



MEMORANDUM

FC 14 (01-02-07)

TO: Board of Directors

SUBJECT: Environmental and Water Resources
Committee Meeting Summary for
January 28, 2019

FROM: Environmental and Water
Resources Committee

DATE: February 12, 2019

This memorandum summarizes agenda items from the meeting of the Environmental and Water Resources Committee held on January 28, 2019.

ACTION ITEMS

4. ELECTION OF 2019 CHAIR AND VICE CHAIR

Newly elected Chair is Ms. Tess Byler (Representing District 7) and Vice Chair is Arthur M. Keller, Ph.D. (Representing District 7)

5.1 REVIEW AND APPROVE 2018 ANNUAL ACCOMPLISHMENTS REPORT FOR PRESENTATION TO THE BOARD

Ms. Glenna Brambill Board Committee Liaison reviewed the following:

Summary:

The Accomplishments Report summarizes the committee's discussions and actions to prepare Board policy alternatives and implications for Board deliberation throughout 2018. The Committee Chair, or designee, presents the Accomplishments Report to the Board at a future Board meeting.

The Committee may provide feedback to the Committee Chair, at this time, to share with Board as part of the Accomplishments Report presentation pertaining to the purpose, structure, and function of the Committee.

BACKGROUND:

Governance Process Policy-8:

The District Act provides for the creation of advisory boards, committees, or commissions by resolution to serve at the pleasure of the Board.

Accordingly, the Board has established Advisory Committees, which bring respective expertise and community interest, to advise the Board, when requested, in a capacity as defined: prepare Board policy alternatives and provide comment on activities in the implementation of the District's mission for Board consideration. In keeping with the Board's broader focus, Advisory Committees will not direct the implementation of District programs and projects, other than to receive information and provide comment.

Further, in accordance with Governance Process Policy-3, when requested by the Board, the Advisory Committees may help the Board produce the link between the District and the public through information sharing to the communities they represent.

The Committee approved the 2018 Environmental and Water Resources Committee's Accomplishments Report.

5.2 REVIEW AND COMMENT TO THE BOARD ON THE FISCAL YEAR 2019-20 PRELIMINARY GROUNDWATER PRODUCTION CHARGES.

Mr. Anthony Mendiola reviewed the following:

Summary:

Summary of Groundwater Production Charge Analysis:

Staff has prepared the preliminary FY 2019-20 groundwater production charge analysis, which includes a current water use projection and several scenarios for Board review. Staff has developed two basic scenarios that align with the 90% and 80% level of service goals according to the January 2019 Water Supply Master Plan update, along with several other scenarios for Board consideration.

The groundwater production charge recommendation will be detailed in the Annual Report on the Protection and Augmentation of Water Supplies that is planned to be filed with the Clerk of the Board on February 22, 2019. The public hearing on groundwater production charges is scheduled to open on April 9, 2019. It is anticipated that the Board would set the FY 2019–20 groundwater production charges by May 14, 2019, that would become effective on July 1, 2019.

The FY 2019–20 groundwater production charge and surface water charge setting process will be conducted consistent with the District Act, and Board resolutions 99-21 and 12-10. (Attachments 3-4).

Water Use Assumptions

District managed water use for FY 2017–18 is estimated to be approximately 226,000 acre-feet (AF), which is roughly 9,000 AF higher than budgeted that year and is roughly a 21% reduction versus calendar year 2013. (District-managed water use excludes Hetch Hetchy, and San Jose Water Company owned water supplies). For the current year, FY 2018-19, staff estimates that water usage will meet the budgeted water use of 226,000 AF, which is again roughly a 21% reduction versus calendar year 2013. For purposes of the preliminary analysis, staff is assuming a water usage of 239,000 AF for FY 2019-20, which is a 5.7% increase relative to the estimated FY 2018-19 water usage, and a 16% reduction versus calendar year 2013.

Staff will carefully monitor monthly water use actuals and work closely with the water retailers during the upcoming rate setting process to modify the water usage forecast as necessary.

Groundwater Production Charge Projections

Staff has prepared several preliminary groundwater production charge projection scenarios for Board review. The increase in the North County Municipal and Industrial (M&I) groundwater production charge ranges from 4.7% to 8.1% for FY 2019-20 depending on the scenario, and from 5.7% to 7.7% in the South County.

The overall impact of the preliminary analysis scenarios for FY 2019-20 to the average household would be an increase ranging from \$2.09 to \$3.60 per month in North County and from \$0.88 to \$1.19 per month in South County.

Staff anticipates no changes to the current contract treated water surcharge and the non-contract treated water surcharge for FY 2019-20.

Other Assumptions

All scenarios assume the continued practice of relying on the State Water Project (SWP) Tax to pay for 100% of the SWP contractual obligations. Pursuant to Water Code Section 11652, the District, whenever necessary, is required to levy on all property in its jurisdiction not exempt from taxation, a tax sufficient to provide for all payments under its SWP contract with the California Department of Water Resources (DWR). All scenarios assume no change in the SWP Tax for FY 2019-20, which would remain at \$18 M. The SWP Tax for the average household in Santa Clara would remain at about \$27 per year. Note that the SWP tax projection for FY 2019-20 under all scenarios does not include any costs for the CWF.

All scenarios also assume the continued practice to set the South County agricultural groundwater production charge at 6% of the M&I charge.

All scenarios assume Water Utility operations cost growth of 5% to \$186.4 M in FY 2019-20 versus the FY 2018-19 adopted budget.

The Committee took no action.

5.3 OPEN SPACE CREDIT

Mr. Joseph Atmore reviewed the following:

Summary:

The purpose of this item is to obtain **Environmental and Water Resources Committee** comments and input on the Board's Open Space Credit Policy, specifically a staff proposal to implement an Agricultural Charge Adjustment for Williamson Act and Conservation Easement Properties.

Background

The District Board has historically recognized that agriculture brings value to Santa Clara County in the form of open space and local produce. In an effort to help preserve this value, the District Act limits the agricultural charge to be no more than 25% of the M&I charge. In 1999, to further its support for agricultural lands, a policy was put into place further limiting the agricultural groundwater production charge to no more than 10% of the M&I charge. The agricultural community currently benefits from low groundwater charges that are 2% of M&I charges in North County and 6% of M&I charges in South County. According to Section 26.1 of the District Act, agricultural water is "water primarily used in the commercial production of agricultural crops or livestock."

The credit to agricultural water users has become known as an "Open Space Credit." It is paid for by fungible, non-rate related revenue. To offset lost revenue that results from the difference between the adopted agricultural groundwater production charge and the agricultural charge that would have resulted at the full cost of service, the District redirects a portion of the 1% ad valorem property taxes generated in the Water Utility, General and Watershed Stream Stewardship Funds. The South County Open Space Credit is currently estimated to be \$8.0 million in FY 2018-19 and projected to continually increase in the years that follow.

Since 2013, the Board has continued the past practice of setting the agricultural charge at 6.0% of the South County M&I charge. On September 18, 2017, in response to the President's Day Flood event, the Board's Capital Improvement Program Committee analyzed scenarios to decrease the Open Space Credit and therefore provide more funding for flood protection projects. Accordingly, alternatives were prepared to reduce the Open Space Credit by increasing the agricultural charge to 10% or 25% of the M&I charge over a multi-year timeframe. For FY 2018-19, staff recommended increasing the agricultural charge to 6.8% of the M&I charge. On May 8, 2018, the Board chose to continue the past practice of setting the agricultural charge at 6.0% of the South County M&I charge for FY 2018-19.

Background on the Williamson Act and Conservation Easement Classification

The Williamson Act enables local governments to enter into contracts with private landowners for the purpose of restricting specific parcels of land to agricultural or related open space use. Under these voluntary contracts, landowners gain substantially reduced property tax assessments. A land owner whose property is devoted to agricultural use and is within an agricultural preserve may file an application for a Williamson Act contract with the County. Per the Santa Clara County of Ordinances section C13-12, to be eligible for a Williamson Act contract:

1. The property proposed for inclusion in the contract is at least ten acres in size in the case of prime agricultural land, and 40 acres in size in the case of nonprime agricultural land;
2. All parcels proposed for inclusion in the contract are devoted to agricultural use; and
3. There are no existing or permitted uses or development on the land that would significantly displace or interfere with the agricultural use of the land.

Even if all of the criteria are met, the Board of Supervisors may, in its discretion, choose not to approve the application.

Conservation easement is a power invested in a qualified organization or government to constrain, as to a specified land area, the exercise of rights otherwise held by a landowner so as to achieve certain conservation purposes. For example, a land owner whose property constitutes open-space land as defined in Government Code §§ 51075(a) and 65560 may file an application for an agreement with the County.

Per the Santa Clara County of Ordinances section C13-36, to be eligible for an Open Space Easement Agreement with the County:

1. The land proposed for inclusion in the agreement is at least 20 acres in size;
2. All parcels proposed for inclusion in the agreement are devoted to open-space;
3. There are no other existing or permitted uses or development on the land that would significantly impair the open-space value of the land; and
4. The Board of Supervisors makes the required findings in Government Code § 51084.

Even if all of the criteria in are met, the Board of Supervisors may, in its discretion, choose not to approve the application.

There are also three open space authorities that have jurisdiction to enter into conservation easements in Santa Clara County.

There are 174 Williamson Act parcels and 10 conservation easement parcels in the combined Zone W-2 and Zone W-5. The parcels comprise roughly 33% of total agricultural water use on average.

Consideration of an Agricultural Water Charge Adjustment

An agricultural water charge adjustment could be predicated on Williamson Act or conservation easement participation and paid for by the Open Space Credit. Staff recommends implementing an adjustment such that if the District were to increase the agricultural water charge to something greater than 6% of the M&I charge, then an adjustment would be applied to all Williamson Act and conservation easement properties, that would result in a net agricultural charge of 6% of M&I charges for those properties. The Williamson Act or Conservation Easement property classification would be determined by the authorities managing those programs, not the District. There would be no need for an application process, and as such the incremental costs associated with the adjustment would be negligible. The District currently receives from the County the list of Williamson Act properties and would use properties of record in February and August for the upcoming billing cycle. Staff would obtain the conservation easement property information direct from the open space organizations in parallel during the February and August timeframe. Property status changes occurring after staff data collection would be handled on a case-by-case basis for the potential proration of rates, if applicable. Agricultural wells are predominately charged bi-annually in arears in January and June.

If the District were to increase the agricultural charge to 10% of the M&I charge over a 7-year timeframe, and adjust back to 6% of the M&I charge for Williamson Act and conservation easement properties, then staff anticipates a cumulative savings to the Open Space Credit of roughly \$2.1 million over that 7-year timeframe. Savings would be \$1.4M if the transition occurred over a 5-year timeframe, and would be \$3.4M if the transition occurred over a 10-year timeframe. The savings could be reduced if additional eligible properties were to change status to be classified as Williamson Act or Conservation Easement properties. Staff estimates that there are 245 agricultural properties that may qualify, but are not classified as Williamson Act or Conservation Easement properties.

The Committee took the following actions:

1. The Committee approved having the Board consider keeping the Agricultural rate as low as possible and equitable while finding other sources. If it is not equitable than the larger farmers should pay the higher rates.
2. The Committee approved having the Board consider having staff analyze and propose 2 pathways 1. ½% increase every year over 8 years up to 10% and 2. Keep staff's recommendation with an added administrative task and associated costs with the co-opping of smaller farms that don't meet the acreage qualification of the Williamson Act/Conservation Easement and come up with best management practices and water conservation measures.

If you have any questions or concerns, you may contact me at, gbrambill@valleywater.org or 1.408.630.2408.

Thank you.

Glenna Brambill, Management Analyst II,
Board Committee Liaison
Office of the Clerk of the Board

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