



Santa Clara Valley Water District

File No.: 21-0323

Agenda Date: 4/27/2021

Item No.: 2.7.

BOARD AGENDA MEMORANDUM

SUBJECT:

Conduct Public Hearing on February 2021 Annual Report on the Protection and Augmentation of Water Supplies and Recommended Increases to Groundwater Production and Other Water Charges for Fiscal Year 2021-2022 (continued from April 15, 2021); and Approve Recommended Rate Increases and set State Water Project Tax.

RECOMMENDATION:

- A. Conduct a public hearing pursuant to Section 26.6 of the District Act to consider Valley Water's FY 2021-22 Annual Report on the Protection and Augmentation of Water Supplies (continued from April 15);
- B. Hear public comments from groundwater producers and any interested persons regarding such report;
- C. At the close of the public hearing, count all written protests received, if any, regarding proposed surface water rates; and
- D. Approve recommended increases to groundwater production charge and other water charges and set State Water Project tax.

SUMMARY:

Section 26.6 of the District Act requires a public hearing regarding the Protection and Augmentation of Water Supplies report be held on or before the fourth Tuesday of April. This public hearing is conducted to inform the community of the activities performed by Valley Water to ensure a reliable water supply and staff's recommended groundwater production charges and other water charges needed to pay for those activities. The hearing provides opportunity for any interested person to submit comments to the Board. This year's groundwater production charge setting process is being conducted consistent with the District Act and Board Resolution 99-21. The raw surface water charge setting process includes a formal protest procedure consistent with Board Resolution 12-10 (See attachment 3). If written protests are filed by a majority of surface water operators, the surface water charge cannot be increased.

Staff proposes a maximum 9.6% increase in the North County Zone W-2 Municipal and Industrial (M&I) groundwater production charge, from \$1,374 per acre foot (AF) to \$1,506/AF. Staff recommends increasing the treated water surcharge on treated water delivered under the contracts with retail agencies to \$115/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 \$4.55 to \$5.06 or about

15 to 17 cents a day.

In the South County Zone W-5, staff proposes a maximum 4.6% increase in the M&I groundwater production charge from \$467/AF to \$488.50/AF. The proposal equates to a monthly bill increase for the average household of \$0.74 or about 2 cents per day.

In the South County Zone W-7, staff proposes a maximum 10.3% increase in the M&I groundwater production charge from \$481/AF to \$530.50/AF. The proposal equates to a monthly bill increase for the average household of \$1.70 or about 6 cents per day.

In the South County Zone W-8, staff proposes a maximum 4.4% increase in the M&I groundwater production charge from \$327/AF to \$341.50/AF. The proposal equates to a monthly bill increase for the average household of \$0.50 or about 2 cents per day.

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

Based on Board direction in 2019, the proposed maximum agricultural groundwater production charge is 25% of the lowest M&I charge in any zone, which would mean an increase from \$28.86/AF (6% of the prior lowest M&I charge) to \$85.38/AF (25% of proposed Zone 8 FY 2021-22 M&I charge) and would translate to an increase of up to \$9.41 per month per acre, assuming two acre-feet of water usage per acre per year. As discussed at the January 12, 2021 Board meeting, staff also offers an alternative for Board consideration due to the passage of Measure S in November of 2020, which has relieved some financial pressure for Valley Water in the future. Under this alternative, the agricultural groundwater charge would be set at 10% of the lowest M&I charge, or \$34.15/AF in FY 2021-22.

Staff recommends a maximum 9.6% increase to the surface water master charge from \$37.50/AF to \$41.10/AF to align revenues with costs related to managing, operating and billing for surface water diversions. This increase results in a proposed 9.6% increase to the North County (Zone W-2) M&I surface water charge, to \$1,547.10. For South County zones, staff proposes the following M&I surface water charge increases: for Zone W-5, a 5 percent increase to \$529.60 per acre-foot; for Zone W-7, a 10.2 percent increase to \$571.60 per acre-foot; for Zone W-8, a 5 percent increase to \$382.60 per acre-foot. Staff recommends that the total agricultural surface water charge be increased 90.6 percent in all zones, to \$126.48 per acre-foot, in order to more accurately reflect the cost of service.

For recycled water (Zone W-5), staff recommends increasing the M&I charge up to 4.8 percent, to \$468.50 per acre-foot. For agricultural recycled water, the proposed maximum increase is 100.5 percent, to \$112.78 per acre-foot. The increase maximizes cost recovery while still 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."

The proposed maximum groundwater production charges for FY 2021-22 are necessary to pay for

supplemental water purchases in preparation for drought, investments in water supply infrastructure rehabilitation and upgrades, and new water supply reliability investments. The need to purchase supplemental water is driven by the fact that the next drought appears to be on our doorstep, coupled with the mandated long-term lowering of the water level in Anderson Reservoir.

A key infrastructure rehabilitation investment includes the Anderson Dam Seismic Retrofit, which is a \$650 million project that will help ensure public safety and restore operational capacity. A key water supply reliability investment is the Pacheco Reservoir Expansion project, estimated to cost roughly \$2.5 billion and provide an additional 80,000 acre-feet of water storage capacity.

Given the size of the Pacheco Reservoir Expansion project investment, staff has also prepared an alternative rate projection scenario that shows the impact to water rate projections if this project were excluded, or not pursued. Under this scenario, the proposed increase to the North County Zone W-2 M&I groundwater production charge for FY 2021-22 and the next 7 years into the future would be 8.5% instead of 9.6%. Under this scenario, for FY 2021-22 and the next 7 years, proposed South County M&I groundwater production charge increases would be as follows: for Zone W-5, 3.8% instead of 4.6%; for Zone W-7, 8.1% instead of 10.3%; and for Zone W-8 it would remain 4.4% (Zone W-8 does not receive a direct benefit from the Pacheco Reservoir Expansion project).

Staff recommends setting the State Water Project Tax at \$26 million for FY 2021-22. This translates to a property tax bill for the average single-family residence of roughly \$40.00 per year. The recommended SWP tax is consistent with past practice. If the recommended FY 2021-22 State Water Project Tax is not approved, the M&I groundwater production charge would need to be increased by an additional \$139/AF in North County and either \$27/AF (Zones W-5 and W-7) or \$35/AF (Zone W-8) in South County. The open space credit would increase by roughly \$503,000.

Valley Water's 50th Annual Report on the Protection and Augmentation of Water Supplies, among other information, contains a financial analysis of the Valley Water's water utility system and additional details about the above recommendations. This report can be found at www.valleywater.org <<http://www.valleywater.org>>.

FINANCIAL IMPACT:

If the Board approves the recommended groundwater production and other water charges, the Water Utility should have sufficient funding for planned operations and capital improvement projects for fiscal year 2021-22.

CEQA:

Establishment of groundwater production charges is not a project under CEQA. CEQA Guidelines Section 15273(a) reads as follows: CEQA does not apply to establishment or modification of charges by public agencies which the public agency finds are for the purpose of meeting operating expenses; purchasing or leasing supplies, equipment and materials; meeting financial reserve needs/requirements; and obtaining funds for capital projects needed to maintain service within existing service areas.

ATTACHMENTS:

Attachment 1: Staff Report

Attachment 2: PowerPoint

Attachment 3: SCVWD Resolution No. 12-10

UNCLASSIFIED MANAGER:

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