

**BUDGET TRANSMITTAL LETTER FOR  
FISCAL YEAR 2025-26 & 2026-27 ROLLING BIENNIAL BUDGET**

May 27, 2025

Honorable Members of the Board of Directors of the Santa Clara Valley Water District:

In accordance with Valley Water Policy, I am submitting the Fiscal Years 2025-26 (FY26) & 2026-27 (FY27) Proposed Operating and Capital Rolling Biennial Budget for the Santa Clara Valley Water District (Valley Water). This Budget represents Valley Water's rolling biennial budget, in which the Board adopts a one-year budget and approves a second year Plan, with the FY27 Plan serving as a starting point for the next biennial budget cycle. The rolling biennial budget is updated annually, which is aligned with the guiding State, District Act and Valley Water Policies, and is conducive to long-term planning while remaining responsive to the dynamic and ever-changing needs of the organization. Additionally, it represents Valley Water's mission of providing Santa Clara County safe, clean water for a healthy community, environment, and economy. This Budget provides a comprehensive financial plan that includes a forecast of operating and non-operating revenues and expenditures; financing of long-term capital improvement plans to support infrastructure needs; and funding for the repayment of long-term debt.

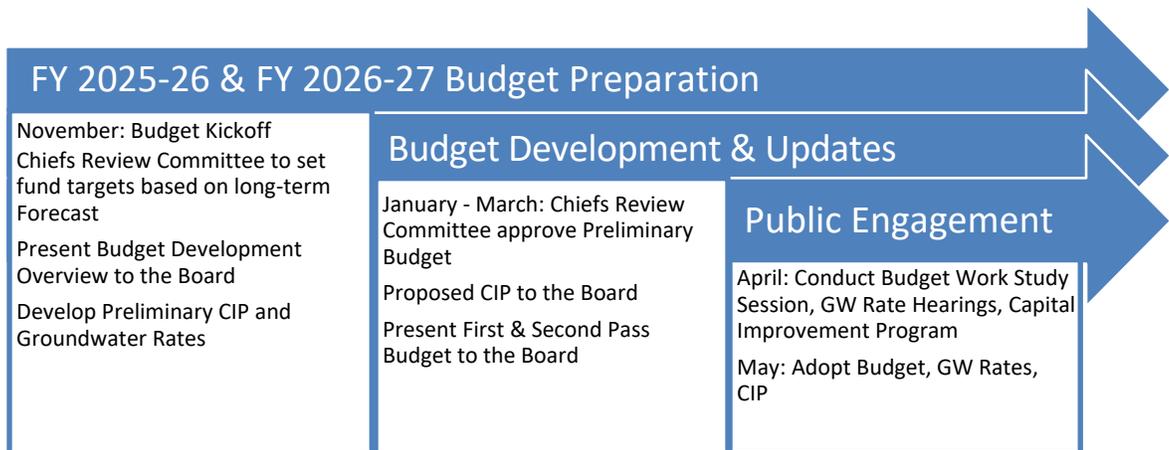
In FY26 & FY27, Valley Water will continue to focus on its core mission to provide safe, clean water, flood protection and environmental stewardship to the community. Valley Water will prioritize financial sustainability and making strategic investments in our water supply and flood protection infrastructure to ensure Santa Clara County has sufficient safe, clean water for every person, business, and farm now and into the future as well as to protect our communities from flooding. Valley Water will also pursue new funding sources to maintain service and advance key projects and continue to deliver our promises with a fiscally responsible budget.

**FINANCIAL OVERVIEW**

The accounts of Valley Water are organized based on fund types and account groups. Each fund is an independent accounting entity with a self-balancing set of accounts comprised of its assets, liabilities, fund equity, revenue, and expenditures or expenses, as appropriate. Fund accounting allows government resources to be segregated and accounted for their intended purposes, aiding management in demonstrating compliance with finance-related legal and contractual provisions.

The budget development process begins in November of each year and concludes on June 30, with the posting of the adopted budget. The budget development process for the FY26 and FY27 Biennial Budget includes numerous public hearings, as well as input from the Board on urgent priorities for the upcoming fiscal year.





**VALLEY WATER PRIORITIES**

This budget demonstrates a fiscally responsible, balanced budget that meets the community’s expectations of Valley Water. The Budget was developed based on the Board’s current strategies; the FY 2025-26 Board Work Plan will be approved in the near future. The organization will incorporate specific activities that address the Board’s urgent priorities into its workplan and periodically update the Board Policy and Planning Committee and the full Board throughout the fiscal year and bring adjustments back to the Board, if needed.

Given the challenges posed by ongoing economic uncertainty, it is essential for Valley Water to remain grounded in its core mission while also emphasizing strategic sustainability. This budget addresses financial pressures by formally incorporating a hiring pause that began in early 2024, delaying lower priority capital projects, and seeking additional low-cost federal loans, helping to ease the burden on ratepayers while also enabling continued investment in critical infrastructure projects. Valley Water remains committed to operating as efficiently as possible, ensuring the delivery of safe, clean water to Silicon Valley to support a healthy community, environment, and economy — all while maintaining a focus on long-term sustainability.

**REVENUE**

The FY 2025-26 & 2026-27 Proposed Rolling Biennial Budget includes projected revenues of approximately \$745.9 million in FY 2025-26, a net increase of \$50.7 million from the \$695.2 million included in the FY 2024-25 Adopted Budget. This 7.3% increase is primarily derived from the increase in water charges revenue (\$22.9 million), capital reimbursements (\$13.9 million), property taxes (\$9.3 million), interest and other operating and non-operating revenues (\$3.4 million), and special parcel taxes (\$1.6 million), partially offset by decreases in intergovernmental services (-\$0.2 million) and benefit assessment taxes (-\$0.1 million). In FY 2026-27, revenues are estimated to be \$768.1 million, a net increase of \$22.2 million from the FY 2025-26 budget. The 3.0% growth is primarily attributed to an increase in water charges revenue (\$54.5 million), property taxes (\$3.4 million), interest and other operating and non-operating revenues (\$1.5 million), special parcel tax (\$1.2 million), offset by a reduction in capital reimbursements (-\$38.3 million), and intergovernmental service (-0.1 million).

**APPROPRIATIONS/OUTLAYS**

Net total operating and capital outlays for the FY 2025-26 Proposed Budget is \$948.1 million, which includes \$116.9 million in debt service outlays. For the FY 2026-27 Plan, net total operating and capital outlays is \$1.215 billion, which includes \$136.6 million in debt service outlays. This figure does not include capital carry forward that was appropriated by the Board in prior years and is net of General Fund intra-district reimbursements and Internal Service Fund charges.

## **NET OPERATING OUTLAYS**

Net operating outlays for the FY 2025-26 Proposed Budget total \$436.2 million, an increase of \$6.3 million from the FY 2024-25 Adopted Budget. The increase in net outlays is primarily due to Imported Water (IW) South Bay Aqueduct Delivery, Palo Alto Water Reuse Agreement, Management of Revegetation, Water Rate Assistance Program (WRAP), Watersheds Administration, Silicon Valley Advanced Water Purification Center (SVAWPC) Facility Maintenance, and Dam Safety Program projects. Net operating outlays for the FY 2026-27 Plan total \$461.0 million, an increase of \$24.8 million from the FY 2025-26 Budget.

## **NET CAPITAL OUTLAYS**

Net capital project appropriations total \$394.9 million in the FY 2025-26 Proposed Budget, a decrease of \$35.2 million from the 2024-25 Adopted Budget. It is anticipated that \$137.0 million of the FY 2024-25 Adjusted Budget for capital projects also will carry forward into FY 2025-26 at the close of the current fiscal year as most capital improvement projects will require multiple years to complete. For the FY 2026-27 Plan, net capital project appropriations total \$617.4 million, an increase of \$222.4 million from the FY 2025-26 Budget; \$13.8 million of the FY 2025-26 Budget for capital projects is estimated to be carried forward into the FY 2026-27 Budget. The capital budget represents those projects that have been identified and prioritized in the Five-Year Capital Improvement Program (CIP).

## **INTRA-DISTRICT REIMBURSEMENTS**

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements, totaling \$131.7 million in FY 2025-26 and \$147.3 million in FY 2026-27. Intra-district charges reimburse the General Fund and Service Funds for functions such as finance, accounting, payroll, human resources, information technology, facilities, organizational leadership, and fleet management.

## **OTHER FINANCING SOURCES/USES**

Other financing sources include debt financing proceeds to fund capital projects. For FY 2025-26, Valley Water anticipates issuing approximately \$264.8 million in debt proceeds, of which \$220.2 million is to finance the Water Utility system infrastructure improvements and \$44.6 million is for Safe, Clean Water (SCW) capital projects.

## **RESERVES**

Valley Water reserves are comprised of Restricted Fund Balance reserves, Committed Fund Balance reserves and Assigned Fund Balance reserves. Within these categories are budgeted reserves and special purpose reserves; further detail is found in the FY 2025-26 & FY 2026-27 Rolling Biennial Operating and Capital Budget document beginning on page 3–50. Overall, budgeted reserves for Fiscal Year 2025-26 are expected to total of \$540.5 million and \$538.2 million in Fiscal Year 2026-27. Budget reserve balances are affected by the true up of actual revenues, unspent operating and capital project funds, carryforward amounts and budget adjustments throughout the fiscal year.

(\$ in Thousands)	Budgetary Basis Actual 2023-24	Adopted Budget 2024-25	Projected Year End 2024-25	Proposed Budget 2025-26	Change from 2024-25		Planned Budget 2026-27	Change from 2025-26	
					\$ Diff	% Diff		\$ Diff	% Diff
<b>Restricted Reserves</b>									
Safe, Clean Water & Natural Flood Protection Fund	\$ 191,827	\$114,854	\$200,161	\$ 177,840	\$ 62,986	55%↑	\$151,024	\$(26,816)	(15%)↓
Water Enterprise Funds	60,795	37,828	44,682	65,525	27,697	73%↑	71,029	5,504	8%↑
<b>Subtotal</b>	<b>\$ 252,622</b>	<b>\$152,682</b>	<b>\$244,843</b>	<b>\$ 243,365</b>	<b>\$ 90,683</b>	<b>59%↑</b>	<b>\$222,053</b>	<b>\$(21,312)</b>	<b>(9%)↓</b>

**Committed Reserves**

General Fund	\$ 25,905	\$ 14,780	\$ 24,280	\$ 19,689	\$ 4,909	33%↑	\$ 18,340	\$ (1,349)	(7%)↓
Watershed Stream Stewardship Fund	150,585	150,650	154,082	161,123	10,473	7%↑	164,882	3,759	2%↑
Water Enterprise Funds	179,744	73,088	166,264	92,849	19,761	27%↑	108,473	15,624	17%↑
Internal Service Funds	30,214	22,293	25,322	23,440	1,147	5%↑	24,463	1,023	4%↑
<b>Subtotal</b>	<b>\$ 386,448</b>	<b>\$260,811</b>	<b>\$369,948</b>	<b>\$ 297,101</b>	<b>\$ 36,290</b>	<b>14%↑</b>	<b>\$316,158</b>	<b>\$ 19,057</b>	<b>6%↑</b>
<b>Grand Total</b>	<b>\$ 639,070</b>	<b>\$413,493</b>	<b>\$614,791</b>	<b>\$ 540,466</b>	<b>\$126,973</b>	<b>31%↑</b>	<b>\$538,211</b>	<b>\$ (2,255)</b>	<b>0%↓</b>

**DEBT OVERVIEW**

The FY 2025-26 debt portfolio total outstanding principal of \$1.518 billion includes \$202.2 million for Watersheds and \$1.316 billion for the Water Utility Enterprise. The annual debt service budget of \$116.9 million includes repayment of principal, interest and various banking and legal fees for the debt portfolio.

The long-term strategy is to issue short-term debt to provide just-in-time funding for eligible capital projects as actual expenditures are incurred. As the outstanding short-term debt obligations reach the program capacity, the outstanding short-term debt will be refunded with long-term debt to be repaid over 30 years. For the Water Utility Program, the issuance of long-term debt helps keep water charges stable over the long-term while ensuring inter-generational equity by matching the timing of the debt service repayment to the useful life of the asset and allowing for the completion of capital projects in a timely manner. The FY 2025-26 Protection and Augmentation of Water Supplies (PAWS) report demonstrates that Water Utility finances will be sustainable, including the issuance of debt, assuming the forecasted water charge increases are adopted.

For the Safe, Clean Water Program, issuing debt allows the projects to be completed earlier as it bridges the timing difference between when the voter approved special parcel tax revenues are collected versus the desired project delivery schedule based on the Board approved CIP.

The Safe, Clean Water special parcel tax, approved by voters on November 3, 2020, authorized Valley Water to levy the special parcel tax with periodic Board review of the amount necessary to fund ongoing operations, maintenance and capital project costs planned under the SCW program.

The Santa Clara Valley Water District proactively manages its debt portfolio to ensure access to the public finance credit markets at the lowest available borrowing cost, preserve strong credit ratings, fulfill its fiduciary responsibility to its customers, and provide high quality water service, stream stewardship and flood protection at the lowest possible cost.

**BOND RATINGS**

The bond ratings for Valley Water’s outstanding debt reflect high grade investment quality debt. They are based on Valley Water’s positive fiscal policy and financial strengths. The bond ratings are either the highest for a water related governmental entity in the State of California or among the highest. Bonds issued at this credit rating result in lower interest rates and corresponding lower debt service payments.

Please see table below for ratings going into FY 2025-26.

	<b>Water Utility Parity Debt</b>	<b>Watershed Debt</b>	<b>Safe Clean Water Debt</b>	<b>WIFIA Debt</b>
Moody's	Aa1	Aa1	Aa1	N/A
Standard & Poor's	N/A	AAA	N/A	N/A
Fitch	AA+	AA+	AA+	AA+

**STAFFING**

The FY 2025-26 & FY 2026-27 Proposed Rolling Biennial Budget includes 880 positions composed of 876 regular positions and 4 limited term positions for both FY 2025-26 and FY 2026-27. In FY 2025-26, 45 positions were paused which resulted in a decrease of positions from 921 positions in FY 2024-25 to 876 positions in FY 2025-26. The pausing of positions minimized the salary and related costs increase in FY 2025-26. For a comprehensive schedule of district-wide salaries and benefits, please refer to the *Salaries & Benefits* in the “Financial Overview” section.

**Regular Position Count by Organization Area**

	<b>Adopted Budget 2023-24</b>	<b>Adopted Budget 2024-25<sup>2</sup></b>	<b>Change from 2024-25</b>	<b>Proposed Budget 2025-26<sup>3,4</sup></b>	<b>Change from 2025-26</b>	<b>Proposed Plan 2026-27</b>
Board Appointed Officers <sup>1</sup>	79	78	-7	71	0	71
Office of Integrated Water Management	56	70	0	70	0	70
External Affairs	47	46	-3	43	0	43
Administrative Services	163	166	-6	160	0	160
Water Utility	305	304	-13	291	0	291
Watersheds	269	257	-16	241	0	241
<b>Districtwide</b>	<b>919</b>	<b>921</b>	<b>-45</b>	<b>876</b>	<b>0</b>	<b>876</b>

<sup>1</sup> Board Appointed Officers Include: Office of Chief Executive Office, District Counsel and Clerk of the Board.

<sup>2</sup> Two positions were added during FY 2023-24.

<sup>3</sup> Library and Records were moved from BAO to Admin Services in FY2024-25.

<sup>4</sup> 45 positions are paused for FY 2025-26 & FY 2026-27.

May 27, 2025

## **FUTURE OUTLOOK**

Valley Water is responding to the uncertainty in our economy and the associated financial pressure by continuing to pause 45 positions, delaying lower priority capital projects, seeking additional low-cost loans, and making strategic investments to enhance efficiency. Despite these challenges, this budget continues to strongly support our core mission by advancing crucial investments in water storage, water conservation, water recycling, and other infrastructure projects to ensure our community and water supply are protected from natural disasters. Valley Water remains dedicated to fulfilling its commitments to the public, delivering safe, clean water, protecting the environment, and providing effective flood protection while also focusing on strategic sustainability to proactively prepare for future challenges.

A handwritten signature in blue ink, appearing to read "Melanie Richardson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Melanie Richardson, P.E.  
Interim Chief Executive Officer