Open Space Credit Policy Discussion Continued

January 8, 2019

Santa Clara Valley Water District

Background on OSC Policy Discussions

2013	▶ **Staff completes extensive OSC policy review and stakeholder engagement process** ▶ **Board maintains OSC policy as is** ▶ **South County Ag charge maintained at 6% of M&I**
2014 - 2016	▶ **Board confirms direction to maintain OSC policy as is**
2017	▶ **Presidents Day Flood occurs, CIP Committee explores OSC reductions to free up funding for flood protection projects**
Feb 2018	▶ **Special Ag Advisory Committee meeting convened to discuss OSC Policy**

Background on OSC Policy Discussions

April 2018	**Board directs staff to:** 1. Analyze ag water usage trend scenarios and potential impact on Open Space Credit projection 2. Research feasibility of a reduced ag charge for Williamson Act participants 3. Seek contributions from local private companies or other governmental agencies to fund Open Space Credit
May 2018	**Board continues past practice of setting Ag Charge at 6.0% of South County M&I charge for FY 19**

Williamson Act & Conservation Easements

- **Williamson Act provides tax benefits to property owners who do not develop their land**

- **Conservation Easements permanently extinguish development rights**

	Williamson Act Parcels	Conservation Easement Parcels	Average % of Total Ag Water Use
North County	3	0	1%
South County	171	10	32%
Total	**174**	**10**	**33%**

Williamson Act & Conservation Easements

- **Ag Charge Adjustment Program Alternative for Consideration**
  - Predicated on Williamson Act or Conservation Easement participation
  - If: Ag charge increased to >6% of M&I
  - Then: Adjust back to 6% for Williamson Act and Conservation Easement properties
  - Staff could implement with minimal effort

Williamson Act & Conservation Easements

- Staff estimates that Santa Clara County currently has 245 agricultural properties that may qualify, but are NOT classified as Williamson Act or Conservation Easement properties

- Approximately 16,000 Acre-Feet of water consumed annually by these properties

Williamson Act & Conservation Easements

5-Year Transition

South County

6% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**
Ag Rate % of M&I Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Agricultural	$27.02	$29.10	$31.34	$33.75	$36.35	$39.15

10% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**
Ag Rate % of M&I Rate	6.0%	6.9%	7.8%	8.6%	9.4%	10.0%
Agricultural	$27.02	$33.61	$40.71	$48.37	$56.61	$65.49
OSC Savings ($K)		**$83**	**$173**	**$270**	**$374**	**$486**

Total Anticipated Savings to Open Space Credit **$1.4M**

Potential savings reduction of **$298K** if 25% of eligible properties convert

25% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**
Ag Rate % of M&I Rate	6.0%	10.4%	14.5%	18.3%	21.8%	25.1%
Agricultural	$27.02	$50.40	$75.58	$102.70	$131.91	$163.36
OSC Savings ($K)		**$393**	**$815**	**$1,270**	**$1,761**	**$2,289**

Total Anticipated Savings to Open Space Credit **$6.5M**

Potential savings reduction of **$1.4M** if 25% of eligible properties convert

Williamson Act & Conservation Easements

7-Year Transition

South County

6% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**
Ag Rate % of M&I Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Agricultural	$27.02	$29.10	$31.34	$33.75	$36.35	$39.15	$42.16	$45.41

10% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**
Ag Rate % of M&I Rate	6.0%	6.7%	7.4%	8.0%	8.6%	9.1%	9.6%	10.0%
Agricultural	$27.02	$32.55	$38.51	$44.94	$51.86	$59.31	$67.34	$75.98
OSC Savings		**$58**	**$127**	**$200**	**$279**	**$364**	**$456**	**$555**

Total Anticipated Savings to Open Space Credit **$2.0M**

Potential savings reduction of **$446K** if 25% of eligible properties convert

25% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**
Ag Rate % of M&I Rate	6.0%	9.4%	12.5%	15.4%	18.0%	20.5%	22.8%	25.0%
Agricultural	$27.02	$45.34	$65.08	$86.34	$109.24	$133.90	$160.46	$189.06
OSC Savings		**$299**	**$622**	**$969**	**$1,343**	**$1,746**	**$2,180**	**$2,647**

Total Anticipated Savings to Open Space Credit **$9.8M**

Potential savings reduction of **$2.1M** if 25% of eligible properties convert

Williamson Act & Conservation Easements

10-Year Transition

South County

6% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**	**$815**	**$877**	**$945**
Ag Rate % of M&I Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Agricultural	$27.02	$29.10	$31.34	$33.75	$36.35	$39.15	$42.16	$45.41	$48.90	$52.67	$56.73

10% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**	**$815**	**$877**	**$945**
Ag Rate % of M&I Rate	6.0%	6.6%	7.1%	7.5%	8.0%	8.4%	8.8%	9.1%	9.5%	9.8%	10.0%
Agricultural	$27.02	$31.76	$36.87	$42.38	$48.31	$54.70	$61.59	$69.00	$76.98	$85.58	$94.84
OSC Savings ($K)		**$49**	**$102**	**$159**	**$221**	**$287**	**$358**	**$435**	**$518**	**$607**	**$703**

Total Anticipated Savings to Open Space Credit **$3.4M**

Potential savings reduction of **$730K** if 25% of eligible properties convert

25% of M&I

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Municipal & Industrial	**$450**	**$485**	**$522**	**$562**	**$605**	**$652**	**$702**	**$756**	**$815**	**$877**	**$945**
Ag Rate % of M&I Rate	6.0%	8.6%	11.0%	13.3%	15.3%	17.3%	19.1%	20.7%	22.3%	23.7%	25.0%
Agricultural	$27.02	$41.69	$57.50	$74.52	$92.86	$112.61	$133.88	$156.79	$181.46	$208.04	$236.66
OSC Savings ($K)		**$232**	**$482**	**$751**	**$1,041**	**$1,354**	**$1,690**	**$2,052**	**$2,442**	**$2,863**	**$3,315**

Total Anticipated Savings to Open Space Credit **$16M**

Potential savings reduction of **$3.5M** if 25% of eligible properties convert

Williamson Act & Conservation Easements

- **Program Details for Ag Charge Adjustment Program**
  - **Williamson Act or Conservation Easement property classification will be determined by the authorities managing those programs, not the District**
  - **Staff currently obtains Williamson Act property data from the County and will use properties of record in February and August for the upcoming billing cycle**
  - **Staff will contact the Open Space Authority in parallel during the February and August timeframe for any Conservation Easement property changes**

Williamson Act & Conservation Easements

- **Program Details for Ag Charge Adjustment Program**
  - **Property status changes occurring after Staff data collection will be handled on a case by case basis for the potential proration of rates, if applicable**
  - **Agricultural wells are predominantly charged bi-annually in arrears in January and June**
  - **All other standard processes are applicable**

Conservation Organizations’ Feedback

Conservation Organizations support an Ag Charge Adjustment program for Williamson Act and conservation easement properties:

- Santa Clara Valley Open Space Authority
- Peninsula Open Space Trust
- Midpeninsula Regional Open Space

Seeking help to fund Open Space Credit

- **Work In Process**
  - **Staff researching avenues to receive donations from individual and corporate sponsors**

Open Space Credit: 2013 Economic Study Overview

- Study prepared by ERA Economics LLC
- 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

Open Space Credit: 2013 Economic Study Overview

- **Horizon of the study was FY 2015 through 2024**

Projected Remaining Agricultural Rates	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
2011 Study BASE	$21.30	$21.91	$22.51	$23.11	$23.71	$24.82	n/a	n/a
2011 Study @10% Increase	$27.52	$29.86	$32.40	$35.16	$38.14	$41.39	n/a	n/a

- **Economic Evaluation Conclusions:**
  - **A 10% increase in Ag Rates would fallow 0.11% of land after 10 years**
  - **A 25% increase in Ag Rates would fallow 3.5% of land after 10 years**

Projected Remaining Agricultural Rates	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
2017 Current Ag Rate Projection	$27.02	$29.10	$31.34	$33.75	$36.35	$39.15	$42.16	$45.41
2011 Study Ag Rate Projection @10% Increase Delta	($0.50)	($0.76)	($1.06)	($1.41)	($1.79)	($2.24)	n/a	n/a

Open Space Credit: 2013 Economic Study Overview

- **Staff Analysis of Economic Evaluation Conclusions:**

Calendar Year	Fruit and Nuts	Field Crops	Onions and Garlic	Vegetables	Processed Tomatoes	Grapes	Dryland Hay	Total
	Acres Harvested							
2011	1,197	1,339	520	9,248	1,060	1,550	3,510	18,424
2017	1,613	1,195	784	13,224	322	1,601	4,044	22,783
Acres Delta	**416**	**(144)**	**264**	**3,976**	**(738)**	**51**	**534**	**4,359**
Acres Delta %	35%	-11%	51%	43%	-70%	3%	15%	24%

- **Potential factors contributing to the 24% increase in harvested acreage:**
  - Drought
  - Central Valley water management
  - Transition to higher value crops
  - Irrigation efficient technologies
  - SCVWD Ag Rates

Recommendation

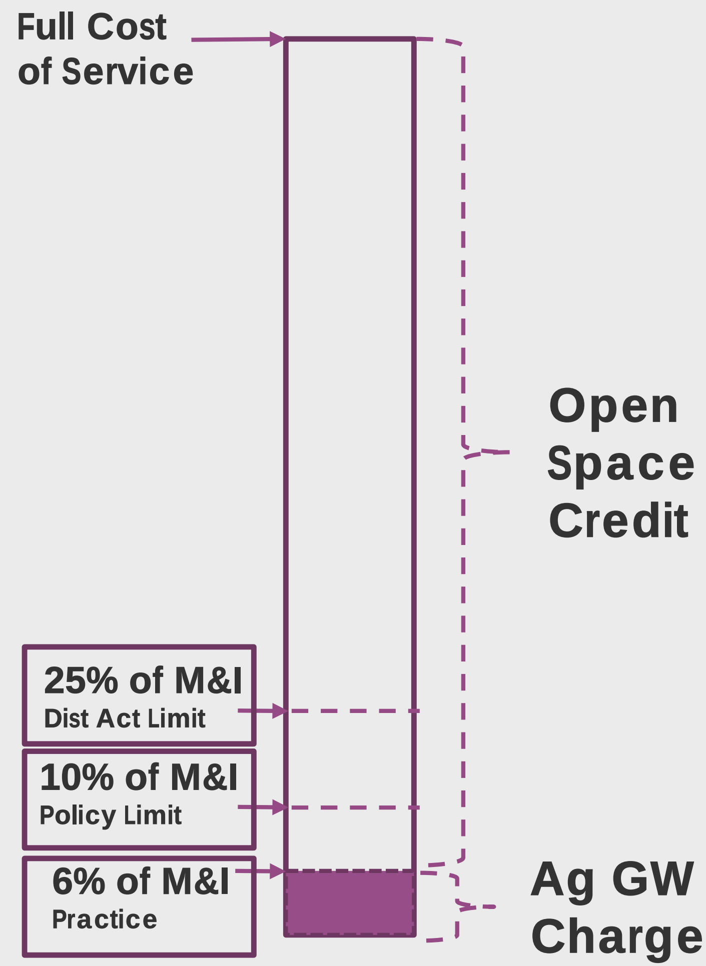
- **Increase Agricultural Rates to 10% of M&I over a 7-Year period**
- **Proceed with an adjustment program for Williamson Act and Conservation Easement participants that would hold their agricultural water charge to 6% of M&I**
- **Provide further direction as necessary for the FY 20 rate setting cycle**

Back Up Slides

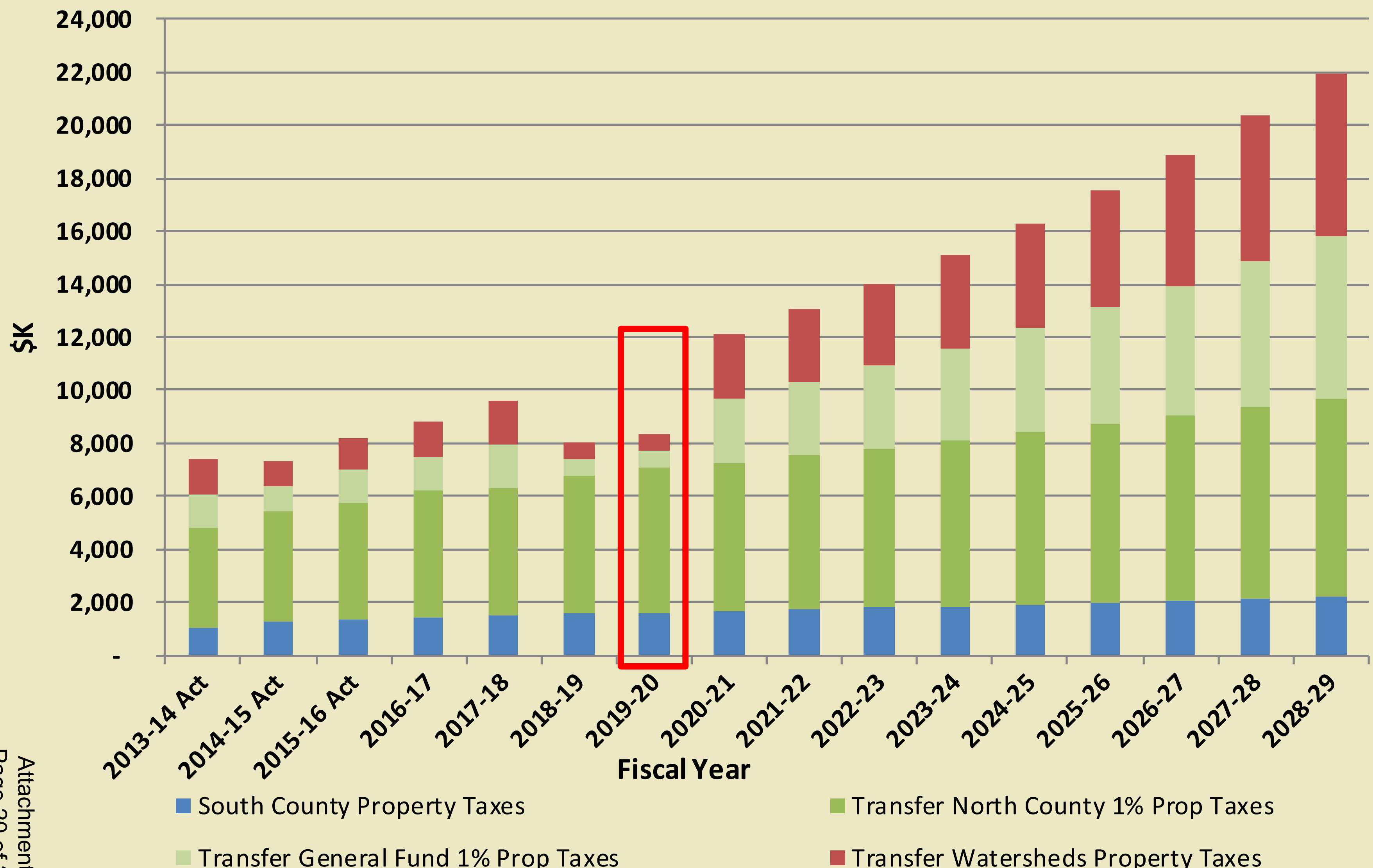
What is the Open Space Credit (OSC)?

- 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

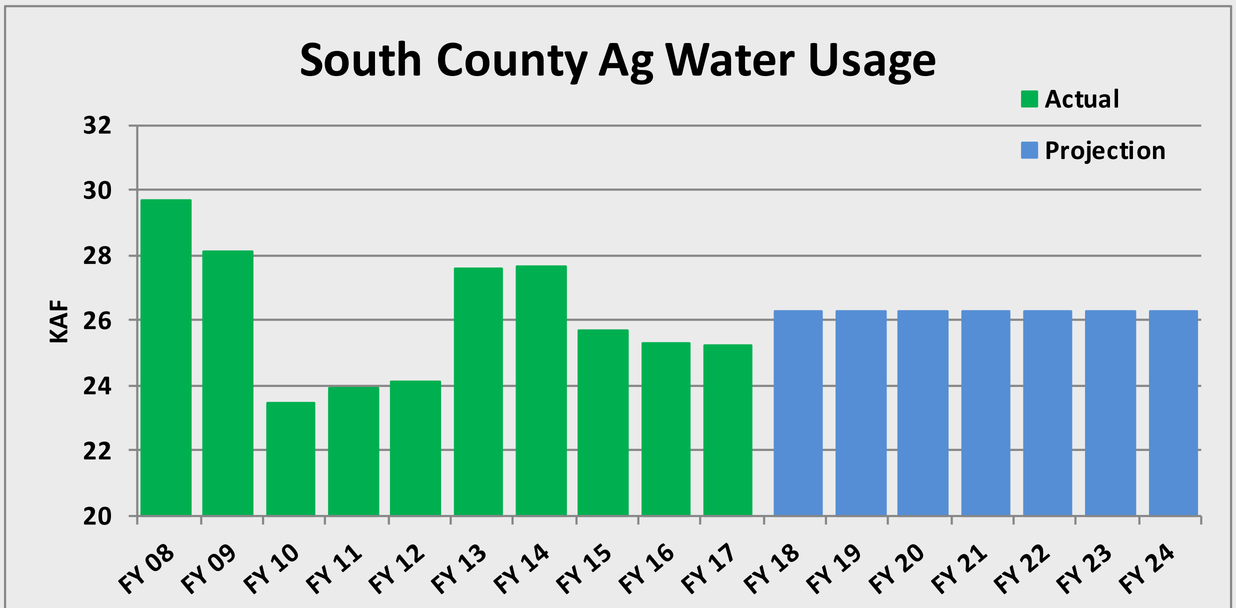


Open Space Credit: Preliminary Projection



Agricultural Water Use Projection

- **Santa Clara Farm Bureau confirms that flat ag water use projection for next 5 to 10 years is reasonable**
  - **Consistent with current staff projection**



- **If ag water use ramps down to 90% of current projection by FY 30, then OSC savings would be $11M over that timeframe**

History of Open Space Credit

Pre-1991	Ag charge set at 25% of M&I charge
1991	Board implements "Open Space Credit" to avoid spike in Ag charge (caused by drought) that would have threatened viability of agriculture in the county - Board establishes practice of setting Ag charge at 10% of M&I
1999	Board practice to set Ag charge at 10% of M&I becomes policy under Resolution 99-21
2011	Open Space Credit methodology changes to conform to Proposition 218

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: Result of 2013 Economic Study

- **Constructed an economic model of agriculture in Santa Clara County**
  - **3 scenarios with 10 year phase-in**
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10% of M&I	17	0.11%	15,651
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[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

Agricultural Commissioner's Office Study – Jan 2016

- **Study prepared by era economics LLC**
- **Ecosystem service benefits of Agricultural lands quantified below:**

Service	Low Value per acre	High Value per acre
Flood Control	$40	$85
Recharge	$55	$70
Water Quality	$25	$30
Pollination	$20	$65
Biodiversity	$20	$30
Open Space	$450	$1,000
Total	**$610**	**$1,280**

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