



Santa Clara Valley Water District

File No.: 22-1083

Agenda Date: 11/22/2022

Item No.: 2.9.

BOARD AGENDA MEMORANDUM

SUBJECT:

Receive an Overview of the Fiscal Year 2023-24 Groundwater Production Charge (and Treated Surface Water, Raw Surface Water, and Recycled Water Charges) Setting Process and Estimated State Water Project Tax; Review 10-Year Water Rate Projection Assumptions; and Provide Feedback.

RECOMMENDATION:

- A. Receive an overview of the Fiscal Year 2023-24 groundwater production charge (and treated surface water, raw surface water, and recycled water charges) setting process and estimated State Water Project tax;
- B. Review staff's 10-Year water rate projection assumptions; and
- C. Provide feedback to staff.

SUMMARY:

This agenda item presents the Fiscal Year (FY) 2023-24 groundwater production charge setting process and provides an update on key issues that pertain to setting the charges that would take effect July 1, 2023 (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 2023-24 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 2023-24 groundwater production charge setting process will be conducted consistent with Proposition 26 requirements. Consistent with the District Act, procedural requirements for property related fees and charges, like holding a public hearing and noticing well owners, are followed.

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

In June 2021, due to historic drought conditions, the Board called for 15% mandatory conservation compared to calendar year 2019.

The estimated actual District managed water use for FY 2021-22 is approximately 221,000 acre-feet (AF), about 11,000 AF lower than budgeted due to water conservation efforts. This reflects around 5% conservation achieved in total.

Adopted budget FY 2022-23 water use reflects 15% conservation being achieved, at around 192,000 AF. Consistent with prior year long-term projections, water use projections for FY 2023-24 reflect ongoing conservation efforts combined with a slight rebound from the drought, with total water use estimated at 205,000 AF. Based on trends from the last drought (2014-2017), annual water use is projected to return to about 236,000 AF by FY 2025-26.

Staff continue to carefully monitor monthly water use actuals and work closely with the water retailers during the drought. The water usage forecast may be modified as necessary during the upcoming rate setting process.

FY 24 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:

- Ongoing Drought: reflect reduced water usage and rebound timing
- Continued emergency water supply purchases in FY 2023-24 & FY 2024-25
- Conservation: 15% achieved in FY 2022-23 (around 192,000 AF), rebounding slightly in FY 2023-24 (205,000 AF)
- Anderson Dam Seismic Retrofit with WIFIA loan
- Pacheco Reservoir Expansion Project with WIFIA loan and 35% Partnership Participation
- Purified Water Expansion via P3 operational by FY28, assumes 100% debt financed by P3 entity
- Los Vaqueros (Transfer Bethany Pipeline) including up to 50KAF storage
- 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 Zone W-8 M&I rate

Scenarios:

1. Baseline as described above
2. Baseline as described above with impacts of an extended drought
3. Baseline as described above with various Project Funding Scenarios, e.g., based on outcomes of CIP Funding Filter Analysis

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 9, 2023.

Jan 9: Agricultural Advisory Committee Meeting (Preliminary Groundwater Production Charge Analysis)
Jan 10: Board Meeting (Preliminary Groundwater Production [GWP] Charge Analysis), CIP Work Study
Jan 18: Water Retailers Meeting (Preliminary GWP Charge Analysis)
Jan 24: Board Meeting (Budget development update)
Jan 25: Water Commission Meeting (Preliminary GWP Charge Analysis)
Feb 24: File "Report on Protection & Augmentation of Water Supplies" (PAWS) with District Clerk of the Board & mail well owners and surface water users notice
Mar 7: Board Meeting - Budget development update (2nd Pass)
Mar 15: Water Retailers Meeting (GWP Charge recommendation)
Apr 3: Agricultural Advisory Committee Meeting (GWP Charge recommendation)
Apr 12: Water Commission Meeting (GWP Charge recommendation)
Apr 11: Board Meeting (Open Public Hearing on GWP Charges)
Apr 13: Board Meeting (Continue Public Hearing on GWP Charges in South County)
Apr 25: Board Meeting (Continue and Conclude Public Hearing on GWP Charges)
Apr 26-27: Board Meetings (Budget Work Study Sessions)
May 9: Board Meeting (Adopt Groundwater Production Charges, Budget & CIP)

ENVIRONMENTAL JUSTICE IMPACT:

The annual Groundwater Production Charge setting process addresses water supply equity by ensuring a cost-effective, high-quality supply is available for all of Santa Clara County, including disadvantaged communities.

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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