

05/14/19

**MEMORANDUM**

FC 14 (01-02-07)

TO: Board of Directors**FROM:** Joint Recycled Water Policy Advisory Committee /TPAC)**SUBJECT:** Joint Recycled Water Policy Advisory Committee /TPAC Meeting Summary for May 1, 2019**DATE:** May 14, 2019

This memorandum summarizes agenda items from the regular annual meeting of the Joint Recycled Water Policy Advisory Committee /TPAC Meeting Summary for May 1, 2019.

Attendees:

Valley Water Board members in attendance were: Director Tony Estremera, District 6, Director Barbara Keegan, District 2, and Director Gary Kremen, District 7.

City of San José members in attendance: Council Member Sylvia Arenas and Council Member Lan Diep and Ms. Kerrie Romanow, Alternate.

City of Santa Clara members in attendance: Council Member Debi Davis and Council Member Kathy Watanabe, Alternate.

SCVWD Staff members in attendance were: Hossein Ashktorab, Glenna Brambill, Jerry De La Piedra, Anthony Fulcher, Garth Hall, Nina Hawk, Lei Hong, Elise Latedjou-Durand, Katherine Oven, Metra Richert, Miguel Silva, Medi Sinaki, Darin Taylor, David Tucker, Cris Tulloch and Bhavani Yerrapotu.

City of San José Staff members in attendance were: Pedro Hernandez, Henry Louie, Jeffrey Provenzano, Mark Savage and Rosa Tsongtaatarii.

City of Santa Clara Staff member in attendance was: Gary Welling.

Guest in attendance was: Bill Tuttle.

ACTION ITEMS**4.1 SANTA CLARA VALLEY WATER'S SUPPLY AND PROJECT SELECTION PROCESSES**

Ms. Metra Richert reviewed the following:

Summary:**Water Supply Master Plan**

As the groundwater management agency and primary water resources agency for Santa Clara County, the Santa Clara Valley Water District (Valley Water) has a mission to provide safe, clean water for the County. The Water Supply Master Plan (Water Master Plan) is Valley Water's strategy for providing a reliable and sustainable water supply in a cost-effective manner. It informs investment decisions by describing the type and level of water supply investments Valley Water is planning to make through 2040, the anticipated schedule, the associated cost and benefits, and how the Water Master Plan implementation will be monitored and adjusted annually.

Strategy

In January 2019, the Board reaffirmed the "Ensure Sustainability" strategy which guides the Water Master Plan. The strategy is comprised of three elements:

1. Secure existing supplies and infrastructure;
2. Expand the water conservation and reuse; and
3. Optimize the use of existing supplies and infrastructure.

Together these elements protect and build on Valley Water's past investments in water supply reliability, leverage those investments, and develop alternative supplies and demand management measures to manage risk and meet future needs, especially during extended droughts in a changing climate.

Level of Service

The water supply reliability level of service goal guides long-term water supply planning efforts and informs Board decisions regarding investments. The level of service goal is an interpretation of Board Policy E-2 that "there is a reliable, clean water supply for current and future generations." As part of the Water Master Plan update, in January 2019, the Board adopted a revised level of service goal to "develop water supplies designed to meet at least 100 percent of average annual water demand identified in Valley Water's Water Supply Master Plan during non-drought years and at least 80 percent of average annual water demand in drought years."

Staff recommended using the Water Master Plan demand projections because it is closer to historical trends than the Urban Water Management Plan projection and will be reviewed and updated annually as part of the Water Master Plan monitoring. Furthermore, staff recommended updating the level of service goal for planning for drought reliability to meet 80 percent of demands because it strikes a balance between minimizing shortages and the costs associated with investing in a higher level of service. Additionally, the community was able to reduce water use by as much as 28 percent in 2015, indicating that shortages in the range of 20 percent are manageable.

Supply and Demand

To meet the future water supply needs and promote greater supply diversity, Valley Water continues to explore additional water supply and demand management options. Water supply diversity helps reduce the County's exposure to the risk of any one supply investment not performing up to expectations. In addition, developing alternative supplies reduces Valley Water's reliance on imported water supplies. Projects being considered include additional water conservation, non-potable recycled water, potable reuse, surface and groundwater storage, stormwater capture, additional recharge ponds, dry year options, etc.

Valley Water recognizes that every project has unique characteristics and considers a variety of factors when analyzing the cost and benefits of projects. Considerations include yield, the impact to rates, operational flexibility, regulatory restrictions, and environmental impacts to name a few. The aim is to strike a balance between long-term reliability, project costs, and impacts on water rates.

Water Supply Investments

In September 2017, the Board approved planning for a variety of water conservation and stormwater capture projects, referred to as the "No Regrets" package in the Water Master Plan update. These projects would be implemented in any future water supply scenario and are designed to reduce water demands by about 10,000 acre-feet per year (AFY) and increase natural groundwater recharge by about 1,000 AFY. The package, which increases the conservation savings goal to 110,000 AFY by 2040, consists of the following water conservation and stormwater capture projects:

- Advanced metering infrastructure;
- Graywater rebate program expansion;
- Leak repair incentives;
- New Development Model Ordinance; and
- Stormwater capture (agricultural land recharge, stormwater recharge in the City of San Jose and Saratoga, rain barrel rebates, and rain garden rebates).

In December 2017, the Board approved pursuing a public-private partnership to develop up to 24,000 AFY of potable reuse capacity using the Los Gatos Ponds to percolate purified water into the groundwater basin. In May 2018, the Board approved participation in the California WaterFix. In June 2018, the Board approved pursuing the Pacheco Reservoir Expansion Project, which is eligible to receive up to \$484.5 million in State funding.

Staff analyzed the effect of these Board-approved efforts, along with additional recharge in the Llagas Groundwater Subbasin that groundwater modeling indicates is needed to meet future demands, on water supply reliability. The projects that are approved for planning would be sufficient to meet the District's water supply reliability level of service goal of meeting 100 percent of demands in normal years and at least 80 percent of demands in drought years.

Monitoring and Assessment

All projects have challenges, uncertainties, and risks as presented in Valley Water's 2017 Risk Ranking Report (attachment 2). These include but are not limited to climate change, policy changes, and regulatory action affecting the Delta (e.g., Bay Delta Water Quality Control Plan). This could result in some projects not materializing or resulting in a lower yield than expected. Therefore, the District continues to identify, analyze, and monitor projects that could serve as an alternative project should change be needed.

This uncertainty will be managed through the annual Water Master Plan review. Staff will monitor and report to the Board on the demands, supplies, and status of projects and programs; and will identify where adjustments to the Water Master Plan might be needed to respond to changed conditions. The proposed Monitoring and Assessment Plan (MAP) approach for the Water Master Plan has four steps:

1. Develop an implementation schedule;
2. Manage unknowns and risk;
3. Report to Board annually, or as needed; and
4. Adjust the MAP as necessary to serve as input to annual rate forecast, CIP and budget.

Next Steps

The next steps for the Water Master Plan are to prepare a draft Water Master Plan based on Board direction from the November 20, 2018, December 11, 2018, and January 14, 2019 Board meetings. Staff anticipates completing a draft Water Master Plan for Board and stakeholder review in spring 2019. The intent is to hold at least two workshops as part of this review – one with water retailers and one with other stakeholders. Additional presentations may be made at Board advisory committees. Staff plans to present a final Water Master Plan to the Board in late summer 2019. The next annual report would be presented to the Board in Summer 2020, and then any changes would be incorporated into the CIP, budget, and water rates setting processes.

Committee discussion items:

Model Ordinance to be sent out to the Committee under separate cover, 80% level of conservation, recycled projects how they translate for rate payers, production needed for dry years, potable reuse, include the rate effect on future presentation charts, expansion of recycled water, moving water-demand, diversity of water sources impacting costs, discussing different uses of water, changes in the WaterFix and Governor Newsom's new direction and name change, purple piping, no "regrets" package information, South County Recharge 2030 projection, climate changes, developing partnerships with other agencies and general conservation outreach efforts.

The Committee took no action.

4.2 DISTRICT WATER RATES OVERVIEW

Mr. Darin Taylor reviewed the following:

Summary:

Each year, the Board establishes groundwater production charges for two zones of benefit (Zone W-2 in the North County and Zone W-5 in the South County) in accordance with Section 26 of the District Act. Although not specified under the District Act, the Board also sets surface water charges, recycled water charges, treated water surcharges, and the amount of the State Water Project cost to be recouped through the State Water Project tax, within the framework of the groundwater charge setting process.

The Water Utility taxing and pricing policy, summarized in Attachment 1, and legal requirements, guide staff in the development of the overall structure for these charges.

In late 2017, the State Supreme Court found that proposition 218 is not applicable to groundwater production charges. However, the Court did determine that Proposition 26 does apply to groundwater charges. This means that for the groundwater charge to qualify as a nontax fee under Proposition 26, it must satisfy both of the following requirements:

1. That the groundwater charge be established in an amount that is no more than necessary to cover the reasonable costs of the government activity, and
2. The manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from the government activity.

The FY 2019-20 groundwater production charge setting process is being conducted consistent with Proposition 26's requirements. The FY 2019-20 surface water charge setting process continues to be conducted consistent with Proposition 218's requirements for property-related fees for water services

Under the District Act, Section 26.5, an annual report referred to as the Report on Protection and Augmentation of Water Supplies (PAWS) is to be filed with the Clerk of the Board on or before the first Tuesday in April. A public hearing must be held on or before the fourth Tuesday in April and it must be noticed to the public in a newspaper of general circulation at least 10 days in advance. In addition, all well owners and well operators on record are notified of proposed groundwater production increases in writing, and of the public hearing at least 45 days in advance. Groundwater production charges must be determined for the ensuing fiscal year prior to July 1 of the ensuing fiscal year. For each zone of benefit, groundwater production charges must be fixed and uniform per acre-foot for agricultural water and fixed and uniform per acre-foot for all water other than agricultural water.

Under the District Act, Section 26.3, groundwater production charges are to 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; or
4. Pay for debt incurred for purposes 1, 2 and 3.

The Board may establish zones of benefit in accordance with the District Act. The objective of establishing various groundwater charge zones is to recover costs for the benefits resulting from District activities within that zone. The benefits and costs which are apportioned to zones by customer class are presented in the annual PAWS report.

The groundwater production charge reflects the benefit of District activities to protect and augment groundwater supplies and is applied to water extracted from the groundwater basin in Zones W-2 and W-5. Zone W-2 encompasses the Santa Clara groundwater subbasin north of Metcalf Road or the North County. Zone W-5 includes both the Coyote Valley and Llagas subbasin from Metcalf Road south to the Pajaro River or South County.

The District protects and augments water supplies for the health, welfare, and safety of the community. County-wide, groundwater replenished by the District makes up, on average, two-thirds of the groundwater used by residents, retailers, and businesses. The District replenishes the groundwater basins with local water and purchased water imported from the Sierra Nevada mountains and conveyed thru the San Francisco Bay Delta Estuary. The activities undertaken by the District to acquire, monitor, recharge, and protect the water supply are funded, in part, through groundwater production charges.

Staff Proposed Rates for FY 2019-20

For Fiscal Year 2019-20, staff proposes a 6.6% increase in the North County (Zone W-2) Municipal and Industrial groundwater production charge, and recommends maintaining the treated water surcharge at \$100 per acre-foot and the non-contract treated water surcharge at \$50 per acre-foot. The average household in Zone W-2 would experience an increase in their monthly bill of \$2.93 or about 10 cents a day.

In the South County (Zone W-5), staff recommends a 6.9% increase in the M&I groundwater production charge. The average household in Zone W-5 would experience an increase in their monthly bill 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.

For agricultural groundwater, staff has not provided a recommendation in the annual PAWS report, but instead has reflected the agricultural groundwater production charge at the maximum allowed per the District Act as a placeholder to provide flexibility for Valley Water's Board of Directors as they deliberate the agricultural water pricing policy. The surface water charge and recycled water charge recommendations are primarily a function of the groundwater charge recommendations.

Investments in large infrastructure, public safety, and reliability are of critical importance to the water supply and will help to prepare for the next drought. Of critical importance to water supply reliability and public safety are the seismic retrofits and upgrades at several dams, most notably Anderson Dam. Until Anderson Dam is restored, the district must operate the largest reservoir in the county at a fraction of its storage capacity due to state imposed restrictions. The upgrade of Rinconada Water Treatment Plant is more than half complete, and will extend the plant's service life for the next 50 years, increasing its capacity

by 25%. The Pacheco Reservoir Expansion Project is an excellent opportunity for Valley Water to increase the reliability of future water supplies through additional storage capacity. The district received \$485 million in grant funding from the state last summer for this important project, and continues to seek outside funding to help offset costs. Finally, critical imported water deliveries are expected to decline in the future without the California WaterFix. This state proposed plan will improve the infrastructure that is to provide roughly 40% of the county's water supply. Valley Water is conscientious about the rising cost of water.

A concerted effort has been made to reduce the groundwater charge projection by contemplating several water supply investment scenarios in accordance with the Water Supply Master Plan (WSMP), and selecting a path forward that will help ensure future water supply reliability at the lowest cost.

Committee discussion items:

Potential special tax measure, show rates if Valley Water did not have other funding sources and include a breakdown of rates so it is clearly understood.

The Committee took no action.

4.3 UPDATE ON COUNTYWIDE WATER REUSE MASTER PLAN

Mr. Miguel Silva reviewed the following:

Summary:

This item provides an update on Santa Clara Valley Water District's (Valley Water's) Countywide Water Reuse Master Plan (Reuse Master Plan), an integral component of the Water Supply Master Plan which describes our strategy to provide a reliable and sustainable water supply.

The Reuse Master Plan aims to improve water supply reliability through water reuse for Santa Clara County (County) in collaboration with recycled water producers, wholesalers, retailers, users, and other interested parties. The Reuse Master Plan will identify: the volume of water available for potential potable reuse (PR) development and non-potable reuse (NPR) expansion; the optimal allocation between PR and NPR; options for system integration; recommendations for building upon NPR projects and potential new PR projects; and proposals for governance alternatives, including roles and responsibilities.

BACKGROUND:

Valley Water Board policy sets an objective to meet at least 10% of the County's total water demands using recycled and purified water. To achieve this objective, Valley Water is developing a Reuse Master Plan that will initially provide up to 24,000 acre feet per year of potable water reuse. The Reuse Master Plan builds upon existing planning studies (including the South Bay Water Recycling Strategic and Master Plan) by integrating information and evaluating the potential for collaboration. Studies and analysis are being developed into a series of technical memoranda (TMs), which will eventually be assembled into a final Reuse Master Plan. The Reuse Master Plan team has developed the following TMs as summarized below:

Project Definition, Roles and Responsibilities Technical Memorandum

This TM establishes the project purpose, describes roles and responsibilities of Valley Water and Partner Agencies, and provides a basis for subsequent deliverables.

Regulatory Framework Technical Memorandum

This TM provides a brief history and overview of water reuse policy in California, including relevant regulations, regulatory agencies' responsibilities, recycled water in the County and recycled water regulatory structure. The Regulatory Framework TM will inform future decision making and permitting for Reuse Master Plan finalization and potential implementation.

Baseline Analysis Technical Memorandum

This TM describes the current state of water reuse in the County. Demand projections using 2015 Urban Water Management Plans as well as updates from Partner Agencies provide a basis for developing portfolios to meet future reuse demands. Valley Water analyzed these current and projected conditions at each of the four recycled water producers to calculate the volume of water available for future potable reuse. The Baseline Analysis TM will identify key countywide water reuse assumptions and existing conditions for the Reuse Master Plan to build upon.

Project Portfolio Development

This TM describes conceptual water reuse projects developed with stakeholders to achieve shared objectives of sustainable water supply. The process used to develop these potential projects included developing guiding principles with stakeholders, identifying project elements, and grouping elements into Portfolios. Based on Partner Agency feedback, Valley Water combined 18 potential project elements into five portfolios for further evaluation. These Portfolios may include a mix of potential projects, including some previously proposed projects (from recycled water master plans) and some new elements.

Direct Potable Reuse (DPR) Evaluation

Although regulatory framework for DPR is still under development by California regulators, individual case-by-case permitting is possible. In concept, DPR alternatives could utilize existing drinking water treatment and distribution systems and avoid the cost and environmental impact of constructing dedicated IPR facilities. In October 2018, the Project Partner Group expressed general support for potable reuse alternatives including DPR. Based on this discussion, additional consideration for DPR will be incorporated into the continuing Portfolio analysis.

NEXT STEPS:

Leading to completion of the Reuse Master Plan, the highest ranked portfolios will be further refined with hydraulic modeling, cost analysis, and preliminary engineering (10% design). Other factors such as energy usage and greenhouse gas emissions will be considered to further evaluate the portfolios. Since each of the Portfolios identified will require reverse osmosis concentrate management, they will be further examined in Valley Water's Reverse Osmosis Concentrate Management Planning process, which is being developed in parallel with this Reuse Master Plan.

Additional feedback from stakeholders and Partner Agencies will help refine these portfolios. Additional meetings of the Stakeholder Task Force and Project Partner Group are planned throughout 2019 for this purpose. These meetings will allow the Partners to continue further evaluate and provide feedback regarding future opportunities for IPR and DPR expansion within their service areas. The Reuse Master Plan is anticipated to be completed by the end of 2019.

Committee discussion items:

Varying project costs, risk analyses and whether stakeholders are involved in the process or give input, conservation concerns and changing of timelines, water supply challenges and relaying a message that people can understand the costs, impacts, environmental issues and keeping rates as low as possible.

The Committee took no action.

4.4 PROPOSED OPERATION AND MAINTENANCE BUDGETS FY19-20 -

A. SILICON VALLEY ADVANCED WATER PURIFICATION CENTER BUDGET

B. SOUTH BAY WATER RECYCLING BUDGET

Ms. Bhavani Yerrapotu and San Jose City's Mr. Jeffrey Provenzano reviewed the following:

Summary:

On March 2, 2010, the Recycled Water Facilities and Programs Integration Agreement (Integration Agreement) was executed between the City of San Jose and Valley Water.

The Integration Agreement outlines the terms of the operational support payments upon commencement of operation of the Silicon Valley Advanced Water Purification Center (SVAWPC) as well as the policy considerations for the recycled water produced and blended with the purified water distributed by the City of San José via the South Bay Water Recycling system (SBWR) and purified water produced by the SVAWPC.

The Integration Agreement also specifically requires that on an annual basis, before May 1 of each year, that the parties review the budgets of SBWR and SVAWPC and make recommendations to the Board of Directors of the Santa Clara Valley Water District and the City Council of the City of San José on their respective proposed budgets for the ensuing fiscal year for the maintenance, expansion, replacement, improvement, and operation of the SBWR and the SVAWPC (Article 3.G.3 of Integration Agreement).

The proposed fiscal year 19-20 budget for SBWR is \$10,710,808 and for the SVAWPC is \$5,233,608.

The Committee took the following action:

The Joint Recycled Water Policy Advisory Committee unanimously carried, to approve staff's budget recommendation:

1. The San Jose City Council (SJCC) consider inputs provided by the Committee regarding the SBWR FY 19-20 Draft Budget;
2. The Valley Water Board adopts the SVAMPC Proposed FY 19-20 budget.

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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