

Budget Transmittal Letter for Fiscal Year 2024-25 & 2025-26 Rolling Biennial Budget

May 14, 2024

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 2024-25 (FY25) & 2025-26 (FY26) 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, which allows us to budget for FY25 and plan for FY26. In the rolling biennial budget process, the Board adopts a one-year budget and approves a second year Plan, with the FY26 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.

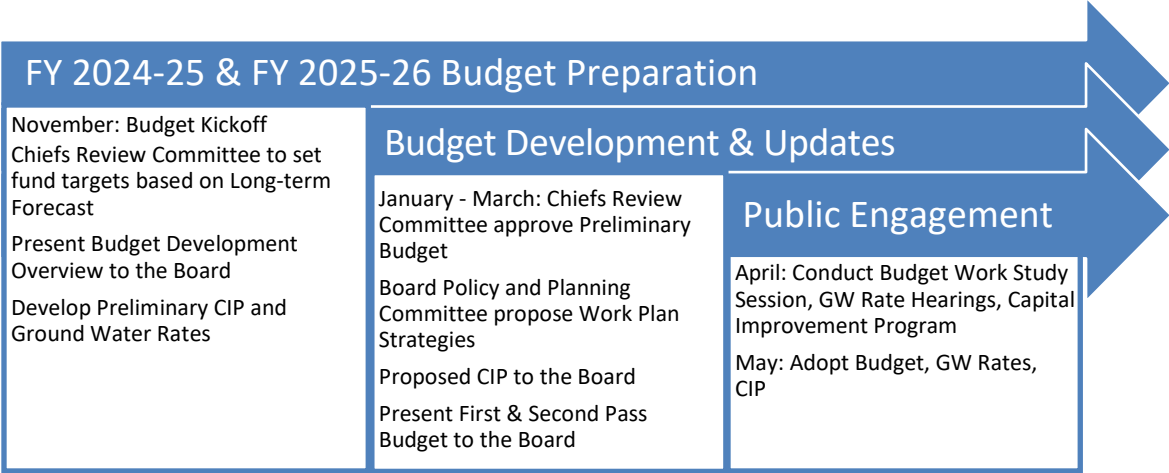
In FY25 & FY26, Valley Water will continue to invest in critical infrastructure to ensure Santa Clara County has sufficient safe, clean water for every person, business, and farm now and into the future as well as to protect our communities from flooding. Valley Water will remain strongly committed to environmental justice and prioritizing our disadvantaged communities, including the unhoused population. Valley Water will also be responding to inflationary pressures by containing costs, via a hiring freeze and reductions to supplies and services costs 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 FY25 and FY26 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 2024-25 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 our struggling economy and inflationary pressures, it is important for Valley Water to continue to operate and deliver at the lowest cost possible. This budget is responsive to inflationary pressures by incorporating a hiring freeze and refinements to supplies and services costs which will allow Valley Water to efficiently fund the Board’s priorities. Even with the budget reductions, Valley Water remains steadfastly committed to the provision of safe, clean water, a healthy environment, and flood protection by investing in critical infrastructure projects. Also, Valley Water remains dedicated to environmental justice and to addressing encampments with a humane approach.

REVENUE

The FY 2024-25 & 2025-26 Proposed Rolling Biennial Budget includes projected revenues of approximately \$695.1 million in FY 2024-25, a net increase of \$61.4 million from the \$633.7 million included in the FY 2023-24 Adopted Budget. This 9.7% increase is primarily derived from the increase in water charges revenue (\$71.9 million), property taxes (\$11.3 million), other operating and non-operating revenues (\$2.1 million), special parcel taxes (\$1.2 million), intergovernmental services (\$0.3 million), and benefit assessment taxes (\$0.2 million), offset by decreases in capital reimbursements (-\$25.5 million). In FY 2025-26, revenues are estimated to be \$793.4 million, a net increase of \$98.3 million from the FY 2024-25 budget. The 14.1% growth is primarily attributed to higher water charges revenue (\$73.5 million), capital reimbursements (\$18.7 million), property taxes (\$3.9 million), special parcel tax (\$1.2 million), other operating and non-operating revenue (\$0.4 million), and intergovernmental services (\$0.7 million), offset by a slight reduction in the benefit assessment taxes (-\$0.2 million).

APPROPRIATIONS/OUTLAYS

Net total operating and capital outlays for the FY 2024-25 Proposed Budget is \$963.6 million, which includes \$103.7 million in debt service outlays. For the FY 2025-26 Plan, net total operating and capital outlays is \$1,148.4 million, which includes \$124.4 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 2024-25 Proposed Budget total \$429.9 million, an increase of \$43.4 million from the FY 2023-24 Adopted Budget. The increase in net outlays is primarily due to Palo Alto Water Reuse Agreement project, B.F. Sisk Dam Raise project, Encampment Management Program project, IT Technical Infrastructure Services and Software Services project, district election costs, and additional employee healthcare and pension benefit costs to improve recruitment and retention. Net operating outlays for the FY 2025-26 Plan total \$445.1 million, an increase of \$15.2 million from the FY 2024-25 Budget.

NET CAPITAL OUTLAYS

Net capital project appropriations total \$430.1 million in the FY 2024-25 Proposed Budget, an increase of \$57.4 million from the 2023-24 Adopted Budget. It is anticipated that \$46.5 million of the FY 2023-24 Adjusted Budget for capital projects also will carry forward into FY 2024-25 at the close of the current fiscal year as most capital improvement projects will require multiple years to complete. For the FY 2025-26 Plan, net capital project appropriations total \$578.9 million, an increase of \$148.8 million from the FY 2024-25 Budget; \$18.7 million of the FY 2024-25 Budget for capital projects is estimated to be carried forward into the FY 2025-26 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 \$129.1 million in FY 2024-25 and \$135.9 million in FY 2025-26. 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 2024-25, Valley Water anticipates issuing approximately \$345.9 million in debt proceeds, of which \$236.3 million is to finance the Water Utility system infrastructure improvements and \$109.6 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 2024-25 & FY 2025-26 Rolling Biennial

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Operating and Capital Budget document beginning on page 3–50. Overall, budgeted reserves for Fiscal Year 2024-25 are expected to decrease \$61.0 million to a total of \$412.9 million versus the Adopted FY 2023-24 Budget. This decrease is primarily due to higher Operating and Capital Outlays offset by higher water charges revenue associated with increased water demand assumptions and higher property tax revenue in FY 2024-25. For FY 2025-26, budgeted reserves are estimated to decrease \$31.5 million to a total of \$381.4 million. This overall decrease is primarily due to increased Operating and Capital Outlays offset by increased water charges revenue and Capital Reimbursements.

(\$ in Thousands)	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Planned Budget 2024-25	Proposed Budget 2024-25	Change from 2023-24		Planned Budget 2025-26	Change from 2024-25	
						\$ Diff	% Diff		\$ Diff	% Diff
						Restricted Reserves				
Safe, Clean Water & Natural Flood Protection Fund	\$ 205,846	\$ 185,841	\$ 97,285	\$ 203,027	\$ 114,291	\$ (71,550)	(39%)↓	\$ 82,589	\$ (31,702)	(28%)↓
Water Enterprise Funds	85,575	28,409	31,128	35,109	37,828	9,419	33%↑	61,271	23,443	62%↑
Subtotal	\$ 291,421	\$ 214,250	\$ 128,413	\$ 238,136	\$ 152,119	\$ (62,131)	(29%)↓	\$ 143,860	\$ (8,259)	(5%)↓
Committed Reserves										
General Fund	\$ 16,872	\$ 11,968	\$ 15,756	\$ 11,658	\$ 14,780	\$ 2,812	23%↑	\$ 17,144	\$ 2,364	16%↑
Watershed Stream Stewardship Fund	115,795	159,921	140,196	176,040	150,650	(9,271)	(6%)↓	135,686	(14,964)	(10%)↓
Water Enterprise Funds	162,529	67,179	73,427	67,790	73,088	5,909	9%↑	63,675	(9,413)	(13%)↓
Internal Service Funds	28,815	20,651	24,260	19,344	22,293	1,642	8%↑	21,051	(1,242)	(6%)↓
Subtotal	\$ 324,011	\$ 259,719	\$ 253,639	\$ 274,832	\$ 260,811	\$ 1,092	%↑	\$ 237,556	\$ (23,255)	(9%)↓
Grand Total	\$ 615,432	\$ 473,969	\$ 382,052	\$ 512,968	\$ 412,930	\$ (61,039)	(13%)↓	\$ 381,416	\$ (31,514)	(8%)↓

DEBT OVERVIEW

The FY 2024-25 debt portfolio total outstanding principal of \$1.64 billion includes \$188.5 million for Watersheds and \$1.45 billion for the Water Utility Enterprise. The annual debt service budget of \$103.7 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 2024-25 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 2024-25.

	Water Utility	Watershed	Safe Clean	WIFIA
	Parity Debt	Debt	Water Debt	Debt
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 2024-25 & FY 2025-26 Proposed Rolling Biennial Budget includes 925 positions composed of 921 regular positions and 4 limited term positions for both FY 2024-25 and FY 2025-26, maintaining positions flat as compared to the FY 2023-24 Adjusted Budget. 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

	Adjusted Budget 2022-23	Adopted Budget 2023-24 ²	Change from 2023-24	Proposed Budget 2024-25	Change from 2024-25	Proposed Plan 2025-26
Board Appointed Officers ¹	78	79	-1	78	0	78
Office of Integrated Water Management	55	56	14	70	0	70
External Affairs	41	47	-1	46	0	46
Administrative Services	168	163	3	166	0	166
Water Utility	306	305	-1	304	0	304
Watersheds	266	269	-12	257	0	257
Districtwide	914	919	2	921	0	921

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

² Two positions were added during FY 2023-24.

FUTURE OUTLOOK

Valley Water is responding to inflation driven cost increases and budgetary pressure by implementing a hiring freeze, delaying projects, and reviewing operations to be more efficient. While tightening the belt, this budget still allows Valley Water to accomplish the goals of our core mission, and make 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 due to climate change. Valley Water also remains strongly committed to environmental justice to ensure everyone is treated equally by dedicating funding and working with other local agencies to address encampments in a humane fashion. Valley Water will continue to focus on delivering the promises we made to the community: providing safe, clean water, a healthy environment, and flood protection to make sure we are not only addressing the challenges in the past year, but also into the future.

Sincerely,



Rick L. Callender, Esq.
Chief Executive Officer