



Santa Clara Valley Water District

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Agenda Date: 1/28/2020

Item No.: *2.7.

BOARD AGENDA MEMORANDUM

SUBJECT:

Follow-up discussion of the Preliminary Fiscal Year (FY) 2020-21 Groundwater Production Charge Analysis (Continued from January 14, 2020).

RECOMMENDATION:

Discuss and provide direction on the preliminary FY 2020-21 Groundwater Production Charge analysis prepared by staff.

SUMMARY:

This agenda memo is a follow-up to the January 14th, 2020 Work Study Session on the Preliminary Fiscal Year (FY) 2020-21 Groundwater Production Charges and the Fiscal Years 2021-25 Preliminary Capital Improvement Program (CIP). This item specifically focuses on the preliminary FY 2020-21 groundwater production charge analysis and includes additional scenarios for Board consideration. Staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation.

The groundwater production charge recommendation will be detailed in the Annual Report on the Protection and Augmentation of Water Supplies that is planned to be filed with the Clerk of the Board on February 28, 2020. The public hearing on groundwater production charges is scheduled to open on April 14, 2020. It is anticipated that the Board would set the FY 2020-21 groundwater production charges by May 12, 2020, that would become effective on July 1, 2020.

Groundwater Production Charge Projections Presented on January 14, 2020

Staff presented 4 preliminary groundwater charge scenarios on January 14, 2020 for Board review. For the North County Municipal and Industrial (M&I) groundwater production charge, the scenarios ranged from an increase of 8.1% to 8.7% for FY 2020-21, and from 4.7% to 5.3% for the South County M&I groundwater production charge depending on the scenario.

The overall impact of the preliminary analysis scenarios for FY 2020-21 to the average household would be an increase ranging from \$3.83 to \$4.12 per month in North County and from \$0.78 to \$0.88 per month in South County.

For reference purposes, the projects and assumptions included in the original 4 scenarios are listed

below:

Scenario 1) Baseline: Water Supply Master Plan (WSMP) 80% Level of Service (LOS)

This scenario includes the following projects and assumptions:

- Baseline Projects according to the WSMP including the Almaden Valley Pipeline Replacement, Land Rights - South County Recycled Water Pipeline, and Supervisory Control and Data Acquisition (SCADA)/Water Treatment Plant/ Distribution System Implementation Projects;
- Delta Conveyance (State side only);
- No Regrets Package projects;
- Potable Reuse Phase 1 to produce 24,000 AF (assume operations start in FY 28);
- Pacheco Reservoir Expansion (assumes \$485M Proposition 1 grant, \$250M of WIIN Act Funding, 20% Partnerships);
- Transfer-Bethany Pipeline; and
- South County Recharge (assume facilities built beyond FY 2029-30);
- \$200M warranty placeholder cost for dams and Water Treatment Plants.

Scenario 2) No WIIN Act Funding

Includes the same projects and assumptions as Scenario 1 except as follows:

- Assumes \$0 WIIN Act Funding instead of \$250M.

Scenario 3) Revised Purified Water Program

Includes the same projects and assumptions as Scenario 2 except as follows:

- Replaces Potable Reuse Phase 1 placeholder project with a \$614M Potable Reuse Project based on the recently signed agreement with Palo Alto and Mountain View to produce 13KAF by FY 30, and;
- Assumes that Valley Water builds, finances and operates the facilities (i.e. not delivered via a Public-Private Partnership or P3) and therefore the P3 reserve is eliminated.

Scenario 4) Add Delta Conveyance Central Valley Project (CVP) side investment

Includes the same projects and assumptions as Scenario 3 except as follows:

- Adds the Delta Conveyance CVP side costs.

It should be noted that Investment Scenario 3 replaces the Potable Reuse Phase 1 placeholder project, which would produce 24KAF by FY 28, with a \$614M Potable Reuse Project based on the recently signed agreement with Palo Alto/Mountain View to produce 10 to 13KAF by FY 30. This revised Potable Reuse Project under Scenario 3 would meet the 80% LOS goal (note that the Baseline scenario slightly exceeded the 80% LOS goal, due to future uncertainties discussed with the Board in 2019). The cost estimate for the revised Potable Reuse Project is based on an indirect potable reuse (IPR) project, but it could potentially be a direct potable reuse (DPR) project. State regulations for DPR are expected by the end of 2023, and draft regulations are expected to be released sometime in 2022. A DPR project may lower total cost due to avoiding long pipelines to recharge areas.

Board Member Comments on January 14, 2020

Staff captured the following Board member comments on January 14, 2020 in no particular order:

- Show a scenario that incorporates investment in Los Vaqueros Reservoir Expansion
- Assume success in achieving WIIN Act funds for Pacheco Reservoir Expansion or replacement funding via partnerships or other grant monies
- Support for \$200/AF Treated Water Surcharge
- Discuss Purified Water Program with Recycled Water Committee
- Support for revised Water Use projection of 230KAF
- Support for inclusion of the three new Master Plan efforts

Additional Scenarios

Scenario 5) Add back \$250M of WIIN Act Funding

Includes the same projects and assumptions as Scenario 4 except as follows:

- Adds back \$250M of WIIN Act funding

Scenario 6) Add Los Vaqueros Reservoir Expansion.

Includes the same projects and assumptions as Scenario 5 except as follows:

- Includes investment in Los Vaqueros Reservoir Expansion

Scenario 7) No Investment in Los Vaqueros Reservoir Expansion, Add \$200M Placeholder for Purified Water

Includes the same projects and assumptions as Scenario 6 except as follows:

- Removes investment in Los Vaqueros Reservoir Expansion
- Adds \$200M placeholder investment in Purified Water Program to produce incremental new water supply in North County

Scenario 8) \$650M Placeholder for Purified Water

Includes the same projects and assumptions as Scenario 7 except as follows:

- Replace \$200M placeholder with \$600M placeholder for North County and \$50M placeholder for South County for Purified Water Program investments to produce incremental new water supply

For North County M&I groundwater production, scenarios 1, 5, 6, 7 and 8 range from an increase of 8.0% to 9.6% for FY 2020-21, and from 4.7% to 5.6% for South County M&I groundwater production depending on the scenario.

The overall impact of Scenarios 1, 5, 6, 7, and 8 for FY 2020-21 to the average household would be an increase ranging from \$3.79 to \$4.54 per month in North County and from \$0.78 to \$0.93 per month in South County.

Transition to modified Groundwater Benefit Zones

On October 8, 2019, the Board directed staff to pursue modifying the existing groundwater benefit zones W-2 and W-5, and to create two new zones W-7 (Coyote Valley) and W-8 (below Uvas and Chesbro Reservoirs), effective July 1, 2020. New metes and bounds (the legal description that defines the boundaries of the zones) will be developed for Board consideration in accordance with Santa Clara Valley Water District Act requirements. Accordingly, staff has engaged Raftelis Financial Consultants to assist with analyzing cost allocations between the modified zones that would support corresponding modified groundwater charges for each zone for FY 2020-21.

Staff has prepared an analysis that translates the preliminary FY 21 M&I groundwater charge for Scenario 1 (which includes the reduced water usage projection) for the existing groundwater benefit zones, to the new or modified groundwater benefit zones. For the North County, the preliminary FY 21 M&I groundwater charge for the existing zone W-2 is \$1,484.61/AF, versus \$1,485.29/AF for modified Zone W-2, resulting in a minor \$0.69/AF difference. For the South County, the preliminary FY 21 M&I groundwater charge for the existing zone W-5 is \$504.00/AF versus \$457.00/AF for modified Zone W-5 (a decrease of \$47.00/AF); \$524.00/AF for new Zone W-7 (an increase of \$20.00/AF); and \$337.00/AF for new Zone W-8 (a decrease of \$167.00/AF).

The M&I groundwater charge decrease in modified Zone W-5 and increase in new Zone W-7 relative to existing Zone W-5 is primarily driven by the fact that 56% of the water managed by Valley Water associated with the Anderson/Coyote reservoir system, CVP imported water, and the future expanded Pacheco Reservoir, would be used to recharge the groundwater basin underlying new Zone W-7, while only 44% of that water would be used to recharge the modified Zone W-5. It follows that costs allocated to the zones would reflect the distribution of water to recharge those zones. However, Zone W-7 only accounts for 22% of the groundwater pumping in South County, while modified Zone W-5 accounts for 76%. Since the percentage of cost being allocated to each zone differs from the percentage of water usage attributed to each zone, it stands to reason that the groundwater charge per acre-foot required for cost recovery would diverge between Zone W-7 and modified Zone W-5 relative to the existing Zone W-5.

Zone W-8 on the other hand does not benefit from the Anderson/Coyote reservoir system, CVP imported water, or the future expanded Pacheco Reservoir. Nor does it benefit from the recycled water facilities operated by Valley Water in partnership with the South County Regional Wastewater Authority located in Gilroy. Therefore, it stands to reason that the modified Zone W-8 would experience a significant decrease in the preliminary groundwater charge relative to the existing Zone W-5.

Board Feedback and Input requested

Staff is seeking Board feedback and direction on the information presented in this memo to be incorporated into the Report on the Protection and Augmentation of Water Supplies (PAWS) scheduled to be filed with the Clerk of the Board on February 28, 2020.

FINANCIAL IMPACT:

This preliminary analysis of the groundwater production charges does not have any direct financial impact, however, the adopted groundwater production charges will affect the future finances of the Water Utility Enterprise.

CEQA:

Per CEQA Guidelines Section 15273: CEQA does not apply to establishment or modification of water rates.

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Nina Hawk, 408-630-2736

Darin Taylor, 408-630-3068