

Santa Clara Valley Water District

Board of Directors Meeting: Special Board Leadership Study
Friday, June 8, 2018



Summary of Item 2.1: Board Leadership Work Session

The Board, staff and members of the public engaged in a facilitated work session to discuss and brainstorm on how the Board could ensure effective representation for our constituents as we provide a safe, clean and affordable supply of water, construct natural flood protection projects, and deliver on our environmental and stream stewardship commitments to our community for a healthy life, environment and economy within our current funding constraints.

The discussion related to the following sub-topics:

1. Current and potential future demands on Watersheds Stream Stewardship Property Tax Revenue
2. Meeting District Commitments with the Safe, Clean Water Special Tax Revenue; and
3. Affordability of Water Charges.

The Leadership Study Work Session began with a financial overview presentation from the Chief Financial Officer on the strongest opportunities to generate new revenue and the financial status of each of the three funds that correspond with the three sub-topics.

Strongest Opportunities to Generate New Revenue

(according to November 2017 Report by Financial Consultant, William C. Statler)

1. Special Parcel Tax

- Similar to SCW measure passed by voters in 2012
- Would require two-thirds voter approval
- Largely an unrestricted revenue source

2. Benefit Assessments

- Similar to existing flood protection benefit assessments
- Would require property owner majority voter approval
- Must be based on benefit per parcel per engineer's report

3. Development Impact Fees

- Can only be used for capital improvements benefitting new development
- Typically collected by cities and counties along with building permit fees
- District's ability to collect contingent on cooperation of land use planning agencies

Financial Status by Fund

- **Watershed Stream Stewardship Fund** – Many potential future demands on \$50M FY 28 surplus reserves.
- **Safe Clean Water Fund** – Many potential future demands on \$12M FY 28 surplus reserves.
- **Water Utility Fund** – Financially healthy but projected rate increases are substantial.

The facilitated discussion focused on identifying the following for each of the sub-topics:

- **Givens** – Identify what is known and will not change, such as Board Priorities (FY19) and Board actions.
- **Strive to avoid** – Identify what we don't want to have to do and what our solutions will strive to avoid.
- **Consider pursuing** – Identify solutions for staff to analyze for the Board's consideration.

Participants in the discussion included the Board, staff and members of the public.

The tables enclosed are a summary of the discussion notes that were displayed during the meeting. The Board directed staff to further research for feasibility the ideas shown in the Consider Pursuing column. In addition, Board directed staff to pursue further analysis on feasibility of the three strongest opportunities to generate new revenue (Special Parcel Tax, Development Impact Fees, and Benefit Assessments) for each of the three sub-topics, summarized above, and requested a clear explanation of how each option works. The Board also directed staff to include interested stakeholders in the feasibility review process for Benefit Assessments for funding Water Utility capital projects and explore a water affordability and environmental stewardship tax or benefit assessment.

Watersheds Stream Stewardship Property Tax Revenue

Givens	Strive to Avoid	Consider Pursuing
<p>Board Priorities (FY19):</p> <ul style="list-style-type: none"> • Provide for watershed-wide regulatory planning and permitting effort • Foster a coordinated approach to environmental stewardship effort • Immediate Emergency Action Plan and flood protection for Coyote Creek <p>Board actions:</p> <ul style="list-style-type: none"> • Directed staff to look into feasibility of potential private funding for supporting Open Space Credit • Board Homeless Encampment Ad Hoc Committee is scheduled to research potential funding sources for encampment cleanup beyond 2019 • Chair Santos assigned 3 Board members to research feasible revenue sources allowed by the District Act <p>Group's additions:</p> <ul style="list-style-type: none"> • Board doesn't have control over the amount collected each year • Board has control over how funds are spent • Open Space Credit is funded by the 1% property tax • When the Capital Improvement Program (CIP) projects are completed in the next 5-8 years, the operations and maintenance (O&M) costs will increase 	<ul style="list-style-type: none"> • Negative public perception • Avoid excessive permitting and mitigation requirements • Legal challenges, such as California Environmental Quality Act (CEQA) lawsuits • Conflicts with sister agencies, non-profits, environmental agencies • Being distracted from our vision while being flexible and adaptable • Avoid conflicts with property ownership; (e.g. encroachments) • Misalignment of public's expectations with District priorities • Providing unrealistic timelines • Conflicts with non-profit and environmental agencies 	<p>Explore Tax Options</p> <ul style="list-style-type: none"> • Find out if the 1% ad valorem tax is based on all of the County taxes, including personal property, or only real property. If not, do we have authority for collection. • If personal property is not included in the 1% ad valorem tax from the county, the District should explore other taxes, including personal property taxes on businesses • Explore a process for the Board to be engaged in allocation of the property tax prior to the budget process (e.g. possibly using property tax to address Safe, Clean Water shortfalls) <p>Open Space Credit Endowment Fund</p> <ul style="list-style-type: none"> • Explore working with a foundation to set up an endowment fund that would allow private companies contribute funds to help keep open space and agriculture alive and well. • Explore business partnerships or sponsorships <p>Water conservation credit and possible separation from groundwater charges</p> <ul style="list-style-type: none"> • Related to the endowment fund concept, consider disconnecting water conservation from water rates by moving the water conservation budget, including all of our landscaping rebate programs related to new developments and existing retrofits, out of from groundwater charges into some kind of a program that is based on a parcel tax or benefit area. • Consider a water conservation credit that allows businesses who can't comply with "conservation as a way of life requirements" to pay for water conservation residential programs in lieu of making water use reductions

		<p>Partnering to generate revenue &/or reduce costs</p> <ul style="list-style-type: none"> • Partner with county and Santa Clara Valley Transportation Authority (VTA) and Open Space Authority on trails projects and pursue funding together • Partner with other agencies to do stream stewardship in conjunction with parks and recreation projects. Consider pursuing the following: <ul style="list-style-type: none"> ◦ Continue to engage other policy makers for partnership opportunities ◦ Explore a mix of local and county revenue sources ◦ Realize revenue together, with other agencies on integrated projects ◦ Use One Water as a vehicle to integrate stewardship, recreation, flood protection, and water supply. Currently it is forward looking, but it could look at existing projects for integration. ◦ To avoid spending funds on projects that are not critical to our mission, consider partnering with cities/county on a joint ballot measure that includes recreational items with a formula to split where the funds go, which could be more appealing to voters • Explore partnering with the county on taxes they are able to implement that the District cannot (i.e. sales tax) • Partner with other agencies to pursue different revenue sources • Work with other agencies to identify resources to collectively address priorities outside of District's core mission areas (i.e. homeless encampments)
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Safe, Clean Water Special Tax Revenue

Givens	Strive to Avoid	Consider Pursuing
<p>Program Priorities:</p> <p>Priority A: Ensure a safe, reliable water supply</p> <p>Priority B: Reduce toxins, hazards and contaminants in our waterways</p> <p>Priority C: Protect our water supply from earthquakes and natural disasters</p> <p>Priority D: Restore wildlife habitat and provide open space</p> <p>Priority E: Provide flood protection to homes, businesses, schools, and highways</p> <p>Other Givens:</p> <ul style="list-style-type: none"> • Special tax sunsets in FY28 • Commitment to deliver 38 projects <p>Board actions:</p> <ul style="list-style-type: none"> • Board Homeless Encampment Ad Hoc Committee is scheduled to research potential funding sources for encampment cleanup beyond 2019 • Chair Santos assigned 3 Board members to research feasible revenue sources allowed by the District Act • Board CIP Committee is scheduled to develop some more robust prioritization criteria for stewardship capital projects for the Board's discussion <p>Group's additions:</p> <ul style="list-style-type: none"> • We are entering the second 5 years of the Program • Priorities A, C and E are on track 	<ul style="list-style-type: none"> • Avoid not delivering any Safe, Clean Water project • Avoid waiting too long to come to the Board to make key decision (esp. stewardship projects) • Avoid creating challenges in delivering stream stewardship projects (i.e. approach like CIP projects instead) • Avoid being short-sighted with how we manage this Program • Avoid creating conflicts for the FAHCE team as we engage on stream stewardship projects 	<p>Internal proactive effort to focus on delivery, prioritization and funding</p> <ul style="list-style-type: none"> • Create a unit or team to support the ongoing effort to deliver the Safe, Clean Water Program and manage the following initiatives: <ul style="list-style-type: none"> ◦ Review Priorities and funding to ensure all Priorities have sufficient funding to be accomplished under the Program ◦ Develop a clear vision of the path forward in delivering current priorities and identifying future priorities for voter consideration ◦ Maintain an adequate level of contingency based upon Program year to ensure sufficient funds are available to deliver the Program ◦ Identify adjustments or modifications that may be required to address funding priorities ◦ Identify potential issues and roadblocks to the delivery of Priorities B and D ◦ Identify staff resources to plan, coordinate, and lead strategic communications for all stream stewardship projects, including Fisheries and Aquatic Habitat Collaborative Effort (FAHCE) projects <p>SCW alignment with FAHCE</p> <ul style="list-style-type: none"> • Work internally and externally to ensure consistency with Fisheries and Aquatic Habitat Collaboration Effort (FAHCE) settlement • Explain the linkage between the Safe, Clean Water stewardship projects with FAHCE <p>Board engagement on Watershed Stream Stewardship (WSS) Fund</p> <ul style="list-style-type: none"> • Explore a process for the Board to be engaged in allocation of the property tax prior to the budget

<ul style="list-style-type: none"> • Priorities B and D (environmental stewardship projects) require more Board engagement • If we want to go out for another special parcel tax, we have to deliver • Assumptions made at the onset of the Program are causing challenges • Board has the authority to make changes to the Program 		<p>process (e.g. possibly using property tax to address Safe, Clean Water shortfalls)</p> <ul style="list-style-type: none"> • Engage the Board on high level issues such as funding or land use when working with the county on stream stewardship projects <p>Proactively engage cities and county in planning, partnerships, and regulatory lobbying</p> <ul style="list-style-type: none"> • Be proactive when working with other agencies • Work with partners within the county to identify opportunities to lobby together (i.e. with regulatory agencies) on regulatory issues that are mutually beneficial • Review the feasibility of suggestions from Congresswoman Zoe Lofgren regarding implementing joint powers authorities (JPAs) • Establish a closer working relationship with the County moving forward, for example identifying joint principles and interests on various issues • Participate with other agencies when they develop their strategic plans • Request presentations from cities on their strategic plans to the Board <p>Definition: "Other agencies" include cities, counties, retailers and NGOs.</p>
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Water Charges

Givens	Strive to Avoid	Consider Pursuing
<p>Board Priorities (FY19):</p> <ul style="list-style-type: none"> • Make key decisions regarding the California (CA) Water Fix • Advance the Anderson Dam Seismic Retrofit Project • Advance recycled and purified water efforts • Finalize Fisheries and Aquatic Habitat Collaboration Effort (FAHCE) • Actively pursue efforts to increase water storage opportunities <p>Additional:</p> <ul style="list-style-type: none"> • Staff requested Proposition 1 funding for water storage projects <p>Board actions:</p> <ul style="list-style-type: none"> • Approved the P3 (public-private partnership) project delivery and financing for the Purified Water Program to ease the projected water charges • Chair Santos assigned 3 Board members to research feasible revenue sources allowed by the District Act • Board CIP Committee is studying feasibility of available methods, other than Water Charges, to fund capital projects • Board directed staff to research affordability for disadvantaged communities and bring back recommendations on how to implement a low income and senior resident water payment assistance program 	<ul style="list-style-type: none"> • Unaffordable rates • Avoid increasing water rates • Avoid letting others establish the narrative for us • Avoid infrastructure failure and water shortage • Avoid community fatigue of rate increases • Avoid misuses of the rates • Avoid pitting the environment against water reliability 	<p>Strategic communications and coordination</p> <ul style="list-style-type: none"> • Follow Government Relations lead with communications for politically sensitive topics • Spend more time strategically engaging with other agencies • Consider opportunities to use “plain English” to explain to the public • Create a simple, easy-to-understand explanation of how rates work so people understand • Coordinated communications with the cities regarding rates and water storage <p>Additional opportunities for revenue</p> <ul style="list-style-type: none"> • Explore water rights that are for sale and storage opportunities outside the county • If we have a water surplus, could we sell it and are there restrictions on those revenues? • Pursue external funding, such as grant funding and cost-share agreements • Explore opportunities for revenue generation through identifying alternative uses for District-owned properties <p>Water Supply Master Planning</p> <ul style="list-style-type: none"> • Explore additional opportunities to capture and store water • Engage Board in the 2040 Water Supply Master Plan • Pursue a connection to environmental stewardship by looking at how we operate our facilities to carry out the function of groundwater recharge and conveyance, as we have received a lot of comments and suggestions from environmental groups about how we look to the future and operate these facilities

<p>Group's additions:</p> <ul style="list-style-type: none"> • District has two groundwater charge zones • District also has four active zones and one inactive zone for flood-protection benefit assessments • Water rates are going up • Per capita usage is projected to go down 		<ul style="list-style-type: none"> • While pursuing a balanced, multi-objective approach to operating our facilities, as referenced above, ensure compliance with the purposes for which groundwater production charges can be used • With the demonstrated water conservation by the community and the new legislation of "Conservation a California way of life", reaching a 20% Conservation goal on an ongoing basis does not seem unreachable. Therefore, a lower Level of Service Goal for future water supply should be evaluated as part of the 2040 Water Supply Master Plan. • Consider and plan for the effects of climate change • Pursue opportunities under the Water Bond • Explain how today's ideas are being considered in the 2040 Water Supply Master Plan at next Board meeting
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Next Steps

- Staff to summarize today's discussion and report an initial analysis to the Board, sooner rather than later.