



Santa Clara Valley Water District

File No.: 17-0300

Agenda Date: 5/9/2017
Item No.:

BOARD AGENDA MEMORANDUM

SUBJECT:

Adoption of Groundwater Production and Other Water Charges for Fiscal Year 2017-2018.

RECOMMENDATION:

- A. Adopt a resolution increasing the District's groundwater production charges effective July 1, 2017 and DETERMINING GROUNDWATER PRODUCTION CHARGES FOR FISCAL YEAR 2017-2018; and
- B. Adopt a resolution increasing the District's surface water charges, treated water charges and South County recycled water charges effective July 1, 2017 and DETERMINING RAW SURFACE WATER, TREATED WATER, AND SOUTH COUNTY RECYCLED WATER CHARGES FOR FISCAL YEAR 2017-2018.

SUMMARY:

The District annually considers adjusting water charges necessary to provide the revenue for the service of providing water supply to Santa Clara County. Pursuant to Section 26 (and its applicable subsection) of the District Act, an annual public hearing is held before the Board on or before the fourth Tuesday of April to consider whether or not to levy a groundwater charge. The District has aligned its rate setting process with the majority protest requirements of Article XIII D, Section 6 of the California Constitution.

The process includes a formal protest procedure consistent with Board Resolutions 12-10 and 12-11 for the imposition of groundwater production charges and surface water charges for each charge zone. If written protests are filed by a majority of well operators/property owners, or surface water operators/property owners, the groundwater production charge or surface water charge, respectively for that zone, will not be increased.

On April 11, 2017, the Board opened the public hearing on the groundwater production charges for fiscal year 2017-18. The public hearing was continued to the evening of April 13, 2017 in Morgan Hill and closed on the evening of April 25, 2017 in San Jose. Following the close of the public hearing, the process to validate and tabulate all protests received began. With the oversight of an external, independent third-party auditor from C.G. Uhlenberg and following parameters outlined in Resolution

12-11 the District's Clerk of the Board has determined that a majority of groundwater well owners and/or parcel owners did not protest in either North County (Zone W-2) or South County (Zone W-5). Additionally, with oversight from the same auditor and following parameters outlined in Resolution 12-10, the District's Clerk of the Board has determined that a majority of surface water operators and/or parcel owners did not protest in either North County (Zone W-2) or South County (Zone W-5).

The audited counts of the protests were not available at the time of this agenda memo was written. They will be provided in a supplemental agenda item.

Since the valid protests received for Zone W-2 and Zone W-5 for both well owners, surface water operators, and respective parcel owners is less than a majority, there is no impediment in proceeding with increasing the water charges that are at or below those recommended by staff.

Staff recommends that the Board that effective July 1, 2017, increase the groundwater production and other water charges by adopting the resolutions attached to this memorandum as Attachments 1 and 2, as follows:

1. In the North County (Zone W-2), staff recommends a 9.6% increase in the Municipal and Industrial groundwater production charge to \$1,175/Acre Foot (AF). This is slightly lower than the proposed maximum increase of 9.9% detailed in the February 2017 Report on the Protection and Augmentation of Water Supplies. The adjustment is driven by a schedule extension for the Expedited Purified Water Program. Staff recommends maintaining the contract treated water at \$100/AF and increasing the non-contract treated water to \$100/AF. Setting treated water charges at this level is recommended when both groundwater and surface water supplies are healthy. It is anticipated that Water retailers would be economically neutral as to whether to take groundwater or treated water. The average household in Zone W-2 would experience an increase in their monthly bill of \$3.55 or about 12 cents a day.
2. In the South County (Zone W-5), staff recommends a 6.4% increase in the M&I groundwater production charge to \$418/AF. The average household in Zone W-5 would experience an increase in their monthly bill of \$0.86 or about 3 cents per day.
3. In both zones, staff recommends a 6.4% increase to the agricultural groundwater production charge to \$25.09/AF. An agricultural water user who pumps 2 acre-feet per acre per year would experience an increase of \$0.25 per month.
4. Staff recommends a 21.5% increase to the surface water master charge to \$33.36/AF. This increase results in a 9.9% increase in the overall North County municipal and industrial surface water charge to \$1,208.36/AF and 7.3% increase in the overall South County municipal and industrial surface water charge to \$451.36/AF. The overall agricultural surface water charge in either zone would increase by 14.5% to \$59.26/AF. Due to the continued

severity of the drought, the District suspended nearly all raw surface water deliveries in 2014. Many raw surface water users were forced to find an alternative source of water, primarily the groundwater basin. However, the District intends to reinstate untreated surface water users due to much improved water supply conditions.

5. For recycled water supplied by the South County Regional Wastewater Authority Facility at Gilroy, staff recommends increasing the M&I charge by 3.2% to \$398/AF. For agricultural recycled water, staff recommends a 4.9% increase to \$48.88/AF. The increase maximizes cost recovery while concurrently providing an economic incentive to use recycled water. The 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."

	Dollars Per Acre Foot		
	FY 2015-16	FY 2016-17	Adjusted Proposed FY 2017-18
Zone W-2 (North County)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	894.00	1,072.00	1,175.00
Agricultural	21.36	23.59	25.09
Surface Water Charge			
Surface Water Master Charge	22.60	27.46	33.36
Total Surface Water, Municipal & Industrial*	916.60	1,099.46	1,208.36
Total Surface Water, Agricultural*	43.96	51.05	58.45
Treated Water Charges			
Contract Surcharge	100.00	100.00	100.00
Total Treated Water Contract Charge**	994.00	1,172.00	1,275.00
Non-Contract Surcharge	200.00	50.00	100.00
Total Treated Water Non-Contract Charge***	1,094.00	1,122.00	1,275.00
Zone W-5 (South County)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	356.00	393.00	418.00
Agricultural	21.36	23.59	25.09
Surface Water Charge			
Surface Water Master Charge	22.60	27.46	33.36
Total Surface Water, Municipal & Industrial*	378.60	420.46	451.36
Total Surface Water, Agricultural*	43.96	51.05	58.45
Recycled Water Charges			
Municipal & Industrial	336.00	373.00	398.00
Agricultural	45.16	47.38	48.88

*Note: The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge

**Note: The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract

***Note: The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-

The attached resolutions would officially establishes the increased water charges for fiscal year 2017-18, which would become effective July 1, 2017. The increases are necessary for the following reasons: 1) To pay for critical investments in water supply infrastructure rehabilitation and upgrades; and 2) The development of future drought-proof supplies, most notably purified water. Additionally, the District is projecting lower water usage than pre-drought averages, which results in lower revenue. The effective management of the region's water supply system includes securing imported water supplies, storage in surface water reservoirs, replenishment and protection of our groundwater basin, purification at local water treatment plants, testing for consistent water quality, transport and delivery of water to local water providers, and conservation programs.

Staff also recommends setting the State Water Project Tax at \$26 million for FY 2017-18. The proposed \$26 million SWP tax translates to a property tax bill for the average single family residence of roughly \$44.00 per year. If the recommended FY 2017-18 State Water Project Tax is not approved, the M&I groundwater production charge would need to be increased \$148/AF in North County and \$31/AF in South County. Treated water and surface water charges would be increased by like amounts since a component of those charges is equal to the then-existing groundwater production charges. The open space credit would increase by \$755,000. Staff's recommendation regarding the State Water Project tax is consistent with the District's past practice and with the approach of other water districts and agencies that maintain State water supply contracts. The resolution to set the State Water Project Tax is one of the resolutions that will be included in a separate agenda item to adopt the FY 2017-18 Budget.

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 2017-18.

CEQA:

The recommended action, the holding of a public hearing is not a project under CEQA. Further, 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: Resolution, Groundwater Production

Attachment 2: Resolution, Raw and Treated Surface Water

*Supplemental Agenda Memo

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