



MEMORANDUM

FC 14 (02-08-19)

TO: Board of Directors

FROM: Vice Chair Nai Hsueh
Director Tony Estremera
Director John Varela

SUBJECT: Groundwater Production Charges –
Open Space Credit

DATE: April 18, 2019

This memorandum presents a discussion on the Open Space Credit (OSC) portion of Item 2.8, Annual Report on the Protection and Augmentation of Water Supplies - February 2019 and Recommended Groundwater Production and Other Water Charges for Fiscal Year 2019-2020, on the April 23, 2019 agenda.

Issue

There are many comments urging support for agriculture in Santa Clara County by continuing the current OSC practice. Although the Board has explained at various occasions, it is important to clarify one more time that this Board, present and former, has never wavered its support for agriculture. **The issue facing the Board is about an “unsustainable financial future” of our property tax revenue (Fund 12, District Fund and Water Enterprise Fund.)**

Background

For several years, the Board has been concerned about the affordability of OSC and, in 2018, directed staff to report back on the following:

1. *Reasonableness of agriculture water usage projections in light of future development in south county and potential reduction of agriculture acreage (staff reported on December 5, 2018 that projected future agricultural water usage is reasonable.)*
2. *Feasibility of a reduced agriculture water charge for Williamson Act or Conservation Easement participants (Williamson Act Proposal) (on today's agenda as part of the Groundwater Production Charge.)*
3. *Feasibility of funding Open Space Credit with new revenue sources, e.g. contribution from private companies or other governmental agencies (analyses completed, see attached memorandum.)*

Discussion of Williamson Act Proposal

The Williamson Act Proposal is not a viable solution to the financial sustainability issue the Board is concerned about. A significant percentage, approximately 80%, of the current OSC is needed to comply with District Act requirement. Only 20% of the OSC is within the Board's authority to reduce. As shown in the analyses below, any adjustments within the 20% will not solve the unsustainable condition of Fund 12.

For the next 10 years, if the current practice continues, approximately \$152M of total District 1% property tax revenue would be allocated to support OSC. If the Williamson Act Proposal is implemented, the cumulative savings would be \$3.4M—\$3.8M under the 10% alternative, and \$16.0M—\$17.9M under the 25% alternative, which amounts to approximately 2.0%—12.0% of the \$152M “hole” that the Board is concerned about.
Source: staff agenda memorandum.

Additionally, and very importantly, the Williamson Act Proposal does not benefit farmers who own small acreages or lease/rent farmland, and therefore is not consistent with Board's policy regarding Environmental Justice.

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Recommendation

Of the 3 directions by the Board (see Background section,) "Item 3 New Revenue Sources" is the one that has the potential to address the "financial sustainability issue", and is worth our efforts to pursue.

A stepped approach is recommended:

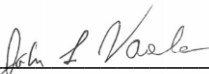
1. Continue current practice for OSC for the next 2 years, FY 2019-2020 and FY 2020-2021.
2. During the 2-year period, through a coalition of agriculture industry, open space organizations, other governmental organizations, environmental groups and Valley Water, work to pursue feasible revenue sources for OSC.
3. Depending on the outcomes of the efforts, the Board would then set the OSC accordingly. It is important to point out that the OSC decision cannot not be made independently, it needs to be considered in connection with the services Valley Water relies on Property Tax to deliver to the community.



Nai Hsueh, 2019 Vice Chair
Director District 5



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