

# Staff Report

In accordance with the District Act, Valley Water 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 28, 2020.

The Report is the 49<sup>th</sup> annual report on the Santa Clara Valley Water District's (Valley Water) activities in the protection and augmentation of 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 2020–21.

## **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 would normally hold several public hearings and seek input from its advisory committees and the public before rendering a final decision on groundwater production and other water charges. However, this year all public hearings were consolidated into a single virtual meeting in order to comply with the “shelter in place” order from the County of Santa Clara due to the COVID-19 Pandemic.

## **Staff Recommendations**

Exhibits 1a & 1b show the recommended groundwater production charges and other charges for FY 2020–21 based on the new and modified Groundwater Benefit Zones. The staff recommendation for the Treated Water Surcharge has been revised versus the proposal shown in Valley Water’s Annual Report on the Protection and Augmentation of Water Supplies (PAWS). The proposed Treated Water Surcharge in the PAWS report reflects an intent to incentivize retailer customers to pump more groundwater. Instead, the revised treated water surcharge recommendation would continue to incentivize retail customers to take treated water versus groundwater. Staff believes this is the appropriate incentive for two reasons:

- 1) On February 20, 2020, Valley Water received direction from the Federal Energy Regulatory Commission (FERC) to begin draining Anderson reservoir beginning on October 1, 2020. The most effective use of that drained water would be to send it to the treatment plants.
- 2) Early warning signs of drought suggest that it would be prudent to preserve the full groundwater basin.

### **Exhibit 1a** Summary of Charges in North County (Dollars Per Acre Foot, \$/AF)

	Dollars Per Acre Foot		
	FY 2018–19	FY 2019–20	Proposed FY 2020–21
<b>Modified Zone W-2 (North County)</b>			
<b>Basic User/Groundwater Production Charge</b>			
Municipal & Industrial	1,289.00	1,374.00	1,492.00
Agricultural	27.02	28.86	30.36
<b>Surface Water Charge</b>			
Surface Water Master Charge	35.93	37.50	39.15
Total Surface Water, Municipal & Industrial*	1,324.93	1,411.50	1,531.15
Total Surface Water, Agricultural*	62.94	66.36	69.51
<b>Treated Water Charges</b>			
Contract Surcharge	100.00	100.00	100.00
Total Treated Water Contract Charge**	1,389.00	1,474.00	1,592.00
Non-Contract Surcharge	50.00	200.00	200.00
Total Treated Water Non-Contract Charge***	1,339.00	1,574.00	1,692.00
<small>*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</small>			
<small>**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</small>			
<small>***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</small>			

**Exhibit 1b**  
**Summary of Charges in South County**  
**(Dollars Per Acre Foot, \$/AF)**

		Dollars Per Acre Foot		
		FY 2018–19	FY 2019–20	Proposed FY 2020–21
Modified Zone W-5 (Llagas Subbasin)				
	Basic User/Groundwater Production Charge			
	Municipal & Industrial	450.00	481.00	467.00
	Agricultural	27.02	28.86	30.36
	Surface Water Charge			
	Surface Water Master Charge	35.93	37.50	39.15
	Total Surface Water, Municipal & Industrial*	485.93	518.50	506.15
	Total Surface Water, Agricultural*	62.94	66.36	69.51
	Recycled Water Charges			
	Municipal & Industrial	430.00	461.00	447.00
	Agricultural	54.41	56.26	57.76
New Zone W-7 (Coyote Valley)				
	Basic User/Groundwater Production Charge			
	Municipal & Industrial	450.00	481.00	526.00
	Agricultural	27.02	28.86	30.36
	Surface Water Charge			
	Surface Water Master Charge	35.93	37.50	39.15
	Total Surface Water, Municipal & Industrial*	485.93	518.50	565.15
	Total Surface Water, Agricultural*	62.94	66.36	69.51
New Zone W-8 (Uvas/Chesbro)				
	Basic User/Groundwater Production Charge			
	Municipal & Industrial	450.00	481.00	327.00
	Agricultural	27.02	28.86	30.36
	Surface Water Charge			
	Surface Water Master Charge	35.93	37.50	39.15
	Total Surface Water, Municipal & Industrial*	485.93	518.50	366.15
	Total Surface Water, Agricultural*	62.94	66.36	69.51

\*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

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 \$576 million project that will help ensure public safety and bolster future water supply reliability. Additionally, the \$341 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 \$144 million is planned to be spent over the next 10 years on the state's proposed plan for the Delta Conveyance project, which is anticipated to improve the reliability of the infrastructure through which 40% of the county's water supply is delivered. Valley Water staff is proposing to fund a \$643 million investment for recycled and purified water expansion that would bring up to 13,000 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.

In June 2014 Valley Water commissioned a scientific study of its groundwater benefit zones. Based on a comprehensive evaluation of geological studies, local groundwater data, and the services Valley Water provides, staff recommends partitioning the South County zone into three zones to better reflect services and benefits received by well users. These adjustments ensure that ratepayers are grouped in a way that reflects the most recent and relevant data regarding the services and benefits received by well users.

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), that would go into effect July 1, 2020.

Given the financial needs summarized above, staff proposes an 8.6% increase in the North County (modified Zone W-2) Municipal and Industrial groundwater production charge from \$1,374/AF to \$1,492/AF. Staff recommends maintaining the treated water surcharge at \$100/AF, and maintaining the non-contract treated water surcharge at \$200/AF. The proposal equates to a monthly bill increase for the average household of \$4.06 or about 14 cents a day.

For South County modified Zone W-5, staff proposes a 2.9% decrease in the M&I groundwater production charge from \$481/AF to \$467/AF. The proposal equates to a monthly bill decrease for the average household of \$0.48 or about 2 cents per day.

For South County new Zone W-7, staff proposes a 9.4% increase in the M&I groundwater production charge from \$481/AF to \$526/AF. The proposal equates to a monthly bill increase for the average household of \$1.55 or about 5 cents per day.

For South County new Zone W-8, staff proposes a 32.0% decrease in the M&I groundwater production charge from \$481/AF to \$327/AF. The proposal equates to a monthly bill decrease for the average household of \$5.30 or about 18 cents per day.

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

Staff recommends a 5.2% increase in the agricultural groundwater production charge in all zones from \$28.86/AF to \$30.36/AF. The staff recommendation equates to a \$0.25 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 \$37.50/AF to \$39.15/AF to align revenues with the costs related to managing, operating and billing for surface

water diversions. This increase results in an 8.5% increase in the overall North County municipal and industrial surface water charge. In South County, the recommended municipal and industrial surface water charge for modified Zone W-5 results in a 2.4% decrease compared to the prior year. For new Zone W-7, the recommendation results in a 9.0% increase compared to the prior year. For new Zone W-8, the recommendation results in a 29.4% decrease compared to the prior year. The overall agricultural surface water charge in all zones would increase by 4.7% to \$69.51 per acre foot.

Should the Board decide not to adopt the new and modified groundwater benefit zones, the existing zones would remain in effect. As a backup, staff has also prepared proposed rate changes for the existing groundwater benefit zones.

For recycled water, staff recommends decreasing the M&I charge by 3.0% to \$447/AF. For agricultural recycled water, staff recommends a 2.7% increase to \$57.76/AF. The proposed changes maximize 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 2020–21. This translates to a property tax bill for the average single family residence of roughly \$28.00 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 2020–21 will be at least \$29.5 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 \$15.4M at the end of FY 2018-19). 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 2018–19 water usage is estimated at 216,000 AF, 10,000 AF lower than budgeted. For the current year, FY 2019–20, staff estimates that water usage will be approximately 225,000 AF, 14,000 AF lower than budgeted, and roughly a 21% reduction versus calendar year 2013. For FY 2020–21, total District-managed water use is projected at 230,000 AF, which is a 5,000 AF increase relative to the FY 2019-20 estimated actual. The FY 2020-21 water usage estimate represents a 19.5% reduction relative to calendar year 2013. Water use is projected to ramp up to 236,000 AF by FY 2025-26.

## Exhibit 2

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

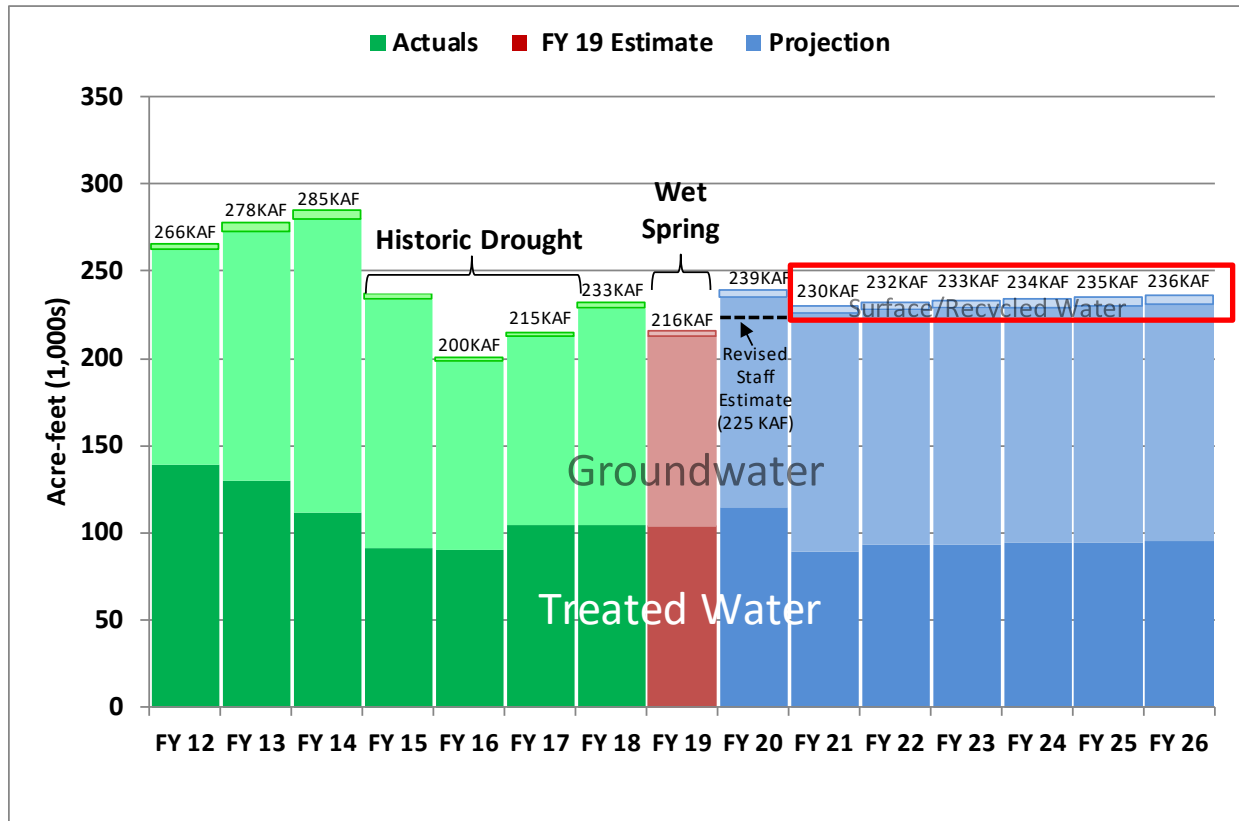


Exhibit 3 shows key financial indicators with staff's recommendation projected to FY 2026-27. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings keeping cost to borrow low.

## Exhibit 3

### 7 Year Charge and Financial Indicator Projection

Base Case	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
No. County (Modified W-2) M&I GWP charge (\$/AF)	\$1,374	\$1,492	\$1,620	\$1,760	\$1,911	\$2,075	\$2,254	\$2,448
Y-Y Growth %	6.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
So. County (Modified W-5) M&I GWP charge (\$/AF)	\$481	\$467	\$491	\$517	\$544	\$572	\$602	\$633
Y-Y Growth %	6.9%	-2.9%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
So. County (New W-7) M&I GWP charge (\$/AF)	\$481	\$526	\$575	\$629	\$688	\$752	\$823	\$900
Y-Y Growth %	6.9%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
So. County (New W-8) M&I GWP charge (\$/AF)	\$481	\$327	\$344	\$362	\$381	\$401	\$421	\$443
Y-Y Growth %	6.9%	-32.0%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Operating & Capital Reserve (\$K)	\$17,225	\$48,868	\$51,356	\$52,376	\$57,899	\$59,232	\$61,444	\$61,907
Supplemental Water Supply Reserve (\$K)	\$15,077	\$15,477	\$15,877	\$16,277	\$16,677	\$17,077	\$17,477	\$17,877
Drought Contingency Reserve (\$K)	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Sr. Lien Debt Svc Cov Ratio (1.25 min)	3.05	2.74	2.50	2.45	2.37	2.27	2.24	2.21

A key driver of the projected increases in the groundwater production charge is the capital

improvement program as shown in Exhibit 4. Approximately \$3.7 billion in capital investments, primarily to repair and rehabilitate aging infrastructure, are planned for the next 10 years. FY 2020–21 operations and operating project costs are projected to increase by 8.5% versus the FY 2019–20 adjusted budget. On a longer term basis, operating outlays are projected to increase an average of 5.7% per year for the next 10 years driven by: 1) the ramp up of payments associated with the Delta Conveyance Project; and 2) the beginning of operations of the Purified Water Project in FY 2029-30, which would produce 10,000 to 13,000 AF of new water supply; and 3) inflation. Debt service is projected to rise from \$48.4 million in FY 2020–21 to \$178.3 million in FY 2029–30 as a result of periodic debt issuances to fund the capital program.

**Exhibit 4**  
Cost Projection by Cost Center (\$M)

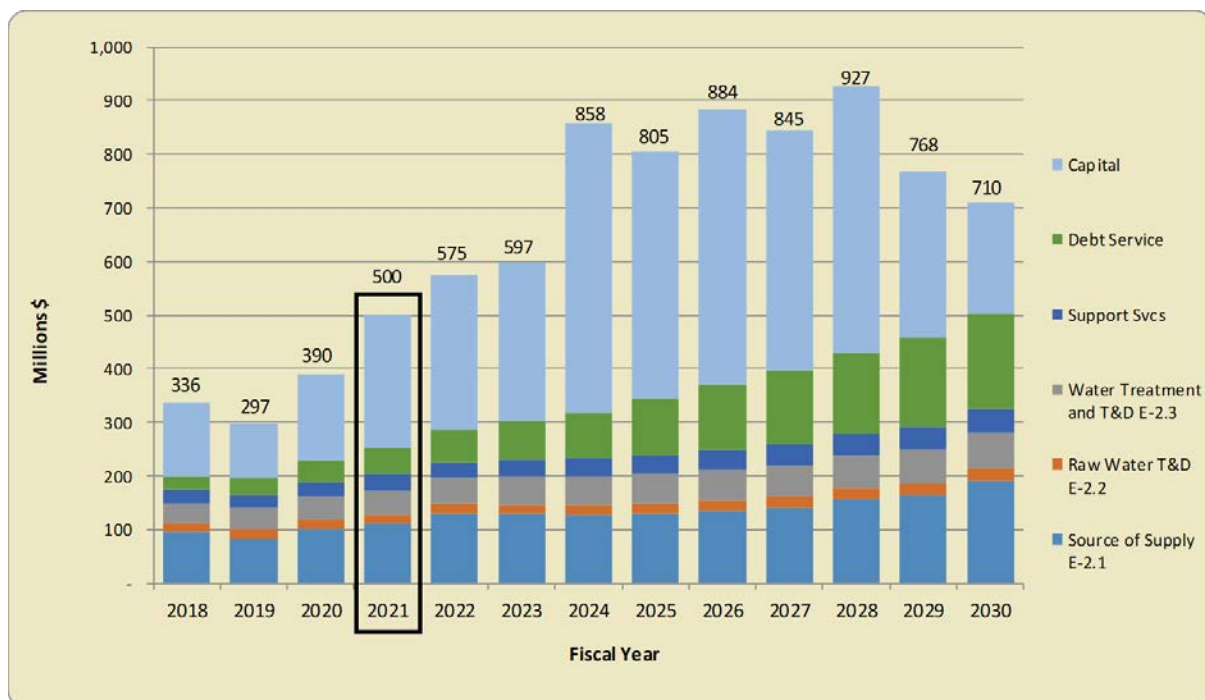


Exhibit 5 shows the groundwater production charge projection for the next 10 years and assumes a continuation of the level of service provided in FY 2019–20 and funding of the preliminary FY 2020-21 Capital Improvement Program (CIP). Note that there are initiatives and potential uncertainties that could result in the identification of additional capital or operations projects that are not reflected in the projection.

**Exhibit 5**  
10 Year Groundwater Charge Projection

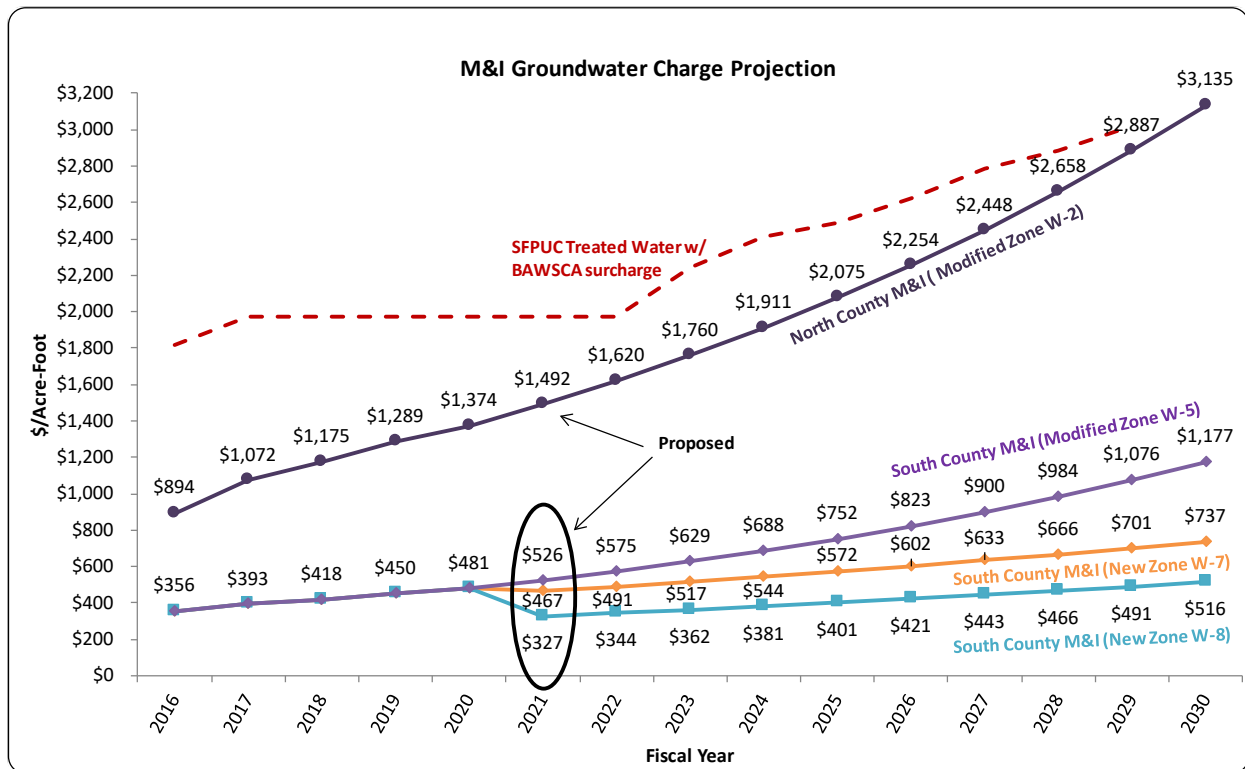
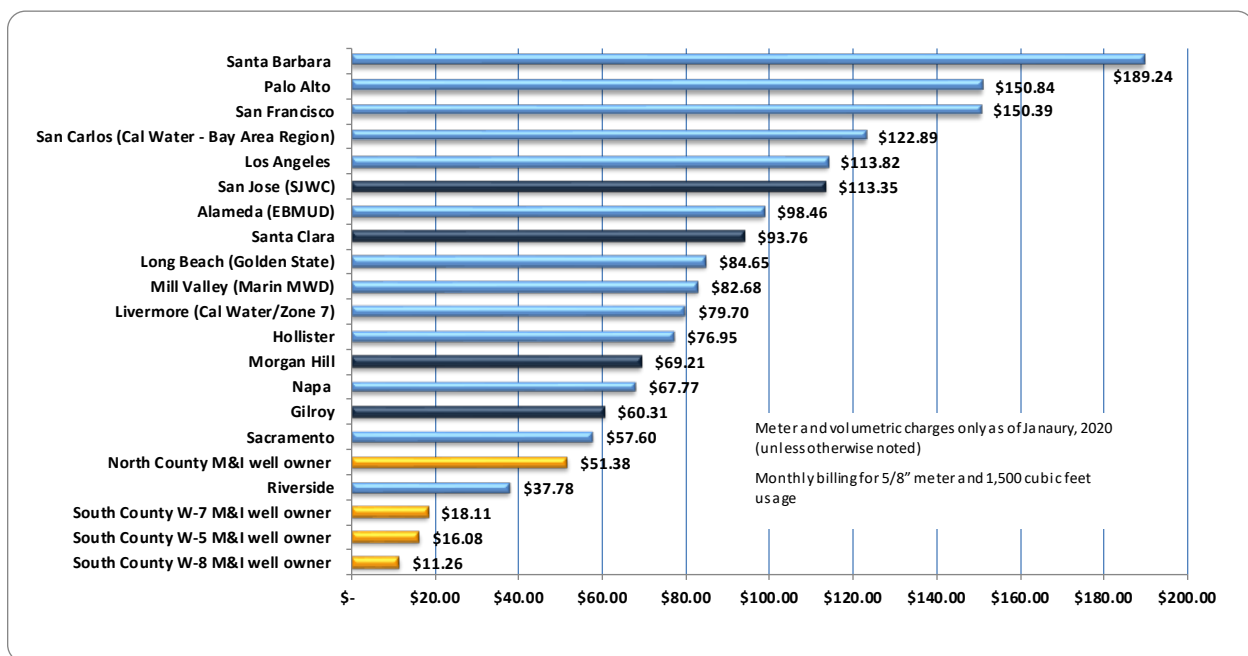




Exhibit 6 shows a comparison of the average monthly bill for several of Valley Water's retail customers (e.g. SJWC, City of Santa Clara, City of Morgan Hill, and City of Gilroy) relative to Valley Water's perennial list of retail agency comparators across the state. SCVWD retailer rates shown include the staff recommended increase for FY 2020-21. North County and South County well owner rates are also shown, which exclude pumping costs (e.g. electricity) and well maintenance costs.

**Exhibit 6**  
Retail Agency Benchmarks



## **Cost of Service**

The cost of service analyses for FY 2020–21 are shown in Exhibit 7 for North County and Exhibit 8 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 2020-21, staff is proposing a \$279K transfer of 1% ad valorem property taxes from the General Fund and \$279K 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.

In 2019 staff engaged RFC to assist with analyzing cost allocations between the new and modified zones that would support the corresponding groundwater charges for each new and modified zone for FY 2020-21. The report titled "Validation of Cost Allocation for Proposed Groundwater Benefit Zones for the FY 2020-21 Rate-Setting Process" was completed in February 2020, and provides independent support for the cost allocations used by staff to prepare the recommended groundwater charges for the new and modified zones. Both reports can be found on Valley Water's website.

**Exhibit 7**  
**Cost of Service North County Modified Zone W-2 (\$K)**

FY '21 Projection (\$ in Thousands)		Modified Zone W-2					Total W-2
		GW		TW	SW		
		M&I	AG	M&I	M&I	Ag	
1	Operating Outlays						
2	Operations/Operating Projects	48,368	363	102,411	1,337	37	152,516
3	SWP Imported Water Costs	7,170	55	21,920	354	10	29,509
4	Debt Service	12,304	94	35,684	163	5	48,250
5	Total Operating Outlays	67,842	513	160,015	1,854	51	230,275
6							
7	Capital & Transfers						
8	Operating Transfers Out	2,030	16	2,437	36	1	4,519
9	Capital Outlays excl. carryforward	60,656	465	140,409	1,050	29	202,609
10	Total Capital & Transfers	62,686	480	142,846	1,086	30	207,128
11	Total Annual Program Costs	130,528	993	302,861	2,939	82	437,403
12		Step 3 - Allocate costs to customer classes					
13	Revenue Requirement Offsets						
14	Capital Cost Recovery	(3,400)	(26)	(4,082)	(60)	(2)	(7,570)
15	Debt Proceeds	(45,260)	(347)	(104,770)	(783)	(22)	(151,182)
16	Inter-governmental Services	(527)	(4)	(633)	(9)	(0)	(1,174)
17	SWP Property Tax	(4,111)	(31)	(12,569)	(203)	(6)	(16,920)
18	South County Deficit/Reserve	181	1	218	3	0	404
19	Interest Earnings	(810)	(6)	(973)	(14)	(0)	(1,804)
20	Inter-zone Interest	102	1	122	2	0	226
21	Capital Contributions	(5,101)	(39)	(6,125)	(90)	(3)	(11,358)
22	Other	(950)	(7)	(847)	(14)	(0)	(1,818)
23	Reserve Requirements	17,993	39	45,246	311	2	63,592
24	Adjusted Revenue Requirement (FY 21)	88,645	573	218,449	2,082	52	309,800
25	Adjusted Revenue Requirement (FY 18 adj)	(3,255)	(242)	(39,746)	162	(116)	(43,196)
26	Total Adjusted Revenue Requirement	85,390	331	178,703	2,244	(64)	266,604
27	Volume (KAF)	77.6	0.6	93.2	1.4	0.0	172.9
28							
29	Revenue Requirement (\$ per AF)	\$ 1,100	\$ 556	\$ 1,917	\$ 1,635	\$ (1,678)	
30		Step 5 - Develop unit costs by customer class					
31	Adjustments for Agricultural Preservation						
32	Allocate WU 1% Ad Valorem Prop Tax	-	(313)	-	-	67	(246)
33	Transfer GF 1% Ad valorem Prop Tax	-	-	-	-	-	-
34	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
35	Revenue Requirement (\$ per AF)	\$ 1,099.8	\$ 30.4	\$ 1,917	\$ 1,635	\$ 69.5	
36							
37	Adjustments to Facilitate Conjunctive Use						
38	Reallocate TW/SW/RW costs	30,449	-	(30,306)	(143)	-	(0)
39	Water Charge (\$ per AF)	\$ 1,492	\$ 30.4	\$ 1,592	\$ 1,531	\$ 69.5	
40	Total Revenue (\$K)	\$115,839	\$18	\$148,397	\$2,101	\$3	\$266,358

**Exhibit 8a**  
**Cost of Service South County Modified Zone W-5 (\$K)**

FY '21 Projection (\$ in Thousands)		Modified Zone W-5						Total W-5
		GW		SW		RW		
		M&I	AG	M&I	AG	M&I	AG	
1	Operating Outlays							
2	Operations/Operating Projects	6,630	7,225	134	343	273	234	14,839
3	SWP Imported Water Costs	-	-	-	-	-	-	-
4	Debt Service	-	-	-	-	-	-	-
5	Total Operating Outlays	6,630	7,225	134	343	273	234	14,839
6								
7	Capital & Transfers							
8	Operating Transfers Out	-	-	-	-	-	-	-
9	Capital Outlays excl. carryforward	-	-	-	-	-	-	-
10	Total Capital & Transfers	-	-	-	-	-	-	-
11	Total Annual Program Costs	6,630	7,225	134	343	273	234	14,839
12								
13	Revenue Requirement Offsets							
14	Capital Cost Recovery	1,884	2,119	31	81	838	718	5,670
15	Debt Proceeds	-	-	-	-	-	-	-
16	Inter-governmental Services	(37)	(41)	(1)	(2)	-	-	(80)
17	SWP Property Tax	(366)	(411)	(6)	(16)	(12)	(10)	(821)
18	South County Deficit/Reserve	1,280	(711)	(10)	(27)	2	(18)	515
19	Interest Earnings	-	-	-	-	-	-	-
20	Inter-zone Interest	(77)	(86)	(1)	(3)	(3)	(2)	(172)
21	Capital Contributions	-	-	-	-	-	-	-
22	Other	(76)	(86)	(1)	(1)	(1)	(1)	(166)
23	Reserve Requirements	-	-	-	-	-	-	-
24	Adjusted Revenue Requirement (FY 21)	9,238	8,008	147	374	1,097	921	19,784
25	Adjusted Revenue Requirement (FY 18 adj)	(957)	(1,493)	-	(86)	(23)	(286)	(2,845)
26	Total Adjusted Revenue Requirement	8,281	6,515	147	288	1,074	635	16,939
27	Volume (KAF)	19.4	21.8	0.3	0.8	0.6	0.5	43.5
28								
29	Revenue Requirement (\$ per AF)	\$ 427	\$ 299	\$ 458	\$ 346	\$ 1,677	\$ 1,156	
30								
31	Adjustments for Agricultural Preservation							
32	Allocate WU 1% Ad Valorem Prop Tax	-	(5,853)	-	-	-	(603)	(6,455)
33	Transfer GF 1% Ad valorem Prop Tax	-	-	-	(116)	-	-	(116)
34	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	(115)	-	-	(115)
35	Revenue Requirement (\$ per AF)	\$ 427	\$ 30.4	\$ 458	\$ 69.5	\$ 1,677	\$ 57.8	
36								
37	Adjustments to Facilitate Conjunctive Use							
38	Reallocate TW/SW/RW costs	772	-	16	-	(788)	-	-
39	Water Charge (\$ per AF)	\$ 467	\$ 30.4	\$ 506	\$ 70	\$ 447	\$ 57.8	
40	Total Revenue (\$K)	\$9,053	\$662	\$162	\$58	\$286	\$32	\$10,253

**Exhibit 8b**  
**Cost of Service South County New Zone W-7 (\$K)**

FY '21 Projection (\$ in Thousands)		New Zone W-7				Total W-7
		GW		SW		
		M&I	AG	M&I	AG	
1	Operating Outlays					
2	Operations/Operating Projects	5,073	1,525	83	214	6,894
3	SWP Imported Water Costs	-	-	-	-	-
4	Debt Service	-	-	-	-	-
5	Total Operating Outlays	5,073	1,525	83	214	6,894
6						
7	Capital & Transfers					
8	Operating Transfers Out	-	-	-	-	-
9	Capital Outlays excl. carryforward	-	-	-	-	-
10	Total Capital & Transfers	-	-	-	-	-
11	Total Annual Program Costs	5,073	1,525	83	214	6,894
12		Step 3 - Allocate costs to				
13	Revenue Requirement Offsets					
14	Capital Cost Recovery	1,371	431	13	35	1,851
15	Debt Proceeds	-	-	-	-	-
16	Inter-governmental Services	(46)	(15)	(0)	(1)	(62)
17	SWP Property Tax	(176)	(55)	(2)	(4)	(238)
18	South County Deficit/Reserve	(797)	(96)	(3)	(8)	(904)
19	Interest Earnings	-	-	-	-	-
20	Inter-zone Interest	(37)	(12)	(0)	(1)	(50)
21	Capital Contributions	-	-	-	-	-
22	Other	(29)	(9)	(0)	(0)	(38)
23	Reserve Requirements	-	-	-	-	-
24	Adjusted Revenue Requirement (FY 21)	5,359	1,769	91	234	7,452
25	Adjusted Revenue Requirement (FY 18 adj)	(463)	(202)	-	(25)	(690)
26	Total Adjusted Revenue Requirement	4,896	1,567	91	209	6,762
27	Volume (KAF)	9.4	2.9	0.1	0.2	12.7
28						
29	Revenue Requirement (\$ per AF)	\$ 522	\$ 531	\$ 991	\$ 879	
30		Step 5 - Develop unit costs by				
31	Adjustments for Agricultural Preservation					
32	Allocate WU 1% Ad Valorem Prop Tax	-	(1,455)	-	-	(1,455)
33	Transfer GF 1% Ad valorem Prop Tax	-	(11)	-	(97)	(108)
34	Transfer WS 1% Ad Valorem Prop Tax	-	(11)	-	(96)	(107)
35	Revenue Requirement (\$ per AF)	\$ 522	\$ 30.4	\$ 991	\$ 69.5	
36	Step 6 - Rate Design					
37	Adjustments to Facilitate Conjunctive Use					
38	Reallocate TW/SW/RW costs	39	-	(39)	-	-
39	Water Charge (\$ per AF)	\$ 526	\$ 30.4	\$ 565	\$ 70	
40	Total Revenue (\$K)	\$4,935	\$90	\$52	\$17	\$5,092

**Exhibit 8c**  
**Cost of Service South County New Zone W-8 (\$K)**

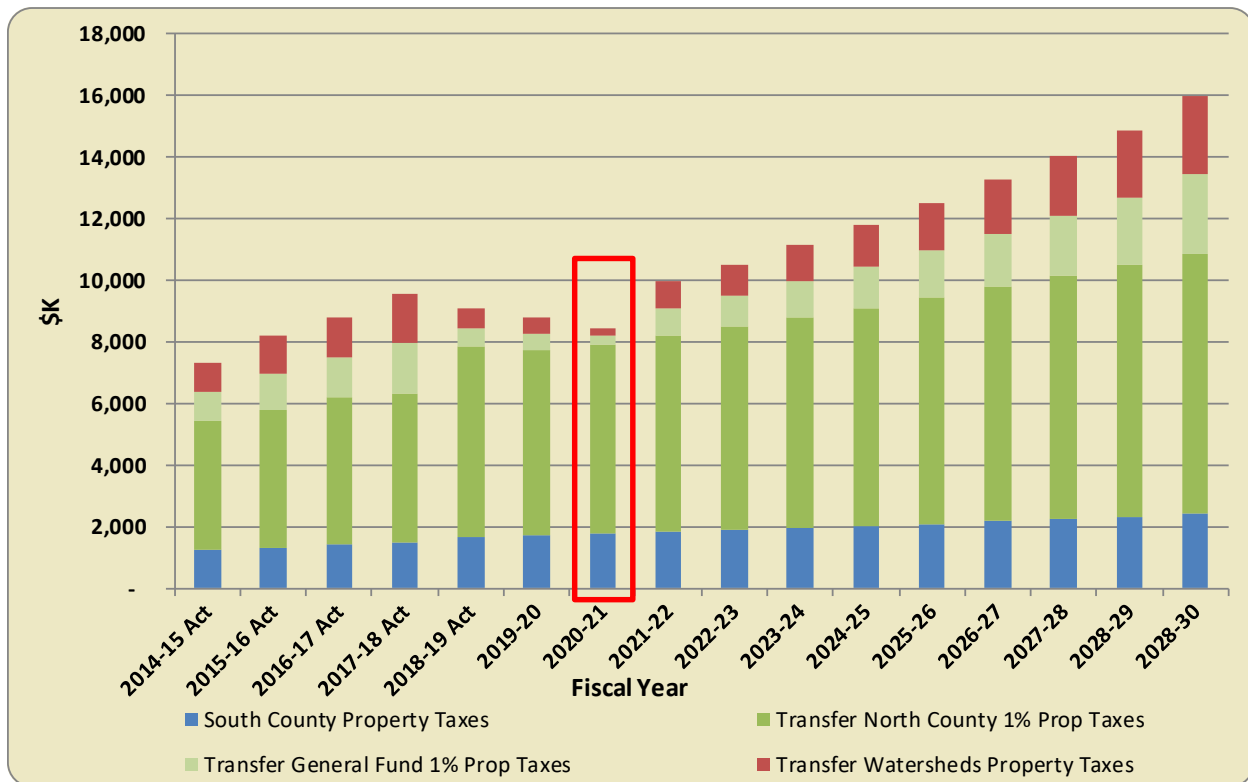
FY '21 Projection (\$ in Thousands)		New Zone W-8				Total W-8
		GW		SW		
		M&I	AG	M&I	AG	
1	Operating Outlays					
2	Operations/Operating Projects	129	145	14	36	324
3	SWP Imported Water Costs	-	-	-	-	-
4	Debt Service	-	-	-	-	-
5	Total Operating Outlays	129	145	14	36	324
6						
7	Capital & Transfers					
8	Operating Transfers Out	-	-	-	-	-
9	Capital Outlays excl. carryforward	-	-	-	-	-
10	Total Capital & Transfers	-	-	-	-	-
11	Total Annual Program Costs	129	145	14	36	324
12		Step 3 - Allocate costs to				
13	Revenue Requirement Offsets					
14	Capital Cost Recovery	19	22	2	6	50
15	Debt Proceeds	-	-	-	-	-
16	Inter-governmental Services	(0)	(0)	(0)	(0)	(1)
17	SWP Property Tax	(8)	(10)	(1)	(3)	(22)
18	South County Deficit/Reserve	4	(14)	(1)	(4)	(15)
19	Interest Earnings	-	-	-	-	-
20	Inter-zone Interest	(1)	(2)	(0)	(0)	(4)
21	Capital Contributions	-	-	-	-	-
22	Other	(1)	(2)	(0)	(0)	(3)
23	Reserve Requirements	-	-	-	-	-
24	Adjusted Revenue Requirement (FY 21)	141	140	14	35	329
25	Adjusted Revenue Requirement (FY 18 adj)	(18)	(29)	-	(12)	(59)
26	Total Adjusted Revenue Requirement	123	111	14	23	270
27	Volume (KAF)	0.4	0.4	0.0	0.1	1.0
28						
29	Revenue Requirement (\$ per AF)	\$ 335	\$ 262	\$ 301	\$ 190	
30		Step 5 - Develop unit costs by				
31	Adjustments for Agricultural Preservation					
32	Allocate WU 1% Ad Valorem Prop Tax	-	-	-	-	-
33	Transfer GF 1% Ad valorem Prop Tax	-	(49)	-	(7)	(56)
34	Transfer WS 1% Ad Valorem Prop Tax	-	(49)	-	(7)	(57)
35	Revenue Requirement (\$ per AF)	\$ 335	\$ 30.4	\$ 301	\$ 69.5	
36						
37	Adjustments to Facilitate Conjunctive Use					
38	Reallocate TW/SW/RW costs	(3)	-	3	-	-
39	Water Charge (\$ per AF)	\$ 327	\$ 30.4	\$ 366	\$ 70	
40	Total Revenue (\$K)	\$120	\$13	\$17	\$8	\$158

## 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 2020–21 is \$30.36 per acre foot, which is 6.0 percent of the proposed M&I groundwater production charge for the existing South County Zone W-5. To comply with the current agricultural groundwater production charge setting policy, staff recommends the open space credit received by South County be \$8.5 million in FY 2020-21 (funded by 1 percent ad valorem property taxes). This includes an adjustment that reconciles FY 2017–18 actuals against what was projected. The \$8.5 million is comprised of a \$6.1 million transfer from North County Water Utility 1% ad valorem property taxes, a \$1.8 million contribution from South County Water Utility 1% ad valorem property taxes, a \$279 thousand transfer of 1% ad valorem property taxes from the General Fund and \$279 thousand from the Watershed Stream Stewardship Fund. As shown in Exhibit 9, the Open Space Credit is projected to grow to \$16 million by FY 2029-30.

**Exhibit 9**  
Open Space Credit Trend



## **Hearings and Meetings Schedule**

Exhibit 10 presents the schedule for the annual groundwater production charge setting process.

### **Exhibit 10** Hearings and Meetings Schedule – 2020

<b>Date</b>	<b>Hearing/Meeting</b>
January 14	Board Meeting on Preliminary Groundwater Production Charge Analysis
February 28	Mail notice of public hearing and file PAWS report
March 18	Water Retailers Meeting
<del>April 6</del>	<del>Agricultural Water Advisory Committee Meeting</del>
<del>April 7</del>	<del>Landscape Committee Meeting</del>
<del>April 8</del>	<del>Water Commission Meeting</del>
<del>April 14</del>	<del>Open Public Hearing</del>
<del>April 20</del>	<del>Environmental and Water Resources Committee</del>
<del>April 23</del>	<del>Continue Public Hearing in Gilroy (Informational Open House)</del>
April 28	Public Hearing
May 12	Adopt Budget & Groundwater Production and Other Water Charges