



# Santa Clara Valley Water District

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Work Study Session on Fiscal Years 2023-27 Preliminary Capital Improvement Program and Preliminary Fiscal Year 2022-23 Groundwater Production Charges.

### **RECOMMENDATION:**

- A. Review the Fiscal Year (FY) 2023-27 Preliminary Capital Improvement Program (CIP) and provide direction to staff for development of the Draft FY 2023-27 CIP; and
- B. Discuss and provide direction on the preliminary FY 2022-23 Groundwater Production Charge analysis prepared by staff.

### **SUMMARY:**

This Work Study Session combines, for Board review, the preliminary FY 2023-27 CIP, and the preliminary FY 2022-23 groundwater production charge analysis.

In concert with the review of the 5-year FY 2023-27 Preliminary CIP list of projects with their estimated costs and proposed funding (Attachment 1), staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation. The groundwater production charge analysis includes a water demand projection, a discussion of key capital project funding, and several scenarios for Board consideration.

### ***Capital Improvement Program (CIP) Background***

Each year, a five-year CIP is prepared for Board consideration and approval. The CIP describes the Santa Clara Valley Water District (Valley Water) capital investments by type of improvement and provides information on planned capital projects and Valley Water's intended source(s) of funding. The CIP process, wherein capital project plans are updated to reflect changes to scope, schedule or planned expenditures, works in concert with the biennial budget process by which funding is appropriated to the projects. All changes to scope, schedule or planned expenditures from the Board adopted FY 2022-26 CIP are included as Attachment 2.

### ***Board's CIP Committee***

The Board has established a CIP Committee whose purpose is to review and discuss in greater detail the various processes and information used to prepare an annual update to Valley Water's CIP. In 2021, the CIP Committee was comprised of Board Chair Tony Estremera, Director Nai Hsueh (Committee Chair), and Director Linda LeZotte (Committee Vice Chair).

The CIP Committee met monthly in 2021, with the exception of the month of June, to review and discuss information related to capital projects, the development of the CIP and to provide input to staff.

***CIP Committee Review of the FY 2023-27 CIP***

On December 13, 2021, the CIP Committee reviewed the Draft FY 2023-27 Preliminary CIP. The Committee's review focused on three key considerations:

1. The Water Supply projects in the Preliminary CIP meet the Board's strategies outlined in the Water Supply Master Plan (WSMP) (Strategy 1 - Secure Existing Supplies and Infrastructure, Strategy 2 - Increase Water Conservation and Reuse, Strategy 3 - Optimize the Use of Existing Supplies and Infrastructure );
2. Projects in the Preliminary CIP with the renewed Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program), as approved by voters in November 2020, and to reflect current project cost estimates; and
3. Buildings and Grounds and Information Technology projects in the Preliminary CIP meet the objectives of providing an efficient, effective and safe work environment.

In reviewing the Preliminary CIP's project plan updates (Attachment 2) and corresponding 10-year financial analysis, the CIP Committee moved to support the Draft FY 2023-27 Preliminary CIP and expressed its support of staff's recommended approach to include a brief presentation providing additional detail for five (5) significant project plan updates (listed below). These projects have the greatest impact on water rates and/or significant updates that warrant the Board's review. Each of these brief-presentations will be presented by the respective capital project Deputy Operating Officer/Assistant Operating Officer and are incorporated into the PowerPoint presentation (Attachment 3).

- Anderson Dam Seismic Retrofit Project
- Pacheco Reservoir Expansion Project
- Rinconada Water Treatment Plant Reliability Improvement Project
- Purified Water Project
- San Francisco Bay Shoreline Project

To ensure consistency with Valley Water's various planning efforts, the CIP Committee requested that CIP staff coordinate with the staff leading development of the Water Supply Master Plan and Watersheds and Water Utility Operations and Maintenance Plans. If necessary, these plans will be updated to align with the FY 2023-27 CIP, as adopted by the Board.

***Review and Approval Process for FY 2023-27 CIP***

Receiving Board direction regarding the preliminary list of projects (Attachment 1) will allow staff to proceed with preparing the Draft FY 2023-27 CIP. The Draft CIP is scheduled to be presented to the Board at its February 22, 2022 meeting, at which time staff will recommend Board review and authorization to release the Draft CIP for a 60-day public review period. After public review and responses to comments are completed, a Resolution to Adopt the Final CIP will be presented to the

Board in May 2022 for approval in conjunction with the FY 2022-24 biennial budget.

***Update to Watershed Stream Stewardship Fund and Safe Clean Water Fund Financial Projections***

Staff has included updated financial models that reflect updates to the Watershed Stream Stewardship Fund 12 and the Safe Clean Water Fund 26. The projected reserve balances from FY23 through FY32 exceed Valley Water's minimum reserve requirement for both funds, indicating financial sustainability. The first five-year implementation plan was presented to the Board for the renewed Safe, Clean Water Program in June 2021.

***Summary of Groundwater Production Charge Analysis***

Staff has prepared the preliminary FY 2022-23 groundwater production charge analysis, which includes several scenarios for Board review. Staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation.

The groundwater production charge reflects the benefit of Valley Water activities to protect and augment groundwater supplies and is applied to water extracted from the groundwater basin in Zones W-2, W-5, W-7, and W-8. Zone W-2 encompasses the Santa Clara groundwater subbasin north of Metcalf Road or the North County. Zone W-5 overlays the Llagas subbasin from northern Morgan Hill south to the Pajaro River. Zone W-7 overlays the Coyote Valley south of Metcalf Road to northern Morgan Hill, and W-8 encompasses the area below Uvas and Chesbro Reservoirs.

The groundwater production charge recommendation will be detailed in the 51<sup>st</sup> Annual Report on the Protection and Augmentation of Water Supplies that is planned to be filed with the Clerk of the Board on February 25, 2022. The public hearing on groundwater production charges is scheduled to open on April 12, 2022. It is anticipated that the Board would set the FY 2022-23 groundwater production charges by May 10, 2022, that would become effective on July 1, 2022.

The FY 2022-23 groundwater production charge and surface water charge setting process will be conducted consistent with the District Act, and Board resolutions 99-21 and 12-10. (Attachments 4 and 5).

***Water Use Assumptions***

District managed water use for FY 2020-21 is estimated to be approximately 246,500 acre-feet (AF), roughly 16,000 AF higher than budgeted due to a dry winter and dry spring. Due to the current drought conditions, the Board called for 15% mandatory conservation compared to 2019. If the drought continues for current FY 2021-22 and conservation goals are achieved, then there could be about a 32,000 AF water usage deficit versus budget of 232,000 AF, which could translate to upwards of \$50 million in reduced revenue this fiscal year. Water use projections for FY 2022-23 and beyond have been adjusted due to the current drought and mandatory calls for conservation. Based on trends from the last drought (2014-2017) returning to "normal" water use is projected by FY 2025-26.

Staff is carefully monitoring monthly water use actuals and working closely with the water retailers during the drought and will continue to do so during the upcoming rate setting process, modifying the water usage forecast as necessary.

### ***Groundwater Production Charge Projection Scenarios***

Staff has prepared a preliminary baseline groundwater production charge projection scenario for Board review, with additional scenarios based on various levels of conservation and projected water use.

For the baseline scenario, the increase in the North County Zone W-2 Municipal and Industrial (M&I) groundwater production charge is 15.0% for FY 2022-23. In the South County, for FY2022-23 baseline scenario, increases in the M&I groundwater production charge projections are 5.2% for Zone W-5; 10.3% for Zone W-7; and 8.0% for Zone W-8.

The overall impact of the preliminary analysis baseline scenario for FY 2022-23 to the average household would be an estimated increase of \$7.75 per month in North County, \$0.86 per month in South County Zone W-5, \$1.86 per month in South County in Zone W-7, and \$0.93 per month in South County in Zone W-8.

Staff proposes to set the Contract Treated Water Surcharge at \$115/AF to be maintain alignment with the cost that retailers would incur to pump water from their wells. Based on information gathered from retailers, staff believes that setting the Contract Treated Water Surcharge at \$115/AF would be close to the point of neutrality where a retailer would be indifferent in the short term as to whether to pump water from the ground or take treated water.

Staff has prepared the following scenarios for Board consideration:

#### Scenario 1) Baseline with Return to Prior Projection Water Use by FY26:

This scenario includes the following projects and assumptions:

- Conservation: 15% achieved by FY 2022-23, returning to prior projections of around 236kAF by FY 2025-26
- Anderson Reservoir leveraging WIFIA loans (up to 40% of total project cost (TPC))
- Pacheco Reservoir Expansion Project (PREP) with \$496 Proposition 1 grants, WIFIA loans (up to 49% of TPC) and Partnership Participation at 35% of TPC
- Purified Water Expansion operational by FY28, assumes 100% debt financed by P3 entity
- Los Vaqueros (Transfer Bethany Pipeline)
- Delta Conveyance SWP portion at 3.23%
- Master Plan Project Placeholder - Assumes \$369M in anticipated costs from FY 23 to FY 32 for new pipelines, pipeline rehabilitations, treatment plant upgrades and SCADA implementation projects.
- New, additional emergency water supply purchases in FY 2022-23, FY2023-24, and FY 2024-25 (\$67.7M total)
- Transfer \$39M near-term unspent funds from PREP to rate stabilization reserve in FY 22; future PREP cost projection has been adjusted such that TPC is unchanged
- Leverage existing Drought Contingency, Supplemental Water and Rate Stabilization Reserves (\$25M plus \$39M PREP for a total of \$64M used in FY 2022-23 and FY 2023-24)
- Agricultural rates remain set at 10% of lowest M&I rate

Scenario 2) 15% conservation achieved with lower future rebound:

Includes the same projects and assumptions as Scenario 1 except a lower water use projection rebound, growing to 236kAF by FY 2031-32.

Scenario 3) 10% conservation achieved and no future rebound:

Includes the same projects and assumptions as Scenario 1 except 10% conservation is achieved (around 201kAF projected water use in FY 2022-23), with the future water use projection growing to 211kAF by FY 2031-32.

Scenario 4) 15% conservation achieved and no future rebound:

Includes the same projects and assumptions as Scenario 1 except 15% conservation is achieved (around 190kAF projected water use in FY 2022-23), with the future water use projection growing to 199kAF by FY 2031-32.

Scenario 5) 20% conservation achieved and no future rebound:

Includes the same projects and assumptions as Scenario 1 except 20% conservation is achieved (around 179kAF projected water use in FY 2022-23), with the future water use projection growing to 187kAF by FY 2031-32.

Staff can model additional scenarios for the Board as needed.

**Other Assumptions**

All scenarios assume the continued practice of relying on the State Water Project (SWP) Tax to pay for 100% of the SWP contractual obligations. Pursuant to Water Code Section 11652, Valley Water, whenever necessary, is required to levy on all property in its jurisdiction not exempt from taxation, a tax sufficient to provide for all payments under its SWP contract with the California Department of Water Resources (DWR). All scenarios assume an increase in the SWP Tax for FY 2022-23, setting it at \$27M. The SWP Tax for the average household in Santa Clara would increase to about \$41 per year.

A Drought Reserve was established in FY 2015-16 and was budgeted at \$10M for FY 2021-22. The purpose of this reserve is to help minimize future rate impacts and complements the Supplemental Water Supply Reserve. The preliminary groundwater production charge analysis includes full use of the reserve in FY 2022-23, with reserve levels building back up over subsequent years.

All scenarios assume Water Utility operations cost of \$264.6M in FY 2022-23 versus the FY 2021-22 estimate of \$235.2M.

The preliminary analysis does not include unfunded capital projects or additional unfunded operations cost needs identified by staff.

***Summary of Groundwater Production Charge Analysis Issues***

Staff is seeking Board direction on the following issues to be incorporated into the Report on

Protection and Augmentation of Water Supplies (PAWS) scheduled to be filed with the Clerk of the Board on February 25, 2022:

- Rate Impact Minimization Strategies
- Water Use Projection Scenarios

***Summary of Proposed Changes to the CIP***

One new project is being recommended for inclusion in the Draft Preliminary FY 2023-27 CIP.

**60204022 Security Upgrades and Enhancements:** A new project was created for inclusion in the CIP. This project will significantly enhance overall security at Valley Water facilities by designing and installing a modern technical security system capable of meeting today's security and investigative requirements. The estimated total inflated project cost is \$16.57M and it is expected to last four to six years.

Six (6) projects in the FY 2022-26 CIP are anticipated to be completed and/or closed out by June 2022.

Since the Board adopted the FY 2022-26 CIP, staff has provided project plan updates for more than 40 projects. These updates have been reviewed and discussed by the CIP Committee in November and December of 2021 and are included for the Board's review in Attachment 2. Since the last CIP Committee meeting, staff has identified a necessary revision to the update that was provided for the South County Recycled Water Pipeline Project. As a result of bids coming in lower than expected, the total project cost with inflation decreased by \$2.356M to \$42.976M since the last project plan update was presented to the CIP Committee. A full description of all the project plan updates is included in Attachment 2.

With the incorporation of the project plan updates reflected in Attachment 2, the proposed FY 2023-27 Preliminary CIP is \$721M higher than the previous 5-year CIP, with a total value of \$8.25B. The majority of this cost increase is the result of an approximately \$589M cost increase to the Anderson Dam Seismic Retrofit Project. The proposed changes to the CIP are summarized by Fund and presented in the PowerPoint (Attachment 3) and reflected in the Preliminary FY 2023-27 CIP (Attachment 1).

**ENVIRONMENTAL JUSTICE IMPACT:**

While individual capital projects may have environmental justice impacts and conduct outreach and engagement to impacted communities, which will be reported to the Board accordingly, the FY 2023-27 Preliminary CIP and the FY 2022-23 Groundwater Production Preliminary Analysis Work Study Session has no environmental justice impact.

The Preliminary CIP is a projection of Valley Water's capital funding for planned capital projects. Its purpose is to document planned capital projects to help integrate Valley Water work with the larger community by aligning Valley Water planning with other local agency planning efforts. The Preliminary CIP documents any changes to capital projects' planned funding and expenditures and is updated and brought to the Board of Directors for approval each year in January.

Each February, upon the Board's direction, to ensure meaningful engagement of all Santa Clara County communities in the decision-making process, staff provides a copy of the Draft CIP to Valley Water partner agencies and publishes a public notification for a review before the Board of Directors adopts the Resolution to Adopt the CIP in May.

The CIP is thus produced each year in collaboration with government, academic, private, non-governmental and non-profit organizations, as well as diverse and disadvantaged communities, and as such, adheres to the Board's General Principles and Ends Policies, which are integral in ensuring that Valley Water meets its mission.

**FINANCIAL IMPACT:**

While there is no direct financial impact associated with the recommended action to approve the Preliminary CIP, the CIP presents a funding plan that shows the intended source of funds for each project. Valley Water's FY 2022-23 proposed biennial budget will include the approved projects in the first year of the FY 2023-27 CIP.

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

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

- Attachment 1: Preliminary FY 2023-27 CIP
- Attachment 2: Capital Project Plan Updates from FY 2022-26 CIP
- Attachment 3: PowerPoint
- Attachment 4: SCVWD Resolution No. 99-21
- Attachment 5: SCVWD Resolution No. 12-10

**UNCLASSIFIED MANAGER:**

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