberating changes to its policy on agricultural water pricing.

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

	Dollars Per Acre Foot		
	FY 2017–18	FY 2018–19	Staff Recommended FY 2019–20
Zone W-2 (North County)			
Basic User/ Groundwater Production Charge			
Municipal & Industrial	1,175.00	1,289.00	1,374.00
Agricultural	25.09	27.02	32.23
Surface Water Charge			
Surface Water Master Charge	33.36	35.93	37.50
Total Surface Water, Municipal & Industrial*	1,208.36	1,324.93	1,411.50
Total Surface Water, Agricultural*	58.45	62.94	69.73
Treated Water Charges			
Contract Surcharge	100.00	100.00	100.00
Total Treated Water Contract Charge**	1,275.00	1,389.00	1,474.00
Non-Contract Surcharge	50.00	50.00	50.00
Total Treated Water Non-Contract Charge***	1,225.00	1,339.00	1,424.00
Zone W-5 (South County)			
Basic User/ Groundwater Production Charge			
Municipal & Industrial	418.00	450.00	481.00
Agricultural	25.09	27.02	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	69.73
Recycled Water Charges			
Municipal & Industrial	398.00	430.00	461.00
Agricultural	48.88	54.41	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			
**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			

The recommended increases in water charges are necessary to pay for critical investments in water supply infrastructure rehabilitation and upgrades, and the development of future drought-proof supplies. The Anderson Dam Seismic Retrofit is a \$563 million project that will help ensure public safety and bolster future water supply reliability. Additionally, the \$295 million Rinconada Water Treatment Plant upgrade is more than halfway complete, and will extend the plant's service life for the next 50 years as well as increase production capacity up to 25%. Roughly \$121 million is planned to be spent over the next 10 years on the state's proposed plan for the California Water Fix, which is anticipated to improve the reliability of the infrastructure through which 40% of the county's water supply is delivered. Valley Water continues to move forward to forge its first public-private partnership (P3) on a \$650 million investment for recycled and purified water expansion that would bring up to 24,000 AF of new water supply to the county each year. Lastly, the Pacheco Reservoir Expansion project, estimated to cost a little more than \$1.3 billion, would provide 80,000 acre-feet of additional water storage capacity.

Given the financial needs summarized above, staff proposes a 6.6% increase in the North County (Zone W-2) Municipal and Industrial groundwater production charge from \$1,289/AF to \$1,374/AF. Staff recommends maintaining the treated water surcharge at \$100/AF, and maintaining the non-contract treated water surcharge at \$50/AF. The proposal equates to a monthly bill increase for the average household of \$2.93 or about 10 cents a day.

In the South County (Zone W-5), staff proposes a 6.9% increase in the M&I groundwater production charge from \$450/AF to \$481/AF. The proposal equates to a monthly bill increase for the average household of \$1.07 or about 4 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 recommends a 19.3% increase in the agricultural groundwater production charge in both zones from \$27.02/AF to \$32.23/AF. The staff recommendation equates to a \$0.87 increase per month per acre for an agricultural water user who pumps 2 acre-feet per acre per year.

Staff recommends a 4.4% increase to the surface water master charge from \$35.93/AF to \$37.50/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in a 6.5% increase in the overall North County municipal and industrial surface water charge and 6.7% increase in the overall South County municipal and industrial surface water charge. The overall agricultural surface water charge in either zone would increase by 10.8% to \$69.73 per acre foot. Due to the severity of the recent drought from 2012 to 2016, the water district suspended nearly all raw surface water deliveries in 2014. Now that the historic drought is over, Valley Water has restored surface water for those permitted users who requested it.

For recycled water, staff recommends increasing the M&I charge by 7.2% to \$461/AF. For agricultural recycled water, staff recommends a 9.6% increase to \$59.62/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."

Staff recommends keeping the State Water Project Tax at \$18 million for FY 2019–20. This translates to a property tax bill for the average single family residence of roughly \$27.00 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 2019–20 will be at least \$25 million. The intent behind setting the State Water Project Tax below the anticipated contractual indebtedness is to reduce the State Water Project Fund reserve that has built up recently (totaling \$12.8M at the end of FY 2017-18). 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 supply contracts.

Projections

Exhibit 2 shows actual and projected District-managed water use. FY 2017–18 water usage came in at 231,000 AF, slightly higher than the projected usage. For the current year, FY 2018–19, staff estimates that water usage will be approximately 226,000 AF or higher, and roughly a 21% reduction versus calendar year 2013. For FY 2019–20, total District-managed water use is projected at 239,000 AF, which is about a 6% increase relative to the FY 2018-19 estimated actual. The FY 2019-20 water usage estimate represents a 16% reduction relative to calendar year 2013, and represents a roughly 23% reduction on a per capita basis. Water use is projected to ramp up to 254,000 AF by FY 2024-25.

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

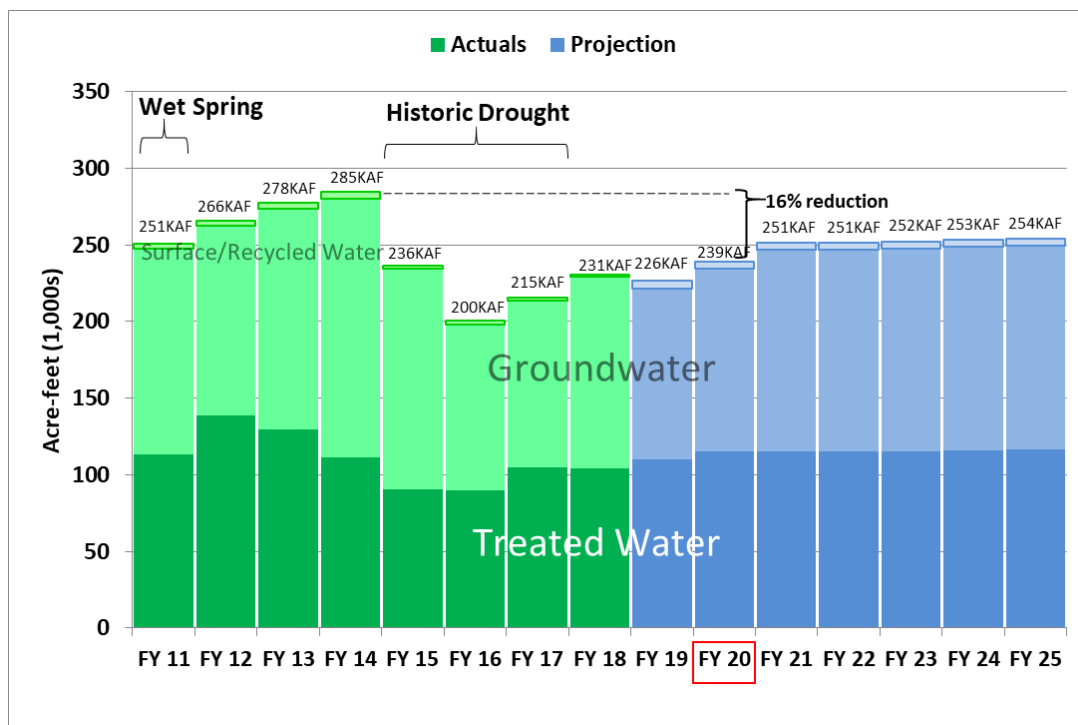


Exhibit 3 shows key financial indicators with staff's recommendation projected to FY 2025-26. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

Exhibit 3
5 Year Charge and Financial Indicator Projection

Base Case	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
No. County (W-2) M&I GWP charge (\$/AF)	\$1,289	\$1,374	\$1,465	\$1,561	\$1,664	\$1,774	\$1,891	\$2,016
Y-Y Growth %	9.7%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
So. County (W-5) M&I GWP charge (\$/AF)	\$450	\$481	\$514	\$550	\$588	\$628	\$672	\$718
Y-Y Growth %	7.7%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Operating & Capital Reserve	\$35,003	\$40,408	\$45,926	\$47,663	\$53,352	\$52,133	\$54,811	\$56,890
Supplemental Water Supply Reserve (\$K)	\$14,677	\$15,077	\$15,477	\$15,877	\$16,277	\$16,677	\$17,077	\$17,477
Drought Contingency Reserve (\$K)	\$7,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
P3 Reserve (\$K)	\$4,000	\$8,000	\$10,000	\$12,000	\$14,000	\$16,000	\$17,000	\$18,000
Sr. Lien Debt Svc Cov Ratio (1.25 min)	2.65	3.37	3.31	2.99	2.54	2.47	2.48	2.51
South County (Deficit)/Reserves (\$K)	\$12,242	\$11,306	\$12,774	\$14,373	\$17,578	\$14,504	\$13,537	\$14,062

A portion of the projected increases in the groundwater production charge are driven by the capital improvement program as shown in Exhibit 4. Over \$3.3 billion in capital investments, primarily to repair and rehabilitate aging infrastructure, are planned for the next 10 years. FY 2019–20 operations and operating project costs are projected to increase by 4.2% versus the FY 2018–19 adjusted budget. On a longer term basis, operating outlays are projected to increase an average of 7.2% per year for the next 10 years driven by: 1) the start of Water Service Agreements payments in FY 28 to Valley Water's P3 (Public-Private Partnership) partner upon completion of the Expedited Purified Water Facilities and commencement of the new water supply; 2) the ramp up of anticipated payments associated with the California WaterFix; and 3) inflation. Debt service is projected to rise from \$44 million in FY 2019–20 to \$127.9 million in FY 2028–29 as a result of periodic debt issuances to fund the capital program.

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

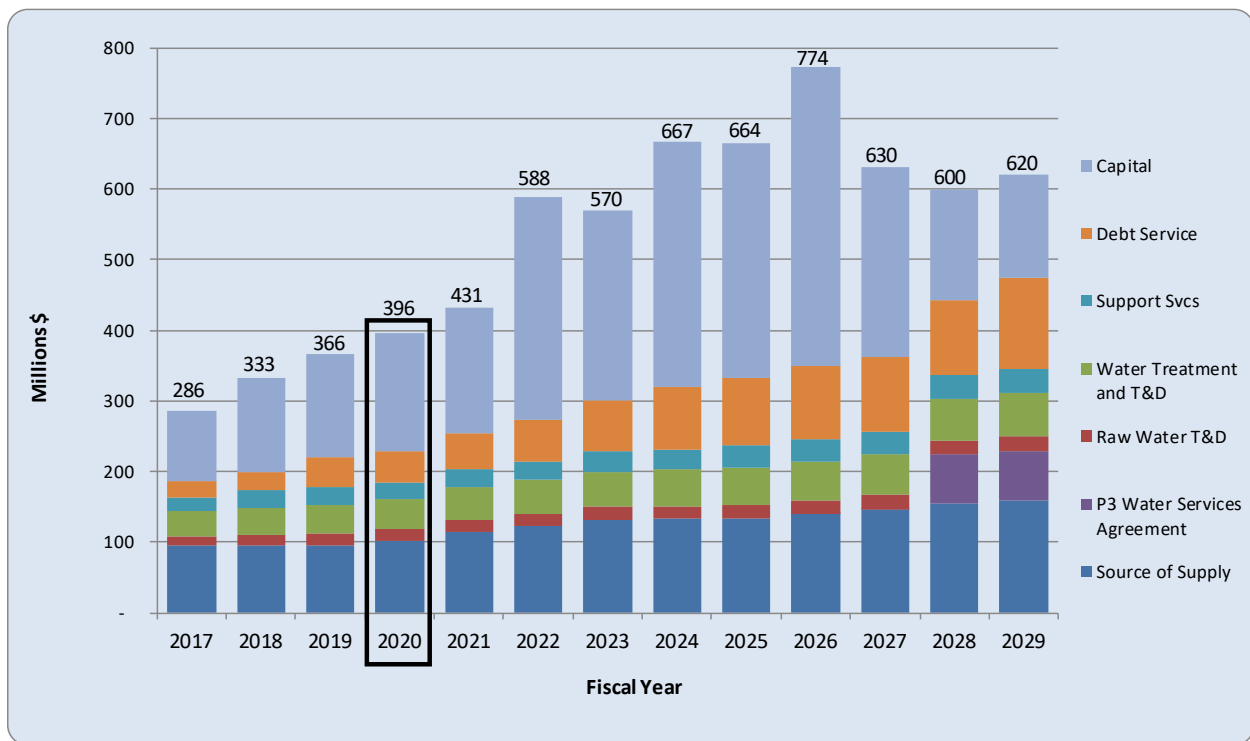


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2018–19 and funding of the preliminary FY 2019-20 Capital Improvement Program (CIP). Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in projection.

Exhibit 5 10 Year Groundwater Charge Projection

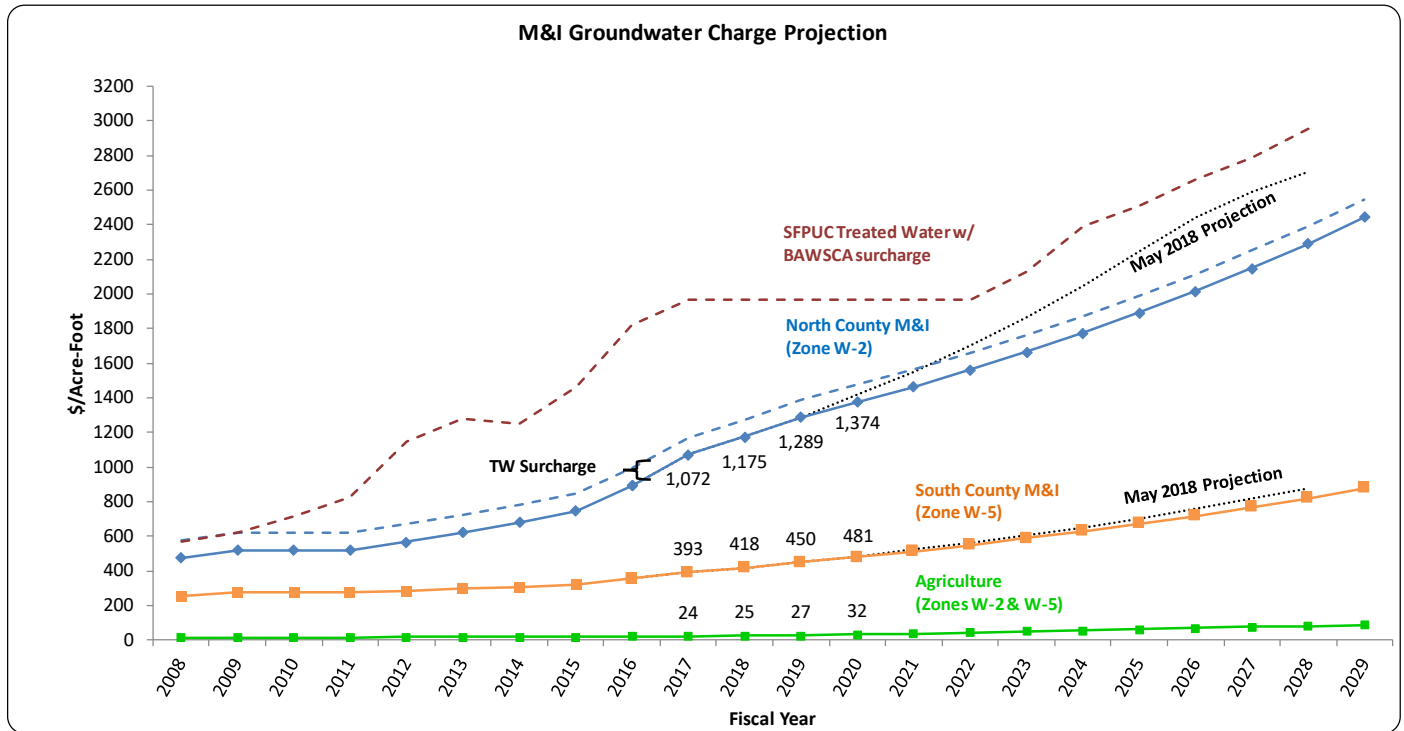


Exhibit 6 shows a comparison of the adjusted proposed groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan Water District, Orange County Water District, San Diego County Water Authority, San Francisco PUC (Hetch Hetchy),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

Exhibit 6
Anticipated FY 2018–19 Water Charge Increases for Similar Agencies

	% inc.		% inc.		Projection	
	FY 17	'17 to '18	FY 18	'18 to '19	FY 19 ³	FY 20
SCVWD North W-2 (Groundwater prdctn per AF)	\$1,072	9.6%	\$1,175	9.7%	\$1,289	6.6%
SCVWD North W-2 (Treated Water per AF)	\$1,172	8.8%	\$1,275	8.9%	\$1,389	6.1%
SCVWD South W-5 (Groundwater prdctn per AF)	\$393	6.4%	\$418	7.7%	\$450	6.9%
Metropolitan WD (Untreated Water per AF) ¹	\$762	4.3%	\$795	4.0%	\$827	3.6%
Metropolitan WD (Treated Water per AF) ¹	\$1,075	3.7%	\$1,115	2.8%	\$1,146	2.6%
Orange County WD (Groundwater per AF)	\$402	10.7%	\$445	3.8%	\$462	8.0%
San Diego County WA (Treated Water per AF) ¹	\$1,531	3.4%	\$1,583	-0.4%	\$1,577	TBD
San Francisco PUC (Treated Water per AF) ²	\$1,969	0.0%	\$1,969	0.0%	\$1,969	0.0%
Zone 7 (Treated Water per AF) ¹	\$1,575	-13.2%	\$1,367	2.5%	\$1,401	8.9%

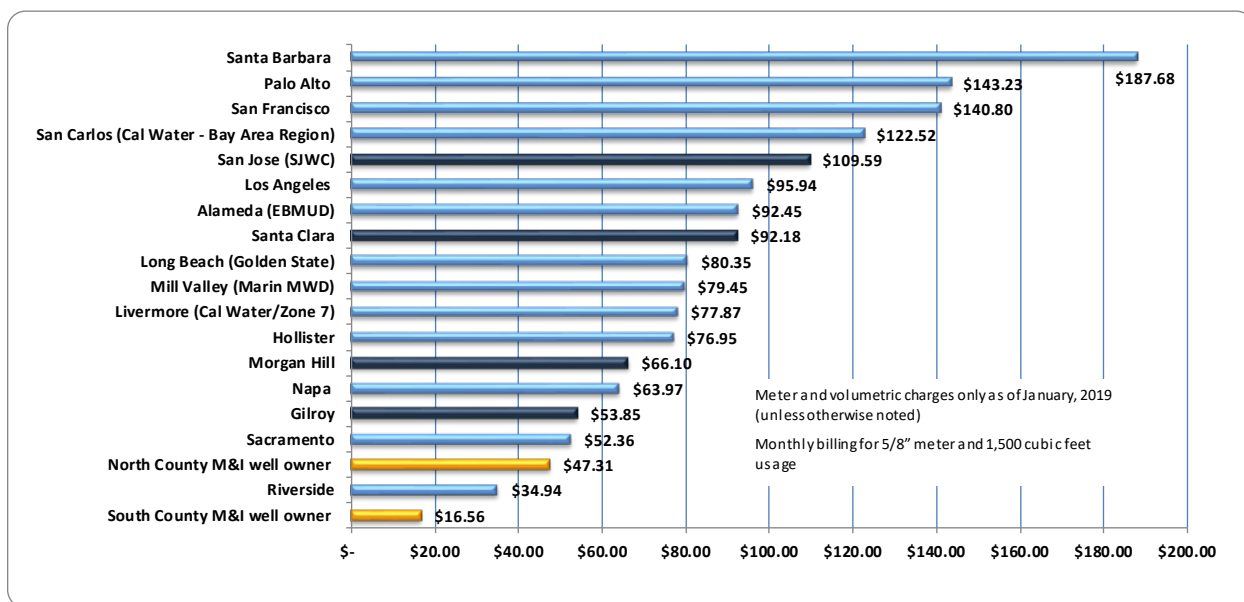
1) MWD, SDCWA and Zone 7 rates based on calendar year (i.e. 2018 rate would be effective on 1/1/2018)

2) SFPUC rate includes BAWSCA bond surcharge

3) SCVWD FY 20 projection includes staff recommendations

Exhibit 7 shows a comparison of the average monthly bill for several of Valley Water's retail customers (e.g. SJWC, 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 2019-20. 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 2019–20 is 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

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) and W-5 (South) according to benefit provided. 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 fungible revenue, in this case 1% ad valorem property taxes, to offset the costs of agricultural water in accordance with Board Resolution 99-21. For FY 2019-20, staff is proposing a \$460K transfer of 1% ad valorem property taxes from the General Fund and \$460K from the Watershed Stream Stewardship Fund as sources for this adjustment also known as the “Open Space Credit.”

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.

Exhibit 8
Cost of Service North County Zone W-2 (\$K)

FY '20 Projection (\$K)		Zone W-2					Total W-2
		GW		TW	SW		
		M&I	AG	M&I	M&I	Ag	
1	Operating Outlays						
2	Operations/Operating Projects	36,308	350	102,206	1,034	27	139,924
3	SWP Imported Water Costs	6,078	60	18,621	301	8	25,068
4	Debt Service	10,318	101	33,313	138	4	43,874
5	Total Operating Outlays	52,703	511	154,140	1,473	39	208,866
6							
7	Capital & Transfers						
8	Operating Transfers Out	600	6	1,044	14	0	1,664
9	Capital Outlays excl. carryforward	34,753	342	120,057	758	20	155,931
10	Total Capital & Transfers	35,353	348	121,101	772	21	157,595
11	Total Annual Program Costs	88,057	859	275,241	2,245	60	366,461
12		Step 3 - Allocate costs to customer classes					
13	Revenue Requirement Offsets						
14	Capital Cost Recovery	(2,360)	(23)	(4,107)	(54)	(1)	(6,545)
15	Debt Proceeds	(13,274)	(131)	(45,857)	(290)	(8)	(59,559)
16	Inter-governmental Services	(390)	(4)	(678)	(9)	(0)	(1,081)
17	SWP Property Tax	(4,102)	(40)	(12,569)	(203)	(5)	(16,920)
18	South County Deficit/Reserve	(1,418)	(14)	(2,467)	(32)	(1)	(3,932)
19	Interest Earnings	(1,010)	(10)	(1,757)	(23)	(1)	(2,800)
20	Inter-zone Interest	73	1	127	2	0	202
21	Capital Contributions	(8,962)	(88)	(15,592)	(203)	(5)	(24,851)
22	Other	(953)	(9)	(903)	(14)	(0)	(1,880)
23	Reserve Requirements	(1,751)	17	(181)	(38)	1	(1,952)
24	Adjusted Revenue Requirement (FY 19)	53,908	557	191,259	1,381	39	247,144
25	Adjusted Revenue Requirement (FY 16 adj)	(22,017)	(235)	37,018	913	(15)	15,665
26	Total Adjusted Revenue Requirement	31,892	323	228,276	2,293	24	262,809
27	Volume (KAF)	66.1	0.7	115.0	1.5	0.0	183.3
28							
29	Revenue Requirement per AF	\$ 482	\$ 497	\$ 1,985	\$ 1,529	\$ 603	
30		Step 5 - Develop unit costs by customer class					
31	Adjustments for Agricultural Preservation						
32	Allocate WU 1% Ad Valorem Prop Tax	-	(302)	-	-	(21)	(323)
33	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
34	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
35	Revenue Requirement per AF	\$ 482.5	\$ 32.2	\$ 1,985	\$ 1,529	\$ 69.7	
36							
37	Adjustments to Facilitate Conjunctive Use						
38	Reallocate TW/SW/RW costs	58,934	-	(58,758)	(176)	-	0
39	Charge per AF	\$ 1,374	\$ 32.2	\$ 1,474	\$ 1,412	\$ 69.7	
40	Total Revenue (\$K)	\$90,826	\$21	\$169,518	\$2,117	\$3	\$262,485

Exhibit 9
Cost of Service South County Zone W-5 (\$K)

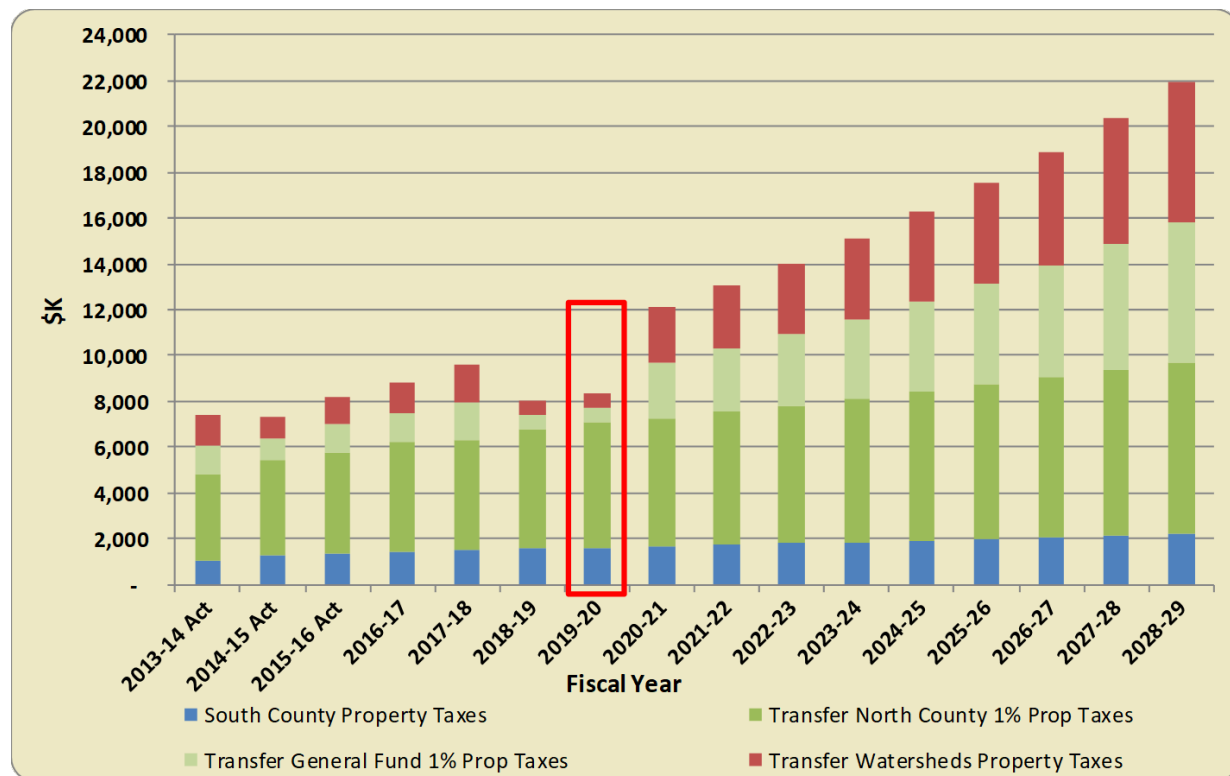
FY '20 Projection (\$K)		Zone W-5						Total W-5
		GW		SW	RW			
		M&I	AG	M&I	AG	M&I	AG	
1	Operating Outlays							
2	Operations/Operating Projects	10,076	8,692	254	650	221	189	20,083
3	SWP Imported Water Costs	-	-	-	-	-	-	-
4	Debt Service	-	-	-	-	-	-	-
5	Total Operating Outlays	10,076	8,692	254	650	221	189	20,083
6								
7	Capital & Transfers							
8	Operating Transfers Out	-	-	-	-	-	-	-
9	Capital Outlays excl. carryforward	-	-	-	-	-	-	-
10	Total Capital & Transfers	-	-	-	-	-	-	-
11	Total Annual Program Costs	10,076	8,692	254	650	221	189	20,083
12								
13	Revenue Requirement Offsets							
14	Capital Cost Recovery	2,779	2,481	50	129	595	510	6,545
15	Debt Proceeds	-	-	-	-	-	-	-
16	Inter-governmental Services	(80)	(71)	(1)	(4)	-	-	(156)
17	SWP Property Tax	(539)	(481)	(10)	(25)	(13)	(12)	(1,080)
18	South County Deficit/Reserve	3,370	768	(12)	40	(252)	18	3,932
19	Interest Earnings	-	-	-	-	-	-	-
20	Inter-zone Interest	(101)	(90)	(2)	(5)	(3)	(2)	(202)
21	Capital Contributions	-	-	-	-	-	-	-
22	Other	(71)	(64)	(1)	(2)	-	-	(138)
23	Reserve Requirements	-	-	-	-	-	-	-
24	Adjusted Revenue Requirement (FY 19)	15,434	11,235	278	783	548	705	28,984
25	Adjusted Revenue Requirement (FY 16 adj)	(2,510)	(3,052)	27	(208)	274	(400)	(5,869)
26	Total Adjusted Revenue Requirement	12,925	8,183	305	576	822	304	23,115
27	Volume (KAF)	28.0	25.0	0.5	1.3	0.7	0.6	56.1
28								
29	Revenue Requirement per AF	\$ 462	\$ 327	\$ 611	\$ 443	\$ 1,174	\$ 507	
30								
31	Adjustments for Agricultural Preservation							
32	Allocate WU 1% Ad Valorem Prop Tax	-	(7,213)	-	-	-	-	(7,213)
33	Transfer GF 1% Ad valorem Prop Tax	-	(460)	-	-	-	-	(460)
34	Transfer WS 1% Ad Valorem Prop Tax	-	296	-	(485)	-	(270)	(460)
35	Revenue Requirement per AF	\$ 462	\$ 32.2	\$ 611	\$ 69.7	\$ 1,174	\$ 56.2	
36								
37	Adjustments to Facilitate Conjunctive Use							
38	Reallocate TW/SW/RW costs	545	-	(46)	-	(499)	-	0
39	Charge per AF	\$ 481	\$ 32.2	\$ 519	\$ 70	\$ 461	\$ 56.2	
40	Total Revenue (\$K)	\$13,470	\$806	\$259	\$91	\$323	\$34	\$14,982

Open Space Credit

The District Act limits agricultural groundwater production charges to a maximum of 25 percent 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 recommended agricultural groundwater production charge for FY 2019–20 is \$32.23 per acre foot, which is 6.7 percent of the proposed M&I groundwater production charge in South County. To comply with the current agricultural groundwater production charge setting policy, staff recommends the open space credit received by South County be \$8.1 million in FY 2019-20 (funded by 1 percent ad valorem property taxes). This includes an adjustment that reconciles FY 2016–17 actuals against what was projected. The \$8.1 million is comprised of a \$5.6 million transfer from North County Water Utility 1% ad valorem property taxes, a \$1.6 million contribution from South County Water Utility 1% ad valorem property taxes, a \$460 thousand transfer of 1% ad valorem property taxes from the General Fund and \$460 thousand from the Watershed Stream Stewardship Fund. As shown in Exhibit 10, the Open Space Credit is projected to grow to \$22 million by FY 2028-29.

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 – 2019

Date	Hearing/Meeting
January 8	Board Meeting on Preliminary Groundwater Production Charge Analysis
February 22	Mail notice of public hearing and file PAWS report
March 20	Water Retailers Meeting
April 2	Landscape Committee Meeting
April 8	Agricultural Water Advisory Committee Meeting
April 9	Open Public Hearing
April 10	Water Commission Meeting
April 11	Continue Public Hearing in Morgan Hill (Informational Open House)
April 15	Environmental & Water Resources Committee
April 23	Conclude Public Hearing
May 14	Adopt Budget & Groundwater Production and Other Water Charges

Public Hearing

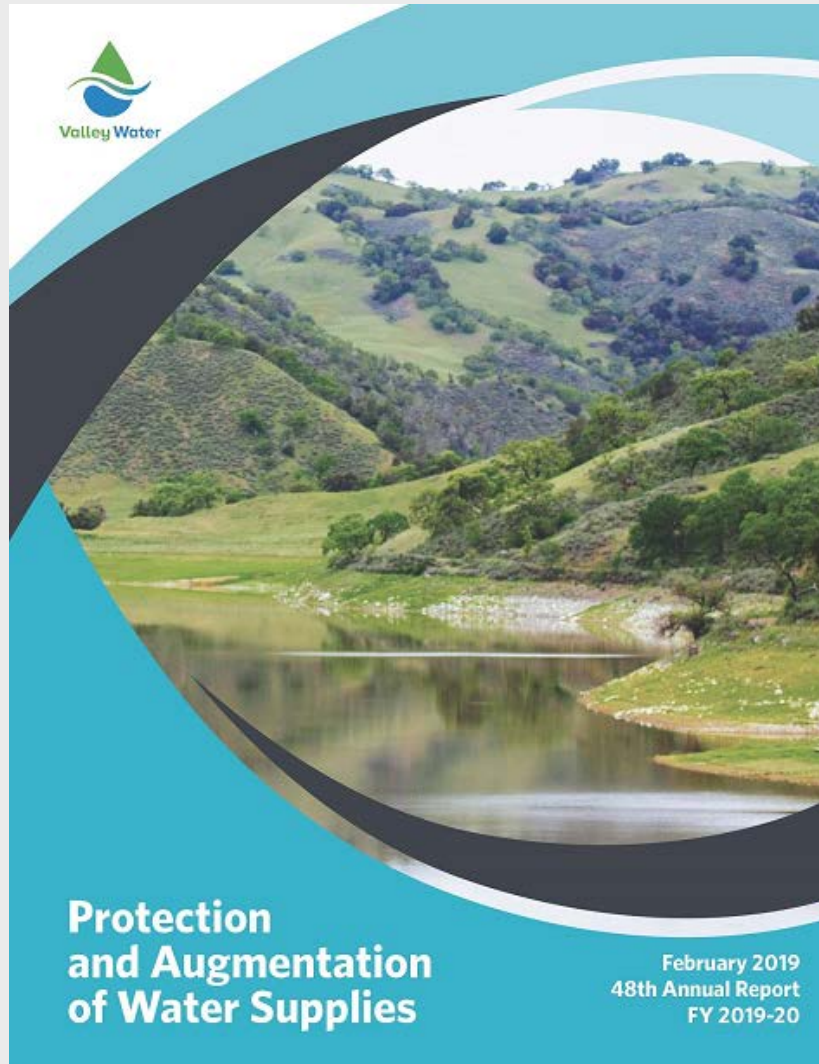
Groundwater Production & Other Water Charges
April 11, 2019



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

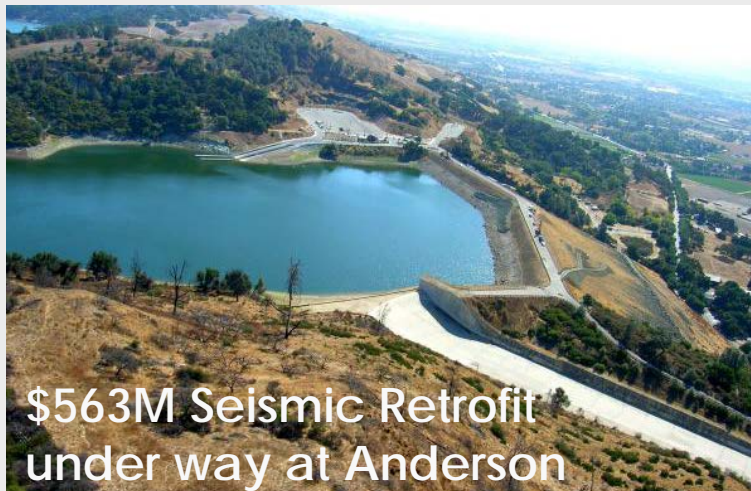
48th Annual Report Provides Information and Accountability



2019 Protection and Augmentation of Water Supplies Report

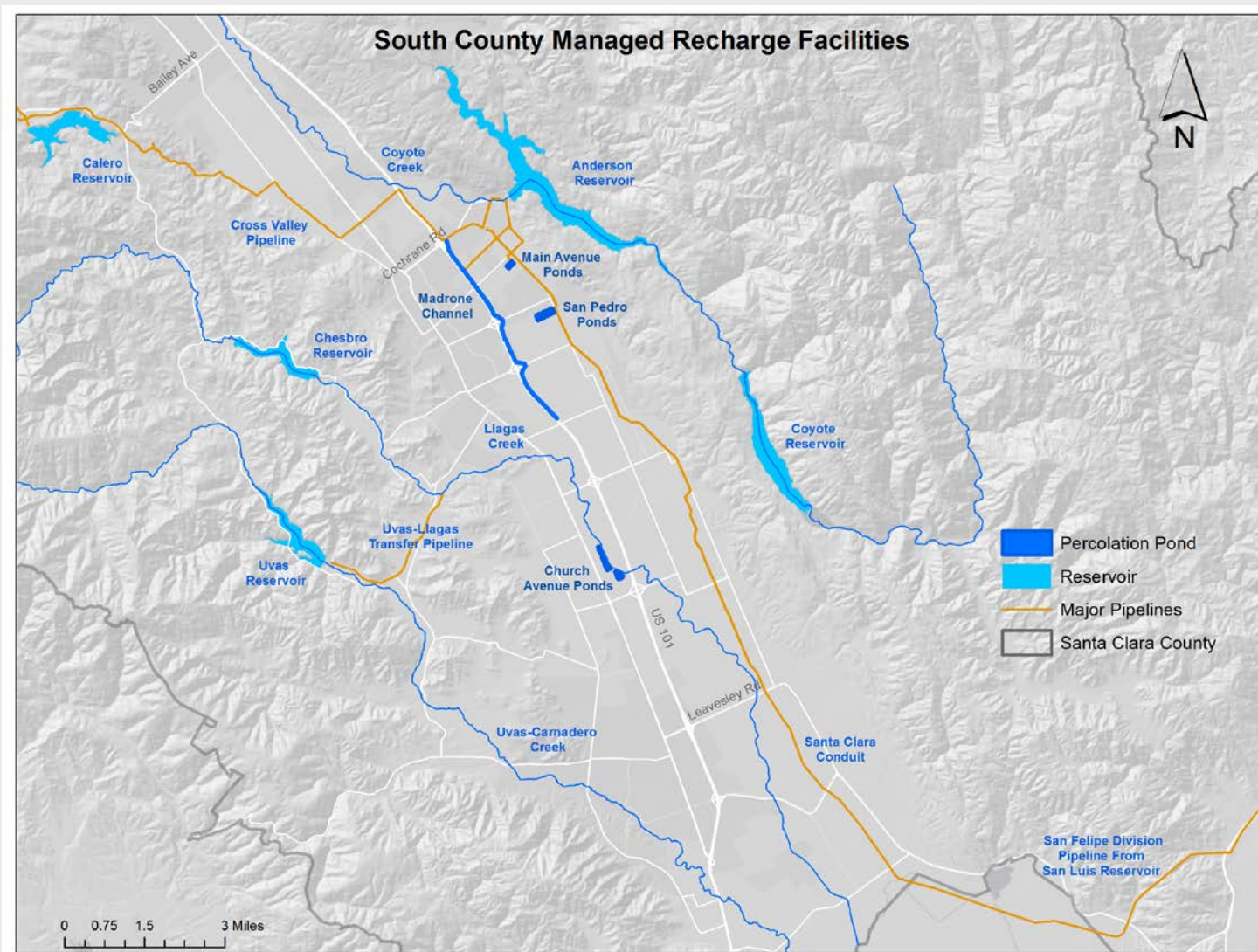
Why do well owners pay SCVWD to pump water from the ground?

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

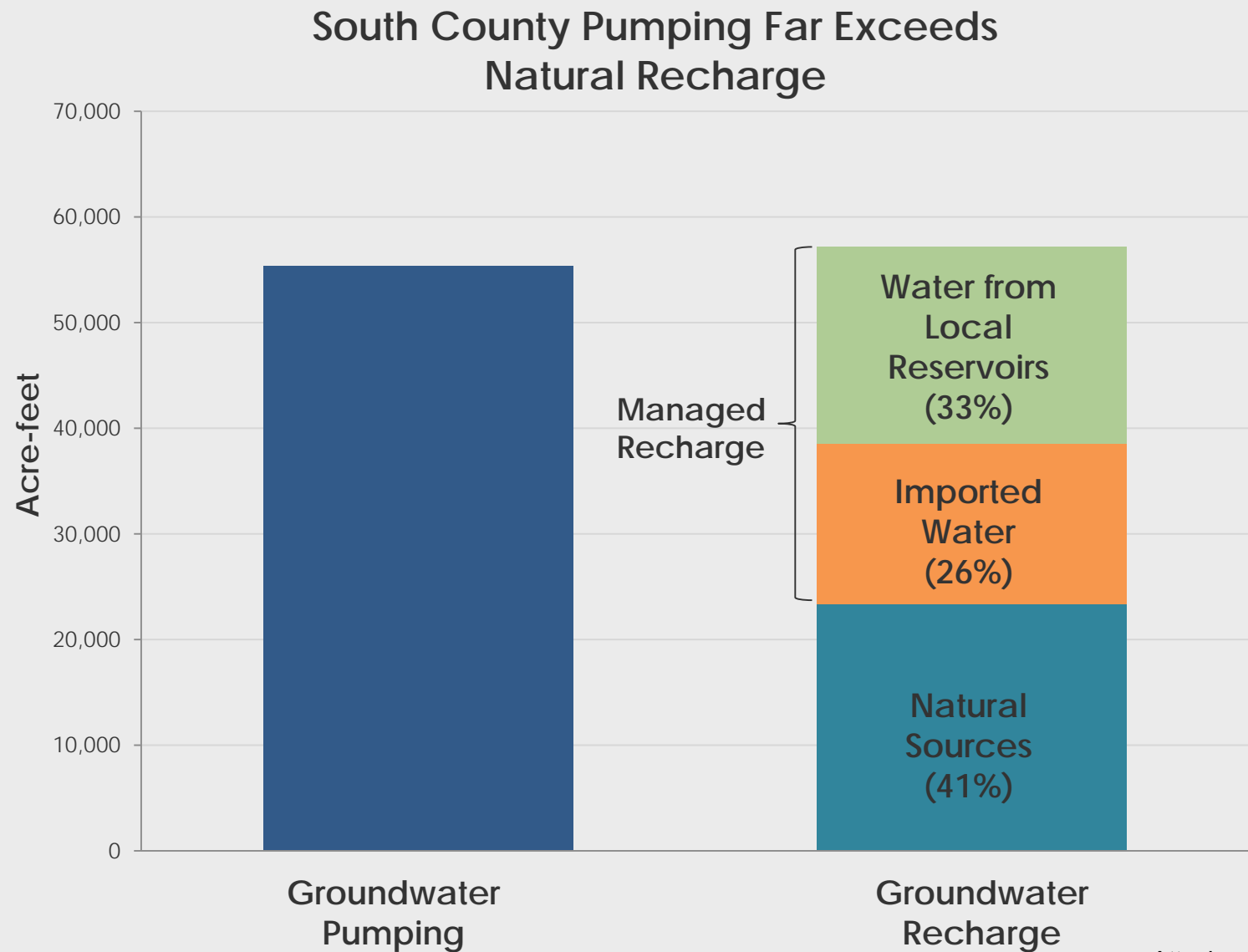


**Main Avenue
Recharge Ponds**



Madrone Channel

Recharge needed to offset groundwater pumping



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

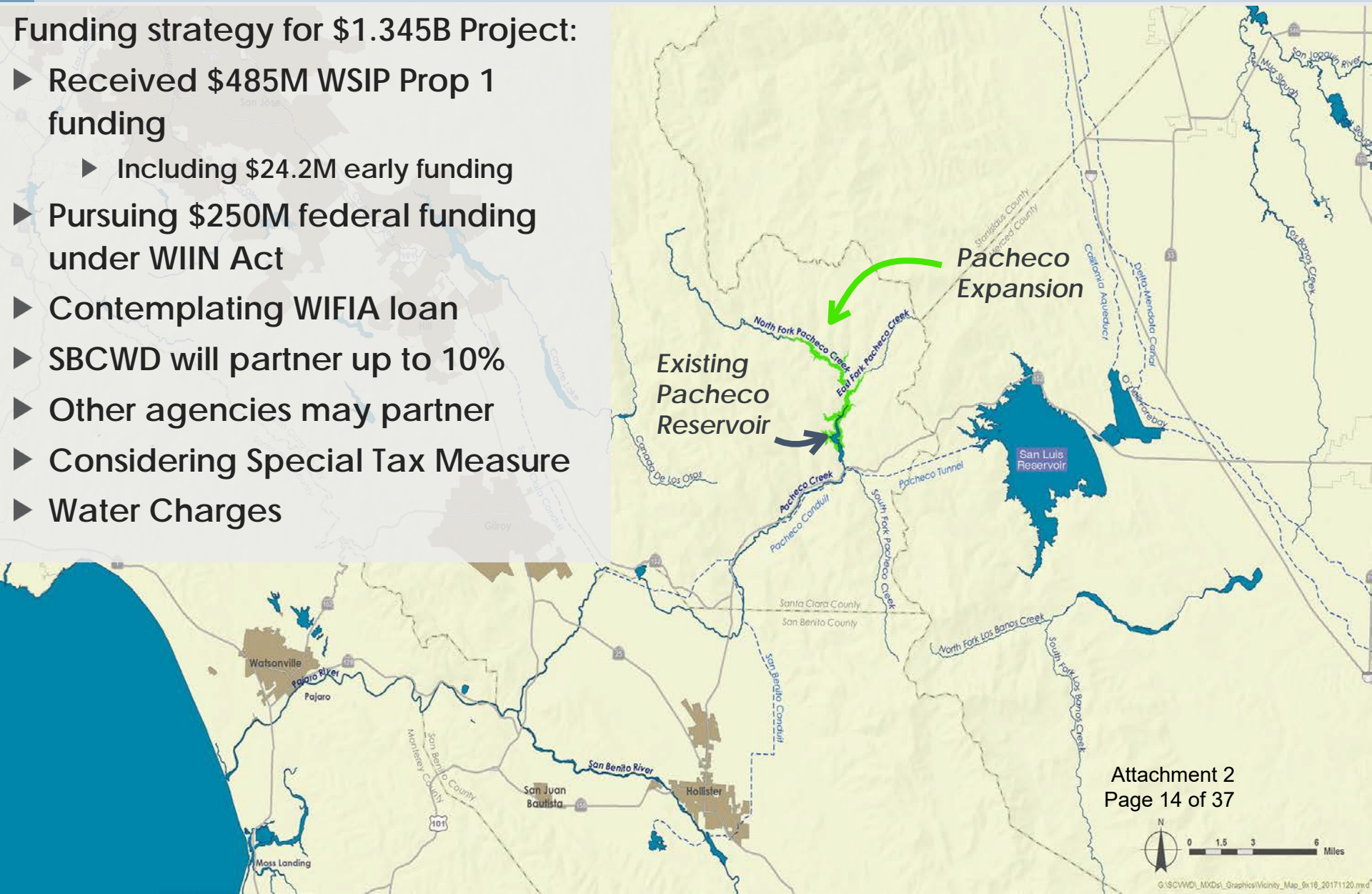
- Anderson Dam Seismic Retrofit (\$513M)
 - \$66M (12% of total \$563M project) to be reimbursed by Safe Clean Water Measure
- Recycled Water Pipeline Expansion (\$20.8M)



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

Funding strategy for \$1.345B Project:

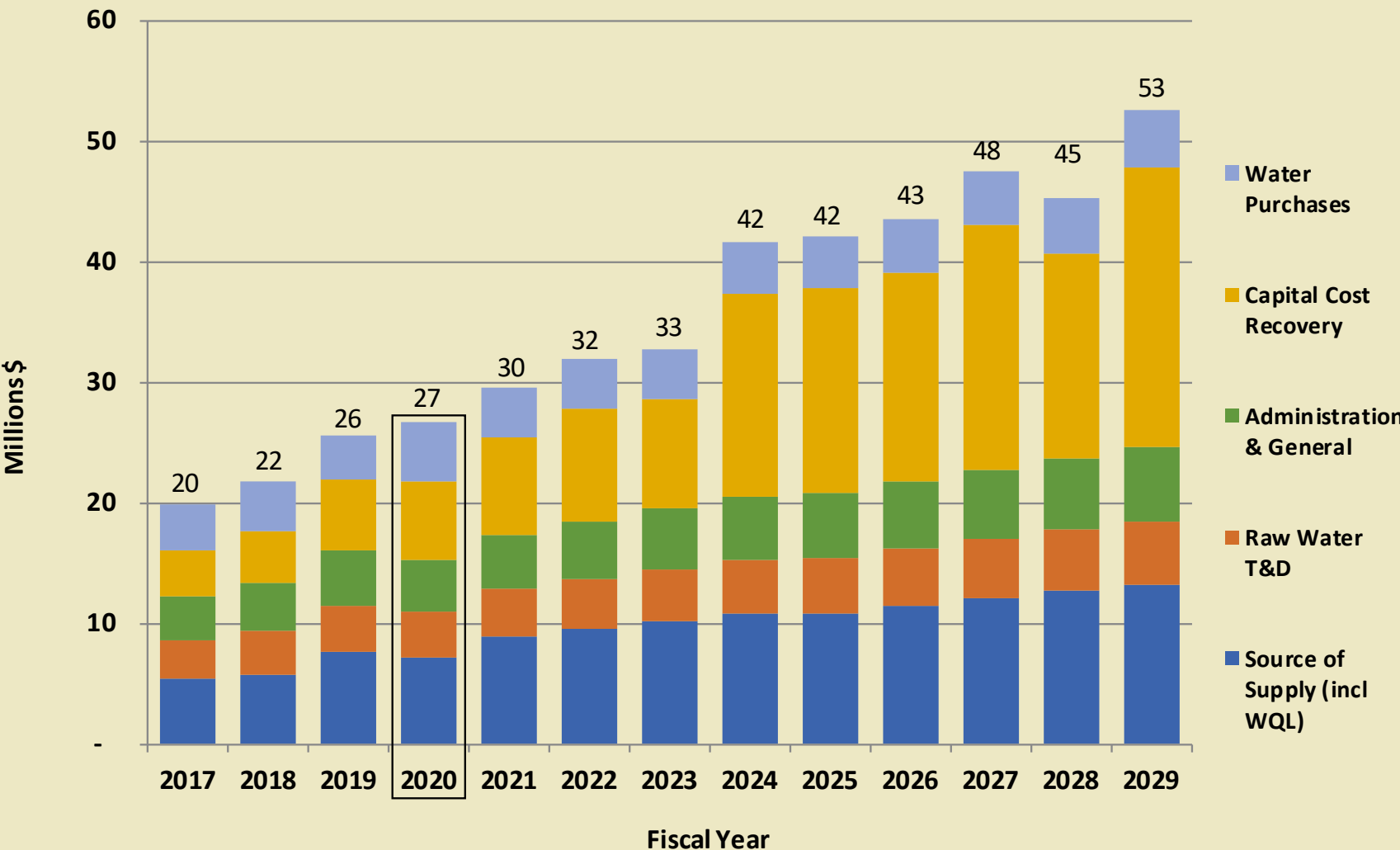
- ▶ Received \$485M WSIP Prop 1 funding
 - ▶ Including \$24.2M early funding
- ▶ Pursuing \$250M federal funding under WIIN Act
- ▶ Contemplating WIFIA loan
- ▶ SBCWD will partner up to 10%
- ▶ Other agencies may partner
- ▶ Considering Special Tax Measure
- ▶ Water Charges



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

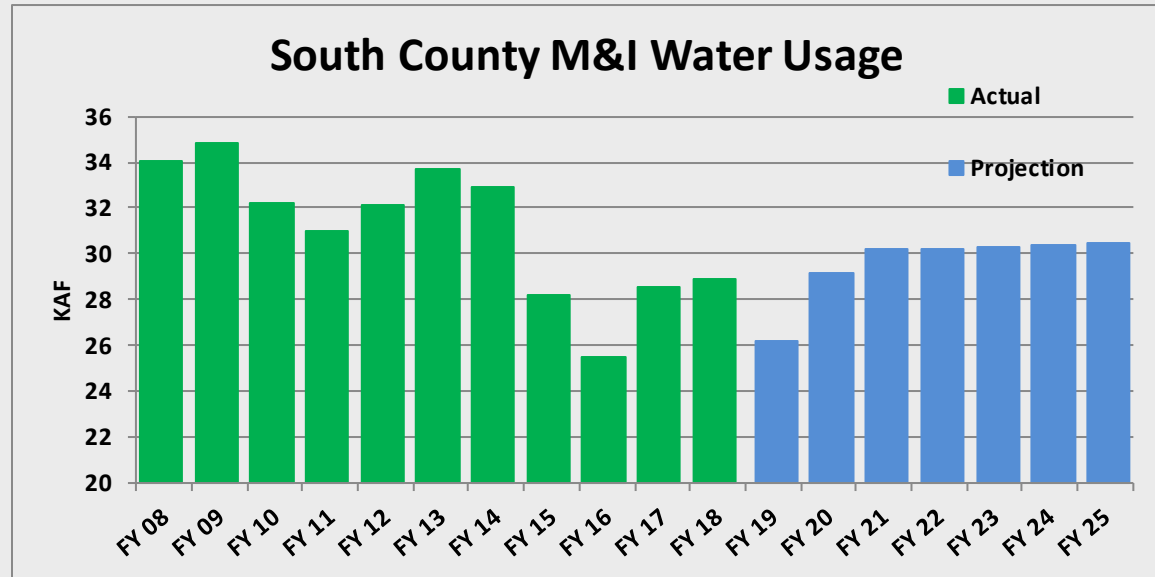
South County Cost Projection



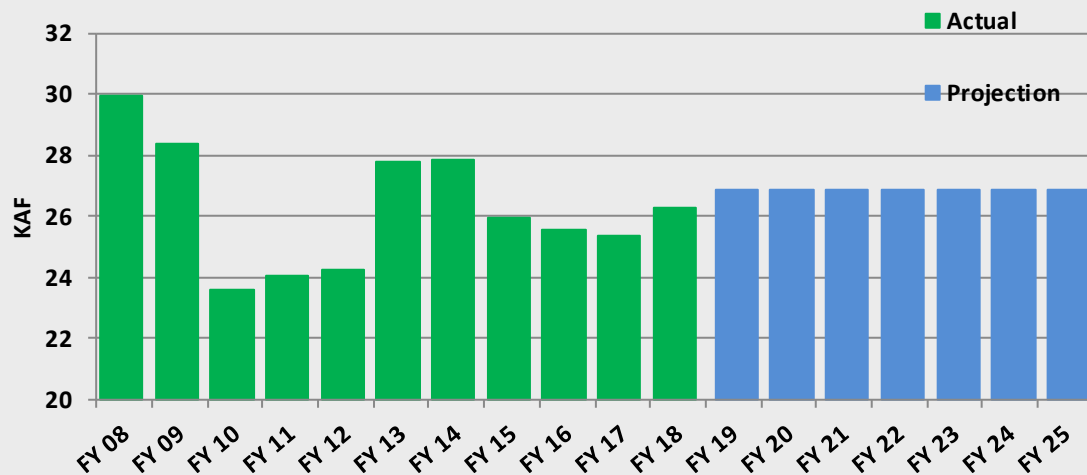
Water Usage Trend South County

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

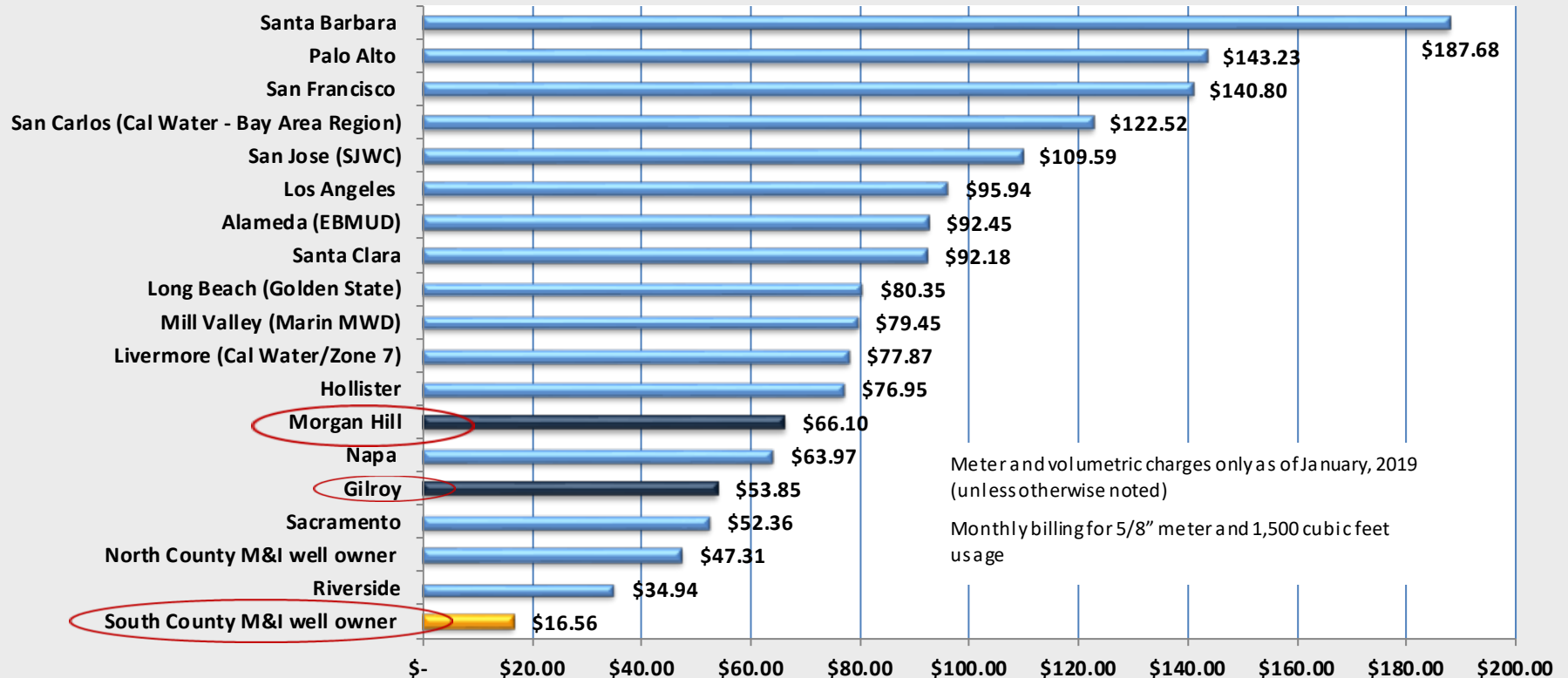
Ag groundwater reflects max per District Act (25% of South County M&I while Board deliberates Open Space Credit Policy)

		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

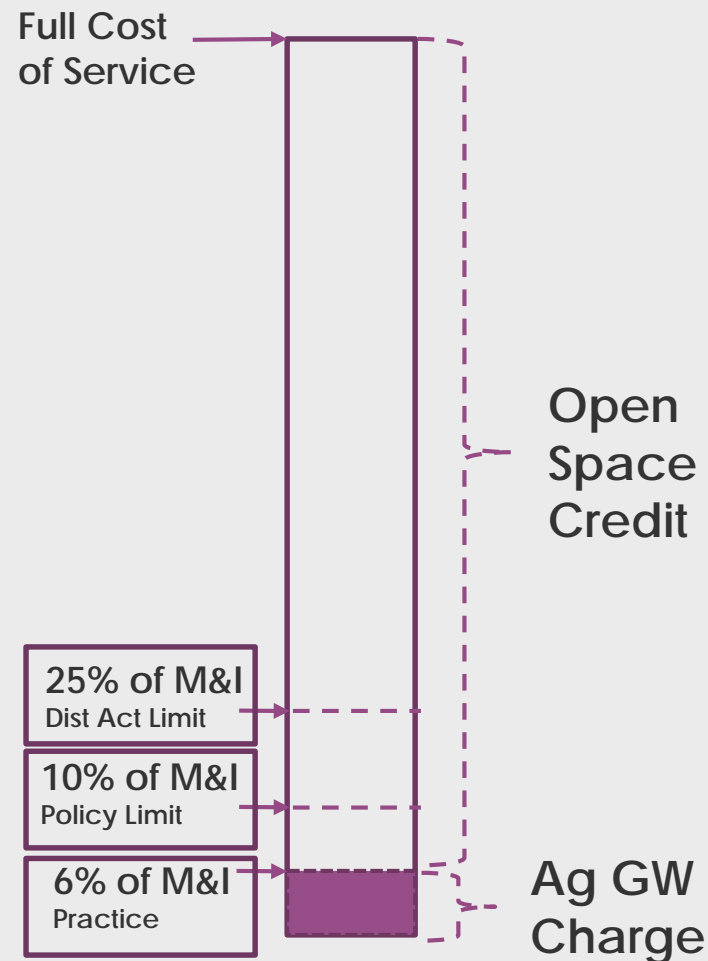
Agricultural Benchmarks

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%

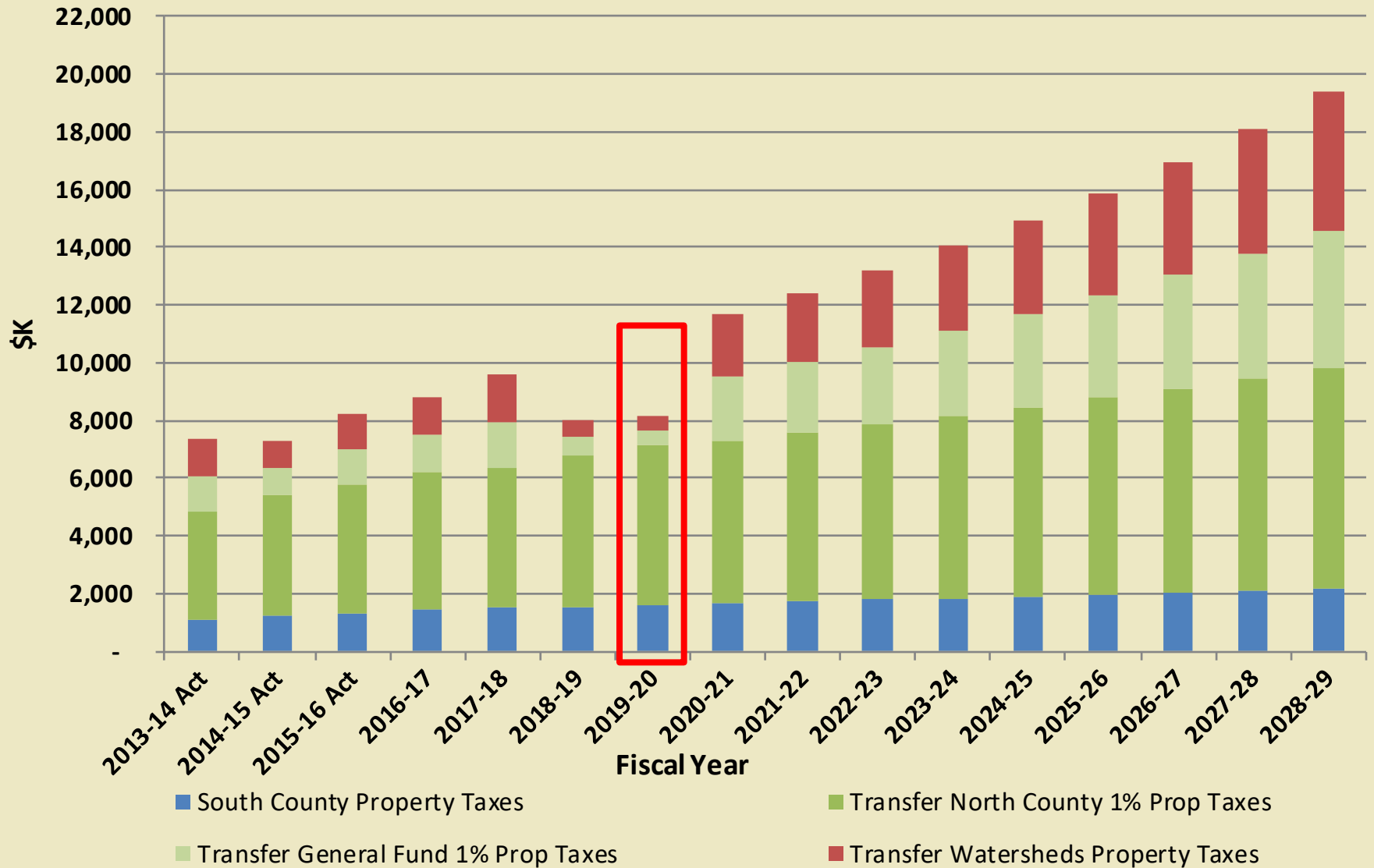
Open Space Credit Policy Discussion- Continuation

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



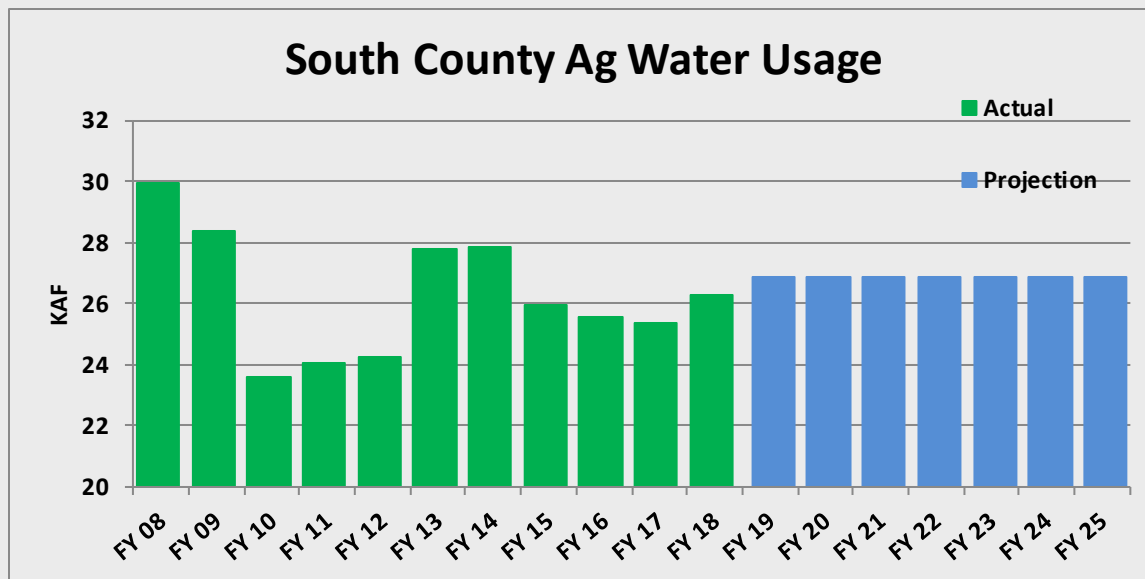
April 2018

► 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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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 XIIIC 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 XIIIC 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.

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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
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- 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

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