



Santa Clara Valley Water District

File No.: 21-0974

Agenda Date: 11/23/2021

Item No.: 2.8.

BOARD AGENDA MEMORANDUM

SUBJECT:

Receive Overview of the FY 2022-23 Groundwater Production Charge Setting Process and Review of the 10-Year Water Rate Projection Assumptions, and Provide Feedback.

RECOMMENDATION:

- A. Receive an overview of the Fiscal Year 2022-23 Groundwater Production Charge setting process;
- B. Review the 10-year Water Rate Projection Assumptions; and
- C. Provide feedback.

SUMMARY:

This agenda item presents the Fiscal Year (FY) 2022-23 groundwater production charge setting process and provides an update on key issues that pertain to setting the charges that would take effect July 1, 2022 (Attachment 1).

Each year, the Board establishes groundwater production charges for four zones of benefit (Zone W-2 in the North County and Zones W-5, W-7, and W-8 in the South County) in accordance with Section 26 of the District Act. Although not specified under the District Act, the Board also sets surface water charges, recycled water charges, treated water surcharges, and the amount of the State Water Project cost to be recouped through the State Water Project tax, within the framework of the groundwater charge setting process.

The Water Utility taxing and pricing policy, Resolution 99-21 (Attachment 2) and legal requirements, guide staff in the development of the overall structure for these charges.

The FY 2022-23 surface water charge setting process will be conducted consistent with Proposition 218's requirements for property-related fees for water services as detailed in Board Resolution 12-10 (Attachment 3).

Proposition 26 applies to groundwater charges. For a groundwater charge to qualify as a nontax fee under Proposition 26, it must satisfy both of the following requirements:

- 1. It must be no more than necessary to cover the reasonable costs of the government activity, and
- 2. The manner in which those costs are allocated to a payor bear a fair or reasonable

relationship to the payor's burdens on, or benefits received from, the government activity.

The FY 2022-23 groundwater production charge setting process will be conducted consistent with Proposition 26 requirements. Procedural requirements for property related fees and charges under Proposition 218 like holding a public hearing and noticing well owners are consistent with the District Act and would continue.

Under the District Act, Section 26.6, an annual report referred to as the Report on Protection and Augmentation of Water Supplies (PAWS) is to be filed with the Clerk of the Board on or before the first Tuesday in April. A public hearing must be held on or before the fourth Tuesday in April and it must be noticed to the public in a newspaper of general circulation at least 10 days in advance. In addition, all well owners and well operators on record are notified of proposed groundwater production increases in writing, and of the public hearing at least 45 days in advance. Groundwater production charges must be determined for the ensuing fiscal year prior to July 1 of the ensuing fiscal year. For each zone of benefit, groundwater production charges must be fixed and uniform per acre-foot for agricultural water and fixed and uniform per acre-foot for all water other than agricultural water.

Under the District Act, Section 26.3, groundwater production charges are to be used for the following purposes:

1. Pay for construction, operation, and maintenance of imported water facilities;
2. Pay for imported water purchases;
3. Pay for constructing, maintaining, and operating facilities which will conserve or distribute water including facilities for groundwater recharge, surface distribution, and purification and treatment; or
4. Pay for debt incurred for purposes 1, 2 and 3.

The Board may establish groundwater benefit zones in accordance with the District Act. The objective of establishing various groundwater benefit zones is to recover costs for the benefits resulting from District activities within that zone. The benefits and costs which are apportioned to zones by customer class are presented in the annual PAWS report.

The groundwater production charge reflects the benefit of District 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.

Santa Clara Valley Water District (Valley Water) protects and augments water supplies for the health, welfare, and safety of the community. County-wide, groundwater replenished by the District makes up, on average, two-thirds of the groundwater used by residents, retailers, and businesses. The District replenishes the groundwater basins with local water and purchased water imported from the Sierra Nevada mountains and conveyed thru the San Francisco Bay Delta Estuary. The activities undertaken by the District to acquire, monitor, recharge, and protect the water supply are funded, in

part, through groundwater production charges.

Water Usage Trend

District managed water use for FY 2020-21 is estimated to be approximately 247,000 acre-feet (AF), roughly 17,000 AF higher than budgeted due to a dry winter and dry spring.

Due to the current drought conditions, the Board has called for 15% mandatory conservation compared to calendar year 2019. If the conservation goals are achieved in this current fiscal year (FY 2021-22), then there could be a reduction of about 42,000 AF in water usage versus adopted budget of 232,000 AF; this would translate to upwards of \$50 million in reduced revenue this fiscal year versus budget.

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 are 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.

FY 23 Planning Scenario Ideas

Staff anticipates the need to provide several groundwater charge projection scenarios for Board consideration during this rate setting cycle. Staff would appreciate Board feedback on the following assumptions and scenario ideas:

Baseline assumptions:

- Anderson Reservoir with WIFIA loan
- Pacheco Reservoir Expansion with 35% Partnership Participation & WIFIA loan
- Purified Water Expansion via P3 operational by FY28, assumes 100% debt financed by P3 entity
- Los Vaqueros (Transfer Bethany Pipeline)
- State Water Project Tax pays for 100% of SWP costs (excludes SWP portion of Delta Conveyance)
- Delta Conveyance SWP portion at 3.23%
- Agricultural rates remain set at 10% of lowest M&I rate
- Conservation: 15% achieved in both FY 2021-22 and FY 2022-23, returning to prior projections by FY 2025-26
- New, additional emergency water supply purchases in FY 2022-23, FY2023-24 and FY 2024-25
- Leveraging existing reserves in FY 2022-23 and FY 2023-24 and current unspent project funds (Pacheco: from FY 2020-21 to be used in FY 2022-23 and replenished in FY 2024-25)
- One-time transfer of up to \$25M from Watershed Stream Stewardship fund to the Water Utility

in FY 2023-24

Scenarios:

1. Baseline as described above
2. Baseline with water usage alternatives
3. Baseline without Pacheco

Based on Board feedback, various groundwater charge projection scenarios will be provided for Board consideration.

Planned Groundwater Charge Setting Schedule

Below are the key dates for the groundwater charge setting process as tentatively scheduled. The schedule calls for adopting the budget and groundwater production charges on May 10, 2022.

Jan 3: Agricultural Advisory Committee Meeting (Preliminary Groundwater Production Charge Analysis)

Jan 11: Board Meeting (Preliminary Groundwater Production Charge Analysis), CIP Work Study

Jan 19: Water Retailers Meeting (Preliminary Groundwater Production Charge Analysis)

Jan 25: Board Meeting (Budget development update)

Jan 26: Water Commission Meeting (Preliminary Groundwater Production Charge Analysis)

Feb 25: File "Report on Protection & Augmentation of Water Supplies" (PAWS) with District Clerk of the Board & mail well owners and surface water users notice

Mar 8: Board Meeting - Budget development update (2nd Pass)

Mar 16: Water Retailers Meeting (Groundwater Production Charge recommendation)

Mar TBD: Landscape Committee Meeting (Groundwater Production Charge recommendation)

Apr 4: Agricultural Advisory Committee Meeting (Groundwater Production Charge recommendation)

Apr TBD: Water Commission Meeting (Groundwater Production Charge recommendation)

Apr 12: Board Meeting (Open Public Hearing on Groundwater Production Charges)

Apr TBD: Board Meeting (Continue Public Hearing on Groundwater Production Charges to South County)

Apr 26: Board Meeting (Continue and Conclude Public Hearing)

Apr 27-28: Board Meetings (Budget Work Study Sessions)

May 10: Board Meeting (Adopt Groundwater Production Charges, Budget & CIP)

FINANCIAL IMPACT:

Depending on the direction provided by the Board, there could be a future financial impact to the Water Utility.

CEQA:

CEQA Guidelines Section 15273: CEQA does not apply to the establishment or modification of groundwater production charges and other water charges.

ATTACHMENTS:

Attachment 1: PowerPoint

Attachment 2: SCVWD Resolution No. 99-21

Attachment 3: SCVWD Resolution No. 12-10

UNCLASSIFIED MANAGER:

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