



# Santa Clara Valley Water District

**File No.:** 21-0322

**Agenda Date:** 4/15/2021

**Item No.:** 2.1.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Public Hearing on February 2021 Annual Report on the Protection and Augmentation of Water Supplies and Recommended Increases to Groundwater Production and Other Water Charges for Fiscal Year 2021-2022 (Continued from April 13, 2021).

### **RECOMMENDATION:**

- A. Continue the public hearing, pursuant to Section 26.6 of the District Act, to consider Valley Water's Fiscal Year (FY) 2021-22 Annual Report on the Protection and Augmentation of Water Supplies and recommended increases to groundwater production and other water charges;
- B. Hear public comments from groundwater producers and any interested persons regarding such report;
- C. Count all written protests received regarding proposed increased surface water rates;
- D. Direct staff to review such report with, and solicit comments from, Valley Water's advisory committees; and
- E. Continue the public hearing regarding such report and proposed rates to the April 27, 2021 regular meeting, at 6:00 p.m.

### **SUMMARY:**

Section 26.6 of the District Act requires a public hearing regarding the Protection and Augmentation of Water Supplies report be held on or before the fourth Tuesday of April. This public hearing is conducted to inform the community of the activities performed by Valley Water to ensure reliable water supply and the recommended groundwater production and other water charges necessary to pay for those activities. The hearing provides opportunity for any interested person to submit comments to the Board. This year's groundwater production charge setting process is being conducted consistent with the District Act, and Board Resolution 99-21. The raw surface water charge setting process includes a formal protest procedure consistent with Board Resolution 12-10 (See attachment 3). If written protests are filed by a majority of surface water operators, the surface water charge cannot be increased.

### **Groundwater Production Charge Recommendations**

Staff proposes a (maximum) 9.6% increase in the North County Zone W-2 Municipal and Industrial groundwater production charge from \$1,374/AF to \$1,506/AF. Staff recommends increasing the treated water surcharge on treated water delivered under the contracts with retail agencies to

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\$115/AF, and maintaining the non-contract treated water surcharge at \$200/AF. The proposal equates to a monthly bill increase for the average household of \$4.55 to \$5.06 or about 15 to 17 cents a day.

In the South County Zone W-5, staff proposes a (maximum) 4.6% increase in the M&I groundwater production charge from \$467/AF to \$488.50/AF. The proposal equates to a monthly bill increase for the average household of \$0.74 or about 2 cents per day.

In the South County Zone W-7, staff proposes a (maximum) 10.3% increase in the M&I groundwater production charge from \$481/AF to \$530.50/AF. The proposal equates to a monthly bill increase for the average household of \$1.70 or about 6 cents per day.

In the South County Zone W-8, staff proposes a (maximum) 4.4% increase in the M&I groundwater production charge from \$327/AF to \$341.50/AF. The proposal equates to a monthly bill increase for the average household of \$0.50 or about 2 cents per day.

Customers in both areas of North and South County may also experience additional charge increases enacted by their retail water providers.

Based on Board direction and past practice, the proposed (maximum) agricultural groundwater production charge is 25% of the M&I charge in the least expensive zone (Zone W-8), which would mean an increase from \$28.86/AF to \$85.38/AF. The proposed maximum groundwater production charge for agricultural rates would translate to an increase of up to \$9.41 per month per acre, assuming two acre-feet of water usage per acre per year.

Staff recommends a (maximum) 9.6% increase to the surface water master charge from \$37.50/AF to \$41.10/AF to align revenues with the costs related to managing, operating and billing for surface water diversions. This increase results in a maximum increase 9.6% increase in the overall North County M&I surface water charge. For South County M&I surface water charges, staff recommends (maximum) increases as follows: for Zone W-5, a 5% increase to \$529.60 per acre-foot; for Zone W-7, a 10.2% increase to \$571.60 per acre-foot; and for Zone W-8, to 5% increase to \$382.60 per acre-foot. For all zones, staff recommends a maximum 90.6% increase to the total agricultural surface water charge, to \$126.48 per acre-foot.

For recycled water (distributed in Zone W-5 only), staff recommends a (maximum) 4.8% increase to the M&I charge, to \$468.50 per acre-foot. For agricultural recycled water, staff recommends a (maximum) 100.5% increase, to \$112.78 per acre-foot. The increase maximizes cost of service recovery while still providing an economic incentive to use recycled water. This 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."

The proposed maximum groundwater production charges for FY 2021-22 are necessary to pay for supplemental water purchases in preparation for drought, investments in water supply infrastructure rehabilitation and upgrades, and new water supply reliability investments. The need to purchase supplemental water is driven by the fact that the next drought appears to be on our doorstep, coupled with the mandated long-term lowering of the water level in Anderson Reservoir.

A key infrastructure rehabilitation investment includes the Anderson Dam Seismic Retrofit, which is a \$650 million project that will help ensure public safety and restore operational capacity. A key water supply reliability investment is the Pacheco Reservoir Expansion project, estimated to cost roughly \$2.5 billion and provide an additional 80,000 acre-feet of water storage capacity.

Given the size of the Pacheco Reservoir Expansion project investment, staff has also prepared an alternative rate projection scenario that shows the impact to water rate projections if this project were excluded. Under this scenario, the proposed (maximum) increase to the North County Zone W-2 M&I groundwater production charge for FY 2021-22 and the next 7 years into the future would be 8.5% instead of 9.6%. Also, under this scenario, for FY 2021-22 and the next 7 years, proposed South County M&I groundwater production charge proposed increases would be as follows: for Zone W-5, 3.8% instead of 4.6%; for Zone W-7, 8.1% instead of 10.3%; and for Zone W-8 it would remain 4.4%, as Zone W-8 does not receive a direct benefit from the Pacheco Reservoir Expansion project.

In order to pay for estimated State Water Project (SWP) charges in FY 2021-22, staff recommends setting the SWP Tax at \$26 million for FY 2021-22. This translates to a property tax bill for the average single-family residence of roughly \$40.00 per year. The recommended SWP tax is consistent with past practice. If the recommended FY 2021-22 State Water Project Tax is not approved, the M&I groundwater production charge would need to be increased by an additional \$139/AF in North County and either \$27/AF (Zones W-5 and W-7) or \$35/AF (Zone W-8) in South County. The open space credit would increase by roughly \$503,000.

Valley Water's 50<sup>th</sup> Annual Report on the Protection and Augmentation of Water Supplies, among other information, contains a financial analysis of the Valley Water's water utility system and additional details about the above recommendations. This report can be found at [www.valleywater.org](http://www.valleywater.org) <<http://www.valleywater.org>>.

### **Open Space Credit**

The Valley Water Board has historically recognized that agriculture brings value to Santa Clara County in the form of open space and local produce. According to Section 26.1 of the District Act, agricultural water is "water primarily used in the commercial production of agricultural crops or livestock." In an effort to help preserve this value, the District Act limits the agricultural charge to be no more than 25% of the M&I charge.

The agricultural community currently benefits from low groundwater charges that are, in North County Zone W-2, only 2% of M&I charges and, in South County Zone W-7, only 6% of M&I charges in.

The credit to agricultural water users has become known as an "Open Space Credit." It is paid for by fungible, non-rate related revenue. To offset lost revenue that results from the difference between the adopted agricultural groundwater production charge and the agricultural charge that would have resulted at the full cost of service, Valley Water redirects a portion of the 1% ad valorem property taxes generated in the Water Utility, General and Watershed Stream Stewardship Funds.

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In April 2019, the Board directed staff to eliminate the discretionary portion of the Open Space Credit starting in FY 2021-22, after a two-year period in which a coalition of agricultural industry and other stakeholders would work to pursue an alternative revenue source to replace the discretionary portion of the Open Space Credit. Pursuant to this direction, the agricultural groundwater charge would increase to the maximum allowed by the District Act at 25% of M&I charges for FY 2021-22. Doing so would require an update to the Board's Pricing Policy which currently limits the agricultural groundwater production charge to 10% of the M&I Charge. As discussed at the January 12, 2021 Board meeting, staff offers an alternative for Board consideration due to the passage of Measure S in November of 2020, which has relieved some financial pressure for Valley Water in the future. Under this alternative, the agricultural groundwater charge would be set at 10% of the lowest M&I charge, or \$34.15/AF in FY 2021-22.

**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 FY 2021-22.

**CEQA:**

The 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: Staff Report  
Attachment 2: PowerPoint  
Attachment 3: SCVWD Resolution No. 12-10

**UNCLASSIFIED MANAGER:**

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