

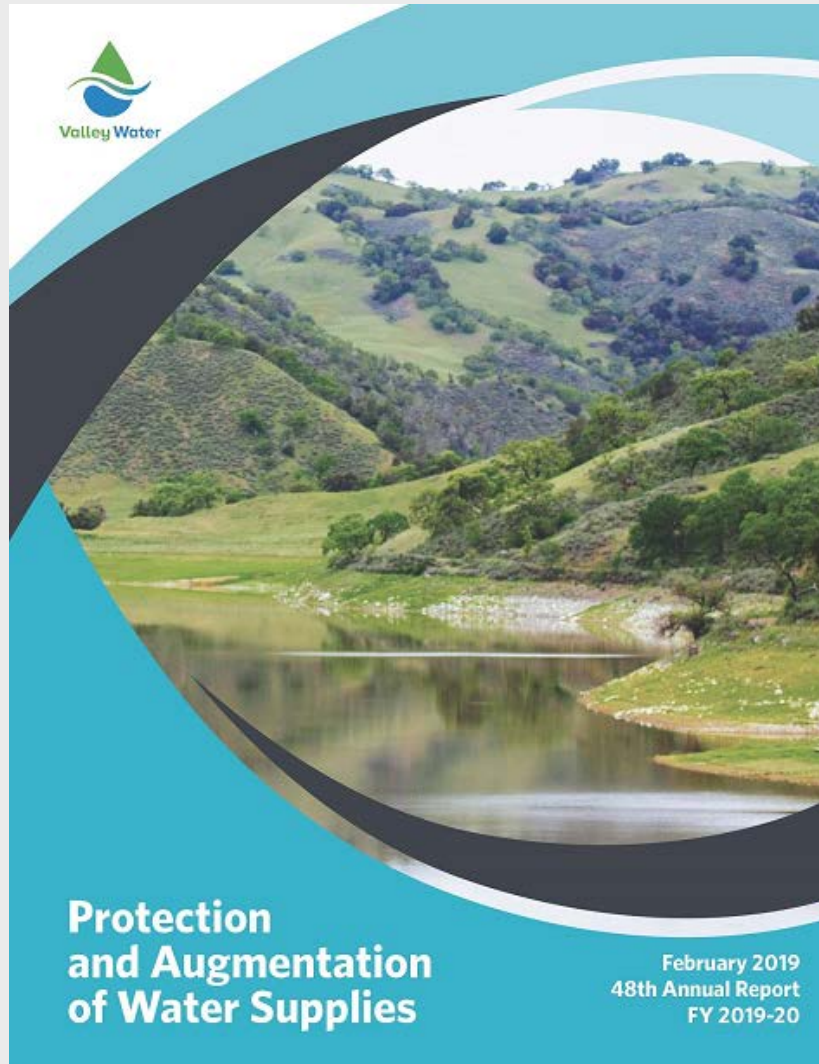
# Public Hearing

Groundwater Production & Other Water Charges  
April 9, 2019



## Public Hearing has Three Specific Objectives

1. Present annual report on Valley Water's activities and recommended groundwater production charges
2. Provide opportunity for any interested person to "...appear and submit evidence concerning the subject of the written report" to the Board of Directors
3. Determine and affix Groundwater Production and Other Water Charges for FY 2019-20



## 2019 Protection and Augmentation of Water Supplies Report

# A comprehensive, flexible water system serves 1.9 million people



10 Reservoirs

393 acres of recharge ponds

142 miles of pipelines

3 water treatment plants

1 water purification center

3 pump stations

\$7.1B system replacement value



- ▶ Rate Setting Process
- ▶ FY 20 Financial Analysis and Projections
  - ▶ Water Usage
  - ▶ Cost Projection
  - ▶ Recommended Groundwater Production Charges
  - ▶ State Water Project Tax
- ▶ Schedule/Wrap up

# Rate Setting Process

# District Act Defines Purposes for Groundwater Charges

1

Imported Water Facilities

2

Imported Water Purchases

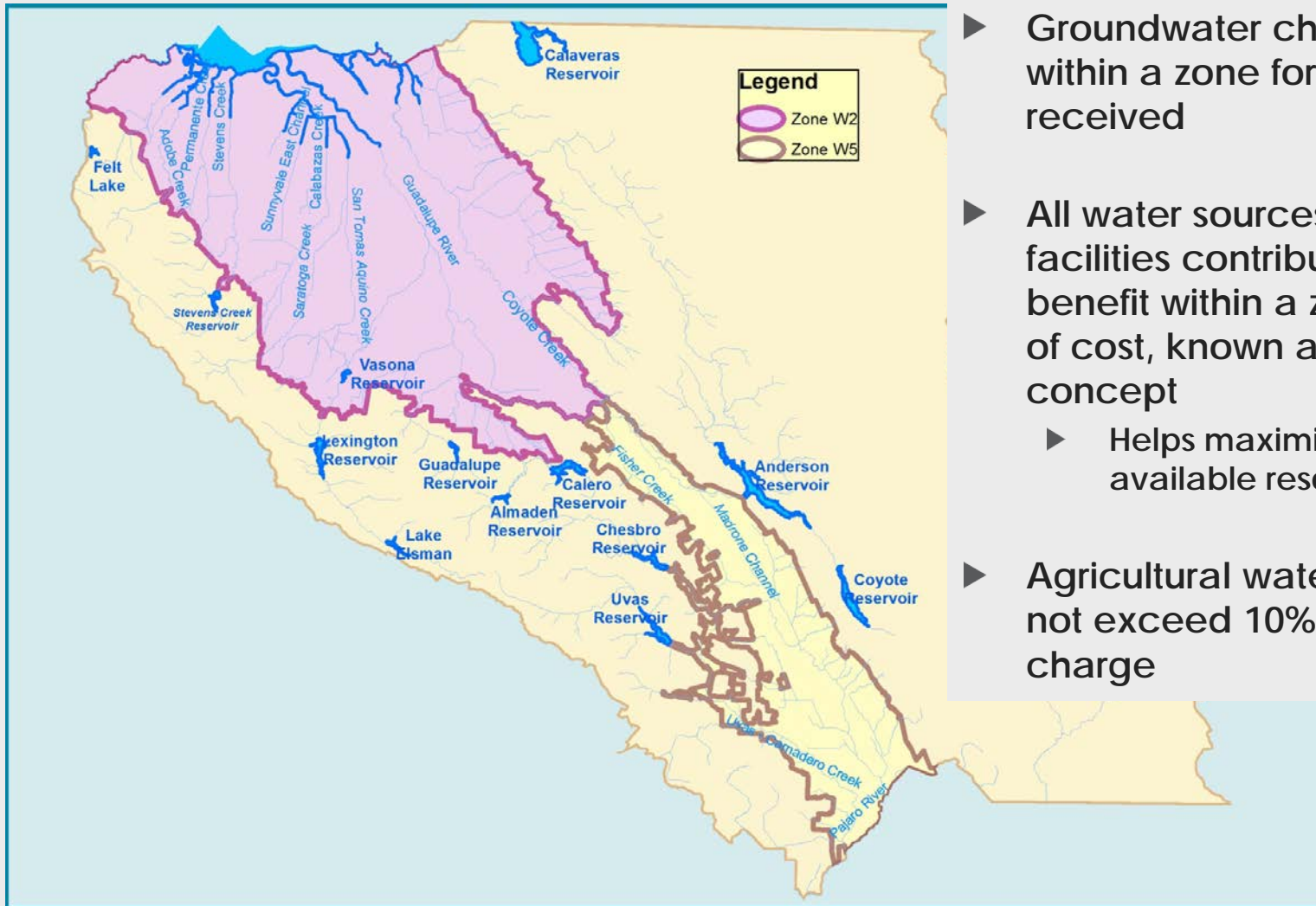
3

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

4

Debt

# 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



## Prop 218 not applicable to Groundwater Charge-setting process

- ▶ Supreme Court found Prop 218 not applicable to groundwater charges
  - ▶ Certain Prop 218 requirements continue, like holding a public hearing, and noticing well owners, which are consistent with District Act
- ▶ 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 payer bear a fair or reasonable relationship to payer's burdens on, or benefits received from government activity

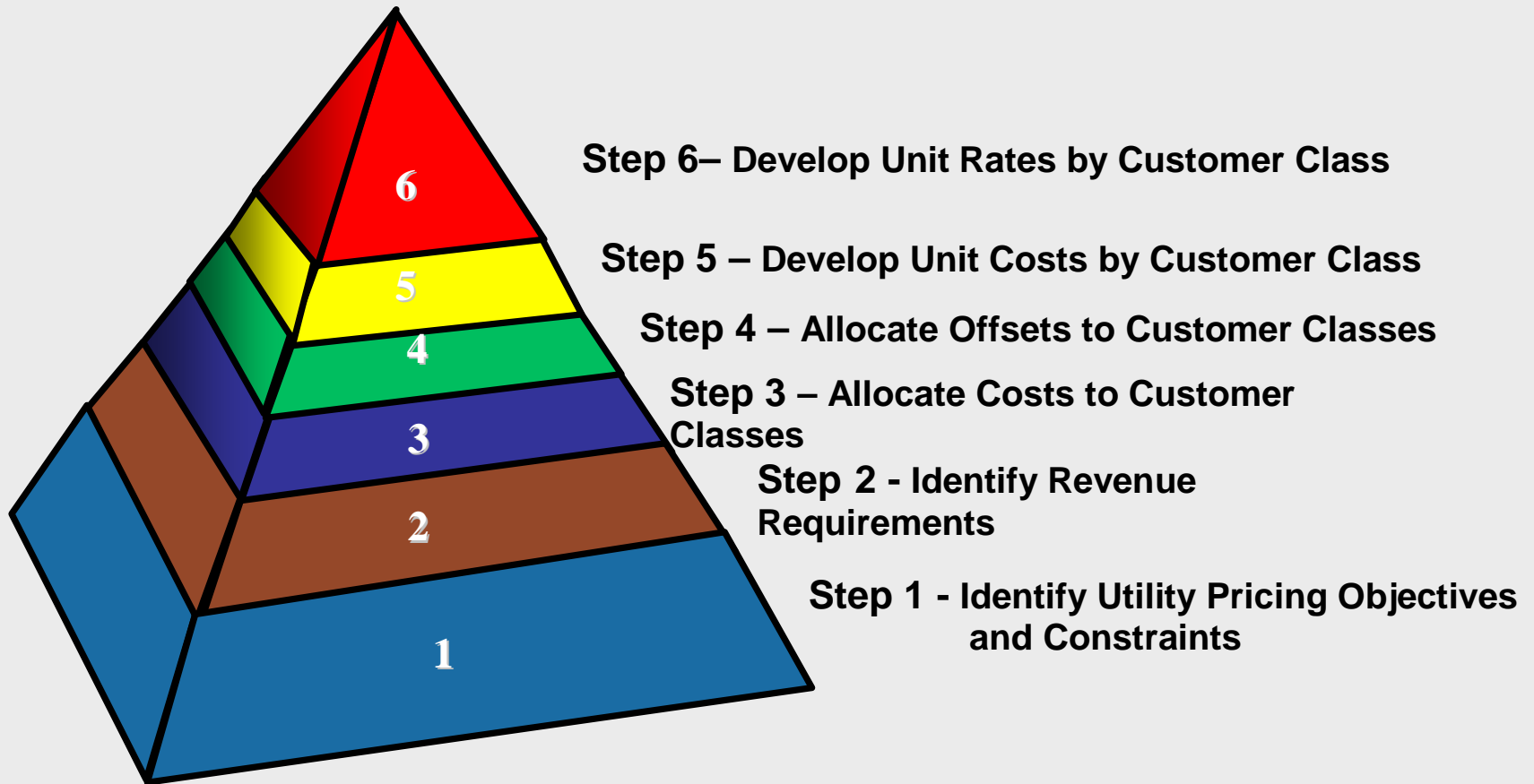
# The Surface Water Charge-setting Process is Consistent with Prop 218 Process for Water Service Charges

- ▶ Includes cost of service analysis by customer class
- ▶ Includes protest procedure as defined in Board Resolution 12-10

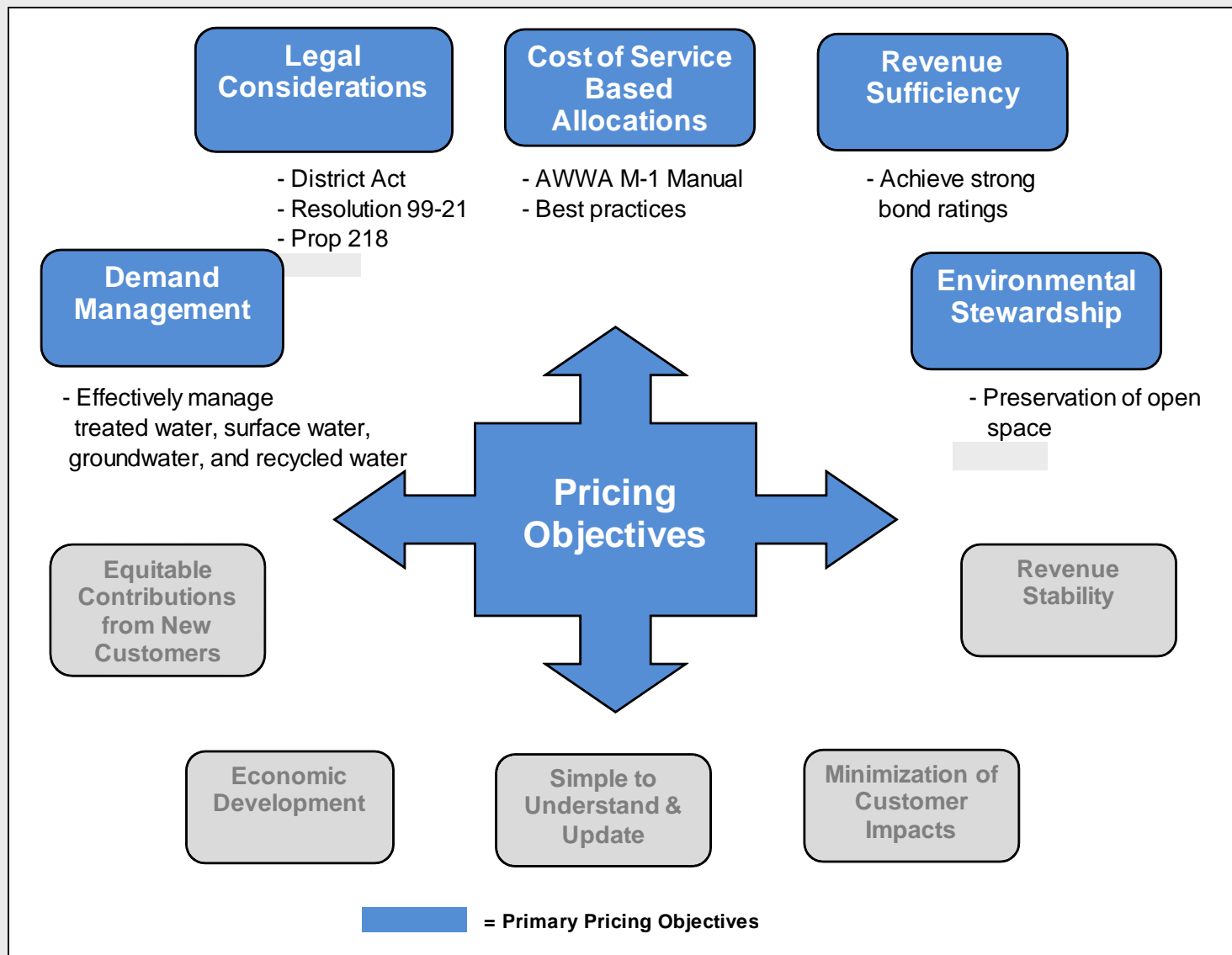
## Historical Majority Protest Procedure Results

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%

# The District follows best practice rate making steps



# Pricing Objectives and Constraints



# FY 20 Financial Analysis and Projections

# FY 20 Key Assumptions

## 1) WSMP 90% Level Of Service (LOS)

- ▶ Baseline Projects
- ▶ CWF (State side)
  - ▶ Paid for by water charges, not SWP Tax
- ▶ CWF (CVP side)
- ▶ No Regrets Package
- ▶ Potable Reuse Phase 1 to produce 24KAF by FY 28
  - ▶ Based on \$690M capital project, District contributes 30% “pay as you go”
  - ▶ P3 reserve at \$8M in FY 20 growing to \$20M by FY 28
- ▶ Pacheco Reservoir
- ▶ Transfer-Bethany Pipeline
- ▶ South County Recharge
  - ▶ Timing = beyond FY 29

### Also Includes:

- ▶ \$200M contingency placeholder for dams & WTP's
- ▶ Guiding Principle #5

North 8.1%, South 7.7% avg. annual incr.

## 9) WSMP 80%, Pacheco w/ \$250M WIIN, WIFIA loan & Partners Pay 20%

- ▶ Baseline Projects
- ▶ CWF (State side)
  - ▶ Paid for by water charges, not SWP Tax
- ~~▶ CWF (CVP side)~~
- ▶ No Regrets Package
- ▶ Potable Reuse Phase 1 to produce 24KAF by FY 28
  - ▶ Based on \$690M capital project, District contributes 30% “pay as you go”
  - ▶ P3 reserve at \$8M in FY 20 growing to \$20M by FY 28
- ▶ **Pacheco Reservoir**
  - ▶ **\$250M WIIN funding + WIFIA loan**
  - ▶ **Partner Agencies pay 20% of project**
- ▶ Transfer-Bethany Pipeline
- ▶ South County Recharge
  - ▶ Timing = beyond FY 29

### Also Includes:

- ▶ \$200M contingency placeholder for dams & WTP's
- ▶ Guiding Principle #5

North 6.4%, South 6.6% avg. annual incr.

## Scenario 9 Adjusted

Includes all Scenario 9 projects and assumptions plus the following adjustments:

- ▶ **PERS contribution contingency**
  - ▶ **\$3.9M per year beginning FY 22**
- ▶ **CIP projection refinements**
- ▶ **Updated OH and Benefits rates**
- ▶ **+\$3M for Drought Reserve in FY 20**
  - ▶ **FY 20 balance is \$10M**

North 6.6%, South 6.9% avg. annual incr.

# Key Capital Project Funding for FY 20 through FY 29



**Dam Seismic Retrofits/Improvements**  
**\$708 Million**  
**(\$875 Million Total Cost)**



**Expedited Purified Water Program**  
**\$650 Million**  
**(via P3 Delivery Method)**



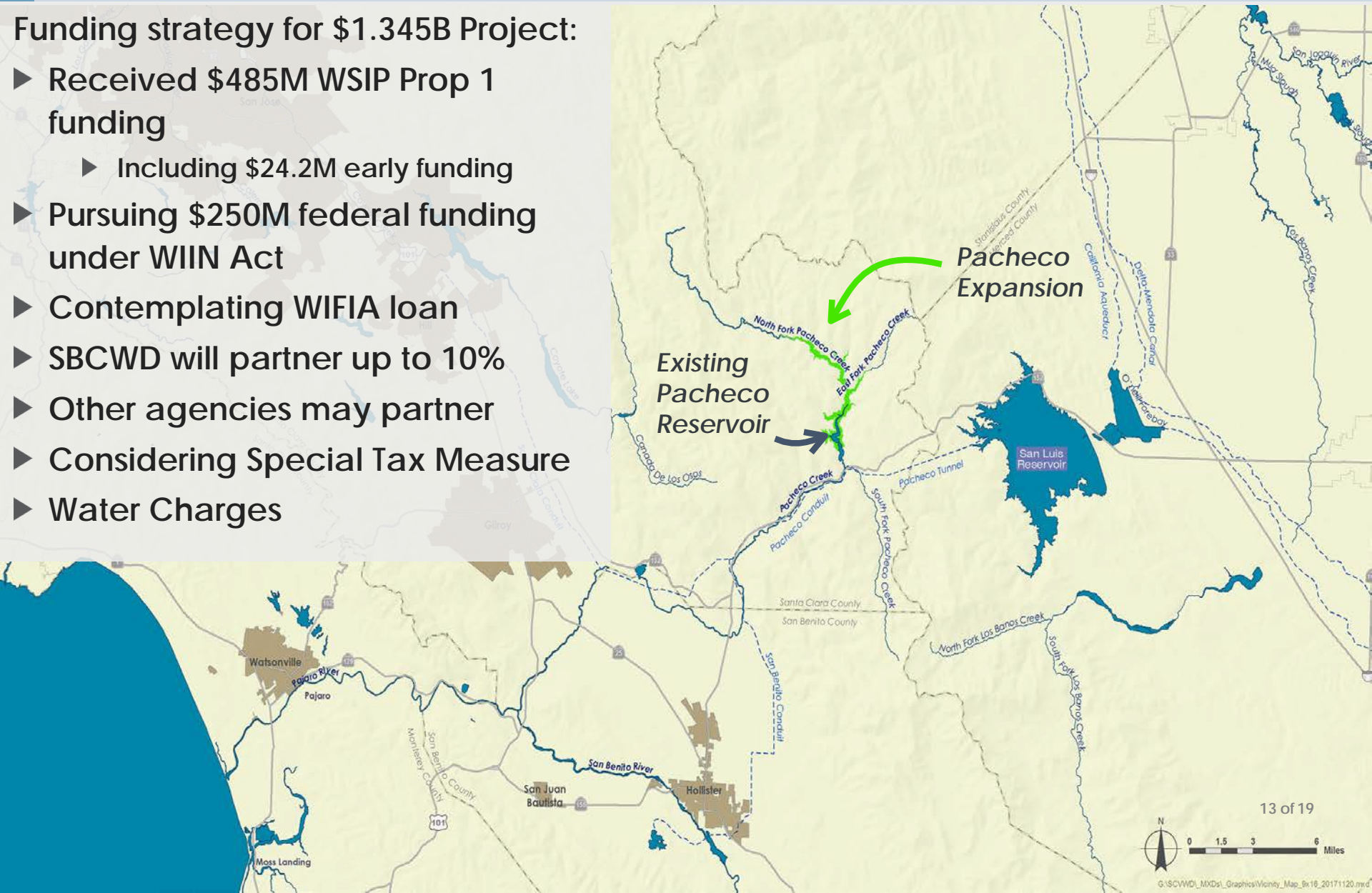
**RWTP Reliability Improvements**  
**\$98 Million**  
**(\$295 Million Total Cost)**



# New Capital Investments for FY 20 through FY 29 – Pacheco Reservoir

## Funding strategy for \$1.345B Project:

- ▶ Received \$485M WSIP Prop 1 funding
  - ▶ Including \$24.2M early funding
- ▶ Pursuing \$250M federal funding under WIIN Act
- ▶ Contemplating WIFIA loan
- ▶ SBCWD will partner up to 10%
- ▶ Other agencies may partner
- ▶ Considering Special Tax Measure
- ▶ Water Charges

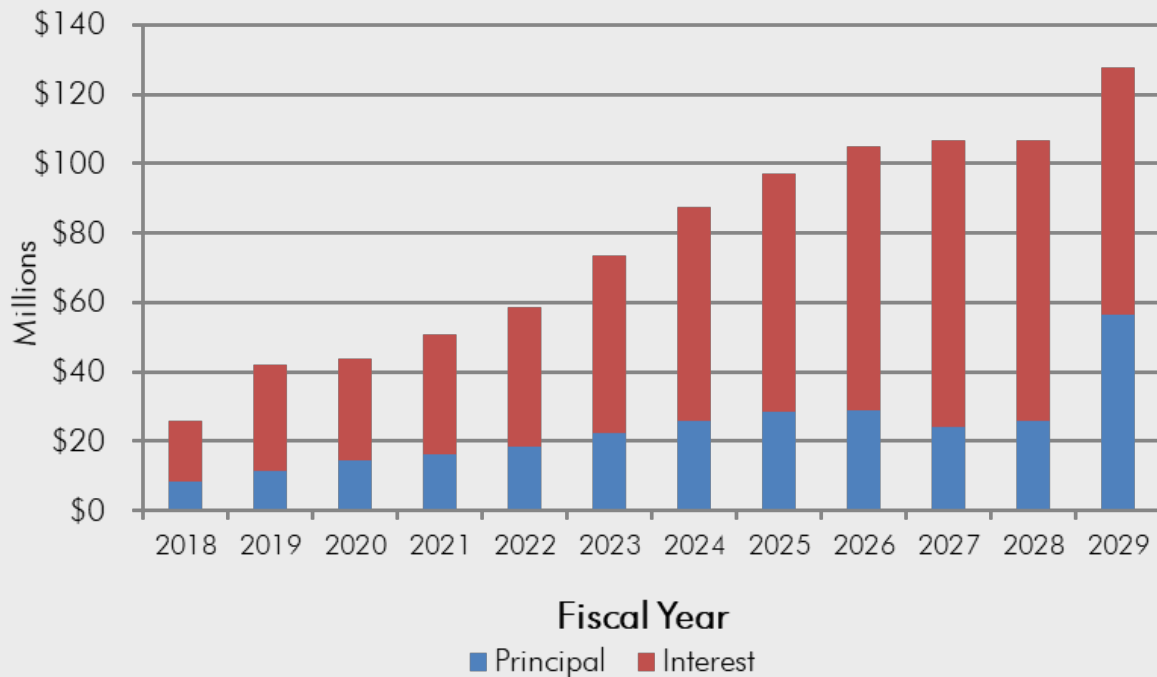




## Validated, Unfunded Water Supply Projects

Validated, Unfunded Water Supply Projects	Est. Cost (\$ Million)
Dam Seismic Retrofit at Chesbro & Uvas	\$90 M
Long-Term Purified Water Program Elements	\$104 M
Long-Term SCADA Improvements	\$20 M
So. County Recycled Water New Storage Tank	\$7 M
Alamitos Diversion Dam Improvements	\$3 M
Coyote Diversion Dam Improvements	\$2 M
Land Rights - South County Recycled Water Pipeline	\$6 M
TOTAL	\$232 M

# Implementation of CIP results in debt service increases

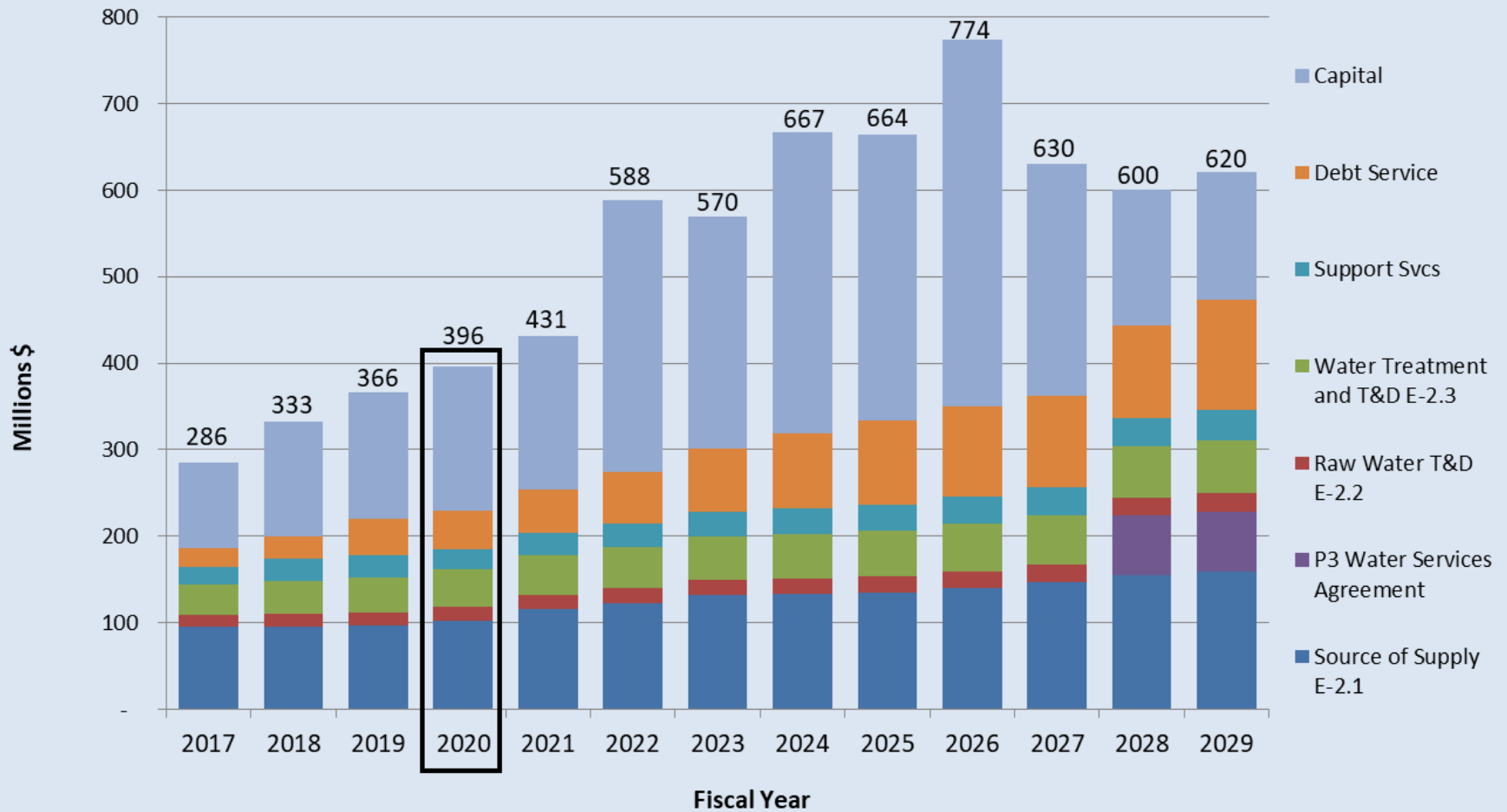


**\$43.9M in FY 2019-20**

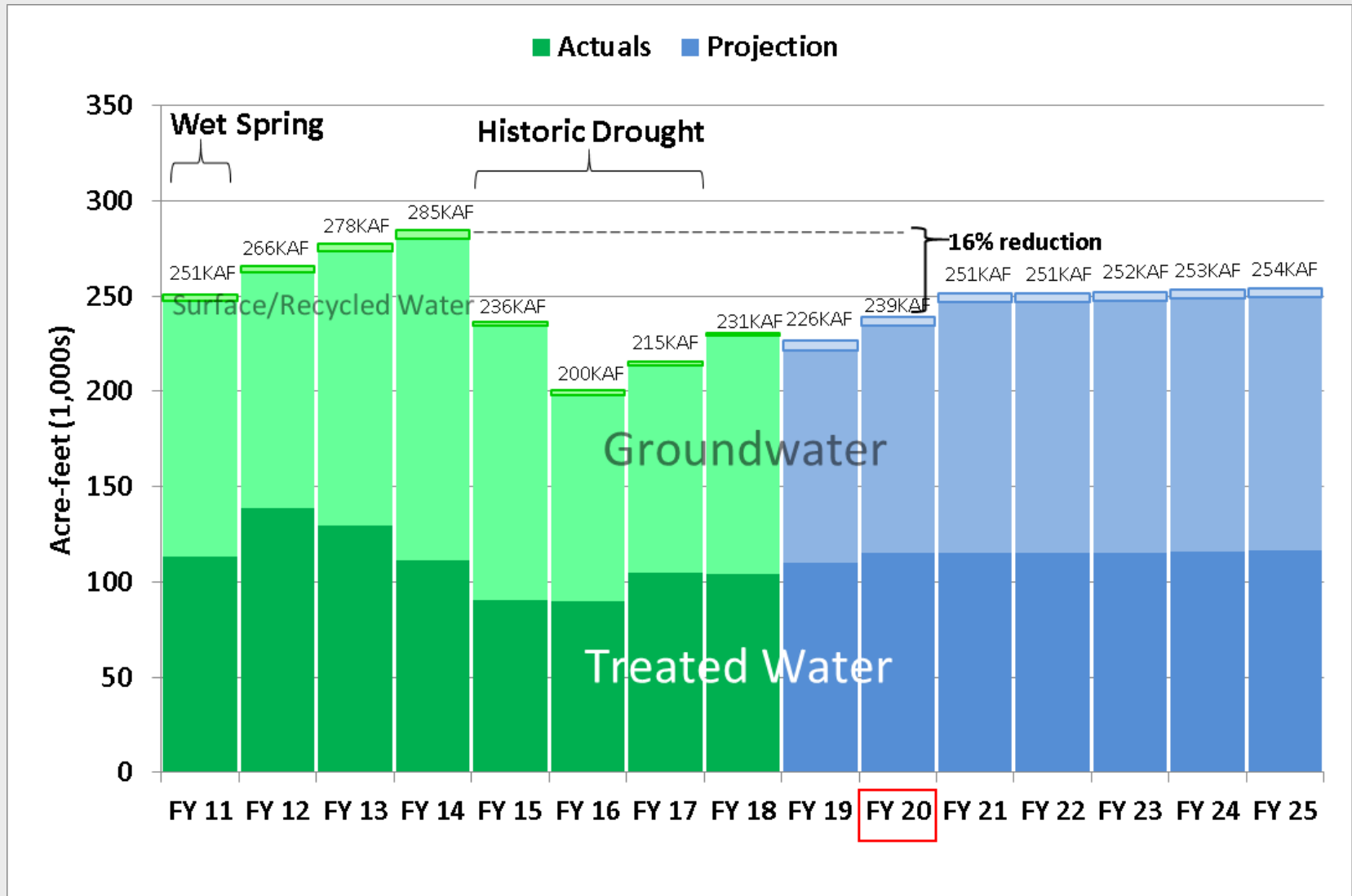
**\$127.9M in FY 2028-29**

- **Debt service coverage ratio targeted at 2.0 helps ensure financial stability and high credit ratings**

# Cost Projection



# District Managed Water Usage drives revenue projection



Note: FY 20 refers to fiscal year 2019-20

# Staff Recommended Groundwater Production Charges

# FY 2020: North County Proposed Maximum Charges

6.6% increase for M&I groundwater production

6.1% increase for contract treated water

6.5% increase for M&I surface water

Ag groundwater reflects max per District Act (25% of South County M&I while Board deliberates Open Space Credit Policy)

**Staff  
recommendation  
as of 4/8/19**

		Dollars Per Acre Foot		
		FY 2017-18	FY 2018-19	Proposed Maximum FY 2019-20
<b>Zone W-2 (North County)</b>				
<b>Basic User/ Groundwater Production Charge</b>				
	Municipal & Industrial	1,175.00	1,289.00	1,374.00
	Agricultural	25.09	27.02	<del>120.25</del>
<b>Surface Water Charge</b>				
	Surface Water Master Charge	33.36	35.93	37.50
	Total Surface Water, Municipal & Industrial*	1,208.36	1,324.93	1,411.50
	Total Surface Water, Agricultural*	58.45	62.94	<del>157.75</del>
<b>Treated Water Charges</b>				
	Contract Surcharge	100.00	100.00	100.00
	Total Treated Water Contract Charge**	1,275.00	1,389.00	1,474.00
	Non-Contract Surcharge	50.00	50.00	50.00
	Total Treated Water Non-Contract Charge***	1,225.00	1,339.00	1,424.00
* Note: The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge				
** Note: The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge				
*** Note: The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-contract surcharge				

**32.23**

**69.73**

**\$2.93 per month average household increase**

# FY 2020: South County Proposed Maximum Charges

6.9% increase for M&I groundwater production

6.7% increase for M&I surface water

7.2% increase for M&I recycled water

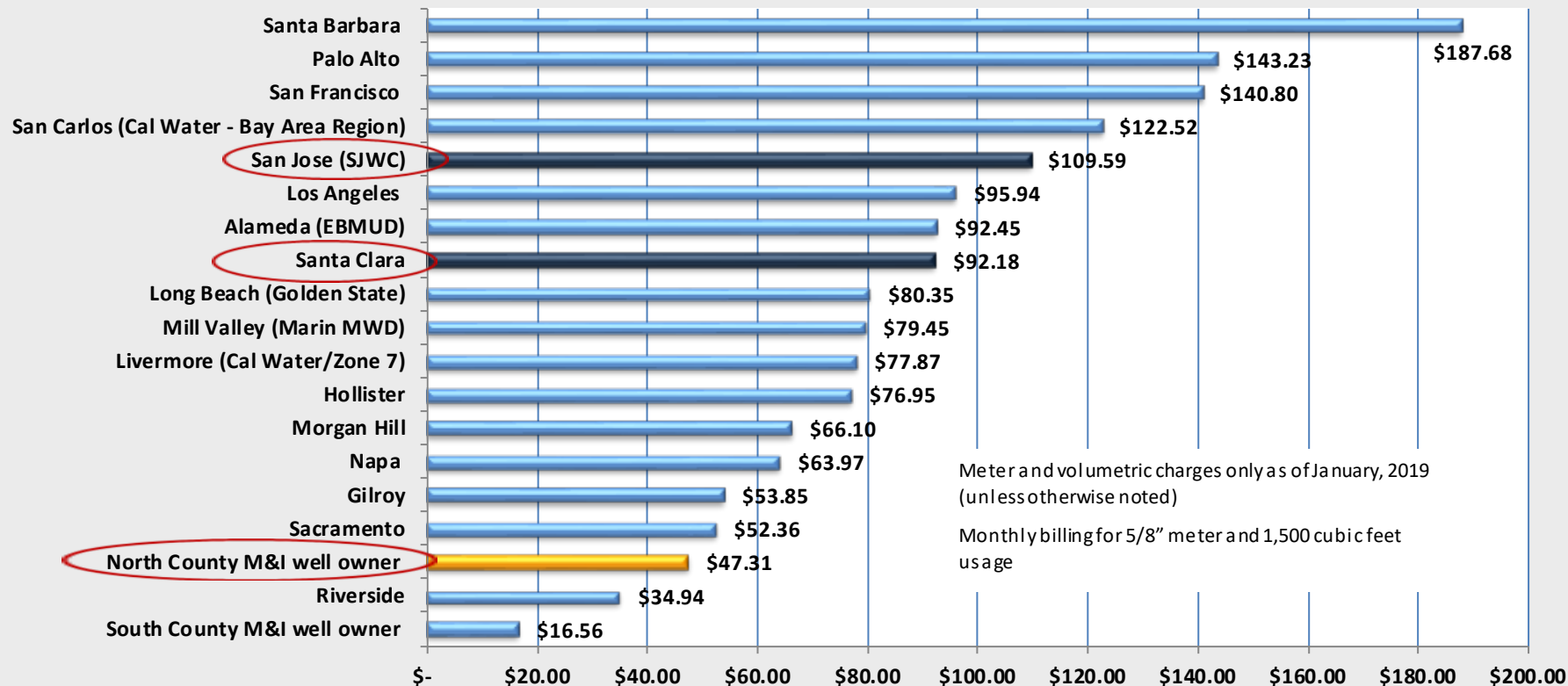
Ag groundwater reflects max per District Act (25% of South County M&I while Board deliberates Open Space Credit Policy)

**Staff  
recommendation  
as of 4/8/19**

		Dollars Per Acre Foot			
		FY 2017–18	FY 2018–19	Proposed Maximum FY 2019–20	
<b>Zone W-5 (South County)</b>					
<b>Basic User/ Groundwater Production Charge</b>					
	Municipal & Industrial	418.00	450.00	481.00	
	Agricultural	25.09	27.02	<del>120.25</del>	<b>32.23</b>
<b>Surface Water Charge</b>					
	Surface Water Master Charge	33.36	35.93	37.50	
	Total Surface Water, Municipal & Industrial*	451.36	485.93	518.50	
	Total Surface Water, Agricultural*	58.45	62.94	<del>157.75</del>	<b>69.73</b>
<b>Recycled Water Charges</b>					
	Municipal & Industrial	398.00	430.00	461.00	
	Agricultural	48.88	54.41	<del>147.64</del>	<b>59.62</b>
* Note: The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge					
** Note: The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge					
*** Note: The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-contract surcharge					

**\$1.07 per month average household increase**

# Retail Agency Benchmarks



## Notes:

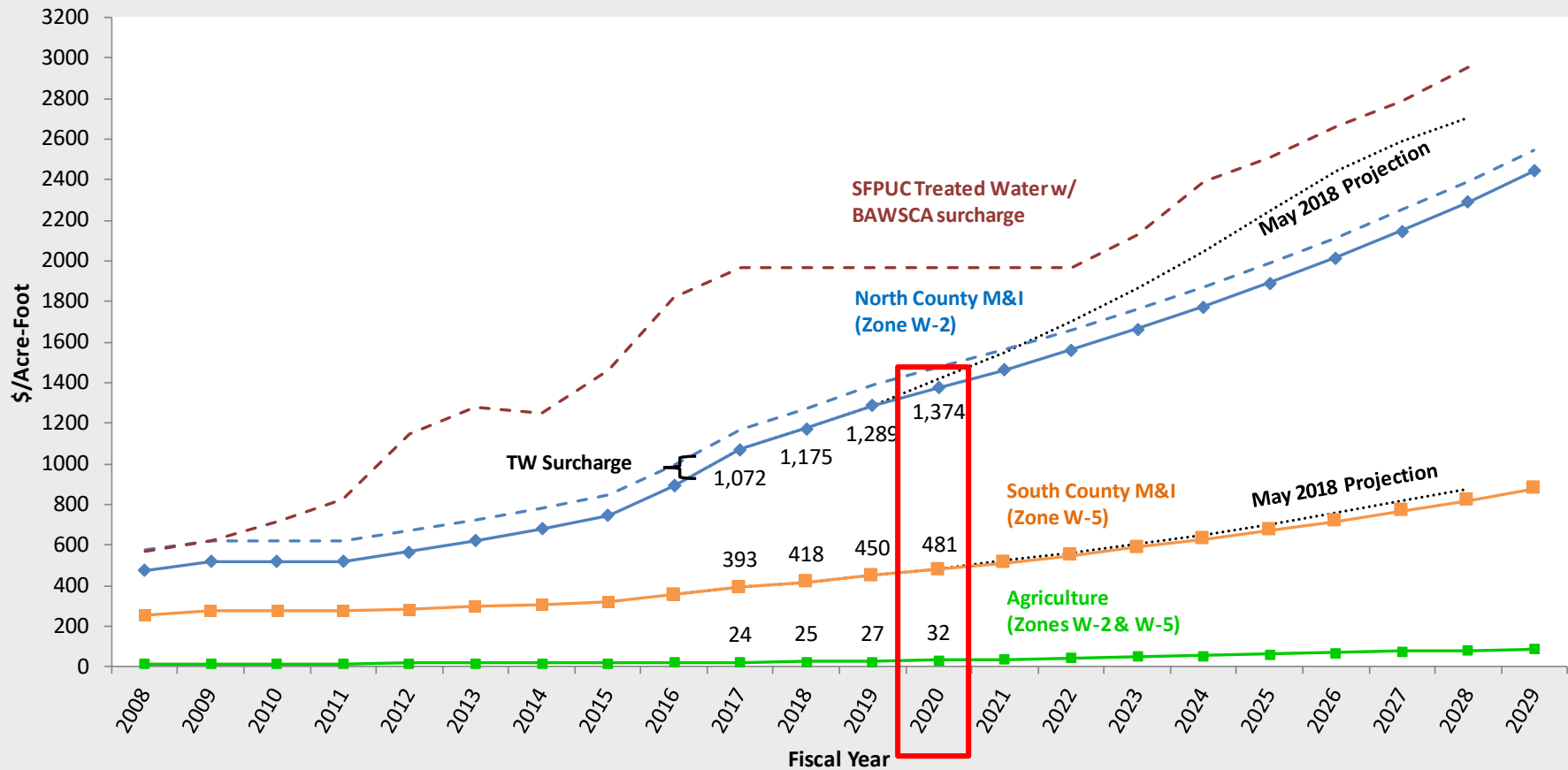
- SCVWD retailer rates shown include staff recommended increase for FY 2019-20, but do not include increases that retailers may impose
- Well owner rates exclude pumping costs (e.g. electricity) and well maintenance costs



# Groundwater Production Charge Projection

## Water Utility Enterprise Fund

### M&I Groundwater Charge Projection



Note: This projection does not account for impacts associated with the Bay Delta Water Quality Control Plan

# Groundwater Production Charge Projection

## North County M&I Groundwater Charge Y-Y Growth %

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
May 2018	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	8.7%	5.9%	4.7%	
April 2019	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%

## South County M&I Groundwater Charge Y-Y Growth %

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
May 2018	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	
April 2019	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%

# Groundwater Production Charge Projection

## North County Increase per Month per Avg Household\*

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
May 2018	\$4.31	\$4.72	\$5.18	\$5.68	\$6.24	\$6.84	\$6.73	\$4.96	\$4.19	
April 2019	\$2.93	\$3.12	\$3.33	\$3.55	\$3.78	\$4.03	\$4.30	\$4.58	\$4.89	\$5.21

## South County Increase per Month per Avg Household\*

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29
May 2018	\$1.19	\$1.29	\$1.38	\$1.49	\$1.61	\$1.73	\$1.86	\$2.01	\$2.16	
April 2019	\$1.07	\$1.14	\$1.22	\$1.31	\$1.40	\$1.49	\$1.60	\$1.71	\$1.82	\$1.95

\* Calculated based on groundwater production charge (assumes 1,500 cubic feet of water usage per month)

# State Water Project Tax Recommendation

- Staff recommends keeping the SWP tax flat at \$18M
- The SWP tax bill for the average single family residence would remain at \$27.00/year.

## Impact if SWP tax not approved:

- \$92/AF in terms of North County M&I groundwater production charge
- \$19/AF in terms of South County M&I groundwater production charge
- \$523,000 in terms of Open space credit

LIMITED (PRIMARY) VALUES				PRIMARY	COMPARATIVE 2003 AMT	2004 DISTRIBUTION		OFFICE USE ONLY
TYPE	LIMITED	%	ASSESSED			RATE / 100	2004 AMT DUE	
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	COUNTY EDUC. EQUAL	86.57	12108	92.02	PRTKEY=MORTG
				CITY SCHOOL CO. EDUC	33.73	04580	34.86	SEQ# 65
				COMM. COL.	339.44	44898	339.70	MTG#
				STATE AID	67.28	9211	70.00	LOAN#
					-117.58	CREDIT	-117.14	
PRIM. TOT.	76000			SUBTOTAL	408.44	70575	418.24	
FULL CASH (SECONDARY) VALUES				SECONDARY	COMPARATIVE 2003 AMT	2004 DISTRIBUTION		OFFICE USE ONLY
TYPE	FULL CASH	%	ASSESSED			RATE / 100	2004 AMT DUE	
LAND/BLDG PERSONAL EXEMPTION	76000	10.0	7600	FLOOD CAWCO OVERROADS	16.10	2118	16.10	
				FIRE DIST. ASST.	9.12	1200	9.12	
				LIBRARY	78.16	8571	72.74	
				SIGNS	84	0089	52	
				COUNTY	3.96	0521	3.96	
				CITY	5.32	12477	84.82	
				SCHOOLS	104.59	1181	8.82	
				COMM COL.	10.45	27118	206.08	
				SUBTOTAL	228.24			
SEC. TOT.	76000			DIST #	7.42	1032	7.84	
SPECIAL DISTRICT (VALUE/ACRES/SQ FT) = ASSESSED				7600	10548			
HOSPITAL DISTRICT NO 1				7600	30001			
EAST VALLEY INSTITUTE TECH								
						845.10	TOTAL	\$633.16
IF NOT PAID BY DELINQUENT DATES, CALL OR WRITE FOR INTEREST AMOUNT.								

# Schedule & Wrap Up

# FY 2019-2020 Schedule

- ✓ 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: Review draft CIP & Budget development update
- ✓ Feb 22 Mail notice of public hearing and file PAWS report
  
- ✓ Mar 20 Water Retailers Meeting: FY 20 Groundwater Charge Recommendation
- Mar 26 Board Meeting: Budget development update
  
- ✓ Apr 2 Landscape Committee Meeting
- ✓ Apr 8 Ag Water Advisory Committee
- Apr 9 Open Public Hearing
- Apr 10 Water Commission Meeting
- Apr 11 Continue Public Hearing in South County
- Apr 15 Environmental and Water Resources Committee
- Apr 23 Conclude Public Hearing
- Apr 24-26 Board Meeting: Budget work study session
  
- May 14 Adopt budget & groundwater production and other water charges

- ▶ Water Retailers
- ▶ Ag Advisory
- ▶ Landscape Committee
- ▶ Public Phone Calls

# Summary and Next Steps

## Summary

- Groundwater Production Charge projection driven by water supply reliability investments, and infrastructure repair & replacement.
- Proposed FY 20 Groundwater Production Charge increase equates to an increase of \$2.93 per month in North County and \$1.07 per month in South County to average household

## Next Steps

- Obtain Feedback from Water Commission and Environmental & Water Resources Committee
- Continue Hearing to April 11 in Morgan Hill