



MEMORANDUM
FC 14 (01-02-07)

TO: Board of Directors
FROM: Agricultural Water Advisory Committee
SUBJECT: Agricultural Water Advisory Committee Special Meeting Summary for February 24, 2020
DATE: March 10, 2020

This memorandum summarizes agenda items from the special meeting of the Agricultural Water Advisory Committee Meeting Summary held on February 24, 2020.

Attendees:

Committee members in attendance were: Russ Bonino, Mitchell Mariani, James Provenzano, William Cilker, David Vanni, Brent Bonino, Robert Long and Dhruv Khanna.

Board members in attendance were: Director Richard P. Santos, and Director John L. Varela, Board Representatives.

Staff members in attendance were: Aaron Baker, Glenna Brambill, Jerry De La Piedra, Vanessa De La Piedra and Andrew Gschwind.

Guest in attendance was: Hon. Mike Flaughner of the Open Space Authority.

AGENDA ITEM:

3.1. REVIEW AND COMMENT TO THE BOARD ON THE FISCAL YEAR 2020-21 PRELIMINARY GROUNDWATER PRODUCTION CHARGES

Mr. Darin Taylor reported on the following:

Summary:

Summary of Groundwater Production Charge Analysis:

Staff has prepared the preliminary FY 2020-21 groundwater production charge analysis, which includes several scenarios for Board review. Staff has developed a baseline scenario that aligns with the 80% level of service goals per the Water Supply Master Plan approved by the Board in November 2019, along with several other scenarios for Board consideration. Staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation.

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 28, 2020. The public hearing on groundwater production charges is scheduled to open on April 14, 2020. It is anticipated that the Board would set the FY 2020-21 groundwater production charges by May 12, 2020, that would become effective on July 1, 2020.

The FY 2020-21 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.

Water Use Assumptions

District managed water use for FY 2018-19 is estimated to be approximately 208,000 acre-feet (AF), roughly 19,000 AF lower than budgeted due to a wet winter and wet spring. If the wet winter and wet spring were to repeat for the current year FY 2019-20, then there would be a 30,000 AF water usage

shortfall versus budget, which would translate to an estimated \$40 million revenue shortfall. Wet springs have happened roughly 30% of the time over the past two decades, so the likelihood of a repeat is low but still possible. The current water demand projection for FY 2020-21 is 251,000 AF, which is approximately a 21% increase compared to the FY 2018-2019 estimate. Staff believes that the water demand projection should be adjusted downward to 230,000 AF for FY 2020-21. This adjustment would better align with the FY 2017-18 actuals (which did not include a wet spring) and includes consideration for the impact of ramping up production at San Jose Water Company's Montevina Treatment Plant, which uses non-District sourced water. The preliminary groundwater charge scenarios discussed in the following section are based on a reduced water demand projection of 230,000 AF in FY 2020-21, and then assumes a very small amount of growth in the following years.

Staff will continue to 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 the following scenarios for Board consideration:

Scenario 1) Baseline: Water Supply Master Plan (WSMP) 80% Level of Service (LOS)

This scenario includes the following projects and assumptions:

- Baseline Projects according to the WSMP including the Almaden Valley Pipeline Replacement, Land Rights – South County Recycled Water Pipeline, and Supervisory Control and Data Acquisition (SCADA)/Water Treatment Plant/ Distribution System Implementation Projects;
- Delta Conveyance (State side only);
- No Regrets Package projects;
- Potable Reuse Phase 1 to produce 24,000 AF (assume operations start in FY 28);
- Pacheco Reservoir Expansion (assumes \$485M Proposition 1 grant, \$250M of WIIN Act Funding, 20% Partnerships);
- Transfer-Bethany Pipeline;
- South County Recharge (assume facilities built beyond FY 2029-30);
- \$200M warranty placeholder cost for dams and Water Treatment Plants.

Scenario 2) No WIIN Act Funding

Includes the same projects and assumptions as Scenario 1 except as follows:

- Assumes \$0 WIIN Act Funding instead of \$250M.

Scenario 3) Revised Purified Water Program

Includes the same projects and assumptions as Scenario 2 except as follows:

- Replaces Potable Reuse Phase 1 placeholder project with a \$614M Potable Reuse Project based on the recently signed agreement with Palo Alto and Mountain View to produce 13KAF by FY 30, and;
- Assumes that the District builds, finances and operates the facilities (i.e. not delivered via a Public-Private Partnership or P3) and therefore the P3 reserve is eliminated.

Scenario 4) Add Delta Conveyance Central Valley Project (CVP) side investment

Includes the same projects and assumptions as Scenario 3 except as follows:

- Adds the Delta Conveyance CVP side costs.

Scenario 5) Add back \$250M of WIIN Act Funding

Includes the same projects and assumptions as Scenario 4 except as follows:

- Adds back \$250M of WIIN Act funding

Scenario 6) Add Los Vaqueros Reservoir Expansion.

Includes the same projects and assumptions as Scenario 5 except as follows:

- Includes investment in Los Vaqueros Reservoir Expansion

Scenario 7) No Investment in Los Vaqueros Reservoir Expansion, Add \$200M Placeholder for Purified Water

Includes the same projects and assumptions as Scenario 6 except as follows:

- Removes investment in Los Vaqueros Reservoir Expansion
- Adds \$200M placeholder investment in Purified Water Program to produce incremental new water supply in North County

Scenario 8) \$650M Placeholder for Purified Water

Includes the same projects and assumptions as Scenario 7 except as follows:

- Replace \$200M placeholder with \$600M placeholder for North County and \$50M placeholder for South County for Purified Water Program investments to produce incremental new water supply

For North County M&I groundwater production, the scenarios range from an increase of 8.0% to 9.6% for FY 2020-21, and from 4.7% to 5.6% for South County M&I groundwater production depending on the scenario.

The overall impact of the Scenarios for FY 2020-21 to the average household would be an increase ranging from \$3.79 to \$4.54 per month in North County and from \$0.78 to \$0.93 per month in South County.

Transition to modified Groundwater Benefit Zones

On October 8, 2019, the Board directed staff to pursue modifying the existing groundwater benefit zones W-2 and W-5, and to create two new zones W-7 (Coyote Valley) and W-8 (below Uvas and Chesbro Reservoirs), effective July 1, 2020. New metes and bounds (the legal description that defines the boundaries of the zones) will be developed for Board consideration in accordance with Santa Clara Valley Water District Act requirements. Accordingly, staff has engaged Raftelis Financial Consultants to assist with analyzing cost allocations between the modified zones that would support corresponding modified groundwater charges for each zone for FY 2020-21.

Staff has prepared an analysis that translates the preliminary FY 21 M&I groundwater charge for Scenario 1 (which includes the reduced water usage projection) for the existing groundwater benefit zones, to the new or modified groundwater benefit zones. For the North County, the preliminary FY 21 M&I groundwater charge for the existing zone W-2 is \$1,484.61/AF, versus \$1,485.29/AF for modified Zone W-2, resulting in a minor \$0.69/AF difference. For the South County, the preliminary FY 21 M&I groundwater charge for the existing zone W-5 is \$504.00/AF versus \$457.00/AF for modified Zone W-5 (a decrease of \$47.00/AF); \$524.00/AF for new Zone W-7 (an increase of \$20.00/AF); and \$337.00/AF for new Zone W-8 (a decrease of \$167.00/AF).

The M&I groundwater charge decrease in modified Zone W-5 and increase in new Zone W-7 relative to existing Zone W-5 is primarily driven by the fact that 56% of the water managed by Valley Water associated with the Anderson/Coyote reservoir system, CVP imported water, and the future expanded Pacheco Reservoir, would be used to recharge the groundwater basin underlying new Zone W-7, while only 44% of that water would be used to recharge the modified Zone W-5. It follows that costs allocated to the zones would reflect the distribution of water to recharge those zones. However, Zone W-7 only accounts for 22% of the groundwater pumping in South County, while modified Zone W-5 accounts for 76%. Since the percentage of cost being allocated to each zone differs from the percentage of water usage attributed to each zone, it stands to reason that the groundwater charge per acre-foot required for cost recovery would diverge between Zone W-7 and modified Zone W-5 relative to the existing Zone W-5.

Zone W-8 on the other hand does not benefit from the Anderson/Coyote reservoir system, CVP imported water, or the future expanded Pacheco Reservoir. Nor does it benefit from the recycled water facilities operated by Valley Water in partnership with the South County Regional Wastewater Authority

located in Gilroy. Therefore, it stands to reason that the modified Zone W-8 would experience a significant decrease in the preliminary groundwater charge relative to the existing Zone W-5.

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 2020-21, which would remain at \$18M. The SWP Tax for the average household in Santa Clara would remain at about \$27 per year.

All scenarios also assume the continued practice to set the South County agricultural groundwater production charge at 6% of the M&I charge until FY 2022.

The Agricultural Water Advisory Committee (Mr. Mitchell Mariani, Mr. Brent Bonino, Mr. Dhruv Khanna, Director John L. Varela, Mr. James Provenzano, Director Richard P. Santos, Mr. Robert Long) discussed the following issues/concerns: Scenario 4, dry years, projections/assumptions, the Williamson Act-fallow ground, Valley Water considering those that are recharging their properties (water being returned to the ground), possible analysis/study of recharging. zones of benefit, Landscape Rebate Programs and land use issues,

Mr. Jerry De La Piedra and Aaron Baker were available to answer questions.

The Agricultural Water Advisory Committee took no action.

The next regularly scheduled meeting is Monday, April 6, 2020, 1:30 p.m., in the Valley Water Headquarters Boardroom.

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