

Overview of the FY 2022-23 Groundwater Production Charge Setting Process

November 23, 2021

Topics

1. Background Information on Groundwater Production Charge Setting Process

- ▶ District Act
- ▶ Prop 218 & Prop 26
- ▶ Pricing Policy
- ▶ Groundwater Benefit Zones

2. North County & South County Infrastructure

3. Drought Impact

4. Water Usage

5. Rate Setting Strategy for FY 2022-23

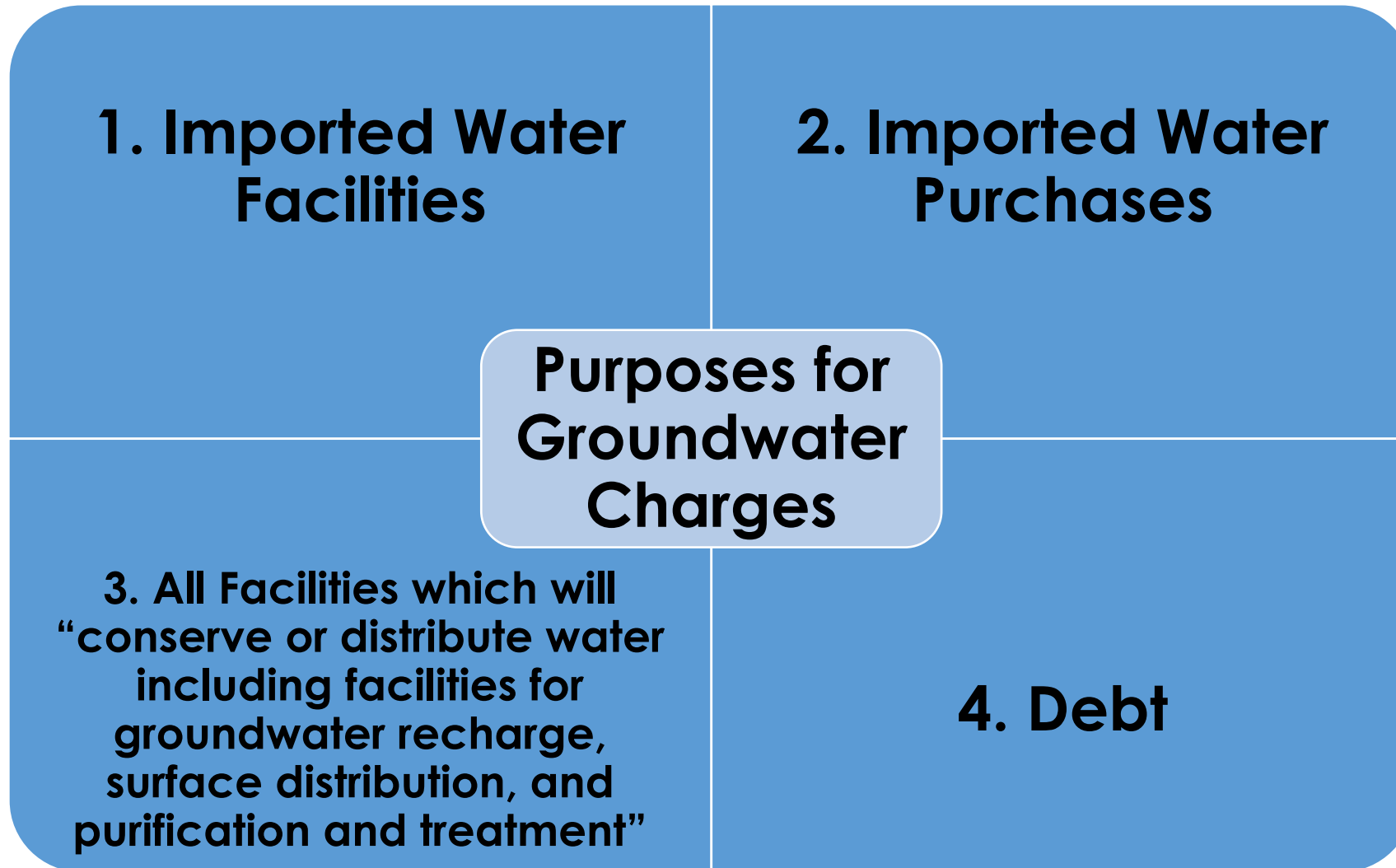
6. Schedule

7. Summary

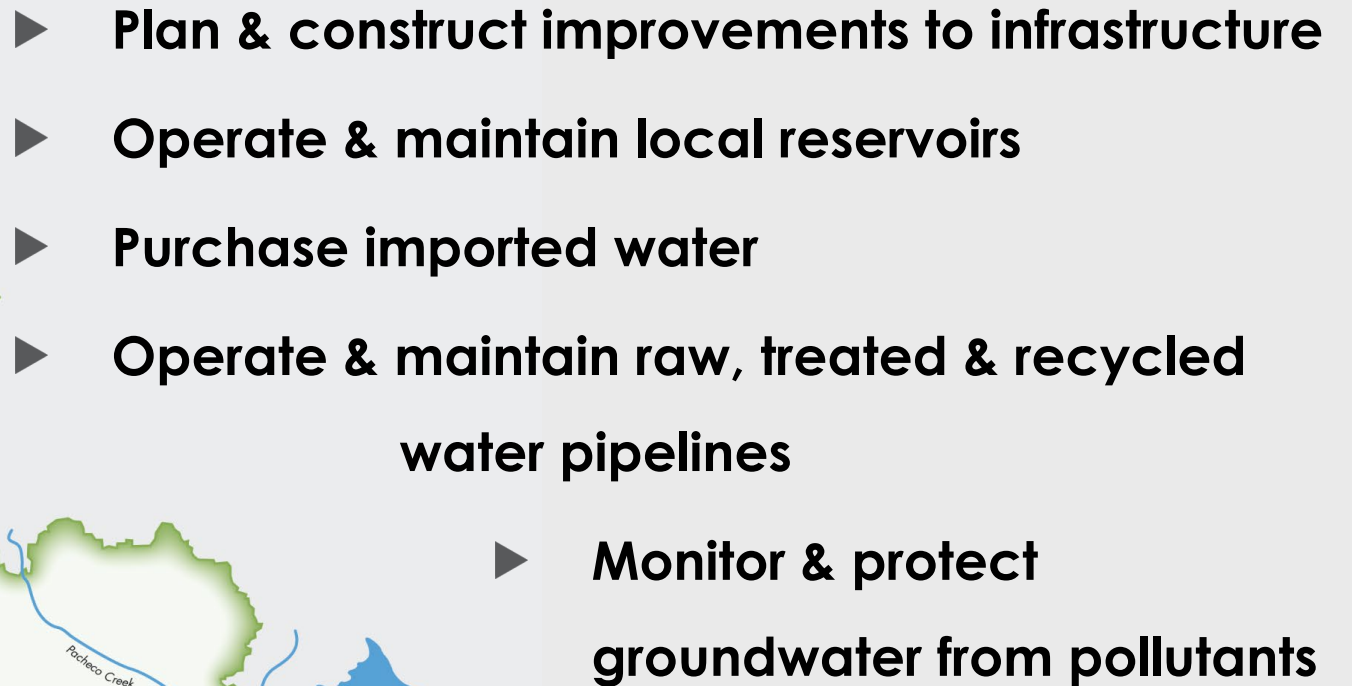
District Act Details Several Process Requirements to Set Groundwater Production Charges

- ▶ **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



valleywater.org



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

- 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	2022
Surface Water										
North County W-2	0%	0%	0%	0%	0%	0%	0%	5%	0%	0%
South County W-5	0%	0%	0%	1.3%	0%	0%	0%	0%	0%	0%
South County W-7									0%	0%
South County W-8									0%	0%

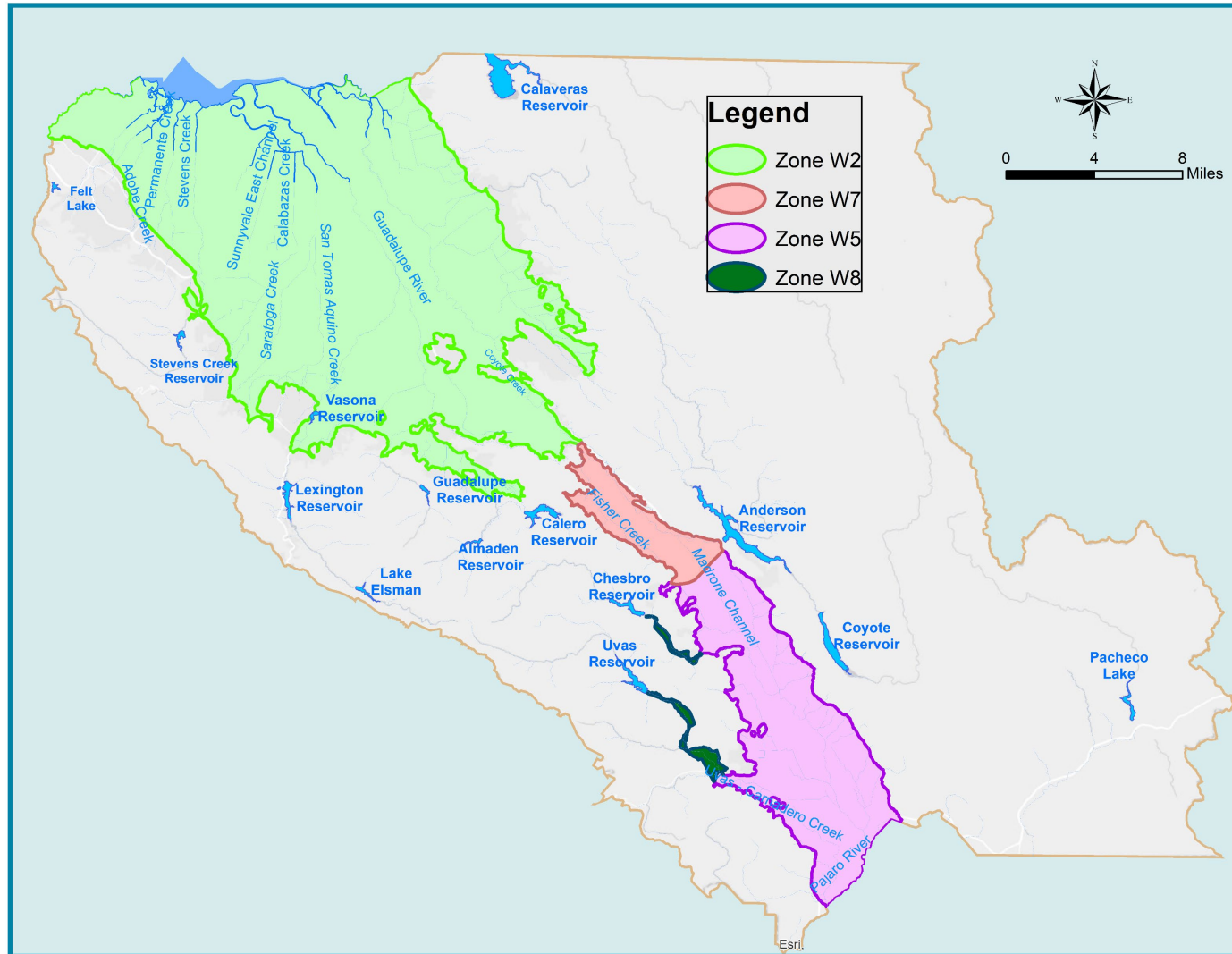
The Groundwater charge-setting process is Consistent with Prop 26

- ▶ **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**

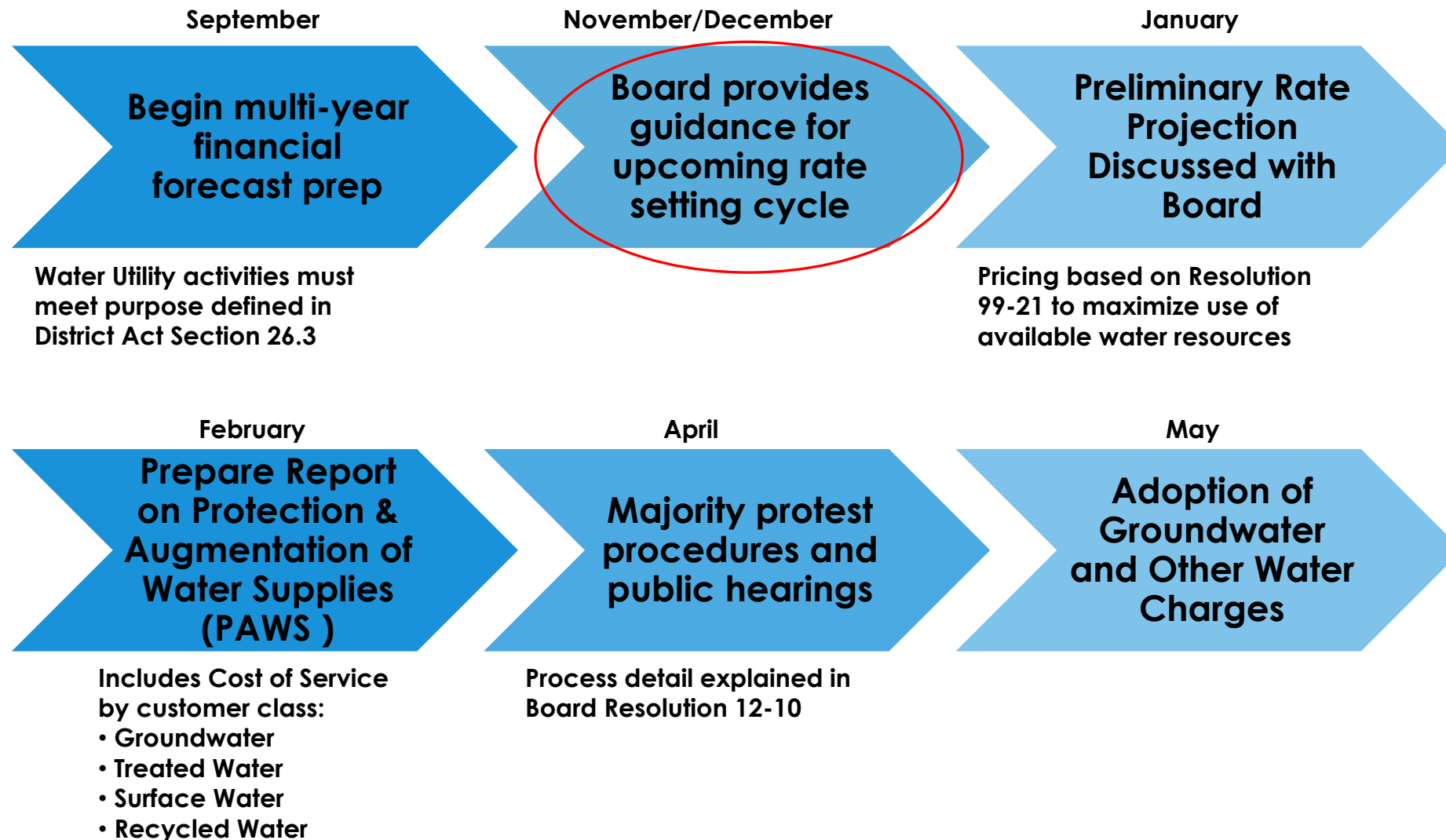
- ▶ **To qualify as a nontax fee under Prop 26, GW charge must satisfy both:**
 1. **GW charge established at amount that is no more than necessary to cover reasonable costs of government activity**
 2. **Manner in which costs are allocated to payor bear a fair or reasonable relationship to payor's burdens on, or benefits received from government activity**

Resolution 99-21 is the Board's Pricing Policy



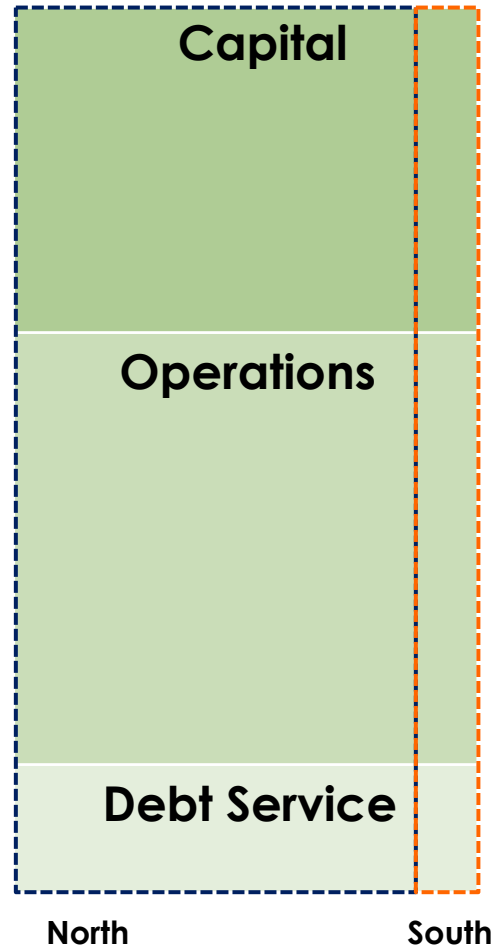
- ▶ Groundwater charges are levied within a zone for benefits received
- ▶ All water sources and water facilities contribute to common benefit within a zone regardless of cost, known as “pooling” concept
 - ▶ Helps maximize effective use of available resources
- ▶ Agricultural water charge shall not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

Groundwater Charge-Setting Approach

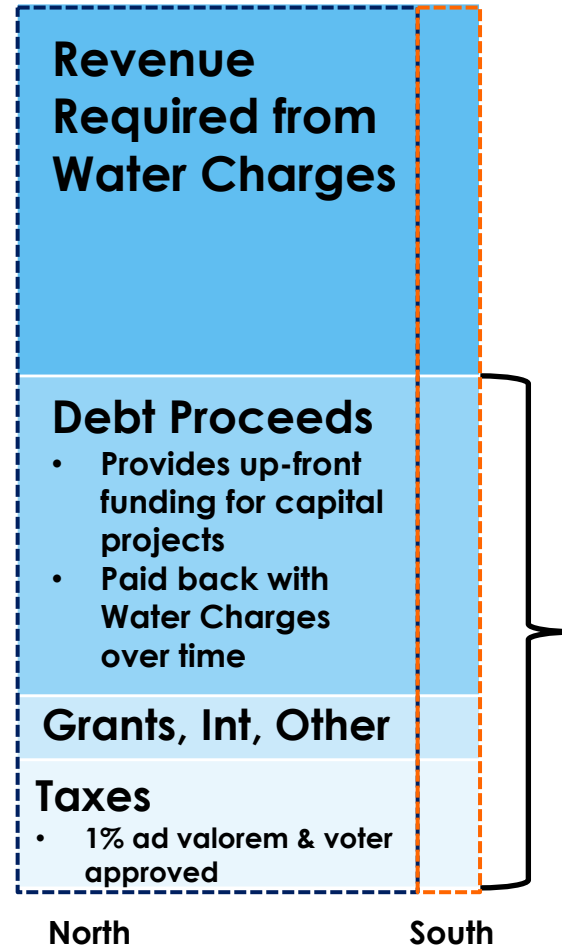


“Revenue Requirements” approach used to determine revenue required from water charges

Revenue Requirements (Cost of Service)



Funding Sources



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



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

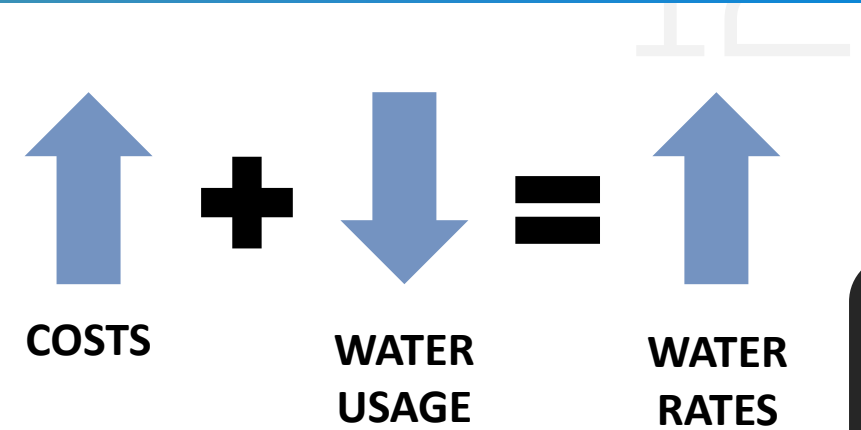
- Reservoirs –
 - Anderson
 - Coyote
 - Pacheco
- Imported Water –
 - Central Valley Project
- **Shared facilities do not benefit Zone W-8**

South County

- Reservoirs – Chesbro & Uvas
 - **Do no benefit Zone W-7**
- SCRWA Recycled Water System
 - **Benefits Zone W-5 only**

Drought Impact Puts Pressure on Water Rates:

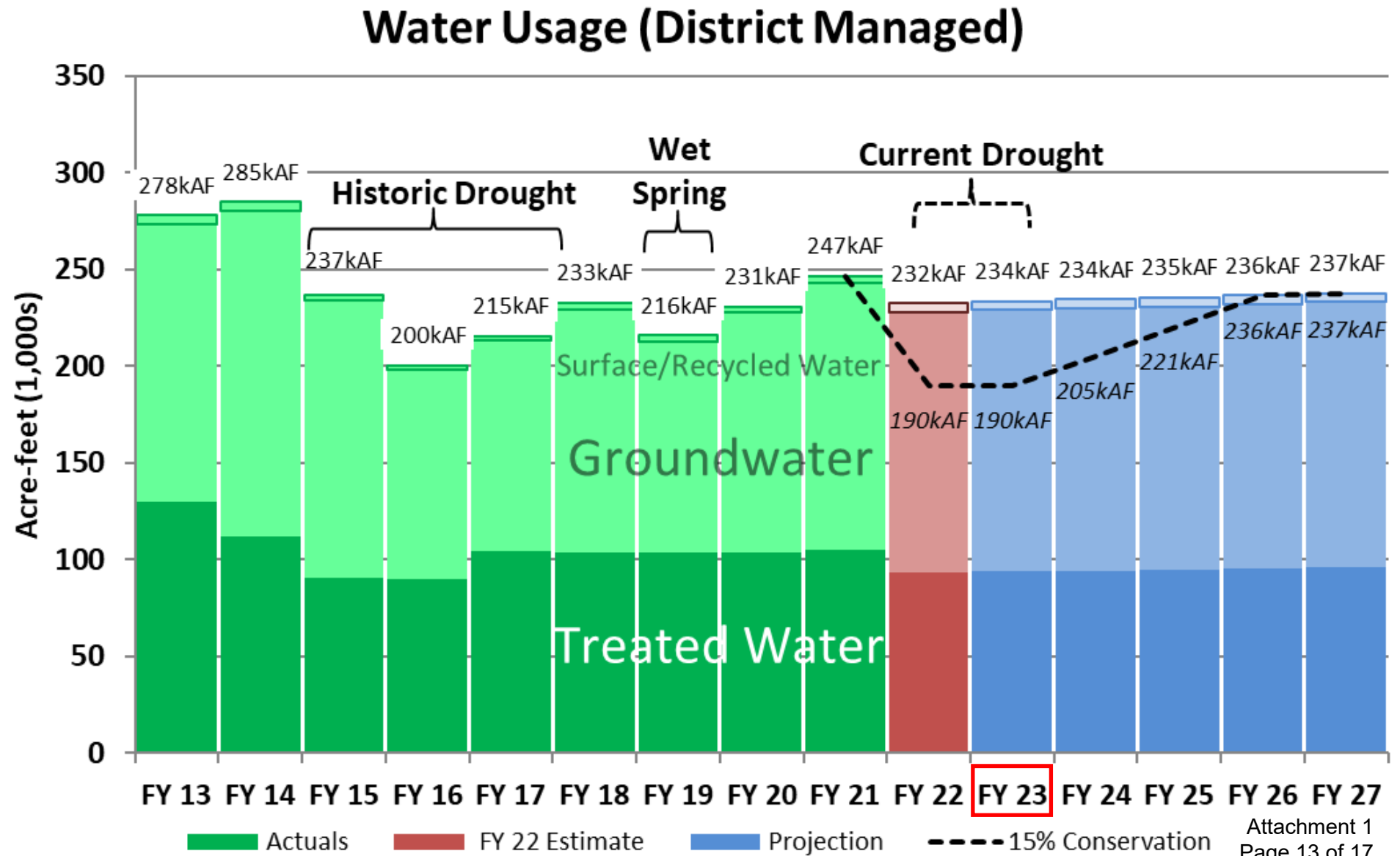
- ▶ O&M Costs up
 - ▶ Supplemental Water Purchases
 - ▶ Conservation activities
- ▶ Water Usage down
 - ▶ Results in lower revenue to pay for highly fixed cost structure



Potential Measures to Soften Water Rate Impact:

- ▶ Draw down reserves in FY 23 (and FY 24)
 - ▶ Rate Stabilization, Drought, Supplemental Water
- ▶ Spread drought impact over multiple year rate projection to extent possible
 - ▶ Debt service coverage & minimum reserve balances are limiting factor
- ▶ Use unneeded near-term capital project budget or project reserves to offset rate impacts
 - ▶ Make capital project budget whole in future years
- ▶ Potential one-time transfer from WSS Fund

Water Usage (District Managed)



FY 23 Baseline Case Assumptions:

▶ Response to Drought:

- ▶ Mandatory 15% call for conservation compared to 2019 (achieved in FY22 and FY23)
- ▶ Emergency Water Supply Purchases for FY23, FY24 & FY25

▶ Minimize Rate Impacts of Drought:

- ▶ Leverage available reserves: draw down in FY23 & FY24
- ▶ Leverage current unused project funds (Pacheco from FY21): use in FY23 and replenish in FY25
- ▶ One-time transfer up to \$25M from WSS Fund to Water Utility in FY 24

▶ Pacheco Reservoir Expansion with 35% Participation & WIFIA loans

▶ SWP Tax pays for 100% of SWP costs (excludes SWP portion of Delta Conveyance)

▶ Delta Conveyance SWP portion at 3.23%

▶ Purified Water Expansion via P3 with operations beginning in FY28

- ▶ Assumes 100% debt financing through P3 entity

▶ Los Vaqueros (Transfer Bethany Pipeline)

▶ Agricultural Rate remains set at 10% of lowest M&I rate

FY 23 Rate Scenarios:

- ▶ **Baseline with water usage alternatives**
 - ▶ More conservation?
 - ▶ Less conservation?

- ▶ **Baseline without Pacheco**

2022 Schedule

Jan 3	Ag Water Advisory Committee
Jan 12	Board Meeting: Preliminary Groundwater Charge Analysis
Jan 19	Water Retailers Meeting: Preliminary Groundwater Charge Analysis
Jan 26	Water Commission Meeting: Prelim Groundwater Charge Analysis
Feb 8	Board Meeting: Set time & place of Public Hearing
Feb 25	Mail notice of public hearing and file PAWS report
Mar 8	Board Meeting: Budget development update
Mar 16	Water Retailers Meeting: FY 23 Groundwater Charge Recommendation
Mar TBD	Landscape Committee Meeting
Apr 4	Ag Water Advisory Committee
Apr TBD	Water Commission Meeting
Apr 12	Open Public Hearing
Apr TBD	Continue Public Hearing in South County
Apr 26	Conclude Public Hearing
Apr 27-28	Board Meeting: Budget work study session
May 10	Adopt budget & groundwater production and other water charges

Staff seeking Board guidance for FY 2022-23 rate setting cycle:

- ▶ **Baseline rate assumptions**
- ▶ **Proposed rate scenarios**

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