

Public Hearing

Groundwater Production & Other Water Charges

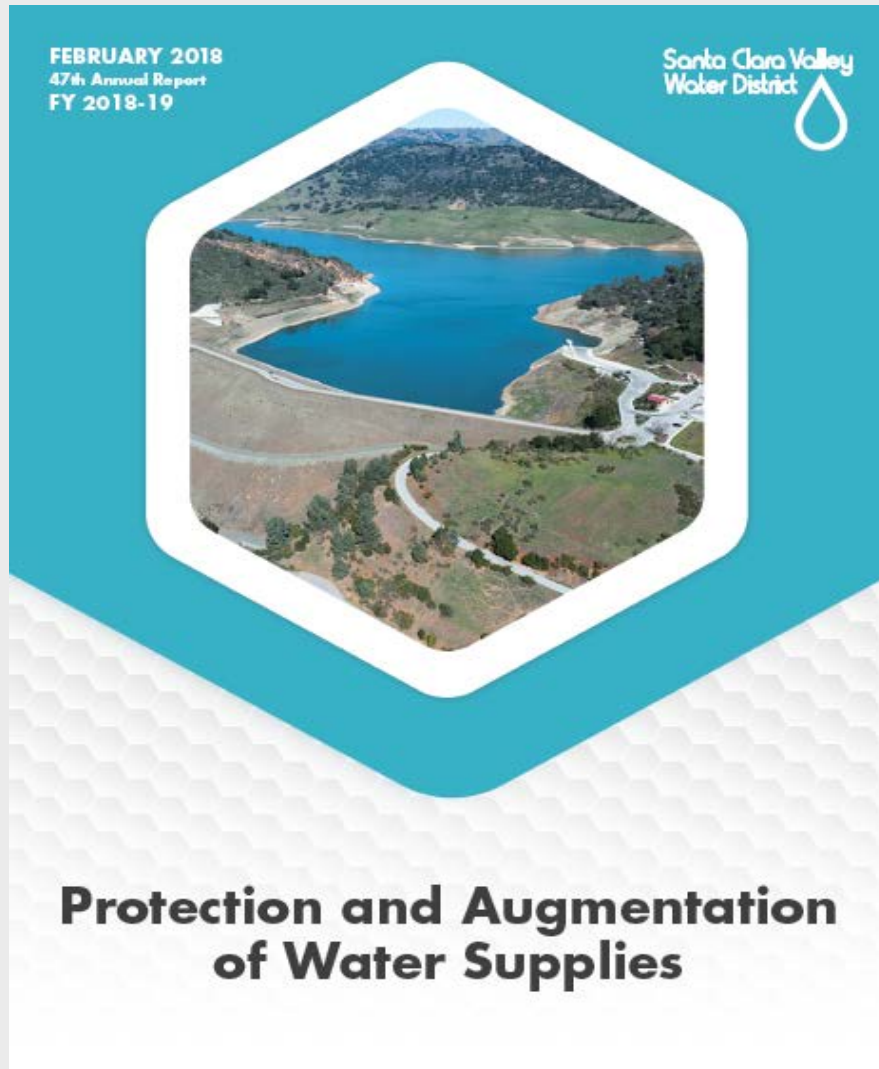
April 10, 2018



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 2018-19

47th Annual Report Provides Information, Accountability



2018 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

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



Topics For Today's Public Hearing

- ▶ Rate Setting Process
- ▶ FY 19 financial analysis and projections
 - ▶ Water Usage
 - ▶ Cost Projection
 - ▶ Proposed Maximum Groundwater Production Charges & Staff Proposed Adjustments
 - ▶ 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

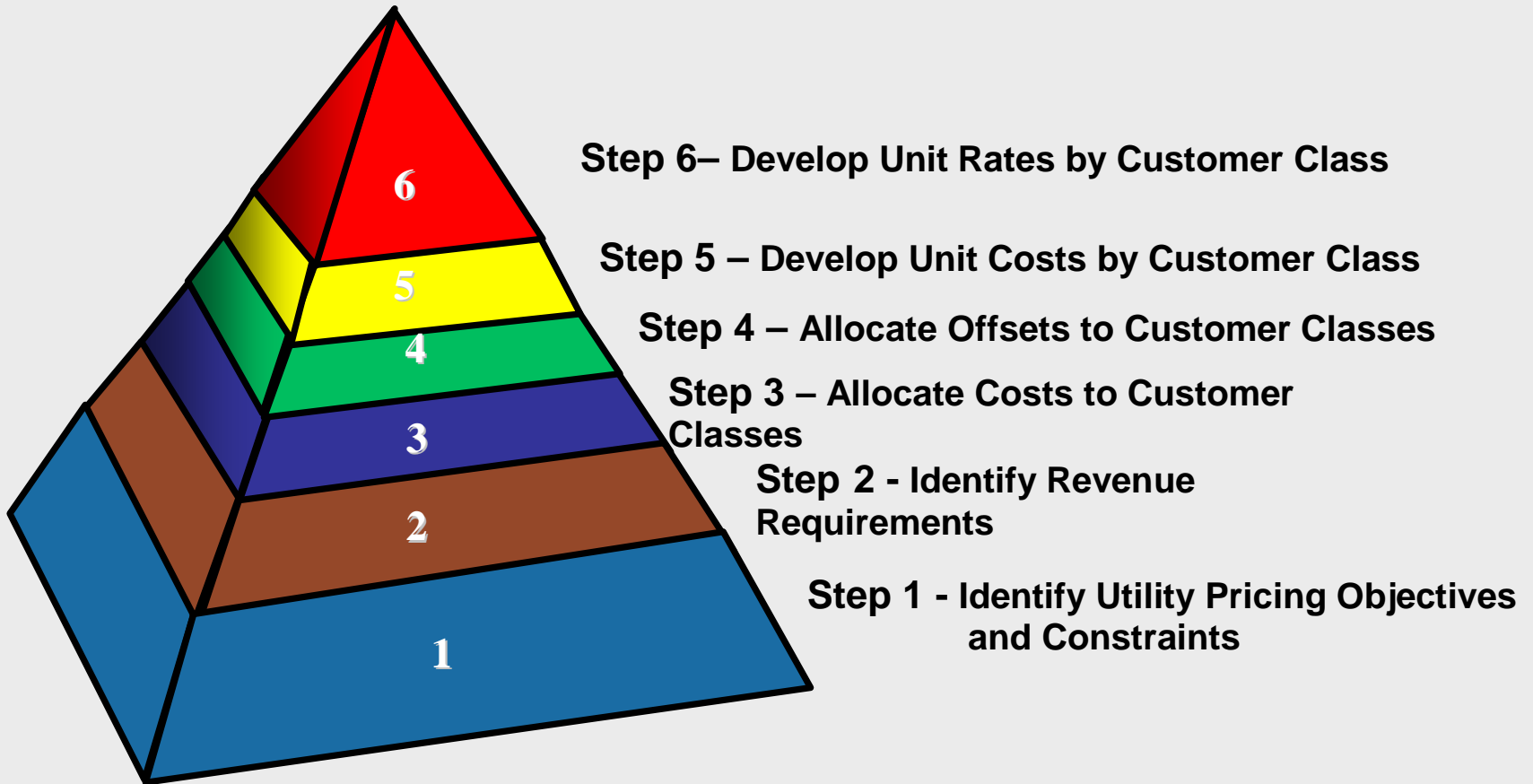
- ▶ **Resolution 99-21:** Utility taxing and pricing policy guides staff in the development of the overall structure to charge recipients for the various direct and indirect benefits received
- ▶ Key concept – “water supplies are managed, through taxing and pricing, to obtain the effective utilization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

Objective: Maximize effective use of available resources

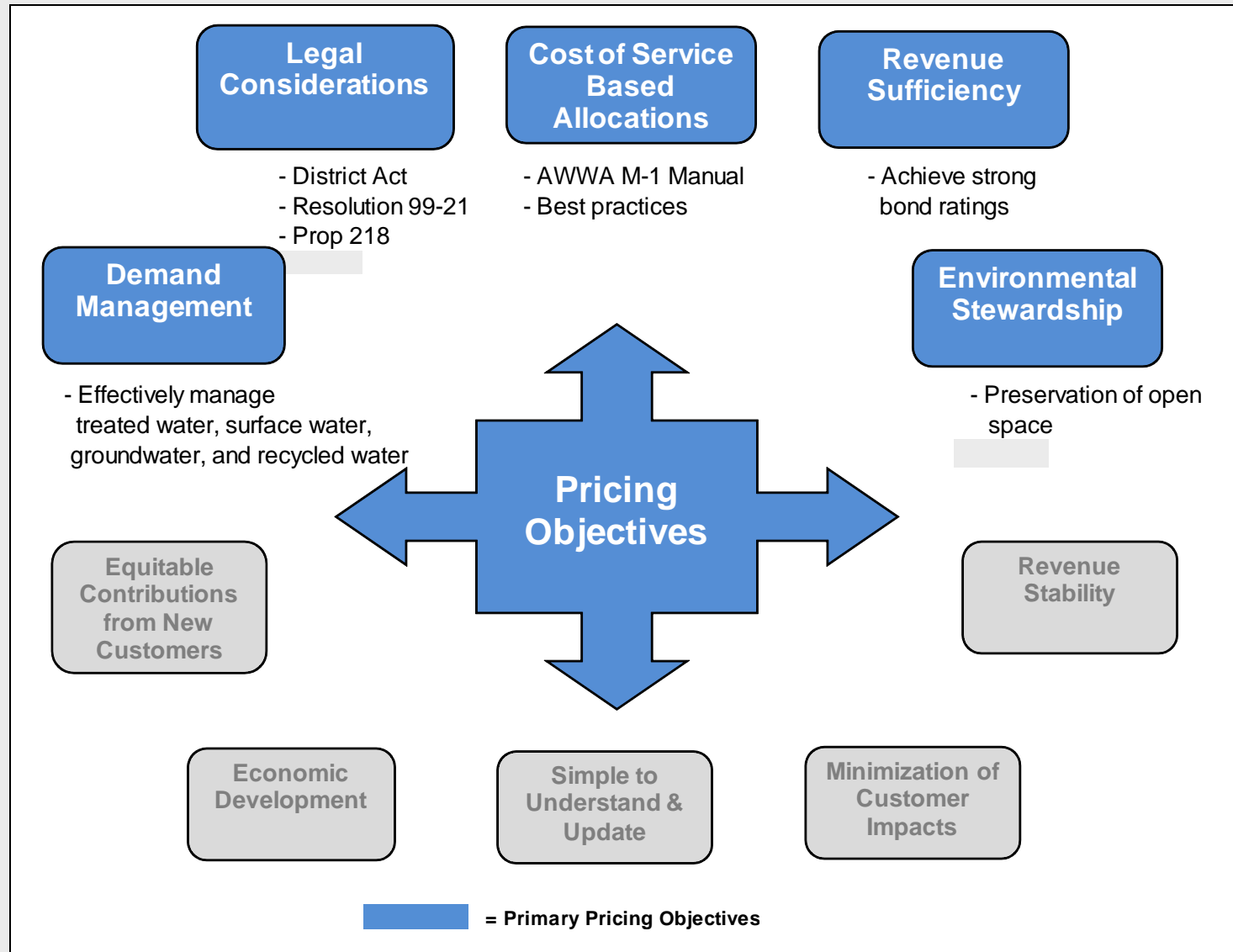
The Charge Setting Process is Consistent with Resolutions 12-10 and 12-11

- ▶ 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 = <1.1% for GW, 0% for SW
 - ▶ Prior Year Results South County = <0.6% for GW, 0% for SW

The District follows best practice rate making steps



Pricing Objectives and Constraints



FY 19 Financial Analysis and Projections

FY 19 Key Assumptions

California Water Fix (CWF):

- ▶ Cost projection based on 7.5% share of SWP-only CWF project
- ▶ State Water Project Tax reliance to be considered when CWF agreements are in place

Expedited Purified Water Program:

- ▶ Includes P3 project delivery method for IPR to Los Gatos Ponds to produce 24KAF
 - ▶ P3 cost projection based on \$630M capital project, District contributes 30% “pay as you go”
 - ▶ Includes new P3 reserve at \$4M in FY 19 growing to \$10M by FY 21
- ▶ Includes Long Term Purified Water Program Project to produce incremental 20KAF
 - ▶ P3 cost projection based on \$368M capital project, District contributes 30% “pay as you go”

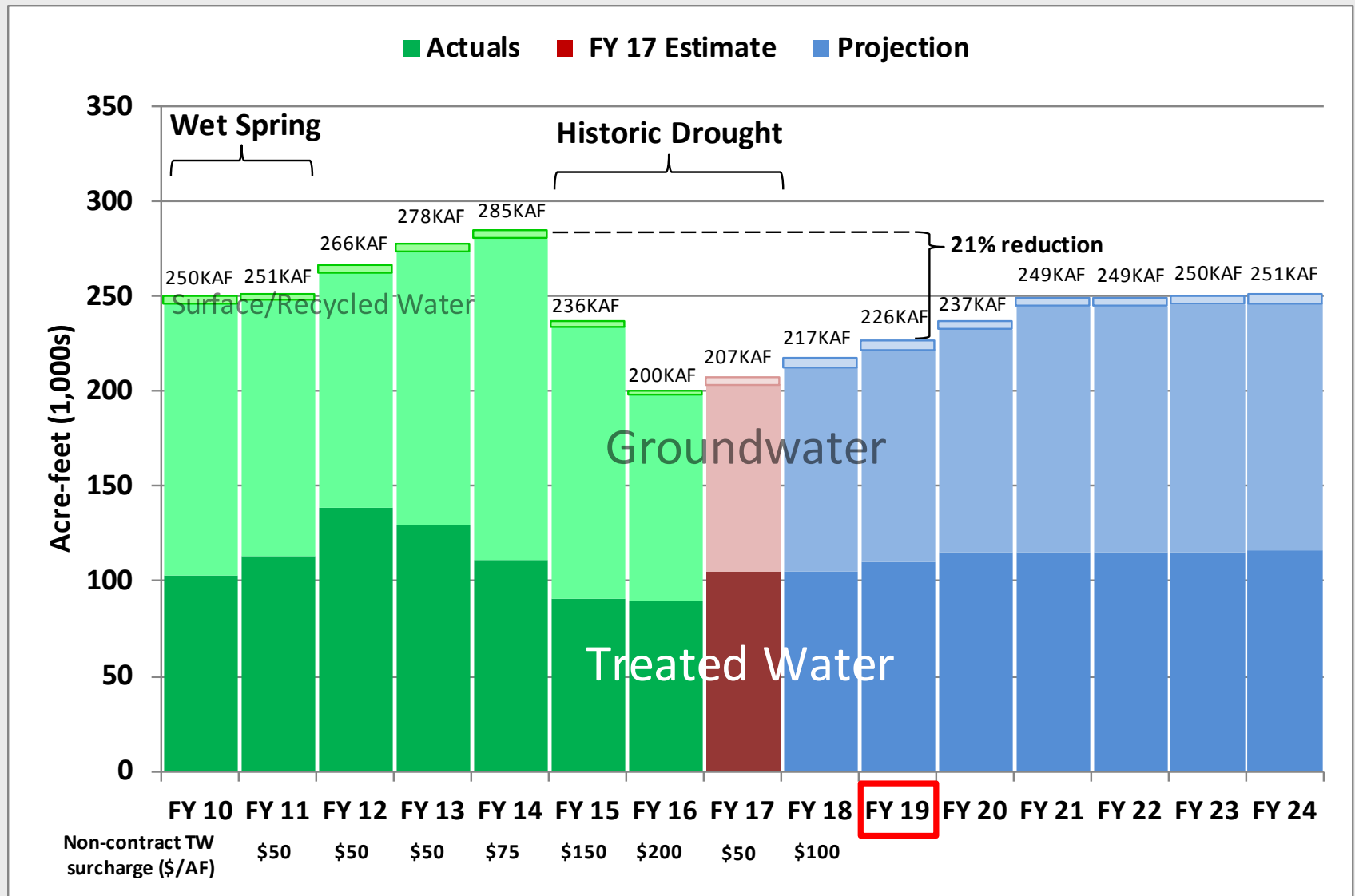
Drought Reserve:

- ▶ Increased from \$5 million to \$7 million for FY 19

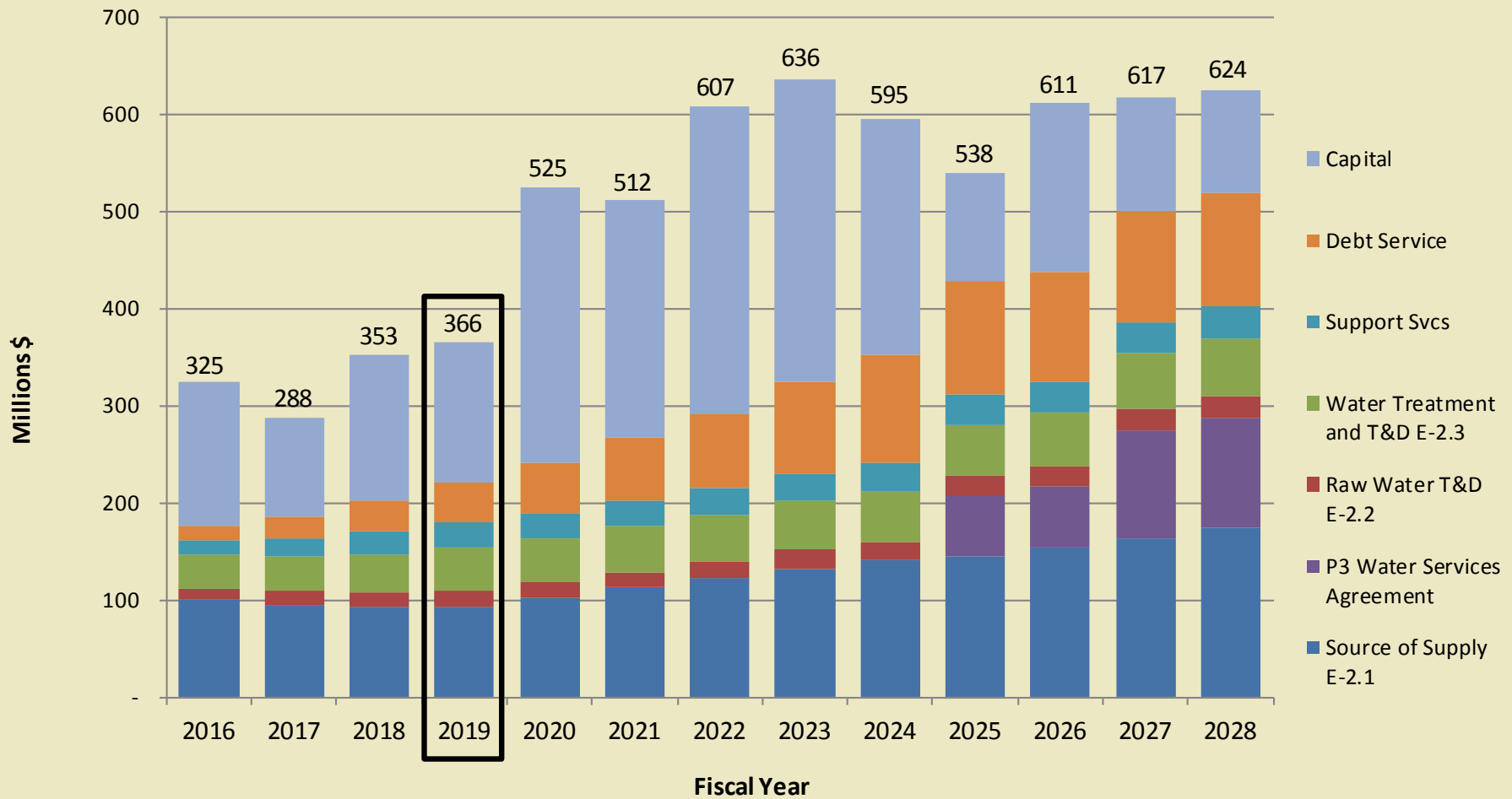
Water Supply Master Plan:

- ▶ Includes “No Regrets” Package

District Managed Water Usage drives revenue projection



Cost Projection



Key Capital Project Funding for FY 19 through FY 28



Dam Seismic Retrofits/Improvements
\$678 Million
(\$780 Million Total Cost)



RWTP Reliability Improvements
\$125 Million
(\$290 Million Total Cost)



**Expedited Purified
Water Program**
**(\$1 Billion Total Cost,
via P3 Delivery Method)**

Key Capital Project Funding for FY 19 through FY 28 (cont'd)

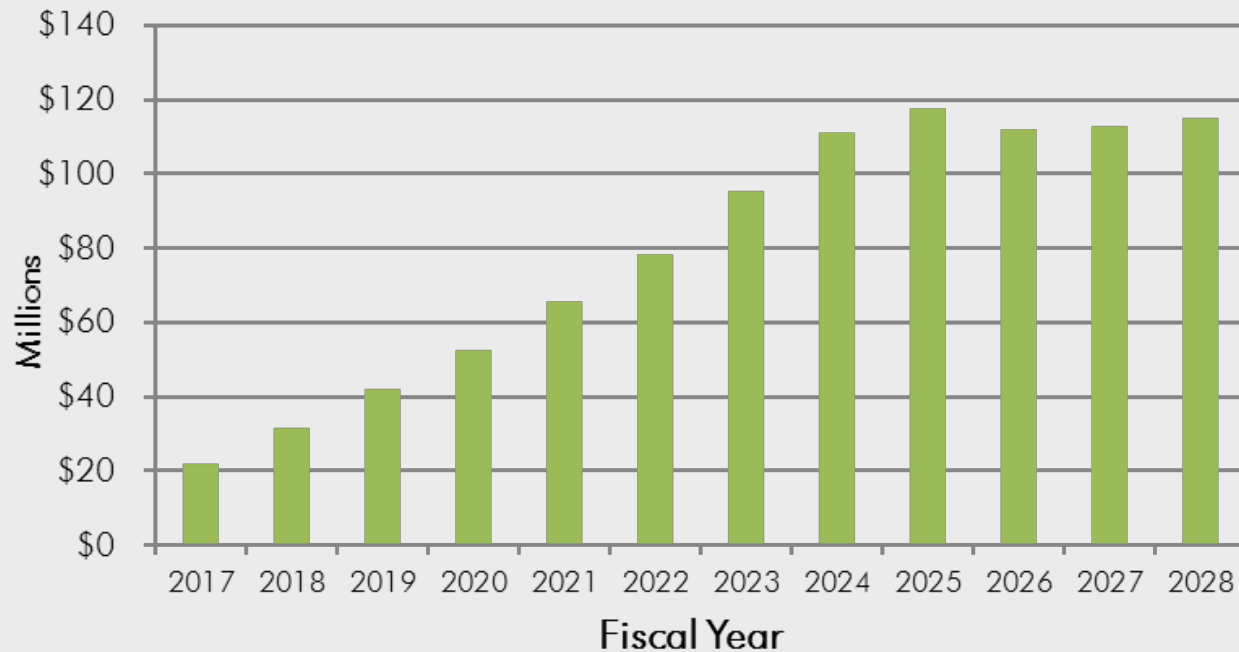
- FAHCE Implementation Fund (\$145M placeholder)
- 10 Year Pipeline Rehabilitation (\$98M)
- Vasona Pumping Plant Upgrade (\$20M)



Some projects cannot be funded without higher future charges

- Pacheco Reservoir Expansion (\$1.2B)
- Dam Seismic Stability at 2 Dams – Unfunded portion (\$89.5M)
- SCADA Small Capital Improvements (\$19.6M)
- South County Recycled Water Reservoir Expansion (\$7.0M)
- Land Rights – South County Recycled Water Pipeline (\$5.8M)
- Alamitos Diversion Dam Improvements (\$3.2M)
- Coyote Diversion Dam Improvements (\$2.5M)

Implementation of CIP results in debt service increases



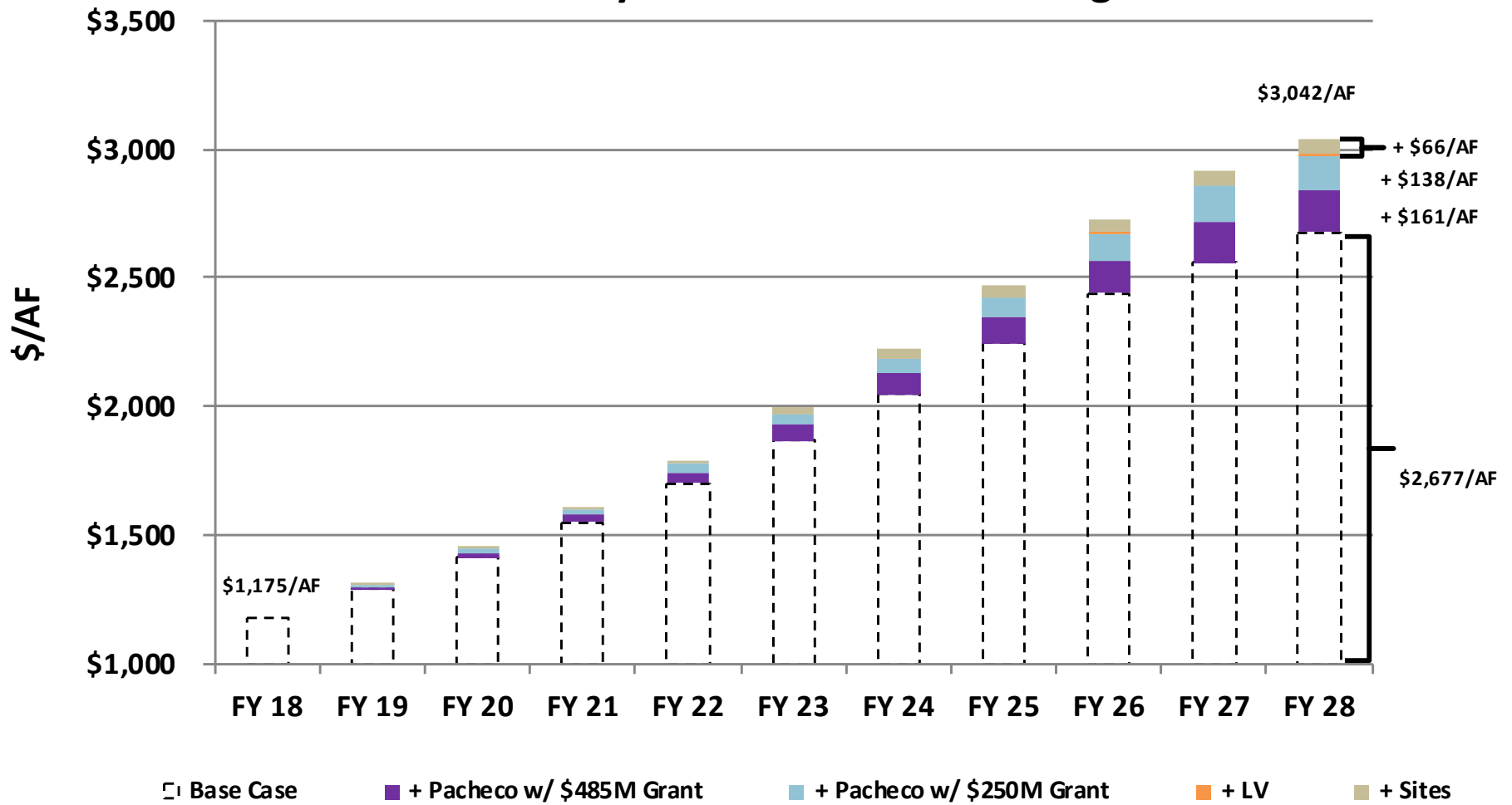
\$42.0M in FY 2018-19

\$116.5M in FY 2027-28

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

Water Supply Investment Scenarios

North County M&I Groundwater Charge



Notes:

- Stacked bar reflects incremental rate impact associated with adding each alternative
- Base Case includes CWF @ 7.5%

Proposed Maximum Groundwater Production Charges & Staff Proposed Adjustments

FY 2019: North County Proposed Maximum Charges

9.7% ~~9.9%~~ increase for M&I groundwater production
 8.9% ~~9.1%~~ increase for contract treated water 14.0%
 9.7% ~~9.8%~~ increase for M&I surface water & ~~14.1%~~ for Ag surface water
 22.0% ~~22.3%~~ increase for Ag groundwater production

Staff proposed adjustments as of 3/14/18

		Dollars Per Acre Foot		
		FY 2016-17	FY 2017-18	Proposed Maximum FY 2018-19
Zone W-2 (North County)				
Basic User/Groundwater Production Charge				
Municipal & Industrial		1,072.00	1,175.00	1,291.00 1,289.00
Agricultural		23.59	25.09	30.67 30.61
Surface Water Charge				
Surface Water Master Charge		27.46	33.36	36.00 35.93
Total Surface Water, Municipal & Industrial*		1,099.46	1,208.36	1,327.00 1,324.93
Total Surface Water, Agricultural*		51.04	58.45	66.67 66.54
Treated Water Charges				
Contract Surcharge		100.00	100.00	100.00
Total Treated Water Contract Charge**		1,172.00	1,275.00	1,391.00 1,389.00
Non-Contract Surcharge		50.00	50.00	50.00
Total Treated Water Non-Contract Charge***		1,122.00	1,225.00	1,341.00 1,339.00

*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

\$3.92

~~\$4.00~~ per month average household increase

FY 2019: South County Proposed Maximum Charges

~~7.7%~~ ~~7.9% increase for M&I~~ & ~~22.3%~~ ~~for Ag groundwater production~~ ~~22.0%~~
~~7.7%~~ ~~7.9% increase for M&I surface water~~ & ~~14.1%~~ ~~for Ag surface water~~ ~~14.0%~~
~~8.0%~~ ~~8.3% increase for M&I recycled water~~ & ~~22.3%~~ ~~for Ag recycled water~~ ~~22.0%~~

Staff proposed adjustments as of 3/14/18

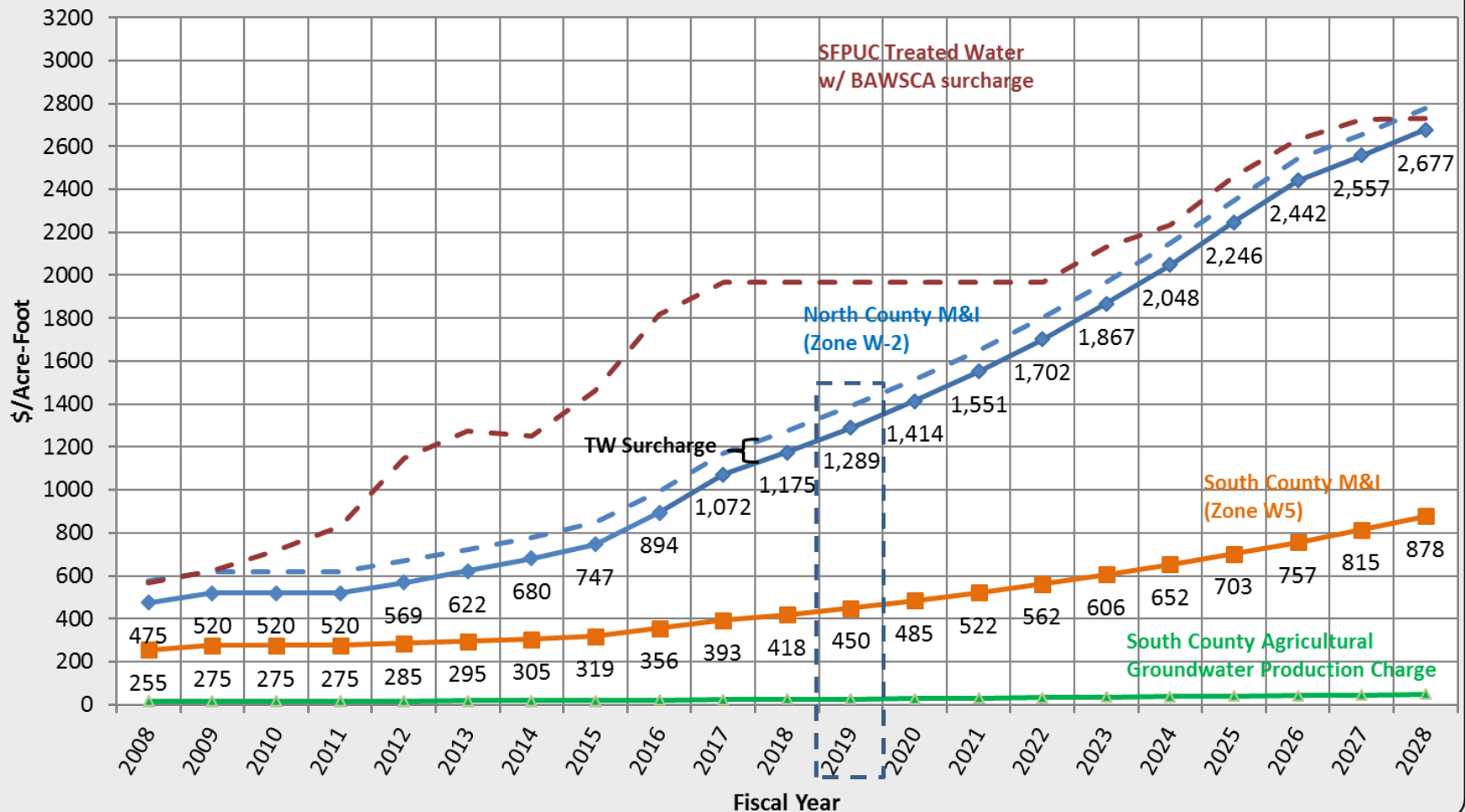
		Dollars Per Acre Foot		
		FY 2016–17	FY 2017–18	Proposed Maximum FY 2018–19
Zone W-5 (South County)				
Basic User/Groundwater Production Charge				
	Municipal & Industrial	393.00	418.00	451.00 450.00
	Agricultural	23.59	25.09	30.67 30.61
Surface Water Charge				
	Surface Water Master Charge	27.46	33.36	36.00 35.93
	Total Surface Water, Municipal & Industrial*	420.46	451.36	487.00 485.93
	Total Surface Water, Agricultural*	51.04	58.45	66.67 66.54
Recycled Water Charges				
	Municipal & Industrial	373.00	398.00	431.00 430.00
	Agricultural	47.38	48.88	54.46 54.41
*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				

\$1.10

~~\$1.14~~ per month average household increase

Groundwater Production Charge Projection

Groundwater Production Charges



Groundwater Production Charge Projection

	Adjusted Budget							
	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Base Case								
No. County (W-2) M&I GWP charge (\$/AF)	\$1,175	\$1,289	\$1,414	\$1,551	\$1,702	\$1,867	\$2,048	\$2,246
Y-Y Growth %	9.6%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
So. County (W-5) M&I GWP charge (\$/AF)	\$418	\$450	\$485	\$522	\$562	\$606	\$652	\$703
Y-Y Growth %	6.4%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Ag GWP charge (\$/AF)	\$25.09	\$30.61	\$32.97	\$35.51	\$38.24	\$41.19	\$44.36	\$47.77
Y-Y Growth %	6.4%	22.0%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Operating & Capital Reserve	\$45,117	\$35,459	\$45,828	\$50,377	\$53,626	\$60,021	\$61,781	\$71,758
Supplemental Water Supply Reserve (\$K)	\$14,677	\$15,077	\$15,477	\$15,877	\$16,277	\$16,677	\$17,077	\$17,477
Sr. Lien Debt Svc Cov Ratio (1.25 min)	2.56	2.39	2.92	2.77	2.60	2.41	2.36	1.98
South County (Deficit)/Reserves (\$K)	\$11,507	\$8,444	\$10,896	\$11,735	\$13,120	\$15,450	\$10,767	\$8,109

Assumptions:

- ▶ Water Usage: FY 2018-19 at 226KAF, 4.1% increase vs FY 18 estimate & 21% reduction vs CY 2013
- ▶ Operations Costs: Consistent with Adopted FY 2017-18 budget
- ▶ CIP: Proposed FY 19-23 CIP is funded

State Water Project Tax Recommendation

- ▶ Staff recommends decreasing the SWP tax from \$26M to \$18M
- ▶ The SWP tax bill for the average single family residence would decrease from \$39.00 to \$27.00/year.

Impact if SWP tax not approved:

- \$98/AF in terms of North County M&I groundwater production charge
- \$21/AF in terms of South County M&I groundwater production charge
- \$525,000 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	COUNTY EDUC-EDUAL CITY SCHOOL CO. EDUC COMM. COL.	86.57 33.73 339.44 67.28 -117.58	12108 04560 44698 9211 CREDIT	92.02 34.96 339.70 70.00 -117.14	PRTKEY=MORTG SEC=65 MTG=LOAN#
PRIM. TOT.	76000		7600	STATE AID	409.44	70575	419.24	
SUBTOTAL				SECONDARY				FIRST HALF TAX AMOUNT
LAND/BLDG PERSONAL EXEMPTION				FLOOD CAWCS OVERIDES FIRE DIST. ASST. LIBRARY BONDS	16.10 8.12 78.16 3.96 5.32	2119 1200 9571 2068 0521	16.10 8.12 72.74 3.96 84.82	DUE OCT. 1, 2004 DELINQUENT AFTER NOV. 1, 2004
SEC. TOT.	76000	10.0	7600	-COUNTY -CITY -SCHOOLS -COMM COL.	104.59 10.45 228.24	12477 1181 27118	8.82 8.82 206.08	SECOND HALF TAX AMOUNT
SPECIAL DISTRICT (VALUE/ACRES/SQ FT) = ASSESSED				DIST#				DUE MARCH 1, 2005 DELINQUENT AFTER MAY 2, 2005
HOSPITAL DISTRICT NO 1 EAST VALLEY INSTITUTE TECH				7600 7600	10846 30001	7.42	1032	INTEREST ON LATE PAYMENT IS 18% PER YEAR PRORATED MONTHLY AS OF THE FIRST DAY OF THE MONTH. AHS § 42-18003
TOTALS						845.10	\$633.16	KEEP THIS PORTION FOR YOUR RECORDS

Schedule & Wrap Up

2018 schedule for hearings and meetings

- ✓ Jan 9 Board Meeting on Preliminary Groundwater Prod. Charge Analysis
- ✓ Feb 24 Mail notice of public hearing and file PAWS report
- ✓ March 21 Water Retailers Meeting
- ✓ April 2 Ag Water Advisory Committee
- ✓ April 3 Landscape Committee Meeting
- April 10 Open Public Hearing
- April 11 Water Commission Meeting
- April 12 Continue Public Hearing in Gilroy (Informational Open House)
- April 16 Environmental & Water Resources Committee
- April 24 Conclude Public Hearing
- May 8 Adopt budget & groundwater production and other water charges

Note: Protests may be submitted between the date the notice was mailed (February 23) and the conclusion of the hearing (April 24)

Feedback from Advisory Committees and Community

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

Summary and Next Steps

Summary

- ▶ FY 19 increase driven by critical investments in water supply infrastructure, and investments in future supplies

Next Steps

- ▶ Obtain Feedback from Water Commission and Environmental & Water Resources Committee
- ▶ Continue Hearing to April 12 in Gilroy

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