Public Hearing

Groundwater Production & Other Water Charges
April 15, 2021

Valley Water

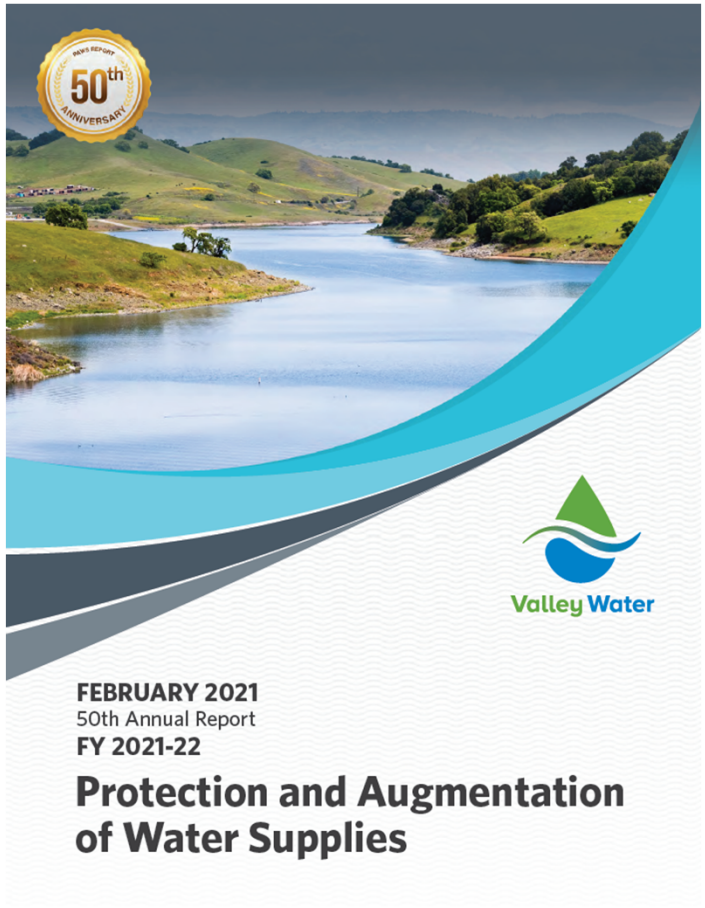
Public Hearing has Three Specific Objectives

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

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Valley Water

A comprehensive, flexible water system serves 2.0 million people

10 Reservoirs

393 acres of recharge ponds

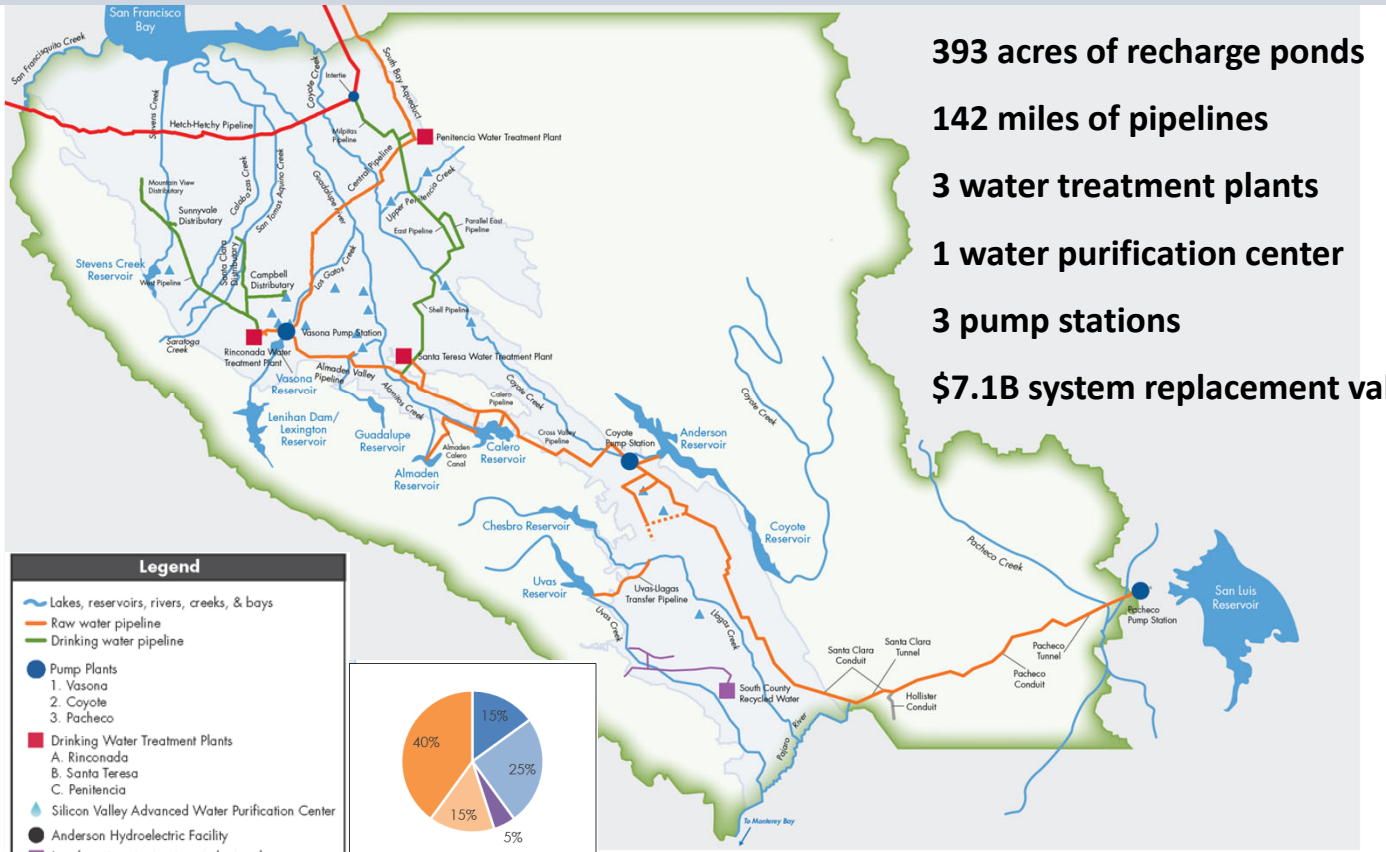
142 miles of pipelines

3 water treatment plants

1 water purification center

3 pump stations

$7.1B system replacement value



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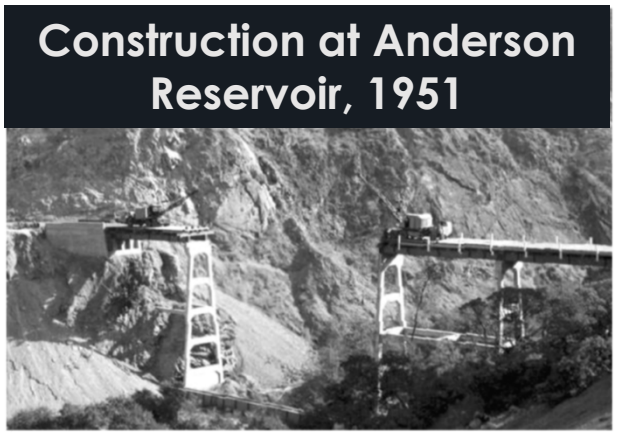
Why do well owners pay SCVWD to pump water from the ground?



- Local rainfall cannot sustain South County water needs
- Planning in early 1900's called for construction of reservoirs to capture rainwater to percolate into the ground
- Groundwater Production Charge is a reimbursement mechanism
  - pays for efforts to protect and augment water supply
  - Fee for service, not a tax

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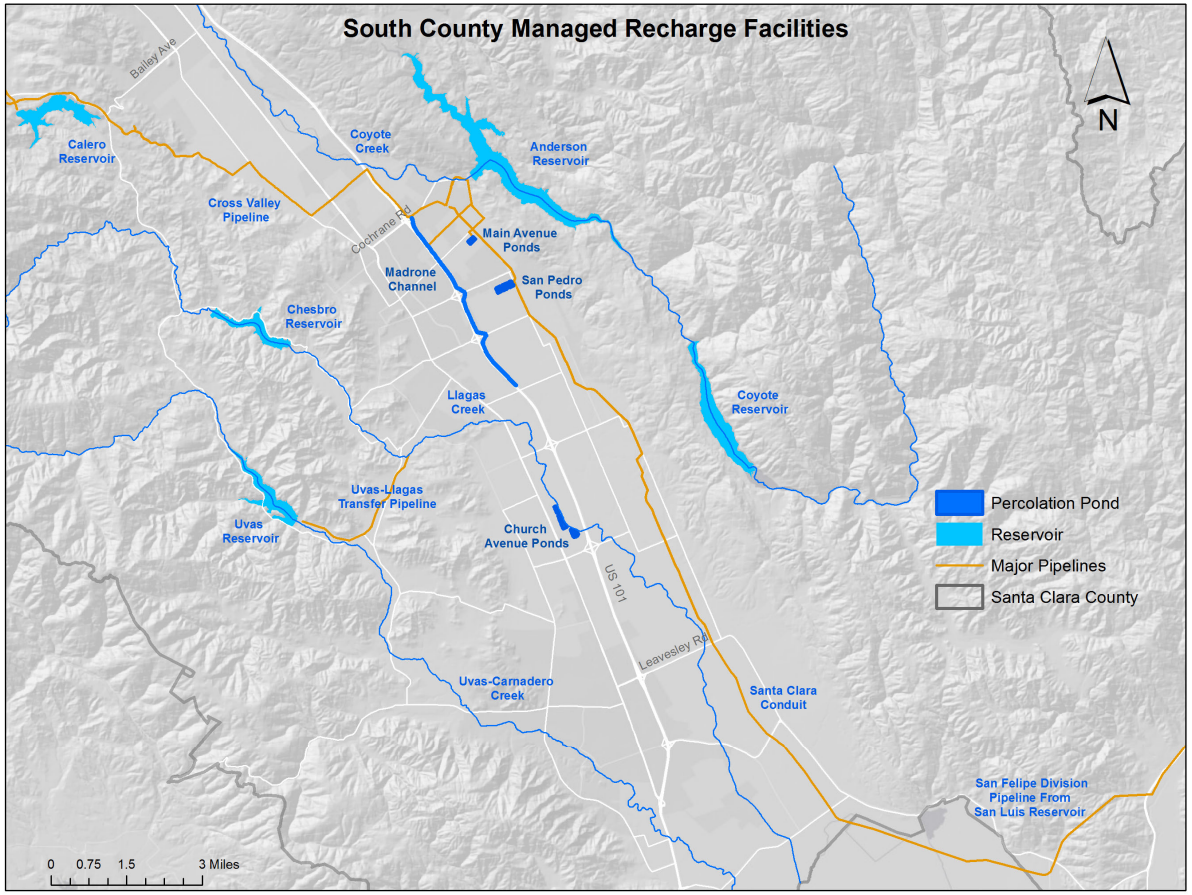
South County facilities help ensure reliability



Main Avenue Recharge Ponds

Madrone Channel

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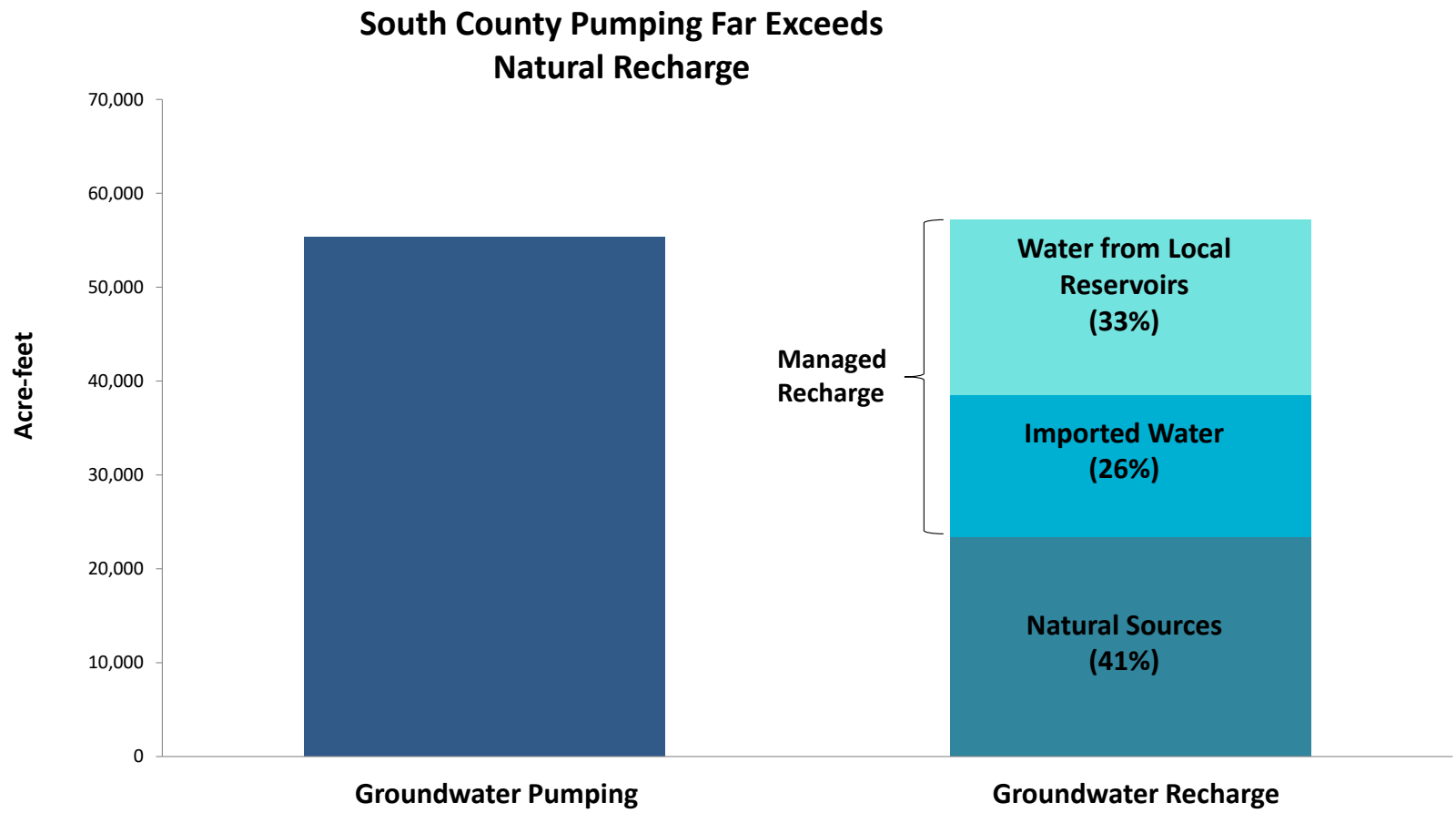
Recharge needed to offset groundwater pumping



Based on average annual data from 2005 to 2015

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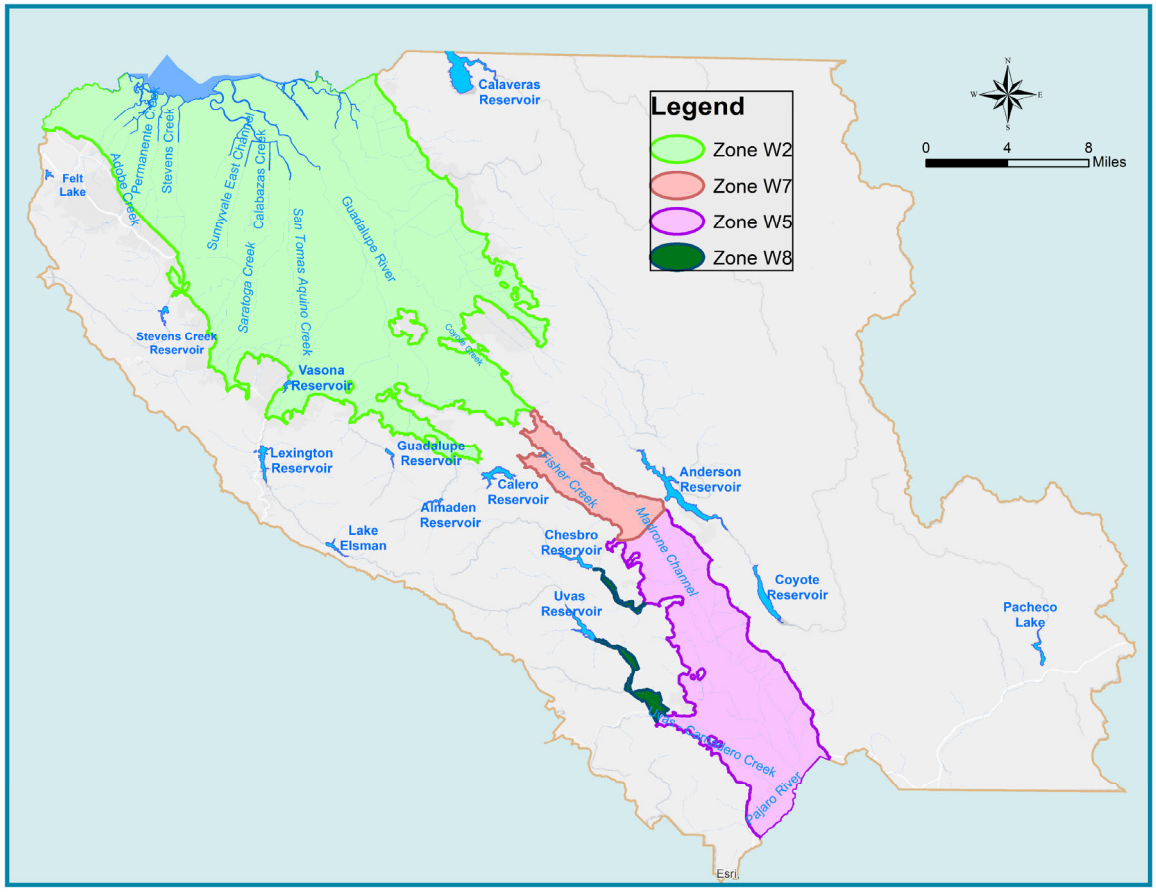
Topics for Today's Public Hearing

- Rate Setting Process
- FY 22 Financial Analysis and Projections
  - Key Assumptions for FY 22
  - Cost Projection
  - Water Usage
  - Recommended Groundwater Production Charges
  - Open Space Credit Policy
- Schedule/Wrap up

Rate Setting Process

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

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Infrastructure differences drive different groundwater production charges in each zone

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
    - Does not benefit Zone W-7
- SCRWA Recycled Water System
  - Benefits Zone W-5 only

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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%

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FY 22 Financial Analysis and Projections

Scenario Assumptions

1) Baseline with Pacheco — *Staff Recommendation*

- Baseline Projects*
- Delta Conveyance (3.23% participation)
- Anderson Dam Seismic Retrofit
- 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) Alternative without Pacheco

- Baseline Projects*
- Delta Conveyance (3.23% participation)
- Anderson Dam Seismic Retrofit
- ~~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)

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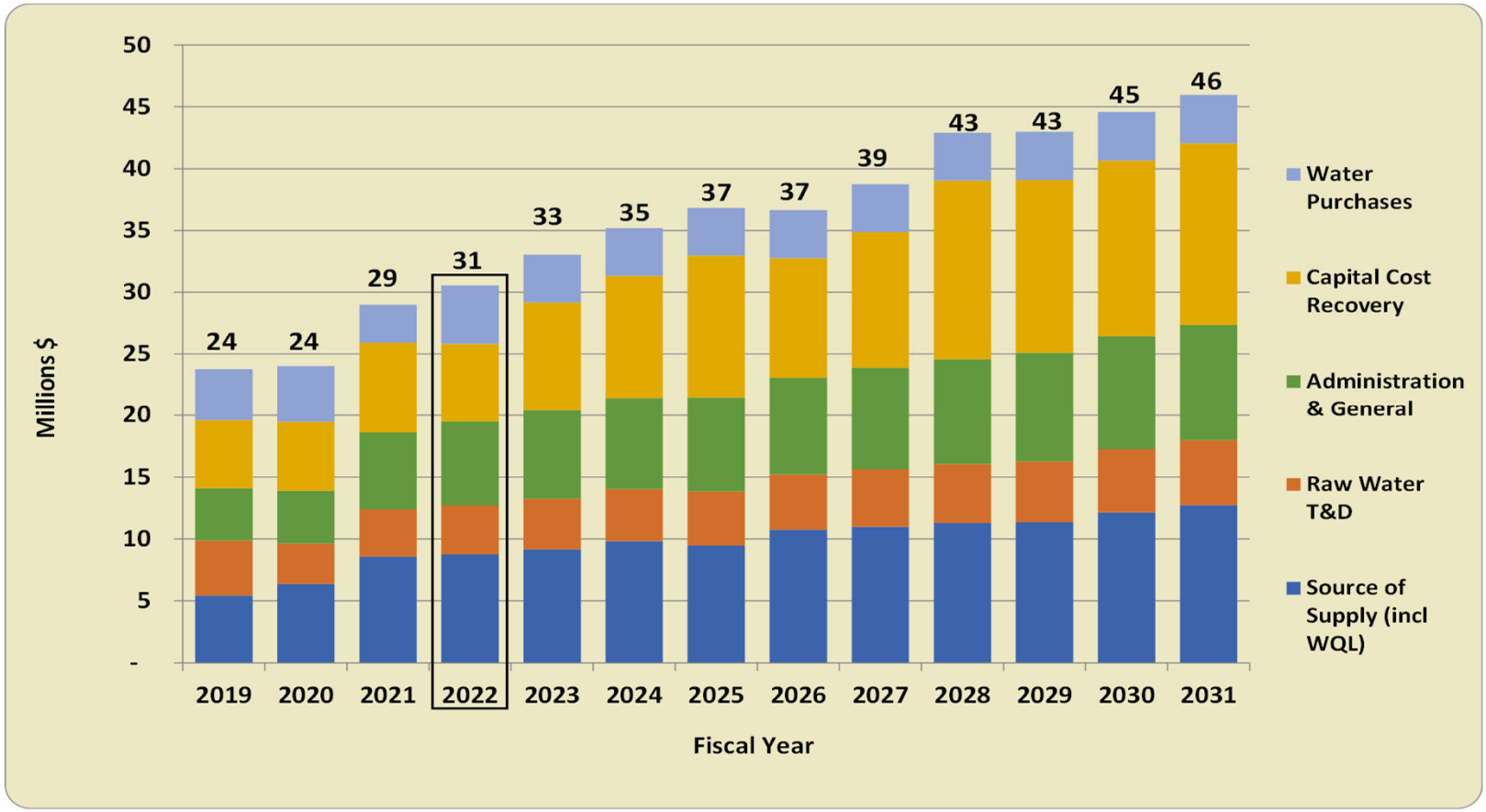
* Includes but not limited to dam seismic retrofits, Rinconada WTP reliability improvement, 10-year pipeline rehabilitation program
** Master Plan Project Placeholder includes anticipated costs for new pipelines, pipeline rehabilitations, treatment plant upgrades & SCADA implementation projects

South County Cost Projection (Combined Zones W-5, W-7, W-8)



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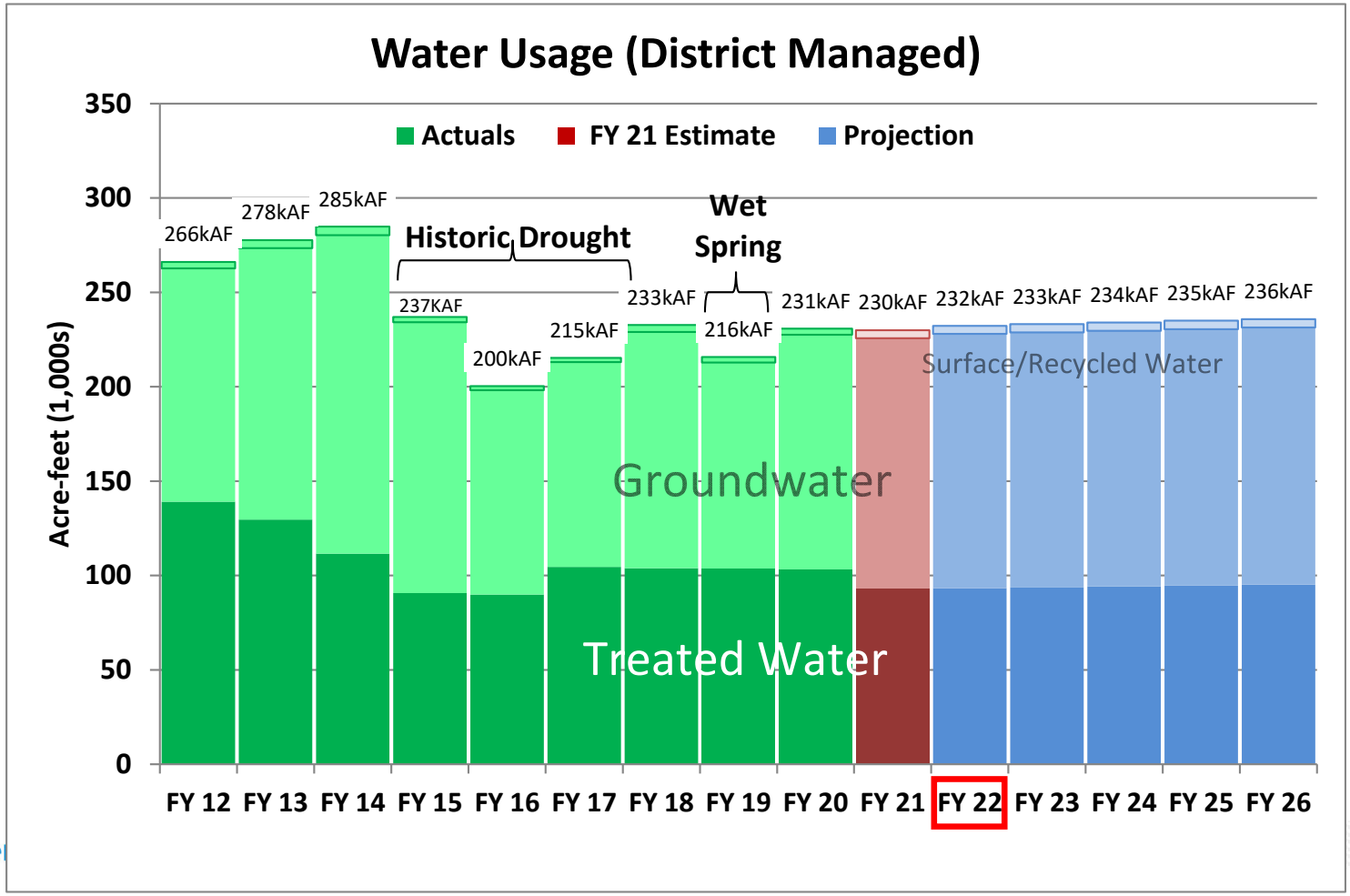
Water Usage (Valley Water Managed)



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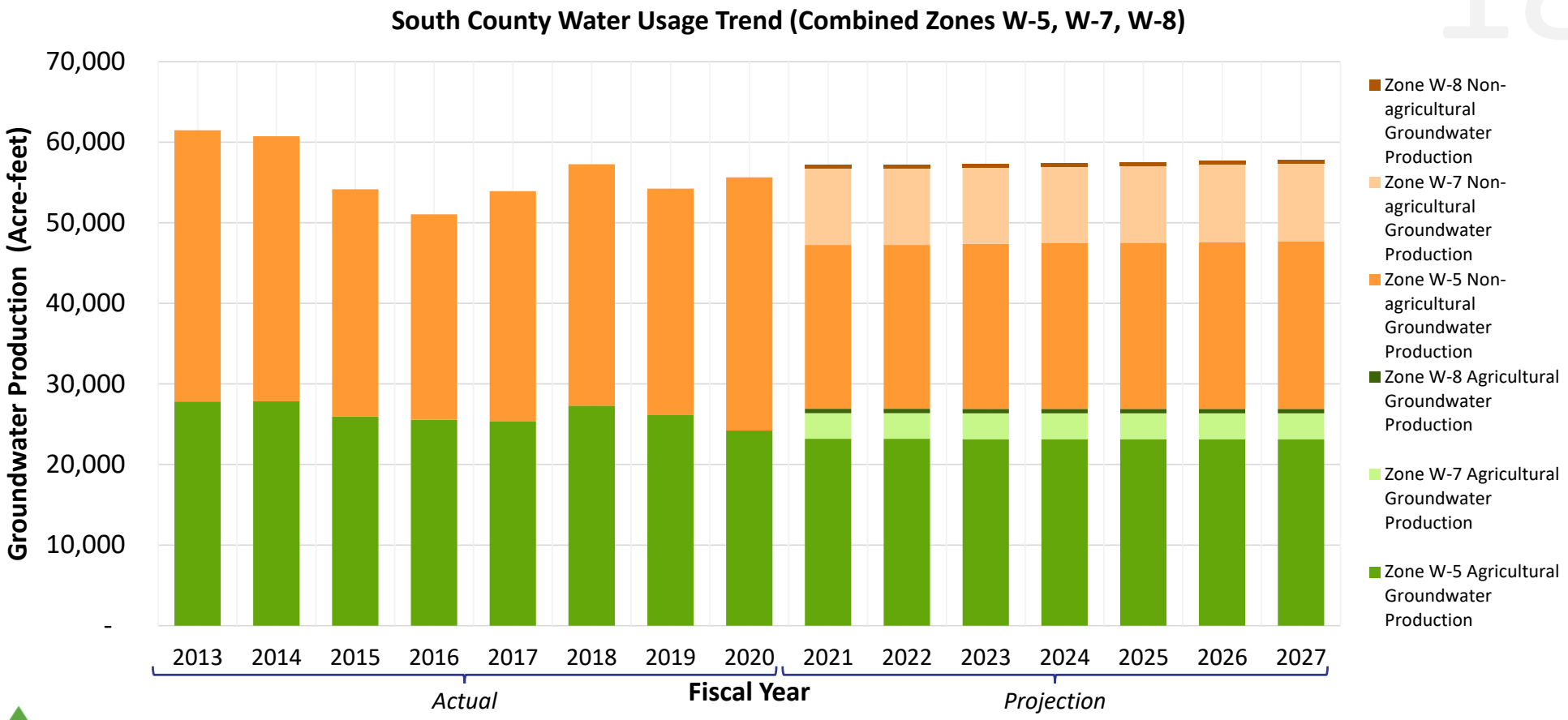
Water Usage Trend South County (Combined Zones W-5, W-7, W-8)



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Recommended Groundwater Production Charges

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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
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
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: South County W-5 Proposed Maximum Charges

Zone W-5 (South County) Llagas Subbasin	Dollars Per Acre Foot			
	FY 2019–20	FY 2020–21	Maximum Proposed FY 2021–22	% Change FY22 vs FY21
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

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$0.74 per month average household increase

Proposed Maximum Ag Charge at 25% of Zone W-8 M&I; Staff offered alternative at 10% of Zone W-8 M&I or $34.15/AF

FY 2022: South County W-7 Proposed Maximum Charges

Zone W-7 (South County) Coyote Valley	Dollars Per Acre Foot			
	FY 2019–20	FY 2020–21	Maximum Proposed FY 2021–22	% Change FY22 vs FY21
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

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$1.70 per month average household increase

Proposed Maximum Ag Charge at 25% of Zone W-8 M&I; Staff offered alternative at 10% of Zone W-8 M&I or $34.15/AF

FY 2022: South County W-8 Proposed Maximum Charges

Zone W-8 (South County) Uvas / Chesbro	Dollars Per Acre Foot			
	FY 2019–20	FY 2020–21	Maximum Proposed FY 2021–22	% Change FY22 vs FY21
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

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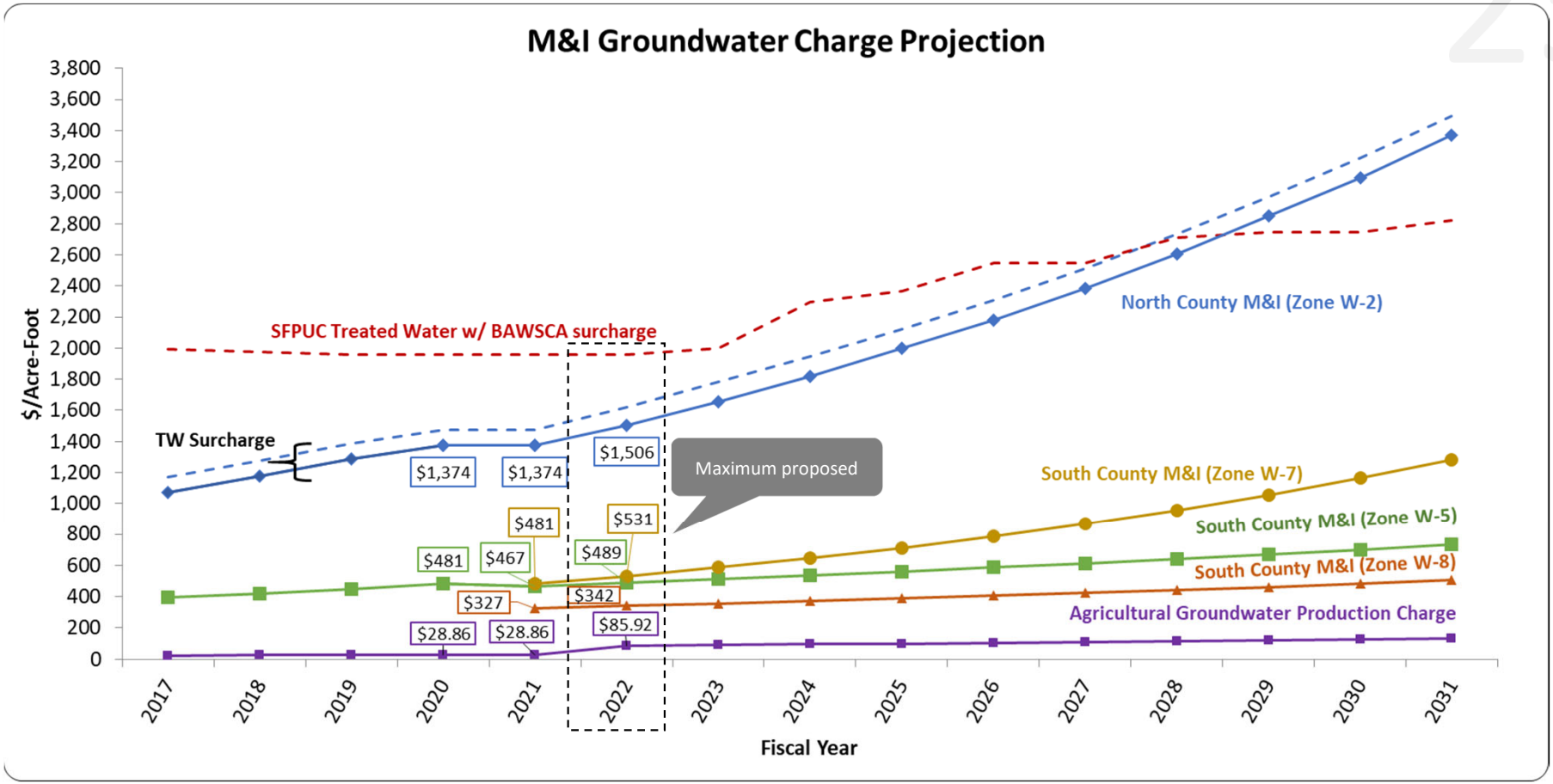
$0.50 per month average household increase

Proposed Maximum Ag Charge at 25% of Zone W-8 M&I; Staff offered alternative at 10% of Zone W-8 M&I or $34.15/AF

Groundwater Production Charge Projection



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Rates shown rounded to nearest dollar.

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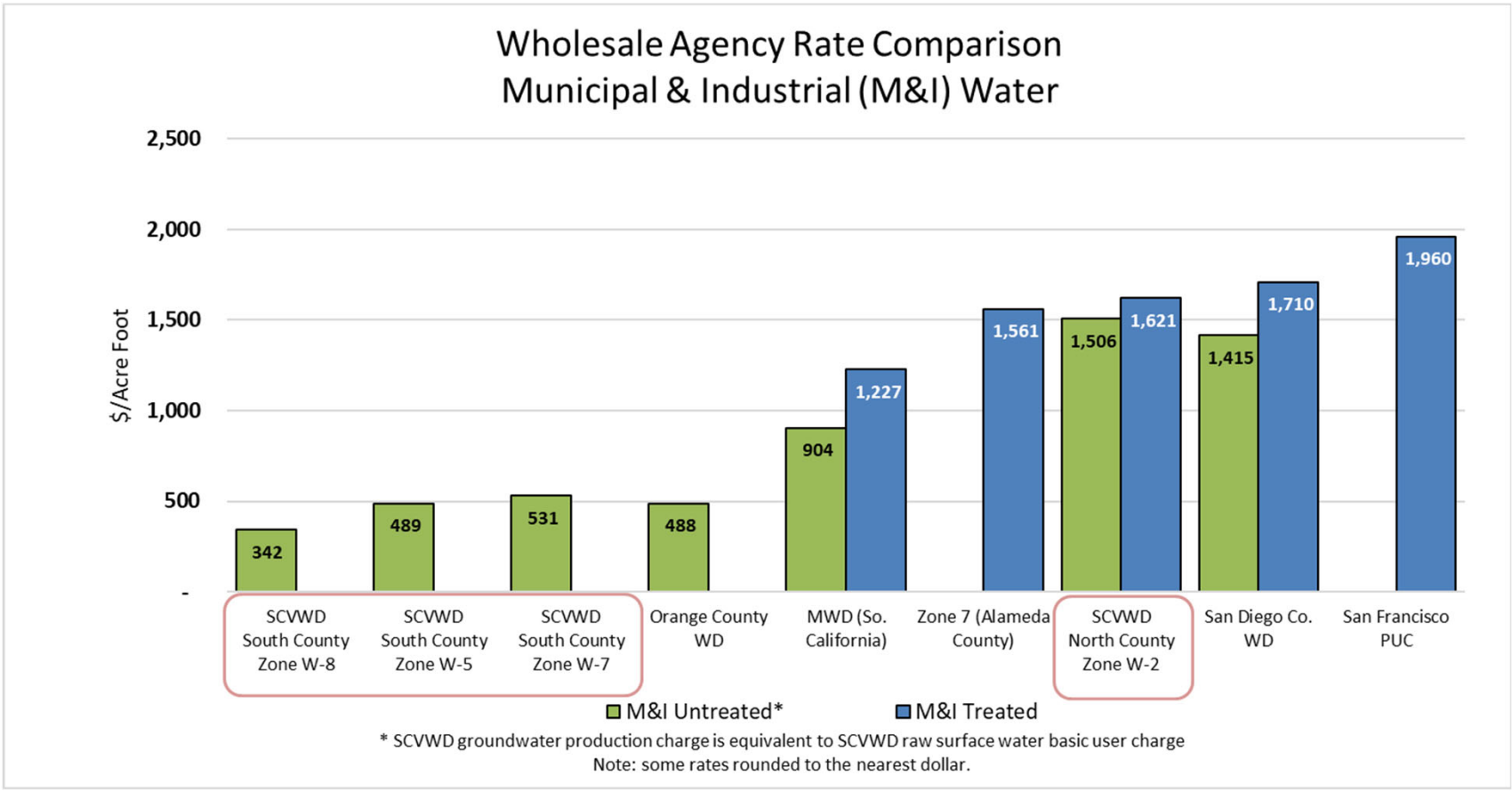
Wholesale Agency Rate Comparison



Valley Water FY 22 Proposed Maximums shown versus FY 21 comparator rates

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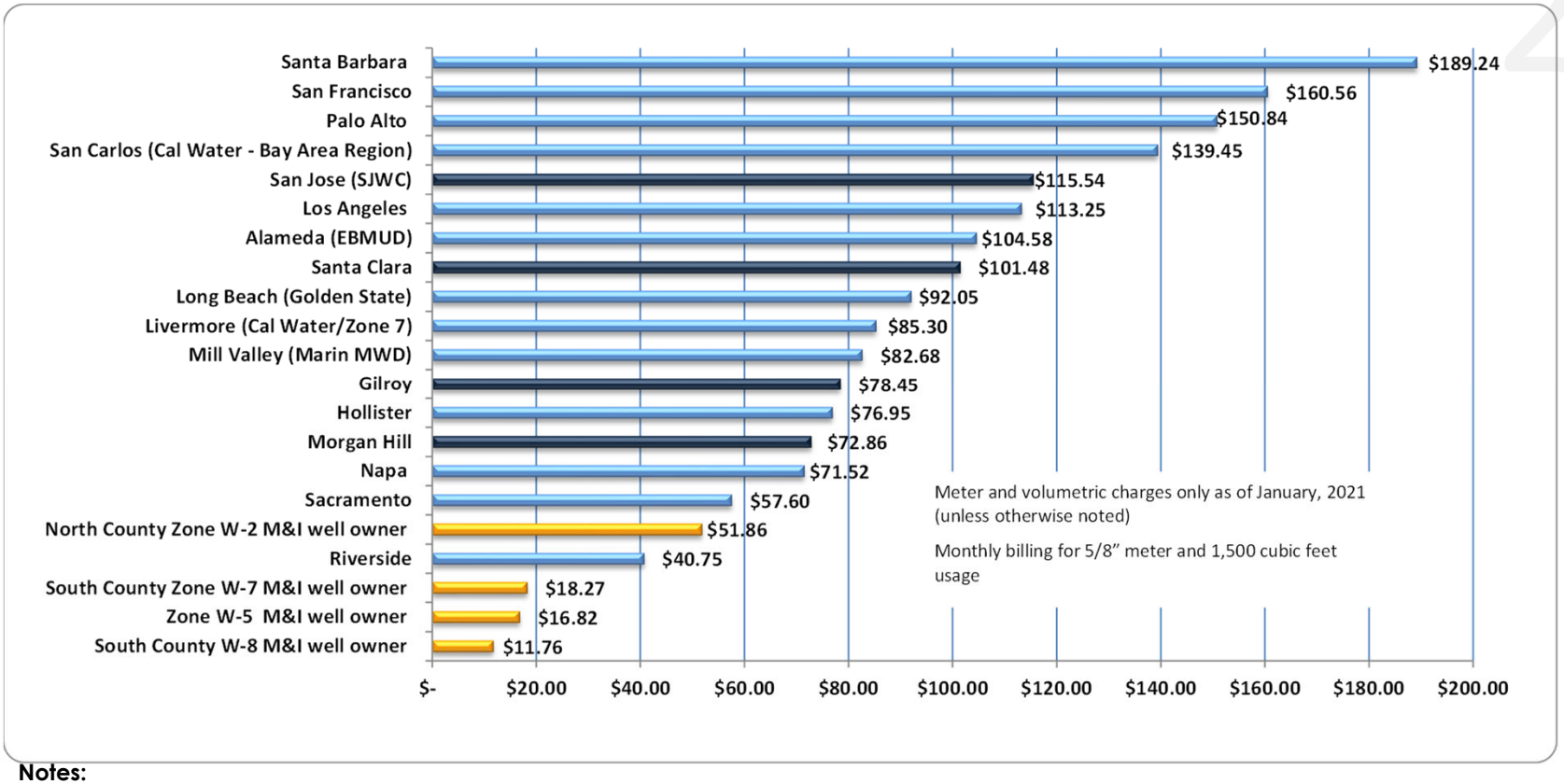
Retail Agency Benchmarks



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**

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Agricultural Benchmarks

Agency (As of March 2021)	Ag $/AF	Non-Ag $/AF	Ag as % of Non-AG
San Benito Groundwater (Quality issues)	$13.15	$39.40	33%
Modesto ID Untreated SW ($2/AF for first 2 AF)	$2.00 to $40.00	N/A	
SCVWD South Groundwater Zone W-5 Zone W-7 Zone W-8	$85.38	 $488.50 $530.50 $341.50	 18% 16% 25%
Merced ID Untreated SW	$50.00	N/A	
SCVWD South Untreated SW Zone W-5 Zone W-7 Zone W-8	$126.48	 $529.60 $571.60 $382.60	 24% 22% 33%
Merced ID Groundwater	$150.00	N/A	
Lost Hills Untreated SW	$170.16 to $269.29	N/A	
Zone 7 Untreated SW	$182.00	N/A	
Westlands WD Pressurized	$300.78	$957.13	31%
San Benito Pressurized	$305.45	$455.45	67%

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Alternative Groundwater Charge Increases

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

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
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
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

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Open Space Credit Policy

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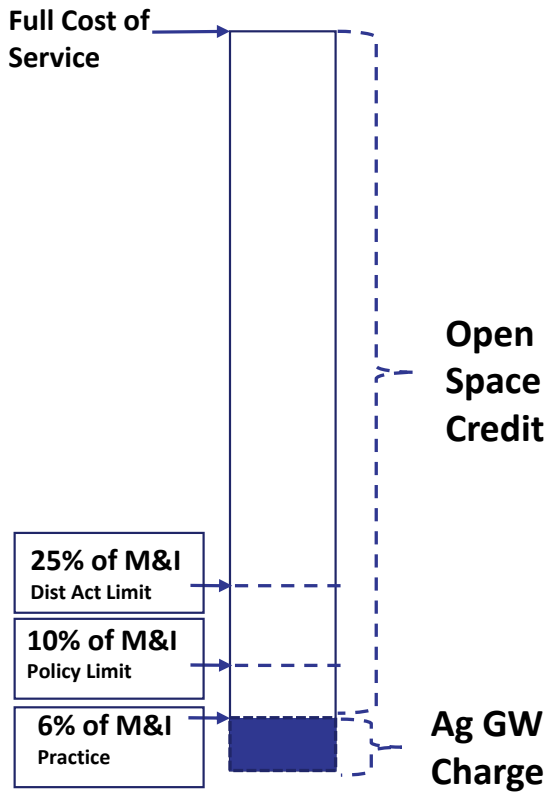
What is the Open Space Credit (OSC)?

- **Formal definition: "The use of non-rate related revenue to offset reduced agricultural revenue as a result of keeping agricultural rates lower than needed to recoup the full cost of service"**

- **Applies to agricultural water users only, not to all open space**



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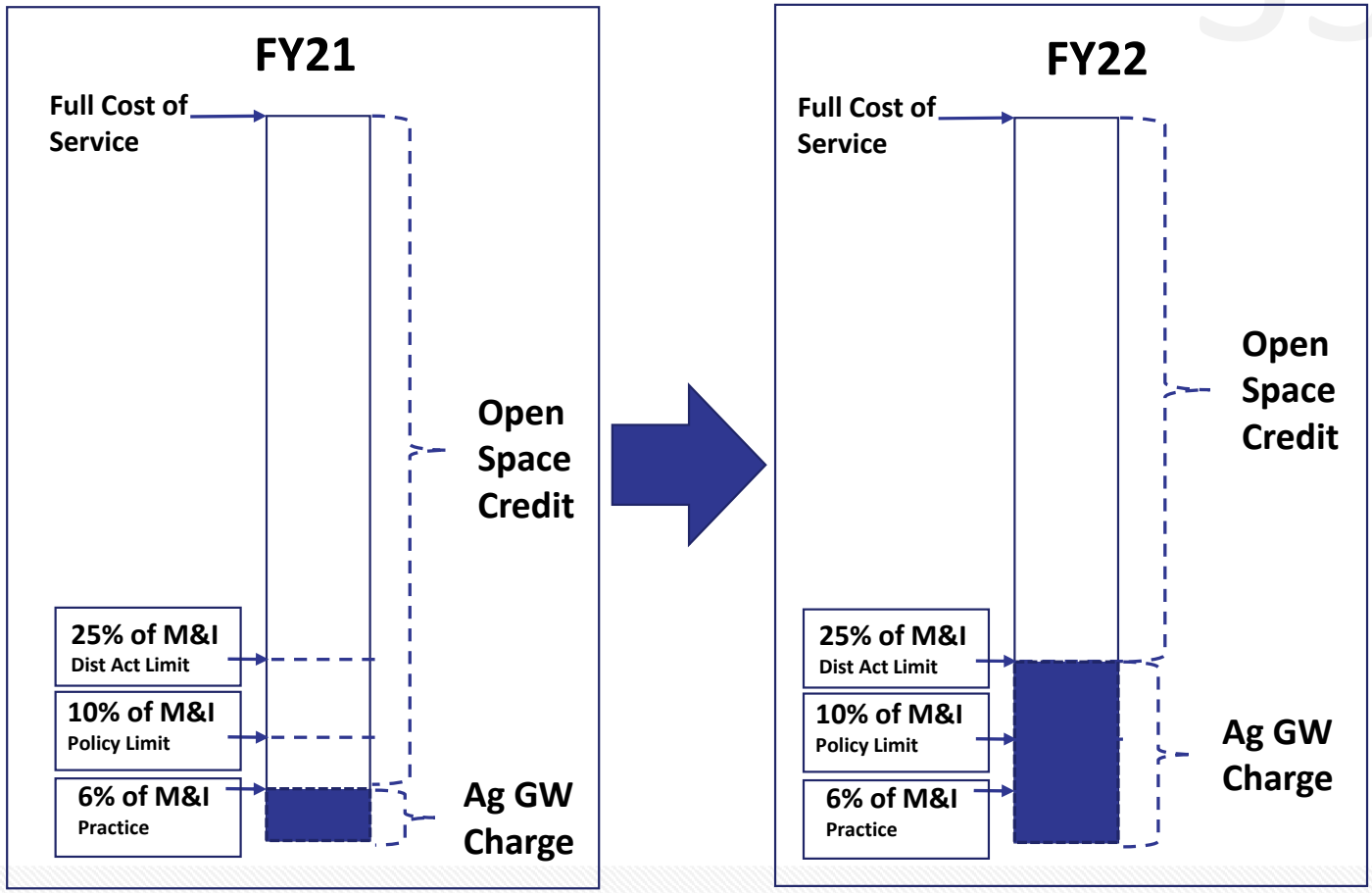
Background on Board Direction Related to Agricultural Rates

- **Board direction in April 2019 to eliminate discretionary portion of Open Space Credit by FY22**
  - **After 2-year period in which coalition would pursue alternative revenue source**
  - **Would require update to Pricing Policy which currently limits Ag Charge to 10% of M&I Charge**



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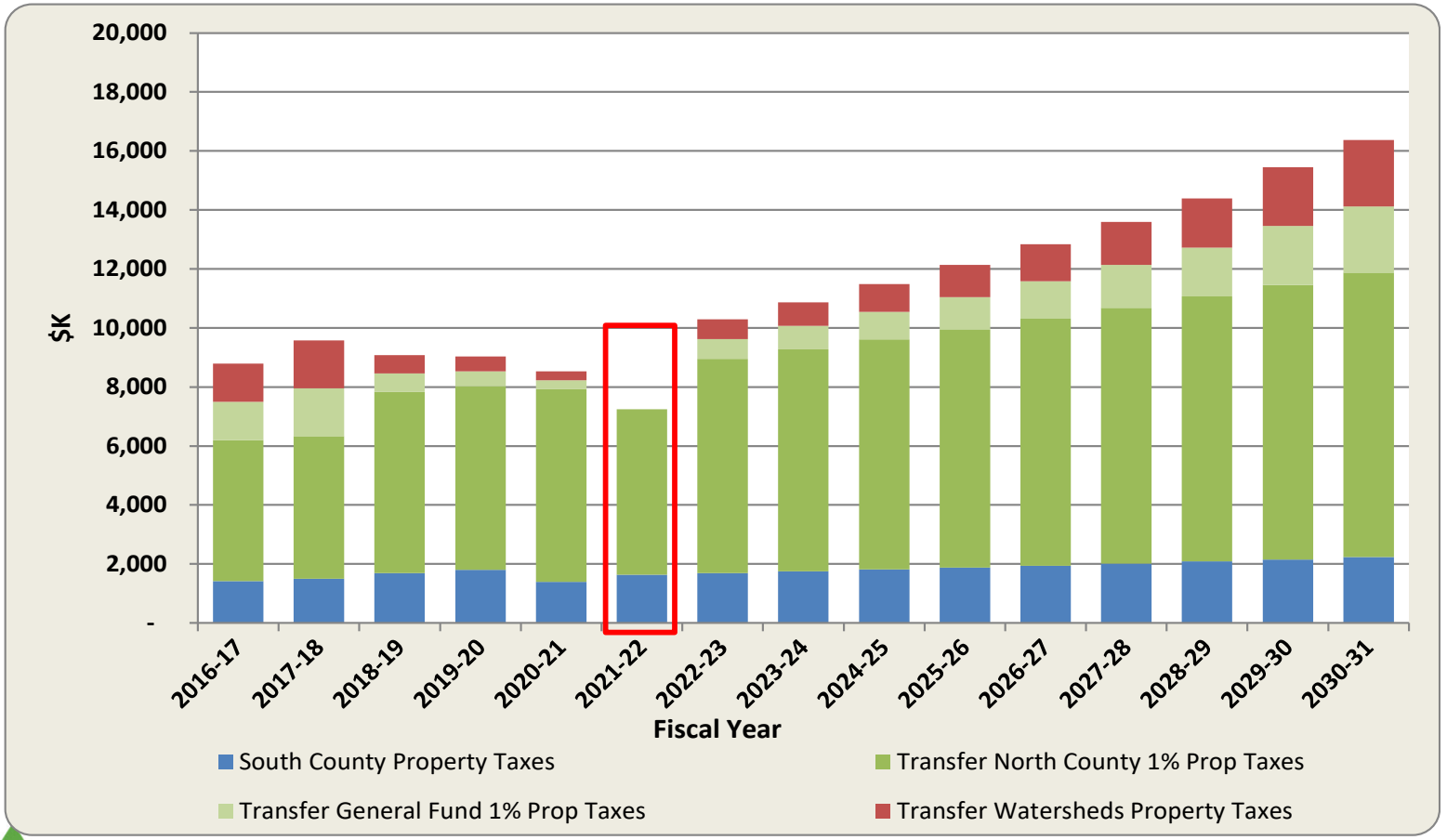
Open Space Credit Projection

Ag Charge at 25% of Zone W-8 M&I



$24.2M Total 10-year OSC Transfers

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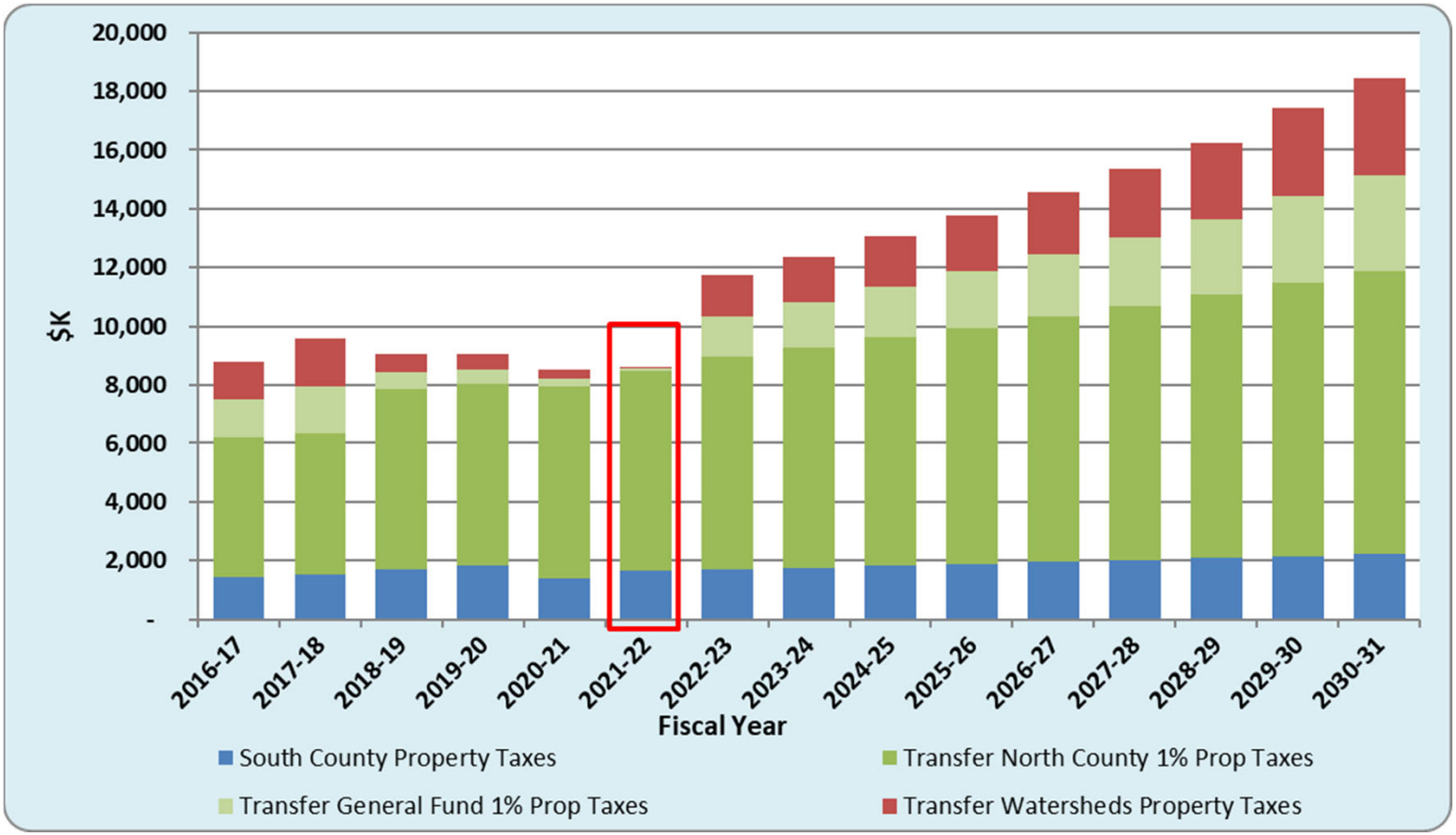
Open Space Credit Projection

Ag Charge at 10% of Zone W-8 M&I



10-year OSC Transfer Total

10%	$39.9M
25%	$24.2M
Diff.	$15.7M

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Schedule & Wrap Up

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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**

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Feedback from Advisory Committees and Community

- Water Commission
- Public Phone Calls

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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 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 27th**
- **Obtain Feedback from Environmental & Water Resources Committee**

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Clean Water • Healthy Environment • Flood Protection