

Public Hearing

Groundwater Production & Other Water Charges

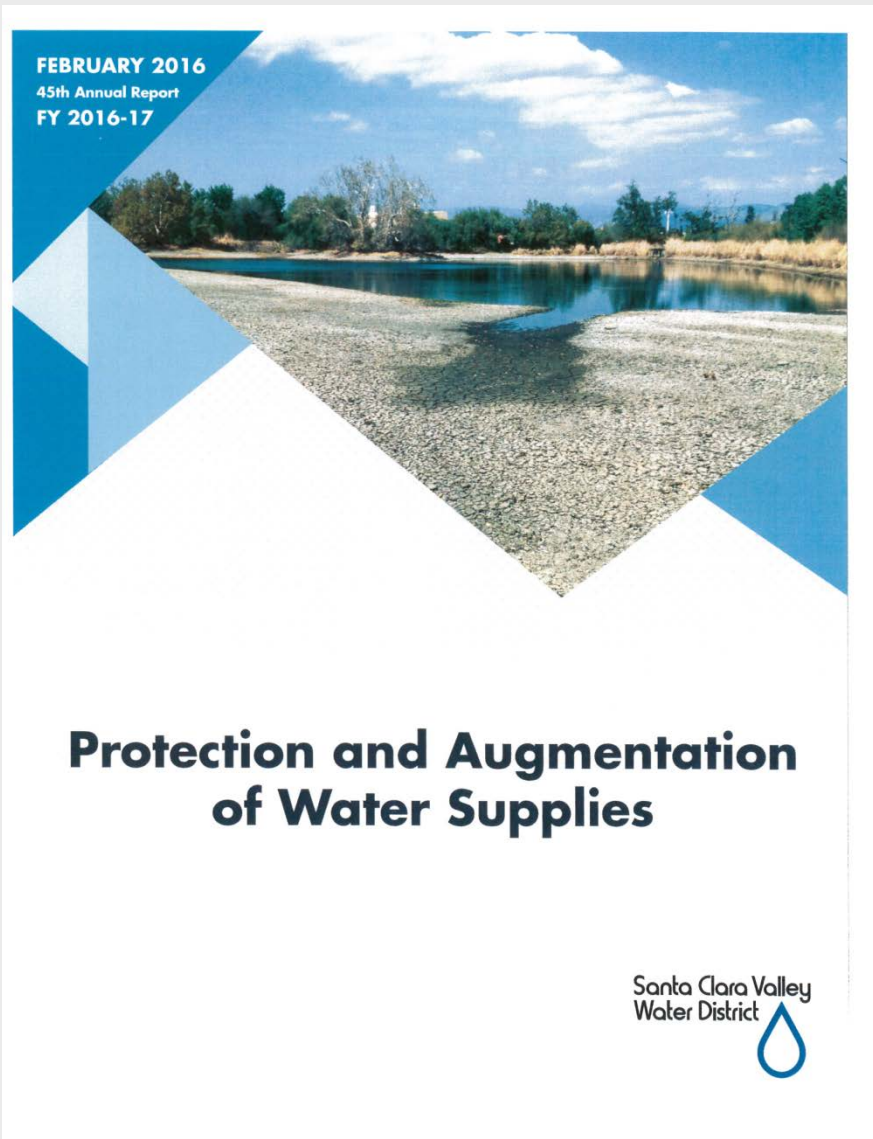
April 12, 2016



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 2016-17

45th Annual Report Provides Information, Accountability



2016 Protection and Augmentation of Water Supplies Report

www.valleywater.org

A comprehensive, flexible water system serves 1.9 million people



10 Reservoirs

393 acres of recharge ponds

142 miles of pipelines

3 water treatment plants

1 water purification center

3 pump stations

\$7.1B system replacement value

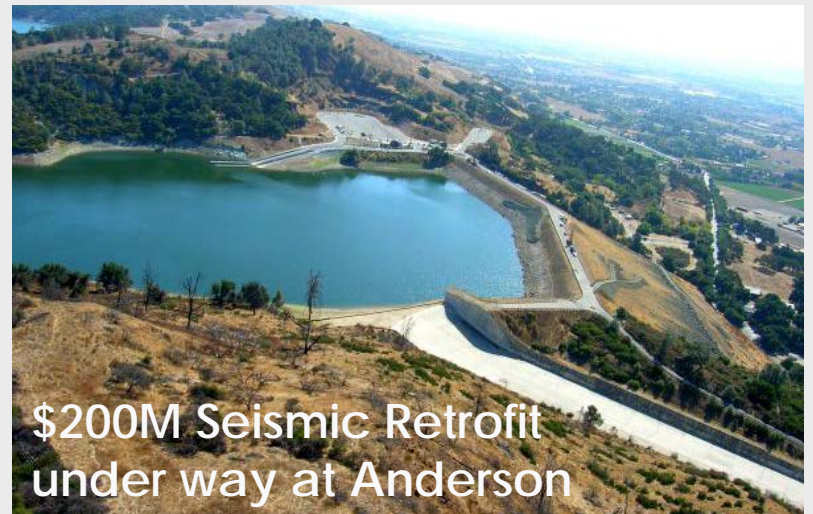


Many activities ensure safe, reliable groundwater supplies

- ▶ Operate & maintain local reservoirs
- ▶ Purchase imported water
- ▶ Operate & maintain raw, treated & recycled water pipelines
- ▶ Plan & construct improvements to infrastructure
- ▶ Monitor & protect groundwater from pollutants



\$1.2M repair of the Santa Clara Conduit near Casa de Fruta



\$200M Seismic Retrofit under way at Anderson

Topics For Today's Public Hearing

- ▶ Rate Setting Process
- ▶ FY 17 financial analysis and projections
 - ▶ Water Usage
 - ▶ Cost Projection
 - ▶ Proposed Maximum Groundwater Production Charges & Staff Proposed Adjustments
 - ▶ Benchmarks
 - ▶ State Water Project Tax
- ▶ Schedule/Wrap up

Rate Setting Process

District Act Defines Uses for Groundwater Charges

- ▶ **District Act Section 26.3:** Defines purposes of groundwater production charges that can be imposed on a zone of benefit
 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

Pricing Policy helps Optimize Use of Water Resources

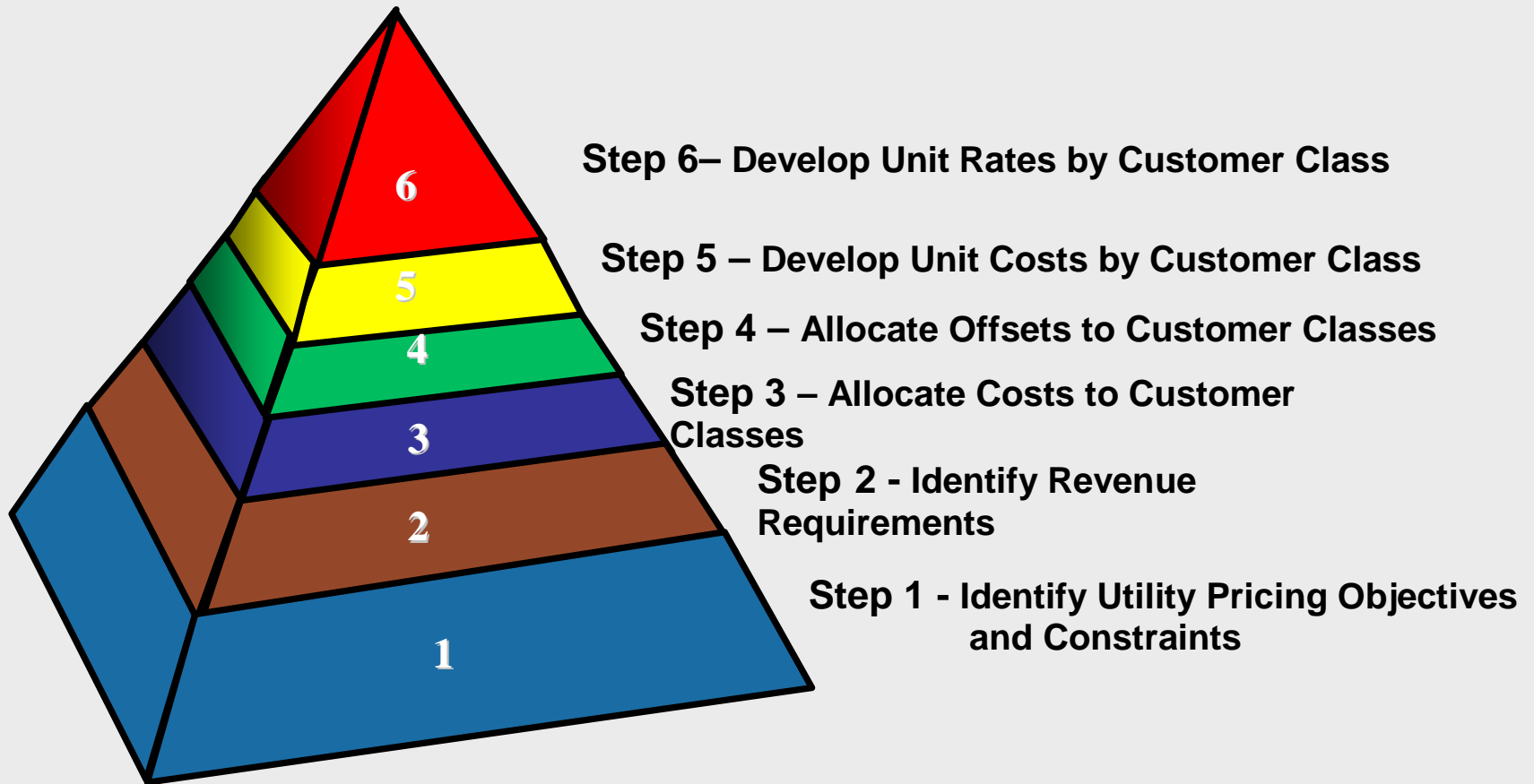
- ▶ **Resolution 99-21:** Utility taxing and pricing policy guides staff in the development of the overall structure to charge recipients for the various direct and indirect benefits received
- ▶ Key concept – “water supplies are managed, through taxing and pricing, to obtain the effective utilization of the water resources of the District...”

Objective: Maximize effective use of available resources

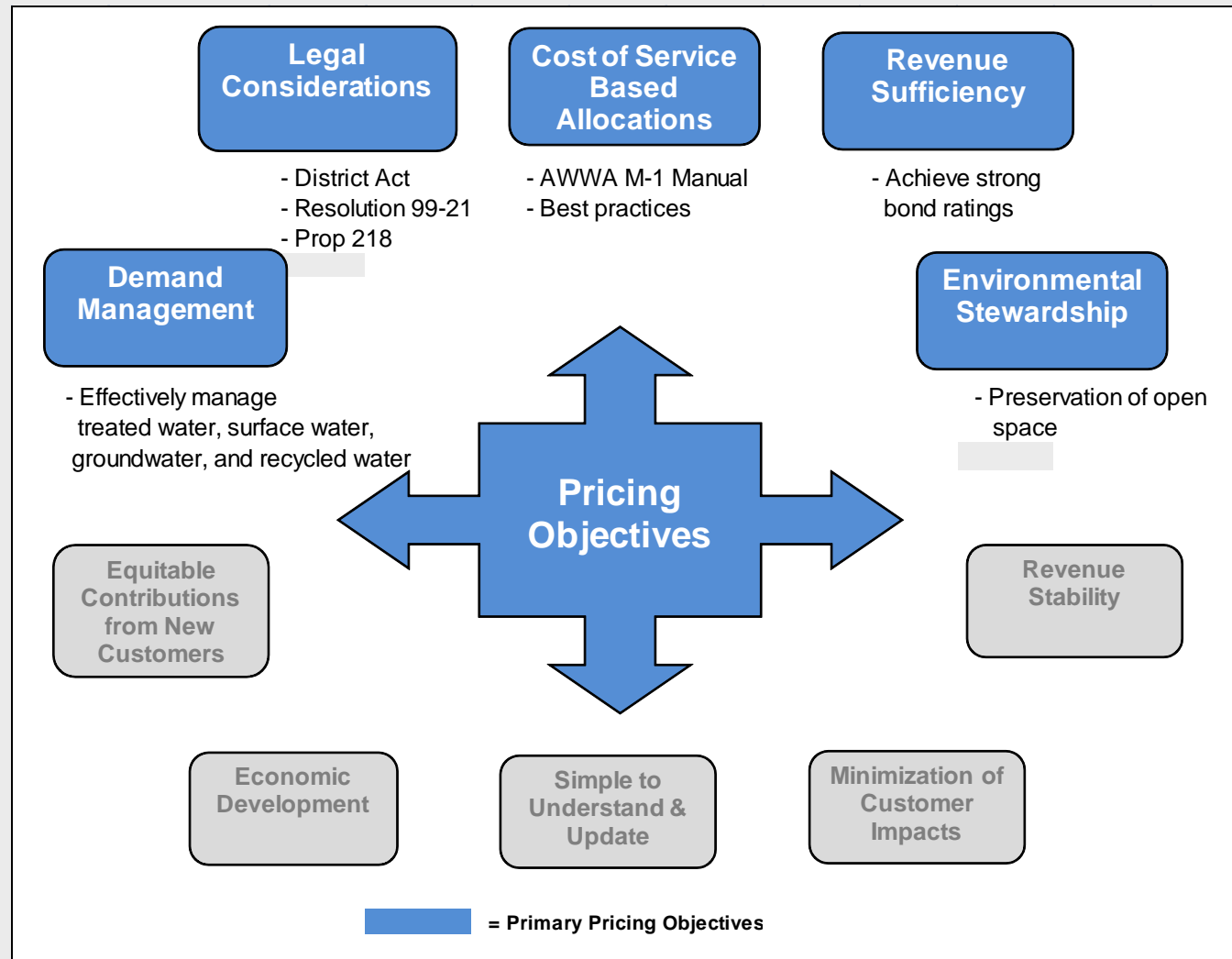
The Charge Setting Process is Consistent with Resolutions 12-10 and 12-11

- ▶ Meets the procedural and substantive requirements for establishing property related fees
- ▶ Includes cost of service analysis by customer class
- ▶ Includes protest procedure as defined in Board Resolutions 12-10 & 12-11
 - ▶ Prior Year Results North County = 1.2% for GW, 0% for SW
 - ▶ Prior Year Results South County = 4.7% for GW, 1.3% for SW

The District follows best practice rate making steps



Pricing Objectives and Constraints

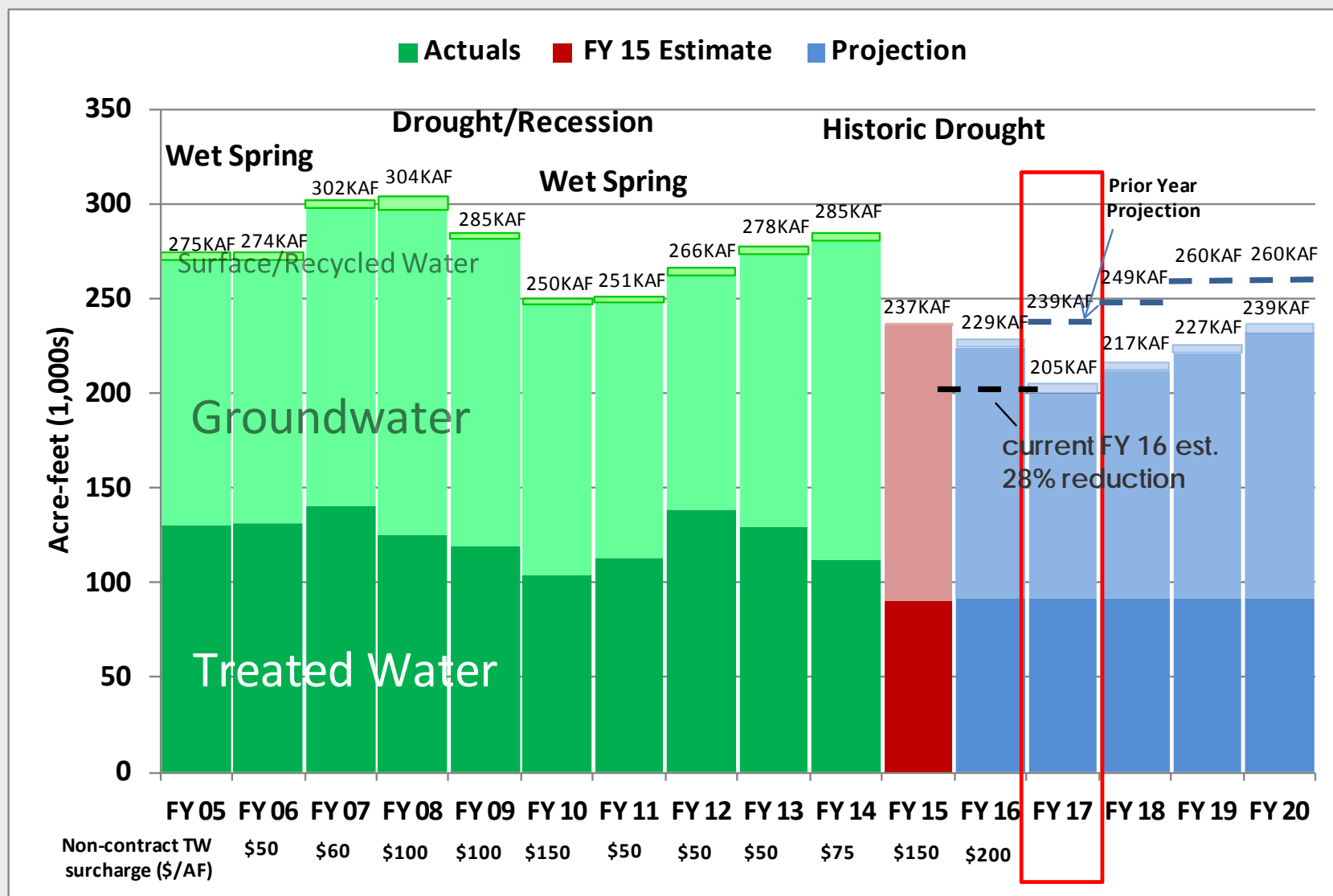


FY 17 Financial Analysis and Projections

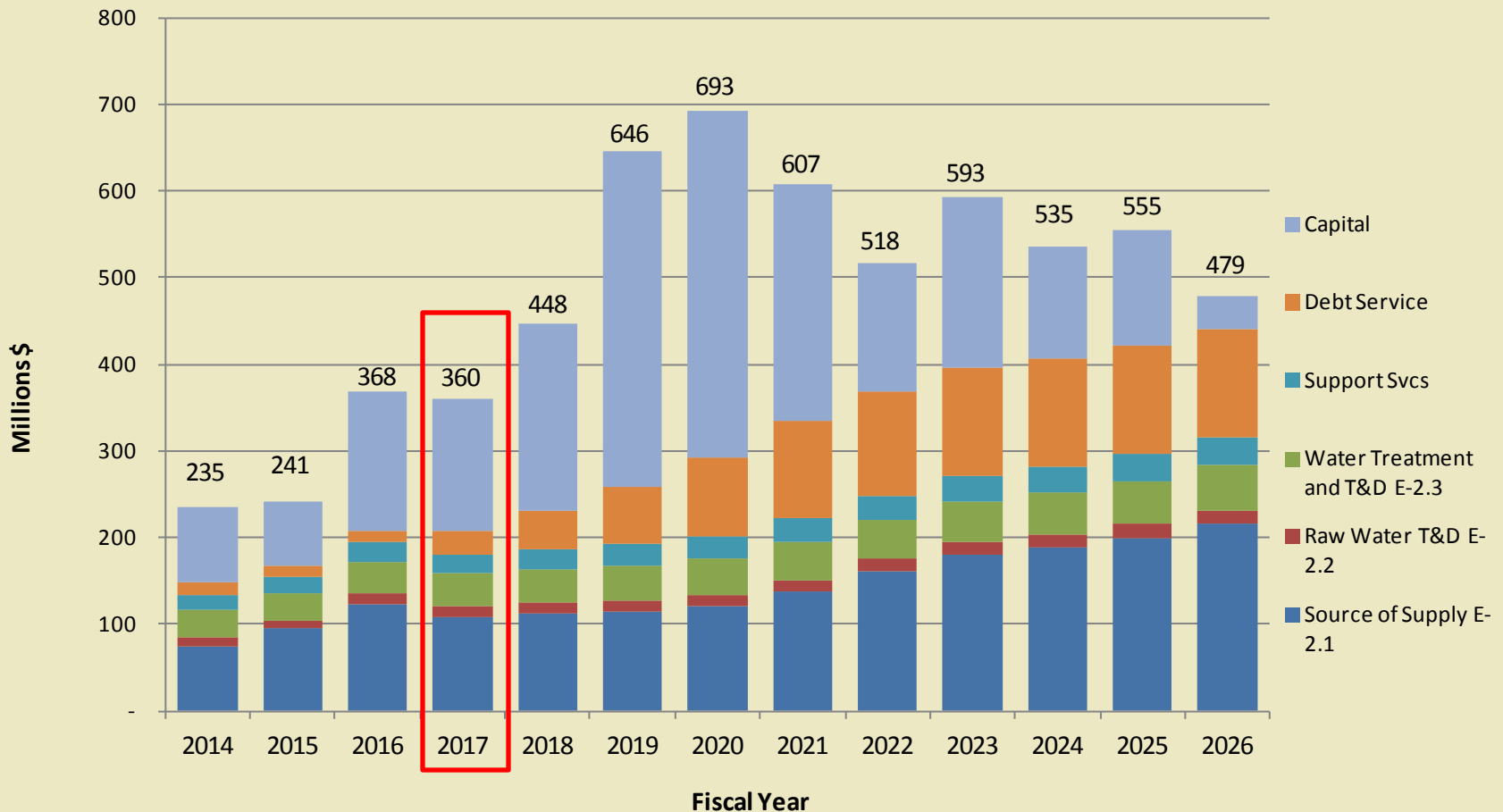
Financial Analysis: Key Drivers for Proposed Maximum FY 2017 Groundwater Production Charge Increases

- ▶ Planned increase anticipated for:
 - ▶ Critical investments in water supply infrastructure
 - ▶ Imported water supply reliability and for future supplies
- ▶ Lower projected water use reduces revenue projection by \$33M
- ▶ Incremental \$8M for drought related operations costs:
 - ▶ Semitropic water take (\$5M)
 - ▶ Higher CVP imported water costs (\$7M)
 - ▶ Offset by lower imported water transfer agreement costs (-\$4M)
- ▶ **Key Changes since PAWS report published**
 - ▶ Reduced operations costs by \$2.5M mainly due to salary savings adjustment
 - ▶ Added \$6.2M to CIP for Penitencia Force Main retrofit

District Managed Water Usage drives revenue projection



Financial Analysis: Adjusted Cost Projection



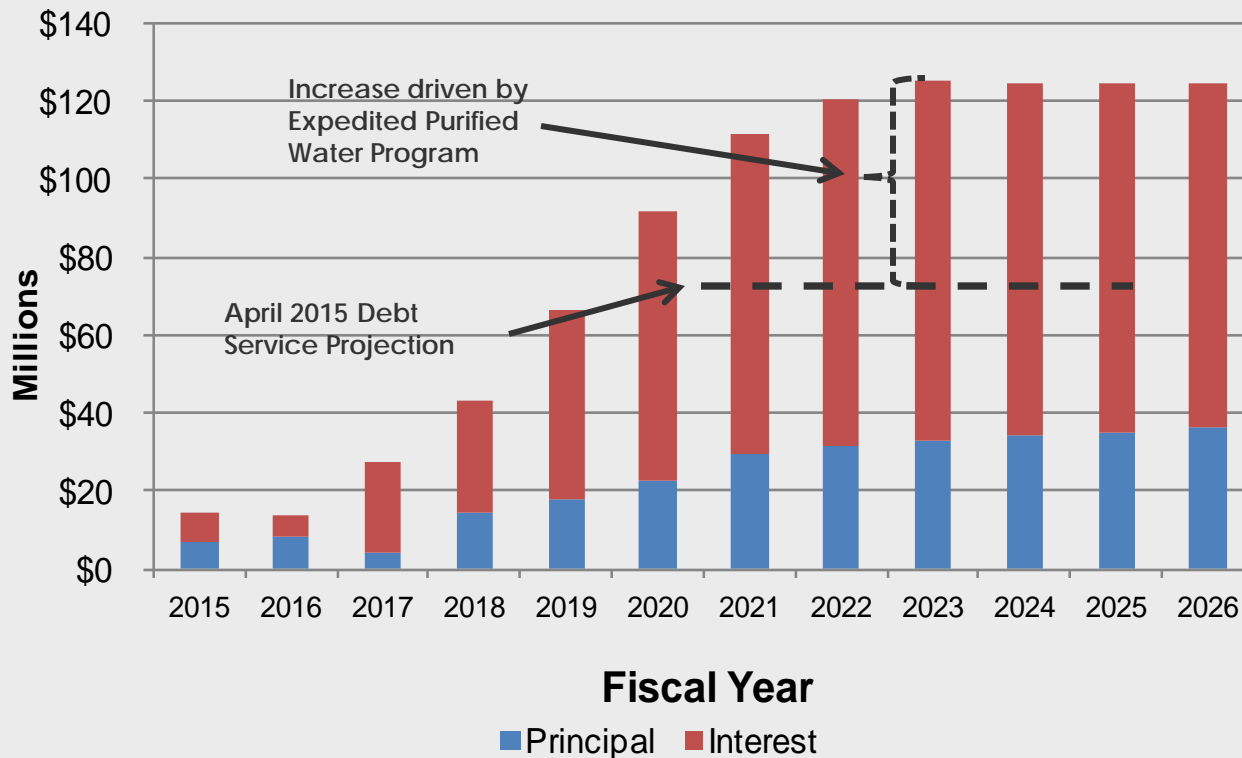
Financial Analysis: Key Capital project funding FY 17 thru FY 26

- Expedited Purified Water Program (\$924.1M)
- Rinconada Reliability Improvement (\$180.5M)
- Anderson Dam Seismic Retrofit (\$169.7M)
 - \$67M (33% of total \$201M project) to be reimbursed by Safe Clean Water Measure
- FAHCE Implementation Fund (\$145.1M)
- Calero & Guadalupe Dams Seismic Retrofit (\$138.2M)
- 10 Year Pipeline Rehabilitation (\$96.1M)
- Almaden Dam Improvements (\$46.4M)
- Vasona Pumping Plant Upgrade (\$20.3M)

Some projects cannot be funded without higher future charges

- Dam Seismic Stability at 2 Dams – Unfunded portion (\$89.5M)
- SCADA Small Capital Improvements (\$29.6M)
- Land Rights – South County Recycled Water Pipeline (\$5.8M)

Financial Analysis: Implementation of CIP results in debt service increases



\$27.3M in FY 2016-17

\$124.5M in FY 2025-26

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

Financial Analysis: CWF Costs included in Cost Projection

High Deliveries, 100% Participation, 50/50 SWP/CVP Cost Split Scenario

\$K	CVP	SWP	Total	North Cost/mo*	South Cost/mo*
FY 16	312	122	434	\$0.05	\$0.03
FY 17	1,126	626	1,751	\$0.29	\$0.17
FY 18	1,501	834	2,335	\$0.35	\$0.24
FY 19	1,501	834	2,335	\$0.35	\$0.24
FY 20	5,289	2,938	8,227	\$1.22	\$0.65
FY 21	6,551	3,639	10,190	\$1.44	\$0.83
FY 22	6,551	3,639	10,190	\$1.43	\$0.83
FY 23	11,395	6,330	17,725	\$2.42	\$1.41
FY 24	13,009	7,227	20,237	\$2.76	\$1.62
FY 25	13,009	7,227	20,236	\$2.75	\$1.62
FY 26	18,087	10,048	28,136	\$3.80	\$2.24
11 Yr Subtotal	78,331	43,466	121,797		

* CVP and SWP impacts in terms of cost per month for average household

To Be Paid
by Water
Charges

To Be Paid
by SWP Tax

- Preliminary Analysis assumes costs associated with conveyance of State Water Project supply would be paid for by SWP tax
- Incremental SWP tax for average single family residence would be \$15/yr by FY 26
- Incremental North County M&I GW charge would be \$75/AF by FY 26, and \$38/AF for South County

Drought Response Cost Projection

Cost Description	Cost Projection (\$M)				
	FY 16	FY 17	FY 18	FY 19	FY 20
Water Acquisition Agrmts	6.7	4.6	4.7	4.8	4.9
Semitropic Water Take	5.0	5.0	5.0	5.0	-
Spot Mkt Purchase	15.0	-	-	-	-
Enhanced Conservation	5.0	-	-	-	-
Landscape Rebate Bdgt Adj	4.6	-	-	-	-
Total	36.3	9.6	9.7	9.8	4.9

Cost Description	Supplemental Water Projection (KAF)				
	FY 16	FY 17	FY 18	FY 19	FY 20
Water Acquisition Agrmts	13.0	6.5	6.5	6.5	6.5
Semitropic Water Take	31.5	31.5	31.5	31.5	-
Spot Mkt Purchase	15.0	-	-	-	-
Total	59.5	38.0	38.0	38.0	6.5

Assumptions:

- ▶ Water Acquisition Agreements shown reflect only incremental agreements developed in response to the historic drought (i.e. \$4.6M out of \$5.6M total for FY 17)
- ▶ Landscape Rebate Program assumed at \$1 per square-foot for turf conversion in FY 17 & beyond

Proposed Maximum Groundwater Production Charges & Staff Proposed Adjustments

FY 2017: North County Proposed Maximum Charges

19.9% ~~23.6%~~ increase for M&I groundwater production
 17.9% ~~21.2%~~ increase for contract treated water
 19.9% ~~23.6%~~ increase for M&I surface water & ~~16.8%~~ 16.1% for Ag surface water
 10.4% ~~11.8%~~ increase for Ag groundwater production

Staff proposed adjustments

		Dollars Per Acre Foot		
		FY 2014–15	FY 2015–16	Proposed Maximum FY 2016–17
Zone W-2 (North County)				
Basic User/Groundwater Production Charge				
Municipal & Industrial		747.00	894.00	1,105.00 1,072.00
Agricultural		19.14	21.36	23.89 23.59
Surface Water Charge				
Surface Water Master Charge		18.60	22.60	27.46
Total Surface Water, Municipal & Industrial*		765.60	916.60	1,132.46 1,099.46
Total Surface Water, Agricultural*		37.74	43.96	51.35 51.05
Treated Water Charges				
Contract Surcharge		100.00	100.00	100.00
Total Treated Water Contract Charge**		847.00	994.00	1,205.00 1,172.00
Non-Contract Surcharge		150.00	200.00	200.00
Total Treated Water Non-Contract Charge***		897.00	1,094.00	1,305.00 1,272.00

*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

\$6.13

~~\$7.27~~ per month average household increase

FY 2017: South County Proposed Maximum Charges

Staff proposed
adjustments

10.4% ~~11.8%~~ increase for M&I & Ag groundwater production
11.1% ~~12.4%~~ increase for M&I surface water & ~~16.8%~~ 16.1% for Ag surface water
11.0% ~~12.5%~~ increase for M&I recycled water & ~~5.6%~~ 4.9% for Ag recycled water

		Dollars Per Acre Foot		
		FY 2014–15	FY 2015–16	Proposed Maximum FY 2016–17
Zone W-5 (South County)				
Basic User/Groundwater Production Charge				
	Municipal & Industrial	319.00	356.00	398.00 393.00
	Agricultural	19.14	21.36	23.89 23.59
Surface Water Charge				
	Surface Water Master Charge	18.60	22.60	27.46
	Total Surface Water, Municipal & Industrial*	337.60	378.60	425.46 420.46
	Total Surface Water, Agricultural*	37.74	43.96	51.35 51.05
Recycled Water Charges				
	Municipal & Industrial	299.00	336.00	378.00 373.00
	Agricultural	42.94	45.16	47.68 47.38

*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

\$1.27

~~\$1.44~~ per month average household increase

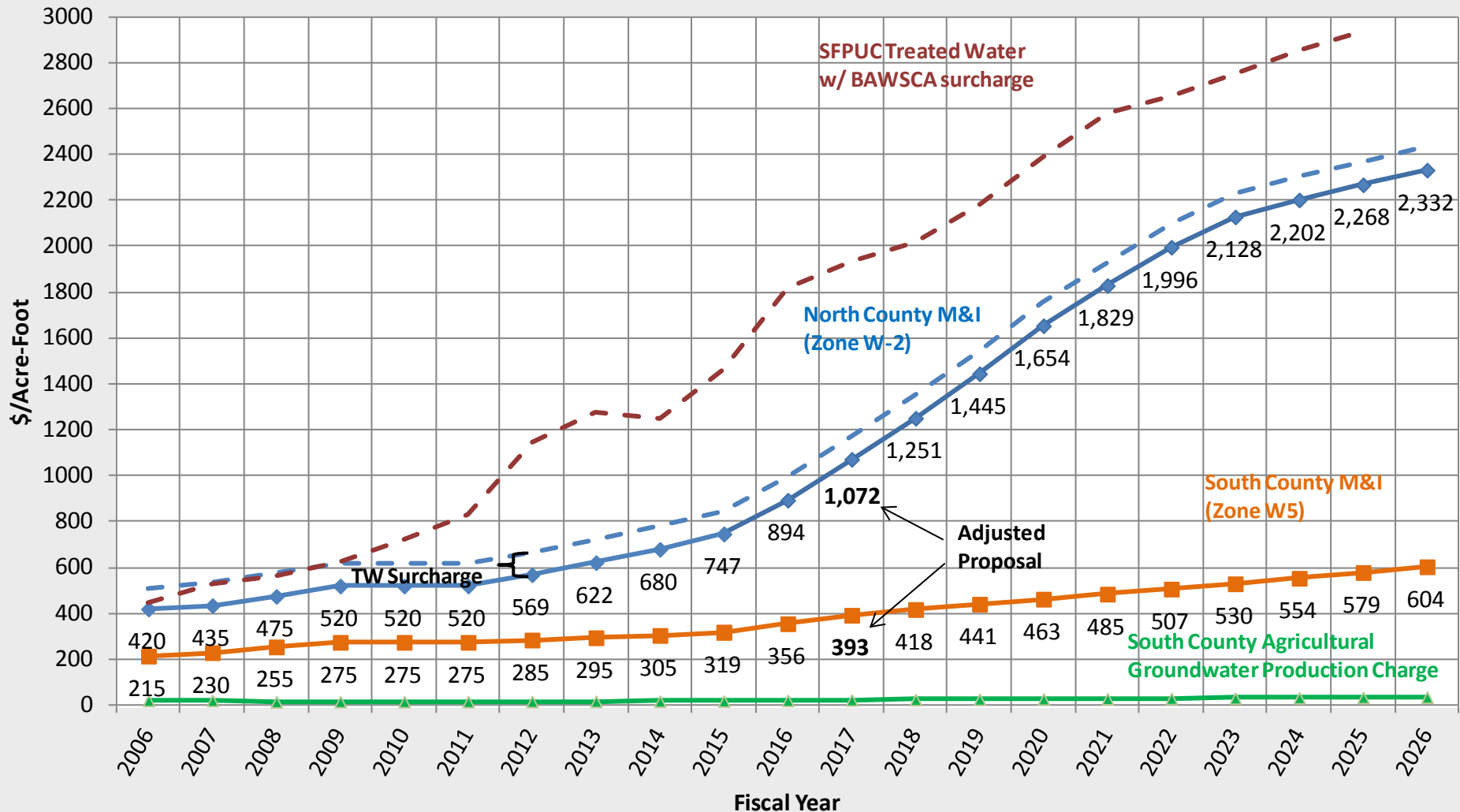
Adjusted Groundwater Production Charge Breakdown

GW Production Charge Increase Components	North County		South County	
FY 17 Planned Increase		12.8%		5.9%
Drought Component	7.1%	10.8%	4.5%	5.9%
Total % Increase	19.9%	23.6%	10.4%	11.8%
Monthly Bill Increase*				
FY 17 Planned Increase		\$3.93		\$0.72
Drought Component	\$2.20	\$3.34	\$0.55	\$0.72
Total Increase	\$6.13	\$7.27	\$1.27	\$1.44

* Impact of Groundwater Production Charge increase on average household monthly water bill based on 1,500 cubic feet of water use

Groundwater Production Charges Adjusted Projection

Groundwater Production Charges



Impact on Multi-Year Groundwater Production Charge Projection

Proposed Maximum

	Projected					
Proposed Maximum	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
No. County (W-2) M&I GWP charge (\$/AF)	\$894	\$1,105	\$1,263	\$1,442	\$1,646	\$1,821
Y-Y Growth %	19.7%	23.6%	14.3%	14.2%	14.1%	10.6%
So. County (W-5) M&I GWP charge (\$/AF)	\$356	\$398	\$420	\$440	\$461	\$482
Y-Y Growth %	11.6%	11.8%	5.5%	4.8%	4.8%	4.6%

Staff Proposed Adjustments

	Projected					
Salary Savings	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
No. County (W-2) M&I GWP charge (\$/AF)	\$894	\$1,072	\$1,251	\$1,445	\$1,654	\$1,829
Y-Y Growth %	19.7%	19.9%	16.7%	15.5%	14.5%	10.6%
So. County (W-5) M&I GWP charge (\$/AF)	\$356	\$393	\$418	\$441	\$463	\$485
Y-Y Growth %	11.6%	10.4%	6.4%	5.5%	5.0%	4.8%

Note: Staff Proposed Adjustments include salary savings, assuming 3.8% vacancy rate

Impact of Drought: ~\$165M over last 3 years

Drought Response Cost Summary (\$K)	FY 14	FY 15	FY 16 Est.
Estimated Revenue Loss	605	32,144	58,239
Conservation/Outreach	750	13,125	9,600
Imported Water	-	6,267	26,700
Labor & Misc Supplies and Services	1,259	13,792	3,859
Total	2,614	65,328	98,398

Note: Estimated revenue loss based on comparison to Calendar Year 2013 water usage

Benchmarks

Comparison of FY 17 proposed increase with similar agencies

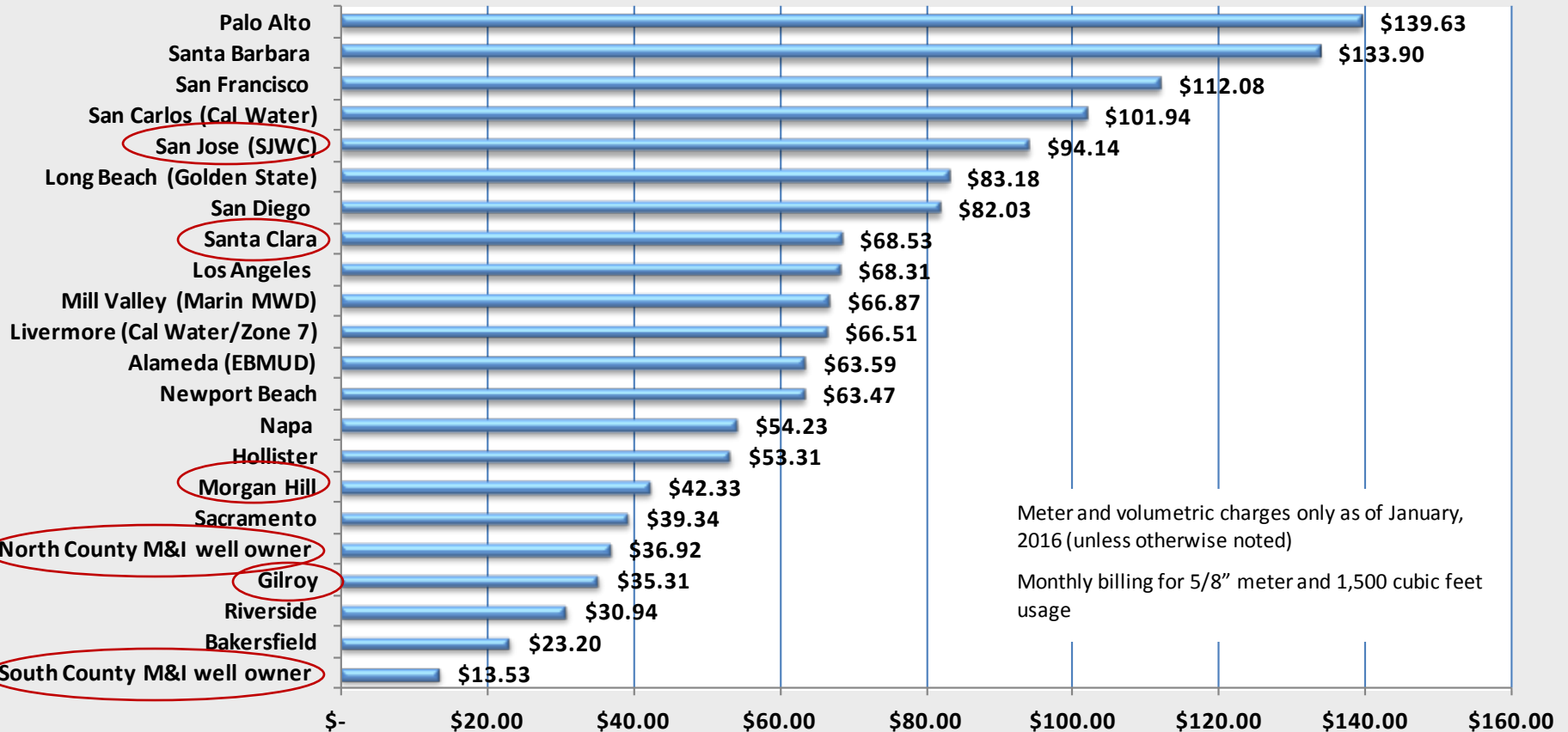
	% inc. '13 to '14	% inc. '14 to '15	% inc. '15 to '16	FY 16	Projection FY 17 ³
SCVWD North W-2 (Groundwater prdctn per AF)	9%	10%	20%	\$894	19.9%
SCVWD North W-2 (Treated Water per AF)	8%	9%	17%	\$994	17.9%
SCVWD South W-5 (Groundwater prdctn per AF)	3%	5%	12%	\$356	10.4%
Metropolitan WD (Untreated Water per AF) ¹	3%	-1%	1%	\$706	7.8%
Metropolitan WD (Treated Water per AF) ¹	6%	3%	1%	\$1,054	1.9%
Orange County WD (Groundwater per AF)	4%	7%	10%	\$322	TBD
San Diego County WA (Treated Water per AF) ¹	4%	3%	6%	\$1,519	TBD
San Francisco PUC (Treated Water per AF) ²	-2%	17%	25%	\$1,817	7.0%
Zone 7 (Treated Water per AF) ¹	3%	3%	37%	\$1,372	-7.0%

1) MWD, SDCWA and Zone 7 rates based on calendar year (i.e. 2017 rate would be effective on 1/1/2017)

2) SFPUC rates include BAWSCA bond surcharge estimate of \$183/AF

3) SCVWD FY 17 projection includes staff proposed adjustments to proposed maximum

Retail Agency Benchmarks



Notes:

- SCVWD retailer rates shown include SCVWD proposed adjusted increase for FY 2016-17
- Well owner rates exclude pumping costs (e.g. electricity) and well maintenance costs

State Water Project Tax Recommendation

- ▶ Staff recommends increasing the SWP tax from \$26M to \$33M
- ▶ The SWP tax bill for the average single family residence would increase from \$44.00 to \$55.00/year.

Impact if SWP tax not approved:

- \$197/AF in terms of North County M&I groundwater production charge
- \$45/AF in terms of South County M&I groundwater production charge
- \$962,000 in terms of Open space credit

LIMITED (PRIMARY) VALUES				PRIMARY	2004 DISTRIBUTION				OFFICE USE ONLY
TYPE	LIMITED	%	ASSESSED		COMPARATIVE 2003 AMT	RATE / 100	2004 AMT DUE	2003 AMT DUE	
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	COUNTY EDUC-EDUAL CITY SCHOOL CO. EDUC COMM-COL STATE AID	86.57 33.73 339.44 67.28 -117.58 409.44	12108 04560 44898 9211 CREDIT 70575	92.02 34.96 339.70 70.00 -117.14 419.24		PRTKEY-MORTG SEC-MTS-LOAN#
PRIM TOT.	76000		7600	SUBTOTAL					FIRST HALF TAX AMOUNT
ARPA CODE 041004				SECONDARY	2004 DISTRIBUTION				OFFICE USE ONLY
TYPE	FULL CASH	%	ASSESSED		COMPARATIVE 2003 AMT	RATE / 100	2004 AMT DUE	2003 AMT DUE	
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	FLOOD CAWCS OVERIDES FIRE DIST. ASMT. LIBRARY BONDS-COUNTY-CITY-SCHOOLS-COMM COL	16.10 8.12 78.16 64 3.96 5.32 104.59 10.45 228.24	2119 1200 9571 2068 0521 12477 1181 27118	16.10 8.12 72.74 52 3.96 84.82 8.82 206.08		PRTKEY-MORTG SEC-MTS-LOAN#
SEC TOT.	76000		7600	SUBTOTAL					SECOND HALF TAX AMOUNT
SPECIAL DISTRICT (VALUE/ACRES/50 FT) = ASSESSED				DIST#	2004 DISTRIBUTION				OFFICE USE ONLY
TYPE	VALUE/ACRES/50 FT	%	ASSESSED		COMPARATIVE 2003 AMT	RATE / 100	2004 AMT DUE	2003 AMT DUE	
HOSPITAL DISTRICT NO 1	7600		7600	10846					
EAST VALLEY INSTITUTE TECH	7600		7600	30001					
TOTALS					845.10		\$633.16		

Schedule & Wrap Up

2016 schedule for hearings and meetings

- ✓ Dec 8 Board Workshop: Planning for FY 17 Groundwater Prod. Charges
- ✓ Jan 12 Board Meeting on Preliminary Groundwater Prod. Charge Analysis
- ✓ Feb 26 Mail notice of public hearing and file PAWS report
- ✓ March 16 Water Retailers Meeting
- ✓ April 4 Ag Water Advisory Committee
- ✓ April 5 Landscape Committee Meeting
- April 12 Open Public Hearing
- April 13 Water Commission Meeting
- April 14 Continue Public Hearing in Gilroy (Informational Open House)
- April 18 Environmental & Water Resources Committee
- April 26 Conclude Public Hearing
- May 10 Adopt budget & groundwater production and other water charges

Note: Protests may be submitted between the date the notice was mailed (February 26) and the conclusion of the hearing (April 26)

Feedback from Advisory Committees and Community

- ▶ Water Retailers
- ▶ Ag Advisory
- ▶ Landscape Committee
- ▶ Public Phone Calls

Summary and Next Steps

Summary

- ▶ Historic drought driving larger than planned increase for second straight year
- ▶ Staff proposed adjustments would reduce the FY 2016-17 groundwater production charge increase relative to the proposed maximum

Next Steps

- ▶ Obtain Feedback from Water Commission and Environmental & Water Resources Committee
- ▶ Continue Hearing to April 14 in Gilroy