

# Public Hearing

Groundwater Production & Other Water Charges

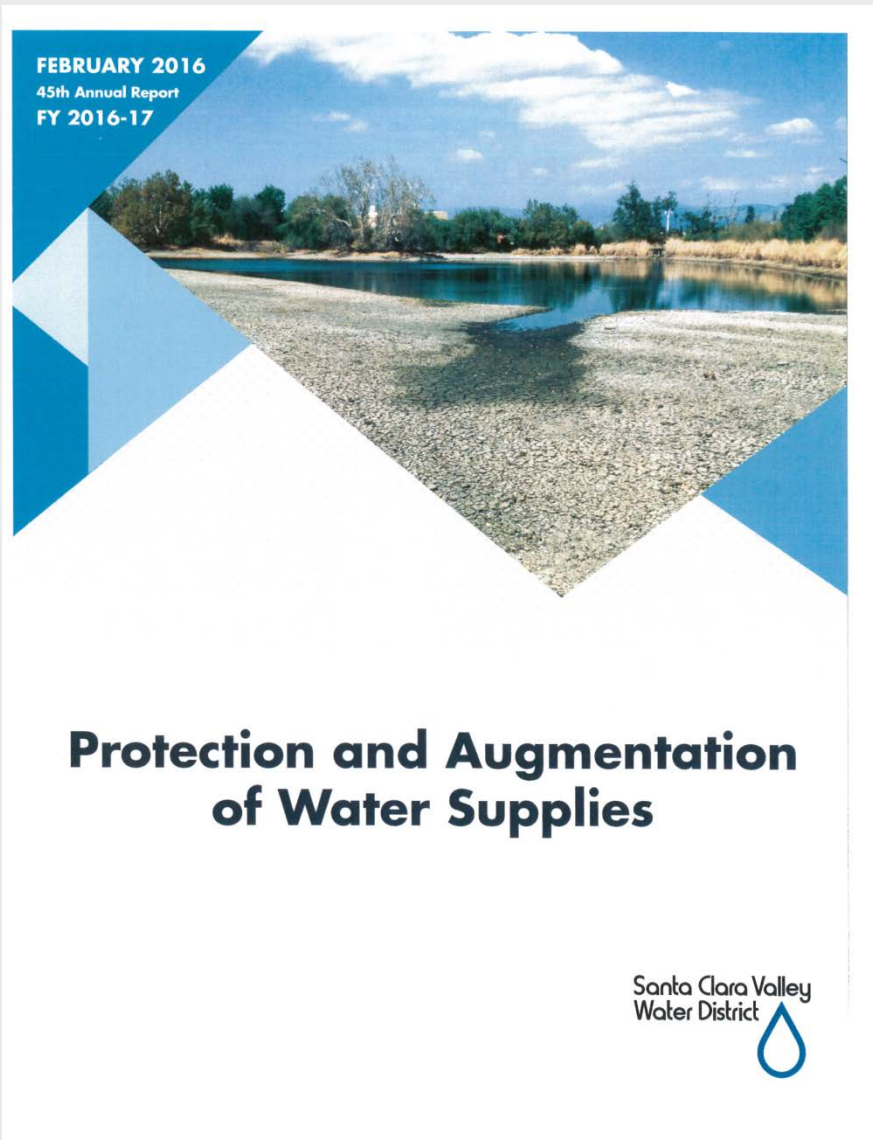
April 12, 2016



# 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

# 45<sup>th</sup> Annual Report Provides Information, Accountability



## 2016 Protection and Augmentation of Water Supplies Report

[www.valleywater.org](http://www.valleywater.org)

# A comprehensive, flexible water system serves 1.9 million people



10 Reservoirs

393 acres of recharge ponds

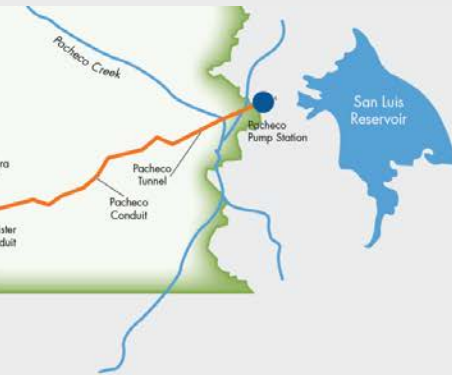
142 miles of pipelines

3 water treatment plants

1 water purification center

3 pump stations

\$7.1B system replacement value

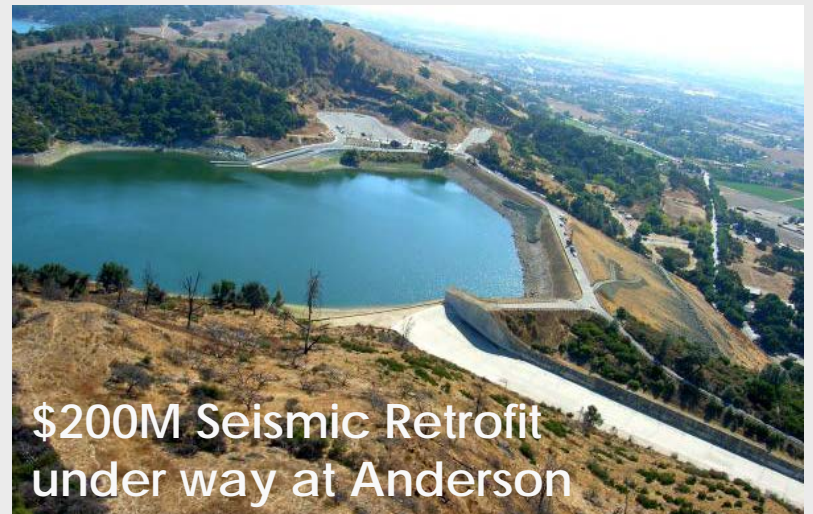


# Many activities ensure safe, reliable groundwater supplies

- ▶ 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

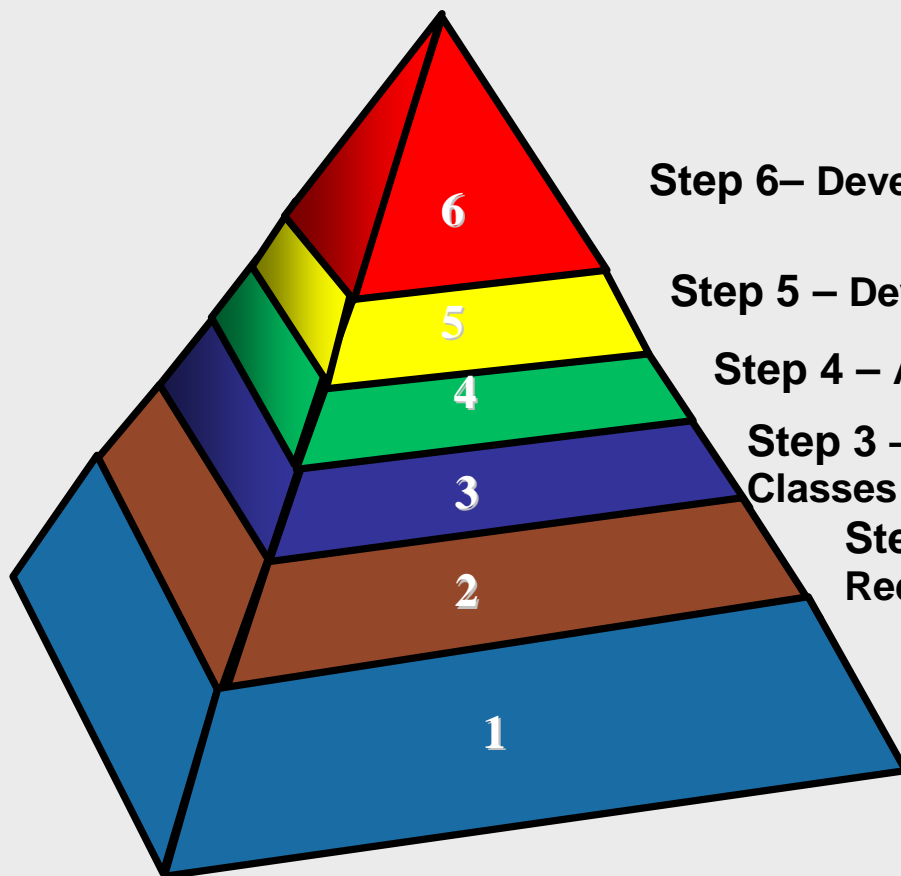
- ▶ **Resolution 99-21:** Utility taxing and pricing policy guides staff in the development of the overall structure to charge recipients for the various direct and indirect benefits received
- ▶ Key concept – “water supplies are managed, through taxing and pricing, to obtain the effective utilization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



**Step 6– Develop Unit Rates by Customer Class**

**Step 5 – Develop Unit Costs by Customer Class**

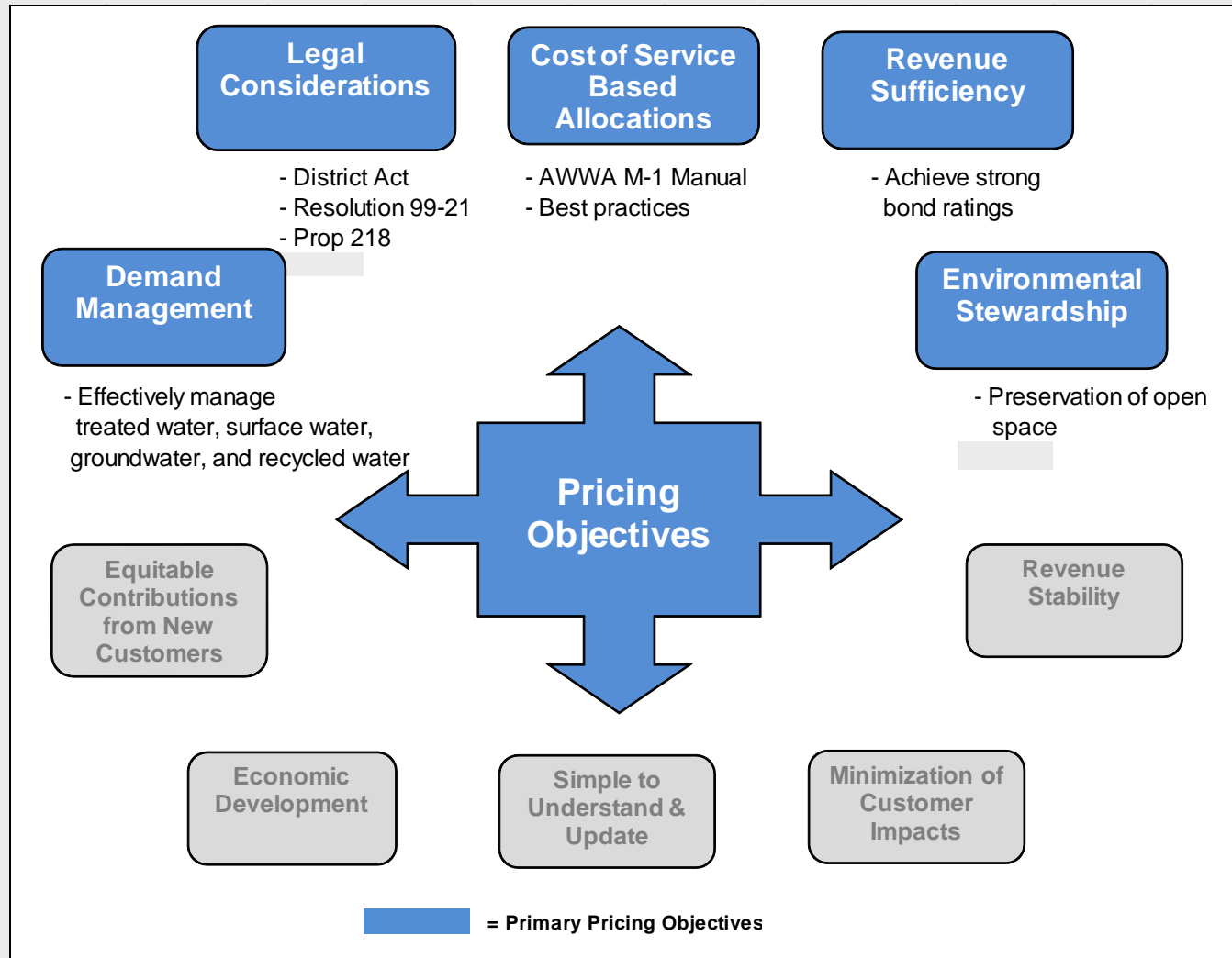
**Step 4 – Allocate Offsets to Customer Classes**

**Step 3 – Allocate Costs to Customer Classes**

**Step 2 - Identify Revenue Requirements**

**Step 1 - Identify Utility Pricing Objectives and Constraints**

# Pricing Objectives and Constraints

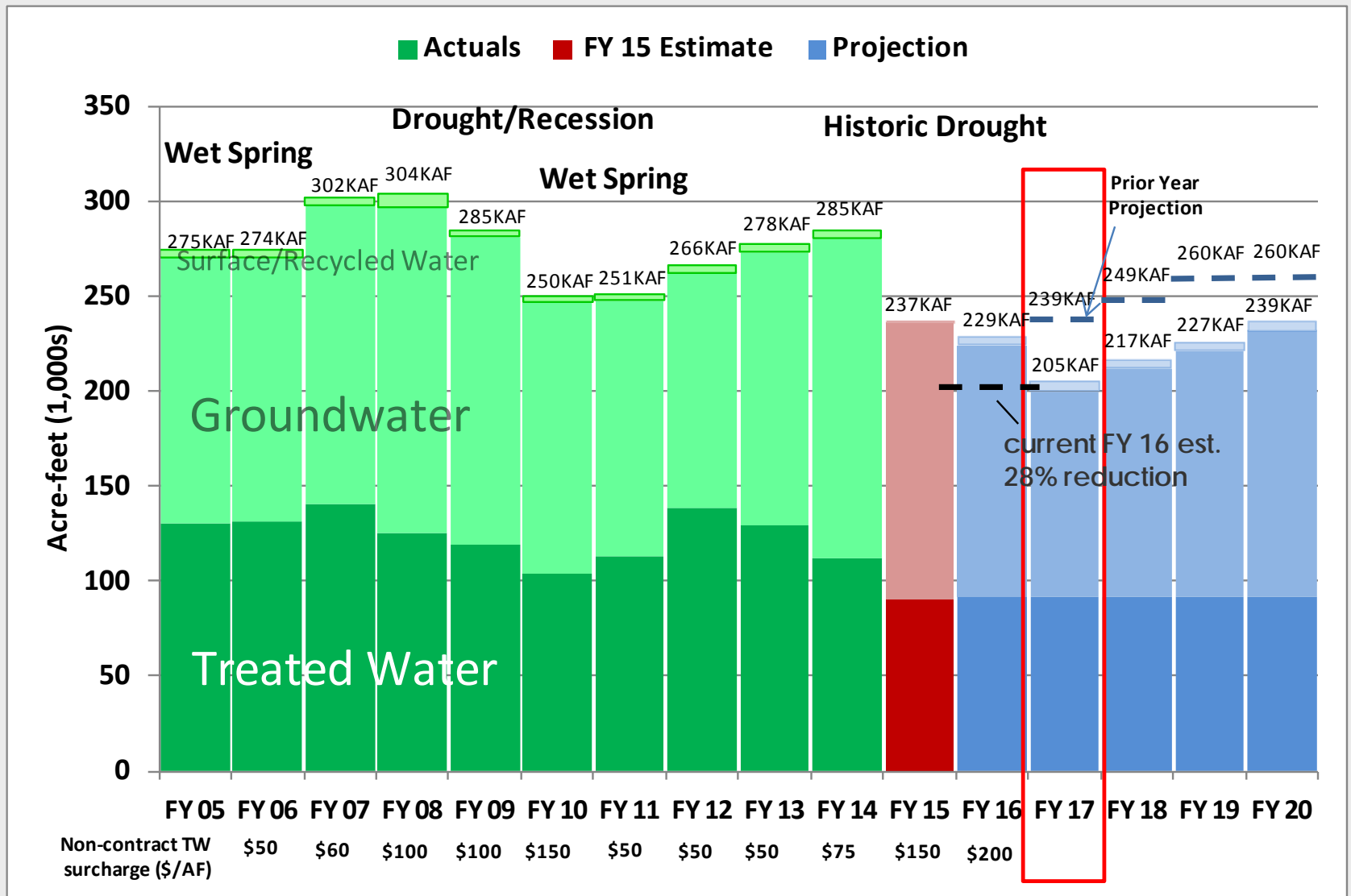


# FY 17 Financial Analysis and Projections

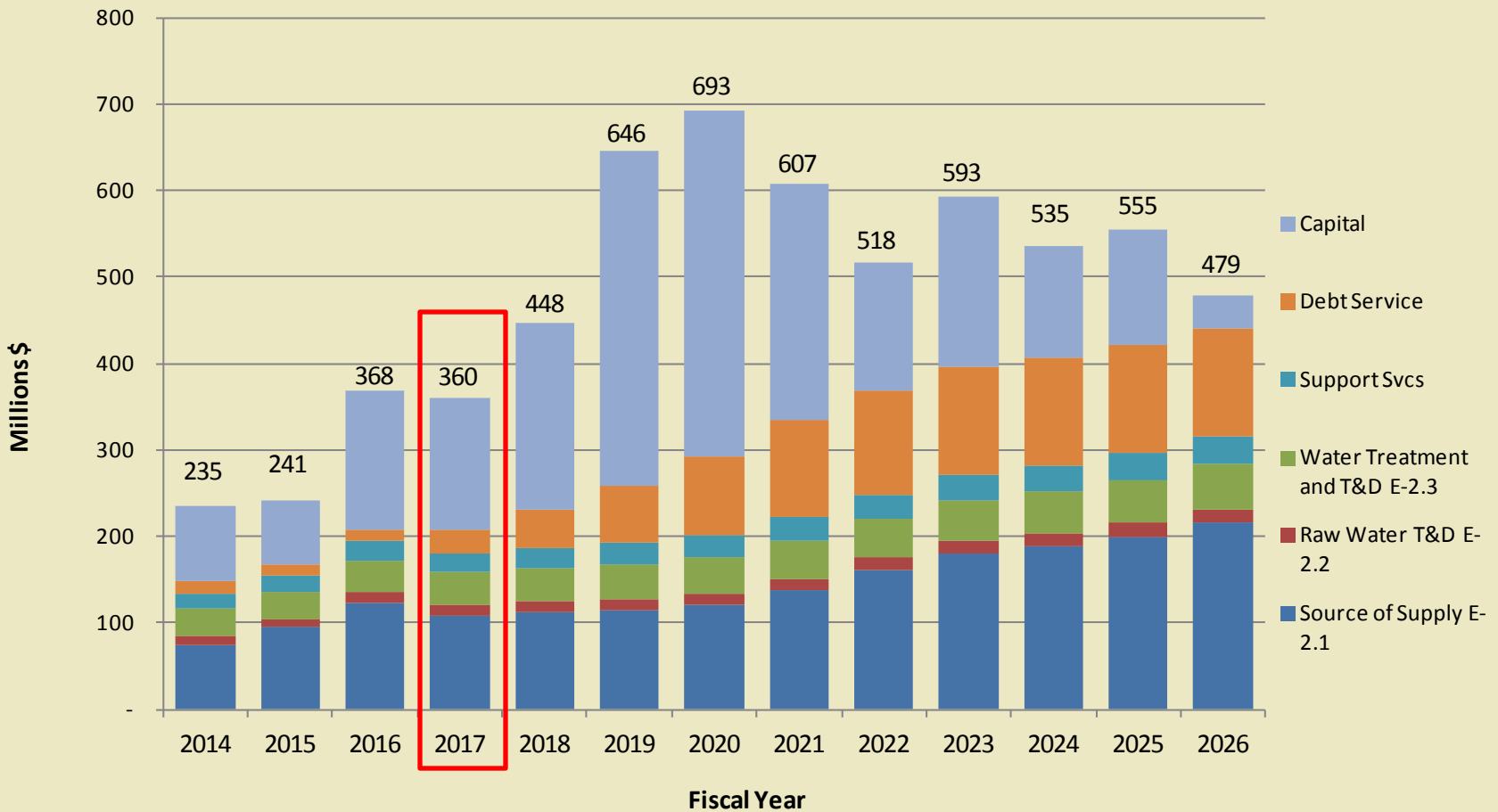
# Financial Analysis: Key Drivers for Proposed Maximum FY 2017 Groundwater Production Charge Increases

- ▶ **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





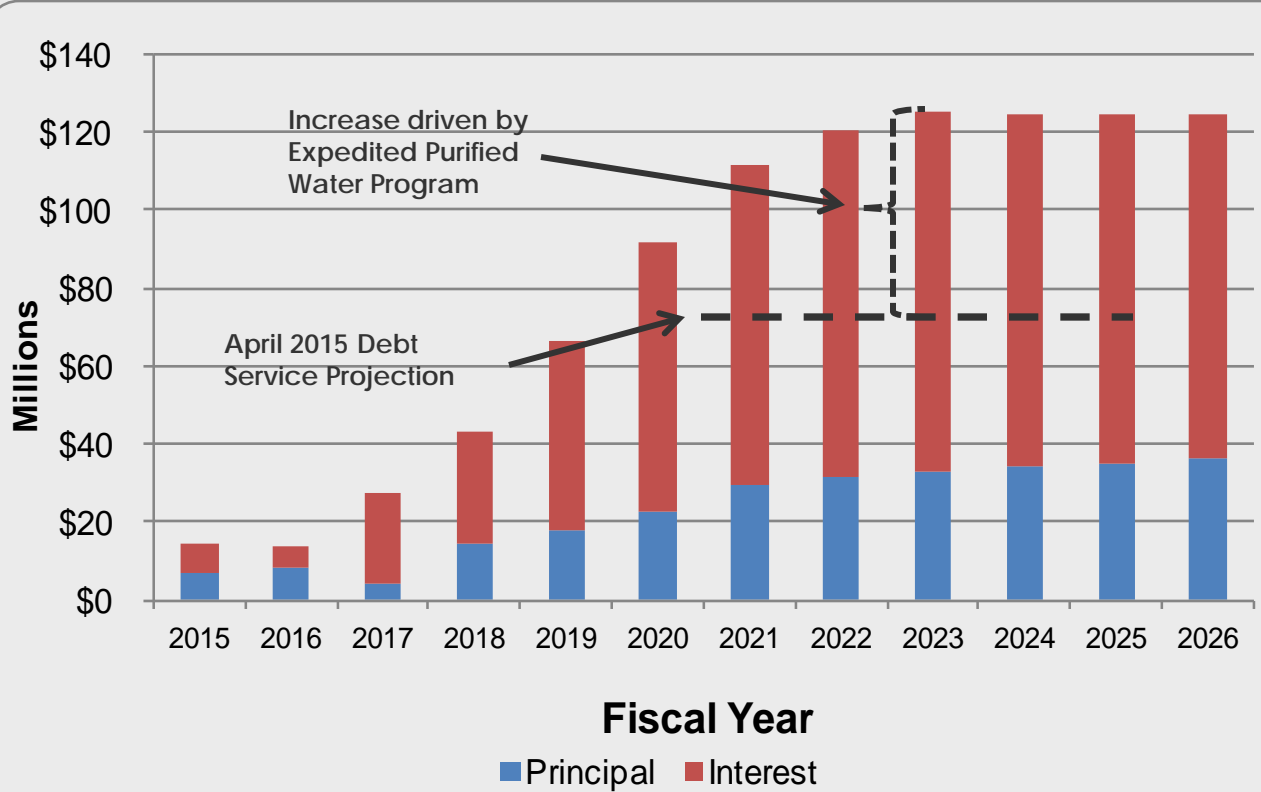
# Financial Analysis: Key Capital project funding FY 17 thru FY 26

- 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				North	South
	CVP	SWP	Total	Cost/mo*	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	-	-	-	-
<b>Total</b>	<b>36.3</b>	<b>9.6</b>	<b>9.7</b>	<b>9.8</b>	<b>4.9</b>

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	-	-	-	-
<b>Total</b>	<b>59.5</b>	<b>38.0</b>	<b>38.0</b>	<b>38.0</b>	<b>6.5</b>

## 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 & 16.1% ~~16.8%~~ 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	
<b>Zone W-2 (North County)</b>				
<b>Basic User/Groundwater Production Charge</b>				
Municipal & Industrial	747.00	894.00	<del>1,105.00</del>	1,072.00
Agricultural	19.14	21.36	<del>23.89</del>	23.59
<b>Surface Water Charge</b>				
Surface Water Master Charge	18.60	22.60	27.46	
Total Surface Water, Municipal & Industrial*	765.60	916.60	<del>1,132.46</del>	1,099.46
Total Surface Water, Agricultural*	37.74	43.96	<del>51.35</del>	51.05
<b>Treated Water Charges</b>				
Contract Surcharge	100.00	100.00	100.00	
Total Treated Water Contract Charge**	847.00	994.00	<del>1,205.00</del>	1,172.00
Non-Contract Surcharge	150.00	200.00	200.00	
Total Treated Water Non-Contract Charge***	897.00	1,094.00	<del>1,305.00</del>	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	
<b>Zone W-5 (South County)</b>				
<b>Basic User/Groundwater Production Charge</b>				
Municipal & Industrial	319.00	356.00	<del>398.00</del>	393.00
Agricultural	19.14	21.36	<del>23.89</del>	23.59
<b>Surface Water Charge</b>				
Surface Water Master Charge	18.60	22.60	27.46	
Total Surface Water, Municipal & Industrial*	337.60	378.60	<del>425.46</del>	420.46
Total Surface Water, Agricultural*	37.74	43.96	<del>51.35</del>	51.05
<b>Recycled Water Charges</b>				
Municipal & Industrial	299.00	336.00	<del>378.00</del>	373.00
Agricultural	42.94	45.16	<del>47.68</del>	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



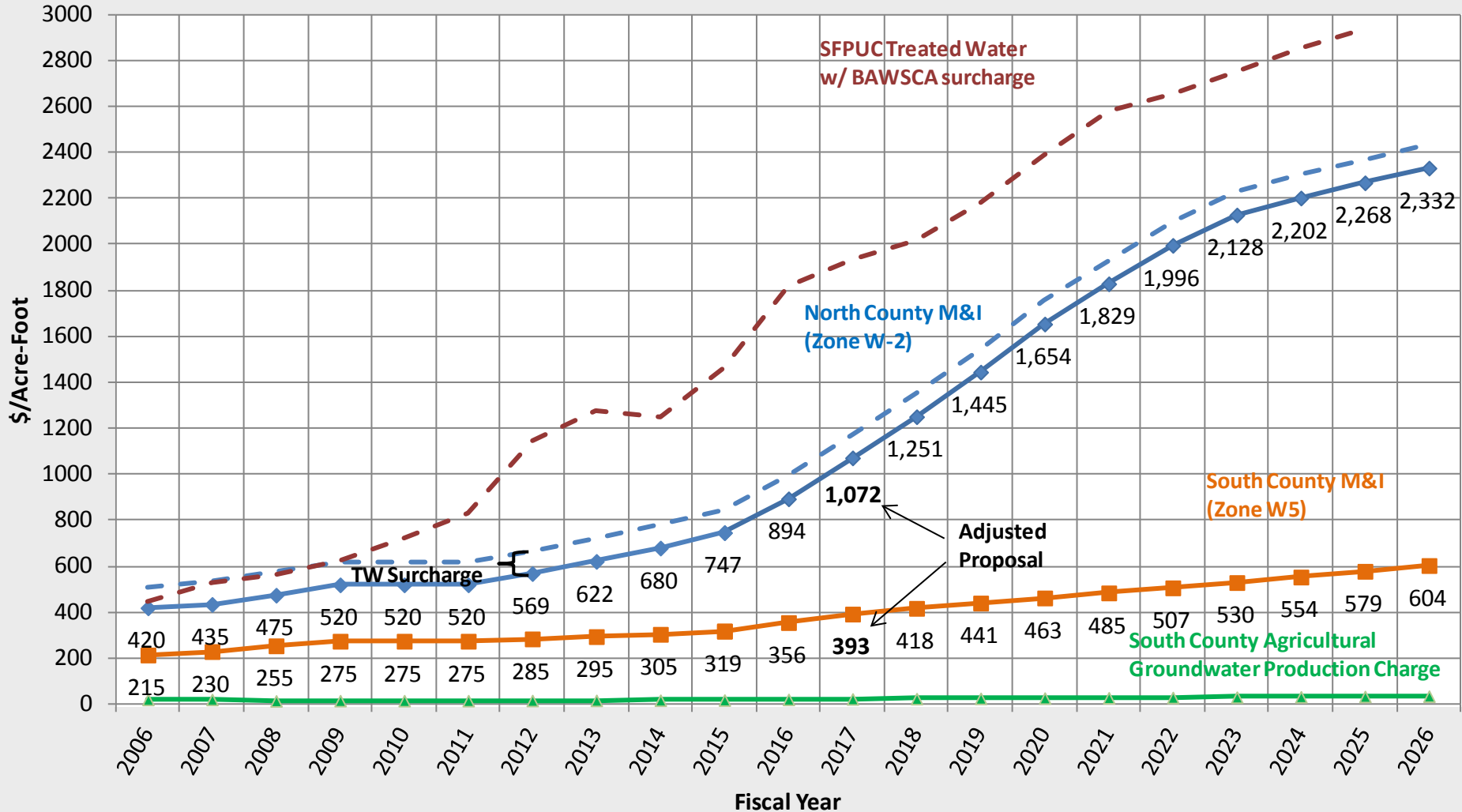
# Adjusted Groundwater Production Charge Breakdown

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

\* 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

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

## Staff Proposed Adjustments

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

<b>Drought Response Cost Summary (\$K)</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16 Est.</b>
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
<b>Total</b>	<b>2,614</b>	<b>65,328</b>	<b>98,398</b>

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

# Benchmarks

# Comparison of FY 17 proposed increase with similar agencies

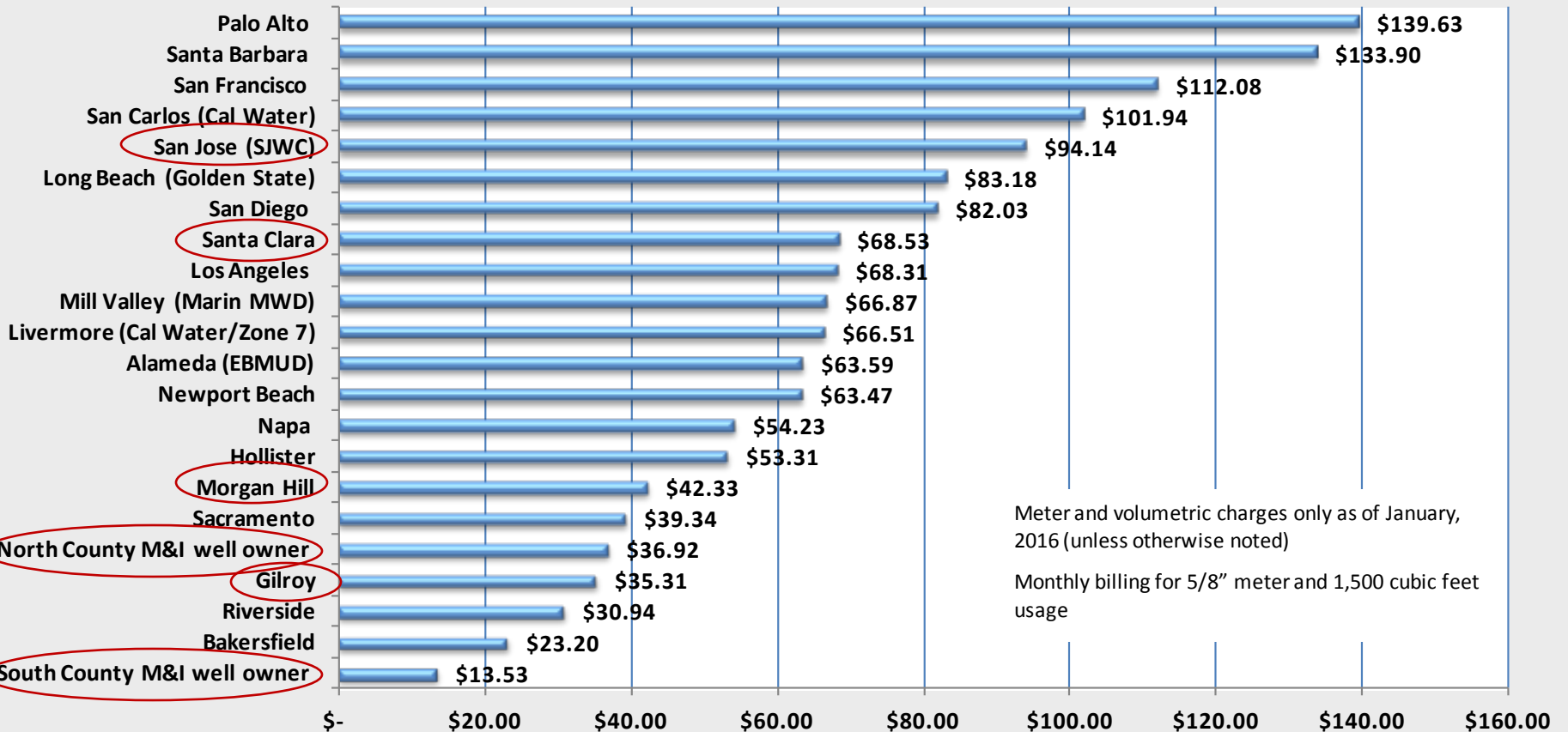
	% inc. '13 to '14	% inc. '14 to '15	% inc. '15 to '16	FY 16	Projection FY 17 <sup>3</sup>
SCVWD North W-2 (Groundwater prdctn per AF)	9%	10%	20%	\$894	19.9%
SCVWD North W-2 (Treated Water per AF)	8%	9%	17%	\$994	17.9%
SCVWD South W-5 (Groundwater prdctn per AF)	3%	5%	12%	\$356	10.4%
Metropolitan WD (Untreated Water per AF) <sup>1</sup>	3%	-1%	1%	\$706	7.8%
Metropolitan WD (Treated Water per AF) <sup>1</sup>	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) <sup>1</sup>	4%	3%	6%	\$1,519	TBD
San Francisco PUC (Treated Water per AF) <sup>2</sup>	-2%	17%	25%	\$1,817	7.0%
Zone 7 (Treated Water per AF) <sup>1</sup>	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	COMPARATIVE 2003 AMT	2004 DISTRIBUTION		OFFICE USE ONLY
TYPE	LIMITED	%	ASSESSED			RATE / 100	2004 AMT DUE	
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	86.57	12108	92.02	PRTKEY-MORTG SEQ# MTG# LOAN#	
				33.73	04560	34.66		
				339.44		339.70	FIRST HALF TAX AMOUNT	
				67.28	44898	70.00		
				-117.58	9211	-117.14	DUE OCT. 1, 2004 DELINQUENT AFTER NOV. 1, 2004	
				409.44	CREDIT	419.24		
PRIM. TOT.	76000		7600		70575		FIRST HALF TAX AMOUNT	
ARPA CODE 041002								
FULL CASH (SECONDARY) VALUES				SECONDARY				
TYPE	FULL CASH	%	ASSESSED					
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	FLOOD	16.10	2119	16.10	
				CANVCS	9.12	1200	9.12	
				OVERSEES	78.16	9971	72.74	
				FIRE DIST. ASST.	64	2088	52	
				LIBRARY	3.96	0521	3.96	
				BONDS*	5.32			
				-COUNTY	104.59	12477	94.82	
				-CITY	10.45	1181	8.82	
				-SCHOOLS	228.24	27118	206.06	
				-COMM COL.				
SEC. TOT.	76000		7600	SUBTOTAL	7.42	1032	7.84	
SPECIAL DISTRICT (VALUE/ACRES/SQ FT) = ASSESSED				7600				
HOSPITAL DISTRICT NO 1				7600				
EAST VALLEY INSTITUTE TECH				10846				
				30001				
					845.10	TOTALS	\$633.16	

IF NOT PAID BY DELINQUENT DATE, CALL OR WRITE FOR INTEREST AMOUNT

INTEREST ON LATE PAYMENT IS 18% PER YEAR PRORATED MONTHLY AS OF THE FIRST DAY OF THE MONTH. AHS § 42-18023

KEEP THIS PORTION FOR YOUR RECORDS



# 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