

Meeting Date: 4/13/2010
Agenda Item:
Unclassified Manager: D. Taylor
Extension: 3068
Director(s): All

BOARD AGENDA MEMO

SUBJECT: Public Hearing – Annual Report on the Protection and Augmentation of Water Supplies – 2010 and Recommended Groundwater Production Charges for FY 2010–11.

RECOMMENDATION:

That the Board:

- A. Hold a public hearing pursuant to Section 26.6 of the District Act and direct staff to review the report with, and solicit comments from the District’s advisory committees;
- B. Hear comments from groundwater producers and any interested persons; and
- C. Continue the public hearing to April 22, 2010.

SUMMARY:

The public hearing is conducted to inform the community of the activities performed by the District to ensure reliable water supply including the recommended groundwater production charges to pay for them. The hearing provides opportunity for any interested person to submit comments to the Board. This year’s rate setting process includes a formal protest procedure consistent with Proposition 218 in an effort to improve engagement with the public. If written protests are filed by a majority of well owners the groundwater production charge cannot be imposed and would mean a loss of up to \$63 million in revenue. Without a groundwater charge and the ability to recover the costs of importing water, managing local water, conducting water management and conservation programs, and operating and maintaining the reservoirs and recharge systems, the level of service would have to be dramatically reduced. This would lead to declining groundwater levels and reduced reliability of water supply.

Staff recommends no increase to the municipal and industrial and agricultural groundwater production charges for both zones for the second year in a row. A non-agricultural well owner in South County who uses the same amount of water as the average household in the county would pay less than \$10 per month, which is among the cheapest water in the State. Staff

SUBJECT: Public Hearing – Annual Report on the Protection and Augmentation of Water Supplies – 2010 and Recommended Groundwater Production Charges for FY 2010-11

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recommends a decrease in the non-contract treated water surcharge from \$150/AF to \$50/AF. Staff recommends setting the State Water Project Tax at \$18 million for FY 2010-11 which translates to an 11.8% decrease in property taxes for the average single family residence from roughly \$34.00 per year to \$30.00 per year.

The District engaged a prominent consultant, Raftelis Financial Consultants (RFC), to review the District's rate setting process. RFC concluded that the cost of service principles and policies used by the District are consistent with legal considerations including proposition 218 and the District Act.

OUTREACH EFFORTS:

The District has made significant efforts to outreach to the public and stakeholders. All well owners were mailed a notice of public hearing on February 26 describing the District's activities, the proposed charges to pay for them, and the ways that the public could engage in the process. Recently the District hosted two open house events, one in Morgan Hill and one in Cupertino, to meet with well owners and provide information. The District's website at www.valleywater.org contains a host of information on the rate setting process including an FAQ, Board resolutions, RFC's report on their review of the District' rate setting process, the District's Annual Report on the Protection and Augmentation of Water Supplies, and copies of the letters sent to well owners. District staff has met with the editorial Boards of various local newspapers and has met with many local groups and individuals. District Staff presented the proposed charges to the Water Retailers Committee on March 10, 2010 and met subsequently with each retailer individually. District Staff presented the proposed charges to the Board's advisory committees in early April.

CEQA ANALYSIS:

The recommended action, the holding of a public hearing is not a project under CEQA. Further, 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.

FINANCIAL IMPACT:

There is no financial impact associated with holding the hearing. If at a subsequent meeting, the Board approves the recommended groundwater production charges, the Water Utility should have sufficient funding for planned operations and capital improvement projects for fiscal year 2010–11.

SUBJECT: Public Hearing – Annual Report on the Protection and Augmentation of Water Supplies – 2010 and Recommended Groundwater Production Charges for FY 2010-11

4/13/2010

ATTACHMENTS:

Attachment 1, Staff Report
Attachment 2, Power Point Presentation

Staff Report

In accordance with the District Act, District staff has prepared an annual report on the Protection and Augmentation of Water Supplies, which was filed with the Clerk of the Board on February 26, 2010.

The Report is the 39th annual report on the Santa Clara Valley Water District's (District) activities in the protection and augmentation of the water supplies of the District. This Report is prepared in accordance with the requirements of the District Act, section 26.5. The Report provides information on water requirements and water supply availability and financial analysis of the District's water utility system including future capital improvement and maintenance requirements, operating requirements, financing methods and staff's recommended groundwater production charges by zone for fiscal year 2010-11.

The Rate Setting Process

According to Section 26.3 of the District Act, proceeds from groundwater production charges can 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
4. Pay for debt incurred for purposes 1, 2 and 3.

This year, as in past years, staff has carefully evaluated the activities that can be paid for by groundwater production charges. The work of the district is divided into projects and every project manager prepares a project plan. The project plan is a detailed description of a project including objectives, milestones, and an estimate of resources needed to deliver the project. Each project plan contains a justification as to whether or not groundwater production charges can be used. The financial analysis presented in the Report complies with the District Act.

Resolution 99-21 guides staff in the development of the overall pricing structure based on principles established in 1971. The general approach is to charge the recipients of the various benefits for the benefits received. More specifically, pricing is structured to manage surface water, groundwater supplies and recycled water conjunctively to prevent the over use or under use of the groundwater basin. Consequently staff is very careful to recommend pricing for groundwater production charges, treated water charges, surface water charges and recycled water charges that work in concert to achieve the effective use of available resources.

This year's rate setting process is consistent with Proposition 218 although the applicability of Proposition 218 to the groundwater production charge has yet to be finally determined by the courts. In an effort to be more transparent and formalize the well owners' ability to engage in the rate setting process, staff has prepared a "cost of service" analysis by customer class and has implemented a formal protest procedure. As in the past, the board will continue to hold public hearings and seek input from its advisory committees and the public before rendering a final decision on groundwater production charges for FY 2010-11.

Staff Recommendations

Exhibit 1 shows the groundwater production charges and other charges that staff recommends for FY 2010–11.

Exhibit 1
Summary of Charges
(Dollars Per Acre Foot, \$/AF)

	Dollars Per Acre Foot		
	2008-09	2009-10	Recommended 2010-11
Zone W-2 (North County)			
Groundwater Production Charge			
Municipal & Industrial	520.00	520.00	520.00
Agricultural	16.50	16.50	16.50
Zone W-5 (South County)			
Groundwater Production Charge			
Municipal & Industrial	275.00	275.00	275.00
Agricultural	16.50	16.50	16.50
Recycled Water Charges			
Municipal & Industrial	275.00	275.00	275.00
Agricultural	41.50	41.50	41.50
Zone W-2 (North County)			
Basic User Charge	520.00	520.00	520.00
Treated Water Surcharge			
Contract	100.00	100.00	100.00
Non-contract	100.00	150.00	50.00
Total Treated Water Contract Charge	620.00	620.00	620.00
Total Treated Water Non-contract Charge	620.00	670.00	570.00

As a result of reducing and deferring capital projects, an improving water supply picture, and a continued focus on cost control, staff is recommending no increase in the North County (zone W-2) municipal and industrial (M&I) groundwater production charge and no increase in the contract treated water charge. Likewise, in the South County (zone W-5), staff is recommending no increase in the M&I groundwater production charge. Staff is recommending a decrease in the non-contract treated water surcharge from \$150/AF to \$50/AF. Given recent rains, staff anticipates having adequate surface water supplies to meet contract and non-contract deliveries, which justifies a pricing incentive for retailers to take more treated water.

Staff recommends setting the State Water Project Tax at \$18 million for FY 2010-11 which would translate to a decrease in property taxes for the average single family residence from roughly \$34.00 per year to \$30.00 per year.

Exhibit 2 shows projected District water use including treated water, groundwater, raw surface water and recycled water. For FY 2010-11 total District water use was adjusted downward to 275KAF relative to FY 2009-10 to reflect the estimated actual FY 10 water use based on the year-to-date trend. In FY 2012-13 water use is projected to begin ramping back to near pre-drought usage. FY 2013-14 and beyond assume water use just below average pre-drought usage of 300KAF.

Exhibit 2
District Water Use Projection
(1,000's AF)

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
North County M&I	226.08	219.08	219.08	227.08	233.17	233.17
North County Ag	0.44	0.44	0.44	0.44	0.44	0.44
South County M&I	26.2	27.2	28.2	30.2	31.2	32.2
South County Ag	26.3	26.3	26.3	27.3	28.3	28.3
South County Recycled	1.8	2.2	2.2	2.4	2.4	2.6
Total	280.82	275.22	276.22	287.42	295.51	296.71

Exhibit 3 shows the staff recommendation projected out for 5 Years. The debt service coverage ratio, which is a ratio of revenue less operations expenses divided by annual debt service, is targeted at 2.0 or better which helps to ensure financial stability and continued high credit ratings. The low point of the debt service coverage ratio projection is 1.98 in FY 2010-11 and FY 2014-15.

Exhibit 3
5 Year Charge and Financial Indicator Projection

Staff Recommendation	Bdgt					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. County (W-2) M&I GWP charge (\$/AF)	\$520	\$520	\$565	\$615	\$670	\$735
Y-Y Growth %	0.0%	0.0%	8.7%	8.8%	8.9%	9.7%
So. County (W-5) M&I GWP charge (\$/AF)	\$275	\$275	\$285	\$295	\$305	\$315
Y-Y Growth %	0.0%	0.0%	3.6%	3.5%	3.4%	3.3%
Operating & Capital Reserve (\$K)	\$39,414	\$22,753	\$24,935	\$25,089	\$27,435	\$30,660
Sr. Lien Debt Svc Cov Ratio (1.25 min)	2.51	1.98	1.99	2.30	2.33	1.98
South County Cumulative Deficit (\$K)	(\$8,481)	(\$6,252)	(\$3,135)	\$67	\$3,224	\$7,259

In the future, the anticipated increases in the groundwater production charge are primarily driven by the size of the capital improvement program to address aging infrastructure. FY 2010-11 operations costs are projected to be similar to the FY 2009-10 budget due to continued focus on cost control and an improving water supply picture, and are projected to increase on average just over 4% per year for the next 10 years. As shown in Exhibit 4, debt service is projected to rise from \$16.4 million in FY 2010-11 to just over \$52 million in FY 2019-20 as a result of periodic debt issuances to fund capital.

Exhibit 4
Projected Debt Service (\$M)

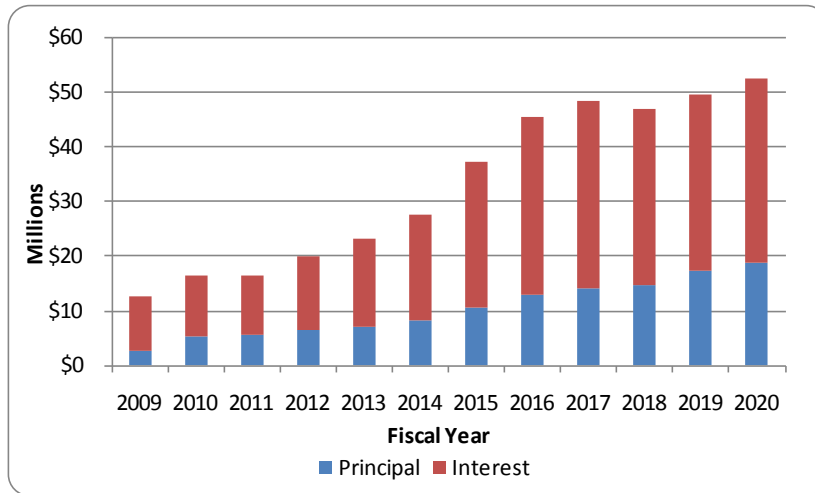


Exhibit 5 shows staff’s recommendation projected out for the next 10 years and assumes a continuation of the level of service provided in FY 2009-10. The high end of the range represents the groundwater charges required to fund all of the operations and capital projects identified by staff to meet the Board’s ends policies over the next few years.

Exhibit 5
10 Year Groundwater Charge Projection

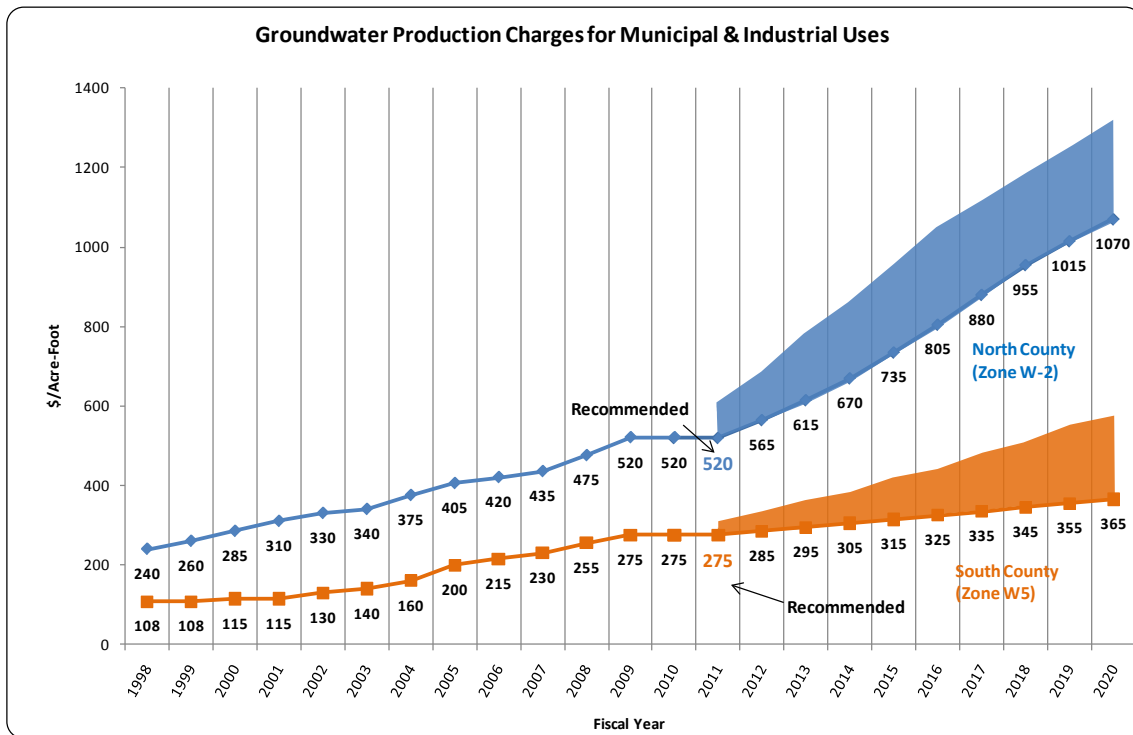


Exhibit 6 shows a comparison of the recommended groundwater production and treated water charges relative to the anticipated increases for the following similar agencies: Metropolitan

Exhibit 6
Anticipated FY 2010-11 Water Charge Increases for Similar Agencies

	FY 2009-10	FY 2010-11	
SCVWD North W-2 (Groundwater per AF)	\$520	0.0%	Staff Recommendation
SCVWD North W-2 (Treated Water per AF)	\$620	0.0%	Staff Recommendation
SCVWD South W-5 (Groundwater per AF)	\$275	0.0%	Staff Recommendation
Metropolitan WD (Groundwater per AF)*	\$570	12.6%	Staff projection
Metropolitan WD (Treated Wtr per AF)*	\$787	12.6%	Staff projection
Orange County WD (Groundwater per AF)	\$249	6.8%	Staff projection
San Diego County WA (Treated Water per AF)*	\$978	18.6%	Per the FY 10/11 budget
San Francisco PUC (Treated Water per AF)	\$719	15.2%	Staff projection
Zone 7 (Treated Water per AF)*	\$878	8.3%	Staff projection

* MWD, SDCWA and Zone 7 rates based on calendar year
(i.e. 2011 rate would be effective on 1/1/2011)

Cost of Service

This year staff prepared a cost of service analysis by customer class as part of the charge setting process as documented in the annual Report beginning on page 17 of Section 4. The cost of service analyses for FY 2010-11 is shown in Exhibit 7 for North County and Exhibit 8 for South County. The exhibits format follows six industry standard rate making steps.

1. Identify utility pricing objectives and constraints
2. Identify revenue requirements
3. Allocate costs to customer classes
4. Reduce costs by revenue offsets or non-rate related funding sources
5. Develop unit costs by customer class or net revenue requirements by customer class
6. Develop unit rates by customer class

Step 1 is the identification of Water Utility pricing objectives and constraints which are described in Resolution 99-21, the District Act, Proposition 218 and existing contracts. Step 2 involves identifying and segregating Water Utility Fund costs versus Watershed and Administrative Funds and allocating water utility costs between zones W-2 (North) and W-5 (South) according to benefit provided. Step 3 involves allocating costs by customer class either directly or based on water usage. Steps 4 and 5 result in unit costs by customer class after applying non-rate related offsets.

Step 6 includes two adjustments. The first adjustment is the application of non-user revenue, in this case 1% ad valorem property taxes and/or interest earnings to offset the costs of agricultural water in accordance with Board Resolution 99-21. The second adjustment involves reallocating a portion of the cost of treated water (or recycled water in the case of South County) to groundwater and surface water users. Treated and recycled water offsets the need to pump groundwater and therefore increases the volume of stored groundwater, the level of groundwater, and the reliability of groundwater. Consequently, the reallocation of a portion of the treated water cost for example represents the value of treated water to groundwater and surface water users and facilitates a pricing structure that prevents the over use of the

groundwater basin.

Exhibit 7
Cost of Service North County Zone W-2 (\$K)

FY '11 Projection (\$K)	Zone W-2						Total W-2
	GW		TW	SW			
	M&I	AG	M&I	M&I	Ag		
1 Operating Outlays							
2 Operations/Operating Projects	28,412	107	66,277	905	9	95,710	
3 SWP Imported Water Costs	4,987	19	17,079	323	3	22,411	
4 Debt Service	3,473	13	12,811	115	1	16,413	
5 Total Operating Outlays	36,872	139	96,166	1,343	14	134,535	
6							
7 Capital & Transfers							
8 Operating Transfers Out	-	-	-	-	-	-	
9 Capital Outlays excl. carryforward	16,443	62	35,168	527	6	52,207	
10 Total Capital & Transfers	16,443	62	35,168	527	6	52,207	
11 Total Annual Program Costs	53,315	201	131,334	1,870	20	186,741	
12							
13 Revenue Requirement Offsets							
14 Capital Cost Recovery	(1,394)	(5)	(1,443)	(46)	(0)	(2,889)	
15 Debt Proceeds	(6,723)	(25)	(14,379)	(216)	(2)	(21,346)	
16 Inter-governmental Services	(512)	(2)	(529)	(17)	(0)	(1,060)	
17 SWP and W-1 Property Taxes	(3,765)	(14)	(13,436)	(244)	(3)	(17,462)	
18 Inter-zone Interest	(107)	(0)	(110)	(4)	(0)	(221)	
19 Capital Contributions	(3,542)	(13)	(3,666)	(117)	(1)	(7,339)	
20 Perchlorate Response	(1,174)	(4)	(1,215)	(39)	(0)	(2,433)	
21 Other	(349)	(1)	(1,922)	(18)	(0)	(2,291)	
22 Reserve Requirements	(2,090)	(8)	(4,469)	(67)	(1)	(6,634)	
23 Adjusted Revenue Requirement	33,659	127	90,164	1,103	12	125,066	
24							
25 Volume (KAF)	105.9	0.4	109.6	3.5	0.0	219.5	
26							
27 Revenue Requirement per AF	\$ 318	\$ 318	\$ 822	\$ 315	\$ 315		
28							
29 Adjustments for Agricultural Preservation							
30 Allocate WU 1% Ad Valorem Prop Tax	0	(120)	-	-	(10)	(131)	
31 Allocate Interest Earnings	-	-	-	-	-	-	
32 Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-	
33 Revenue Requirement per AF	\$ 317.7	\$ 16.5	\$ 822	\$ 315	\$ 28.3		
34 Step 6 - Rate Design							
35 Adjustments to Facilitate Conjunctive Use							
36 Reallocate TW/SW/RW costs	21,426	-	(22,184)	758	-	0	
37 Charge per AF	\$ 520	\$ 16.5	\$ 620	\$ 532	\$ 28.3		
38 Total Revenue (\$K)	\$55,086	\$7	\$67,980	\$1,861	\$1	\$124,935	

Exhibit 8
Cost of Service South County Zone W-5 (\$K)

FY '11 Projection (\$K)	Zone W-5							Total W-5
	GW		SW		RW			
	M&I	AG	M&I	AG	M&I	AG		
1	Operating Outlays							
2	Operations/Operating Projects	5,372	4,974	52	339	123	70	10,930
3	SWP Imported Water Costs	-	-	-	-	-	-	-
4	Debt Service	-	-	-	-	-	-	-
5	Total Operating Outlays	5,372	4,974	52	339	123	70	10,930
6								
7	Capital & Transfers							
8	Operating Transfers Out	-	-	-	-	-	-	-
9	Capital Outlays excl. carryforward	-	-	-	-	-	-	-
10	Total Capital & Transfers	-	-	-	-	-	-	-
11	Total Annual Program Costs	5,372	4,974	52	339	123	70	10,930
12								
13	Revenue Requirement Offsets							
14	Capital Cost Recovery	1,045	967	8	50	522	298	2,889
15	Debt Proceeds	-	-	-	-	-	-	-
16	Inter-governmental Services	(55)	(51)	(0)	(3)	-	-	(109)
17	SWP and W-1 Property Taxes	(524)	(485)	(4)	(25)	(27)	(16)	(1,080)
18	Inter-zone Interest	107	99	1	5	6	3	221
19	Capital Contributions	-	-	-	-	-	-	-
20	Perchlorate Response	1,263	1,170	-	-	-	-	2,433
21	Other	(20)	(19)	(0)	(1)	-	-	(40)
22	Reserve Requirements	-	-	-	-	-	-	-
23	Adjusted Revenue Requirement	7,188	6,656	56	366	623	356	15,244
24								
25	Volume (KAF)	27.0	25.0	0.2	1.3	1.4	0.8	55.7
26								
27	Revenue Requirement per AF	\$ 266	\$ 266	\$ 281	\$ 281	\$ 445	\$ 445	
28								
29	Adjustments for Agricultural Preservation							
30	Allocate WU 1% Ad Valorem Prop Tax	-	(3,895)	-	-	-	-	(3,895)
31	Allocate Interest Earnings	-	(2,348)	-	(304)	-	-	(2,652)
32	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	(25)	-	(323)	(348)
33	Revenue Requirement per AF	\$ 266	\$ 16.5	\$ 281	\$ 28.3	\$ 445	\$ 41.5	
34								
35	Adjustments to Facilitate Conjunctive Use							
36	Reallocate TW/SW/RW costs	237	-	1	-	(238)	-	-
37	Charge per AF	\$ 275	\$ 16.5	\$ 287	\$ 28	\$ 275	\$ 41.5	
38	Total Revenue (\$K)	\$7,425	\$413	\$57	\$37	\$385	\$33	\$8,349

This year, the District engaged Raftelis Financial Consultants, Inc. (RFC) to review the District's rate setting process and cost of service analysis. RFC is an industry leader in water and wastewater finance and management having assisted over 600 water and wastewater utilities across the U.S. and abroad. RFC concluded that the District developed its recommended charges for FY 2010-11 based on cost of service principles and policies which are consistent with legal considerations including the District Act, Resolution 99-21 and Proposition 218. RFC noted several areas where the District's process reflects "best practices."

RFC concluded that there are potential opportunities for improvement to the District's rate setting process as follows:

1. Consider a fixed percentage differential for the treated water surcharge
2. Consider engaging a water resource engineer to more precisely calculate the conjunctive use benefit of treated water going forward
3. Consider establishing a formal policy to maintain a consistent percentage differential between the M&I and Agricultural groundwater production charge
4. Consider reviewing all non-user rate revenue sources (including General Fund property tax) to determine the optimal sources to apply towards the Ag charge offset
5. Consider re-visiting the surface water master surcharge calculation
6. Consider charging capitalized interest for South Zone capital projects

While there is insufficient time in this process to fully analyze and respond to those suggestions, staff will consider these recommendations during the next rate setting process. RFC's detailed report is posted on the District's website at <http://www.valleywater.org/Services/2010-11ChargeSettingProcess.aspx>.

Hearings and Meetings Schedule

Exhibit 9 presents the schedule for the annual groundwater production charge setting process.

Exhibit 9
Hearings and Meetings Schedule – 2010

Date	Hearing/Meeting
February 26	Protection and Augmentation of Water Supplies Report (formerly Water Utility Enterprise Report) filed with COB
March 10	Water Retailers Meeting
March 11	South County Informational Open House
March 15	North County Informational Open House
April 5	Agricultural Advisory Committee Meeting
April 7	Water Commission Meeting
April 8	Landscape Advisory Committee
April 13	Board opens Public Hearing
April 22	Board continues Public Hearing at South County location
April 27	Close Public Hearing
June 8	Adopt FY 11 groundwater production charges & budget



Public Hearing

Groundwater Production Charges

April 13, 2010



Public hearing has three specific objectives

- 1 Present annual report on Santa Clara Valley Water District's activities and recommended groundwater production charges
- 2 Provide opportunity for any interested person to "...appear and submit evidence concerning the subject of the written report" to the Board of Directors
- 3 Determine and affix Groundwater Production Charges for FY 2010-11

39th annual report provides information, accountability

Protection and Augmentation of Water Supplies 2010
39th annual report

Santa Clara Valley Water District 



Enclosures

CEO's 2010/11 water charges recommendation

- 1 Present water requirements and water supply availability
- 2 Future water requirements and water supply availability
- 3 Programs to sustain supply reliability
- 4 Financial outlook of water utility system
- 5 Appendices

2010

Protection and Augmentation of Water Supplies Report

www.valleywater.org

Many water district activities ensure safe, reliable groundwater supplies

Benefits

- Reliable, healthy and clean drinking water
- Diverse water supply sources
- Protected and sustained water resources
- Maximized water conservation and recycling

Replenish the groundwater basin

- Operate and maintain local reservoirs to capture water and fill recharge ponds.
- Purchase imported water.

Ensure safe drinking water

- Monitor and protect groundwater from pollutants.
- Ensure proper construction and destruction of wells.

Construct, maintain and repair

- Plan and construct improvements to infrastructure such as dams, pipelines, ponds, treatment plants and pump stations.
- Operate and maintain pipelines and pumping plants to help sustain the groundwater aquifer.

Multiple topics comprise today's public hearing

- Rate Setting Process
- FY 11 financial analysis and projections
 - Recommended charges
 - Benchmarks
 - Cost of service analysis
 - Multi-year analysis
- Schedule/Wrap up

District Act sets the parameters for charge-setting

Approach for FY 2010-11

Annual evaluation of activities that can be paid for by groundwater production charges

District Act Section 26.3

Defines purposes of groundwater production charges that can be imposed on a zone of benefit

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
4. Pay for debt incurred for purposes 1, 2 and 3

Policies provide additional guidance

Approach for FY 2010-11:

Continue to recommend pricing that will achieve the effective use of available resources according to the policy

Resolution 99-21

Utility taxing and pricing policy guides staff in the development of the overall structure to charge recipients for the various direct and indirect benefits received

Key concept – “water supplies are managed, through taxing and pricing, to obtain the effective utilization of the water resources of the District...”

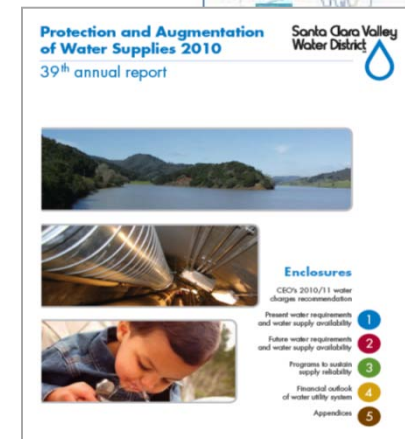
This year's charge-setting process is consistent with Prop 218 process for water service charges

Approach for FY 2010-11:

- Prepare “cost of service” analysis by customer class
 - Groundwater Users
 - Treated Water Users
 - Surface Water Users
 - Recycled Water Users
- Implement protest procedure

Expanded outreach efforts inform customers

- Two informational open houses
- Improved website offering “one stop shopping”
- Meetings with local newspaper editorial boards
- Individual meetings with all major retailers
- Meetings with local groups and individuals



FY 11 financial analysis and projections

FY 2011: North County recommended charges

No increase for M&I groundwater production

No increase for Ag groundwater production

No increase for contract treated water

NORTH COUNTY	Dollars Per Acre Foot		
	FY 2008-09	FY 2009-10	Recommended FY 2010-11
Zone W-2 (North County)			
Groundwater Production Charge			
Municipal & Industrial	520.00	520.00	520.00
Agricultural	16.50	16.50	16.50
Basic User Charge	520.00	520.00	520.00
Treated Water Surcharge			
Contract	100.00	100.00	100.00
Non-contract	100.00	150.00	50.00
Total Treated Water Contract Charge	620.00	620.00	620.00
Total Treated Water Non-contract Charge	620.00	670.00	570.00

FY 2011: South County recommended charges

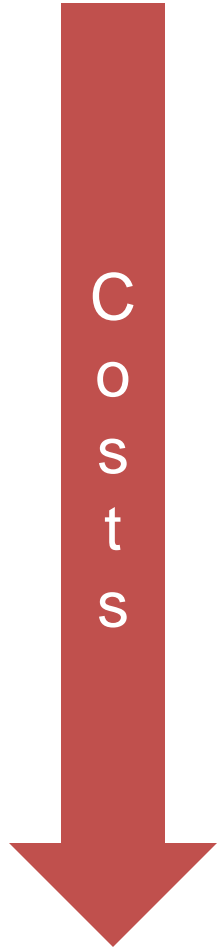
No increase for M&I groundwater production

No increase for Ag groundwater production

No increase in recycled water charges

SOUTH COUNTY	Dollars Per Acre Foot		
	FY 2008-09	FY 2009-10	Recommended FY 2010-11
Zone W-5 (South County)			
Groundwater Production Charge			
Municipal & Industrial	275.00	275.00	275.00
Agricultural	16.50	16.50	16.50
Recycled Water Charges			
Municipal & Industrial	275.00	275.00	275.00
Agricultural	41.50	41.50	41.50

Fiscal responsibility is paramount



- 57 positions eliminated District-wide over past two years
- More position reductions are planned for FY 11
- Overtime usage reduced by 40% over past two years
- Reduced fleet by 25 vehicles
- We will continue to seek ways to cut costs in the future

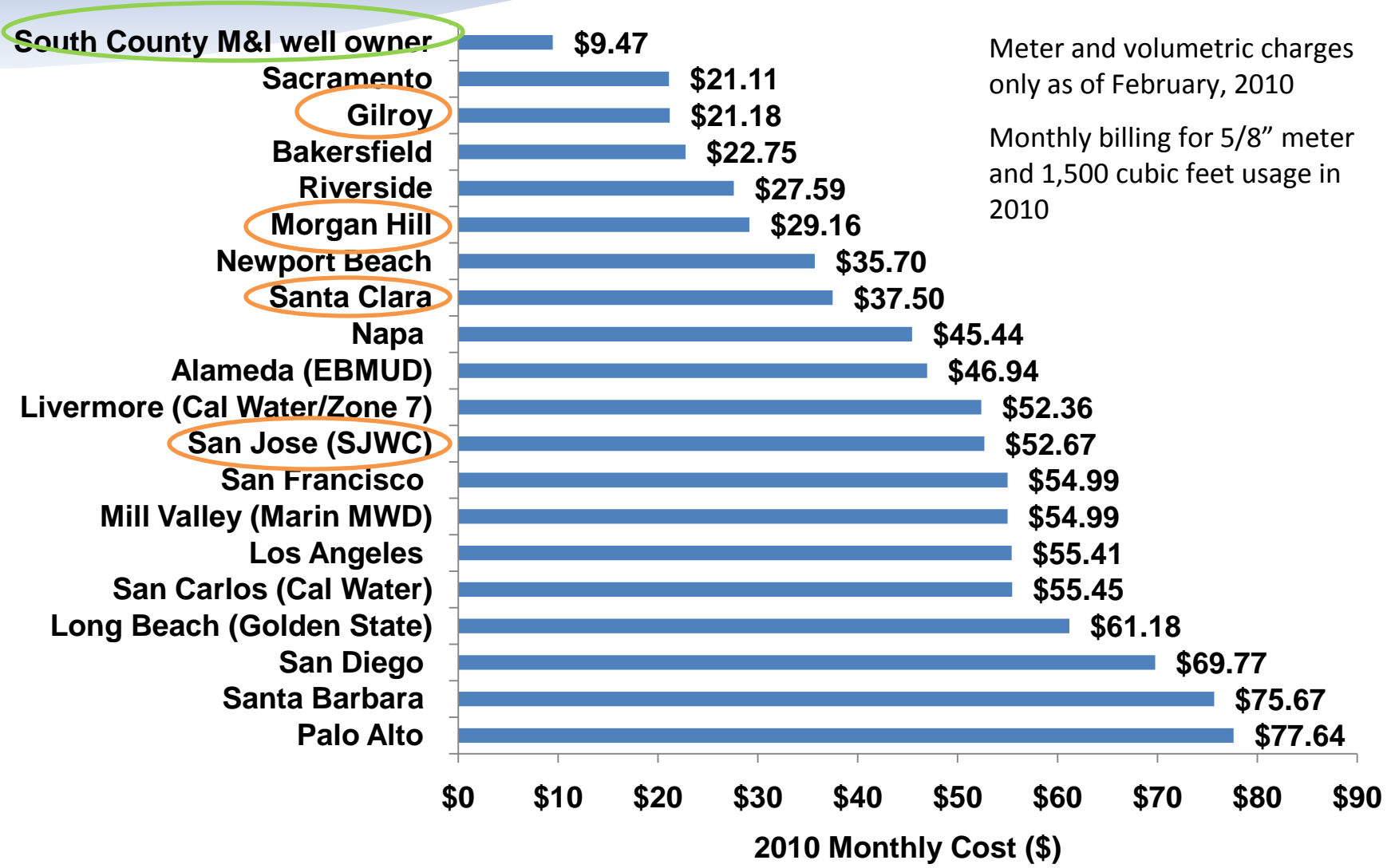
FY 2011 recommendation is significantly lower than most similar agencies

	FY 2009-10	FY 2010-11	
SCVWD North W-2 (Groundwater per AF)	\$520	0.0%	Staff Recommendation
SCVWD North W-2 (Treated Water per AF)	\$620	0.0%	Staff Recommendation
SCVWD South W-5 (Groundwater per AF)	\$275	0.0%	Staff Recommendation
Metropolitan WD (Groundwater per AF)*	\$570	12.6%	Staff projection
Metropolitan WD (Treated Wtr per AF)*	\$787	12.6%	Staff projection
Orange County WD (Groundwater per AF)	\$249	6.8%	Staff projection
San Diego County WA (Treated Water per AF)*	\$978	18.6%	Per the FY 10/11 budget
San Francisco PUC (Treated Water per AF)	\$719	15.2%	Staff projection
Zone 7 (Treated Water per AF)*	\$878	8.3%	Staff projection

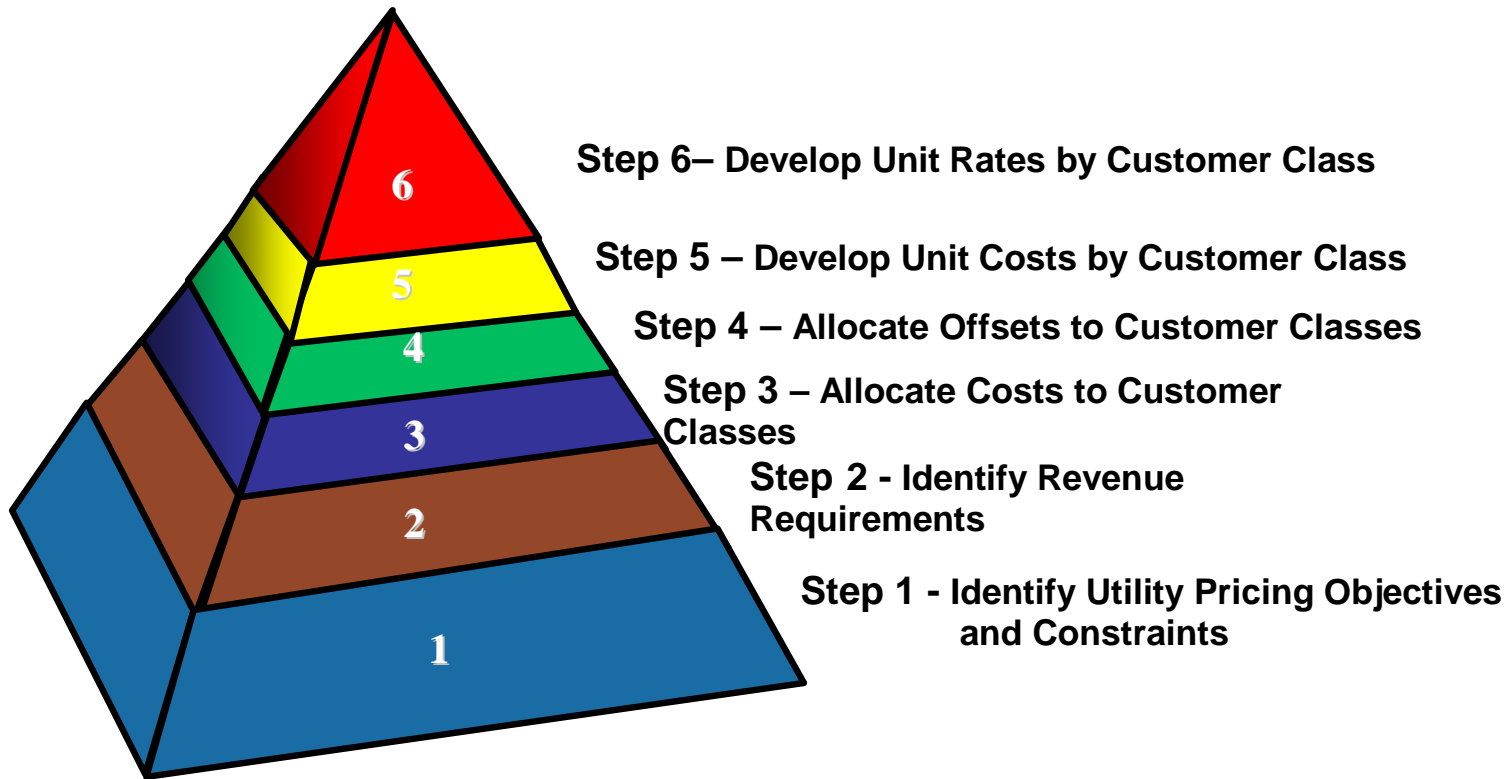
* MWD, SDCWA and Zone 7 rates based on calendar year
(i.e. 2011 rate would be effective on 1/1/2011)

Retail agency benchmarks

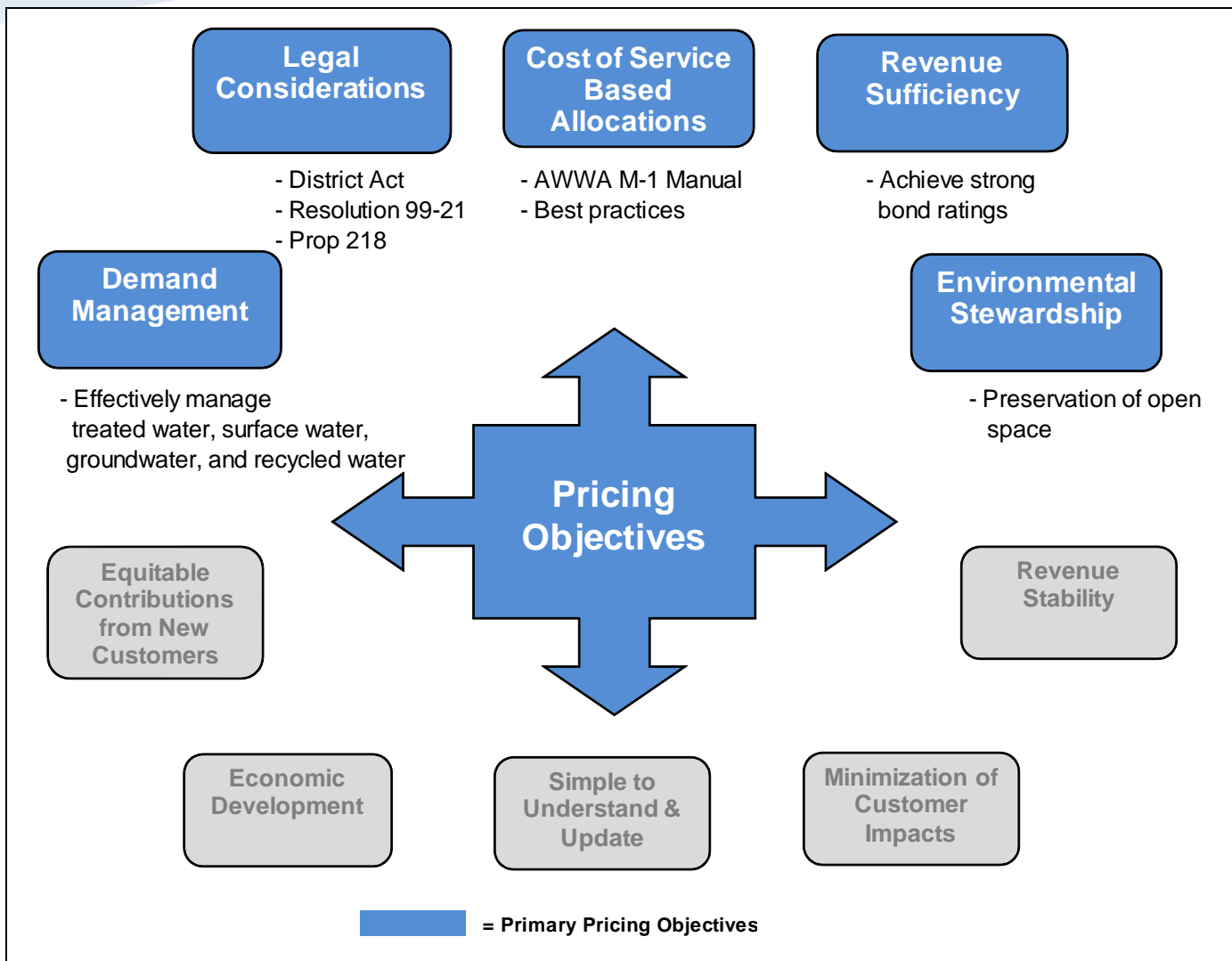
Retail Agency Benchmarks



The District followed best practice rate making steps



STEP 1: Identify Pricing Objectives and Constraints



Rate making steps translate into Cost of Service Analysis

See pages
18 & 23 of
the Annual
Report

Step 6 – Develop Unit Rates

North County zone W-2

FY '11 Projection (\$K)	Zone W-2						
	GW		TW	SW		Total W-2	
	M&I	AG	M&I	M&I	Ag		
27	Revenue Requirement per AF	\$ 318	\$ 318	\$ 822	\$ 315	\$ 315	
28		Step 5 - Develop unit costs by customer class					
29	Adjustments for Agricultural Preservation						
30	Allocate WU 1% Ad Valorem Prop Tax	0	(120)	-	-	(10)	(131)
31	Allocate Interest Earnings	-	-	-	-	-	-
32	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	-	-	-
33	Revenue Requirement per AF	\$ 317.7	\$ 16.5	\$ 822	\$ 315	\$ 28.3	
34		Step 6 - Rate Design					
35	Adjustments to Facilitate Conjunctive Use						
36	Reallocate TW/SW/RW costs	21,426	-	(22,184)	758	-	0
37	Charge per AF	\$ 520	\$ 16.5	\$ 620	\$ 532	\$ 28.3	
38	Total Revenue (\$K)	\$55,086	\$7	\$67,980	\$1,861	\$1	\$124,935

- Ag preservation adjustments achieve Board policy using non-user revenue sources
- Conjunctive use adjustments reflect demand management benefits

Step 6 – Develop Unit Rates

South County zone W-5

FY '11 Projection (\$K)	Zone W-5							
	GW		SW		RW		Total W-5	
	M&I	AG	M&I	AG	M&I	AG		
27	Revenue Requirement per AF	\$ 266	\$ 266	\$ 281	\$ 281	\$ 445	\$ 445	
28								
29	Adjustments for Agricultural Preservation							
30	Allocate WU 1% Ad Valorem Prop Tax	-	(3,895)	-	-	-	-	(3,895)
31	Allocate Interest Earnings	-	(2,348)	-	(304)	-	-	(2,652)
32	Transfer WS 1% Ad Valorem Prop Tax	-	-	-	(25)	-	(323)	(348)
33	Revenue Requirement per AF	\$ 266	\$ 16.5	\$ 281	\$ 28.3	\$ 445	\$ 41.5	
34	Step 6 - Rate Design							
35	Adjustments to Facilitate Conjunctive Use							
36	Reallocate TW/SW/RW costs	237	-	1	-	(238)	-	-
37	Charge per AF	\$ 275	\$ 16.5	\$ 287	\$ 28	\$ 275	\$ 41.5	
38	Total Revenue (\$K)	\$7,425	\$413	\$57	\$37	\$385	\$33	\$8,349

- Ag preservation adjustments achieve Board policy using non-user revenue sources
- Conjunctive use adjustments reflect demand management benefits

Raftelis Financial Consultants (RFC) reviewed & validated the District's rate setting process

- “Cost of service principles and policies are consistent with legal considerations including Proposition 218...”
- “The comprehensiveness of the Project Plans reflects best practices”
- “District’s internal debt service coverage target of 2.0 reflects best practices and contributes to its strong bond ratings”
- “The pricing policies established by the District recognize the conjunctive use benefit of the District’s system as demonstrated by historical groundwater levels...”
- “The District has reasonably achieved demand management objectives”

RFC noted potential opportunities for improvement

1. Consider fixed percentage differential for treated water surcharge
2. Consider engaging water resource engineer to more precisely calculate the conjunctive use benefit of treated water going forward
3. Consider formal policy to maintain consistent percentage differential between M&I and Agricultural groundwater production charge
4. Consider re-visiting all non-user sources to confirm optimal sources for AG offsets
5. Consider re-visiting surface water master surcharge calculation
6. Consider charging capitalized interest for South Zone capital projects

Multi-year Analysis

Water use projection reduced

Water Use Projections for Revenue Calculation Purposes (1,000s AF)

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
North County M&I	226.08	219.08	219.08	227.08	233.17	233.17
North County Ag	0.44	0.44	0.44	0.44	0.44	0.44
South County M&I	26.2	27.2	28.2	30.2	31.2	32.2
South County Ag	26.3	26.3	26.3	27.3	28.3	28.3
South County Recycled	1.8	2.2	2.2	2.4	2.4	2.6
Total	280.82	275.22	276.22	287.42	295.51	296.71

Water Use Assumption for FY 2010-11

- Reduced usage consistent with 15% mandatory conservation (adjusted down to roughly 275,000 acre-feet of District water use versus FY 10 assumption)
- Assumes ramp back to near “pre-drought” water use over FY 2012-13 and FY 2013-14 (roughly 295,000 acre-feet of District water use by FY 2013-14)

CIP key driver of groundwater production charge projection

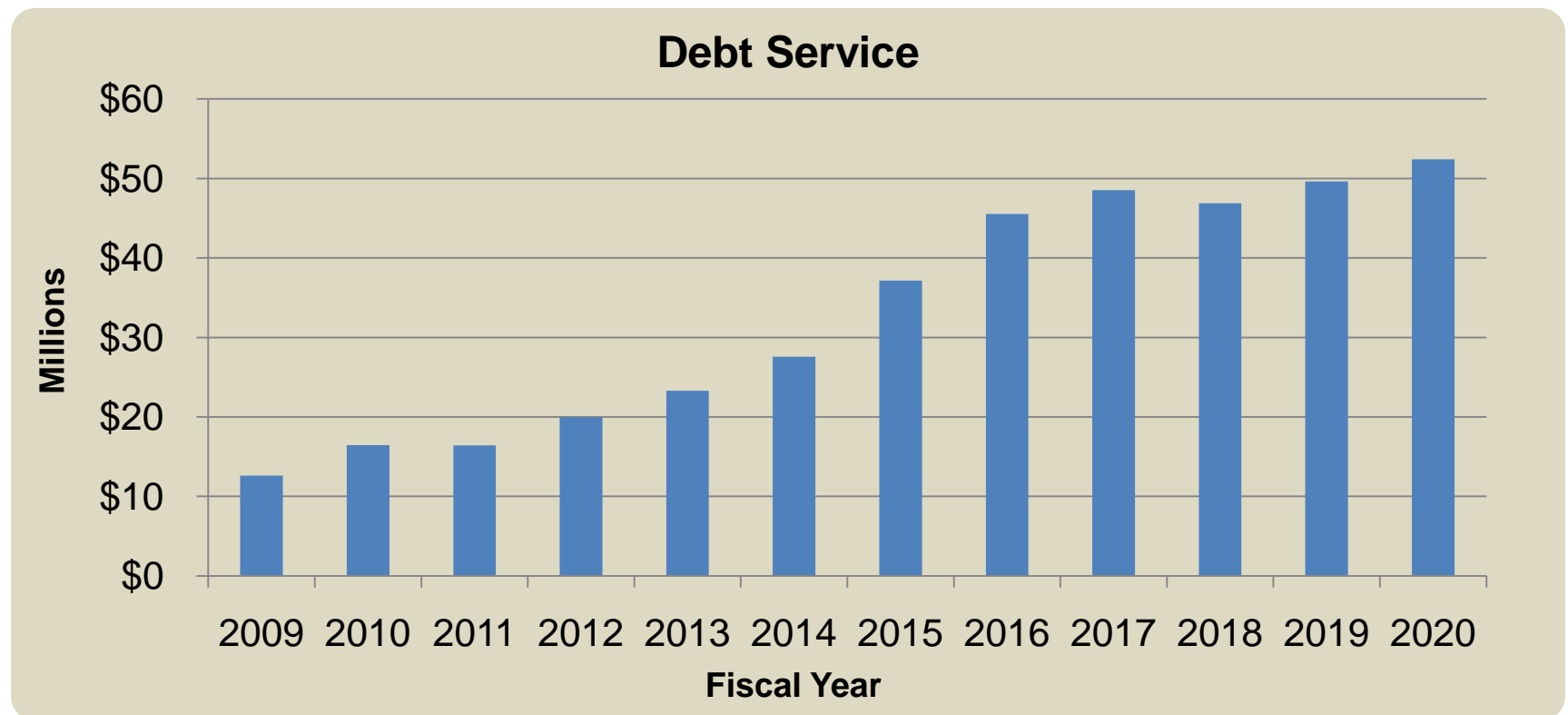
Based on Proposed FY 11 CIP

	Capital Cost Projection		
	FY 2010-11 to FY 2019-20 (\$ K)		
	<u>North County</u>	<u>South County</u>	<u>Total Utility</u>
WU Funded	773,008	70,840	843,849
WU Unfunded	373,963	123,554	497,517
Admin Unfunded	34,558	3,925	38,483
Total Funded/Unfunded	1,181,529	198,320	1,379,849

Implementation of CIP results in debt service increase

\$16M per year in FY 2009-10

\$52M per year by FY 2019-20



5-year projection driven by CIP - financial indicators are sound

Staff Recommendation	Bdgt					
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
No. County (W-2) M&I GWP charge (\$/AF)	\$520	\$520	\$565	\$615	\$670	\$735
Y-Y Growth %	0.0%	0.0%	8.7%	8.8%	8.9%	9.7%
So. County (W-5) M&I GWP charge (\$/AF)	\$275	\$275	\$285	\$295	\$305	\$315
Y-Y Growth %	0.0%	0.0%	3.6%	3.5%	3.4%	3.3%
Operating & Capital Reserve (\$K)	\$39,414	\$22,753	\$24,935	\$25,089	\$27,435	\$30,660
Sr. Lien Debt Svc Cov Ratio (1.25 min)	2.51	1.98	1.99	2.30	2.33	1.98
South County Cumulative Deficit (\$K)	(\$8,481)	(\$6,252)	(\$3,135)	\$67	\$3,224	\$7,259

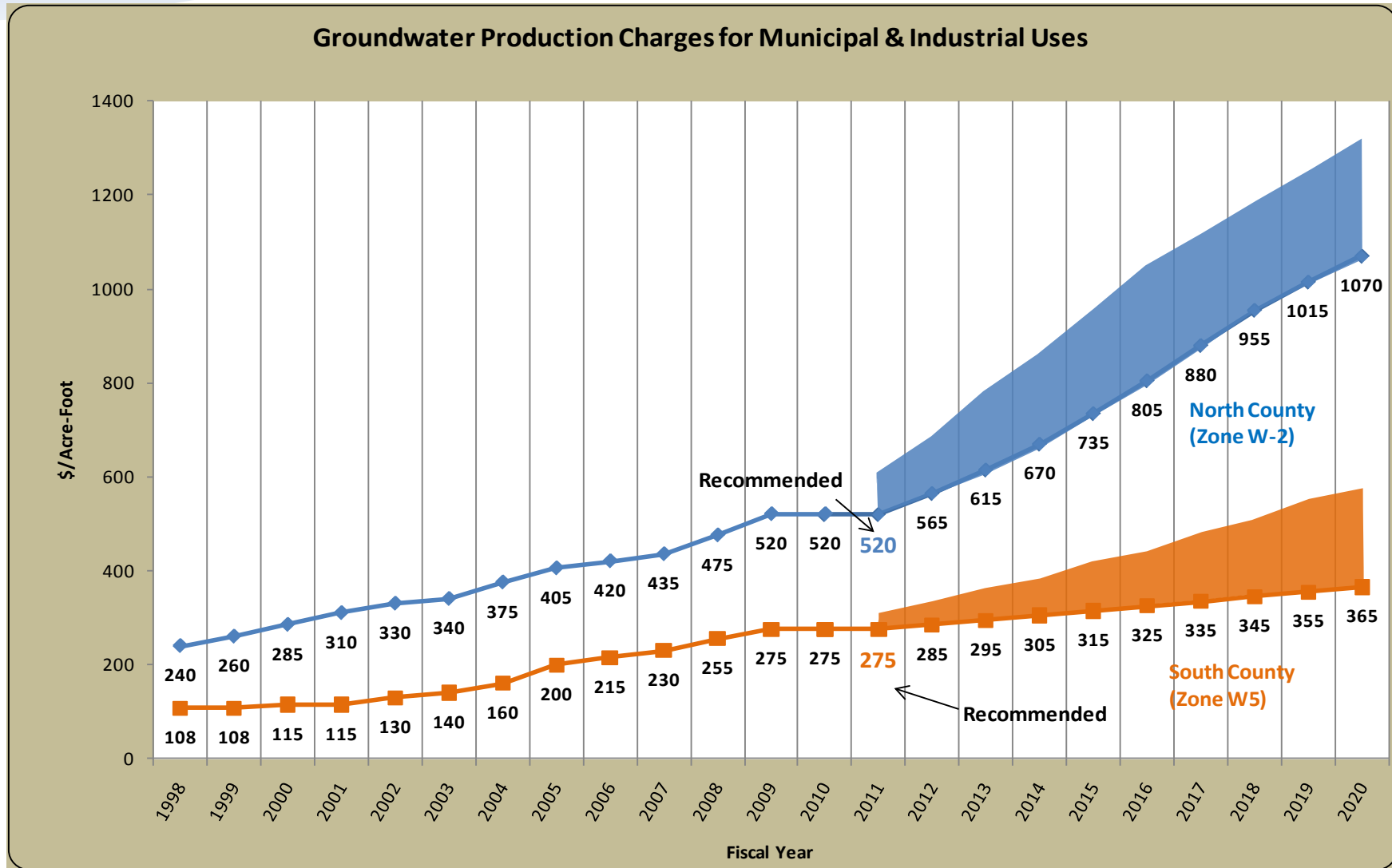
Assumptions:

1. Debt service coverage ratio targeted at 2.0 or better to help ensure financial stability and continued high credit ratings
2. Operating and capital reserve level targeted at minimum per policy
3. South County cumulative revenue shortfall balanced in FY 2012-13

Some projects cannot be funded without higher future charges

- Dam Seismic Stability – Unfunded portion (\$150M)
- San Luis Low-Point (\$141M)
- DHCCP Implementation and Other Delta Projects (\$91.5M)
- New South County Recharge Ponds (\$33.3M)
- Advanced Recycled Water Treatment Plant – Coyote Valley (\$26.0M)
- San Felipe Pipeline Upgrades (\$11M)
- Long Term South County Recycled Water Facility Expansion Project (\$8.2M)
- Church Avenue Recharge Capability (\$4.2M)

Capital program drives 10-year projection



Hearings and meetings ensure feedback and transparency

2010 schedule for hearings and meetings

- ✓ March 10 Water Retailers Meeting
- ✓ March 11 Informational Open House in Morgan Hill
- ✓ March 15 Informational Open House in Cupertino
- ✓ April 5 Ag Water Advisory Committee
- ✓ April 7 Water Commission Meeting
- ✓ April 8 Landscape Advisory Committee
- April 13 Open Public Hearing
- April 22 Continue Hearing in Gilroy
- April 27 Close Public Hearing
- June 8 Adopt budget & groundwater production charges

District could respond to a majority protest in many ways

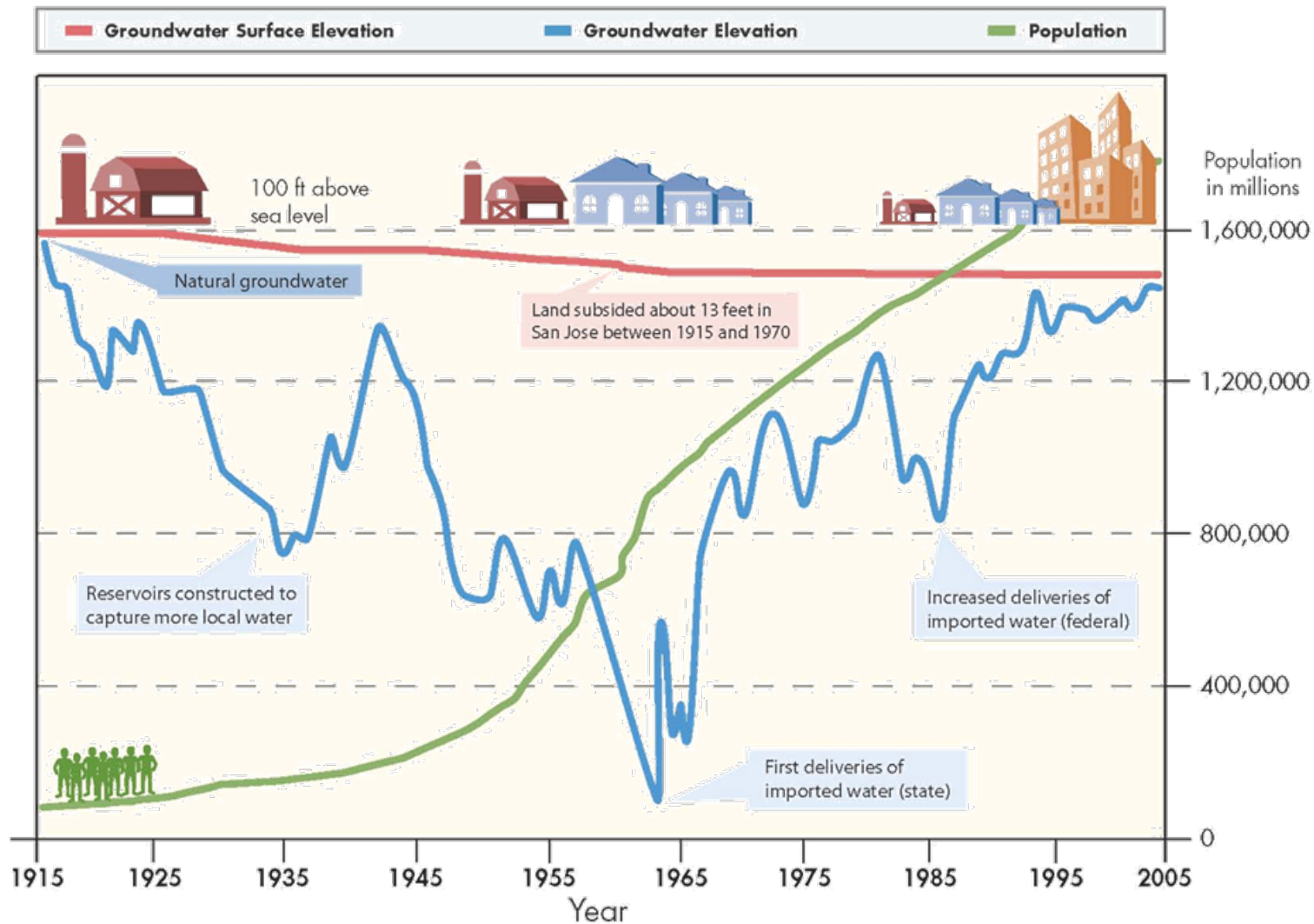
- Defer or eliminate capital projects and capital facility maintenance, especially related to recharge
- Significantly reduce operations in the areas of groundwater recharge, water recycling, water conservation, importation of water, and environmental projects
- Implement fees for well permits
- Increase treated water, recycled water and surface water rates
- Pursue contract based services with willing retailers

Potential revenue loss for FY 2010-11

- \$55M in North County
- \$8M in South County
- \$63M total

In conjunction with Board review of policies

Loss of groundwater revenue may cause history to repeat



Next Steps

- Board discussion
- Continue hearing to April 22 in South County