

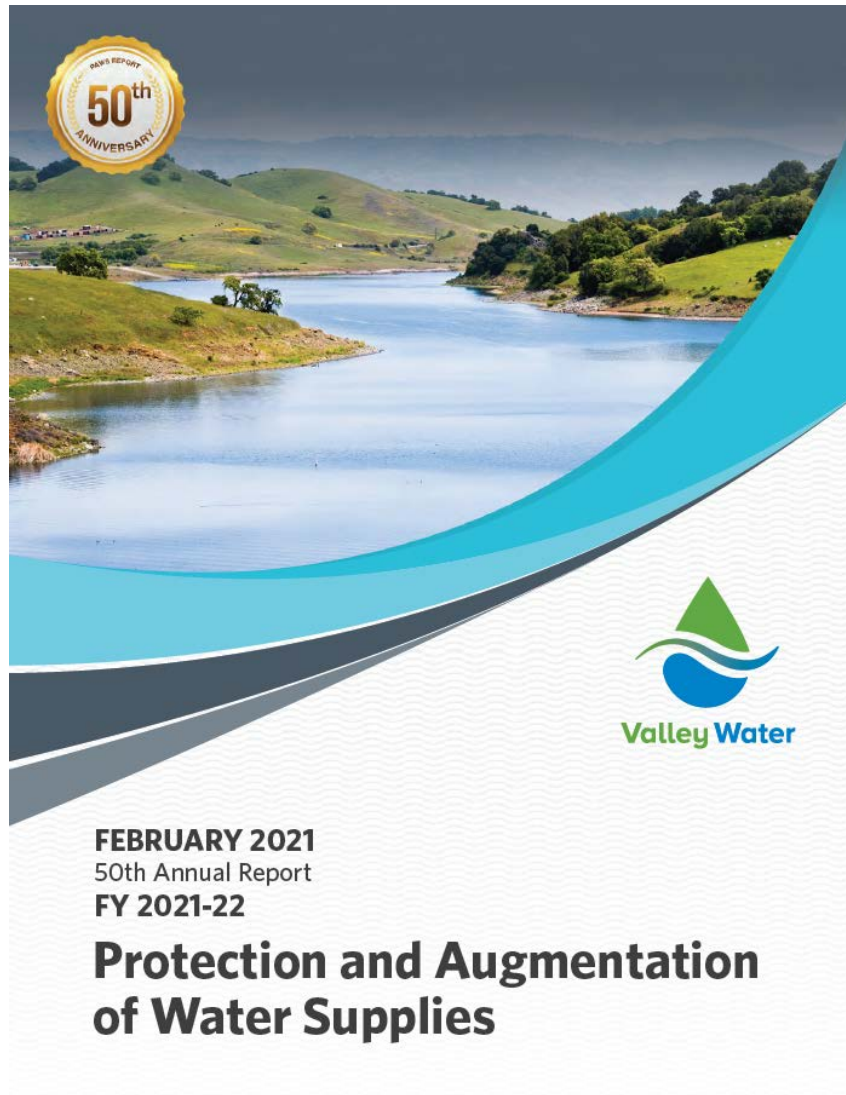
Public Hearing

Groundwater Production & Other Water Charges
April 13, 2021

Public Hearing has Three Specific Objectives

1. Present annual report on Valley Water's activities and recommended groundwater production charges
2. Provide opportunity for any interested person to "...appear and submit evidence concerning the subject of the written report" to the Board of Directors
3. Determine and affix Groundwater Production and Other Water Charges for FY 2021-22

50th Annual Report Released



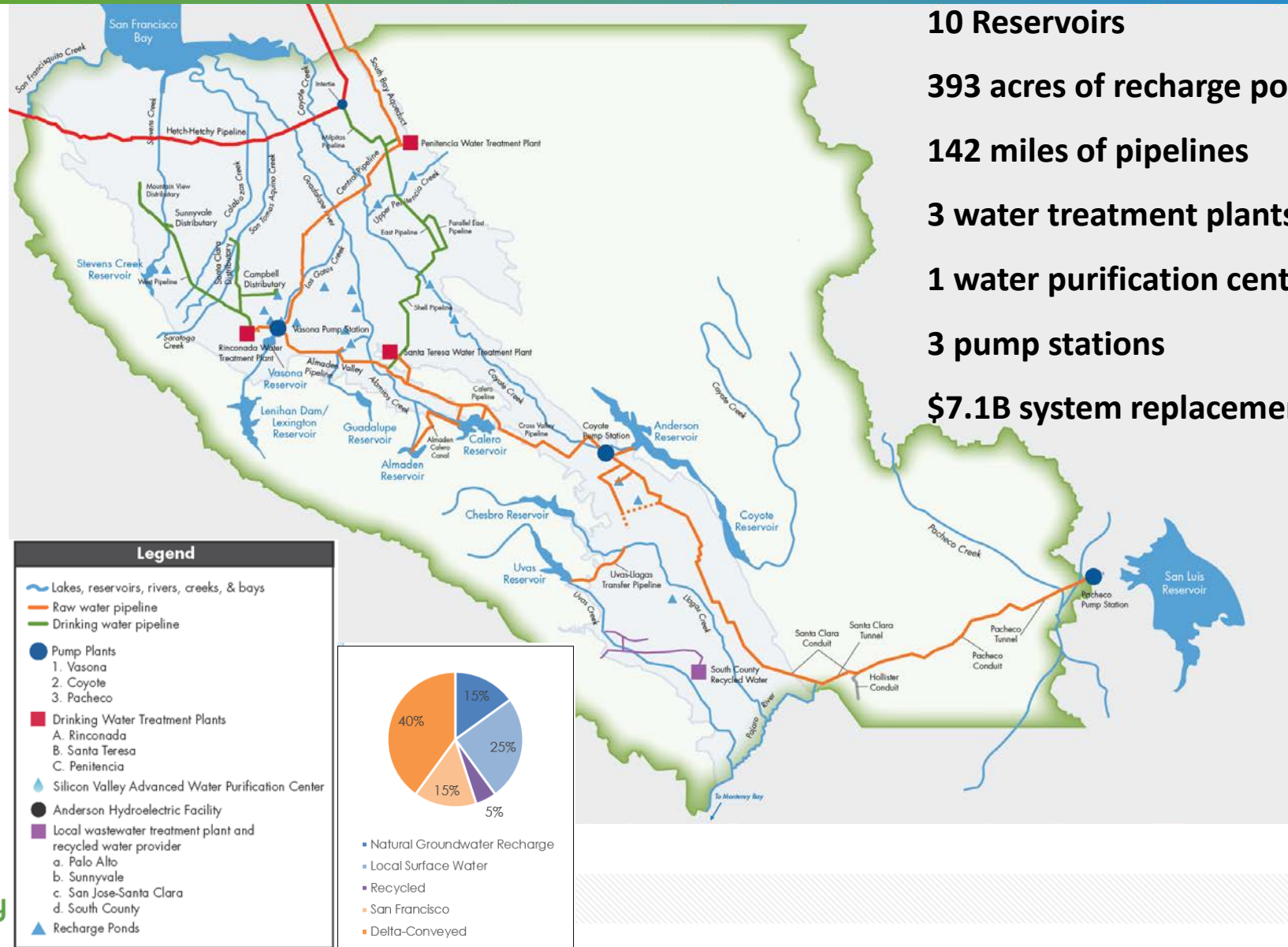
Annual Protection and Augmentation of Water Supplies Report provides information & accountability

Filed February 26, 2021

Available online:

<https://www.valleywater.org/ProposedWaterCharges>

A comprehensive, flexible water system serves 2.0 million people



10 Reservoirs

393 acres of recharge ponds

142 miles of pipelines

3 water treatment plants

1 water purification center

3 pump stations

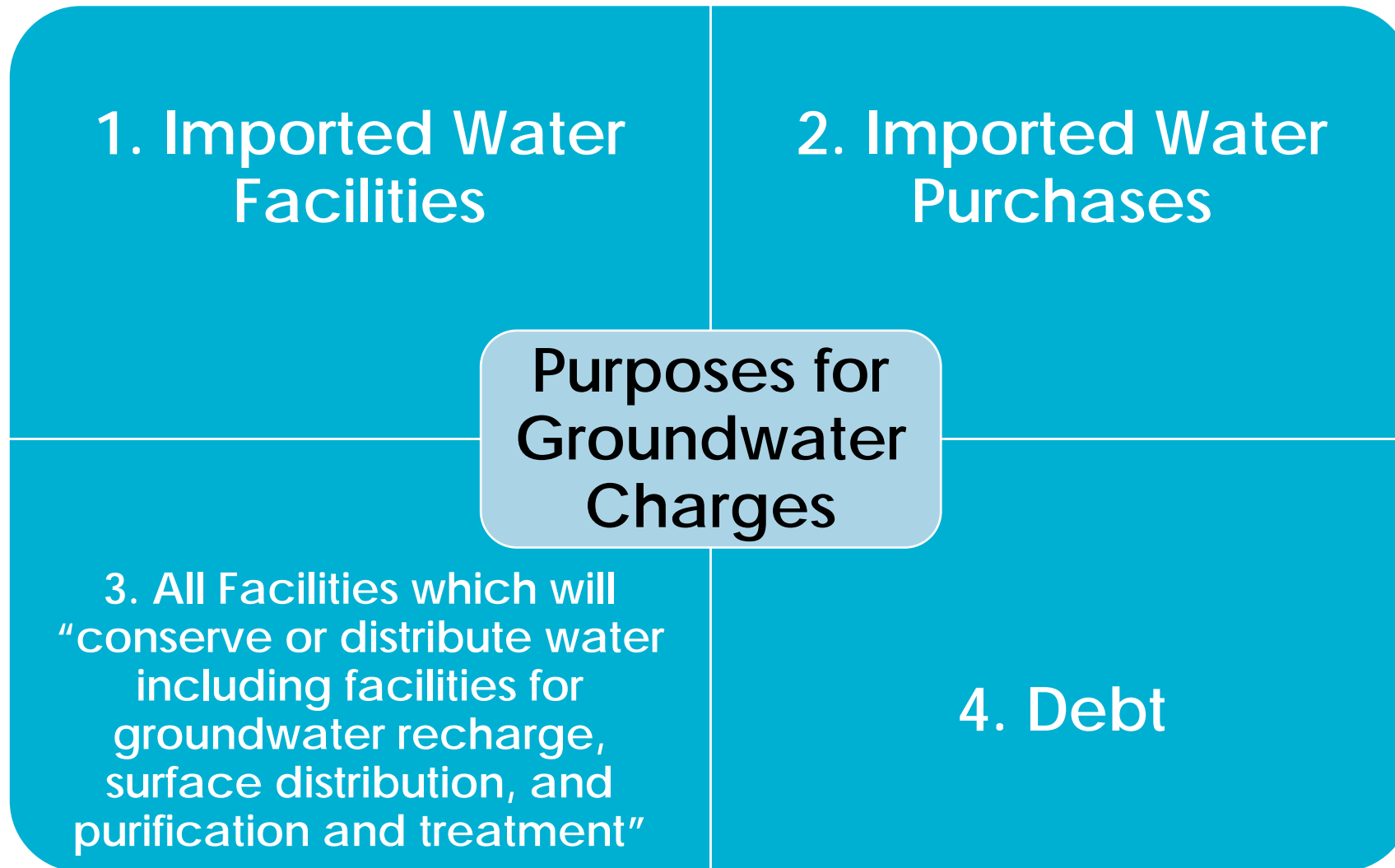
\$7.1B system replacement value

Topics for Today's Public Hearing

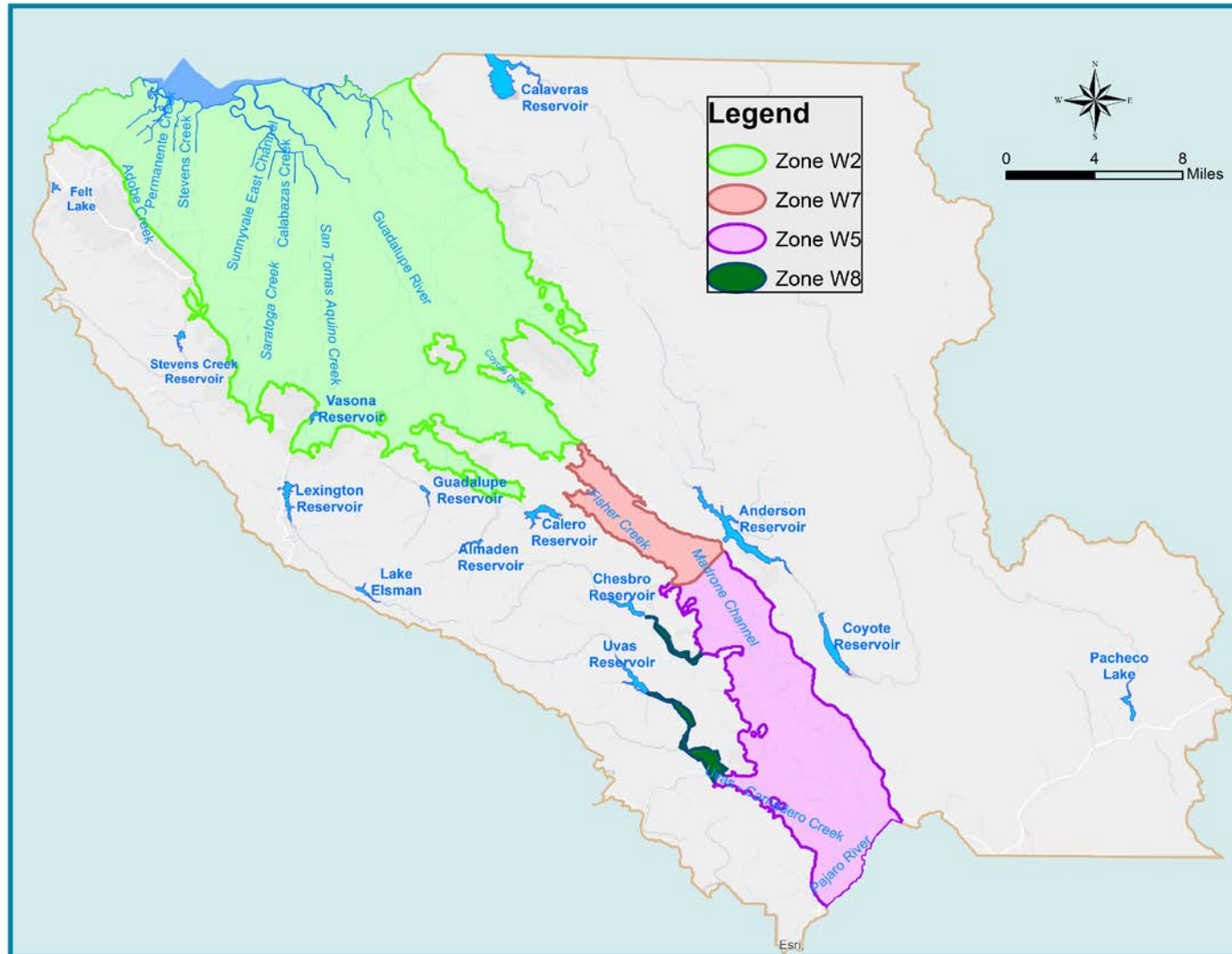
- ▶ Rate Setting Process
- ▶ FY 22 Financial Analysis and Projections
 - ▶ Key Assumptions for FY 22
 - ▶ Cost Projection
 - ▶ Water Usage
 - ▶ Recommended Groundwater Production Charges
 - ▶ State Water Project Tax
- ▶ Schedule/Wrap up

Rate Setting Process

District Act Defines Purposes for Groundwater Charges



Resolution 99-21 is the Board's Pricing Policy



Board Pricing Policy Summary

- ▶ Groundwater charges are levied within a zone for benefits received
 - ▶ Modified zones shown became effective on 7/1/2020
- ▶ 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

Prop 218 not applicable to Groundwater Charge-setting process

- ▶ 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

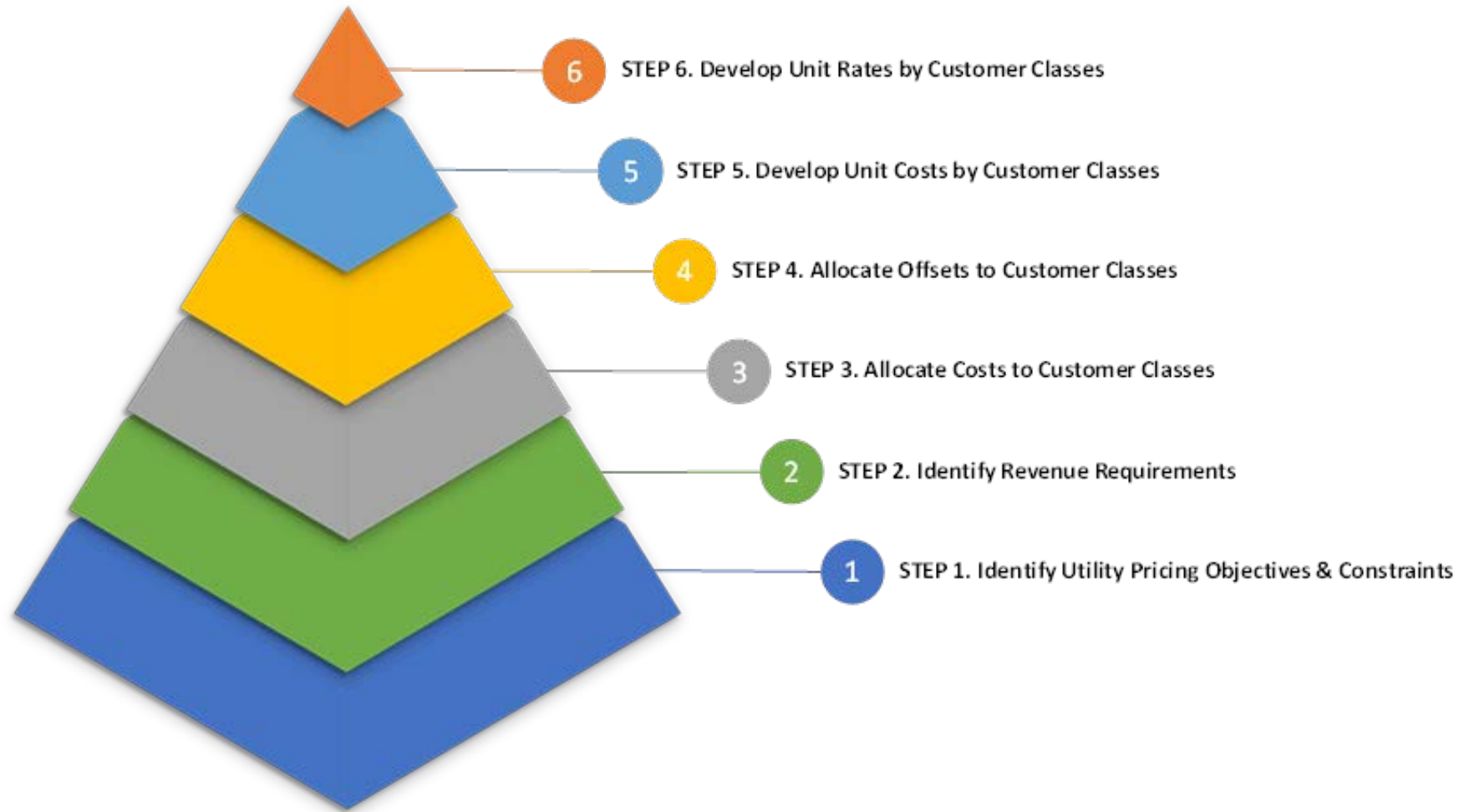
The Surface Water Charge-setting Process is Consistent with Prop 218 Process for Water Service Charges

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

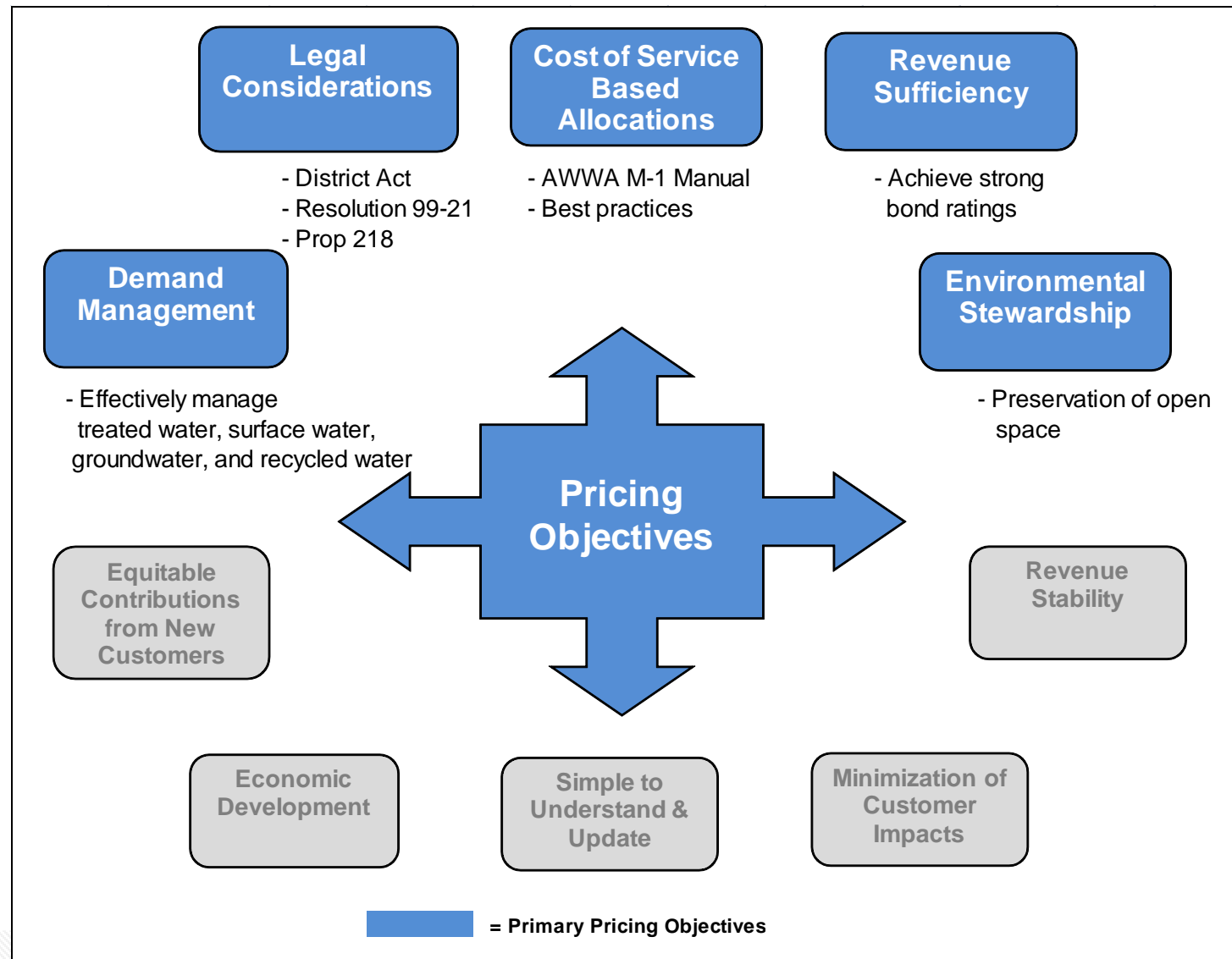
Historical Majority Protest Procedure Results

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%

Valley Water follows best practice rate making steps



Pricing Objectives and Constraints



FY 22 Financial Analysis and Projections

Scenario Assumptions

1) Baseline: Pacheco

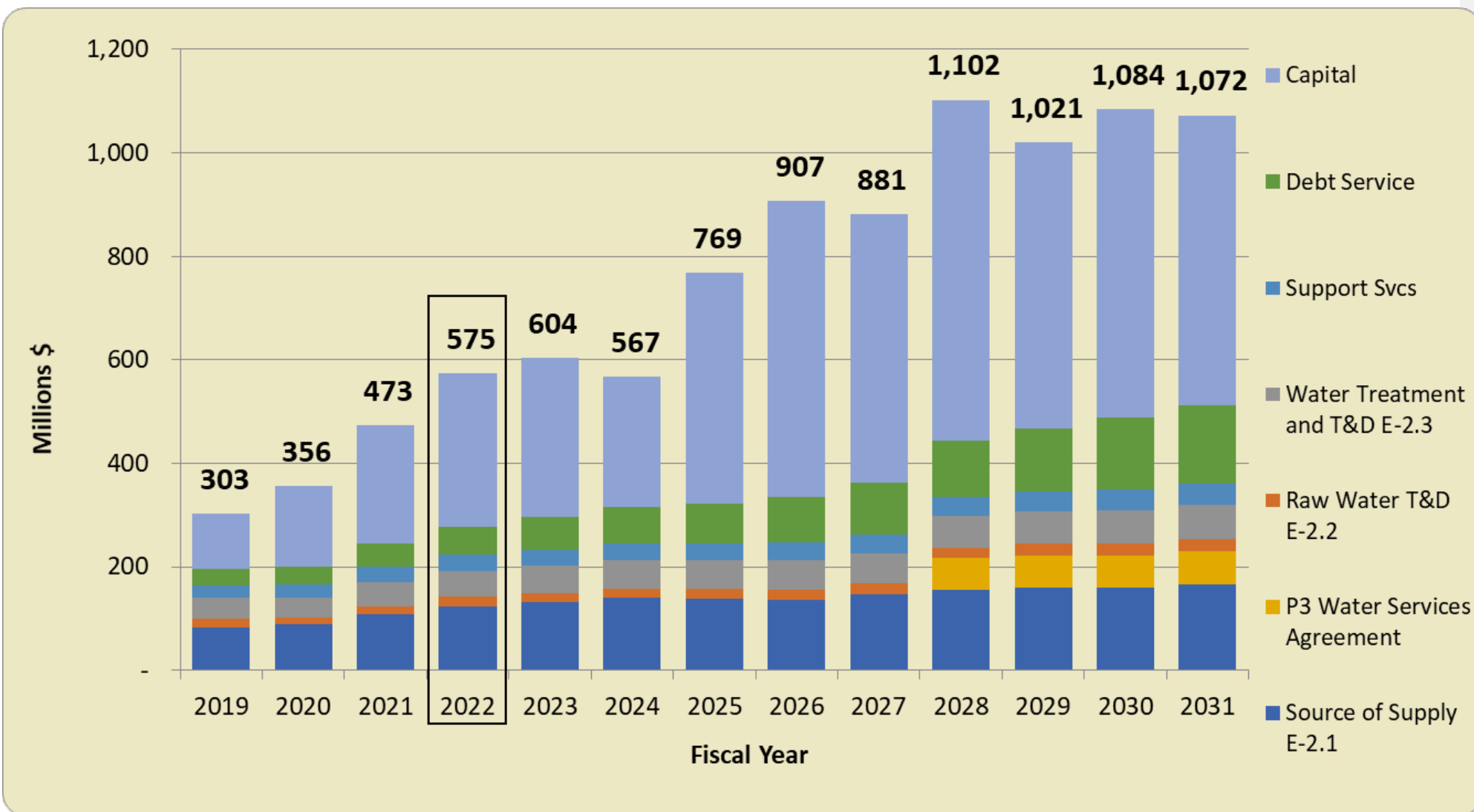
Staff Recommendation

- ▶ Baseline Projects*
- ▶ Delta Conveyance (3.23% participation)
- ▶ Anderson Dam Seismic Retrofit
- ▶ Potable Reuse Phase 1 to produce 9-12KAF by FY 28
 - ▶ Assumes 100% debt financing via P3 entity
- ▶ Pacheco Reservoir
 - ▶ \$485M Proposition 1 grant
 - ▶ WIFIA loan for 49%
 - ▶ Partner Agencies pay 20% of project
- ▶ Master Plan Projects Placeholder**:
 - ▶ Assumes \$346M from FY22-FY31, mainly after 5 Year CIP
- ▶ Agricultural Charge at 25% of Zone W-8 M&I (\$85.38/AF in FY 22)

2) Baseline without Pacheco

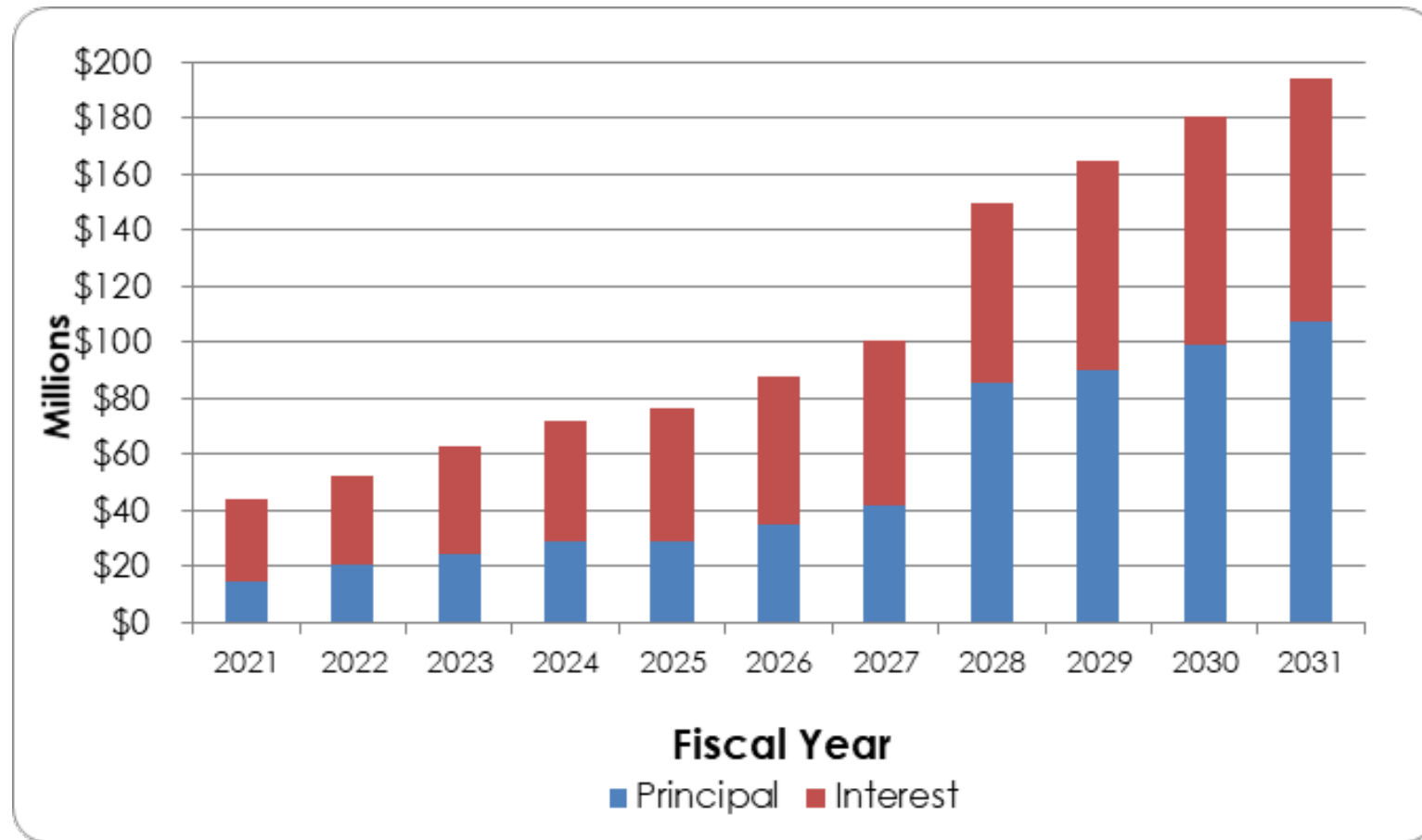
- ▶ Baseline Projects*
- ▶ Delta Conveyance (3.23% participation)
- ▶ Anderson Dam Seismic Retrofit
- ▶ Potable Reuse Phase 1 to produce 9-12KAF by FY 28
 - ▶ Assumes 100% debt financing via P3 entity
- ~~▶ Pacheco Reservoir~~
 - ~~▶ \$485M Proposition 1 grant~~
 - ~~▶ WIFIA loan for 49%~~
 - ~~▶ Partner Agencies pay 20% of project~~
- ▶ Master Plan Project Placeholder**:
 - ▶ Assumes \$346M from FY22-FY31, mainly after 5 Year CIP
- ~~▶ Agricultural Charge at 10% of Zone W-8 M&I (\$34.15/AF in FY 22)~~

Financial Analysis: Cost Projection



Implementation of CIP results in debt service increases

10

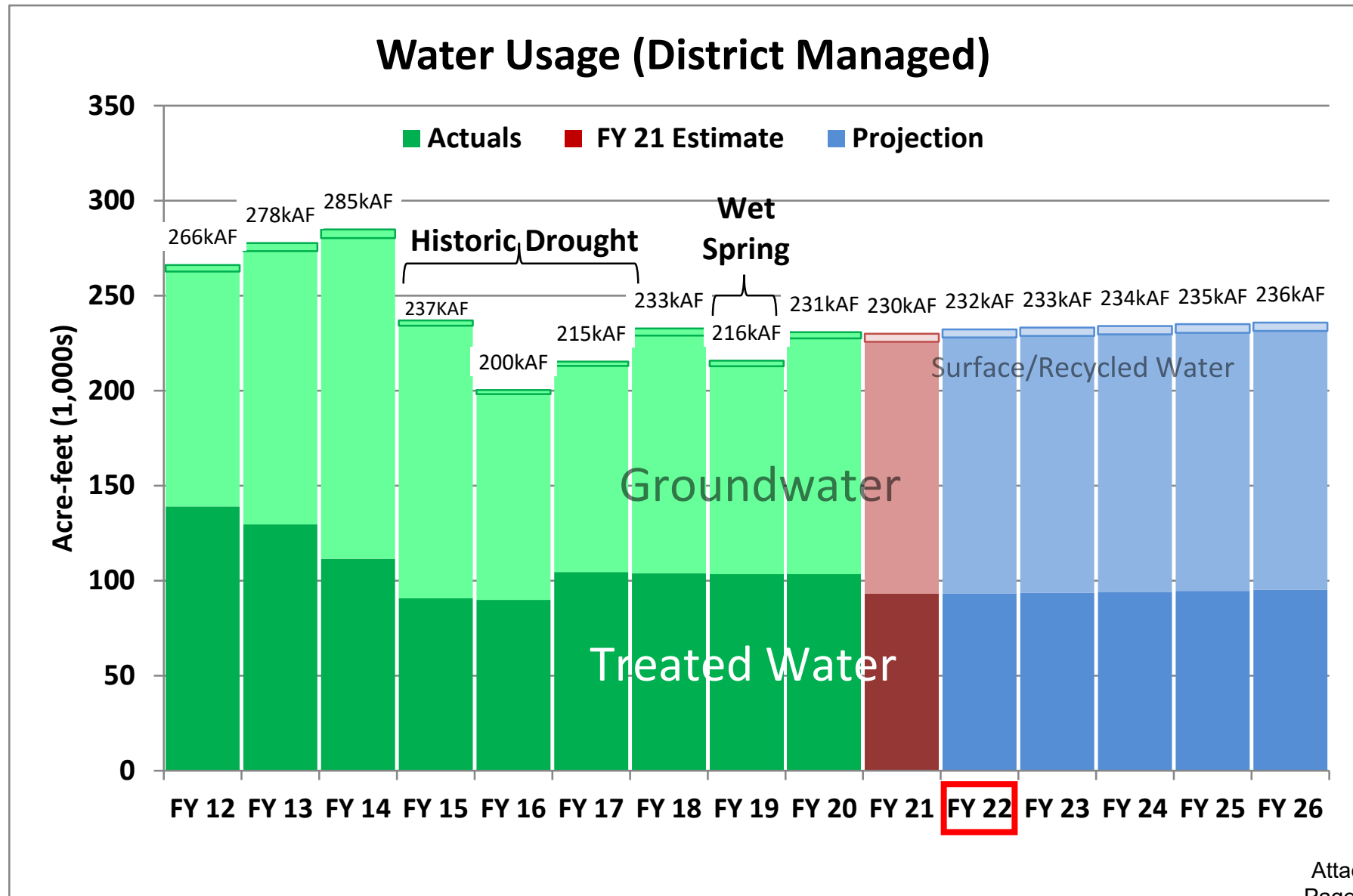


\$52.6M in FY 2021-22

\$194.4M in FY 2030-31

- Debt service coverage ratio targeted at 2.0 helps ensure financial stability and high credit ratings

Water Usage (Valley Water Managed)



Recommended Groundwater Production Charges

Proposed Maximum Groundwater Charge Increases

M&I Groundwater Charge Year to Year Growth % Baseline Scenario: Pacheco

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
North County Zone W-2	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	8.7%	8.7%
South County Zone W-5	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
South County Zone W-7	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
South County Zone W-8	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%

Est. Monthly Impact to Average Household

M&I Groundwater Charge – Monthly Impact to Average Household Baseline Scenario: Pacheco

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
North County Zone W-2	\$4.55	\$4.98	\$5.46	\$5.98	\$6.56	\$7.18	\$7.87	\$8.63	\$8.57	\$9.32
South County Zone W-5	\$0.74	\$0.77	\$0.81	\$0.85	\$0.89	\$0.93	\$0.97	\$1.01	\$1.06	\$1.11
South County Zone W-7	\$1.70	\$1.88	\$2.08	\$2.29	\$2.53	\$2.79	\$3.07	\$3.39	\$3.74	\$4.12
South County Zone W-8	\$0.50	\$0.52	\$0.54	\$0.56	\$0.59	\$0.61	\$0.64	\$0.67	\$0.70	\$0.73

FY 2022: North County W-2 Proposed Maximum Charges

Zone W-2 (North County)	Dollars Per Acre Foot			% Change FY22 vs FY21
	FY 2019-20	FY 2020-21	Maximum Proposed FY 2021-22	
Basic User/Groundwater Production Charge				
Municipal & Industrial	1,374.00	1,374.00	1,506.00	9.6%
Agricultural	28.86	28.86	85.38	195.9%
Surface Water Charge				
Surface Water Master Charge	37.50	37.50	41.10	9.6%
Total Surface Water, Municipal & Industrial*	1,411.50	1,411.50	1,547.10	9.6%
Total Surface Water, Agricultural*	66.36	66.36	126.48	90.6%
Treated Water Charges				
Contract Surcharge	100.00	100.00	115.00	15.0%
Total Treated Water Contract Charge**	1,474.00	1,474.00	1,621.00	10.0%
Non-Contract Surcharge	200.00	200.00	200.00	0.0%
Total Treated Water Non-Contract Charge***	1,574.00	1,574.00	1,706.00	8.4%



* 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 total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge

*** 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

FY 2022: South County W-5 Proposed Maximum Charges

Zone W-5 (South County) Llagas Subbasin	Dollars Per Acre Foot			% Change FY22 vs FY21
	FY 2019-20	FY 2020-21	Maximum Proposed FY 2021-22	
Basic User/Groundwater Production Charge				
Municipal & Industrial	481.00	467.00	488.50	4.6%
Agricultural	28.86	28.86	85.38	195.9%
Surface Water Charge				
Surface Water Master Charge	37.50	37.50	41.10	9.6%
Total Surface Water, Municipal & Industrial*	518.50	504.50	529.60	5.0%
Total Surface Water, Agricultural*	66.36	66.36	126.48	90.6%
Recycled Water Charge				
Municipal & Industrial	461.00	447.00	468.50	4.8%
Agricultural	56.26	56.26	112.78	100.5%



* The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

FY 2022: South County W-7 Proposed Maximum Charges

Zone W-7 (South County) Coyote Valley		Dollars Per Acre Foot			% Change FY22 vs FY21
		FY 2019-20	FY 2020-21	Maximum Proposed FY 2021-22	
Basic User/Groundwater Production Charge					
	Municipal & Industrial	481.00	481.00	530.50	10.3%
	Agricultural	28.86	28.86	85.38	195.9%
Surface Water Charge					
	Surface Water Master Charge	37.50	37.50	41.10	9.6%
	Total Surface Water, Municipal & Industrial*	518.50	518.50	571.60	10.2%
	Total Surface Water, Agricultural*	66.36	66.36	126.48	90.6%



* The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

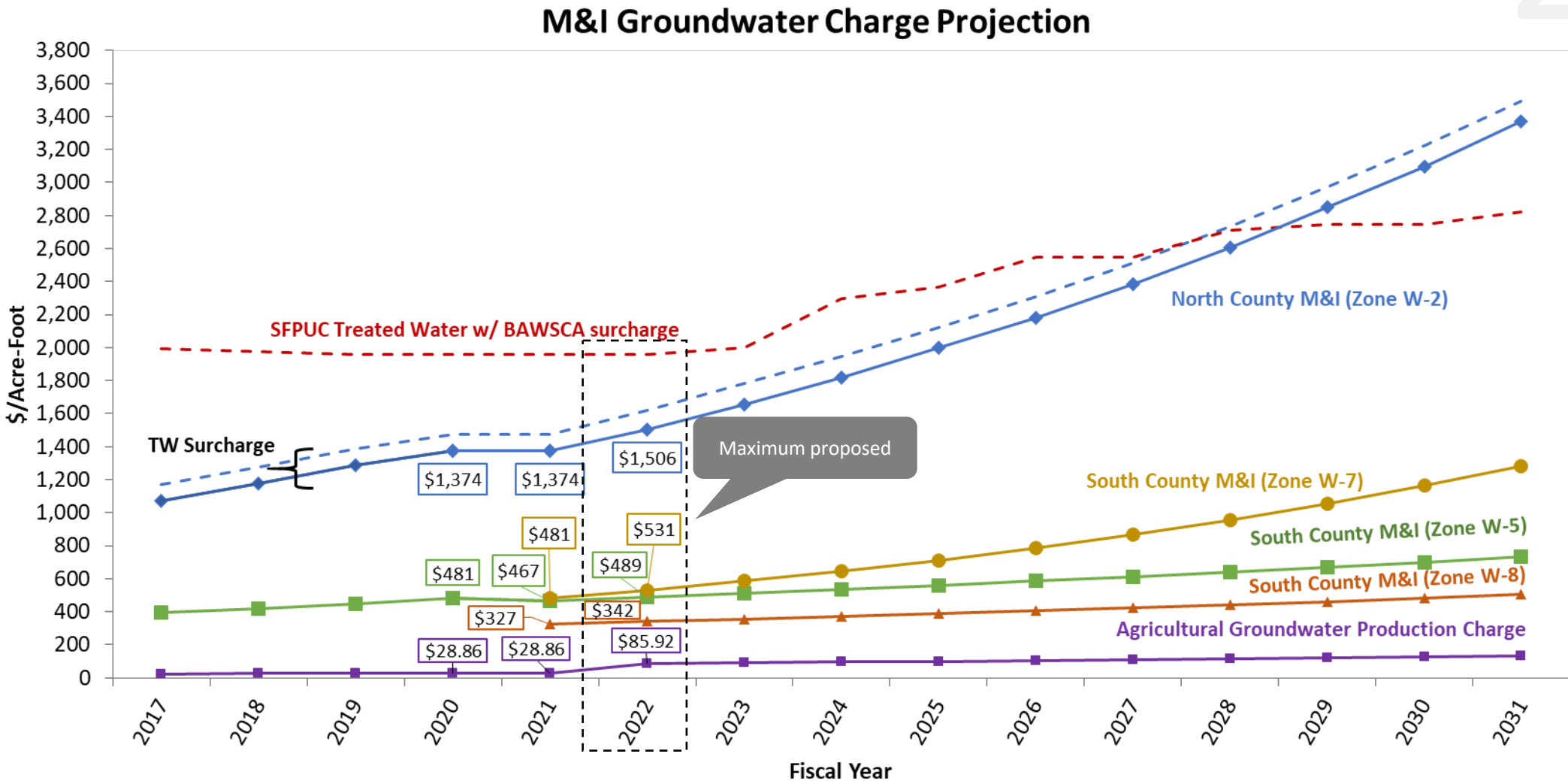
FY 2022: South County W-8 Proposed Maximum Charges

Zone W-8 (South County) Uvas / Chesbro		Dollars Per Acre Foot			% Change FY22 vs FY21
		FY 2019-20	FY 2020-21	Maximum Proposed FY 2021-22	
Basic User/Groundwater Production Charge					
	Municipal & Industrial	481.00	327.00	341.50	4.4%
	Agricultural	28.86	28.86	85.38	195.9%
Surface Water Charge					
	Surface Water Master Charge	37.50	37.50	41.10	9.6%
	Total Surface Water, Municipal & Industrial*	518.50	364.50	382.60	5.0%
	Total Surface Water, Agricultural*	66.36	66.36	126.48	90.6%



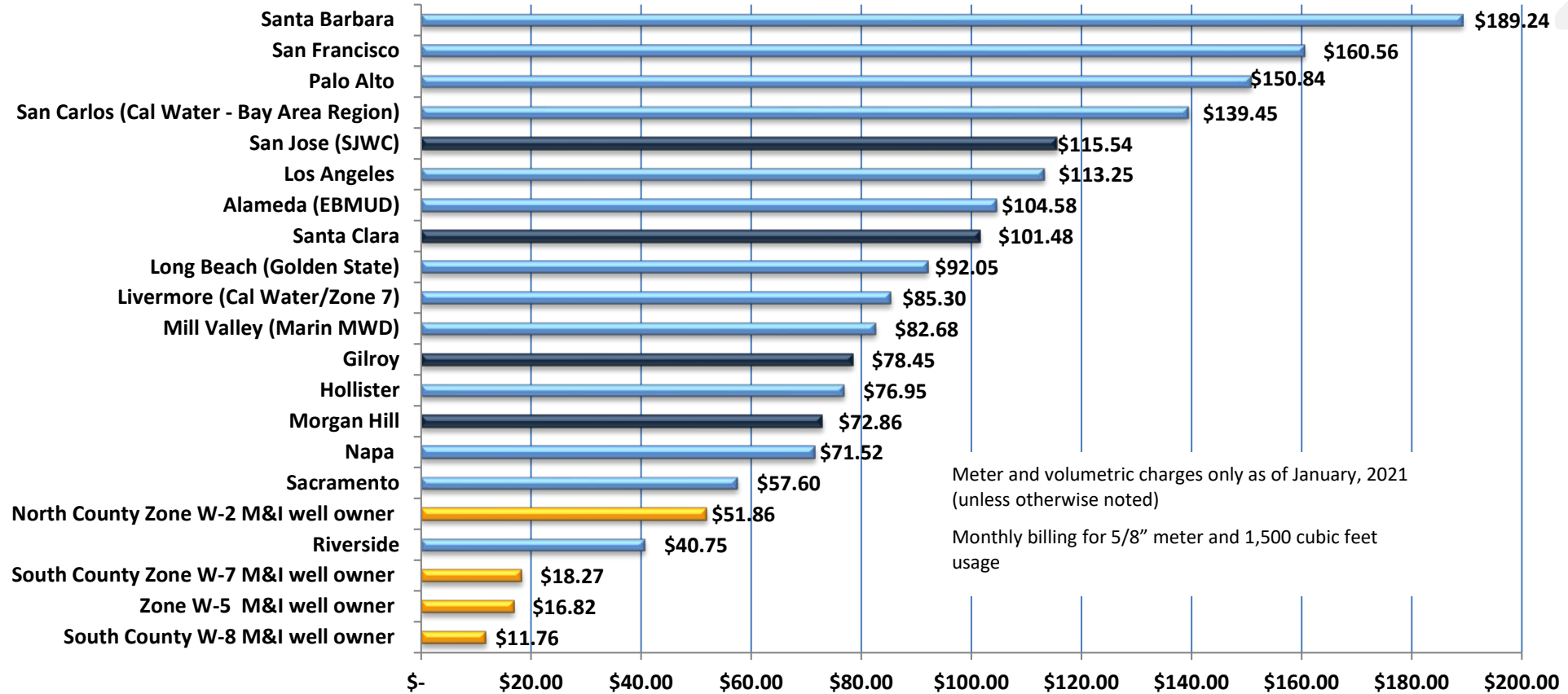
* The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

Groundwater Production Charge Projection



Rates shown rounded to nearest dollar.

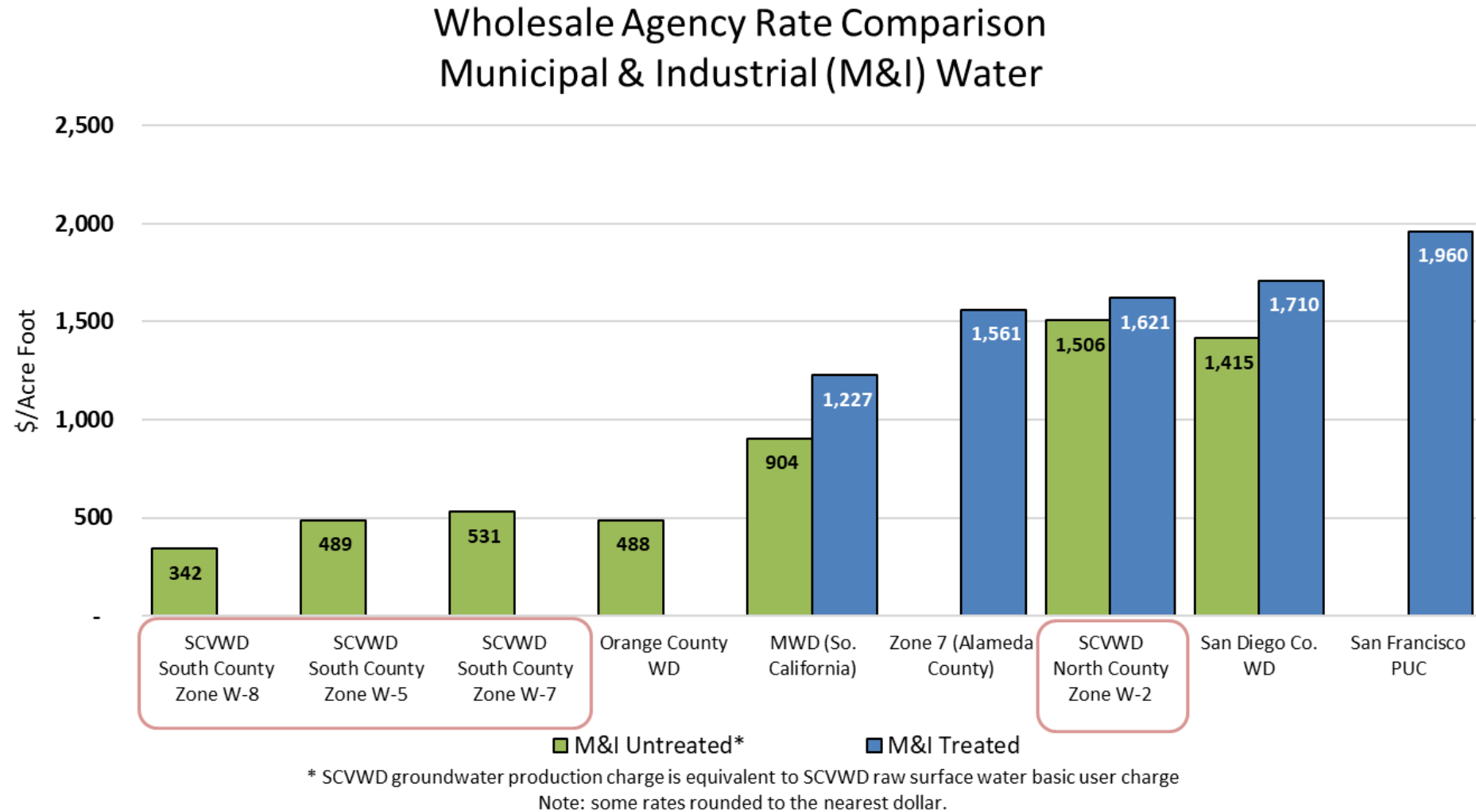
Retail Agency Benchmarks



Notes:

- SCVWD retailer rates shown include proposed maximum increase for FY22, but do not include increases that retailers may impose
- Well owner rates exclude pumping costs (e.g. electricity) and well maintenance costs

Wholesale Agency Rate Comparison



Alternative Groundwater Charge Increases

M&I Groundwater Charge Year to Year Growth % No Pacheco

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
North County Zone W-2	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	5.0%	5.0%
South County Zone W-5	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
South County Zone W-7	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
South County Zone W-8	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%

Est. Monthly Impact to Average Household

M&I Groundwater Charge – Monthly Impact to Average Household No Pacheco

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
North County Zone W-2	\$4.02	\$4.36	\$4.74	\$5.14	\$5.57	\$6.05	\$6.56	\$7.12	\$4.54	\$4.77
South County Zone W-5	\$0.61	\$0.63	\$0.66	\$0.68	\$0.71	\$0.74	\$0.76	\$0.79	\$0.82	\$0.85
South County Zone W-7	\$1.34	\$1.45	\$1.57	\$1.70	\$1.83	\$1.98	\$2.14	\$2.31	\$2.50	\$2.70
South County Zone W-8	\$0.50	\$0.52	\$0.54	\$0.56	\$0.59	\$0.61	\$0.64	\$0.67	\$0.70	\$0.73

50

- valleywater.org**

- \$503,000 in terms of Open space credit

Attachment 2
Page 30 of 35

Schedule & Wrap Up

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
Apr 5	Ag Water Advisory Committee
Apr 6	Landscape Committee Meeting
Apr 13	Open Public Hearing
Apr 14	Water Commission Meeting
Apr 15	Continue Public Hearing in South County
Apr 19	Environmental & Water Resources Committee
Apr 27	Conclude Public Hearing
Apr 28-29	Board Meeting: Budget work study session
May 11	Adopt budget & groundwater production and other water charges

Feedback from Advisory Committees and Community

- ▶ Water Retailers
- ▶ Ag Advisory
- ▶ Landscape Committee
- ▶ Public Phone Calls

Summary and Next Steps

Summary

- Groundwater Production Charge projection driven by drought preparation, water supply reliability investments and infrastructure repair & replacement
- Proposed Maximum FY 22 Groundwater Production Charge increase equates to an increase of \$4.55 per month in North County (Zone W-2) to an average household
 - \$5.06 per month for treated water
- Proposed Maximum FY 22 Groundwater Projection Charges for South County in terms of average household increase are:
 - Increase of \$0.74 per month in Zone W-5
 - Increase of \$1.70 per month in Zone W-7
 - Increase of \$0.50 per month in Zone W-8

Next Steps

- Continue Public Hearing on April 15th
- Obtain Feedback from Water Commission and Environmental & Water Resources Committee



Valley Water

Clean Water • Healthy Environment • Flood Protection

THIS PAGE INTENTIONALLY LEFT BLANK