Public Hearing has Three Specific Objectives

1. Present annual report on Valley Water’s activities and recommended ground water 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 and Other Water Charges for FY 2022-23
51st Annual Report Released

Annual Protection and Augmentation of Water Supplies Report provides information & accountability

Filed February 25, 2022

Available Online: https://www.valleywater.org/ProposedWaterCharges
Topics for Today’s Public Hearing

• Background
• Drought Impact on Water Charge Recommendation
• Water Usage
• Cost Projection
• Key Assumptions for FY 2022-23
• Recommended Groundwater Production Charges
• State Water Project Tax
• Schedule/Wrap up
A comprehensive, flexible water system

SERVING OVER 2.0 MILLION PEOPLE:
Resolution 99-21 is the Board’s Pricing Policy

Board Pricing Policy Summary

- Groundwater charges are levied within a zone for benefits received
  - Modified zones shown became effective on 7/1/2020

- All water sources and water facilities contribute to common benefit within a zone regardless of cost, known as “pooling” concept
  - Helps maximize effective use of available resources

- Agricultural water charge shall not exceed 10% of M&I water charge
Rate setting process is consistent with Props 218 and 26

• Supreme Court found Prop 218 not applicable to groundwater charges
  • Certain Prop 218 requirements continue, like holding a public hearing, and noticing well owners, which are consistent with District Act

• But Surface Water Charge setting process is consistent with Prop 218
  • Includes protest procedure as defined in Board Resolution 12-10

• Groundwater charge setting process is consistent with Prop 26
Drought Emergency Cost increases

• Emergency Water Purchases projected to be $67.7M from FY23 to FY25
• Emergency Conservation activities projected to be $19.8M from FY23 to FY25

Water Usage down

• Mandatory 15% call for conservation compared to 2019 (achieved by FY23)
• Results in lower revenue to pay for highly fixed cost structure

\[ \text{COSTS} + \text{WATER USAGE} = \text{WATER RATES} \]
Long Term Cost Projection

![Bar chart showing cost projection for fiscal years 2020 to 2032.](image-url)
Smart infrastructure investments needed today:

- Critical to providing safe, clean water to Santa Clara County
- Investing now is most cost-efficient way to get critical multi-year projects done

Priority infrastructure investments needed include:

- Fixing Anderson Dam
  - Address public health and safety concerns and relieve operational restrictions
- Upgrading Rinconada Water Treatment Plant
  - Extend service life of plant for next 50 years and expand plant capacity
- Building local storage with Pacheco Reservoir Expansion Project
  - Add water storage to help face extended droughts
- Expanding Purified Water Project
  - Provide incremental drought proof water supply
Recommended rate setting strategy for FY 2022-23

**FY 2022-23 BASELINE CASE ASSUMPTIONS:**

- Baseline Projects*
- SWP Tax pays for 100% of SWP costs (excludes SWP portion of Delta Conveyance)
- Delta Conveyance SWP portion at 3.23%
- Los Vaqueros (Transfer Bethany Pipeline)
- Anderson Dam Seismic Retrofit with WIFIA loans (up to 49% of TPC)
- Purified Water Expansion via P3 with operations beginning in FY28
  - Assumes 100% debt financing through P3 entity
- Pacheco Reservoir Expansion Project (PREP) with $496M Proposition 1 grants, WIFIA loans (up to 49% of TPC) and Partnership Participation at 35% of TPC
- Master Plan Projects Placeholder**: Assumes $369M from FY23-FY32, mainly after 5 Year CIP

* Includes but not limited to dam seismic retrofits, Rinconada WTP reliability improvement, 10-year pipeline rehabilitation program
** Master Plan Project Placeholder includes anticipated costs for new pipelines, pipeline rehabilitations, treatment plant upgrades & SCADA implementation projects
TPC: Total Project Cost
WATER RATE IMPACT MINIMIZATION STRATEGIES:

1. Transfer $39M unspent funds from PREP to Rate Stabilization Reserve in FY 2021-22; future PREP cost projection adjusted such that Total Project Cost (TPC) is unchanged

2. Leverage available reserves: draw down $64M total in FY 2022-23 & FY 2023-24 (including $39M from PREP unspent funds)

3. One-time transfer of $25M from WSS Fund to Water Utility in FY 2022-23
Implementation of CIP results in debt service increases

- \$60.2M in FY 2022-23
- \$242.8M in FY 2031-32

- Debt service coverage ratio (DSCR) targeted at 2.0 helps ensure financial stability and high credit ratings

- DSCR projected at 1.76 and 1.78 for FY 23 and FY 24 respectively in effort to minimize rate impact with rebound to 2.0+ in FY 25
Recommended Groundwater Production Charges
DRIVES DIFFERENT GROUNDWATER PRODUCTION CHARGES IN EACH ZONE

**North County**
- 3 water treatment plants
- Reservoirs –
  - Almaden
  - Calero
  - Guadalupe
  - Lexington
  - Stevens Creek
  - Vasona
- Silicon Valley Advanced Water Purification Center
- Imported Water – State Water Project

**Shared**
- Reservoirs –
  - Anderson
  - Coyote
  - Pacheco
- Imported Water –
  - Central Valley Project
- **Shared facilities do not benefit Zone W-8**

**South County**
- Reservoirs –
  - Chesbro
  - Uvas
    - **Does not benefit Zone W-7**
- SCRWA Recycled Water System
  - **Benefits Zone W-5 only**
## FY 2022-23 Recommended Groundwater Charge Projection

### M&I Groundwater Charge Year to Year Growth %

<table>
<thead>
<tr>
<th>Staff Recommendation</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
<th>FY27</th>
<th>FY28</th>
<th>FY29</th>
<th>FY30</th>
<th>FY31</th>
<th>FY32</th>
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</thead>
<tbody>
<tr>
<td>North County Zone W-2</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>9.1%</td>
<td>9.1%</td>
<td>9.1%</td>
<td>9.1%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
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<tr>
<td>South County Zone W-5</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>South County Zone W-7</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>South County Zone W-8</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
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</tr>
</tbody>
</table>
### Estimated Monthly Impact to Average Household

**M&I Groundwater Charge Monthly Impact to Average Household**

<table>
<thead>
<tr>
<th>Staff Recommendation</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
<th>FY27</th>
<th>FY28</th>
<th>FY29</th>
<th>FY30</th>
<th>FY31</th>
<th>FY32</th>
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</thead>
<tbody>
<tr>
<td>North County Zone W-2</td>
<td>$7.75</td>
<td>$8.91</td>
<td>$10.24</td>
<td>$7.15</td>
<td>$7.80</td>
<td>$8.51</td>
<td>$9.28</td>
<td>$5.56</td>
<td>$5.84</td>
<td>$6.13</td>
</tr>
<tr>
<td>South County Zone W-5</td>
<td>$0.86</td>
<td>$0.92</td>
<td>$0.97</td>
<td>$1.02</td>
<td>$1.07</td>
<td>$1.13</td>
<td>$1.18</td>
<td>$1.25</td>
<td>$1.31</td>
<td>$1.38</td>
</tr>
<tr>
<td>South County Zone W-7</td>
<td>$1.86</td>
<td>$2.07</td>
<td>$2.28</td>
<td>$2.51</td>
<td>$2.77</td>
<td>$3.06</td>
<td>$3.37</td>
<td>$3.72</td>
<td>$4.10</td>
<td>$4.53</td>
</tr>
<tr>
<td>South County Zone W-8</td>
<td>$0.93</td>
<td>$1.02</td>
<td>$1.10</td>
<td>$1.18</td>
<td>$1.28</td>
<td>$1.38</td>
<td>$1.49</td>
<td>$1.61</td>
<td>$1.74</td>
<td>$1.88</td>
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</tbody>
</table>
FY 2022-23 Recommended Groundwater Charge Projection

M&I Groundwater Charge Projection

- North County M&I (Zone W-2)
- South County M&I (Zone W-7)
- South County M&I (Zone W-5)
- South County M&I (Zone W-8)
- TW Surcharge
- SFPUC Treated Water w/BAWSCA Surcharge
- Agricultural Groundwater Production Charge (10% of Zone W-8)

Fiscal Year

$/Acre-Foot

2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

$327 $481 $488 $529 $583 $1,724

Maximum proposed

$342 $369 $513 $583 $657 $724

$481 $529 $583 $1,724

$467 $481 $529 $583

$0 $200 $400 $600 $800 $1,000 $1,200 $1,400 $1,600 $1,800 $2,000 $2,200 $2,400 $2,600 $2,800 $3,000 $3,200 $3,400 $3,600 $3,800 $4,000 $4,200
## FY 2022-23 North County Zone W-2 Maximum Proposed Charges

### Zone W-2 (North County)

<table>
<thead>
<tr>
<th></th>
<th>Dollars Per Acre Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic User/Groundwater Production Charge</strong></td>
<td></td>
</tr>
<tr>
<td>Municipal &amp; Industrial</td>
<td>1,374.00</td>
</tr>
<tr>
<td>Agricultural</td>
<td>28.86</td>
</tr>
<tr>
<td><strong>Surface Water Charge</strong></td>
<td></td>
</tr>
<tr>
<td>Surface Water Master Charge</td>
<td>37.50</td>
</tr>
<tr>
<td>Total Surface Water, Municipal &amp; Industrial*</td>
<td>1,411.50</td>
</tr>
<tr>
<td>Total Surface Water, Agricultural*</td>
<td>66.36</td>
</tr>
<tr>
<td><strong>Treated Water Charges</strong></td>
<td></td>
</tr>
<tr>
<td>Contract Surcharge</td>
<td>100.00</td>
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<tr>
<td>Total Treated Water Contract Charge**</td>
<td>1,474.00</td>
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<tr>
<td>Non-Contract Surcharge</td>
<td>200.00</td>
</tr>
<tr>
<td>Total Treated Water Non-Contract Charge***</td>
<td>1,574.00</td>
</tr>
</tbody>
</table>

FY 23 M&I Increase equates to approximately $7.75 per month to the average household.

Note: Does not include any increase that a retailer would layer on top.
## FY 2022-23 South County Zone W-5 Maximum Proposed Charges

### Dollars Per Acre Foot

<table>
<thead>
<tr>
<th>Zone W-5 (Llagas Subbasin)</th>
<th>FY 2020–21</th>
<th>FY 2021–22</th>
<th>Proposed Maximum FY 2022–23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic User/Groundwater Production Charge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal &amp; Industrial</td>
<td>467.00</td>
<td>488.00</td>
<td>513.00</td>
</tr>
<tr>
<td>Agricultural</td>
<td>28.86</td>
<td>34.15</td>
<td>36.85</td>
</tr>
<tr>
<td><strong>Surface Water Charge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surface Water Master Charge</td>
<td>37.50</td>
<td>40.90</td>
<td>47.10</td>
</tr>
<tr>
<td>Total Surface Water, Municipal &amp; Industrial*</td>
<td>504.50</td>
<td>528.90</td>
<td>560.10</td>
</tr>
<tr>
<td>Total Surface Water, Agricultural*</td>
<td>66.36</td>
<td>75.05</td>
<td>83.95</td>
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<tr>
<td><strong>Recycled Water Charges</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Municipal &amp; Industrial</td>
<td>447.00</td>
<td>468.00</td>
<td>493.00</td>
</tr>
<tr>
<td>Agricultural</td>
<td>56.26</td>
<td>61.55</td>
<td>64.25</td>
</tr>
</tbody>
</table>

*The total surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge.

**FY 23 M&I Increase equates to approximately $0.86 per month to the average household.**

**Note:** Does not include any increase that a retailer would layer on top.
FY 2022-23 South County Zone W-7 Maximum Proposed Charges

<table>
<thead>
<tr>
<th>Zone W-7 (Coyote Valley)</th>
<th>Dollars Per Acre Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic User/Groundwater Production Charge</td>
<td></td>
</tr>
<tr>
<td>Municipal &amp; Industrial</td>
<td>481.00</td>
</tr>
<tr>
<td>Agricultural</td>
<td>28.86</td>
</tr>
<tr>
<td>Surface Water Charge</td>
<td></td>
</tr>
<tr>
<td>Surface Water Master Charge</td>
<td>37.50</td>
</tr>
<tr>
<td>Total Surface Water, Municipal &amp; Industrial*</td>
<td>518.50</td>
</tr>
<tr>
<td>Total Surface Water, Agricultural*</td>
<td>66.36</td>
</tr>
</tbody>
</table>

FY 23 M&I Increase equates to approximately $1.86 per month to the average household.
Note: Does not include any increase that a retailer would layer on top.
### FY 2022-23 South County Zone W-8 Maximum Proposed Charges

<table>
<thead>
<tr>
<th>Zone W-8 (Uvas / Chesbro)</th>
<th>Dollars Per Acre Foot</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic User/Groundwater Production Charge</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal &amp; Industrial</td>
<td>327.00</td>
<td>341.50</td>
</tr>
<tr>
<td>Agricultural</td>
<td>28.86</td>
<td>34.15</td>
</tr>
<tr>
<td><strong>Surface Water Charge</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surface Water Master Charge</td>
<td>37.50</td>
<td>40.90</td>
</tr>
<tr>
<td>Total Surface Water, Municipal &amp; Industrial*</td>
<td>364.50</td>
<td>382.40</td>
</tr>
<tr>
<td>Total Surface Water, Agricultural*</td>
<td>66.36</td>
<td>75.05</td>
</tr>
</tbody>
</table>

FY 23 M&I Increase equates to approximately $0.93 per month to the average household.  
Note: Does not include any increase that a retailer would layer on top.
Retail Agency Benchmarks

Meter and volumetric charges only as of January, 2022 (unless otherwise noted)

Monthly billing for 5/8” meter and 1,500 cubic feet usage
Wholesale Agency Rate Comparison

Municipal & Industrial (M&I) Water

Valley Water FY 23 Proposed Maximums Shown versus FY 22 comparator rates

* SCVWD groundwater production charge is equivalent to SCVWD raw surface water basic user charge
Note: some rates rounded to the nearest dollar.
FY 2022-23 State Water Project Tax Recommendation

- Staff recommends increasing the SWP tax from $26M to $27M

- The SWP tax bill for the average single-family residence would go up from about $40.00/year to about $41.00/year.

Impact if SWP tax not approved:
- $177/AF in terms of North County M&I groundwater production charge

  - In terms of South County M&I groundwater production charge:
    - $37/AF for Zone W-5
    - $60/AF for Zone W-7
    - $27/AF for Zone W-8

- $885,200 in terms of Open Space Credit
Schedule/Wrap up
### 2022 Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 3</td>
<td>Ag Water Advisory Committee</td>
</tr>
<tr>
<td>Jan 11</td>
<td>Board Meeting: Preliminary Groundwater Charge Analysis</td>
</tr>
<tr>
<td>Jan 19</td>
<td>Water Retailers Meeting: Preliminary Groundwater Charge Analysis</td>
</tr>
<tr>
<td>Jan 26</td>
<td>Water Commission Meeting: Preliminary Groundwater Charge Analysis</td>
</tr>
<tr>
<td>Feb 8</td>
<td>Board Meeting: Set time &amp; place of Public Hearing</td>
</tr>
<tr>
<td>Feb 25</td>
<td>Mail notice of public hearing and file PAWS report</td>
</tr>
<tr>
<td>Mar 8</td>
<td>Board Meeting: Budget development update</td>
</tr>
<tr>
<td>Mar 16</td>
<td>Water Retailers Meeting: FY 23 Groundwater Charge Recommendation</td>
</tr>
<tr>
<td>Apr 4</td>
<td>Ag Water Advisory Committee</td>
</tr>
<tr>
<td>Apr 12</td>
<td>Open Public Hearing</td>
</tr>
<tr>
<td>Apr 13</td>
<td>Water Commission Meeting</td>
</tr>
<tr>
<td>Apr 14</td>
<td>Continue Public Hearing in South County</td>
</tr>
<tr>
<td>Apr 26</td>
<td>Conclude Public Hearing</td>
</tr>
<tr>
<td>Apr 27-28</td>
<td>Board Meeting: Budget work study session</td>
</tr>
<tr>
<td>May 10</td>
<td>Adopt budget &amp; groundwater production and other water charges</td>
</tr>
</tbody>
</table>
Feedback from Advisory Committees and Community

• Water Retailers
• Ag Advisory
• Public Phone Calls
Summary and Next Steps

Key Drivers for Water Rate Increases:
- Emergency water purchases to ensure water supply for Silicon Valley and preparing for ongoing drought over next 2 years
- Smart infrastructure investments needed today:
  - Investing now is most cost-efficient way to get critical multi-year projects done

Valley Water is leveraging all available tools to minimize rate impacts now
- Continue to reassess drought status & recovery for future year rate impacts

Proposed Maximum FY 23 Groundwater Production Charge for North County in terms of average household increase are:
- Increase of $7.75 per month in Zone W-2 for groundwater and treated water

Proposed Maximum FY 23 Groundwater Projection Charges for South County in terms of average household increase are:
- Increase of $0.86 per month in Zone W-5
- Increase of $1.86 per month in Zone W-7
- Increase of $0.93 per month in Zone W-8

Next Steps
- Continue Public Hearing on April 14th
- Obtain Feedback from Water Commission