

Planning for FY 2018-19 Groundwater Production Charges

November 28, 2017



Topics

1. Background Information on Groundwater Production Charge Setting Process
 - ▶ District Act
 - ▶ Prop 218
 - ▶ Pricing Policy
2. Water Usage
3. Water Utility Zones
4. North County & South County Infrastructure
5. Financial Background
 - ▶ FY'18 WU Revenue Budget
 - ▶ Key Financial Targets
 - ▶ SWP Tax
 - ▶ Open Space Credit
 - ▶ Fixed Charge Consideration
6. Rate Planning Scenario Ideas
7. Schedule
8. Summary

District Act 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 zones of benefit

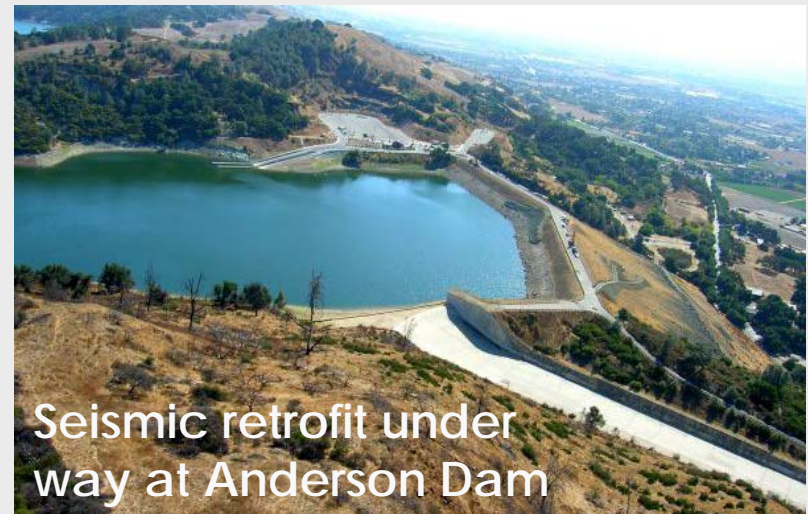
District Act Defines Uses for Groundwater Charges

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

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



The 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 Resolutions 12-10 & 12-11

Fiscal Year	2013	2014	2015	2016	2017	2018
Groundwater						
North County	1.4%	1.3%	1.3%	1.2%	1.7%	1.7%
South County	0.8%	0.5%	0.4%	0.5%	0.3%	0.6%
Surface Water						
North County	0%	0%	0%	0%	0%	0%
South County	0%	0%	0%	1.3%	0%	0%

Resolution 99-21 is the Board's Pricing Policy which Includes the "Pooling Concept"

- ▶ All water sources and water facilities contribute to the common benefit of users within a zone regardless of cost, known as "pooling" concept
 - ▶ Helps maximize effective use of available resources

- ▶ Groundwater charges are levied for the benefits received by the water users in a particular zone

- ▶ Rates for agricultural water shall not exceed one-tenth the rate for all water other than agricultural water

Groundwater Charge-Setting Approach

September

**Begin multi-year
financial
forecast prep**

Water Utility activities
must meet purpose
defined in District Act
Section 26.3

November/December

**Board provides
guidance for
upcoming rate
setting cycle**

January

**Preliminary Rate
Projection
Discussed with
Board**

Pricing based on
Resolution 99-21
to maximize use
of available
water resources

February

**Prepare Report
on Protection &
Augmentation of
Water Supplies
(PAWS)**

Includes Cost of Service
by customer class:

- Groundwater
- Treated Water
- Surface Water
- Recycled Water

April

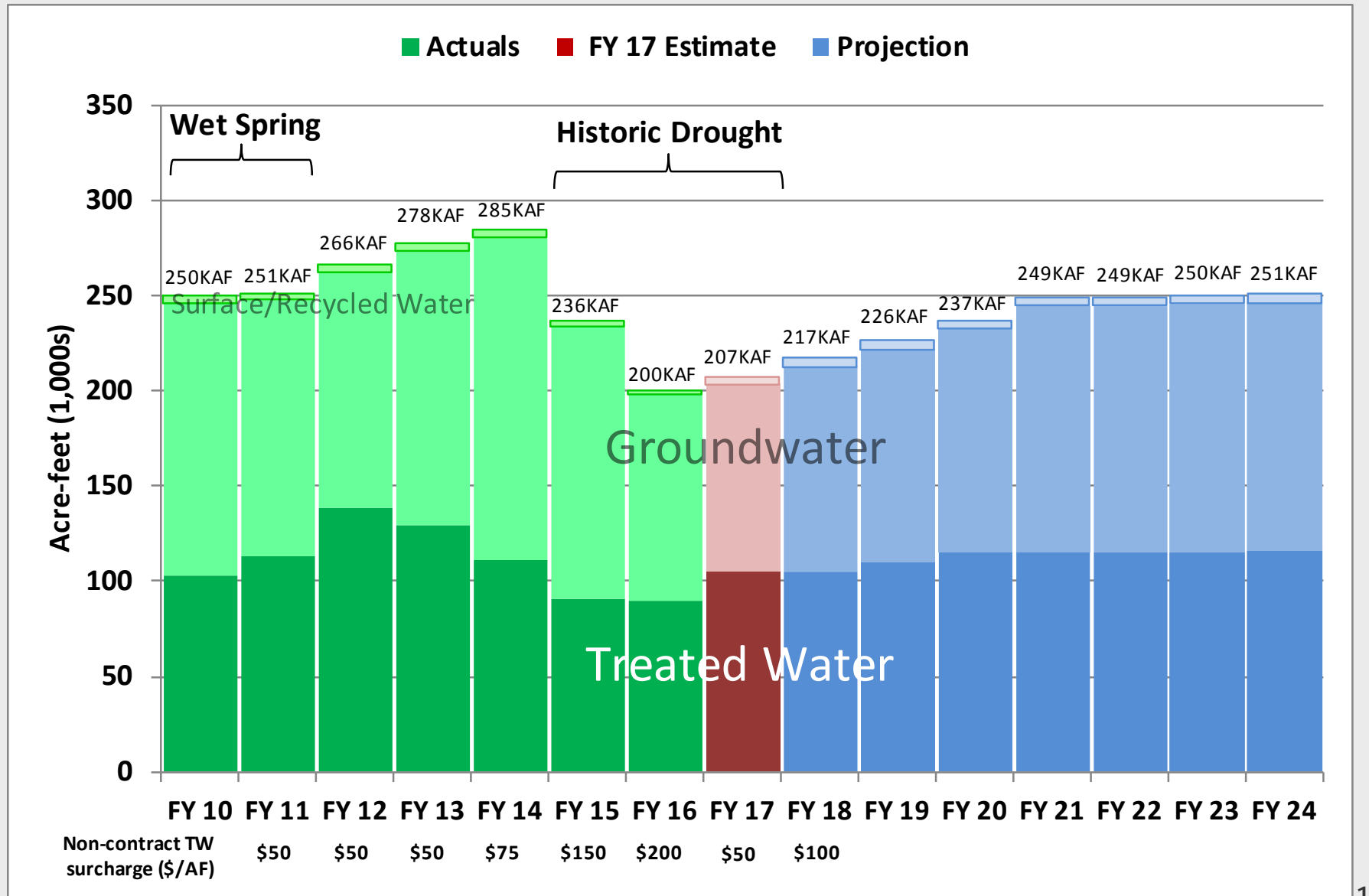
**Majority protest
procedures and
public hearings**

Process detail
explained in Board
Resolutions 12-10
and 12-11

May

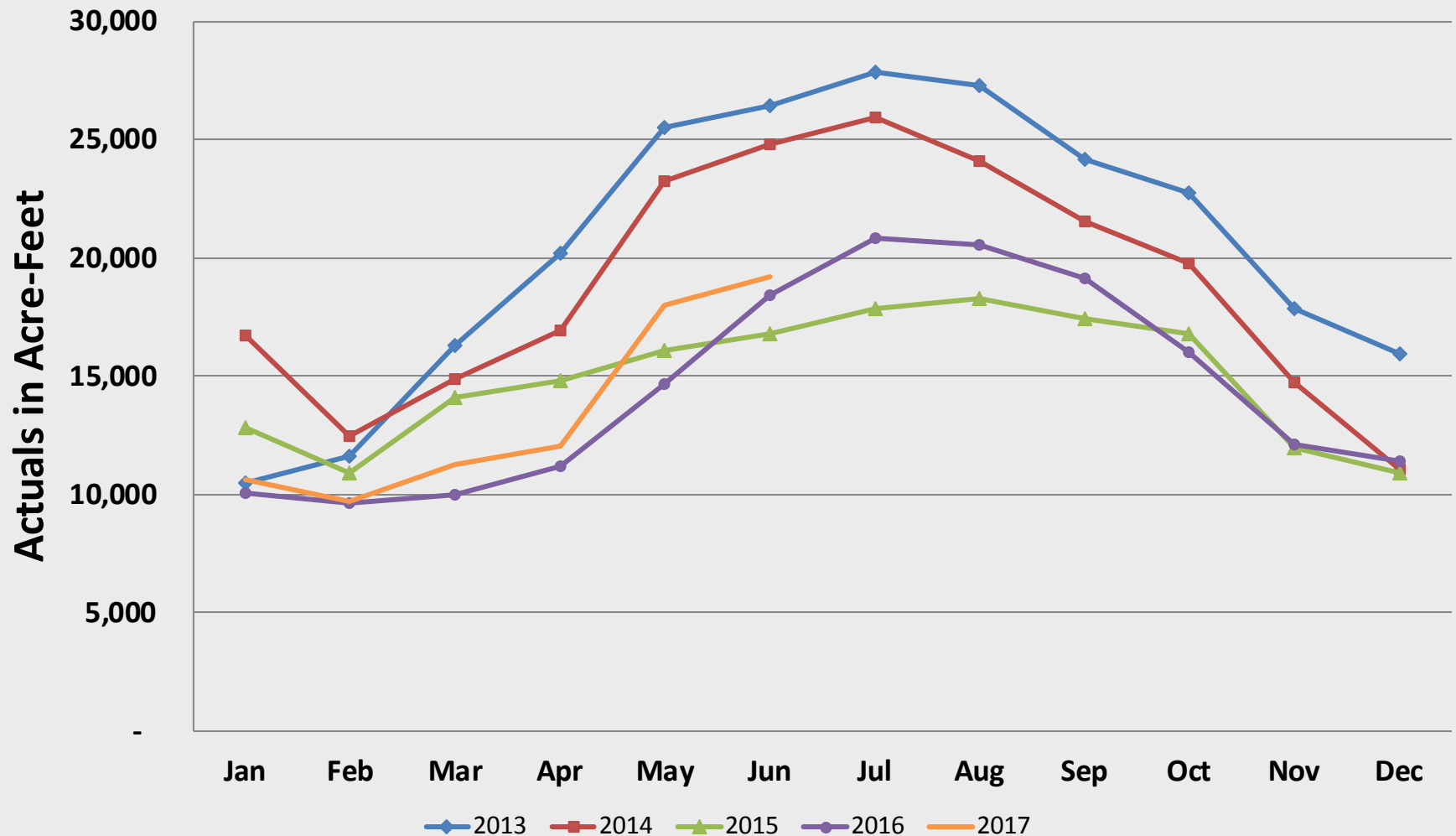
**Adoption of
Groundwater
and Other Water
Charges**

Water Usage (District Managed)



Note: FY 17 refers to fiscal year 2016-17

Water Usage (Groundwater and Treated Water)



Note: Groundwater Actuals do not include semi-annual and annual billings

Water Utility Zones



Board to receive Zone of Benefit Study update in December

Infrastructure differences drive different 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

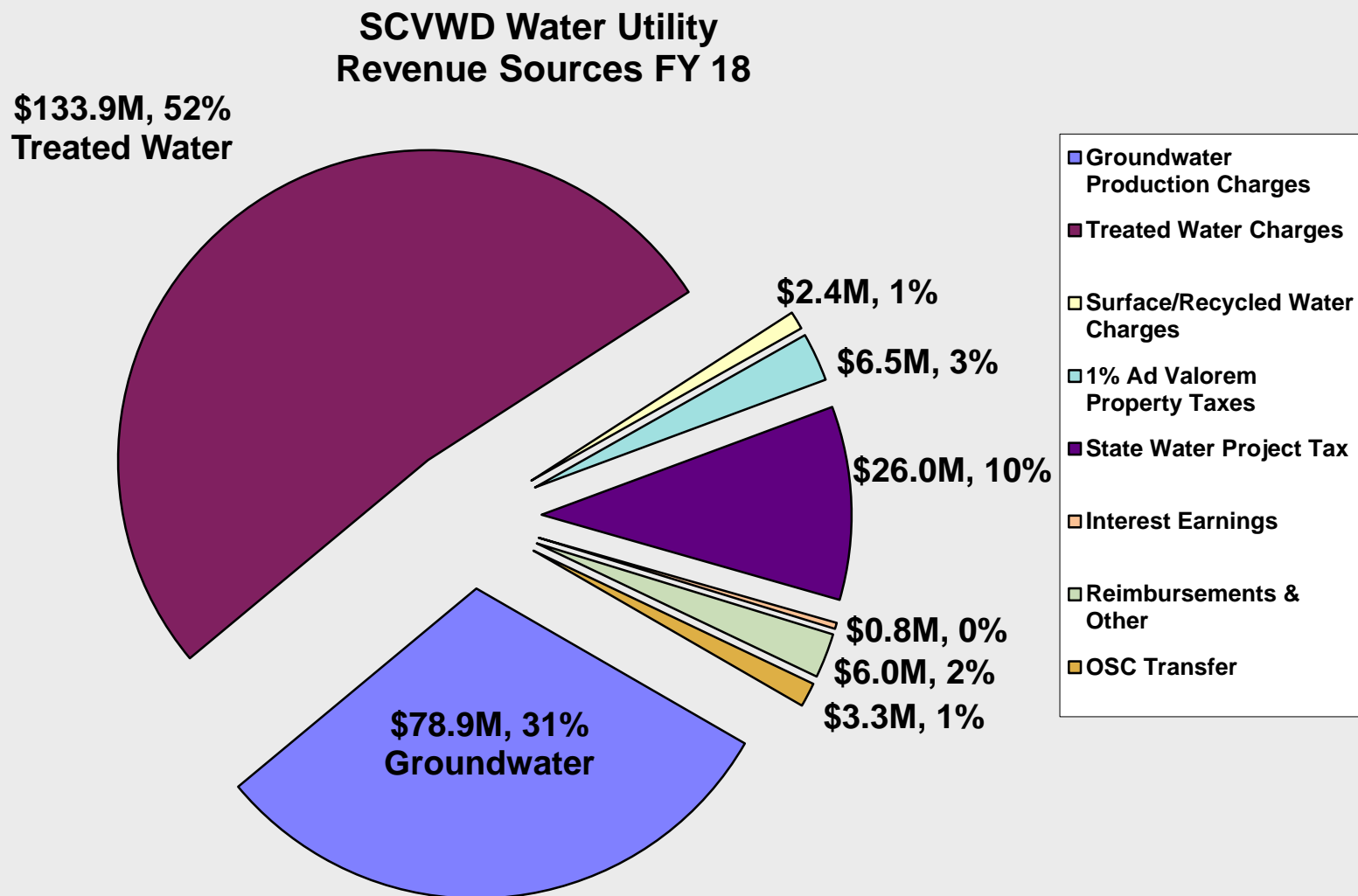
Shared

- Reservoirs – Anderson & Coyote
- Imported Water – Central Valley Project

South County

- Reservoirs – Chesbro, Uvas
- SCRWA Recycled Water System

Breakdown of FY 18 WU Revenue Budget



- FY 18 budgeted Water Utility revenue plus Open Space Credit transfer = \$257.8M
- 5.7% or \$14.5M of Water Utility Revenue comes from South County

Sound Financial Targets Keep Bond Ratings High

Key Targets:

- ▶ Debt service coverage ratio targeted at 2.0 or better to minimize borrowing cost and promote continued high credit ratings (Aa1 from Moody's and AA+ from Fitch)
- ▶ Discretionary Reserves (Operating & Capital + Supplemental Water Supply) targeted at minimum per policy

SWP Tax: Background

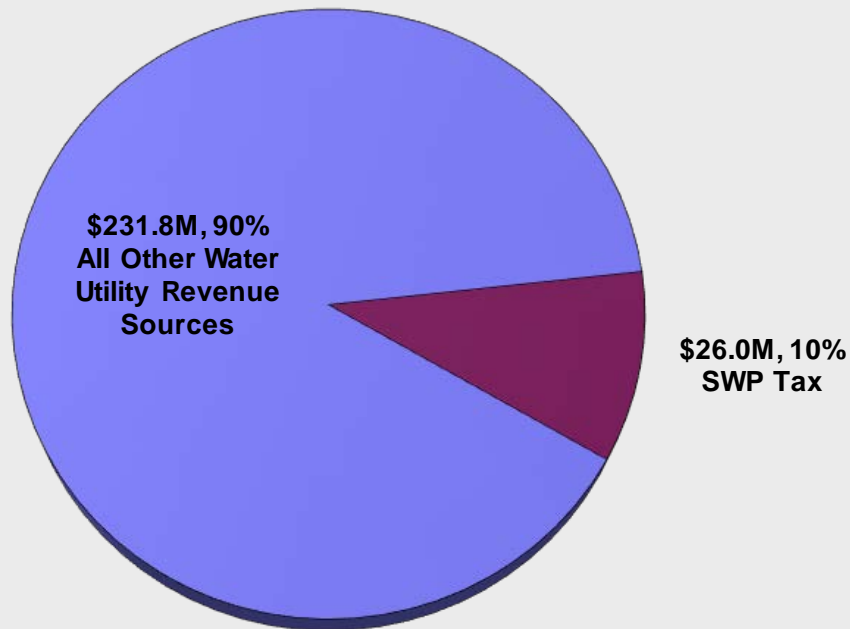
What is the State Water Project (SWP) Tax?

- Override tax – a tax in excess of the one-percent cap, imposed to pay voter-approved indebtedness
- State voters approved the State Water Project and its financing with state bonds in 1960 (Burns-Porter Act)
- Tax implemented by SCVWD in FY 1979-80 after passage of Prop 13 reduced the District's "5 cent" property tax revenues by 58%
- SWP tax is collected county-wide
- SCVWD relies on SWP Tax to pay for 100% of SWP contractual obligations
 - SWP Tax can only be used for SWP contractual obligations

Note: DWR filed a validation action in July 2017 seeking judicial determination of DWR's statutory authority to issue revenue bonds for CWF, which could bring into question whether CWF is part of the state water project, and whether override taxes may be levied

SWP Tax: Breakdown of FY 18 WU Revenue Budget

**SCVWD Water Utility
Revenue Sources FY 18**



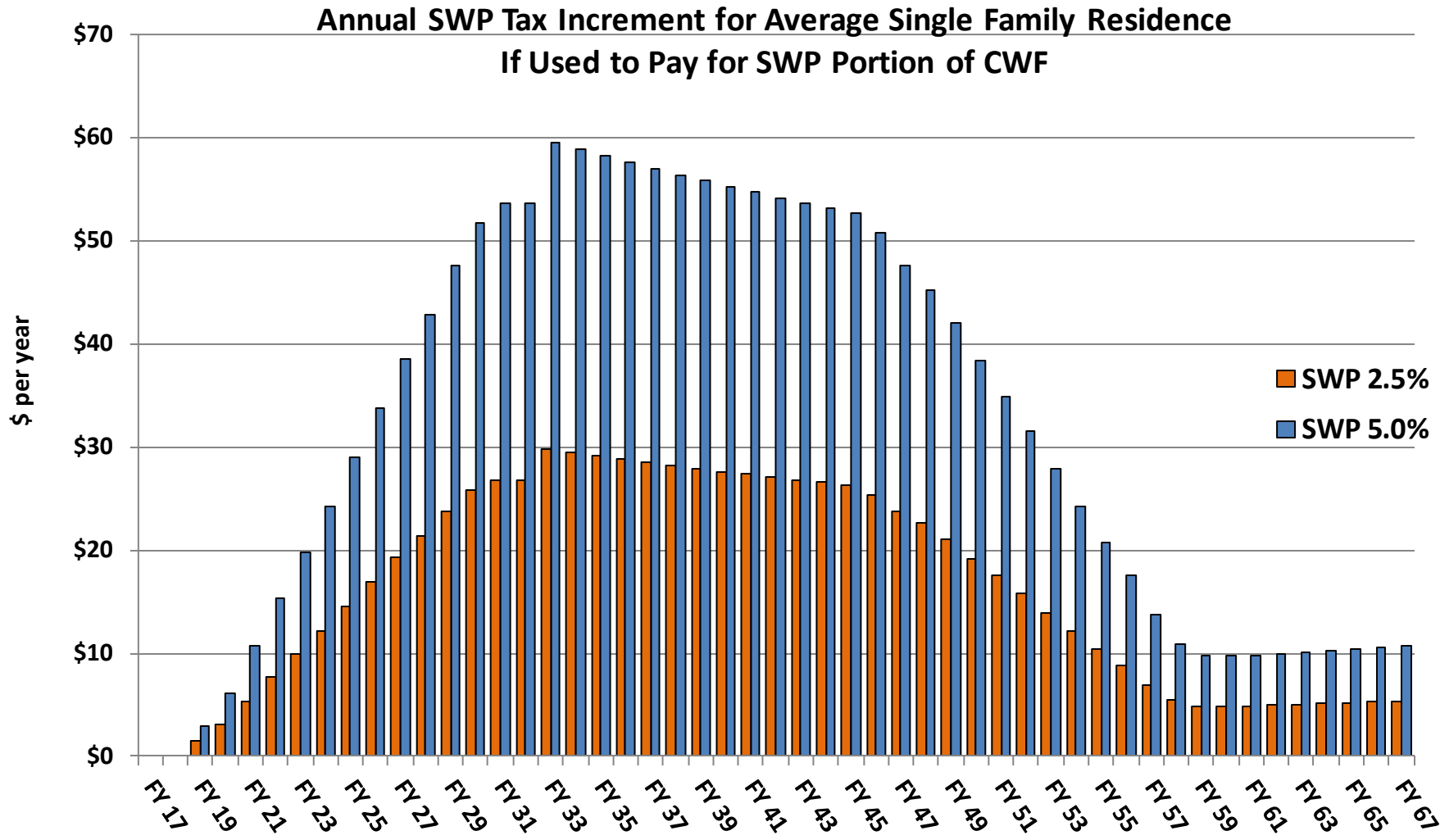
- FY 18 budgeted Water Utility revenue plus Open Space Credit transfer = \$257.8M
- 10% or \$26M of Water Utility Revenue comes from the SWP Tax

Sept 2017 SWP Tax projection

	Total Collection (\$K)	Avg Annual SWP Tax Bill Single Family Residence
FY 18	\$26,000	\$42.00
FY 19	\$27,000	\$43.09
FY 20	\$29,000	\$45.61
FY 21	\$31,000	\$48.05
FY 22	\$32,000	\$48.88
FY 23	\$35,000	\$52.69
FY 24	\$37,000	\$54.89
FY 25	\$38,000	\$55.56
FY 26	\$42,000	\$60.52
FY 27	\$45,000	\$63.90

Note: Excludes California WaterFix impact

What if SWP Tax pays for SWP portion of CWF?



Do other SWP contractors rely on SWP tax?

100% reliance on SWP Tax

- SCVWD
- Mojave Water Agency
- Coachella Valley Water District
- Castaic Lake Water Agency

No reliance on SWP Tax

- Tulare Lake Basin Water Storage District
- Central Coast Water Authority
- Ventura County Watershed Protection District
- County of Kings

Less than 100% reliance on SWP Tax

- Metropolitan Water District (15%)
- Kern County Water Agency (12-15%)
- Antelope Valley East Kern Water Agency (62%)
- Zone 7 (80%)
- San Bernardino Valley MWD (95%)

Board has suspended limitation

Remainder of SWP costs billed directly to member units

Variable SWP costs paid by rates, fixed SWP costs paid by SWP Tax

SWP Tax: Palo Alto and Purissima Hills

Both elected bodies are concerned about District reliance on SWP tax

- Concern includes SCVWD assumption to pay for SWP portion of California WaterFix costs with SWP Tax

Background Information:

- They rely 100% on Hetch Hetchy water supplied by the SFPUC
- They rely on SCVWD for emergency supply
 - Palo Alto via groundwater
 - Both via SFPUC intertie
- They benefit from SWP water (additional water supply, subsidence & saltwater intrusion prevention, increased economic growth)
- They provide similar benefits to Santa Clara County via provision of Hetch Hetchy water

SWP Tax: CWF Guiding Principle #5

- Establish grants to water agencies that serve communities in which 85% of water supply is not District-managed up to amount of SWP Tax paid
- Water agencies required to contribute 20% match toward eligible water supply or environmental enhancement programs/projects
- Unused grant funds return to Water Utility Fund in FY 26

Staff recommends bringing back Guiding Principle #5 implementation discussion when CWF agreements are in place

SWP Tax: Policy Question & Alternatives

To what degree should District rely on SWP Tax?

Alternatives:

- 1) Rely on SWP Tax to pay 100% of SWP costs
- 2) Rely on SWP Tax to pay fixed portion (~85%) of SWP costs only
- 3) Rely on SWP Tax to pay <85% of SWP costs only

Pros of reduced reliance on SWP Tax:

- Reduced property tax bill for county residents

Cons of reduced reliance on SWP Tax:

- Would increase Groundwater Production Charge to recoup lost revenue
- Reduces “fixed” revenue source & adds financial volatility

Alternative For Future Discussion - Rely on SWP Tax to pay 100% of SWP costs & SWP portion of CWF & apply Guiding Principle #5

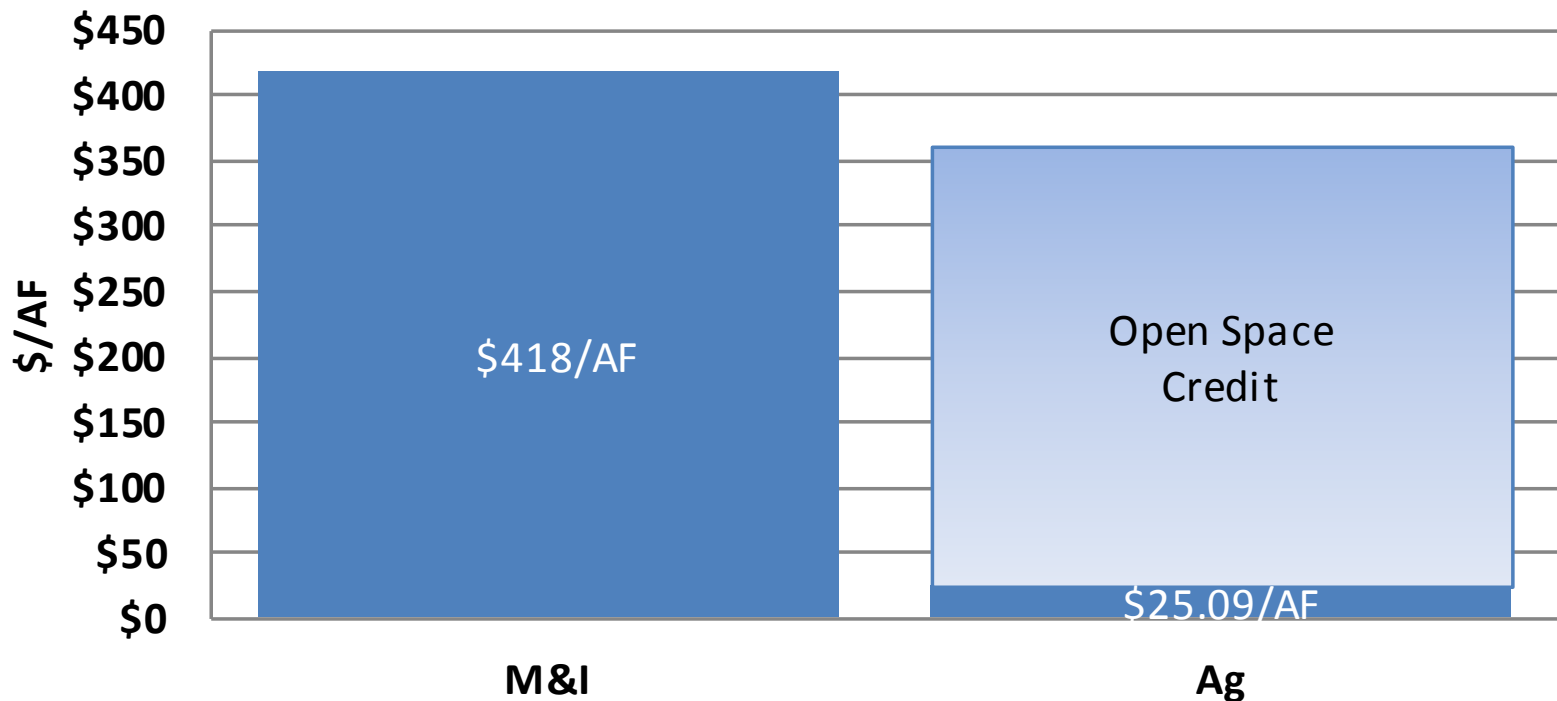
- Implement CWF portion of SWP tax after successful validation action by DWR?

What is the Open Space Credit?

- ▶ 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

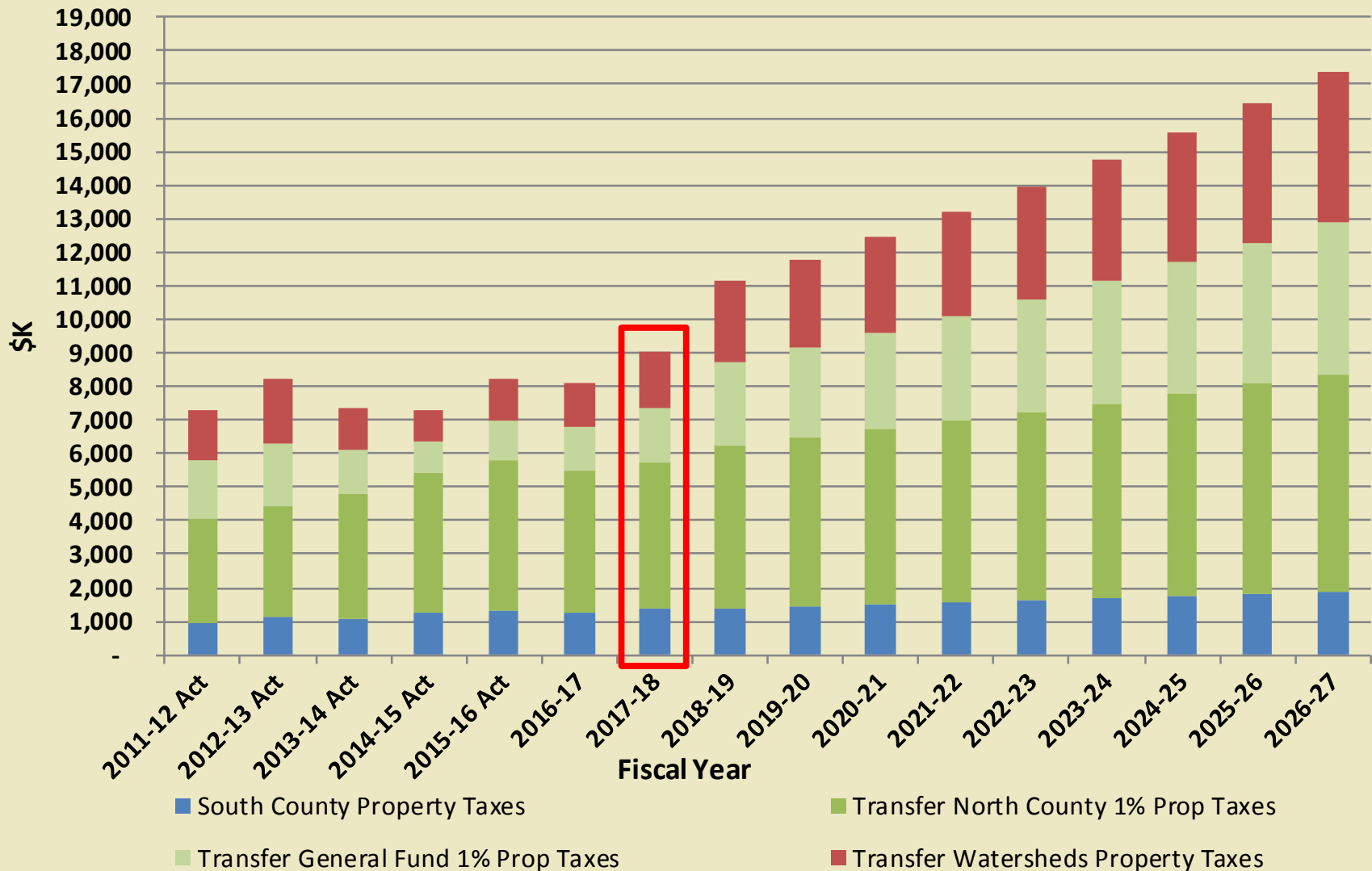
Open Space Credit: Background

FY 18 South County GWP Charges



- Ag Charge would be \$361/AF if there were no Open Space Credit

Open Space Credit: April 2017 Projection



Open Space Credit: Extensive Review Conducted in 2013

At February 12, 2013 Board meeting, Board expressed concern about the sustainability of the Open Space Credit and requested stakeholder engagement.

1. Contracted with Economic Consultant, era economics LLC
2. Established a Working Group
3. Conducted Community Stakeholder Meeting
4. Obtained feedback from 3 Advisory Committees
5. Reviewed Findings with Board on 11/12/13

Open Space Credit: Result of 2013 Economic Study

► Constructed an economic model of agriculture in Santa Clara County

► 3 scenarios with 10 year phase-in

- Baseline (Maintain Ag Charge at 6% of M&I rate)
- 10 % of M&I rate
- 25 % of M&I rate

Scenario	Permanent Fallow (acres)	% Change in Irrigated Acres	Irrigated Acres ¹
Baseline	-	-	15,668
10% of M&I	17	0.11%	15,651
25% of M&I	549	3.50%	15,119

¹ Harvested acreage includes an additional 3,650 acres of grain hay

Open Space Credit: Board Direction in November 2013

1. Maintain Open Space Credit Policy language as is (limit Ag charge to 10% of M&I charge)
 - Staff to continue referring to the Board's policy as the "Open Space Credit Policy"
2. Explore other sources of funding to improve the financial health of the Watershed Stream Stewardship Fund
3. Maintain the South County agricultural charge at 6% of M&I
 - Continue practice of setting the North County Ag charge equal to South County Ag charge

Board direction as of November 2016 has been consistent

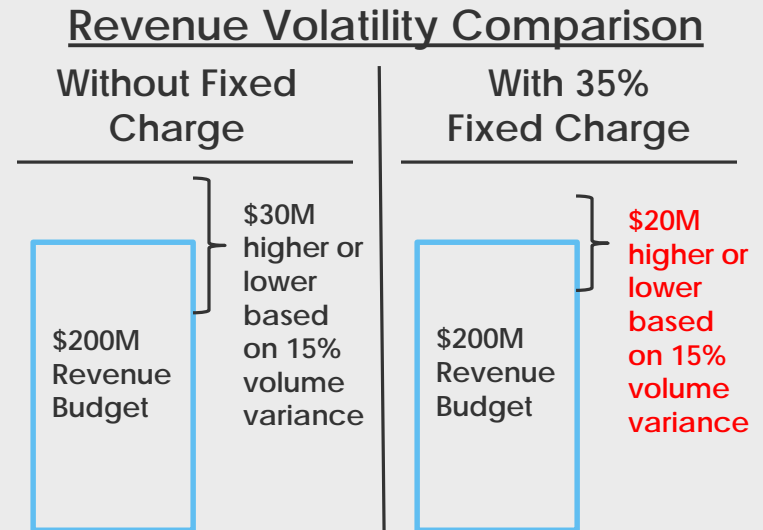
Alternatives to minimize Open Space Credit

1. M&I users pay for open space credit – Not feasible now, but could be in future depending on outcome of City of San Buenaventura v. United Water Conservation District
2. Increase agricultural charge to 10% of M&I over 10-year time frame
 - \$5.5M savings by FY 30 (\$3.9M to flood protection)
 - Ag GW charge in FY 30 would be \$79.10/AF vs \$47.50/AF
3. Increase agricultural charge to 10% of M&I over 5-year time frame
 - \$7.1M savings by FY 30 (\$5.0M to flood protection)
 - Ag GW charge in FY 30 would be \$79.10/AF vs \$47.50/AF
4. Increase agricultural charge to 25% of M&I over 10-year timeframe
 - \$26.2M savings by FY 30 (\$18.4M to flood protection)
 - Ag GW charge in FY 30 would be \$197.80/AF vs \$47.50/AF

Fixed Charge Consideration

Background:

- ▶ Staff has been evaluating fixed charge concept in conjunction with SGMA authority
- ▶ Objective is improved revenue stability while maintaining revenue neutrality relative to current rate structure



Next steps upon Board approval:

- ▶ Engage consultant to work with retailers and prepare a fixed charge proposal
- ▶ Board review and approval of fixed charge proposal in Fall 2018
- ▶ Fixed charge implemented for FY 20 rate setting cycle if approved

Scenario Planning Ideas for FY 19 Rate Setting Process

Baseline Case Assumptions:

- CWF: Conservative cost scenario based on 2.5% SWP, 5.0% CVP participation
 - To be updated as more information becomes available
- Include WSMP “No Regrets” investments
- Include latest Expedited Purified Water P3 cost projection

Scenarios:

- Pacheco, Sites, Los Vaqueros
- Other WSMP investments
- “Cut” Scenario

2018 Schedule

Jan 9	Board Meeting: Preliminary Groundwater Charge Analysis
Jan 17	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
Jan 24	Water Commission Meeting: Prelim Groundwater Charge Analysis
Feb 13	Board Meeting: Review draft CIP & Budget development update
Feb 23	Mail notice of public hearing and file PAWS report
Mar 21	Water Retailers Meeting: FY 19 Groundwater Charge Recommendation
Mar 27	Board Meeting: Budget development update
Apr 2	Ag Water Advisory Committee
Apr 3	Landscape Committee Meeting
Apr 10	Open Public Hearing
Apr 11	Water Commission Meeting
Apr TBD	Continue Public Hearing in South County
Apr 24	Conclude Public Hearing
Apr 25-27	Board Meeting: Budget work study session
May 8	Adopt budget & groundwater production and other water charges

Summary

- Anticipating increased retailer/public pushback during the FY 19 rate setting cycle

April 2017 annual percentage increase forecast (M&I Groundwater)

	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
North County	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
South County	5.7%	5.7%	5.8%	5.7%	5.7%	5.8%	5.7%

- Staff seeking Board guidance on FY 19 rate setting cycle
 - SWP Tax reliance
 - Open Space Credit minimization
 - Fixed Charge consideration
 - Scenario planning ideas