

TO: Board of Directors**FROM:** Darin Taylor**SUBJECT:** FY2020-21 Second Pass Budget
Development Update**DATE:** March 24, 2020

Dear Board Members:

The FY21 budget development schedule called for staff to provide a Second Pass budget development update to the Board at the March 24, 2020 Board meeting. Due to the cancellation of that Board meeting, I am submitting this memo for your information. The next scheduled Board discussion on the FY21 Budget is the Budget Work Study session scheduled for April 29, 2020. Please provide any comments you may have on the Second Pass directly to Michele King in writing and do not copy anyone else. Your written comments will become an attachment to the Budget Work Study session materials. To ensure compliance with the Brown Act, please do not discuss this memo or share your comments or questions with each other.

Note that the Second Pass Budget was prepared prior to the emergence of the COVID-19 pandemic.

Summary

The FY2020-21 (FY21) Second Pass Budget of \$652.1 million provides funding for reliable clean water, support services, debt service, water resource stewardship and a healthy and safe environment. The Board Work Plan serves as the guide for the preparation of this Second Pass budget, which includes the impact of 23 new positions proposed by the CEO to address various Board and workload priorities. A discussion of revenues, salaries and benefits, new proposed positions, operating and capital expenditures, debt service, and reserves follows.

Revenues

The FY21 Second Pass Budget includes projected revenues of \$545.1 million, which are generally aligned with Valley Water's long-range planning documents. These revenues are an increase of \$43.3 million from the \$501.8 million included in the FY20 Adopted budget. The increase is primarily derived from higher water charges revenue (\$13.8 million), 1% ad valorem property taxes (\$8.9 million), special parcel tax (\$1.6 million), capital reimbursements (\$17.8 million), as well as interest and other operating and non-operating revenues (\$17.8 million), offset by a decrease of Benefit Assessment revenues (-\$1.0 million). The specific categories of revenue include:

- Water Charges Revenue: Total water charges revenue of \$291.2 million, a \$13.8 million increase over FY20 assumes a district-managed water use projection of 230KAF or a reduction of 20.1

KAF vs. 1st Pass projection of 251.4KAF. Additionally, the M&I Ground Water Production Charge assumptions are:

1. 8.6% increase for North County (6.5% in 1st Pass)
 2. 5.2% for South County (4.7% in 1st Pass)
 - 2.9% decrease for Modified Zone W-5
 - 9.4% increase for New Zone W-7
 - 32.0% decrease for New Zone W-8
- **Property Tax:** 1% Ad-valorem Property Tax of \$110.9M, an \$8.9 million increase over FY20 due to new construction and increased assessed valuation based on the local real estate market
 - **Special Parcel Tax:** The Special Parcel Tax of \$47.1 million, a \$1.6 million increase over FY20 based on an annual 3.5% increase assumption
 - **Benefit Assessments:** Benefit Assessment revenue of \$12.4 million, a \$1.0 million decrease versus FY20 due to liquidation of the Benefit Assessment Reserve offsetting levy revenue collections
 - **Capital Reimbursements:** Capital reimbursements of \$50.4 million, an increase of \$17.8 million over FY20; capital reimbursements are from local, state and federal agencies for specified completed capital work:
 1. Watershed Fund: \$20.1 million
 2. Safe, Clean Water Fund: \$12.2 million
 3. Water Enterprise Fund: \$18.1 million
 - **Interest Income and Other:** Interest earnings and other of \$15.1 million, increase of \$2.2 million primarily due to updated cash balance and interest forecast estimates

Salaries and Benefits

The FY21 salaries and benefits budget is based on a total of 894 positions composed of 882 authorized positions, 8 limited term, and 4 management fellows. The total salaries budgeted for these positions are \$122.9 million, an increase of \$11.4 million from the FY20 adopted budget. The increase is primarily due to a 4% cost of living adjustment, step increases for eligible positions, 17 Board previously approved positions absorbed in the FY20 Budget, which impact the FY21 Budget, and 23 new positions requested in FY21. Total salaries for FY21 include \$123.8 million in regular salaries less \$5.0 million in salary savings, plus \$4.1 million in overtime and special pay.

Total benefits are budgeted at \$64.4 million, a \$5.9 million increase over the FY20 adopted budget, which includes a \$3.9 million increase in CalPERS contributions, a \$1.7 million increase in medical costs for active and retired employees, and \$0.3 million increase in payroll taxes and other benefits.

New Proposed Positions

The FY21 Second Pass Budget includes the impact of 23 new positions proposed by the CEO to address various Board and workload priorities, including five new positions to provide capital implementation plan support for capital projects. The 23 positions are as follows and would be recruited at the appropriate time to provide the organization with operating and capital project support:

- **Watersheds – 9 positions**

1. Assistant Biologist: Support WUE operations, maintenance activities, and ensure compliance with applicable permits and Mitigation Monitoring Plans
2. Environmental Services Manager: Lead new unit to meet extensive new capital project and water supply needs and oversee expansion of surface water quality programs
3. Senior Maintenance Worker: Address deferred O&M vegetation removal for mitigation site maintenance (Priority D1)
4. Maintenance Worker III: Address deferred O&M vegetation removal for mitigation site maintenance (Priority D1)
5. Maintenance Worker III: Support Safe Clean Water Capital Improvement Programs coming on board for Priority E1.3
6. Maintenance Worker I: Address deferred O&M vegetation removal for mitigation site maintenance (Priority D1)
7. Maintenance Worker I: Support Safe Clean Water Capital Improvement Programs coming on board for Priority E1.3
8. Hydrographer I: Support workload from previously installed, and future, stream and rainfall gauges for various projects and programs
9. Administrative Assistant: Provide full-time administrative support to the Water Utility and Watersheds Deputy overseeing the Capital Divisions

- **Water Utility – 10 Positions**

10. Senior Engineer: Provide project management for the Indirect Potable Water Reuse Projects

11. Staff Analyst: Provide support for the Indirect Potable Water Reuse Projects
12. Associate Engineer – Civil: Provide engineering support for Treatment Plant capital projects
13. Associate Engineer – Civil: Provide engineering support for Treatment Plant capital projects
14. Associate Engineer – Civil: Provide support for the Treatment Plant Implementation Projects; including preparing capital project delivery plans through programmatic EIR
15. Associate Engineer – Civil: Prepare pipelines maintenance program documentation and EIR; monitor AFO systems, RISK Model, Seismic, Penitencia WTP Geotechnic
16. Assistant Engineer – Civil I: Support Distribution Systems Implementation Projects; prepare capital project delivery plans through programmatic EIR
17. Assistant Engineer – Control II: Provide support for SCADA Implementation Projects; prepare capital project delivery plans through programmatic EIR
18. Assistant Water Resource Specialist II: Oversee Distribution Systems Implementation Projects; prepare capital project delivery plans through programmatic EIR
19. Senior Engineer: Provide project management for the Treatment Plant Implementation Projects; prepare capital project delivery plans through programmatic EIR

- **IT & Administrative Services – 4 Positions**

20. Staff Analyst: Administer notifications for EEO Orientation, SB 1343, AB-1825 and AB-1234 training, and provide administrative support for Ethics & EEO program
21. Human Resources Technician II: Support advertising/job posting, facilitate interview scheduling, and provide administrative support for all temporary staff and year-round interns
22. Management Analyst II: Support the Recruitment Program and proactively partner with the Hiring Managers to enhance the hiring process
23. Senior Information Systems Technician: Support a strong Cybersecurity program with dedicated staff to work on 17 important Cybersecurity projects

Operating and Capital Expenditures

The FY21 Second Pass Budget operating expenditures are \$381.7 million, an increase of \$35.0 million versus the FY20 budget. The increase is primarily attributed to:

General Fund and Internal Service Funds: increase of \$14.8 million primarily due to labor cost increases as discussed previously, and \$8.5 million increased services and supplies driven by election costs (including the special parcel tax extension effort), buildings and grounds needs, the signage program, additional security needs, increased software license costs, and increased external legal needs.

Water Utility Funds: increased \$16.1 million primarily due to labor cost increases as discussed previously and \$10.5 million increased services and supplies driven by Delta Conveyance gap funding (\$6.1 million) and a State Water Project imported water cost increase (\$4.6 million). Additionally, supplies and services costs were added into the Second Pass for: a Regional Operations Resiliency Study (\$500K) to work with retailers to plan for upcoming system outages (Anderson, Almaden Valley Pipeline, etc.); Water Quality Unit Consultants (\$250K) to address increasing regulatory requirements; and Cyanotoxins Monitoring Consultants (\$50K) to address increasing regulatory requirements in partnership with Santa Clara County Parks and Recreation Department.

Watershed & Stream Stewardship Fund: increased by \$3.9 million mainly due to labor cost increases.

The FY21 Second Pass Budget capital expenditures are \$302.6 million, an increase of \$98.1 million versus the FY20 budget. The Safe, Clean Water Fund expenditures of \$67.5 million increased \$33.5 million over FY20 due to an increase in the Llagas Creek-Upper Buena Vista Avenue to Llagas Road project (\$36.5 million). Furthermore, the Water Utility Enterprise Fund expenditures of \$191.6 million increased \$58.1 million over FY20 primarily due to the South County Pipeline Short Term 1B Project (\$9.3 million), Anderson Dam Seismic Retrofit Project (\$5.9 million), and Rinconada WTP Reliability projects (\$37.0 million).

Debt Service

Scheduled annual debt service for FY21 is approximately \$61.0 million including fees, a \$2.4 million increase versus FY 20 budget driven by a planned Water Utility debt issuance.

Reserve Balances

Total budgeted reserves for FY21 are estimated to be \$363.9 million, an increase of \$21.0 million compared to the FY20 budget. The increase is primarily due to:

- a) Safe, Clean Water Fund reserve of \$68.3 million, a decrease of \$47.8 due to higher capital expenditures;
- b) General Fund reserve of \$6.6 million, an increase of \$2.3 million due to higher projected FY20 operating and capital reserve balance
- c) Watershed & Stream Stewardship Fund reserve of \$11.9 million, an increase of \$29.7 million due to higher projected FY20 operating and capital reserve balance and increase in property tax revenue

- d) Water Utility Enterprise Fund reserve of \$159.8 million, an increase of \$37.0 million due to increase in debt financing (\$100M) offset by an increase in capital expenditures (\$58M)

Next Steps

The public hearings on the CIP, groundwater production charges and the groundwater benefit zones are scheduled to take place on April 28. The Budget Work Study Session is scheduled for April 29, in which staff will provide more detail, trend and deliverable information related to preparation of the proposed FY21 Budget. The budget process is scheduled to conclude with the Board's adoption of the budget at its regularly scheduled meeting on May 12, 2020.