

# Planning for FY 2019-20 Groundwater Production Charges

November 27, 2018



# Topics

1. Background Information on Groundwater Production Charge Setting Process
  - ▶ District Act
  - ▶ Prop 218 & Prop 26
  - ▶ Pricing Policy
2. North County & South County Infrastructure
3. Water Usage
4. Financial Background
  - ▶ Key Financial Targets
  - ▶ Fixed Charge Analysis
5. Rate Setting Strategy for FY 20
6. Schedule
7. 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 Purposes for Groundwater Charges

1

Imported Water Facilities

2

Imported Water Purchases

3

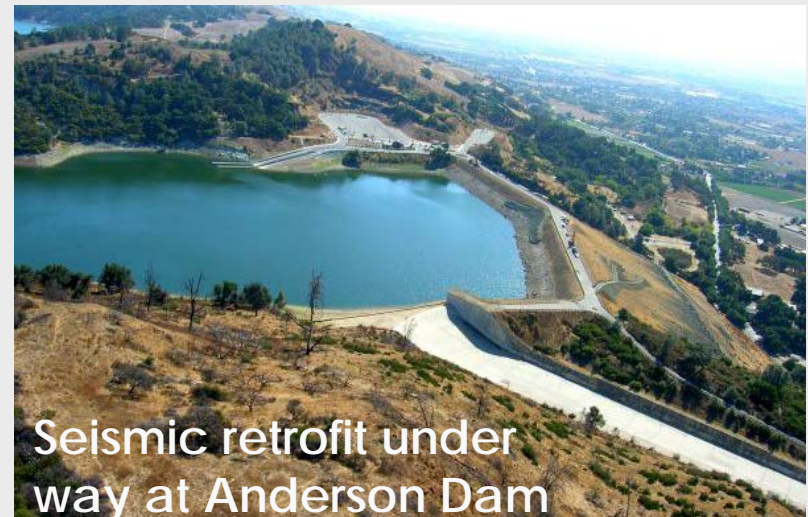
All Facilities which will “conserve or distribute water including facilities for groundwater recharge, surface distribution, and purification and treatment”

4

Debt

# 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 Surface Water 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 Resolution 12-10

## Historical Majority Protest Procedure Results

Fiscal Year	2013	2014	2015	2016	2017	2018
Surface Water						
North County	0%	0%	0%	0%	0%	0%
South County	0%	0%	0%	1.3%	0%	0%

# Prop 218 not applicable to Groundwater Charge-setting Process

- ▶ Supreme Court found Prop 218 not applicable to groundwater charges
- ▶ Staff recommends rescinding Board Resolution 12-11, which would eliminate majority protest procedure
  - ▶ Prop 218 requirements like holding a public hearing, and noticing well owners are consistent with District Act, and would continue

Historical Majority Protest Procedure Results

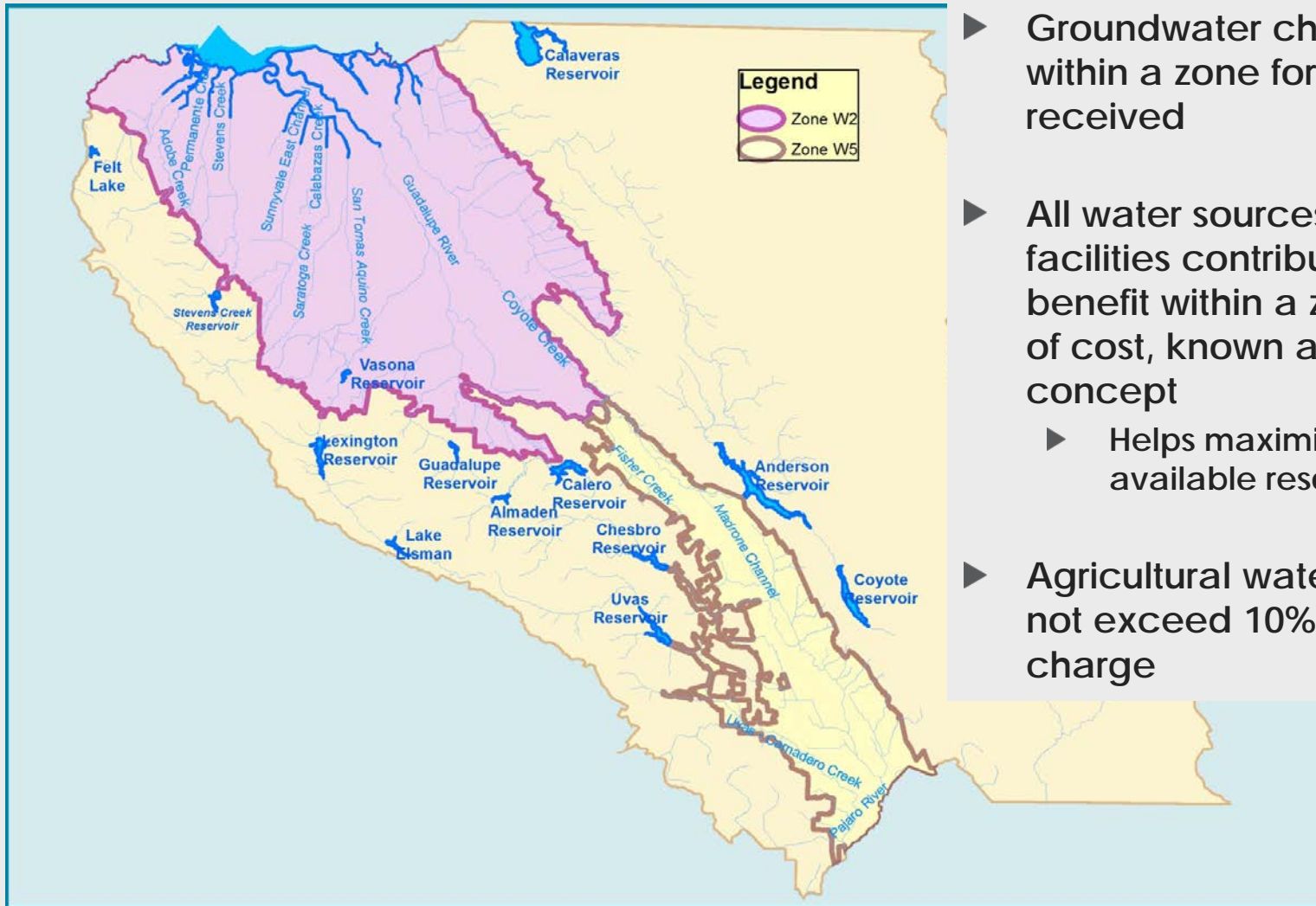
Fiscal Year	2013	2014	2015	2016	2017	2018
Groundwater						
North County	1.4%	1.3%	1.3%	1.2%	1.7%	1.7%
South County	0.8%	0.5%	0.4%	0.5%	0.3%	0.6%

# The Groundwater charge-setting process is Consistent with Prop 26

- ▶ Supreme Court found Prop 26 is applicable to groundwater charges
  
- ▶ To qualify as a nontax fee under Prop 26, GW charge must satisfy both:
  1. GW charge established at amount that is no more than necessary to cover reasonable costs of government activity
  2. Manner in which costs are allocated to payor bear a fair or reasonable relationship to payor's burdens on, or benefits received from government activity



# Resolution 99-21 is the Board's Pricing Policy



- ▶ Groundwater charges are levied within a zone for benefits received
- ▶ All water sources and water facilities contribute to common benefit within a zone regardless of cost, known as “pooling” concept
  - ▶ Helps maximize effective use of available resources
- ▶ Agricultural water charge shall not exceed 10% of M&I water charge

Zone of Benefit Study in progress

# 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**

# 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

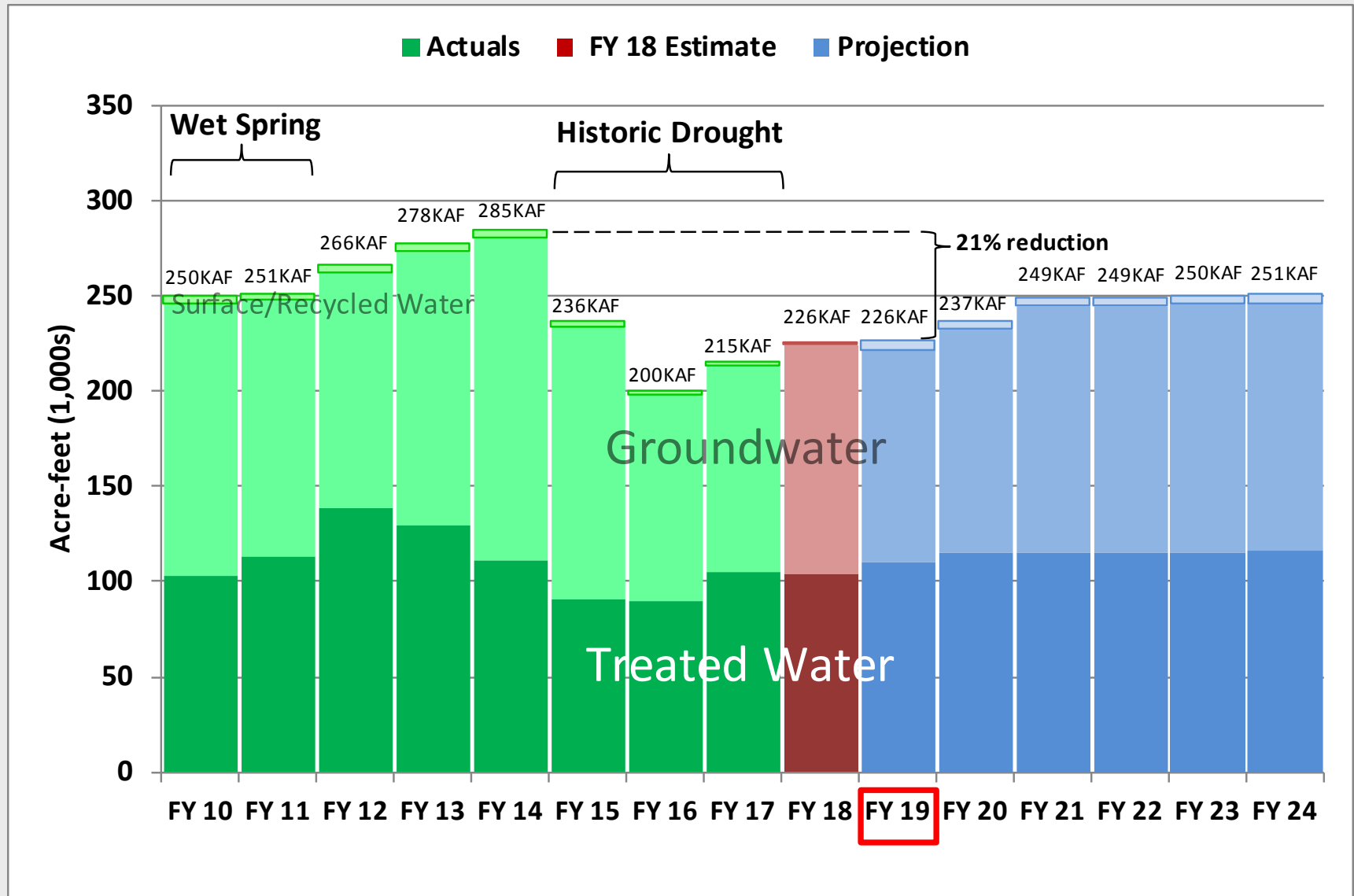
## Shared

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

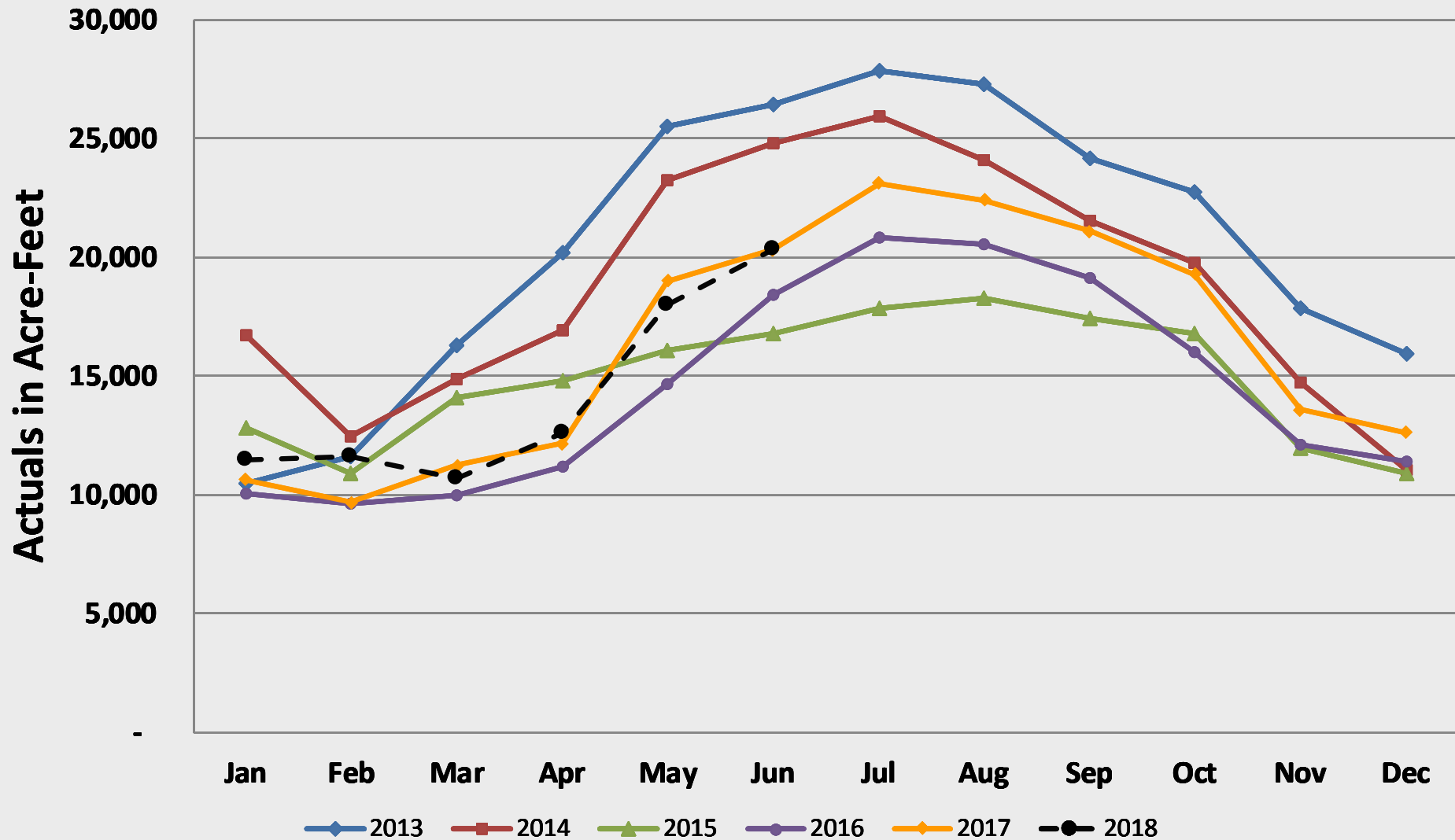
## South County

- Reservoirs – Chesbro, Uvas
- SCRWA Recycled Water System

# Water Usage (District Managed)



# Historic Water Usage (Groundwater & Treated Water)

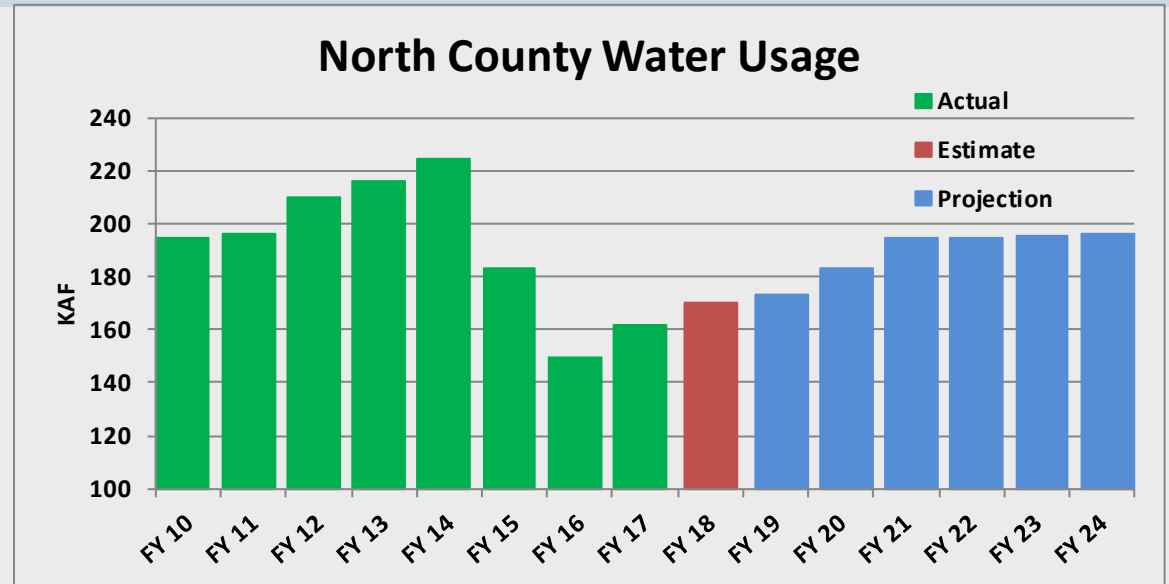


Note: Groundwater Actuals do not include semi-annual and annual billings

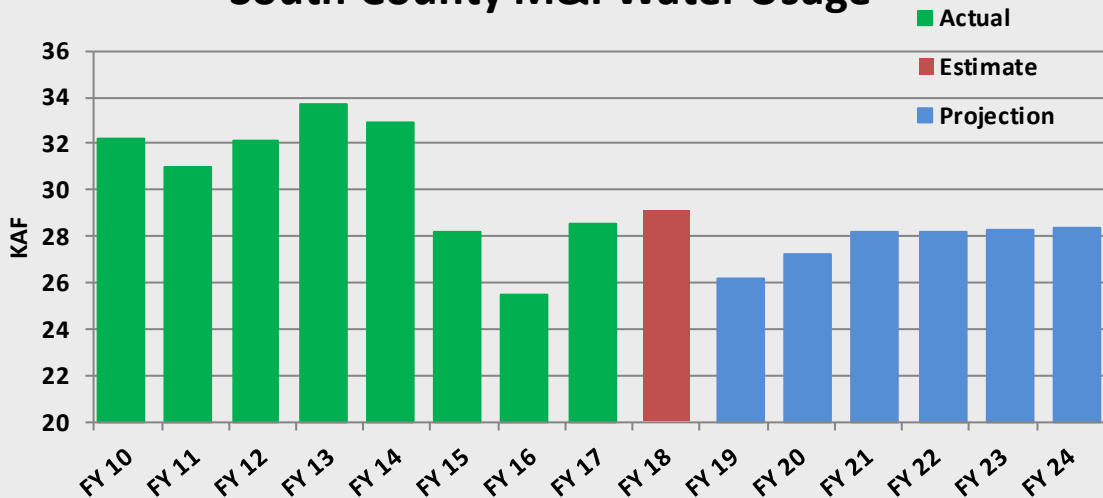
# Water Usage Trend by Zone

## North County Water Usage

Includes Groundwater, Treated Water, & Surface Water



## South County M&I Water Usage



## South County Water Usage

Includes Groundwater, Surface Water & Recycled Water

# Water Usage (District Managed)

	FY14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 25	FY 30
Water Use (AF)	285	236	200	215	226	226	237	252	258
% Change vs FY 14		-17%	-30%	-25%	-21%	-21%	-17%	-12%	-9%
% Change Adjusted for Growth							-23%	-22%	-24%

Note: FY14 water use is equivalent to calendar year 2013, which is the District's base year for conservation comparison purposes

Forecasted water use maintains 20%+ reduction vs FY 14 when adjusted for projected population growth

# 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



# 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

## Project Status:

- ▶ Majority of Water Retailers oppose fixed charge
  - ▶ Retailers see fixed charge as redundant relative to take-or-pay treated water contract
  - ▶ District already has ability to do mid-year increase
  - ▶ Fixed charge may complicate process for regulated retailers
- ▶ District challenges
  - ▶ Could fixed charge be implemented for large retailers only? (versus unmetered individual well owners for example)

Staff recommends suspending FY 20 implementation effort

# Rate setting strategy for FY 20

## Baseline Case Assumptions:

- Pacheco Reservoir Expansion (Non-Prop 1 portion funded by water charges)
- CWF CVP at 6.7% of 33% share
- CWF SWP at 2.5% of 67% share
- Purified Water Expansion (24KAF)
- Los Vaqueros (Bethany Pipeline)
- Guiding Principle #5

## Scenarios:

- Pacheco Reservoir Expansion Funding Alternatives
- Sites, Los Vaqueros (in addition to Bethany Pipeline)
- Purified Water Expansion alternatives beyond 24KAF

# 2019 Schedule

Jan 7	Ag Water Advisory Committee
Jan 8	Board Meeting: Preliminary Groundwater Charge Analysis
Jan 16	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
Jan 23	Water Commission Meeting: Prelim Groundwater Charge Analysis
Feb 12	Board Meeting: Budget development update & Set time & place of Public Hearing
Feb 22	Mail notice of public hearing and file PAWS report
Mar 20	Water Retailers Meeting: FY 19 Groundwater Charge Recommendation
Mar 26	Board Meeting: Budget development update
Apr 1	Ag Water Advisory Committee
Apr 2	Landscape Committee Meeting
Apr 9	Open Public Hearing
Apr 10	Water Commission Meeting
Apr TBD	Continue Public Hearing in South County
Apr 23	Conclude Public Hearing
Apr 24-26	Board Meeting: Budget work study session
May 14	Adopt budget & groundwater production and other water charges

# Summary

- Anticipating increased retailer/public pushback during the FY 20 rate setting cycle

April 2018 annual percentage increase forecast (M&I Groundwater)

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
North County	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
South County	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%

- Staff seeking Board guidance on FY 20 rate setting cycle