

State Water Project Tax Discussion

December 5, 2018

Santa Clara Valley
Water District



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 Projection

April 2018 SWP Tax projection

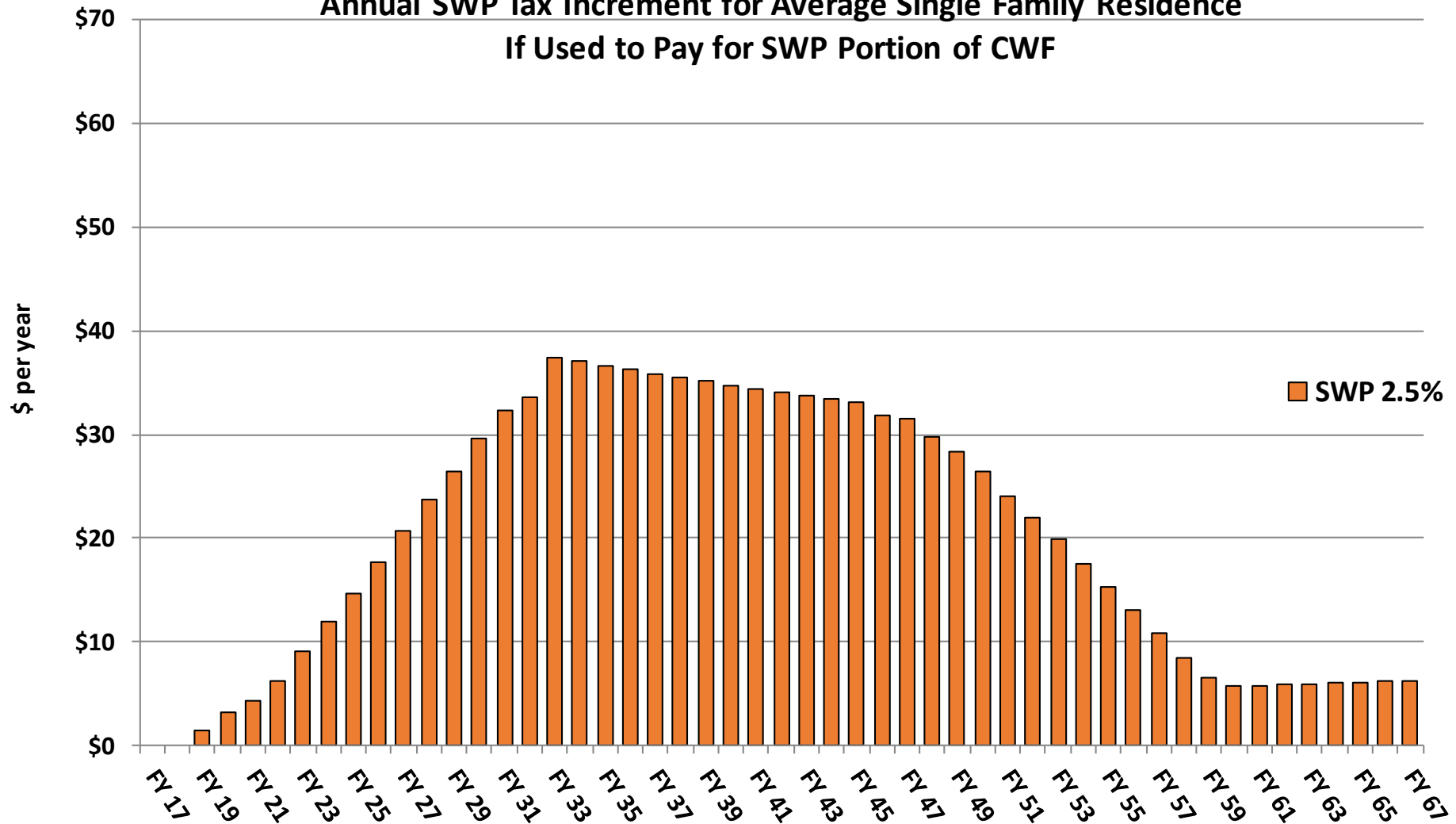
	Total Collection (\$K)	Avg Annual SWP Tax Bill Single Family Residence
FY 19	\$18,000	\$27.49
FY 20	\$21,000	\$31.61
FY 21	\$24,000	\$35.60
FY 22	\$25,000	\$36.54
FY 23	\$26,000	\$37.45
FY 24	\$28,000	\$39.75
FY 25	\$30,000	\$41.97
FY 26	\$31,000	\$42.74
FY 27	\$33,000	\$44.84
FY 28	\$34,000	\$45.53

Note: Excludes California WaterFix impact

- **SWP Tax comprises ~7% of FY 19 Water Utility Revenue**
- **Impact if SWP Tax not collected in FY 19**
 - \$98/AF in terms of North County M&I groundwater charge
 - \$21/AF in terms of South County M&I groundwater charge
 - \$525K in terms of Open Space Credit
- **FY 18 SWP Tax reserve balance at \$12.8M**

What if SWP Tax pays for SWP portion of CWF?

**Annual SWP Tax Increment for Average Single Family Residence
If Used to Pay for SWP Portion of CWF**



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**

Based on April 2018 SWP Tax projection, anticipate \$22M total available funds between FY 19 and FY 26

SWP Tax: Palo Alto and Purissima Hills

Both have expressed concern about District reliance on 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**

Do other SWP contractors rely on SWP tax?

100% reliance on SWP Tax

- SCVWD
- Mojave Water Agency
- Coachella Valley Water District
- Santa Clarita Valley 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

April 2018 Groundwater Charge Increase Forecast

- Assumes continued reliance on SWP Tax to pay 100% of SWP costs (excl. CWF portion)

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%

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 (excl. CWF portion)
- 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 Charge & Open Space Credit to recoup lost revenue
- Reduces “fixed” revenue source & adds financial volatility

Alternative For Future Discussion - Rely on SWP Tax to pay SWP portion of CWF

- Staff recommends not implementing CWF portion of SWP tax until after successful validation action by DWR

Back Up Slides

Santa Clara Valley
Water District



SWP Background

What is the State Water Project?

- A conveyance system stretching from Lake Oroville in Northern California to Lake Perris in Southern California
- South Bay Aqueduct conveys water to Santa Clara County from the Sacramento-San Joaquin Delta
- Managed by the California Department of Water Resources (DWR)
- SCVWD entered into contract with DWR in 1961 for water supply
- SCVWD is one of 29 state water contractors
- Contract obligates levy of tax if other funding sources insufficient
- Water Code section 11652 also obligates levy of tax to ensure sufficient payment of water contract when necessary

Each year Board sets the SWP tax amount by resolution

Excerpt from Resolution 18-31:

“WHEREAS, the Board, after reviewing and considering all the facts, information and reports provided by District staff, and information communicated to the Board during public meetings in which the District's Fiscal Year 2018-19 budget and proposed increase of rates and charges were considered, **has determined that it is necessary to raise the amounts hereinafter specified as an ad valorem real property tax, and that it is not practicable to raise said sums from water rates or other sources; and ...**”

History

- Pre 1961 – Several cities contract with SFPUC for Hetch-Hetchy (HH) water supply**
- July 1961 – 5-cent county-wide tax established to start water importation program**
- Nov. 1961 – SCVWD contracts with DWR for State Water Project (SWP) water**
- March 1963 – Board establishes policy for in-county credit to agencies that receive HH water**
- June 1963 – Residents in Zone W-1 approve \$42M bond for in-county distribution & treatment facilities to optimally use SWP imported water. Paid for by W-1 debt service tax.**
- July 1964 – Groundwater production charges are established**
- June 1978 – Proposition 13 passes. District no longer receives ad valorem taxes as established, but instead receives a portion of the 1% ad valorem tax (~58% reduction).**
- July 1979 – The SWP override tax is first levied to pay for SWP contract obligations**
- June 1981 – Board adopts resolution 81-44 declaring that in-county credit is no longer justified**
- June 1984 – In-county credit is phased out**

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