Staff Report

In accordance with the District Act, District staff has prepared an annual report on the Protection and Augmentation of Water Supplies, which was filed with the Clerk of the Board on February 22, 2019.

The Report is the 48th annual report on the Santa Clara Valley Water District's (Valley Water) activities in the protection and augmentation of the water supplies. This Report is prepared in accordance with the requirements of the District Act, section 26.5. The Report provides information on water requirements and water supply availability, and financial analysis of Valley Water's water utility system. The financial analysis includes future capital improvement and maintenance requirements, operating requirements, financing methods and staff's recommended groundwater production and other water charges by zone for fiscal year 2019–20.

The Rate Setting Process

According to Section 26.3 of the District Act, proceeds from groundwater production charges can be used for the following purposes:

1. Pay for construction, operation and maintenance of imported water facilities
2. Pay for imported water purchases
3. Pay for constructing, maintaining and operating facilities which will conserve or distribute water including facilities for groundwater recharge, surface distribution, and purification and treatment
4. Pay for debt incurred for purposes 1, 2 and 3.

This year, as in past years, staff has carefully evaluated the activities that can be paid for by groundwater production charges. The work of Valley Water is divided into projects. Every project has a detailed description including objectives, milestones, and an estimate of resources needed to deliver the project. To ensure compliance with the District Act, each project manager must justify whether or not groundwater production charges can be used to pay for the activities associated with their project. The financial analysis presented in the annual report is based on the financial forecasts for these vetted projects.

Resolution 99-21 guides staff in the development of the overall pricing structure based on principles established in 1971. The general approach is to charge the recipients of the various benefits for the benefits received. More specifically, pricing is structured to manage surface water, groundwater supplies and recycled water conjunctively to prevent the over use or under use of the groundwater basin. Consequently, staff is very careful to recommend pricing for groundwater production charges, treated water charges, surface water charges and recycled water charges that work in concert to achieve the effective use of available resources.

This year's rate setting process is being conducted consistent with Board Resolutions 99-21 and 12-10. In light of the Supreme Court finding that Proposition 218 is inapplicable to groundwater production charges, only the surface water charge setting process will mirror the process described in Proposition 218 for property-related fees for water services. The rate setting process for both groundwater and surface water is consistent with Proposition 26 requirements that the groundwater production and surface water charges are no more than necessary to cover reasonable costs and bear a fair or reasonable relationship to the rate payor's burdens on or benefits received from the groundwater and surface water programs.

As in the past, the Board will continue to hold public hearings and seek input from its advisory committees and the public before rendering a final decision on groundwater production and other water charges for FY 2019–20.

Staff Recommendations

Exhibit 1 shows the recommended groundwater production charges and other charges for FY 2019–20. The staff recommendation for the various types of agricultural water is significantly different than the proposed maximums shown in Valley Water's Annual Report on the Protection and Augmentation of Water Supplies (PAWS). The proposed maximum agricultural charges in the PAWS report reflect the maximum rate allowed by the District Act, and was a placeholder to allow flexibility for the Board in deliberating changes to its policy on agricultural water pricing.

Exhibit 1
Summary of Charges
(Dollars Per Acre Foot, $/AF)

	Dollars Per Acre Foot		
	FY 2017–18	FY 2018–19	Staff Recommended FY 2019–20
Zone W-2 (North County)			
Basic User/ Groundwater Production Charge			
Municipal & Industrial	**1,175.00**	**1,289.00**	**1,374.00**
Agricultural	**25.09**	**27.02**	**32.23**
Surface Water Charge			
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**	**69.73**
Treated Water Charges			
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**
Zone W-5 (South County)			
Basic User/ Groundwater Production Charge			
Municipal & Industrial	**418.00**	**450.00**	**481.00**
Agricultural	**25.09**	**27.02**	**32.23**
Surface Water Charge			
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**	**69.73**
Recycled Water Charges			
Municipal & Industrial	**398.00**	**430.00**	**461.00**
Agricultural	**48.88**	**54.41**	**59.62**

*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

The recommended increases in water charges are necessary to pay for critical investments in water supply infrastructure rehabilitation and upgrades, and the development of future drought-proof supplies. The Anderson Dam Seismic Retrofit is a $563 million project that will help ensure public safety and bolster future water supply reliability. Additionally, the $295 million Rinconada Water Treatment Plant upgrade is more than halfway complete, and will extend the plant's service life for the next 50 years as well as increase production capacity up to 25%. Roughly $121 million is planned to be spent over the next 10 years on the state's proposed plan for the California Water Fix, which is anticipated to improve the reliability of the infrastructure through which 40% of the county's water supply is delivered. Valley Water continues to move forward to forge its first public-private partnership (P3) on a $650 million investment for recycled and purified water expansion that would bring up to 24,000 AF of new water supply to the county each year. Lastly, the Pacheco Reservoir Expansion project, estimated to cost a little more than $1.3 billion, would provide 80,000 acre-feet of additional water storage capacity.

Given the financial needs summarized above, staff proposes a 6.6% increase in the North County (Zone W-2) Municipal and Industrial groundwater production charge from $1,289/AF to $1,374/AF. Staff recommends maintaining the treated water surcharge at $100/AF, and maintaining the non-contract treated water surcharge at $50/AF. The proposal equates to a monthly bill increase for the average household of $2.93 or about 10 cents a day.

In the South County (Zone W-5), staff proposes a 6.9% increase in the M&I groundwater production charge from $450/AF to $481/AF. The proposal equates to a monthly bill increase for the average household of $1.07 or about 4 cents per day.

Customers in both areas of North and South County may also experience additional charge increases enacted by their retail water providers.

Staff recommends a 19.3% increase in the agricultural groundwater production charge in both zones from $27.02/AF to $32.23/AF. The staff recommendation equates to a $0.87 increase per month per acre for an agricultural water user who pumps 2 acre-feet per acre per year.

Staff recommends a 4.4% increase to the surface water master charge from $35.93/AF to $37.50/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in a 6.5% increase in the overall North County municipal and industrial surface water charge and 6.7% increase in the overall South County municipal and industrial surface water charge. The overall agricultural surface water charge in either zone would increase by 10.8% to $69.73 per acre foot. Due to the severity of the recent drought from 2012 to 2016, the water district suspended nearly all raw surface water deliveries in 2014. Now that the historic drought is over, Valley Water has restored surface water for those permitted users who requested it.

For recycled water, staff recommends increasing the M&I charge by 7.2% to $461/AF. For agricultural recycled water, staff recommends a 9.6% increase to $59.62/AF. The increase maximizes cost recovery while concurrently providing an economic incentive to use recycled water. This pricing is consistent with the provisions of the "Wholesale-Retailer Agreement for Supply of Recycled Water Between Santa Clara Valley Water District and City of Gilroy."

Staff recommends keeping the State Water Project Tax at $18 million for FY 2019–20. This translates to a property tax bill for the average single family residence of roughly $27.00 per year. Valley Water incurs an annual indebtedness to the State of California pursuant to its Water Supply Contract dated November 20, 1961. Such indebtedness is proportional to Valley Water's allocation of water from the State Water Project and pays for construction, maintenance and

operation of state water project infrastructure and facilities. Staff anticipates that Valley Water's contractual indebtedness to the State under the State Water Supply Contract for FY 2019–20 will be at least $25 million. The intent behind setting the State Water Project Tax below the anticipated contractual indebtedness is to reduce the State Water Project Fund reserve that has built up recently (totaling $12.8M at the end of FY 2017-18). Staff's recommendation regarding the State Water Project tax is consistent with Valley Water's past practice and with the approach of other water districts and agencies that maintain State water supply contracts.

Projections

Exhibit 2 shows actual and projected District-managed water use. FY 2017–18 water usage came in at 231,000 AF, slightly higher than the projected usage. For the current year, FY 2018–19, staff estimates that water usage will be approximately 226,000 AF or higher, and roughly a 21% reduction versus calendar year 2013. For FY 2019–20, total District-managed water use is projected at 239,000 AF, which is about a 6% increase relative to the FY 2018-19 estimated actual. The FY 2019-20 water usage estimate represents a 16% reduction relative to calendar year 2013, and represents a roughly 23% reduction on a per capita basis. Water use is projected to ramp up to 254,000 AF by FY 2024-25.

Exhibit 2
District-managed Water Use Projection (1,000's AF)

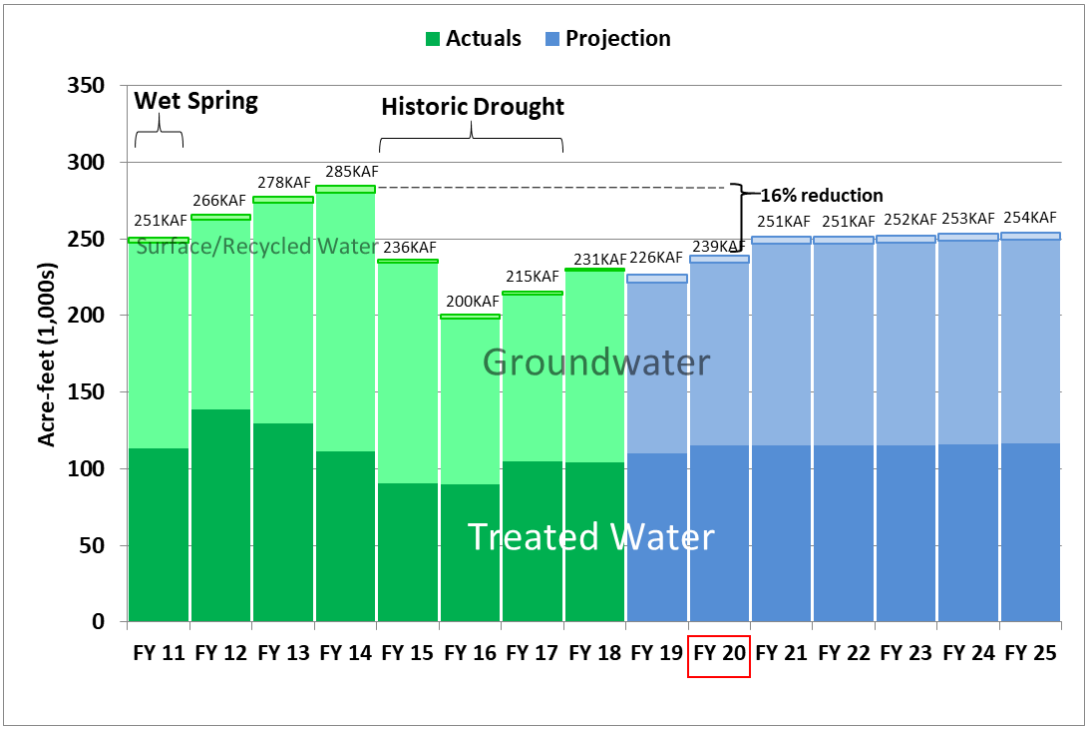


Exhibit 3 shows key financial indicators with staff's recommendation projected to FY 2025-26. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

Exhibit 3
5 Year Charge and Financial Indicator Projection

Base Case	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
No. County (W-2) M&I GWP charge ($/AF)	$1,289	$1,374	$1,465	$1,561	$1,664	$1,774	$1,891	$2,016
Y-Y Growth %	9.7%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
So. County (W-5) M&I GWP charge ($/AF)	$450	$481	$514	$550	$588	$628	$672	$718
Y-Y Growth %	7.7%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
Operating & Capital Reserve	$35,003	$40,408	$45,926	$47,663	$53,352	$52,133	$54,811	$56,890
Supplemental Water Supply Reserve ($K)	$14,677	$15,077	$15,477	$15,877	$16,277	$16,677	$17,077	$17,477
Drought Contingency Reserve ($K)	$7,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
P3 Reserve ($K)	$4,000	$8,000	$10,000	$12,000	$14,000	$16,000	$17,000	$18,000
Sr. Lien Debt Svc Cov Ratio (1.25 min)	2.65	3.37	3.31	2.99	2.54	2.47	2.48	2.51
South County (Deficit)/Reserves ($K)	$12,242	$11,306	$12,774	$14,373	$17,578	$14,504	$13,537	$14,062

A portion of the projected increases in the groundwater production charge are driven by the capital improvement program as shown in Exhibit 4. Over $3.3 billion in capital investments, primarily to repair and rehabilitate aging infrastructure, are planned for the next 10 years. FY 2019–20 operations and operating project costs are projected to increase by 4.2% versus the FY 2018–19 adjusted budget. On a longer term basis, operating outlays are projected to increase an average of 7.2% per year for the next 10 years driven by: 1) the start of Water Service Agreements payments in FY 28 to Valley Water's P3 (Public-Private Partnership) partner upon completion of the Expedited Purified Water Facilities and commencement of the new water supply; 2) the ramp up of anticipated payments associated with the California WaterFix; and 3) inflation. Debt service is projected to rise from $44 million in FY 2019–20 to $127.9 million in FY 2028–29 as a result of periodic debt issuances to fund the capital program.

Exhibit 4
Cost Projection by Cost Center ($M)

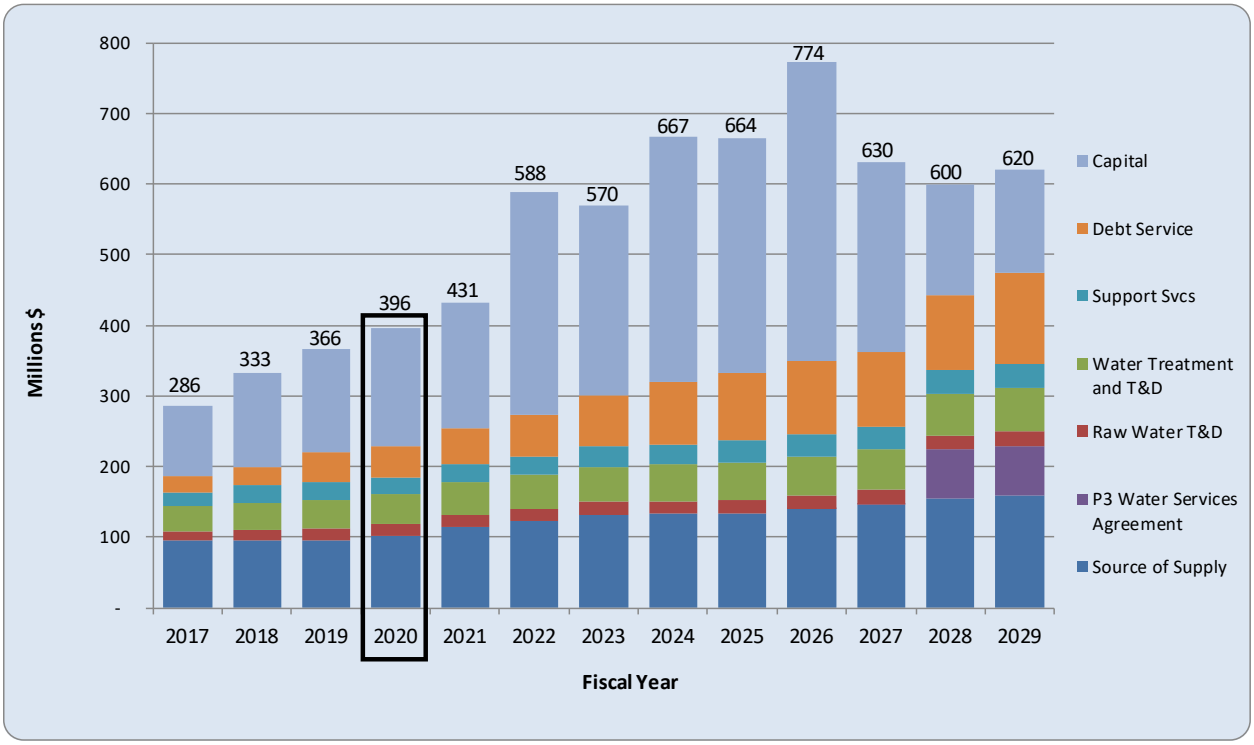


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2018–19 and funding of the preliminary FY 2019-20 Capital Improvement Program (CIP). Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in projection.

Exhibit 5
10 Year Groundwater Charge Projection

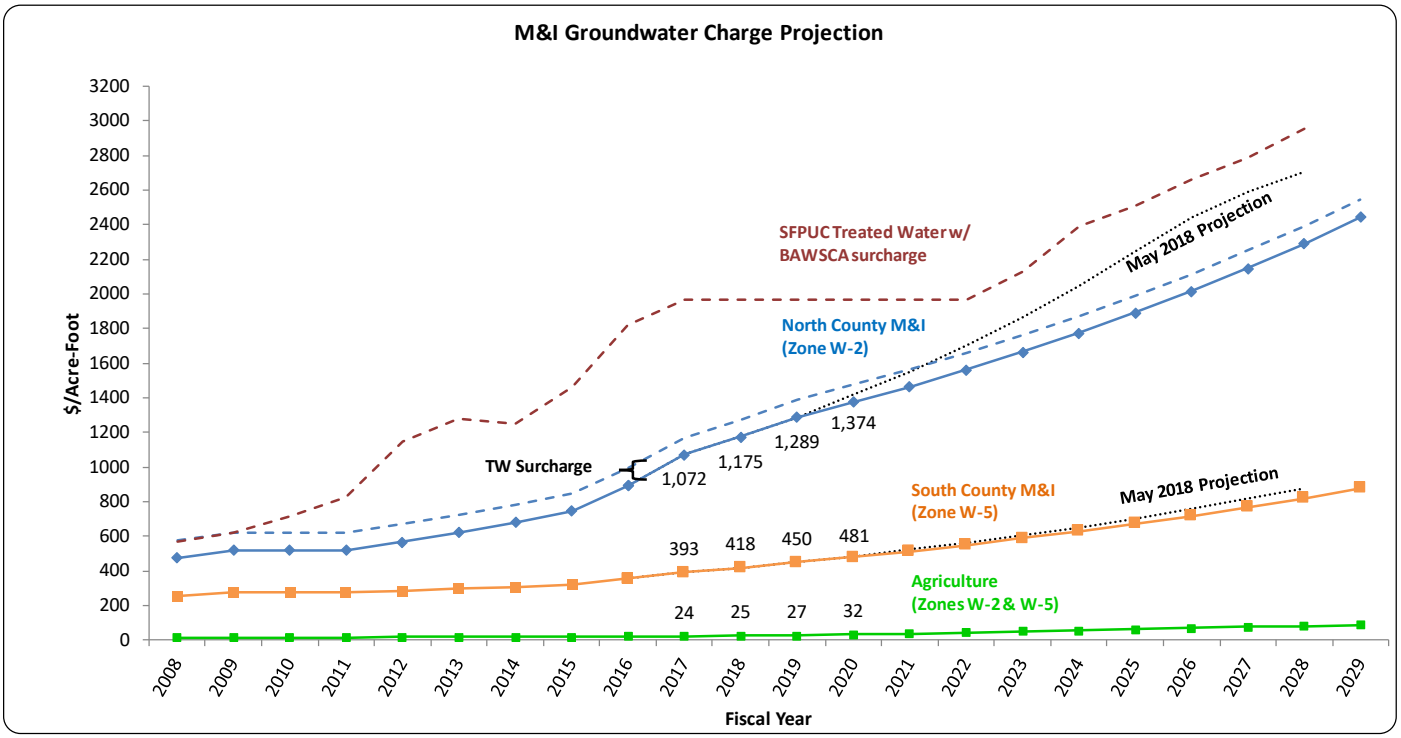


Exhibit 6 shows a comparison of the adjusted proposed groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan Water District, Orange County Water District, San Diego County Water Authority, San Francisco PUC (Hetch Hetchy), and Zone 7.

Exhibit 6

Anticipated FY 2018–19 Water Charge Increases for Similar Agencies

		% inc.		% inc.		Projection
	FY 17	'17 to '18	FY 18	'18 to '19	FY 19[3]	FY 20
SCVWD North W-2 (Groundwater prdctn per AF)	$1,072	9.6%	$1,175	9.7%	$1,289	6.6%
SCVWD North W-2 (Treated Water per AF)	$1,172	8.8%	$1,275	8.9%	$1,389	6.1%
SCVWD South W-5 (Groundwater prdctn per AF)	$393	6.4%	$418	7.7%	$450	6.9%
Metropolitan WD (Untreated Water per AF)[1]	$762	4.3%	$795	4.0%	$827	3.6%
Metropolitan WD (Treated Water per AF)[1]	$1,075	3.7%	$1,115	2.8%	$1,146	2.6%
Orange County WD (Groundwater per AF)	$402	10.7%	$445	3.8%	$462	8.0%
San Diego County WA (Treated Water per AF)[1]	$1,531	3.4%	$1,583	-0.4%	$1,577	TBD
San Francisco PUC (Treated Water per AF)[2]	$1,969	0.0%	$1,969	0.0%	$1,969	0.0%
Zone 7 (Treated Water per AF)[1]	$1,575	-13.2%	$1,367	2.5%	$1,401	8.9%

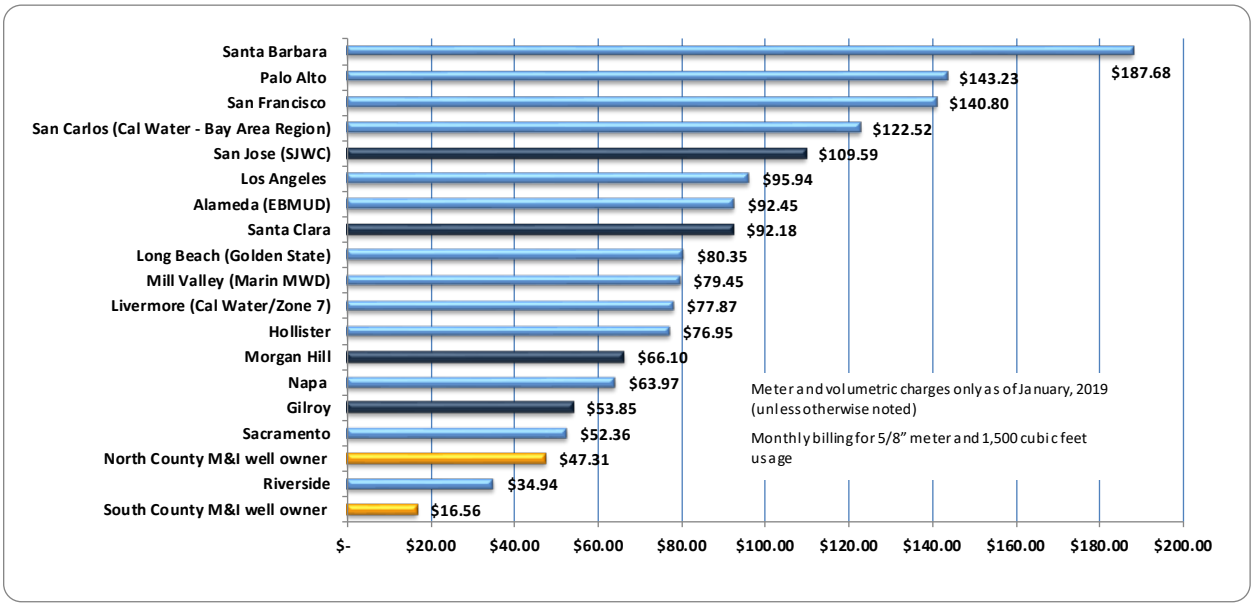
1) MWD, SDCWA and Zone 7 rates based on calendar year (i.e. 2018 rate would be effective on 1/1/2018)

2) SFPUC rate includes BAWSCA bond surcharge

3) SCVWD FY 20 projection includes staff recommendations

Exhibit 7 shows a comparison of the average monthly bill for several of Valley Water's retail customers (e.g. SJWC, City of Santa Clara, City of Morgan Hill, and City of Gilroy) relative to Valley Water's perennial list of retail agency comparators across the state. SCVWD retailer rates shown include the staff recommended increase for FY 2019-20. North County and South County well owner rates are also shown, which exclude pumping costs (e.g. electricity) and well maintenance costs.

Exhibit 7
Retail Agency Benchmarks



Cost of Service

The cost of service analyses for FY 2019–20 is shown in Exhibit 8 for North County and Exhibit 9 for South County. The exhibits are laid out in a format that follows six industry standard rate making steps.

1. Identify utility pricing objectives and constraints
2. Identify revenue requirements
3. Allocate costs to customer classes
4. Reduce costs by revenue offsets or non-rate related funding sources
5. Develop unit costs by customer class or net revenue requirements by customer class
6. Develop unit rates by customer class

Step 2 includes identifying and segregating Water Utility Fund costs from Watershed and Administrative Funds and allocating Water Utility costs between zones W-2 (North) and W-5 (South) according to benefit provided. Step 3 involves allocating costs by customer class either directly or based on water usage. Steps 4 and 5 result in unit costs by customer class after applying non-rate related offsets.

Step 6 includes two adjustments. The first adjustment is the application of fungible revenue, in this case 1% ad valorem property taxes, to offset the costs of agricultural water in accordance with Board Resolution 99-21. For FY 2019-20, staff is proposing a $460K transfer of 1% ad valorem property taxes from the General Fund and $460K from the Watershed Stream Stewardship Fund as sources for this adjustment also known as the “Open Space Credit.”

The second adjustment involves reallocating a portion of the cost of treated water (or recycled water in the case of South County) to groundwater and surface water users. Treated and recycled water offsets the need to pump groundwater and therefore increases the volume of stored groundwater and improves reliability. The reallocation of a portion of the treated water cost for example represents the value of treated water to groundwater and surface water users and facilitates a pricing structure that prevents the over use of the groundwater basin. Preventing over use not only preserves groundwater for use in times of drought, but also prevents land subsidence or sinking of the land, which can cause serious infrastructure issues.

Another aspect of the second adjustment is related to setting the basic user charge for surface water equal to the groundwater production charge. Surface water use is effectively in-lieu groundwater use permitted by Valley Water to help preserve the groundwater basin. As such, the costs related to preserving the groundwater basin provide value to surface water users because it makes available District surface water, which otherwise would only be used for groundwater recharge. Similarly, the costs related to providing surface water benefit groundwater users because surface water usage helps preserve the groundwater basin. The second adjustment reallocates costs between surface water and groundwater customers in order to set the basic user charge for surface water equal to the groundwater production charge in recognition of this conjunctive use relationship, and in accordance with board policy. A 2015 study was conducted by Raftelis Financial Consultants, Inc (RFC) that confirms the reasonableness of such an adjustment. The report titled “Report Documenting the Reasonableness of the Conjunctive Use Benefit of Surface Water and Recycled Water to Groundwater Customers” documents the support and justification for the water district’s cost of service methodology and can be found on Valley Water’s website.

Exhibit 8
Cost of Service North County Zone W-2 ($K)

	FY '20 Projection ($K)	Zone W-2					
		GW		TW	SW		Total W-2
		M&I	AG	M&I	M&I	Ag	
1	**Operating Outlays**						
2	Operations/Operating Projects	36,308	350	102,206	1,034	27	139,924
3	SWP Imported Water Costs	6,078	60	18,621	301	8	25,068
4	Debt Service	10,318	101	33,313	138	4	43,874
5	**Total Operating Outlays**	52,703	511	154,140	1,473	39	208,866
6	Step 2- Identify revenue reqmnts						
7	**Capital & Transfers**						
8	Operating Transfers Out	600	6	1,044	14	0	1,664
9	Capital Outlays excl. carryforward	34,753	342	120,057	758	20	155,931
10	**Total Capital & Transfers**	35,353	348	121,101	772	21	157,595
11	**Total Annual Program Costs**	88,057	859	275,241	2,245	60	366,461
12	Step 3 - Allocate costs to customer classes						
13	**Revenue Requirement Offsets**						
14	Capital Cost Recovery	(2,360)	(23)	(4,107)	(54)	(1)	(6,545)
15	Debt Proceeds	(13,274)	(131)	(45,857)	(290)	(8)	(59,559)
16	Inter-governmental Services	(390)	(4)	(678)	(9)	(0)	(1,081)
17	SWP Property Tax	(4,102)	(40)	(12,569)	(203)	(5)	(16,920)
18	South County Deficit/Reserve	(1,418)	(14)	(2,467)	(32)	(1)	(3,932)
19	Interest Earnings	(1,010)	(10)	(1,757)	(23)	(1)	(2,800)
20	Inter-zone Interest	73	1	127	2	0	202
21	Capital Contributions	(8,962)	(88)	(15,592)	(203)	(5)	(24,851)
22	Other	(953)	(9)	(903)	(14)	(0)	(1,880)
23	Reserve Requirements	(1,751)	17	(181)	(38)	1	(1,952)
24	**Adjusted Revenue Requirement (FY 19)**	**53,908**	**557**	**191,259**	**1,381**	**39**	247,144
25	**Adjusted Revenue Requirement (FY 16 adj)**	(22,017)	(235)	37,018	913	(15)	15,665
	Step 4 Reduce costs by revenue offsets						
26	**Total Adjusted Revenue Requirement**	**31,892**	**323**	**228,276**	**2,293**	**24**	262,809
27	Volume (KAF)	66.1	0.7	115.0	1.5	0.0	183.3
28							
29	Revenue Requirement per AF	$ 482	$ 497	$ 1,985	$ 1,529	$ 603	
30	Step 5 - Develop unit costs by customer class						
31	**Adjustments for Agricultural Preservation**						
32	Allocate WU 1% Ad Valorem Prop Tax	-	(302)	-	-	(21)	(323)
33	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
34	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
35	Revenue Requirement per AF	$ 482.5	$ 32.2	$ 1,985	$ 1,529	$ 69.7	
36	Step 6 - Rate Design						
37	**Adjustments to Facilitate Conjunctive Use**						
38	Reallocate TW/SW/RW costs	58,934	-	(58,758)	(176)	-	0
39	Charge per AF	$ 1,374	$ 32.2	$ 1,474	$ 1,412	$ 69.7	
40	Total Revenue ($K)	$90,826	$21	$169,518	$2,117	$3	$262,485

Exhibit 9
Cost of Service South County Zone W-5 ($K)

	FY '20 Projection ($K)	Zone W-5						
		GW		SW	RW			Total W-5
		M&I	AG	M&I	AG	M&I	AG	
1	**Operating Outlays**							
2	Operations/Operating Projects	10,076	8,692	254	650	221	189	**20,083**
3	SWP Imported Water Costs	-	-	-	-	-	-	**-**
4	Debt Service	-	-	-	-	-	-	**-**
5	**Total Operating Outlays**	10,076	8,692	254	650	221	189	**20,083**
6								
7	**Capital & Transfers**							
8	Operating Transfers Out	-	-	-	-	-	-	**-**
9	Capital Outlays excl. carryforward	-	-	-	-	-	-	**-**
10	**Total Capital & Transfers**	-	-	-	-	-	-	**-**
11	**Total Annual Program Costs**	10,076	8,692	254	650	221	189	**20,083**
12								
13	**Revenue Requirement Offsets**							
14	Capital Cost Recovery	2,779	2,481	50	129	595	510	**6,545**
15	Debt Proceeds	-	-	-	-	-	-	**-**
16	Inter-governmental Services	(80)	(71)	(1)	(4)	-	-	**(156)**
17	SWP Property Tax	(539)	(481)	(10)	(25)	(13)	(12)	**(1,080)**
18	South County Deficit/Reserve	3,370	768	(12)	40	(252)	18	**3,932**
19	Interest Earnings	-	-	-	-	-	-	**-**
20	Inter-zone Interest	(101)	(90)	(2)	(5)	(3)	(2)	**(202)**
21	Capital Contributions	-	-	-	-	-	-	**-**
22	Other	(71)	(64)	(1)	(2)	-	-	**(138)**
23	Reserve Requirements	-	-	-	-	-	-	**-**
24	**Adjusted Revenue Requirement (FY 19)**	**15,434**	**11,235**	**278**	**783**	**548**	**705**	**28,984**
25	**Adjusted Revenue Requirement (FY 16 adj)**	(2,510)	(3,052)	27	(208)	274	(400)	**(5,869)**
26	**Total Adjusted Revenue Requirement**	**12,925**	**8,183**	**305**	**576**	**822**	**304**	**23,115**
27	Volume (KAF)	28.0	25.0	0.5	1.3	0.7	0.6	**56.1**
28								
29	Revenue Requirement per AF	$ 462	$ 327	$ 611	$ 443	$ 1,174	$ 507	
30								
31	**Adjustments for Agricultural Preservation**							
32	Allocate WU 1% Ad Valorem Prop Tax	-	(7,213)	-	-	-	-	**(7,213)**
33	Transfer GF 1% Ad valorem Prop Tax	-	(460)	-	-	-	-	**(460)**
34	Transfer WS 1% Ad Valorem Prop Tax	-	296	-	(485)	-	(270)	**(460)**
35	Revenue Requirement per AF	$ 462	$ 32.2	$ 611	$ 69.7	$ 1,174	$ 56.2	
36								
37	**Adjustments to Facilitate Conjunctive Use**							
38	Reallocate TW/SW/RW costs	545	-	(46)	-	(499)	-	**0**
39	Charge per AF	$ 481	$ 32.2	$ 519	$ 70	$ 461	$ 56.2	
40	Total Revenue ($K)	$13,470	$806	$259	$91	$323	$34	**$14,982**

Step 2- Identify revenue reqmnts

Step 3 - Allocate costs to customer classes

Step 4 Reduce costs by revenue offsets

Step 5 - Develop unit costs by customer class

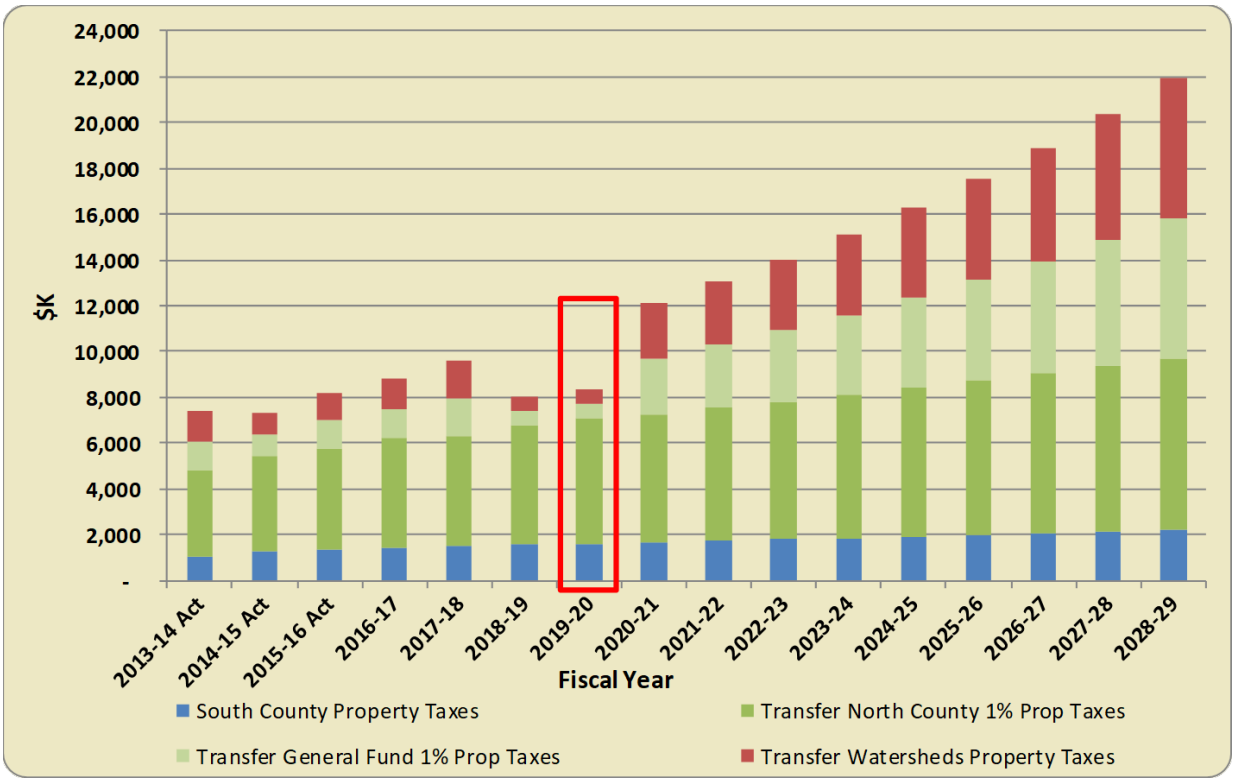
Step 6 - Rate Design

Open Space Credit

The District Act limits agricultural groundwater production charges to a maximum of 25 percent of the M&I groundwater production charges. Current board policy adds an “open space” credit to agricultural revenues. The purpose of the credit is to preserve the open space benefits provided by agricultural lands by keeping agricultural groundwater production charges low. While the Supreme Court found Proposition 218 inapplicable to groundwater production charges, the Court determined that Proposition 26 does apply, which means that in order for the groundwater production charge to qualify as a nontax fee, costs to end users must be proportional such that one class of users is not subsidizing another.

The recommended agricultural groundwater production charge for FY 2019–20 is $32.23 per acre foot, which is 6.7 percent of the proposed M&I groundwater production charge in South County. To comply with the current agricultural groundwater production charge setting policy, staff recommends the open space credit received by South County be $8.1 million in FY 2019-20 (funded by 1 percent ad valorem property taxes). This includes an adjustment that reconciles FY 2016–17 actuals against what was projected. The $8.1 million is comprised of a $5.6 million transfer from North County Water Utility 1% ad valorem property taxes, a $1.6 million contribution from South County Water Utility 1% ad valorem property taxes, a $460 thousand transfer of 1% ad valorem property taxes from the General Fund and $460 thousand from the Watershed Stream Stewardship Fund. As shown in Exhibit 10, the Open Space Credit is projected to grow to $22 million by FY 2028-29.

Exhibit 10
Open Space Credit Trend



Hearings and Meetings Schedule

Exhibit 11 presents the schedule for the annual groundwater production charge setting process.

Exhibit 11
Hearings and Meetings Schedule – 2019

Date	Hearing/Meeting
January 8	Board Meeting on Preliminary Groundwater Production Charge Analysis
February 22	Mail notice of public hearing and file PAWS report
March 20	Water Retailers Meeting
April 2	Landscape Committee Meeting
April 8	Agricultural Water Advisory Committee Meeting
April 9	Open Public Hearing
April 10	Water Commission Meeting
April 11	Continue Public Hearing in Morgan Hill (Informational Open House)
April 15	Environmental & Water Resources Committee
April 23	Conclude Public Hearing
May 14	Adopt Budget & Groundwater Production and Other Water Charges