



Santa Clara Valley Water District

File No.: 21-0986

Agenda Date: 5/10/2022

Item No.: *2.10.

BOARD AGENDA MEMORANDUM

SUBJECT:

Adopt Resolutions Setting Increased Groundwater Production Charges and Surface Water, Treated Water, and South County Recycled Water Charges, for Fiscal Year 2022-2023.

*PREVIOUSLY LISTED AS ITEM 2.9

RECOMMENDATION:

- A. Adopt the Resolution DETERMINING GROUNDWATER PRODUCTION CHARGES FOR FISCAL YEAR 2022-2023; and
- B. Adopt the Resolution DETERMINING SURFACE WATER, TREATED WATER, AND SOUTH COUNTY RECYCLED WATER CHARGES FOR FISCAL YEAR 2022-2023.

SUMMARY:

The Santa Clara Valley Water District (Valley Water) annually considers adjusting the water charges necessary to provide a reliable water supply to Santa Clara County. Pursuant to Section 26.6 and 26.7 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 production charge, i.e., a charge on pumping groundwater. For surface water charges, the rate setting process is set forth in Board Resolution 12-10 and includes a formal protest procedure. If written protests are filed by a majority of affected surface water operators or property owners, the surface water charge for that zone will not be increased.

On April 12, 2022, the Board opened the public hearing on the proposed groundwater production charges, surface water charges, and recycled water charges for Fiscal Year 2022-23; the public hearing continued at special board meetings held on April 14, 2022 and again on April 26, 2022. Public comments were accepted at all three meetings, and the public hearing was closed April 26, 2022 before adjourning the board meeting.

The current and severe drought has impacted everyone in Santa Clara County, and as water becomes more scarce it also becomes more expensive. As the primary water wholesaler, Valley Water has experienced reduced contract water allocations and availability of water imported into the County. Purchasing emergency water supplies on the open market has resulted in higher than normal expenditures for the Water Utility. The combination of reduced revenues, driven by conservation, and drought-related expenses have put significant pressure on future water rates in the next couple of years.

In an effort to mitigate water rate impacts, Valley Water has employed several strategies, including using cash reserves to help pay for emergency water purchases.

In the context of this very challenging financial picture, staff recommends that the Board adopt by resolution the following proposed Fiscal Year (FY) 2022-23 groundwater production and other water charges, outlined below and in the accompanying table:

1. In the North County (Zone W-2), staff proposes a maximum 15% increase in the Municipal and Industrial (M&I) groundwater production charge from \$1,499/Acre-Foot (AF) to \$1,724/AF. Staff recommends maintaining the treated water contract surcharge to \$115/AF and maintaining the treated water non-contract surcharge at \$200/AF. The average household in Zone W-2 would experience a monthly bill increase of \$7.75 or about 26 cents per day.
2. In the Llagas Subbasin (Zone W-5), staff recommends a maximum 5.2% increase in the M&I groundwater production charge from \$488/AF to \$513/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 the Coyote Valley (Zone W-7), staff recommends a maximum 10.3% increase in the M&I groundwater production charge from \$528.50/AF to \$582.50/AF. The average household in Zone W-7 would experience an increase in their monthly bill of \$1.86 or about 6 cents per day.
4. In the foothills below the Uvas and Chesbro Reservoirs (Zone W-8), staff recommends a maximum 8% increase in the M&I groundwater production charge from \$341.50/AF to \$368.50/AF. The average household in Zone W-8 would experience an increase in their monthly bill of \$0.93 or about 3 cents per day.
5. For agricultural groundwater users, staff proposes a maximum increase of up to 8 percent from the prior year, which equates to setting the agricultural groundwater charge at 10 percent of the lowest M&I rate (Zone W-8), consistent with Board direction from January 12, 2021. The proposed maximum agricultural groundwater production charge in any groundwater benefit zone would change from \$34.15/AF to \$36.85/AF, or roughly a \$0.45 increase per month per acre, assuming two acre-feet of water usage per acre per year.
6. Staff recommends a maximum 15% increase to the surface water master charge from \$40.90/AF to \$47.10/AF to help align the charge with the costs related to managing, operating and filling for surface water diversion. The adjustment results in a maximum 15.0% increase to the Zone W-2 (North County) M&I surface water charge, from \$1,539.90/AF to \$1,771.10/AF. For Zone W-5 (Llagas Subbasin) the adjustment results in a maximum 5.9% increase to the overall M&I surface water charge, from \$528.90/AF to \$560.10/AF. For Zone W-7 (Coyote Valley) the adjustment results in a maximum 10.6% increase to the overall M&I surface water charge, from \$518.50/AF to \$629.60/AF. For Zone W-8 (foothills below the Uvas and Chesbro Reservoirs) the adjustment results in a maximum 8.7% increase to the overall M&I surface water charge, from \$382.40/AF to \$415.60/AF. The adjustment results in the overall agricultural surface water charge in any zone increasing up to 11.9% from \$75.05/AF to \$83.95/AF.
7. For recycled water supplied by the South County Regional Wastewater Authority Facility at Gilroy, staff recommends increasing the M&I charge up to 5.3% from \$ 468/AF to \$493/AF. For agricultural recycled water, staff recommends a maximum 4.4% increase from \$61.55/AF to

\$64.25/AF. The pricing remains consistent with the provisions of the "Wholesale-Retailer Agreement for Supply of Recycled Water Between Santa Clara Valley Water District and City of Gilroy."

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	Dollars Per Acre Foot		
	FY 2020-21	FY 2021-22	Proposed Maximum FY 2022-23
Zone W-2 (North County)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	1,374.00	1,499.00	1,724.00
Agricultural	28.86	34.15	36.85
Surface Water Charge			
Surface Water Master Charge	37.50	40.90	47.10
Total Surface Water, Municipal & Industrial*	1,411.50	1,539.90	1,771.10
Total Surface Water, Agricultural*	66.36	75.05	83.95
Treated Water Charges			
Contract Surcharge	100.00	115.00	115.00
Total Treated Water Contract Charge**	1,474.00	1,614.00	1,839.00
Non-Contract Surcharge	200.00	200.00	200.00
Total Treated Water Non-Contract Charge***	1,574.00	1,699.00	1,924.00
Zone W-5 (Llagas Subbasin)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	467.00	488.00	513.00
Agricultural	28.86	34.15	36.85
Surface Water Charge			
Surface Water Master Charge	37.50	40.90	47.10
Total Surface Water, Municipal & Industrial*	504.50	528.90	560.10
Total Surface Water, Agricultural*	66.36	75.05	83.95
Recycled Water Charges			
Municipal & Industrial	447.00	468.00	493.00
Agricultural	56.26	61.55	64.25
Zone W-7 (Coyote Valley)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	481.00	528.50	582.50
Agricultural	28.86	34.15	36.85
Surface Water Charge			
Surface Water Master Charge	37.50	40.90	47.10
Total Surface Water, Municipal & Industrial*	518.50	569.40	629.60
Total Surface Water, Agricultural*	66.36	75.05	83.95
Zone W-8 (Uvas/Chesbro)			
Basic User/Groundwater Production Charge			
Municipal & Industrial	327.00	341.50	368.50
Agricultural	28.86	34.15	36.85
Surface Water Charge			
Surface Water Master Charge	37.50	40.90	47.10
Total Surface Water, Municipal & Industrial*	364.50	382.40	415.60
Total Surface Water, Agricultural*	66.36	75.05	83.95
*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 surcharge			
***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-contract surcharge			

Following the close of the public hearing, the Clerk of the Board tabulated all surface water charge protests received. The Clerk reports that Valley Water received no surface water protests in North County (Zone W-2), Llagas Subbasin (South County Zone W-5), Coyote Valley (South County Zone W-7), or the foothills below the Uvas and Chesbro Reservoirs (South County Zone W-8). Since protests were not received from a majority of affected surface water users or parcels in any of these zones, Valley Water may enact the surface water charges recommended in the February 2022 Report on the Protection and Augmentation of Water Supplies (<https://www.valleywater.org/your-water/current-water-charges/groundwater-production-charge-setting-process-2022-23>.)

The attached resolutions would officially establish water charges for FY 2022-23, which would become effective on July 1, 2022. These staff recommended rates are necessary to pay for drought-related supplemental water purchases, water supply infrastructure rehabilitation and upgrades, and investments in new water supply reliability.

Staff recommends setting the State Water Project (SWP) tax at \$27 million for FY 2022-23, which translates to a property tax bill for the average single-family residence of approximately \$41.00 per year. The recommended SWP tax is necessary to pay for SWP costs. If this tax were not approved, the M&I groundwater production charge would need to increase by \$177/AF in the North County (Zone W-2), \$37/AF in the South County (Zone W-5), \$60/AF in Zone W-7, and \$27/AF in Zone W-8. The open space credit would need to increase by roughly \$885,000 to recoup lost tax revenue. Staff's recommendation regarding the SWP tax is consistent with the Valley Water's past practice and with the approach of other water districts and agencies that maintain State water supply contracts. The resolution to set the SWP tax is one of the resolutions included in the agenda item to adopt the FY 2022-23 Operating and Capital Budget.

ENVIRONMENTAL JUSTICE IMPACT:

Valley Water annually considers adjusting water charges necessary to generate necessary revenue for the service of providing water supply to Santa Clara County. Each year the rate setting process is brought forth no fewer than five times, with open discussions being held in November, January and at several public hearings in April, providing the Board and public significant opportunity for input. In addition, several Board Advisory committees have opportunities for input in January and April, and the public is invited to an Open House each year in April.

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 2022-23.

CEQA:

The establishment of groundwater production charges and other water charges is not a project under

CEQA Guidelines Section 15273(a) (CEQA does not apply to establishment or modification of charges by public agencies 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 Charges

Attachment 2: Resolution, Surface, Treated, Recycled Water Charges

Handout 2.4-A: Dr. J. Michael

UNCLASSIFIED MANAGER:

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