

Overview of the FY 2021-22 Groundwater Production Charge Setting Process

November 24, 2020

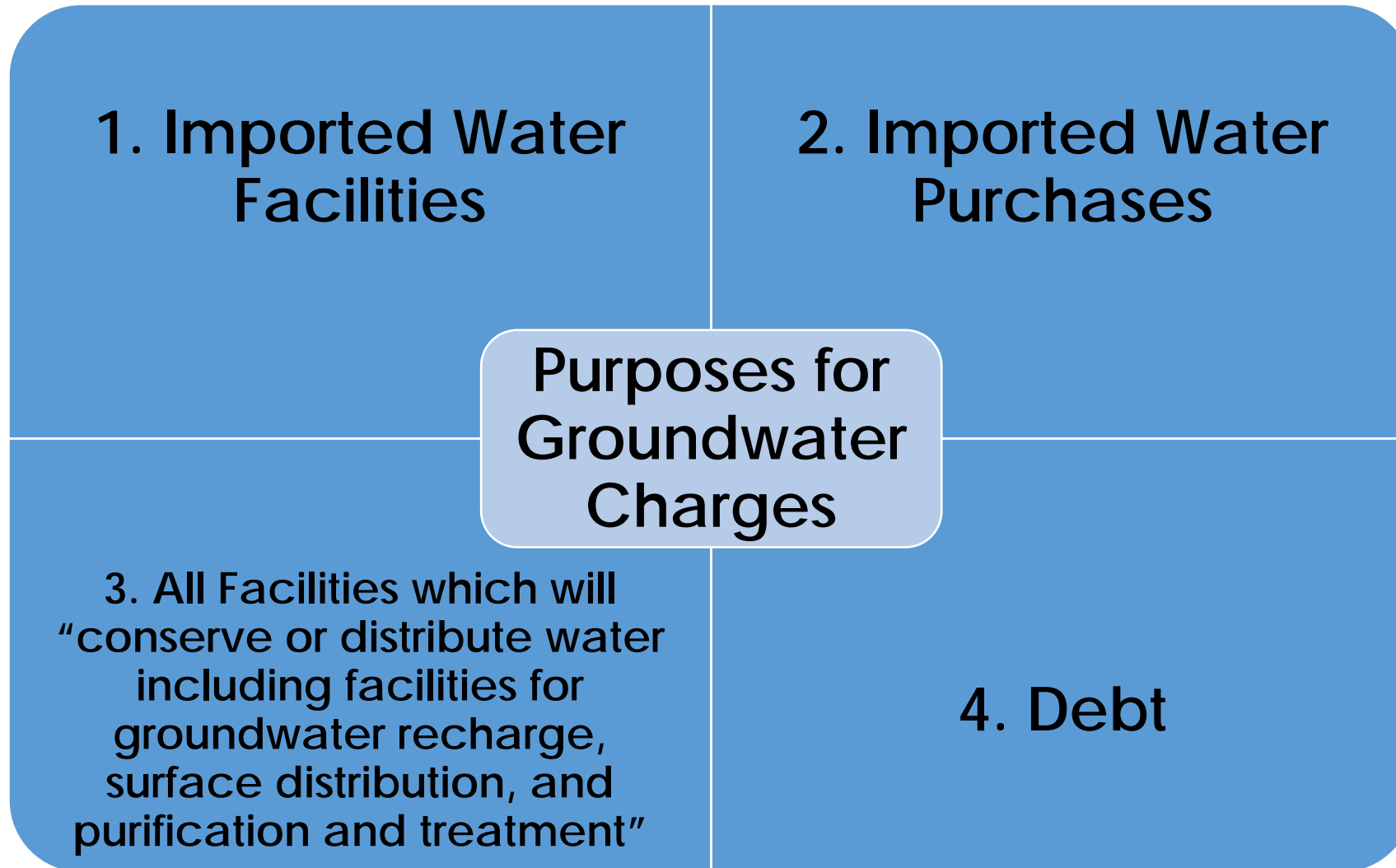
Topics

1. Background Information on Groundwater Production Charge Setting Process
 - ▶ District Act
 - ▶ Prop 218 & Prop 26
 - ▶ Pricing Policy
 - ▶ Modified Groundwater Benefit Zones
2. North County & South County Infrastructure
3. Water Usage
4. Rate Setting Strategy for FY 22
5. Schedule
6. Summary

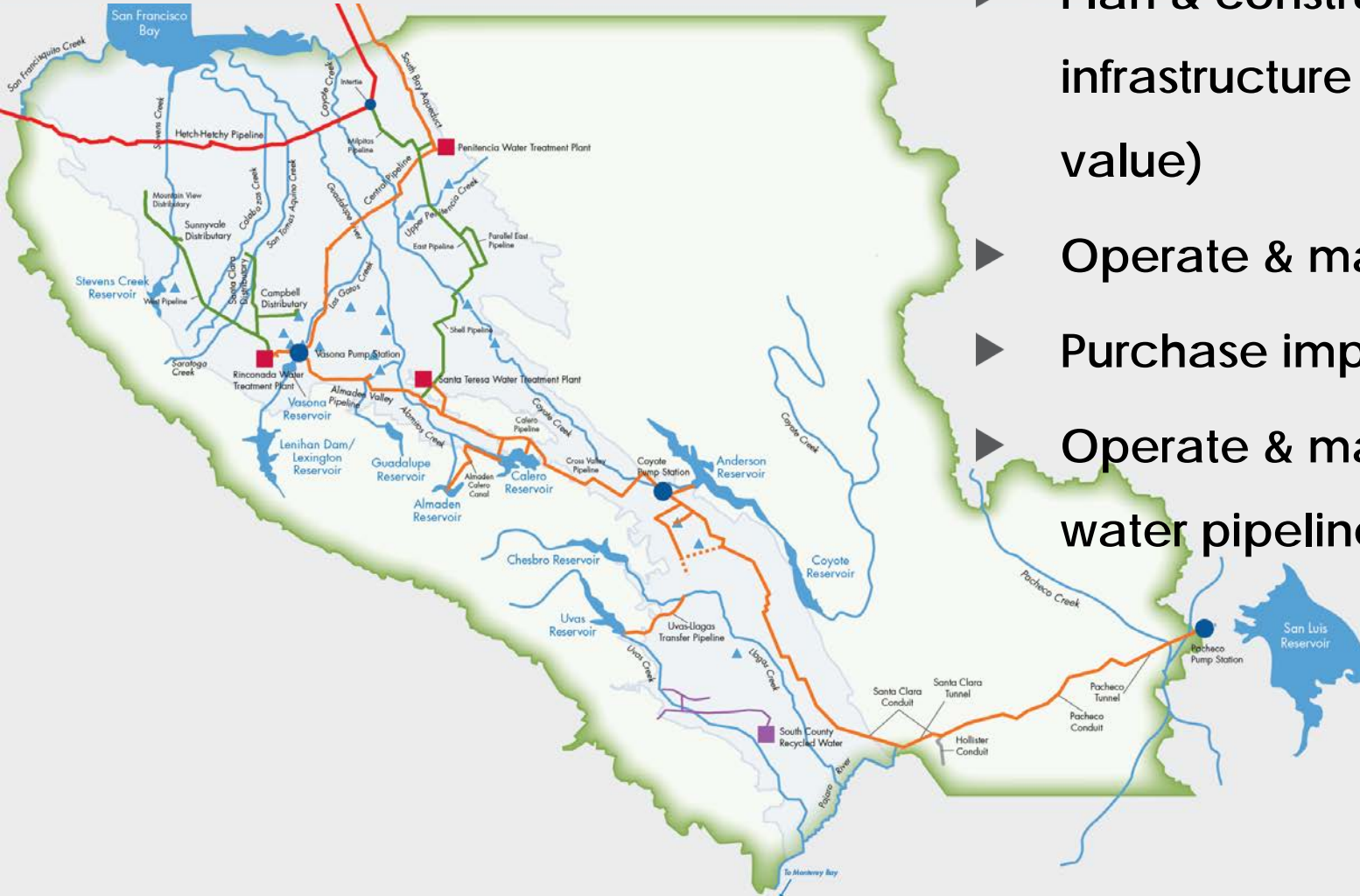
District Act Details Several Process Requirements to Set Groundwater Production Charges

- ▶ Requires setting of groundwater production charges once per year
 - ▶ Option to do mid-year adjustment (added in 1992)
- ▶ Requires publication of Annual Report on Protection and Augmentation of Water Supplies (PAWS)
- ▶ Requires public hearing
 - ▶ Surface, treated, & recycled water rates can be set separately
- ▶ Requires establishment of groundwater benefit zones

District Act Defines Purposes for Groundwater Charges



Many activities ensure safe, reliable groundwater supplies



- ▶ Plan & construct improvements to infrastructure (\$7.1B system replacement value)
- ▶ Operate & maintain local reservoirs
- ▶ Purchase imported water
- ▶ Operate & maintain raw, treated & recycled water pipelines
- ▶ Monitor & protect groundwater from pollutants

The Surface Water Charge-setting Process is Consistent with Prop 218 Process for Water Service Charges

- ▶ Includes cost of service analysis by customer class
- ▶ Includes protest procedure as defined in Board Resolution 12-10

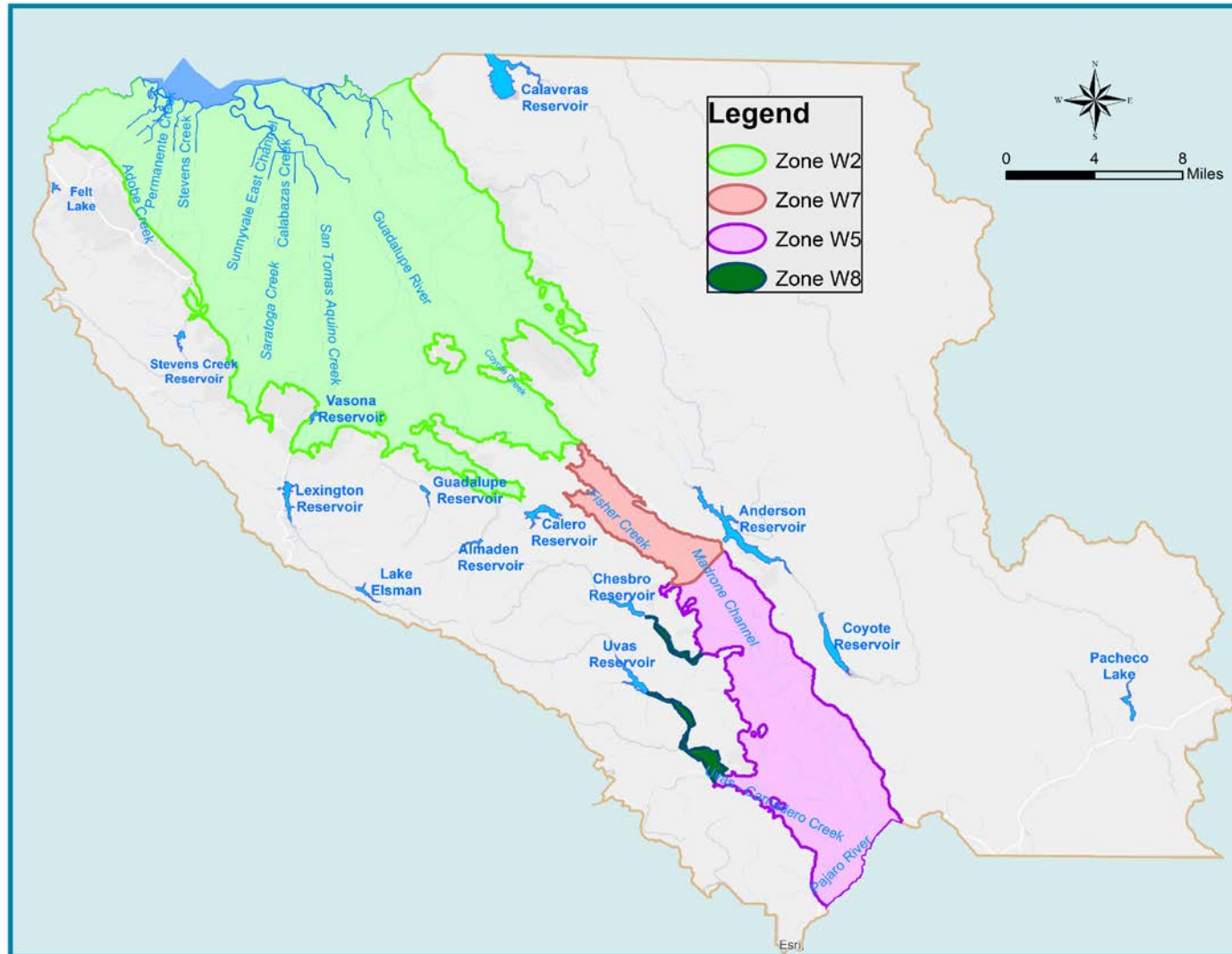
Historical Majority Protest Procedure Results

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Surface Water									
North County W-2	0%	0%	0%	0%	0%	0%	0%	5%	0%
South County W-5	0%	0%	0%	1.3%	0%	0%	0%	0%	0%
South County W-7									0%
South County W-8									0%

The Groundwater charge-setting process is Consistent with Prop 26

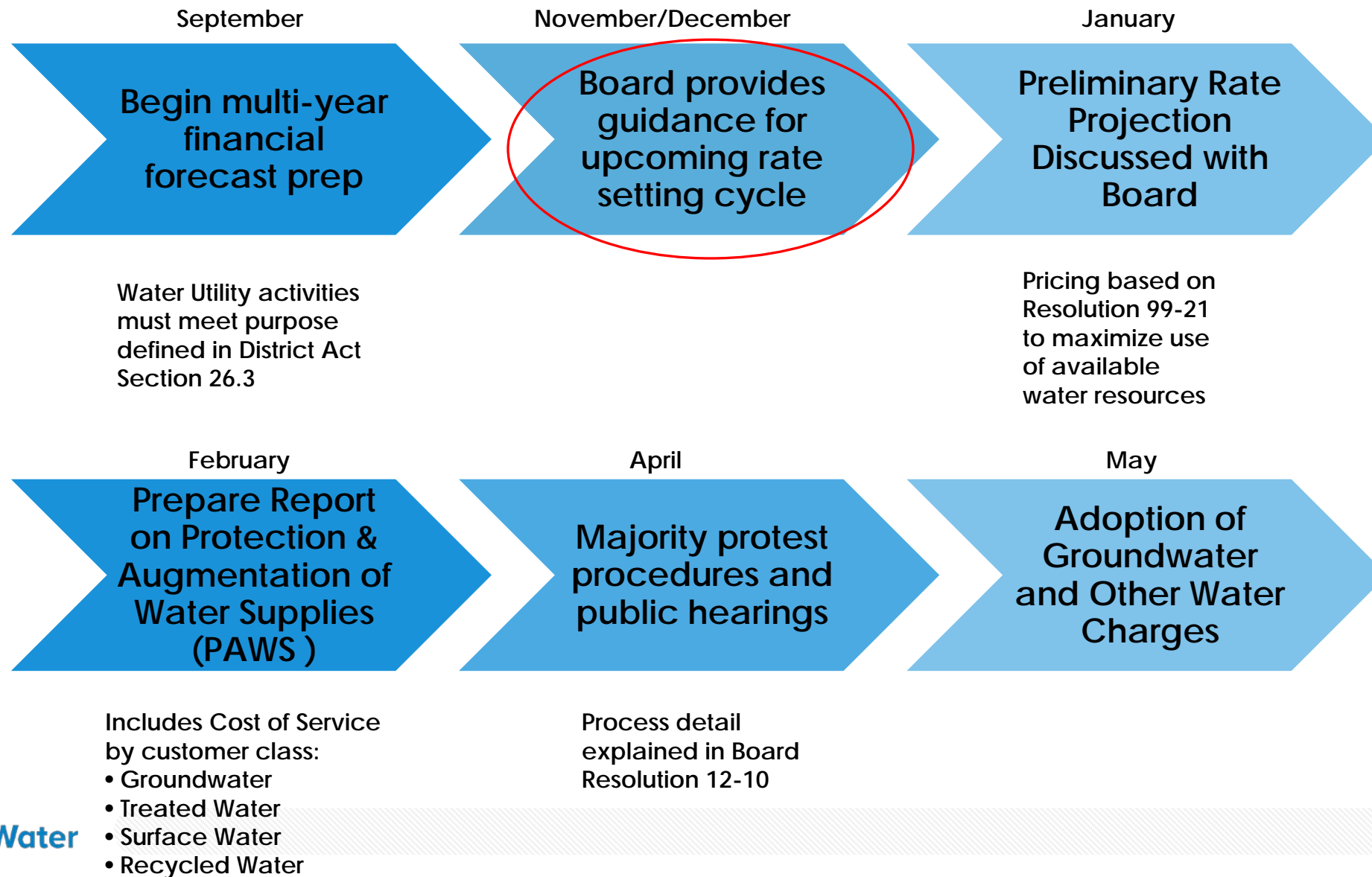
- ▶ Supreme Court found Prop 218 not applicable to groundwater charges
 - ▶ Certain Prop 218 requirements continue, like holding a public hearing and noticing well owners, which are consistent with District Act
- ▶ Supreme Court found Prop 26 is applicable to groundwater charges
- ▶ To qualify as a nontax fee under Prop 26, GW charge must satisfy both:
 1. GW charge established at amount that is no more than necessary to cover reasonable costs of government activity
 2. Manner in which costs are allocated to payor bear a fair or reasonable relationship to payor's burdens on, or benefits received from government activity

Resolution 99-21 is the Board's Pricing Policy



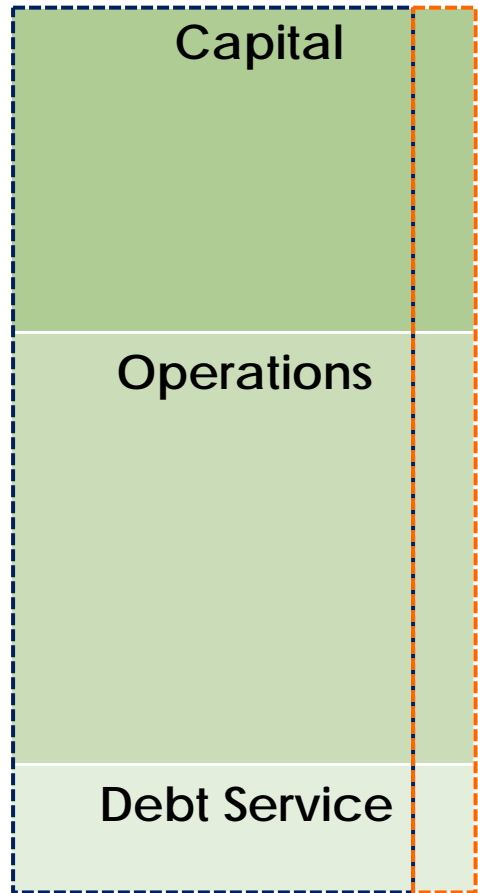
- ▶ Groundwater charges are levied within a zone for benefits received
- ▶ All water sources and water facilities contribute to common benefit within a zone regardless of cost, known as “pooling” concept
 - ▶ Helps maximize effective use of available resources
- ▶ Agricultural water charge shall not exceed 10% of M&I water charge

Groundwater Charge-Setting Approach



"Revenue Requirements" approach used to determine revenue required from water charges

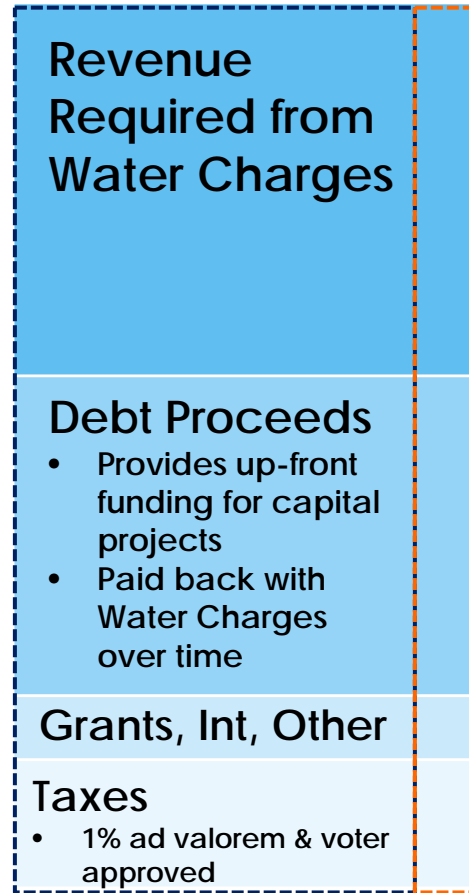
Revenue Requirements (Cost of Service)



North

South

Funding Sources



North

South

Sound financial targets over multi-year time frame keep bond ratings high

- Debt service coverage targeted at 2.0 or better
- Reserves targeted at policy minimums or better
- Aa1 from Moody's and AA+ from Fitch

North: Zone W-2
South: Zones W-5, W-7, W-8

Non-water
charge
funding
sources



North

South

Infrastructure differences drive different groundwater production charges in each zone

North County

- 3 water treatment plants
- Reservoirs –
 - Almaden
 - Calero
 - Guadalupe
 - Lexington
 - Stevens Creek
 - Vasona
- Silicon Valley Advanced Water Purification Center
- Imported Water – State Water Project

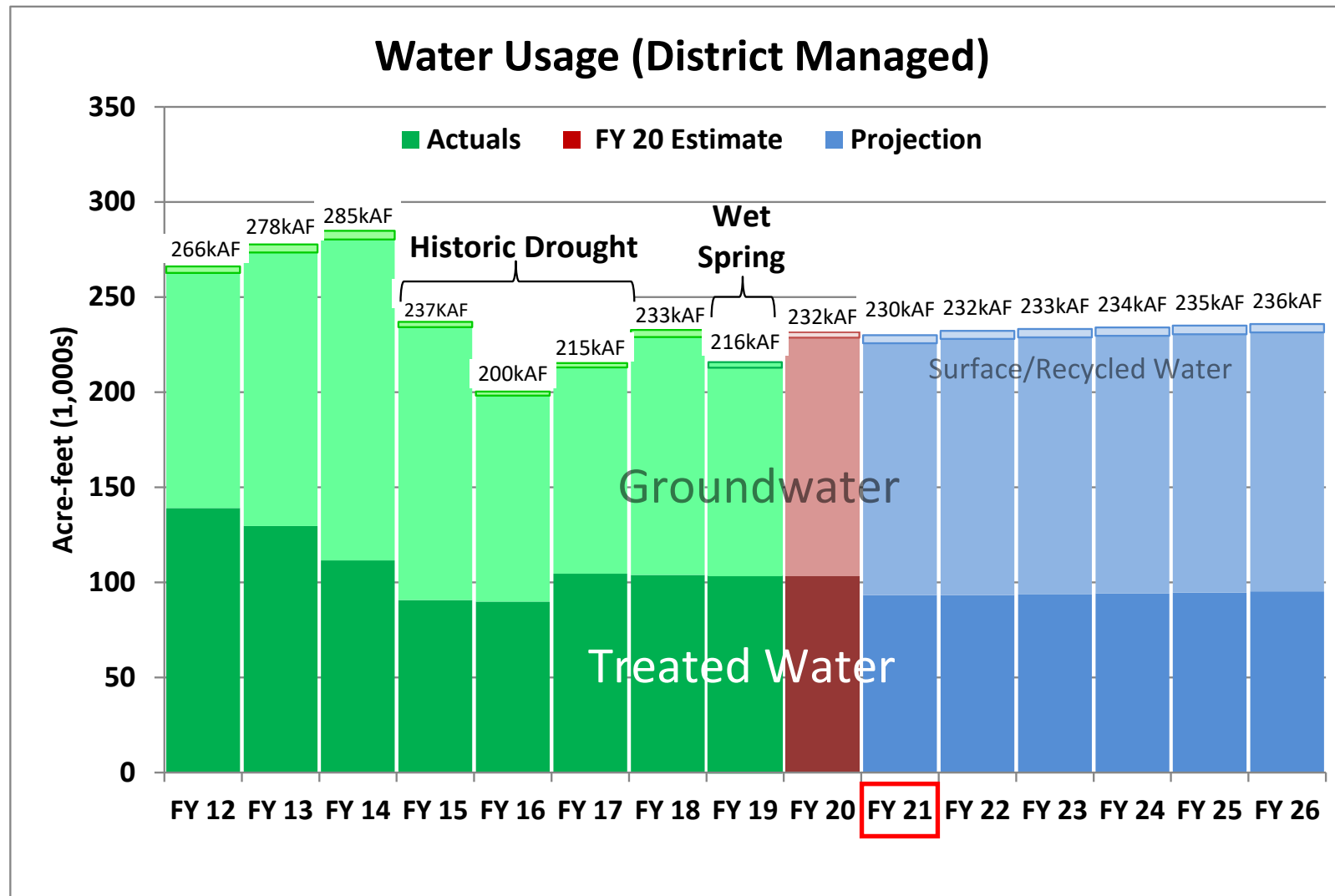
Shared

- Reservoirs –
 - Anderson
 - Coyote
 - Pacheco
- Imported Water –
 - Central Valley Project
- Shared facilities do not benefit Zone W-8

South County

- Reservoirs –
 - Chesbro
 - Uvas
- SCRWA Recycled Water System
 - Benefits Zone W-5 only

Water Usage (District Managed)



Baseline Case Assumptions:

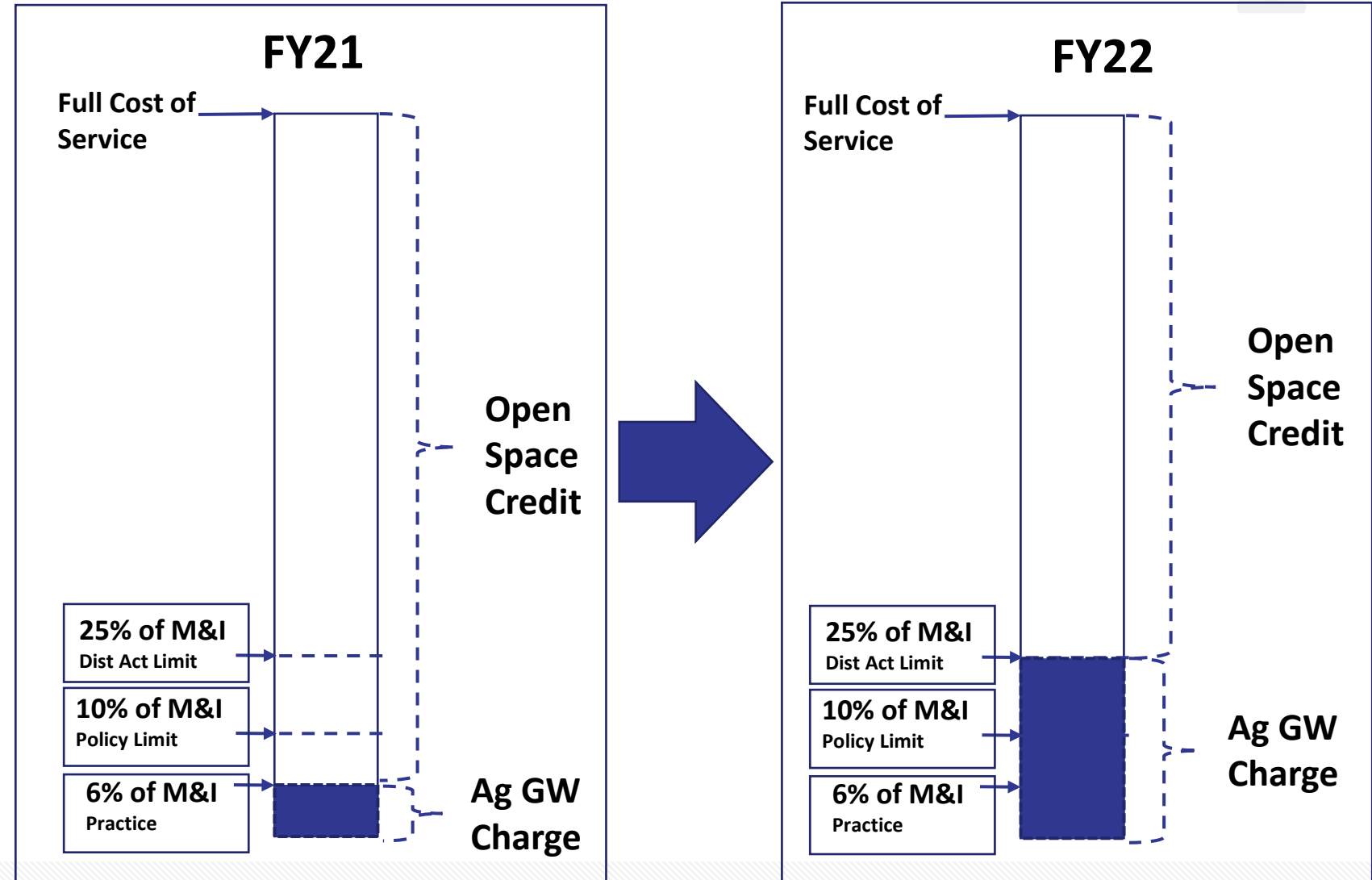
- Pacheco Reservoir Expansion
- Delta Conveyance SWP portion at 2.73%
- Purified Water Expansion (9 to 12kAF) via P3
 - Assumes 100% debt financing through P3 entity
- Los Vaqueros (Transfer Bethany Pipeline)
- FY22 increase in Agricultural Rate

Scenarios:

- Delta Conveyance SWP portion at 5.00% (CVP)
- Sites Reservoir Expansion
- Los Vaqueros Reservoir Expansion
- Pacheco Reservoir Expansion Funding Alternatives

Rate setting strategy: Changes in Agricultural Rates in FY22 and Beyond

- Board direction in April 2019 to eliminate discretionary portion of Open Space Credit by FY22
 - Would require update to Pricing Policy which currently limits Ag Charge to 10% of M&I Charge
- FY 21 Ag Charge is \$28.86/AF (6% of Zone W-7 M&I charge of \$481.00/AF)








Impacts to FY 22 Rates ~ Results of No Rate Increases in FY21

- No FY21 rate increases results in higher anticipated water rate increases in future years, without offsetting cost cutting actions

September 2020 Rate Adjustment Analysis Results <i><u>With no mid-year rate increase</u></i>		Annual Long-Term Rate Adjustment FY22 – FY30
North County Zone W-2	Long Term Rate Adjustment (no FY21 rate increase) <i>PWP 100% debt financed by P3 entity</i>	9.8%
South County Zone W-5	Long Term Rate Adjustment (no FY21 rate increase)	5.2%
South County Zone W-7		10.4%
South County Zone W-8		5.2%

2022 Schedule

Jan 4	Ag Water Advisory Committee 
Jan 12	Board Meeting: Preliminary Groundwater Charge Analysis
Jan 20	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
Jan 20	Water Commission Meeting: Prelim Groundwater Charge Analysis 
Feb 9	Board Meeting: Budget development update & Set time & place of Public Hearing
Feb 26	Mail notice of public hearing and file PAWS report
Mar 17	Water Retailers Meeting: FY 22 Groundwater Charge Recommendation
Mar 23	Board Meeting: Budget development update
Mar 30	Landscape Committee Meeting 
Apr 5	Ag Water Advisory Committee 
Apr 7	Water Commission Meeting 
Apr 13	Open Public Hearing
Apr 15	Continue Public Hearing in South County
Apr 27	Conclude Public Hearing
Apr 28-29	Board Meeting: Budget work study session
May 11	Adopt budget & groundwater production and other water charges

 Tentative Date

Staff seeking Board guidance for FY 22 rate setting cycle

- Confirm P3 financing assumptions
- Confirm Ag Charge direction related to Open Space Credit

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