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Santa Clara Valley Water District

September 16, 2016

Chairman Pedro Nava
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Subject: Little Hoover Commission August 25, 2016, Hearing on Special Districts

Dear Chairman Nava:

The Santa Clara Valley Water District (District) would like to thank the Little Hoover Commission (LHC) for holding its hearing on August 25 about special districts in California, which highlighted innumerable projects and services that special districts across the state provide to local communities. Upon reviewing the testimony submitted by Howard Jarvis Taxpayers Association (HJTA), which specifically referenced us, we concluded their assertions were inaccurate and misrepresented our fiscal position, and thus we must respond to correct the record.

To summarily address the concerns underlying HJTA's erroneous assertions, since FY 2009, our retained earnings reserved have not exceeded $20 million. As discussed in detail below, the 1 percent ad valorem property taxes that we receive from Santa Clara County are almost exclusively allocated to the non-enterprise functions of the District's operations, like capital investments in and management of our watersheds. In FY 2015, we received approximately 2 percent of Santa Clara County's receipts, which funded 22 percent of the District's operations. Since LHC's 2000 report on special districts, our Cash and Investments, or our "fund equity" as HJTA employs the term, has ranged between $400-$600 million, on operating revenues between $210-$375 million. As of FY 2015, the District has approximately $565 million of which $150 million is allocated to projects by our water utility services, $65 million is allocated to our internal general service fund, and $350 million is allocated to projects for flood protection, of which $210 million was garnered from voter-approved special parcel tax measures in 2000 for the Clean, Safe Creeks program, which were renewed by voter approval of Measure B in 2012.

Regarding our operations, the District manages an integrated water resources system that includes the provision of flood protection, the supply of clean, safe water, and the environmental stewardship of waterways on behalf of Santa Clara County's nearly 2 million residents. The District was formed in 1929 as the Santa Clara Valley Water Conservation District, and it merged almost 50 years ago with the Santa Clara Valley Flood Control District. In 1999, the District Act was updated to certify it provided comprehensive water management for all beneficial uses and protection from flooding within Santa Clary County, and that the District's purposes include the enhancement, protection, and restoration of natural resources, streams, and riparian corridors.

Today, the District effectively administers 10 dams and surface water reservoirs, 3 water treatment plants, an advanced recycled water purification center, a state-of-the-art water quality laboratory, nearly 400 acres of groundwater recharge ponds, and 800 miles of creeks, streams, and rivers. To that end, the District's operations are distinguishable from private, profit seeking businesses, in that the District provides wholesale water and groundwater management services to local municipalities and private water retailers who deliver drinking water directly to homes and businesses in Santa Clara County.

To HJTA's written testimony submitted for the hearing last month, they stated:

> *15 of the 25 districts that had the largest reserve funds also received the most property tax dollars. The percentage of revenue received by Santa Clara Water District [sic] via property taxes nearly doubled and the actual amount increased by $40 million between 1996 and 2014. In that same period, the fund equity jumped from 391 million to 2.4 billion, or 600 percent. Increases in property tax revenue alone accounted for at least one-third of this amount. There were $650 million in retained earnings on annual revenues of $320 million.*

First, with regard to HJTA's observation that, "15 of the 25 districts that had the largest reserve funds also received the most property tax dollars," the inference they are prompting the reader to make is that property taxes enable enterprise districts to accrue equity. Arguably, HJTA has confused correlation with causation. While Proposition 13 and AB 8 dictate how much tax a county should assess and then allocate to special districts, those policies do not determine how the district apportions and utilizes the funds. In our case, the District projects $73 million in ad valorem tax revenues in FY 2016 for which approximately $61.6 million will go to our watershed stream stewardship fund, $5.8 million will go to our water utility division, and $6 million will go to the general fund.

For the Watershed Stream Stewardship Fund that is projected to receive $61.6 million of the 1 percent ad valorem property taxes, $40.5 million is allocated to annual operations, including activities like sediment removal, debris removal, levee maintenance, and vegetation management, and over $20 million is allocated to capital projects, including $17.3 million on the Lower Berryessa Creek flood control project. Without the revenue from property taxes, our flood protection program would be eliminated with the exception of certain projects that are covered under the Safe Clean Water Program.

Regarding the Water Utility Fund that is projected to receive $5.8 million, this is a very small component of the $241 million that is allocated to operations and capital. Since the 1 percent ad valorem tax is a fungible revenue source, it is used as replacement revenue to offset agricultural groundwater production charges mandated by the District Act to be no more than 25 percent of all other water charges and which has been affirmed by Board policy.

As to the General Fund that is projected to receive $6 million in FY 2015, $2 million is allocated to capital expenditures and the remainder is allocated to offset $59.6 million in operations outlays, including administrative functions like accounting, HR, IT, and Legal. Without this tax, the cost to support the Water Utility and watershed management funds would increase and drive higher water rates or less capacity to do water supply reliability work and less capacity to do flood protection work.

Second, HJTA's asserts that, "The percentage of revenue received by Santa Clara Valley Water District via property taxes nearly doubled," this is simply wrong. The 2000 LHC report stated the District received $17.3 million in property tax, on gross revenues of $101.7 million, and retained earnings of $391 million. It should be noted that "retained earnings" in this instance included net investments in capital assets, which are non-spendable. At the time of the 2000 report, the 1 percent ad valorem property tax was 17 percent of our gross revenue. Comparatively for FY 2016, the 1 percent ad valorem property tax is 19 percent of our gross revenue, as the District projects $73 million in property tax, on gross revenues of $377 million, with retained earnings reserved of $19 million. This is only a 2 percent difference from the 2000 report, which is *not* a "doubling" of the percentage of revenue the District received via property taxes.

Third, with regard to HJTA's assertion that, "In that same period, the fund equity jumped from $391 million to $2.4 billion, or 600 percent," this inaccurately portrays unbridled growth of our "reserves" when in fact, they steadily have ranged between $400 million and $600 million since 2000. However, due to changes in reporting criteria, Fixed Assets have been combined since FY 2011 with Cash and Investments to calculate Total Equity, thus accounting for the "fund equity jump" that HJTA misrepresents in their testimony.

Finally, HJTA's asserts that, "There were $650 million in retained earnings on annual revenues of $320 million," this claimed amount includes Contributed Capital. Had HJTA compared this value to submissions to the Controller in prior years, it would have been observed that our Retained Earnings Reserved annually were less than $19 million since FY 2009 and then jumped $630 million in one year. This likely would have generated a follow-up inquiry to the District wherein we would have clarified that our submission to the Controller for Retained Earnings Reserved included Contributed Capital, and minus that line item, our actual Retained Earnings Reserved were less than $19 million.

Because of the District's unique multi-purpose charter, we successfully utilize a comprehensive regional approach to water resources management and environmental protection that would not be possible if our services were fragmented among several agencies in the county. In consideration of the critical services we provide and the functions that we perform in the tech capital of the world, reserves are not a luxury, but rather, a necessity in order to maintain aging infrastructure, provide immediate response to unforeseeable events or discoveries, ensure uninterrupted services, and begin new capital projects. For this and the reasons above, we respectfully request the Commission's forthcoming report to affirmatively note the individualized and local nature of special district's services and operations, and advise the legislature against sweeping, broad-stroke action impacting special districts statewide.

Sincerely,

Norma J. Camacho
Interim Chief Executive Officer

cc: Members of the Little Hoover Commission
Carole D'Elia, Executive Director, Little Hoover Commission
Jim Wasserman, Deputy Executive Director, Little Hoover Commission

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