



Adapting Valley Water's Capital Improvement Program to Meet Emerging Challenges

Board Workshop August 29, 2025



Valley Water

Attachment 1
Page 1 of 54

OVERVIEW

- Protect our mission: Safe, Clean Water, Flood Protection & Environmental Stewardship
- Prioritize critical projects using limited revenue sources
- Focus on long-term financial sustainability

WORKSHOP AGENDA & TIMELINE

9:30 AM – 12:30 PM: (Estimated Time)

- Introduction: Purpose, Goals & Funding Outlook (15 mins)
- Water Utility Enterprise Fund (60 mins)
- Watersheds Stream Stewardship Fund & Safe Clean Water Fund (45 mins)
- Prioritization Process & Enhancements (20 mins)
- Feedback Session & Next Steps (10 mins)
- Q&A / Extended Discussion (15 mins)

WORKSHOP STRUCTURE

Purpose & Goals

General Funding Outlook

Financial Overview

Strategic Approach

Next Steps

Division/Main Funding Source(s):

Water Utility

Water Utility Enterprise (Fund 61)

Watersheds

Watersheds Stream Stewardship (Fund 12)

Safe, Clean Water Program (Fund 26)

PURPOSE

- 1. Engage in constructive dialogue on challenges related to executing Valley Water's Capital Improvement Program (CIP)**
- 2. Collaboratively explore strategic solutions for:**
 - Rising Project Costs
 - Funding Constraints
 - Project Prioritization

GOALS

1. **Expected Outcomes:** Develop actionable plans aligned with Board-approved CIP priorities

- Support Valley Water's mission
- Strengthen financial resilience
- Enhance program performance
- Uphold community commitments

Funding Outlook

Federal, State and Local

CURRENT POLITICAL AND FUNDING LANDSCAPE

Federal, State, Local & Regional Funding Outlook

Federal Funding Outlook

- WIFIA Loan Financing Appears to be Stable...for Now
- New Grant Funding Process – Less funding
- Administration Continues to Target California
- Widespread Staffing Cuts Impacting Federal Programs

State Funding Outlook

- Projected CA Budget Deficits of \$10–\$20 Billion Annually
- Federal Funding Cuts Increasing Pressure on State Budget
- Prop 4 Insufficient to Offset Lost Federal Funds

Local & Regional Funding Outlook

- Limited Public Support for New Funding Mechanisms

Water Utility Enterprise Fund 61

FINANCIAL OVERVIEW \$

Water Utility Enterprise

Key Funding Authority & Constraints

Current Water Rate Projection

Grants Insights

KEY FUNDING AUTHORITY & CONSTRAINTS

Water Utility

Revenue Source: Water Charges (Groundwater, Treated, Surface & Recycled)

District Act: Details requirements to set groundwater production charges

- Defines 4 purposes for which groundwater production charges can be imposed
- Groundwater charges “shall be computed at a fixed and uniform rate or rates per acre-foot”

Prop 26: To qualify as a nontax fee, GW charge must satisfy both:

- GW charge established at amount no more than necessary to cover reasonable costs
- Cost allocation to payor must bear fair/reasonable relationship to benefits received

KEY FUNDING AUTHORITY & CONSTRAINTS cont...

Water Utility

Resolution 99-21: Boards pricing policy sets framework for water rate structure

- General approach is to charge recipients for benefits received within a zone
- Pricing structure facilitates coordinated management of surface water and groundwater to maximize water supply reliability (Conjunctive Management)
- Limits agricultural water charge to 10% of M&I charge

Financial metrics: Targeting 2.0 or better Debt Service Coverage Ratio & maintaining reserve levels at policy minimums helps ensure financial stability and high credit ratings

CURRENT WATER RATE PROJECTION - “BASELINE”

Water Utility

M&I Groundwater Charge Year to Year Growth %

Baseline Scenario	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40
North County Zone W-2	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	7.0%	7.0%	7.0%	7.0%	7.0%	3.0%
South County Zone W-5	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	5.0%
South County Zone W-7	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	5.0%
South County Zone W-8	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	5.0%	3.0%	3.0%	3.0%

Zone W-2 GW charge projected at \$7,532/AF by FY40 from \$2,450/AF today

- Customer affordability challenge driven by “Era of Capital Investment”

Mounting customer pushback (i.e. recent letter from San Jose Water Company)

CURRENT WATER RATE PROJECTION *What's Included*

Key drivers of “Era of Capital Investment”

Infrastructure Repair Needs

- \$2.4B - Anderson Dam Seismic Retrofit Projects
- \$1.0B - Dam Safety Program: Almaden, Calero, Coyote, and Guadalupe Dams
- \$0.7B - Rinconada Water Treatment Plant Reliability Improvements
- \$0.5B* - Delta Conveyance Project (3.23% project participation level)
- \$0.4B - Master Plans Project Placeholder (pipelines, treatment Plants, SCADA)
- \$0.3B - Pipeline Rehabilitation Program

Water Supply Investments in Response to More Frequent Droughts

- \$2.6B - Pure Water Silicon Valley: Phase 1 Demonstration Facility & Phase 2 Full Scale Facility
+ ~\$40M /yr O&M beginning in FY 37
- \$2.7B - Pacheco Reservoir Expansion Project (with \$504M Prop 1 grant, WIFIA loan & 35% Partnership Participation)
+ \$2.5M/yr O&M beginning in FY 37
- \$0.5B* - Sisk Dam Raise at San Luis Reservoir (69.8% investor storage project participation level)

* Costs are shown in terms of projected O&M costs for Valley Water’s participation from FY 26 thru FY 40

WHAT IS THE “VALUE” OF THESE KEY INVESTMENTS?

Water Utility

Existing Facilities Repair and Rehabilitation (Dams, Treatment Plants, Pipelines)

- VW’s flexible and reliable system typically meets water demand

Delta Conveyance Project

- Enhances reliability of SWP and potentially CVP water supplies; integral to “Lower Cost” and “Diversified” WSMP portfolios.

Pure Water Silicon Valley

- Would produce 24KAF of purified water annually for potable reuse, bolstering water supply during droughts; included in all WSMP portfolios.

WHAT IS THE “VALUE” OF THESE KEY INVESTMENTS?

Water Utility

Pacheco Reservoir Expansion

- Expands reservoir capacity from 5.5K AF to 140KAF, providing critical emergency storage for drought resilience; part of “Local Control” and “Diversified” WSMP portfolios.

Sisk Dam Raise

- Increases storage by 130KAF; VW is pursuing 60KAF to 70KAF of water storage to counter future droughts; included in “Lower Cost” & “Diversified” WSMP portfolios.

New Consideration: Sites Reservoir at 2.65%

- Projected yield of 4.6KAF annually for VW based on 2.65% participation; part of two backup “Diversified” WSMP portfolios & “Lower Cost Worst Case” WSMP portfolio.

GRANTS INSIGHTS

Water Utility

Current Federal Landscape: Availability of grants is paused

Funding Status: No allocations in President's FY 26 budget for Title XVI or Large-Scale Water Recycling Grants; advocacy efforts will continue for Large-Scale Program

Recent Applications:

- \$24M submitted to DWR for Anderson Dam Stage 2 Diversion System (requires new application under Proposition 4)
- \$1M submitted to California Wellness Foundation for Learning Center at SVAWPC

Water Utility Enterprise Strategic Approach

STRATEGIC APPROACH

Water Utility

Strategy for Financial Sustainability

- Identify Key Priorities and Strategic Decision Points
- Remove or place projects on the unfunded list

Optimizing CIP: Potential Path for Financial Sustainability

- **Scenario 1 (S1): Baseline (2025 PAWS Report) without Sisk and Delta Conveyance Project**
- Includes RWTP, ADSRP, Master Plan project placeholders for pipelines, treatment plant, and SCADA upgrades, and Dam Safety Program
- Includes Pure Water Silicon Valley
- Includes Pacheco
- **Scenario 2 (S2): S1 + Delta Conveyance Project**
- **Scenario 3 (S3): S2 + Sisk Dam Raise (= 2025 PAWS Report)**
- **Scenario 4 (S4): S3 + Expanded Sites at 2.65% participation**
- **Scenario 5 (S5): S4 without Pacheco**

STRATEGY FOR FINANCIAL SUSTAINABILITY

Water Utility

Key Priorities and Strategic Decision Points

Policies & Enhanced Prioritization Criteria

- Sufficient Water Supply: Policy No. E-2
- Risk/Benefit Assessments
 - Water Supply Master Plan
- Financially Viable
- Operational Impacts

Governance Policies of the Board		
Title:	Water Supply (WS) Services	
Category:	Ends	
Policy No. E-2	Adopted: January 18, 2005 Chair: Richard Santos	Latest Revision: June 22, 2021 Chair: Tony Estremera
The Board of Directors revised and adopted this policy at its public meeting on the latest revision date.		
Valley Water provides a reliable, safe, and affordable water supply for current and future generations in all communities served.		

CIP 5-Year Plan / Water Charges Development Cycles

- Project Decisions

Other

- e.g., partnership decisions

SCENARIO ANALYSIS North County Zone W-2 Annual Rate Increase



Water Utility

North County Zone W-2 Scenarios	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40
1) Baseline w/o Sisk & DCP	9.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.0%	7.0%	7.0%	4.0%
2) + DCP	9.9%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.0%	8.0%	6.0%	6.0%	6.0%	5.0%
3) + Sisk (= Baseline)	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	7.0%	7.0%	7.0%	7.0%	3.0%	3.0%
4) + expanded Sites	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	9.9%	7.2%	7.2%	7.2%	7.2%	7.2%	3.0%
5) w/o Pacheco	9.9%	9.2%	9.2%	9.2%	9.2%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	5.0%	5.0%	5.0%	5.0%

SCENARIO ANALYSIS North County Zone W-2 Average Monthly Impact

Water Utility

North County Zone W-2 Scenarios	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40
1) Baseline w/o Sisk & DCP	\$7.61	\$6.67	\$7.19	\$7.76	\$8.37	\$9.04	\$9.75	\$10.52	\$11.35	\$12.25	\$13.21	\$12.63	\$13.52	\$14.46	\$8.84
2) + DCP	\$7.61	\$7.34	\$7.98	\$8.67	\$9.43	\$10.25	\$11.14	\$12.11	\$13.16	\$13.16	\$14.21	\$11.51	\$12.20	\$12.93	\$11.42
3) + Sisk (= Baseline)	\$7.61	\$8.35	\$9.18	\$10.09	\$11.09	\$12.19	\$13.39	\$14.72	\$16.18	\$12.57	\$13.45	\$14.39	\$15.40	\$7.06	\$7.27
4) + expanded Sites	\$7.61	\$8.35	\$9.18	\$10.09	\$11.09	\$12.19	\$13.39	\$14.72	\$16.18	\$12.93	\$13.86	\$14.86	\$15.93	\$17.07	\$7.63
5) w/o Pacheco	\$7.61	\$7.76	\$8.48	\$9.26	\$10.11	\$8.16	\$8.71	\$9.31	\$9.94	\$10.61	\$11.34	\$8.90	\$9.35	\$9.82	\$10.31

Projects	Estimated Decision Points					Project Online Date
	2025	2026	2027	2028	2029	
B.F. Sisk Dam Raise	Planning Funding Decision	Planning Funding Decision	Final Funding Decision			2032
Sites Reservoir		Final Funding Decision				2032
Pacheco 	Project Status Decision	Project Status Decision	Final EIR Certification	Final Permits and Approvals to Advertise for Bids		2036
Pure Water Silicon Valley Direct Potable Reuse 	Project Status Decision	Project Status Decision	Project Status Decision	Final Partnership Agreements		2035
Delta Conveyance Project	Funding Decision		Final Contract Decision			2045

Watersheds

Fund 12 & Fund 26

FINANCIAL OVERVIEW \$

Watersheds Fund 12 & Fund 26

Key Funding Authority & Constraints

Current Financial Projections

Grants Insights

KEY FUNDING AUTHORITY & CONSTRAINTS

Watersheds Stream Stewardship - Fund 12

Revenue Source: 1% Ad Valorem Property taxes

- General-purpose tax primarily for flood protection; can be allocated for any authorized purpose under the District Act

Financial metrics: Maintaining reserve levels at or above policy minimums for financial sustainability

- Operating & Capital Reserve minimum set at 50% of budgeted operations outlays

KEY FUNDING AUTHORITY & CONSTRAINTS

Safe, Clean Water – Fund 26

Revenue Source: Special Parcel Tax collected countywide

- Voter approved tax can only be used for voter-approved purposes (as detailed in Measure S*)
- Project allocations are not based on city contributions

Cycle for New Initiatives: New SCW priorities/projects re-established every 15 years

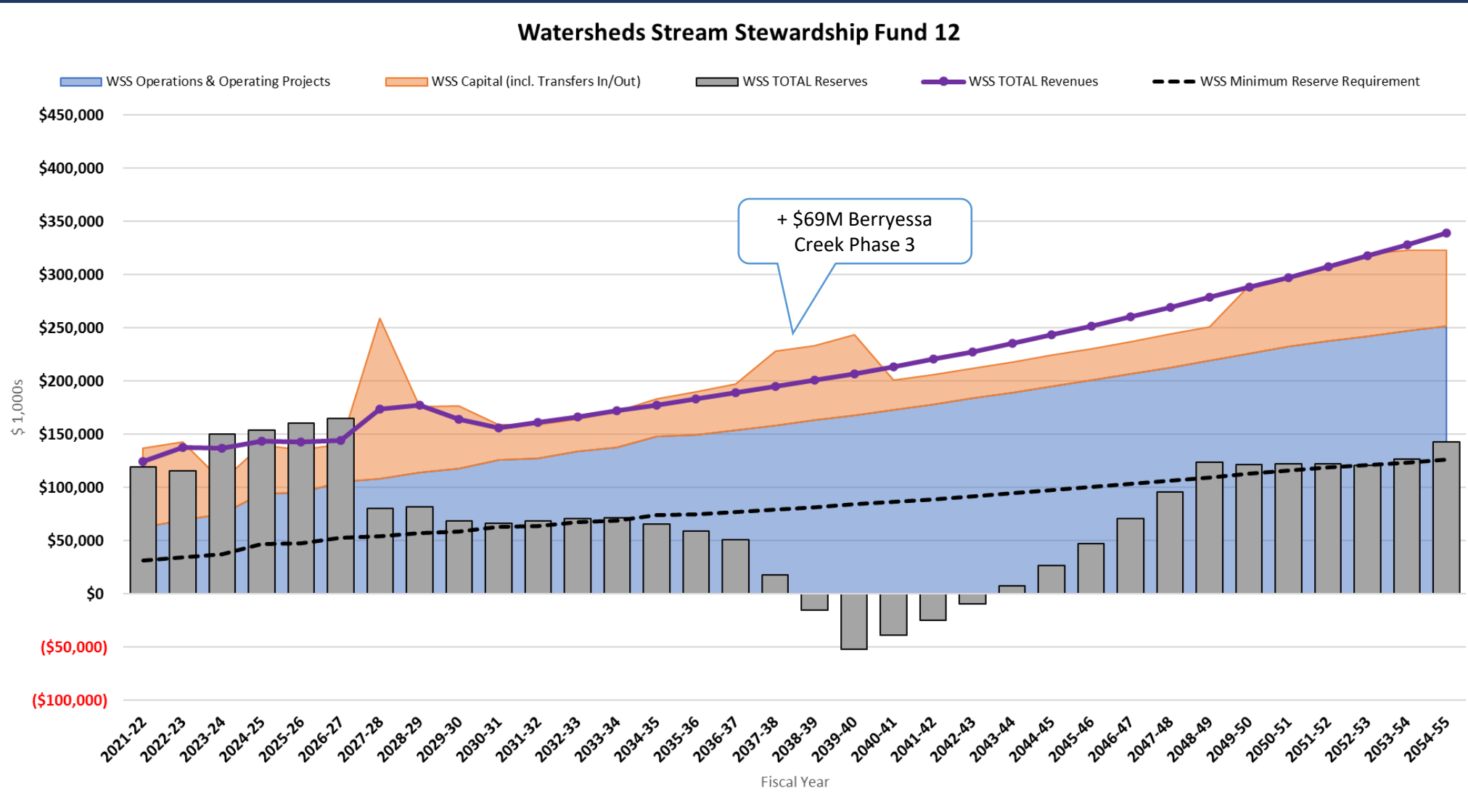
Financial metrics: Maintaining reserve levels & debt service coverage at or above minimums helps ensure financial sustainability & high credit ratings

- Operating & Capital Reserve policy minimum is 50% of budgeted operations outlays
- Debt service coverage ratio minimums are 1.1 for WIFIA debt and 1.0 for non-WIFIA debt

*Measure S was approved by the voters in November 2020

CURRENT FINANCIAL PROJECTION

Watersheds Stream Stewardship - Fund 12



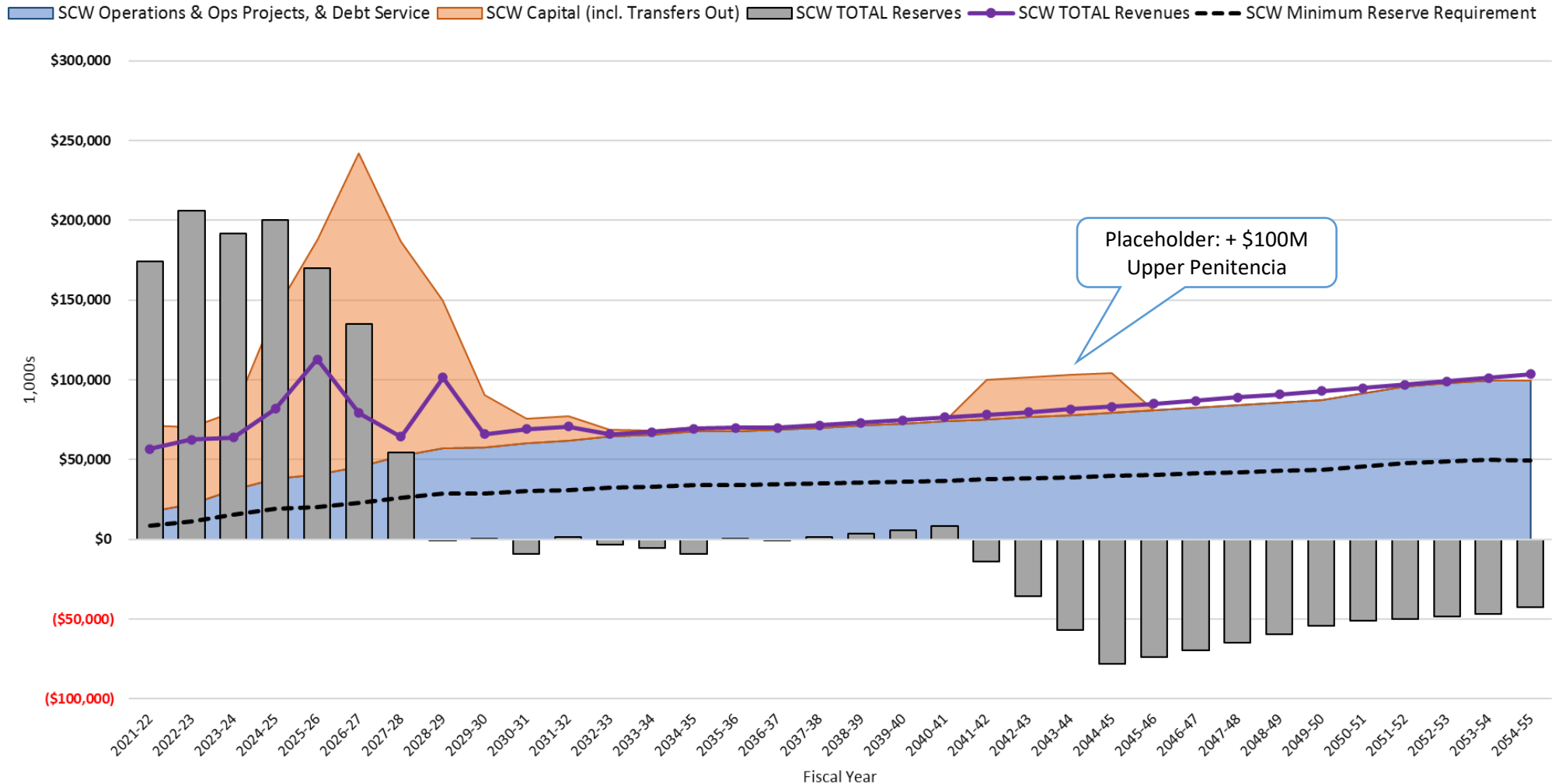
Key Assumptions:

- 1% property tax growth at 3.5% per year
- O&M Maintenance placeholder \$5M/year
- Includes Shoreline
- Encampment Management Program \$8M/year
- All Asset Renewal Work: + \$311M FY41-FY55 (higher FY50-FY55)
- Multiple unfunded capital projects

CURRENT FINANCIAL PROJECTION

Safe, Clean Water – Fund 26

Safe, Clean Water Fund 26



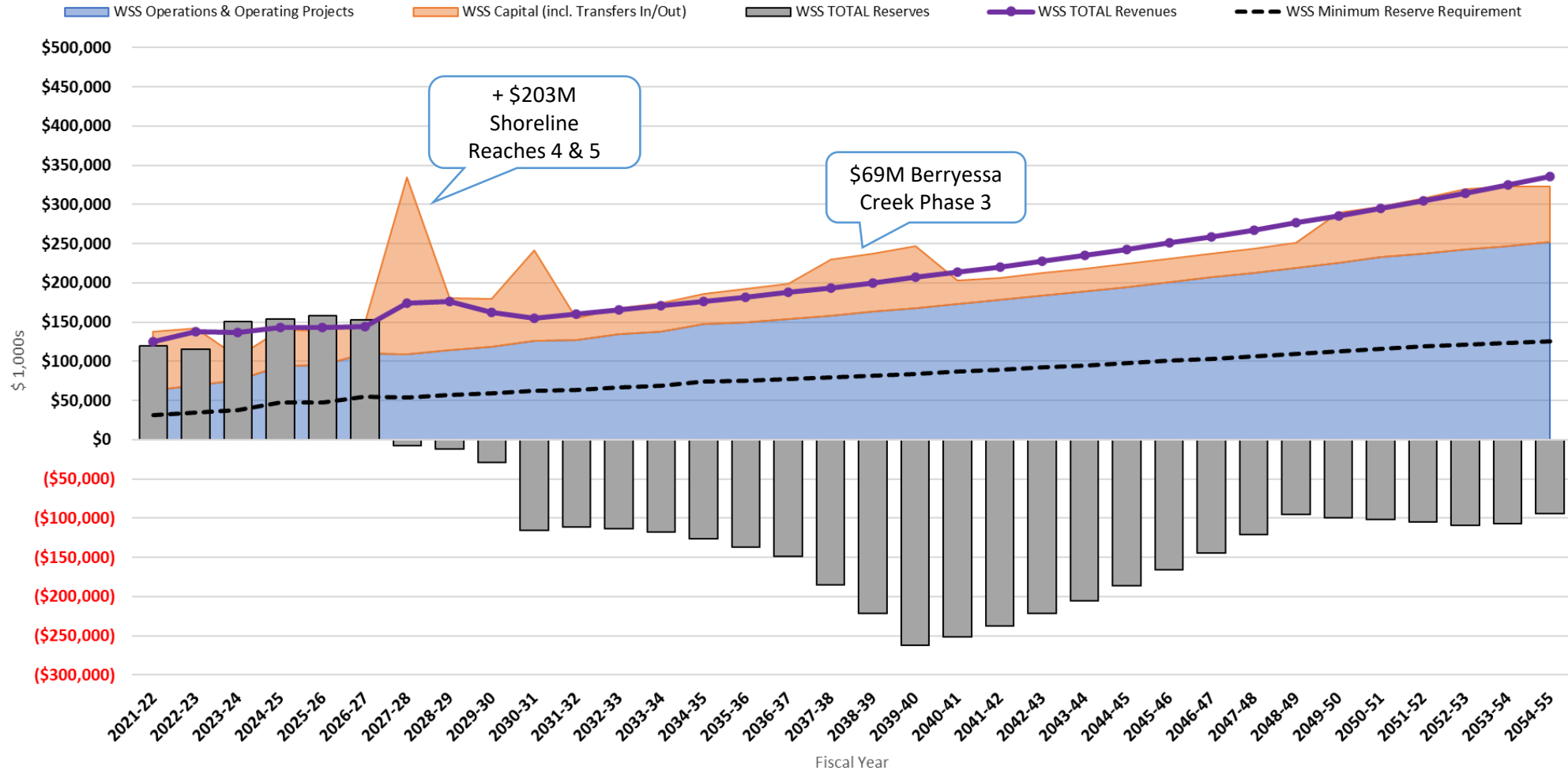
Key Assumptions:

- Special Property tax growth at 2% per year
- Includes \$147M WIFIA loan
- Includes \$80M NRCS grant
- Assumes \$34.5M receipt of outside funding sources for San Francisquito Creek

CURRENT FINANCIAL PROJECTION + COST INCREASES

Watersheds Stream Stewardship - Fund 12

Watersheds Stream Stewardship Fund 12



Key Incremental Assumptions:

Placeholder for Potential future increase:

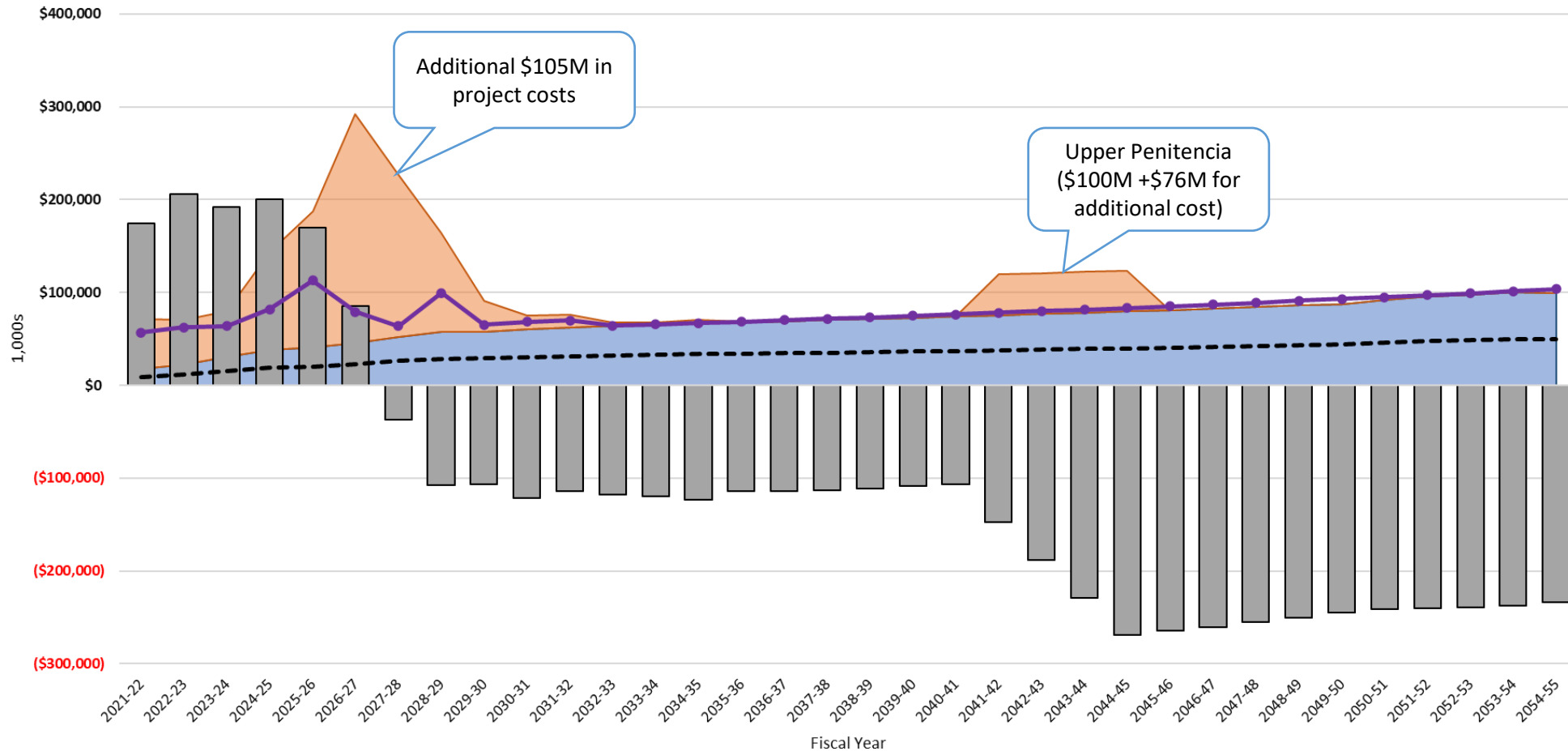
+ \$203M additional Shoreline costs

CURRENT FINANCIAL PROJECTION + COST INCREASES

Safe, Clean Water – Fund 26

Safe, Clean Water Fund 26

SCW Operations & Ops Projects, & Debt Service SCW Capital (incl. Transfers Out) SCW TOTAL Reserves SCW TOTAL Revenues SCW Minimum Reserve Requirement



Key Incremental Assumptions:

- + \$43M Coyote Creek
- + \$62M Sunnyvale E&W
- + \$76M Upper Penitencia Phases I, II & III

Potential Future Challenges:

- Upper Guadalupe River Flood Protection Reach 6: revised cost estimates expected 2028



GRANTS INSIGHTS

Watersheds Fund 12 & Fund 26

Current Federal Landscape: Availability of grants is paused

FMA and HMGP Applications: Awards not expected until 2028

Applications Submitted

- \$50M FMA for Coyote Creek Flood Protection
- \$24M HMGP for Sunnyvale East/West Flood Protection

State Application: \$35M submitted to State Coastal Conservancy Proposition 4 for Sunnyvale East/West Flood Protection

Watersheds Fund 12 & Fund 26 Strategic Approach

STRATEGIC APPROACH

Watersheds Fund 12 & Fund 26

Strategy for Financial Sustainability

- **Implement SCW Process Enhancements**
- **FY26 CIP Development Cycle**
 - Identify Key Priorities and Strategic Decision Points
 - **Present WS & SCW Project Recommendations**
 - Board Direction / Project Decisions

Optimizing CIP: Potential Path for Financial Sustainability

- **Watershed Fund 12**
 - Reduce Capital Costs
 - Optimize the Encampment Management Program budget and reallocate excess funds to WARP Program
 - Transfer Funds to SCW Fund 26
- **SCW Fund 26**
 - Reduce Capital Costs
 - Receive funds from WS

STRATEGY FOR FINANCIAL SUSTAINABILITY

Watersheds Fund 12 & Fund 26

Key Priorities and Strategic Decision Points

Policies & Enhanced Prioritization Criteria

- Flood Protection: Policy No. E-3
- Risk/Benefit Assessments
 - Address flooding “hotspots”
 - Optimized risk-based delivery
- Financially Viable
- Operational Impacts

CIP 5-Year Plan Development Cycles

- Project Decisions

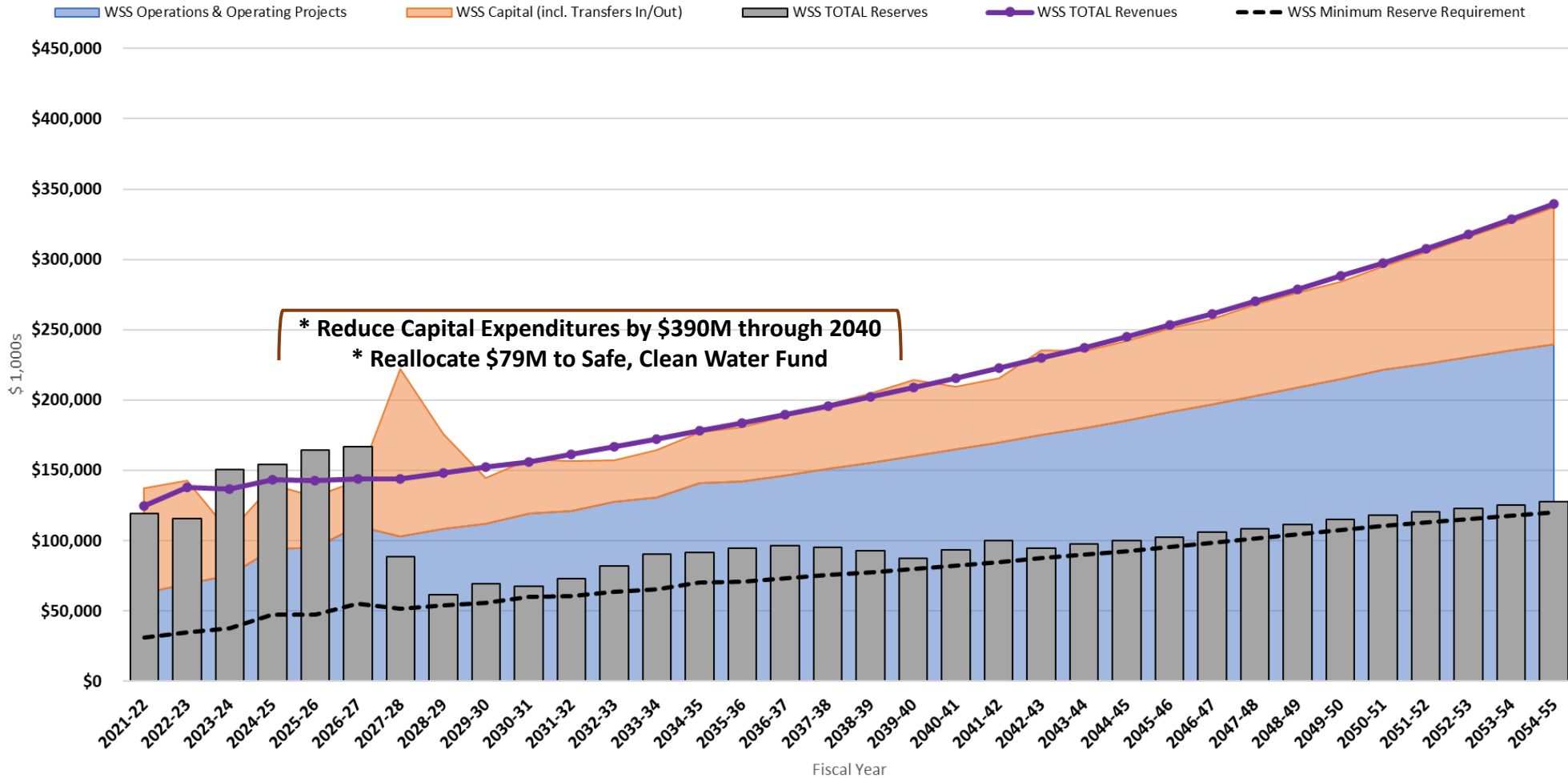
Other

- e.g., change control process, partnership go/no go decisions

POTENTIAL PATH TO FINANCIAL SUSTAINABILITY

Watersheds Stream Stewardship - Fund 12

Watersheds Stream Stewardship Fund 12



Key Incremental Assumptions vs Current with Cost Increases:

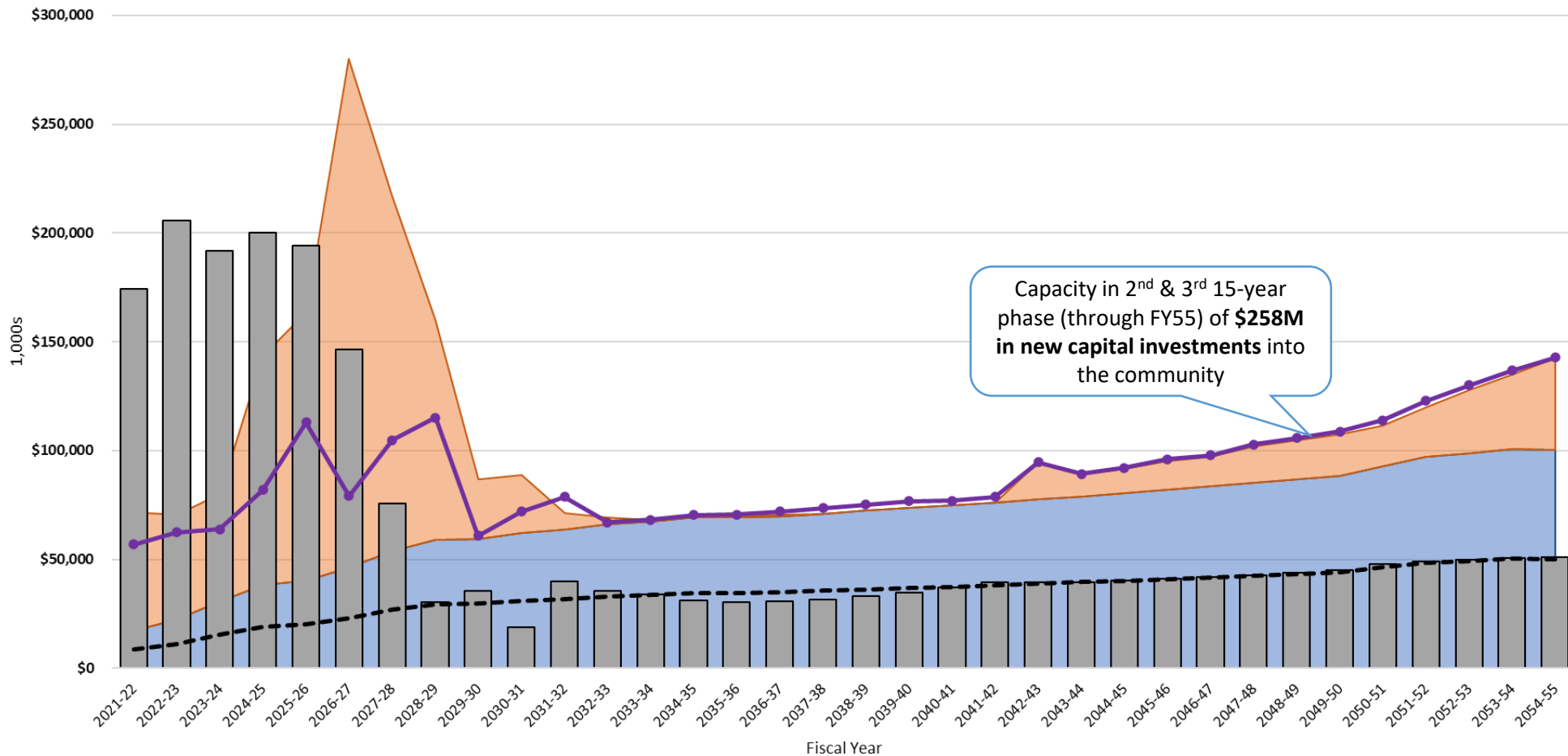
- Reduce capital cost by \$390M through FY 40
- Reduce Encampment Management Program to \$3M/year from \$8M/year
- Transfer \$79M to SCW FY 28 – FY 32
- Maintains ongoing O&M projects and WARP [asset renewal]
- Creates capacity for ~\$231M investments FY 43 & beyond → transferred to SCW Fund 26 for capital project delivery

POTENTIAL PATH TO FINANCIAL SUSTAINABILITY

Safe, Clean Water – Fund 26

Safe, Clean Water Fund 26

SCW Operations & Ops Projects, & Debt Service SCW Capital (incl. Transfers Out) SCW TOTAL Reserves SCW TOTAL Revenues SCW Minimum Reserve Requirement



Key Incremental Assumptions vs Current with Cost Increases:

- Reduce capital cost by \$179M
- Receive \$79M transfer from WSS Fund

Prioritization Process & Potential Enhancements

BOARD-APPROVED CIP PRIORITIZATION CRITERIA FOR FUNDING FILTERS

Board Priorities

- Repair/Replace Existing Infrastructure Projects
- Public Health and Safety Projects
- Shovel Ready (Permits/Land Rights Secured) Projects
- Multi-Benefit Projects
 - Environmental Justice Benefit Projects
- Partially External-Funded (Grants/Partnerships) Projects

Risk Analysis

- Business Risk Exposure Analysis of Existing Infrastructure Projects



POTENTIAL ENHANCEMENTS TO CIP PRIORITIZATION CRITERIA

Criteria for Consideration

1. Fund-Specific Prioritization:

Water Supply Projects	Watersheds Flood Protection Projects	Safe, Clean Water Flood Protection Projects
<ul style="list-style-type: none">• Alignment with Strategic Plans<ul style="list-style-type: none">• e.g., Water Supply Master Plan	<ul style="list-style-type: none">• Flood Risk<ul style="list-style-type: none">• Address flooding “hotspots”• Optimized risk-based delivery	<ul style="list-style-type: none">• Flood Risk• Address flooding “hotspots”• Optimized risk-based delivery• SCW Voter Commitments

2. Financial Viability:

- Funding Availability (internal or external)
- Cost Certainty

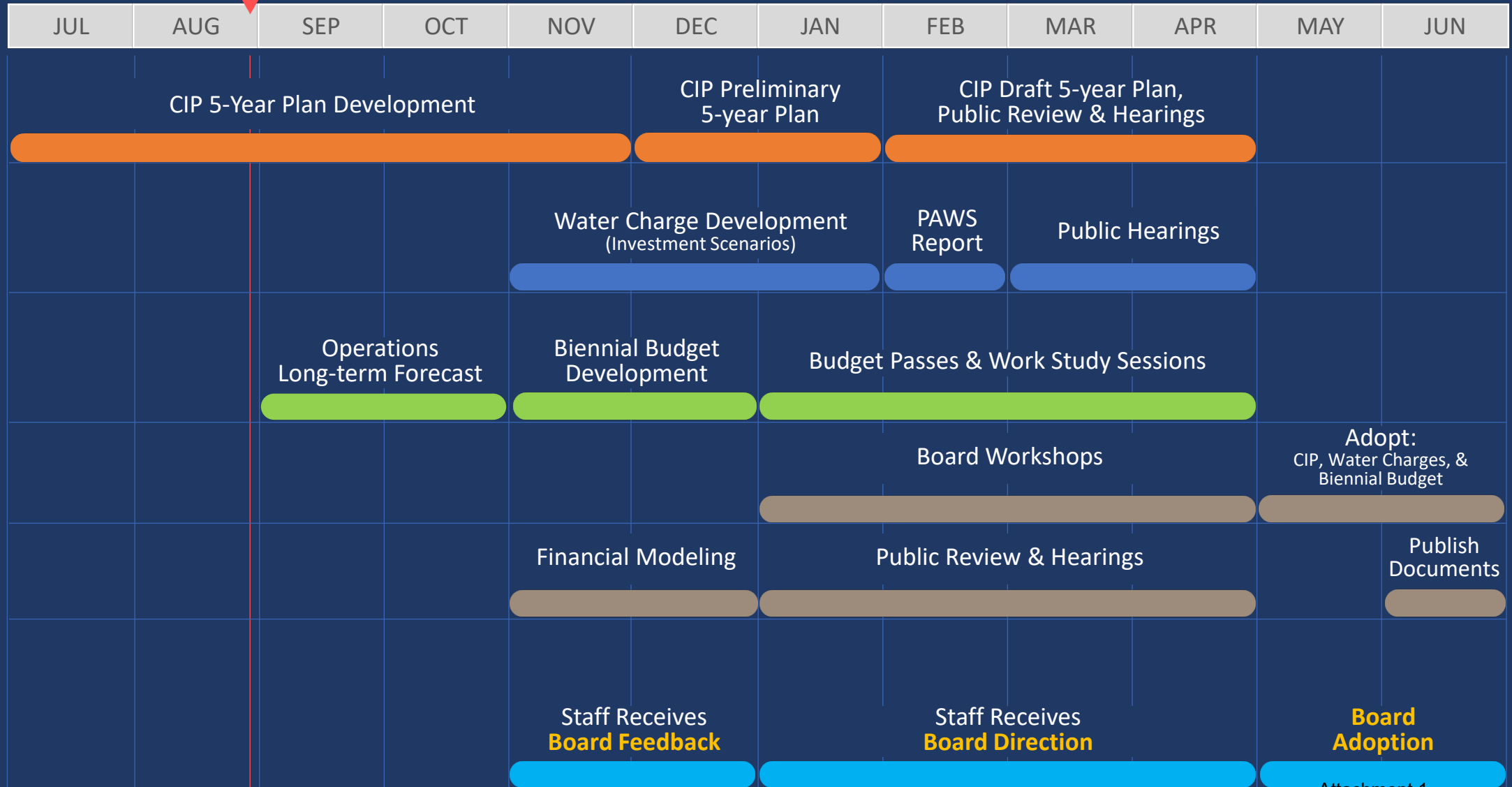
3. Feasibility of Phasing:

- Lower Cost, Alternative Solutions (e.g., interim repairs or upgrades in lieu of full replacement)

4. Operational Impacts and Sustainability

ANNUAL CIP, BIENNIAL BUDGET & WATER CHARGES DEVELOPMENT TIMELINE

We are here



NEXT STEPS

Sept

Oct

Nov

Dec

- **Incorporate Workshop Feedback**
 - Approve/Implement SCW Change Control Process
 - Project Plan Updates
 - Update project funding prioritization
- Project Plan Evaluations
 - Initially Validated Projects
 - (FY27-31 CIP)
- Financial Analysis Workshops
 - SCW Project Modifications (if required)
 - Policy Recommendations
 - CIP Cmte. Preliminary Recommendations

CONSIDERATIONS FOR VALLEY WATER'S FUTURE

- New vision of capital investments
- Preserve Valley Water's mission through project prioritization
- Board input and upcoming staff recommendations

CIP Five-Year Plan Available Online

SCAN THE QR CODE:



Or visit this website:
delivr.com/24wqn

END OF PRESENTATION

Questions & Answers





Valley Water

Clean Water • Healthy Environment • Flood Protection

Extra Slides

CIP FY26-30 by Type of Improvement

Overview by Type of Improvement

CIP Final FY 2026-30 Five-Year Plan



Water Supply

43 projects

\$7.9B



Water Resources Stewardship

12 projects

\$148M



Flood Protection

14 projects

\$2.1B



Buildings and Grounds

3 projects

\$96M



Information Technology

4 projects

\$72M

* Projects that fall into multiple categories are only counted once. \$ are rounded and reflect total planned funding.

Summary of Project Costs by Type of Improvement*

CIP Final FY 2026-30 Five-Year Plan

Type of Improvement	Appropriated/ Actuals thru FY25	Remaining Cost to Completion	Total Project Cost (TPC)
Water Supply	\$1.672B	\$6.227B	\$7.899B
Flood Protection	\$1.128B	\$978M	\$2.106B
Water Resources Stewardship	\$47.5M	\$100.5M	\$148M
Buildings and Grounds	\$13M	\$83M	\$96M
Information Technology	\$4M	\$68M	\$72M
Totals:	\$2.865B	\$7.457B	\$10.321B

*These are inflated TPCs and sums reflected rounded totals.

Reference Maps

A comprehensive, flexible water system serving over 2 million people

Santa Clara Valley Water District Infrastructure



Rinconada Water Treatment Plant



Water Quality Lab



Coyote Pump Plant



Silicon Valley Advanced Water Purification Center



Anderson Dam Tunnel and Seismic Retrofit Projects

Water Sources
 55% Imported
 30% Local
 5% Recycled
 10% Conservation

Legend

- Lakes, reservoirs, rivers, creeks, & bays
- Raw water pipeline
- Drinking water pipeline
- Pump Plants
- Drinking Water Treatment Plants
- South County Regional Wastewater Authority
- Silicon Valley Advanced Water Purification Center
- Percolation Ponds

Water Utility:

- 393 ACRES OF RECHARGE PONDS
- 142 MILES OF PIPELINES
- 10 RESERVOIRS
- 3 PUMP STATIONS
- 3 WATER TREATMENT PLANTS
- 1 WATER PURIFICATION CENTER

Groundwater Benefit Zones

North County Zone W2

- Santa Clara County north of Metcalf Road

South County Zone W5

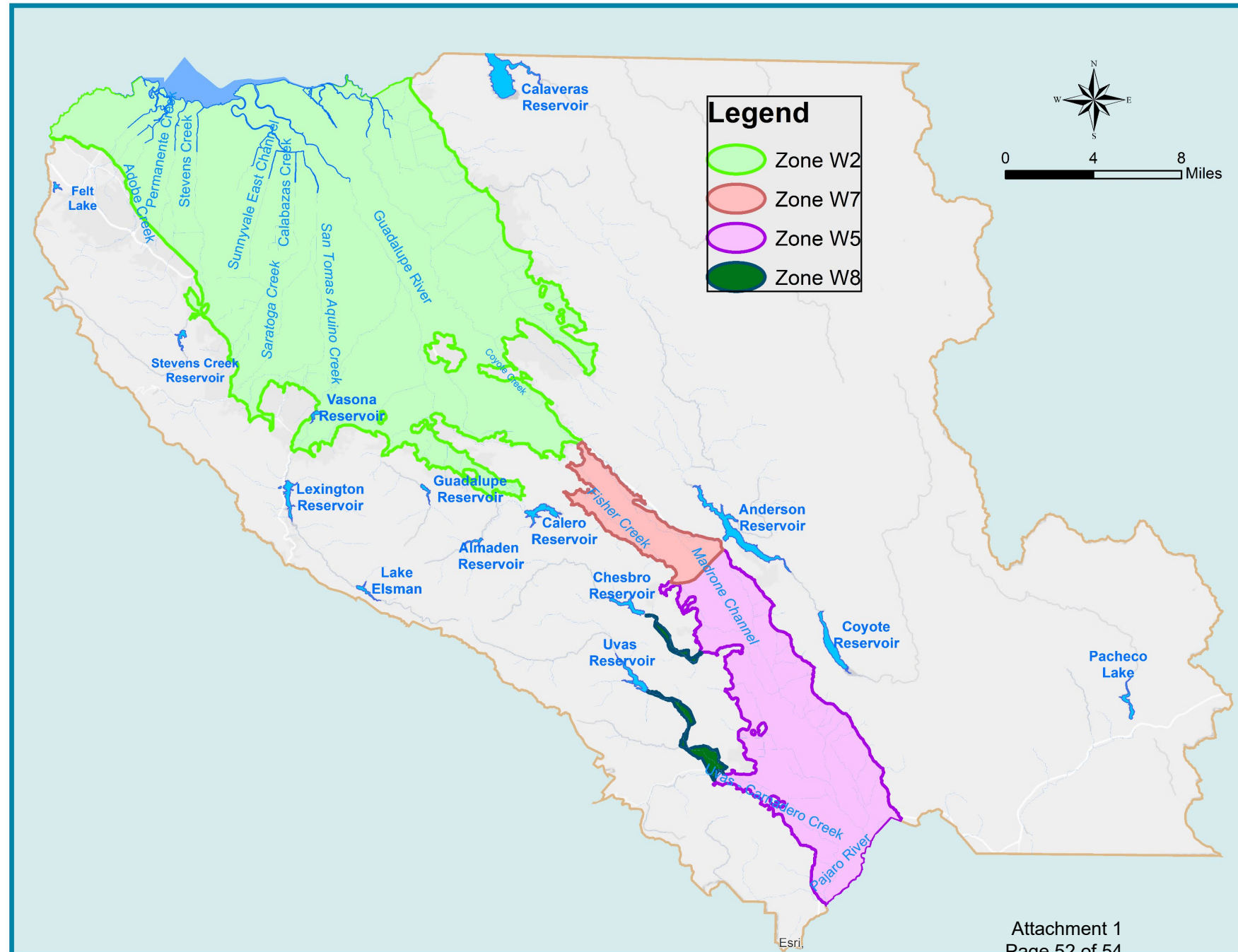
- Morgan Hill to Pajaro River

South County Zone W7

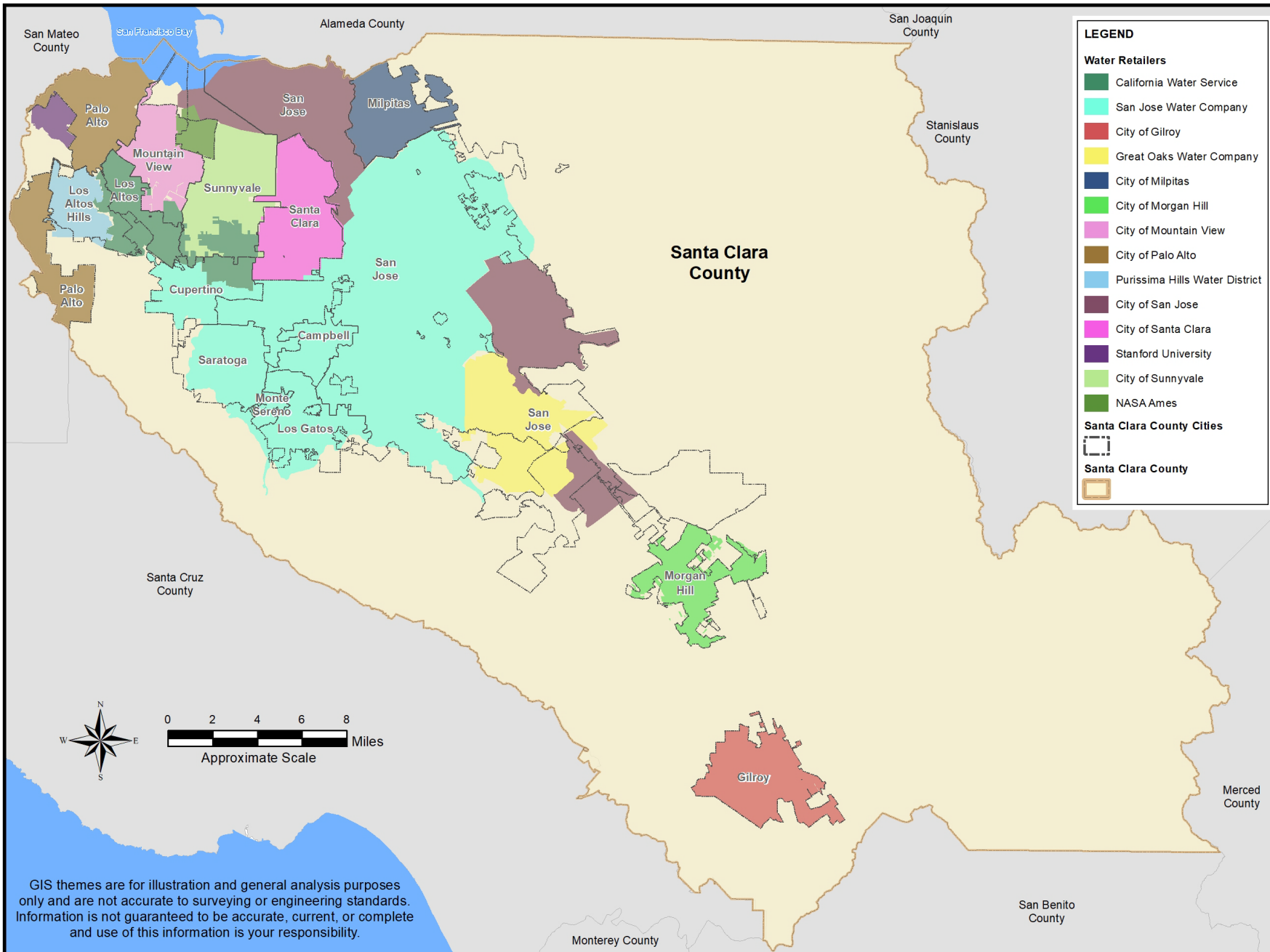
- Coyote Valley

South County Zone W8

- Foothills below Uvas & Chesbro Reservoirs



Water Retailers in Santa Clara County



Valley Water (VW) Flood Protection Watersheds in Santa Clara County

