



Santa Clara Valley Water District

File No.: 20-1194

Agenda Date: 1/12/2021
Item No.: *2.6.

BOARD AGENDA MEMORANDUM

SUBJECT:

Work Study Session on Preliminary Fiscal Year 2021-22 Groundwater Production Charges and Fiscal Years 2022-26 Preliminary Capital Improvement Program. (PREVIOUSLY LISTED AS ITEM 2.5)

RECOMMENDATION:

- A. Review the Fiscal Year (FY) 2022-26 Preliminary Capital Improvement Program (CIP) and provide direction to staff for development of the Draft FY 2022-26 CIP; and
- B. Discuss and provide direction on the preliminary FY 2021-22 Groundwater Production Charge analysis prepared by staff.

SUMMARY:

This Work Study Session combines, for Board review, the preliminary FY 2021-22 groundwater production charge analysis and the preliminary FY 2022-26 CIP.

The groundwater production charge analysis includes a water demand projection, a discussion of key capital project funding, and two scenarios for Board consideration.

Staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation. In concert with the review of the preliminary groundwater production charge analysis, this agenda item presents the 5-year FY 2022-26 Preliminary CIP list of projects with their estimated costs and proposed funding (Attachment 2).

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 investment priorities and provides information on planned capital projects and Valley Water's intended source(s) of funding. The CIP process works in concert with the annual budget process, wherein funding is appropriated to the projects.

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 2020, the CIP Committee was comprised of Chair Nai Hsueh, Vice Chair Tony Estremera, and Director Linda LeZotte.

With the exception of the months of April through May, when no meetings were held due to COVID-19, the CIP Committee met monthly in 2020 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 2022-26 CIP

On December 14, 2020, and again on January 6, 2021, the CIP Committee reviewed the 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 (S1), Strategy 2 - Increase Water Conservation and Reuse (S2), Strategy 3 - Optimize the Use of Existing Supplies and Infrastructure (S3));
2. Projects in the Preliminary CIP with Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program) commitments have been updated to align with Measure S commitments, 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 10-year financial analysis, the CIP Committee identified one key issue for the Board's consideration: the updated project cost estimates for the Pacheco Reservoir Expansion Project (WSMP - S3). While the FY22 water rates are not significantly impacted, the project cost increases would significantly impact future water rates. As the project is facing many uncertainties regarding potential funding sources and with projected water demand significantly lower now than the projection developed in 2016, the CIP Committee recommends that the Water Storage Exploratory Committee and the Board take the needed time to develop strategies for the Pacheco Reservoir Expansion Project.

Review and Approval Process for FY 2022-26 CIP

Receiving Board direction regarding the preliminary list of projects (Attachment 2) will allow staff to proceed with preparing the Draft FY 2022-26 CIP. The Draft CIP is scheduled to be presented to the Board at its February 23, 2021 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, the Final CIP will be presented to the Board in May 2021 for approval in conjunction with the FY 2021-22 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. Staff prepared two financial forecasts for Fund 12, one with an Open Space Credit transfer based on setting the Agricultural Groundwater Charge at 25% of the Zone W-8 Municipal and Industrial Charge, and one with an Open Space Credit transfer based on setting the Agricultural Groundwater Charge at 10% of the Zone W-8 Municipal and Industrial Charge. Under both scenarios the projected reserve balances in FY31 exceed Valley Water's minimum reserve requirement. Fund 26 has a projected reserve balance at

the end of the 15-year funding cycle of approximately \$12M, which is significantly less than the \$90M originally forecasted during the development of the program renewal. This is due to capital project cost increases, as reflected in the Preliminary CIP. Staff plans to present the first five-year implementation plan for the renewed Safe, Clean Water Program in June 2021, which will include any necessary recommendations for adjustments to the Program and is set to be reviewed by the renewed Safe, Clean Water Program's Independent Monitoring Committee in spring of 2021.

Summary of Groundwater Production Charge Analysis

Staff has prepared the preliminary FY 2021-22 groundwater production charge analysis, which includes two 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 Annual Report on the Protection and Augmentation of Water Supplies that is planned to be filed with the Clerk of the Board on February 26, 2021. The public hearing on groundwater production charges is scheduled to open on April 13, 2021. It is anticipated that the Board would set the FY 2021-22 groundwater production charges by May 11, 2021, that would become effective on July 1, 2021.

The FY 2021-22 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 3-4).

Water Use Assumptions

Valley Water managed water use for FY 2019-20 is estimated to be approximately 232,000 acre-feet (AF), roughly 7,000 AF lower than budgeted, but 16,000 AF higher than prior year, due to a dry winter and dry spring. If the dry winter and dry spring were to repeat for the current year FY 2020-21, then there would be a 2,000 AF water usage excess versus budget, which would translate to an estimated \$3.2M in revenue. The current projection for FY 2021-22 is 232,000 AF, which is flat compared to the FY 2019-2020 estimate.

Staff will continue to carefully monitor monthly water use actuals and work closely with the water retailers during the upcoming rate setting process to modify the water usage forecast as necessary.

Groundwater Production Charge Projection Scenarios

Staff has prepared two preliminary groundwater production charge projection scenarios for Board review. The increase in the North County Zone W-2 Municipal and Industrial (M&I) groundwater production charge ranges from 9.5% to 9.8% for FY 2021-22 depending on the scenario. In the South County, for FY2021-22 and depending on the scenario, increases in the M&I groundwater production charge ranges from 3.8% to 4.6% for Zone W-5; from 8.1% to 10.3% for Zone W-7; and is projected

at 4.4% for Zone W-8.

The overall impact of the preliminary analysis scenarios for FY 2021-22 to the average household would be an increase ranging from \$4.50 to \$4.64 per month in North County and from \$0.61 to \$0.74 per month in South County Zone W-5, from \$1.34 to \$1.71 in Zone W-7, and by \$0.50 in Zone W-8.

Staff proposes to increase the Contract Treated Water Surcharge from \$100/AF to \$115/AF to be more aligned 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 closer 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:

This scenario includes the following projects and assumptions:

- Baseline Projects according to the WSMP strategy #1 to Secure Existing Supplies and Infrastructure;
- Delta Conveyance (State side only; participation at 3.23%);
- Potable Reuse Phase 1 to produce between 9,000-12,000 AF delivered via Public-Private Partnership (P3) (assume operations start in FY 28);
- Transfer-Bethany Pipeline;
- FY 2021-22 Agricultural Charge at 25% of the Zone W-8 M&I Charge; and,
- Pacheco Reservoir Expansion (assumes \$485M Proposition 1 grant, WIFIA loan for 49% of project cost and 20% Partnerships).
- Master Plan Project Placeholder - Assumes \$346M in anticipated costs from FY 22 to FY 31 for new pipelines, pipeline rehabilitations, treatment plant upgrades and SCADA implementation projects.

Scenario 2) Baseline no Pacheco:

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

- Excludes Pacheco Reservoir Expansion project; and,
- FY 2021-22 Agricultural Charge at 10% of the Zone W-8 M&I Charge

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 2021-22, setting it

at \$26M. The SWP Tax for the average household in Santa Clara would increase to about \$40 per year.

A Drought Reserve was established in FY 2015-16 and was budgeted at \$10M for FY 2020-21. No further funding for this reserve is included in the preliminary analysis. The purpose of this reserve would be to help minimize rate impacts during the next drought and would complement the Supplemental Water Supply Reserve. The preliminary analysis does not include unfunded capital projects or additional unfunded operations cost needs identified by staff.

All scenarios assume Water Utility operations cost of \$224.4M in FY 2021-22 versus the FY 2020-21 adopted budget of \$200.6M.

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 26, 2021:

- Agricultural Groundwater Charge for FY 22
- Pacheco Reservoir Expansion
- Treated Water surcharge increase to \$115/AF
- Master Plan Project Placeholder
- Other?

Summary of Proposed Changes to the CIP

No new projects are being recommended for inclusion in the Draft Preliminary FY 2022-26 CIP. Five (5) projects in the FY 21-25 CIP are anticipated to be completed and/or closed out by June 2021.

With the incorporation of some key capital projects' changes into this CIP, the proposed FY 2022-26 CIP is \$1.429B higher than the previous 5-year CIP, with a total value of \$7.466B. The majority of this cost increase is the result of an approximately \$1.174B cost increase to the Pacheco Reservoir Expansion Project (WSMP S3). The proposed changes to the CIP are summarized by Fund and presented in the PowerPoint (Attachment 1) and reflected in the Preliminary FY 2022-26 CIP (Attachment 2).

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 2021-22 proposed budget will include the approved projects in the first year of the FY 2022-26 CIP.

Furthermore, 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:

The recommended CIP 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.

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

ATTACHMENTS:

- Attachment 1: PowerPoint
- Attachment 2: Preliminary FY 2022-26 CIP
- Attachment 3: SCVWD Resolution No. 99-21
- Attachment 4: SCVWD Resolution No. 12-10

UNCLASSIFIED MANAGER:

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