

Overview of the FY 2023-24 Groundwater Production Charge Setting Process

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Topics

- 1. Background Information on Groundwater Production Charge Setting Process**
 - District Act
 - Prop 218 & Prop 26
 - Pricing Policy
 - Groundwater Benefit Zones
- 2. North County & South County Infrastructure**
- 3. Impacts of Drought, Inflation & Recession**
- 4. Water Usage Projections**
- 5. Rate Setting Strategy for FY 2023-24**
- 6. New 30-Year Forecast for Water Utility**
- 7. Schedule & Summary**

District Act Requirements

Details Several Process Requirements to Set Groundwater Production Charges

- **Requires setting of groundwater production charges once per year**
 - Option to do mid-year adjustment (added in 1992)
- **Requires publication of Annual Report on Protection and Augmentation of Water Supplies (PAWS)**
- **Requires public hearing**
 - Surface, treated, & recycled water rates can be set separately
- **Requires establishment of groundwater benefit zones**

District Act Defines Purposes for Groundwater Charges

**1. Imported
Water Facilities**

**2. Imported
Water Purchases**

**Purpose for
Groundwater
Charges**

**3. All Facilities which will
“conserve or distribute water
including facilities for
groundwater recharge, surface
distribution, and purification
and treatment”**

4. Debt



Many activities ensure safe, reliable groundwater supplies

- Plan & construct improvements to infrastructure
 - Operate & maintain local reservoirs
 - Purchase imported water
 - Operate & maintain raw, treated & recycled water pipelines
 - Monitor & protect groundwater from pollutants
- 
- The map shows the Pacheco Reservoir area. Pacheco Creek is a blue line flowing from the top left towards the center. The Pacheco Pump Station is marked with a blue dot at the end of the creek. An orange line, representing a pipeline, starts at the pump station and flows towards the bottom left. To the right of the pump station is the San Luis Reservoir, a large blue body of water. The land area is colored green.

Surface Water Charge-Setting Process

Consistent with Prop 218 Process for Water Service Charges
Includes protest procedure as defined in Board Resolution 12-10

Historical Majority Protest Procedure Results by Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Surface Water											
North County W-2	0%	0%	0%	0%	0%	0%	0%	5%	0%	0%	0%
South County W-5	0%	0%	0%	1.3%	0%	0%	0%	0%	0%	0%	0%
South County W-7									0%	0%	0%
South County W-8									0%	0%	0%

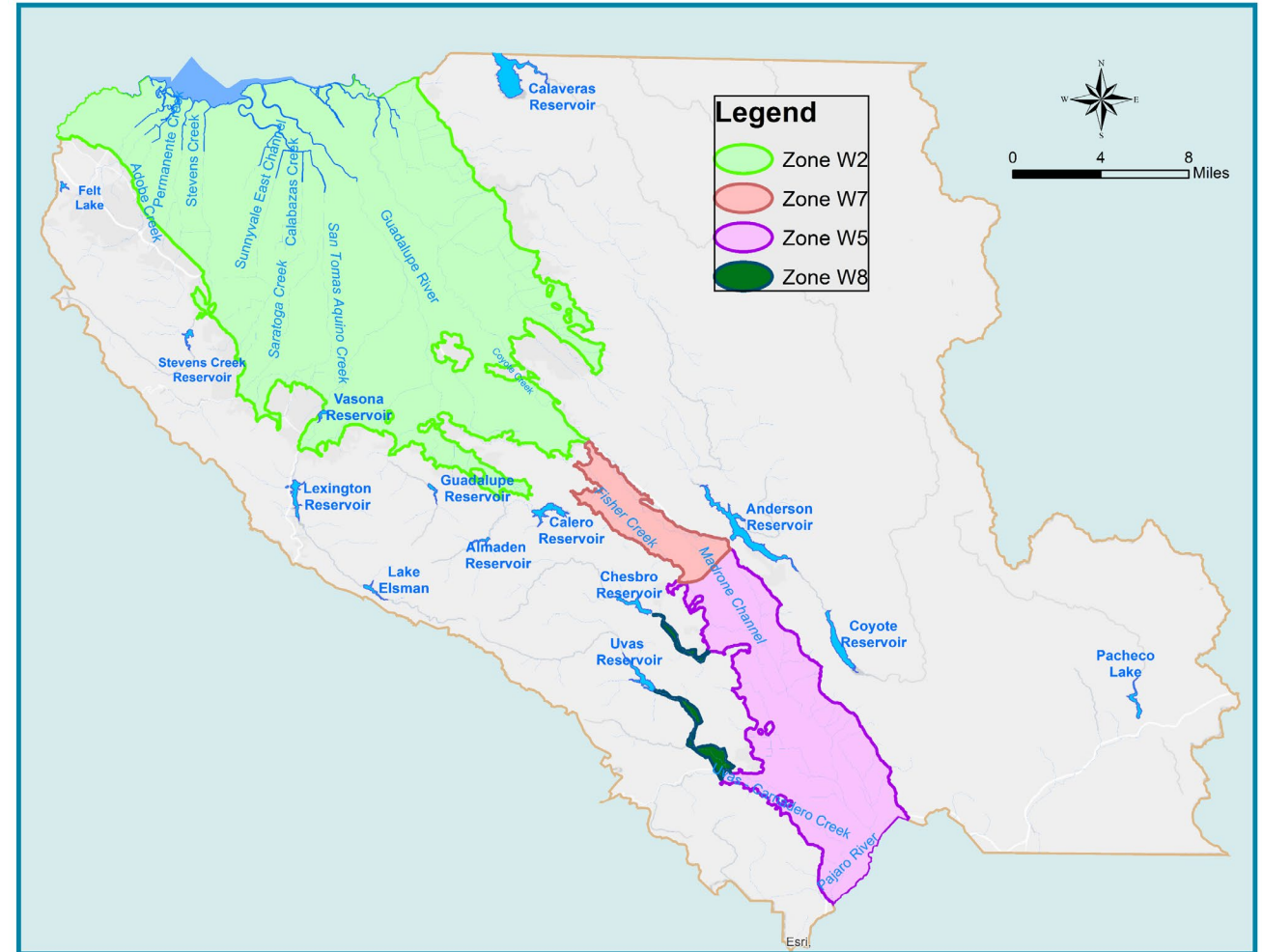
Groundwater Charge-Setting Process

Consistent with Prop 26

- 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

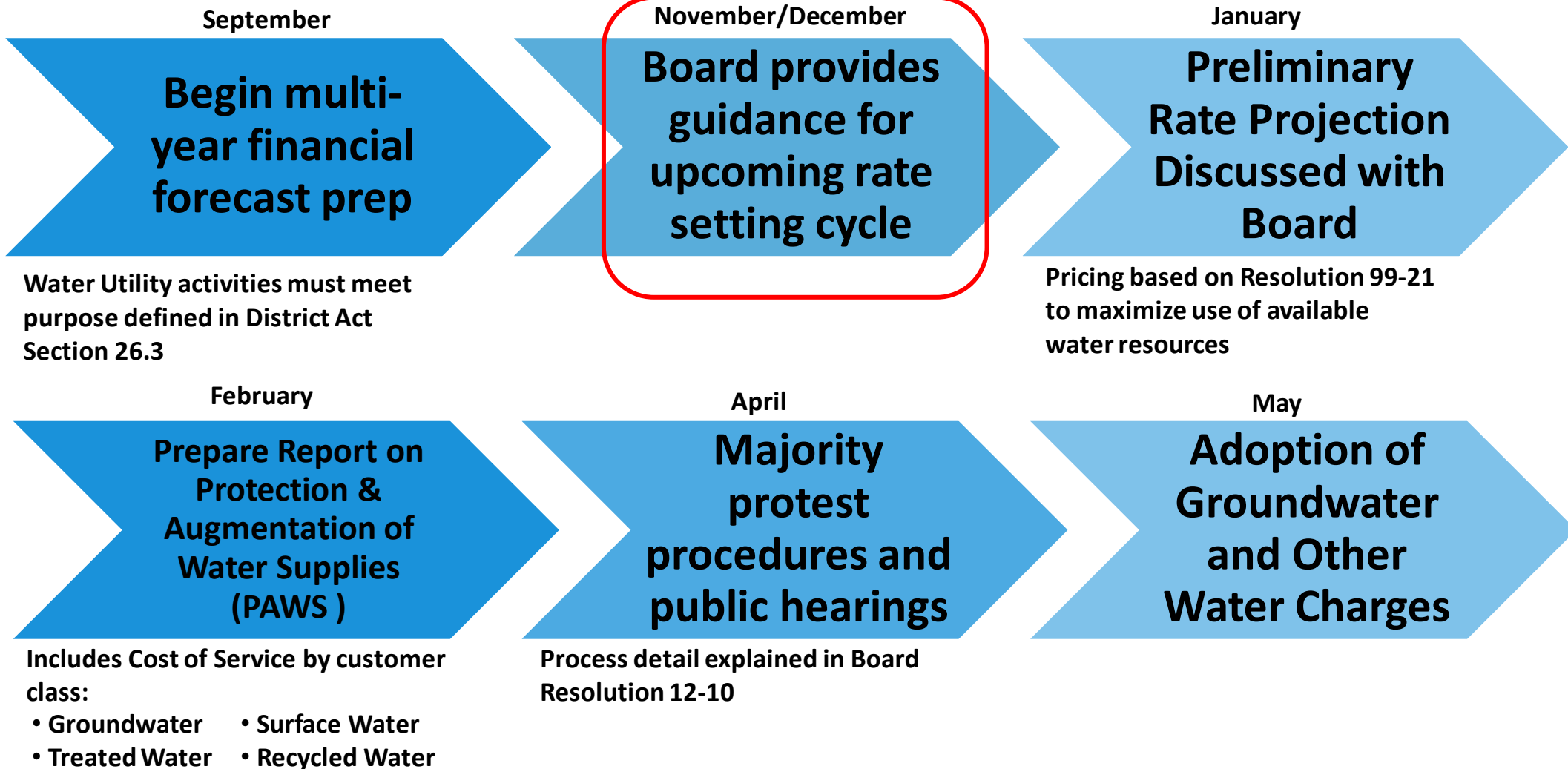
Resolution 99-21 is the Board's Pricing Policy

- 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



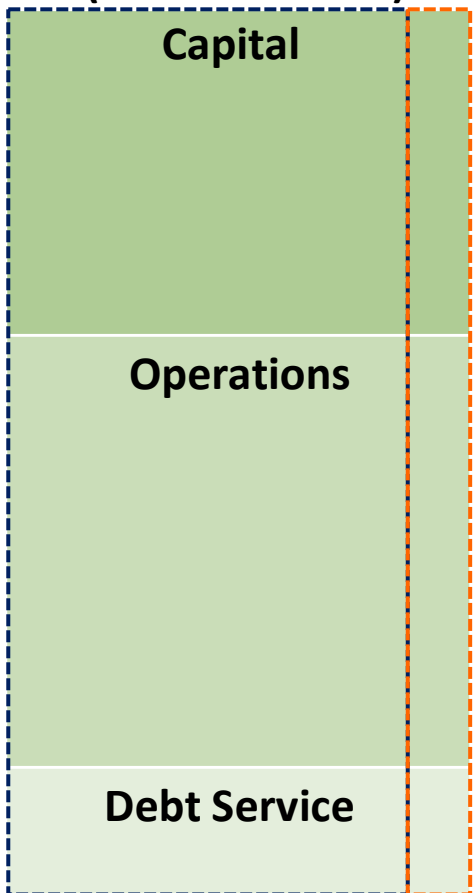
Groundwater Charge-Setting Approach

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“Revenue Requirements” Approach

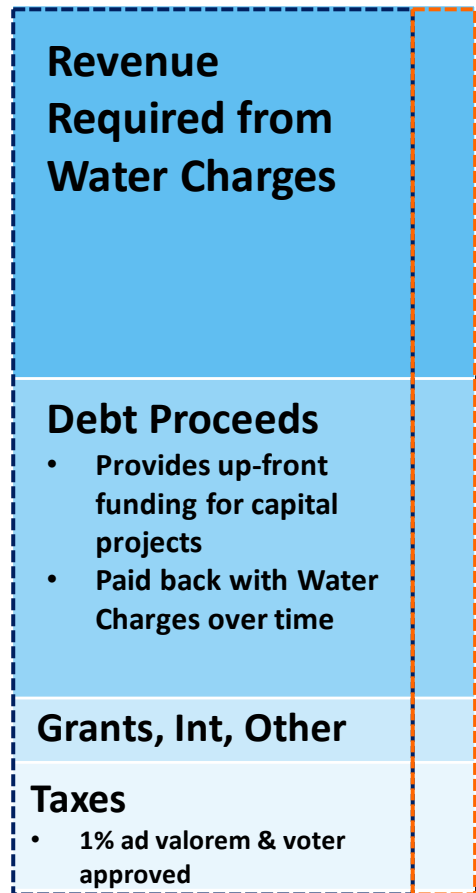
Revenue Requirements
(Cost of Service)



North

South

Funding Sources



North

South

Used to Determine Revenue Required from Water Charges

Sound financial targets over multi-year time frame keep bond ratings high

- Debt service coverage targeted at 2.0 or better
- Reserves targeted at policy minimums or better
- Aa1 from Moody’s and AA+ from Fitch

Non-water charge funding sources



North

South

North: Zone W-2
South: Zones W-5, W-7, W-8

Infrastructure

Differences Drive Unique 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**

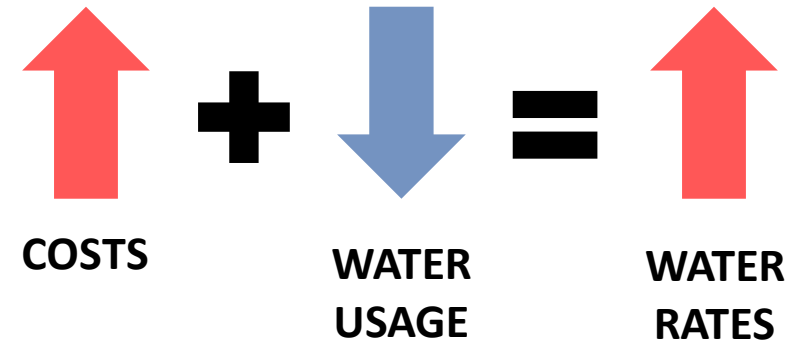
South County

- Reservoirs – Chesbro & Uvas
 - **Do no benefit Zone W-7**
- SCRWA Recycled Water System
 - **Benefits Zone W-5 only**

Drought Impact

Ongoing Drought Puts Pressure on Water Rates:

- **O&M Costs up**
 - Emergency Water Purchases
 - Conservation activities
- **Water Usage down**
 - Results in lower revenue to pay for highly fixed cost structure



Continued Measures to Soften Water Rate Impact:

- **Draw down reserves in FY 24**
 - Rate Stabilization & Supplemental Water
- **Spread drought impact over multiple year rate projection to extent possible**
 - Debt service coverage & minimum reserve balances are limiting factor

Impacts of Inflation & Potential Recession

To the Water Utility

- **Water Utility Revenue**

- Water Charge Revenue: Likely immaterial impact to water usage from inflation trends or recession
- State Water Project Tax: No impact expected unless Teeter Plan suspended (unlikely)

- **Operations & Maintenance, Capital and Debt Financing**

- Anticipate significant cost increases, but recession may ease inflation
- Anticipate FY2024-28 CIP to be higher than Adopted FY2023-27 CIP
- Rising interest rates mean more costly debt issuances, partially offset by higher investment earnings

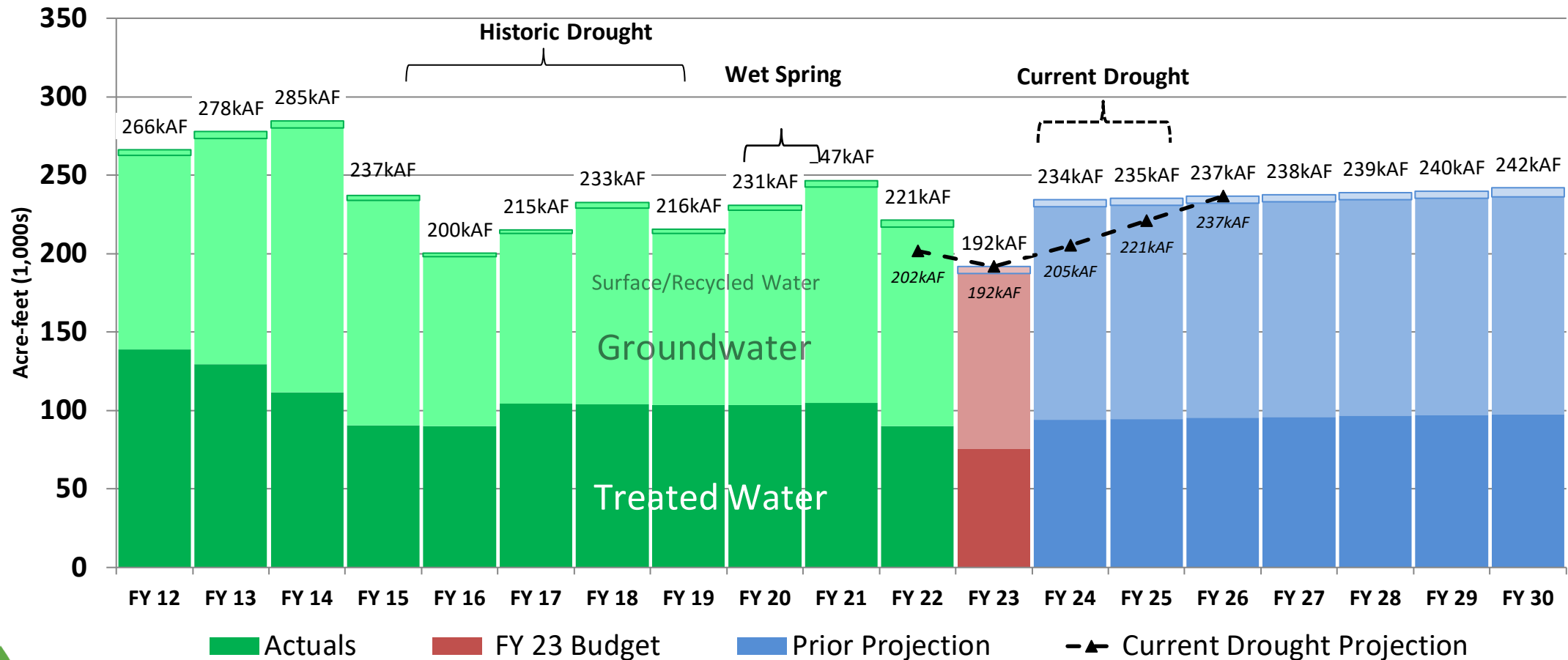
Bottom Line:

- ***Cost increases will drive additional upward pressure on water rates***
- ***Anticipate need to prepare scenarios based on prioritization/sequencing of Capital Projects***

District Managed Water Usage

Reflects Impacts of Current Drought

Water Usage (District Managed)



valleywater.org



Rate Setting Strategy for FY 2023-24

FY 24 Baseline Case Assumptions

- **Ongoing Response to Drought**
 - Mandatory 15% call for conservation compared to 2019 (achieved in FY23)
 - Emergency Water Supply Purchases continue in FY24 with FY25 as a recovery year
- **Minimize Rate Impacts of Drought**
 - Leverage available reserves: draw down again in FY24
- **Pacheco Reservoir Expansion with 35% Partner Funding Participation & WIFIA loans**
- **SWP Tax pays for 100% of SWP costs (excludes SWP portion of Delta Conveyance)**
- **Delta Conveyance SWP portion at 3.23%**
- **Purified Water Expansion via P3 with operations beginning in FY28**
 - Assumes 100% debt financing through P3 entity
- **Los Vaqueros (Transfer Bethany Pipeline) plus up to 50KAF storage**
- **Agricultural Rate remains set at 10% of lowest M&I rate**

Rate Setting Strategy for FY 2023-24

FY 24 Rate Scenarios

- **Baseline**
 - **Baseline with impacts of an extended drought**
 - **Baseline with various Project Funding Scenarios**
- **Driven by outcomes of CIP Funding Filter Analysis**

30-Year Forecast for Water Utility

Demonstrate Long-term Health of Water Enterprise Fund

- **Project Water Utility O&M, CIP, Debt and Water Charges**
 - Out 30 years to FY 2053-54
- **Identify future available funding sources**
- **Leverage data available**
 - Water Supply Master Plan data and growth projections by groundwater zone of benefit and type of water use
 - Capital Improvement Plans incorporating future Master Plans when available
 - Existing system-wide asset replacement needs
 - Ongoing O&M and debt service obligations

Rate Setting Schedule FY 2023-24

- Jan 9 Ag Water Advisory Committee
- Jan 10 Board Meeting: Preliminary Groundwater Charge Analysis
- Jan 18 Water Retailers Meeting: Preliminary Groundwater Charge Analysis
- Jan 23 Water Commission Meeting: Prelim Groundwater Charge Analysis

- Feb 7 Board Meeting: Set time & place of Public Hearing
- Feb 24 Mail notice of public hearing and file PAWS report

- Mar 7 Board Meeting: Budget development update
- Mar 15 Water Retailers Meeting: FY 24 Groundwater Charge Recommendation

- Apr 3 Ag Water Advisory Committee
- Apr TBD Water Commission Meeting
- Apr 11 Open Public Hearing
- Apr TBD Continue Public Hearing in South County
- Apr 25 Conclude Public Hearing
- Apr 26-27 Board Meeting: Budget work study session

- May 9 Adopt budget & groundwater production and other water charges

Summary

Staff seeking Board guidance for FY 2023-24 rate setting cycle

- 1. Baseline rate assumptions**
- 2. Proposed rate scenarios**
- 3. Further Board Guidance**

Questions?

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