

**Santa Clara Valley Water District**  
now referred to as  
**Valley Water**  
San Jose, California

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2020

Prepared by the General Accounting Services Unit

Darin Taylor, Chief Financial Officer  
Gloria del Rosario, Accounting Manager

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**VALLEY WATER**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Year Ended June 30, 2020**

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January 13, 2021

TO THE BOARD OF DIRECTORS OF VALLEY WATER:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Santa Clara Valley Water District, now referred to as Valley Water, for the fiscal year ended June 30, 2020. The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Valley Water. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of Valley Water. All disclosures necessary to enable the reader to gain an understanding of Valley Water's financial activities have been included.

To provide a reasonable basis for making these representations, management of Valley Water has established a comprehensive internal control framework that is designed both to protect Valley Water's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of Valley Water's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Valley Water's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Valley Water's financial statements have been audited by Maze and Associates, a firm of licensed certified public accountants. The purpose of the independent audit was to provide reasonable assurance that the financial statements of Valley Water for the fiscal year ended June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on Valley Water's financial statements for the fiscal year ended June 30, 2020. The opinion rendered concluded that the financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Valley Water is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on Valley Water's internal controls and

## **Letter of Transmittal (continued)**

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compliance over the administration of federal awards. The single audit review is applicable when Federal funded expenditures exceed \$0.8 million and is typically completed after the audit of the financial statements and will be issued separately for the Board's acceptance.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Valley Water's MD&A can be found immediately following the report of the independent auditor.

### **District Profile**

The mission of Valley Water is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

Valley Water operates as a State of California special district under the authority of the District Act (Wat. Code, § Ch. 60, Refs & Annos). Valley Water is the primary water resources agency for Santa Clara County, California. It is the largest multi-purpose water supply, watershed stewardship, and flood management special district in California. It acts not only as the County's primary water wholesaler but also as its flood protection agency and is the steward for its streams and creeks, underground aquifers, and district-built reservoirs. The District Act governs the structure, function, and operations of the Valley Water's Board of Directors (Board), which governs Valley Water and directs the Chief Executive Officer.

Valley Water is the primary water resources agency for the two million residents of the County. It encompasses all of the county's approximately 1,300 square miles and serves the area's 15 cities and towns: Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. Valley Water also serves certain unincorporated areas of the County.

Valley Water sells treated water to 8 water retail companies, cities, and towns that service communities within the County via their own distribution systems. There are also private well owners in the County, for which Valley Water levies a groundwater production charge for water pumped. This water demand requires Valley Water to operate and maintain a complex delivery and treatment system that includes 3 water treatment plants, an advanced water purification center, 10 local reservoirs and dams, a state-of-the-art water quality laboratory, dozens of groundwater recharge basins, 5 pump stations and 144 miles of pipelines. Water supplies include local surface water and groundwater, imported water, and recycled water. Water conservation is also an important part of the water supply mix since it offsets water demands.

To ensure an adequate and reliable supply of high-quality water, Valley Water has partnered with cities and water retailers in the county to develop recycled water supplies. About 5% of the County's total water use currently consists of recycled water, limited primarily to landscaping and industrial uses. Recycled water use is expected to expand in coming years.

In 2010, the Board approved agreements with the City of San Jose to partner and build a facility to produce about eight million gallons per day (MGD) of highly purified water. Valley Water and the City of San Jose entered into a ground lease and property use agreement (the "Ground Lease") with respect to the City of San Jose owned site on which the Silicon Valley Advanced Water Purification Center (SVAWPC) is located. In addition, Valley Water and the City of San Jose

## Letter of Transmittal (continued)

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entered into an integration agreement (the “Integration Agreement”) with respect to the operation of the SVAWPC. Valley Water and the City of San Jose each have the annual option to terminate the Integration Agreement on or after June 30, 2020, in accordance with its terms. The Ground Lease provides that if the Integration Agreement is terminated, the Ground Lease will simultaneously terminate and upon such termination, Valley Water would be required to surrender the facilities of the SVAWPC to the City of San Jose. The option to terminate the Integration Agreement provides an opportunity for the City of San Jose and Valley Water to re-evaluate the continued need for integrated management of their respective facilities (i.e., Valley Water’s SVAWPC and City of San Jose’s Regional Wastewater Facility), financial support, and opportunities for the use of recycled water. Both parties would be required to meet and discuss potentially amending the Integration Agreement in lieu of terminating the Integration Agreement to address the parties’ concerns.

The SVAWPC in North San Jose commenced full operation in March 2014. Currently, purified water produced by the Silicon Valley Advanced Water Purification Center is not used for potable (drinking) purposes and is instead blended with existing recycled water to enhance its quality for non-potable purposes such as irrigation, cooling towers and industrial applications.

In December 2019, Valley Water’s Board of Directors approved a 76-year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the agreement, Valley Water will pay \$0.2 million per year for the option to receive the wastewater effluent until June 1, 2033 or the point in time when Valley Water begins to receive the wastewater effluent, whichever occurs first. If Valley Water exercises its option, 9 MGD of effluent would be delivered to a regional purification facility to be constructed and owned by Valley Water. The purified water, which would be a locally controlled drought resilient supply, could be used for either indirect potable reuse (e.g. recharge local groundwater basins) or direct potable reuse (raw water or treated water augmentation, subject to future regulatory requirements). If Valley Water exercises the option, Valley Water would pay \$1.0 million per year for the effluent plus an inflation escalator for the 76-year term of the agreement. Valley Water has not made a decision as to whether it will exercise the option to receive wastewater effluent under the agreement. In addition to the foregoing option, Valley Water will contribute \$16.0 million to be used to fund either: (1) a portion of the costs of a local salt removal facility in the City of Palo Alto to provide a higher quality of recycled water for irrigation and cooling towers or (2) in the event that the cities of Palo Alto and Mountain View decide not to construct the local plant within 13 years of the effective date of the agreement, to fund other recycled water or water supply projects.

In June 2020, the Board reaffirmed its intention to engage in a public-private-partnership (P3) project delivery method for the Expedited Purified Water Program through a request for qualification process. Valley Water staff plans on updating the project scope, timing, and procurement process for the project and qualification of a potential P3 partner in Fiscal Year 2021.

As the primary wholesale water supplier in the County, Valley Water is dedicated to assuring a reliable supply of healthy and clean drinking water. Valley Water provides stream stewardship that encompasses managing flood and storm waters within the County and protecting watersheds and riparian corridors, thereby providing for public safety, and the protection of property and the natural environment along creeks and rivers, and at the edge of the San Francisco Bay.

## Letter of Transmittal (continued)

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### Factors Affecting Financial Condition

#### Local Economy

Located south of San Francisco Bay, Santa Clara County is the sixth largest county in California, with a population of 1.78 million and measures approximately 1,315 square miles.

The COVID-19 pandemic has created a public health crisis that is affecting the Valley Water community and economy in ways that have not been previously experienced. Several industries including the airline, restaurant, and tourism industries were deeply affected by shelter in place mandates and ten months into the COVID-19 crisis, economies across the U.S. are recovering jobs in some areas, while continuing to see losses in others. In Santa Clara County, the unemployment rate of 7% remains one of the lowest in the Bay Area.<sup>1</sup> In comparison, California's unemployment rate is currently 11%. While the U.S. economy has been hit hard during the coronavirus pandemic, the technology industry and its hub in Santa Clara County continue to fare better than other large regions across California and the nation.<sup>2</sup>

Pre-COVID, Silicon Valley's regional GDP continued to grow, with estimated gains of nearly 5% year-over-year. Since 2001, the number of patents registered to Silicon Valley inventors each year more than doubled and venture capital investments flowing into the region's companies have been high over the past two years. While job growth in Silicon Valley slowed over the past two years, the pace remains higher than the state or nation as a whole. However, more people are leaving the region than coming in, with a marked outflow to the greater Bay Area, other parts of the state, Washington, Texas, Arizona, and Nevada.

The County has one of the highest personal income levels in the Bay Area and in California, and the workforce is highly educated. Businesses located in Santa Clara County are able to take advantage of the highly educated and skilled workforce in the fields of science and engineering, its high rate of venture capital investment, and dynamic culture of cutting-edge innovation. The region is also emerging as a worldwide leader in the clean technology industry, and Santa Clara County accounts for 34% of total clean technology investment in the state and 15% in the country.<sup>3</sup> Other major industry clusters include life sciences and financial and professional services.

The total amount of new commercial space completed in the region hit an 18-year high in 2019, bolstered by significant industrial space development, plus new office and R&D space. In addition to booming commercial space completions, the amount under construction reached a 19-year high in 2019. Among other projects, large Silicon Valley tech companies with office space under construction at the end of 2019 included Google, Microsoft, Adobe, and NVIDIA.

The County and its Cities are working aggressively to create affordable housing to meet the needs of residents. New home construction is recovering from the lows of the 2007-2009 recession. Home prices in the region declined slightly in 2019, yet housing costs remain the highest in the nation (with median home sale prices remaining well above \$1.0 million).<sup>4</sup> Pre-COVID, per capita income and average wages continued their upward trend, and Silicon Valley's poverty rate was still low compared to the rest of the country.

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<sup>1</sup> State of CA Employment Development Department, September 2020 for Santa Clara County

<sup>2</sup> MarketWatch, June 2020

<sup>3</sup> Santa Clara County website, Economic Resource Guide

<sup>4</sup> 2020 Silicon Valley Index – Joint Venture Silicon Valley Network

## Letter of Transmittal (continued)

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In light of COVID-19, Valley Water has been refining project plans, prioritizing business continuity, and maintaining the operation of essential services to provide safe, clean water to Santa Clara County. The COVID-19 outbreak is currently ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic impact are uncertain. To date, Valley Water has not been notified by any retail water purveyor served by Valley Water of material delinquencies in the payment of water utility bills by customers of such retail water purveyors, despite Governor Newsom's executive order issued on March 4, 2020 that restricts water shutoffs to homes and small businesses while the state responds to the COVID-19 pandemic.

Valley Water began calendar year 2020 with groundwater storage well within the Normal range of its Water Shortage Contingency Plan. Despite well below-normal local rainfall and statewide snowpack, end of year groundwater for 2020 is projected to be well within the Normal range. The State has placed operating restrictions on five of Valley Water's ten dams due to Seismic safety concerns. In addition, on February 20, 2020, the Federal Energy Regulatory Commission ordered the drawdown of Anderson reservoir effective October 1, 2020.<sup>5</sup> As such, the restricted capacity is now at 62,362 acre-feet relative to 166,140 acre-feet total storage capacity. As of June 30, 2020, total local reservoir storage was 61,462 acre-feet. The estimated cost to fix all dams with seismic safety concerns is approximately \$836.0 million according to the FY 21-25 Capital Improvement Program.

Valley Water's Semitropic groundwater bank reserves were at 98%, or 344,662 acre-feet for the same time period.<sup>6</sup> Semitropic Water Storage District has reported elevated concentrations of 1,2,3 Trichloropropene in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

To improve transparency, beginning with the fiscal year ended June 30, 2020, water stored in Valley Water's reservoirs, as well as the Semitropic groundwater storage bank is recorded as inventory in the financial statements.

The Valley Water Board of Directors continues its call for a 20% reduction and a limit of three days per week for irrigation of ornamental landscape with potable water. From the beginning of the drought response initiated in 2014, Valley Water has worked with water retailers, cities, and the County to maintain water conservation efforts and public outreach, and to implement other actions to reduce water use. Through these efforts, Valley Water has achieved a 17% reduction in water use through June 2020 compared to 2013.<sup>6</sup>

### Long-term Financial Planning

Valley Water plans, manages, and carries out work to meet policies established by its Board of Directors. Under Valley Water's form of Policy Governance, these "Ends" policies describe the mission, outcomes, or results to be achieved by Valley Water staff. Balancing the Ends policies are Executive Limitations, which set limits on staff activities in fulfilling the Ends. Alignment of plans and resources with the Ends policies helps the Board fulfill the critical responsibility of defining, balancing, and prioritizing "what benefits, for what people, at what cost," and enhances Valley Water staff's accountability in using budgeted resources to accomplish those ends.

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<sup>5</sup> Valley Water – Water Tracker, October 2020

<sup>6</sup> Valley Water – Water Tracker, August 2020

## Letter of Transmittal (continued)

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Valley Water funds activities that carry out its mission through the following three highest-level policies.<sup>7</sup>

- E2 - Reliable, clean water supply for current and future generations
- E3 - Healthy and safe environment for residents, businesses, and visitors, as well as for future generations
- E4 - Water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County

Valley Water's largest revenue source is water charges, acting as a wholesaler for numerous water supply retailers in Santa Clara County. Water revenues for fiscal year 2020 were \$266.9 million. In May 2020, to mitigate the impact of the COVID-19 pandemic on the communities within Valley Water's service area, the Board of Directors did not adopt any increase to water rates for fiscal year 2021. However, the Board asked staff to bring back information on the financial impacts of the pandemic on the community and on Valley Water in order to determine whether a mid-year rate increase should be pursued. On September 22, 2020, the Board decided to not pursue a mid-year rate increase for fiscal year 2021. The financial impact of no increase in water rates for fiscal year 2021 will be the need for higher water rate increases in future years in the absence of offsetting cost cutting (or reduction in CIP spending) actions.

The Five-Year Capital Improvement Plan (CIP) includes a total of 67 capital projects with an estimated cost of over \$6.5 billion. Valley Water has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$6.5 billion total funding, \$1.2 billion is expected from Valley Water's various partners, such as the U.S. Army Corps of Engineers (USACE), and \$5.3 billion from Valley Water. Of the \$1.2 billion that is expected from Valley Water's partners, \$742.0 million is advanced by Valley Water and reimbursed later. This \$742.0 million is included in the CIP and increases Valley Water's total funding requirement from \$5.3 billion to \$6.0 billion to ensure that Valley Water has adequate funding to advance the reimbursement.<sup>8</sup> Obtaining timely permits from regulatory agencies continues to be a challenge in the effort to carry out the CIP.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax to fund projects addressing the following community priorities:

- Ensuring safe reliable water for the future;
- Reducing toxins, hazards, and contaminants in our waterways;
- Protecting water supply and local dams from the impacts of earthquakes and natural disasters;
- Restoring fish, bird, and wildlife habitat;
- Providing flood protection to homes, businesses, schools, streets, and highways.

<sup>7</sup> Valley Water FY2019-20 Operating and Capital Budget

<sup>8</sup> Valley Water – FY2021-25 Capital Improvement Program

## Letter of Transmittal (continued)

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Safe, Clean Water builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. Safe, Clean Water replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013. The program is funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2021, the budget includes \$45.5 million of tax revenue for this program (see Note 17 - Subsequent Events for additional information on the recent ballot measure).

### Relevant Financial Policies

#### End of Year Balances

Valley Water policies for end-of-year balance re-appropriations are as follows:

- Any remaining appropriation balances at the end of the fiscal year for capital projects are annually re-appropriated for continued use in those same projects in the following fiscal year. These amounts shall be consistent with the planned expenditure schedule identified in the 5-year CIP;
- Any variances at the end of the current fiscal year in Operating and Capital Reserves from those estimated in the budget not otherwise re-appropriated above shall result in corresponding adjustments to the estimated reserve appropriations in accordance with the Valley Water Reserve policy.

Valley Water, through the Public Facilities Financing Corporation, also maintains a commercial paper program for funding capital projects. Commercial paper is used to provide low-cost interim financing during construction. Valley Water issues long-term debt obligations to repay principal outstanding on the commercial paper over a 30-year term.

#### Budgetary Controls

Valley Water maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Plan. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories - the operating budget (consisting of total operations, operating projects, and debt service) and the capital budget (consisting of capital project expenditures). Valley Water also maintains an encumbrance accounting system as one process to accomplishing budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund require Board approval. Budget and actual comparisons are provided in this report for each fund for which an appropriated annual budget has been adopted. For governmental funds, this comparison is presented starting on pages 116 as part of required supplementary information and selected watershed activities starting on pages 124 as part of supplemental information. For proprietary funds, this comparison is presented starting on pages 128 and 134 as part of the combining and individual fund statements and schedules.

## Letter of Transmittal (continued)

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The guidelines used by Valley Water in developing this formal budget process are those recommended by the National Advisory Council on State and Local Budgeting, and the Government Finance Officers Association (GFOA).

### Reserve Requirements

Valley Water's financial policies establish the levels at which reserves shall be maintained. Valley Water reserve policies address the need for both operating and capital reserves, and funding of contingency and future liabilities.

### **Major Initiatives**

Highlights of activities and accomplishments for the fiscal year ended June 30, 2020 include the following:<sup>9</sup>

- ◆ In July 2019, the Department of Water Resources (DWR) approved Valley Water's Groundwater Management Plan as an Alternative to a Groundwater Sustainability Plan, confirming it satisfies the objectives of the Sustainable Groundwater Management Act (SGMA). DWR evaluated 15 submitted alternatives in total. The two large basins in Santa Clara County, the Santa Clara and the Llagas Subbasins, are now among the nine basins in the state of California with approved SGMA Alternative Plans. DWR approval of Valley Water's Alternative is a testament to the organization's comprehensive groundwater management and ongoing commitment to groundwater sustainability.
- ◆ On August 28, 2019, Valley Water hosted a groundbreaking ceremony for the upper Llagas Creek Flood Protection Project (Phase 1) in Morgan Hill. Phase 1 construction has an anticipated completion day in May 2022. The entire project consists of approximately 13.9 miles of flood protection improvements, and continues a Clean, Safe Creeks project in partnership with the U.S. Army Corps of Engineers.
- ◆ On September 21, 2019, Valley Water, in partnership with the Creek Connections Action Group (CCAG), coordinated a milestone 35<sup>th</sup> Annual Coastal Cleanup Day event in Santa Clara County. Approximately 53,297 pounds of trash was removed by 2,166 volunteers.
- ◆ On September 19, 2019, Valley Water hosted a community appreciation event at the Coyote Pumping Plant which marked the completion of major construction activities for the Main Avenue and Madrone Pipeline Restoration Project. This project installed approximately 2.6 miles of 24-inch to 36-inch diameter raw water pipelines, which are now capable of functioning at full operational capacity and conveying local and imported rate water from Anderson Reservoir and the Santa Clara Conduit to the Main Avenue Recharge Ponds and the Madrone Channel.

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<sup>9</sup> Valley Water CEO Bulletins

## Letter of Transmittal (continued)

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- ◆ On November 20, 2019, Valley Water hosted a ribbon cutting ceremony to mark the completion of the Cunningham Flood Detention Certification project in San Jose. Lake Cunningham Regional Park serves as a detention area by storing water within the park during a storm to help prevent flooding downstream of the park. These improvements, in combination with the completed Lower Silver Creek Flood Protection Project improvements, will protect approximately 3,800 properties from a 100-year flood event.
- ◆ On December 10, 2019, Valley Water's Board of Directors approved a 76-year agreement with the cities of Palo Alto and Mountain View to secure a minimum of 9 MGD of wastewater effluent through an effluent transfer option. Under the agreement, described in detail earlier, Valley Water could obtain the source effluent for a regional purification facility to be constructed and owned by Valley Water, which would be a locally controlled drought resilient supply.
- ◆ On January 15, 2020, Valley Water joined local, regional, state, and federal agencies to unveil the first permanent X-Band radar in the San Francisco Bay called the Advanced Quantitative Precipitation Information (AQPI) System at a ribbon cutting event at the Penitencia Water Treatment Plant. The system will provide data for forecasting, which will assist water managers, reservoir operators, wastewater plant managers, flood, and emergency responders to make operational and safety decisions during extreme weather events.
- ◆ On February 29, 2020, Valley Water joined the City of Mountain View, Mountain View California Little League and the neighboring community for a ribbon cutting event to celebrate the completion of McKelvey Park. Valley Water's Permanente Creek Flood Protection Project reached a major milestone with the completion of the McKelvey Park flood detention basin in Mountain View. McKelvey Park was built as a dual-purpose facility, providing flood protection to downstream neighborhoods and a recreational space for residents.
- ◆ On June 3, 2020, Valley Water hosted a virtual graduation ceremony honoring the 2020 Water 101 Academy graduates. Designed to engage community leaders to become Water Ambassadors, the Water 101 Academy provided a series of sessions and networking opportunities for participants to understand local water challenges and learn about the mission and goals of Valley Water so that they could serve as advocates for their respective communities. Valley Water's commitment to engage and inform communities of current and future Valley Water projects, was reinforced at the ceremony,

### Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Water for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the 23rd consecutive year that Valley Water has received this prestigious award. To be awarded a Certificate of Achievement, Valley Water must publish an easily readable and efficiently organized

## Letter of Transmittal (continued)

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comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR represents the culmination of months of concerted team effort by diverse Valley Water staff, including team members from Financial Planning and Management Services Division, Water Supply Division, Information Management Services Division, General Services Division, Human Resources Division, and Office of the District Counsel. Many team members demonstrated a high degree of personal dedication and determination in producing this exemplary document. In addition, special thanks to Valley Water staff in all groups for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze and Associates is also acknowledged for their significant technical contribution and assistance.

Special thanks go to Gloria del Rosario, General Accounting Unit Manager; the following Accounting staff: Jaime Salandanana, Guy Canha, Fanny Chan, Leticia Rocha, Trisha Cheung, Christine Hernandez, Ofelia Hsieh, and Gloria Chou; and Chenlei Yao of the Budget and Financial Planning Unit, for their talent and dedication in preparing this financial report.

Finally, we wish to express our sincere appreciation to Valley Water's Board of Directors and management for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.



Darin Taylor  
Chief Financial Officer



Rick Callender  
Chief Executive Officer

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Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Santa Clara Valley Water District  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

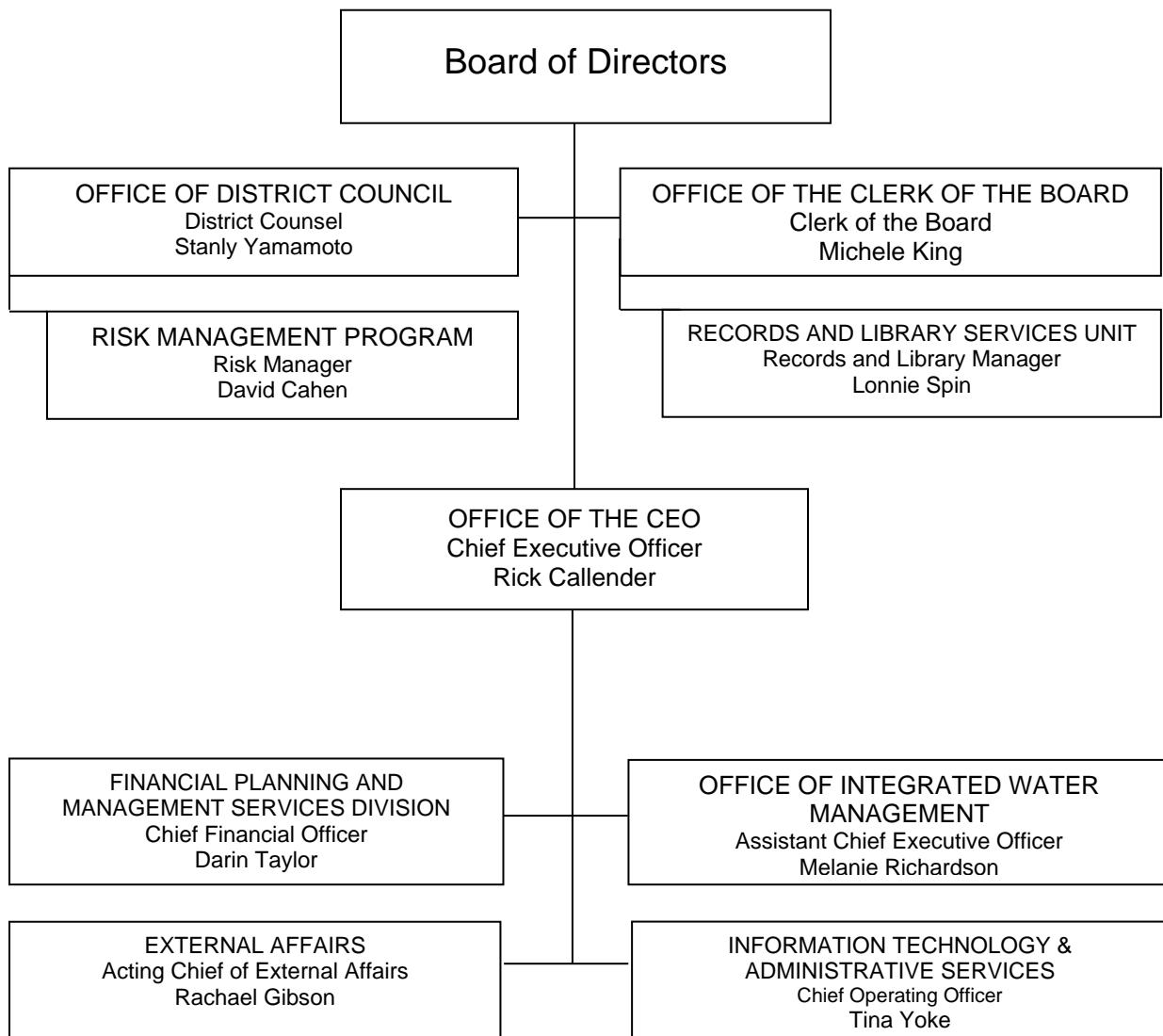
June 30, 2019

*Christopher P. Morill*

Executive Director/CEO

# VALLEY WATER

## Board of Directors & Executive Management



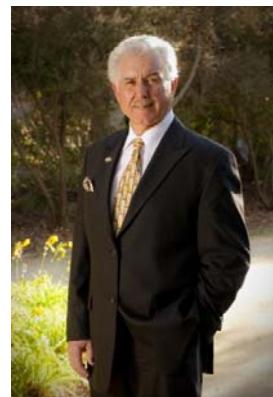
# VALLEY WATER 2019 – 2020 BOARD OF DIRECTORS



John L. Varela  
District 1



Barbara Keegan  
District 2



Richard P. Santos  
District 3



Linda J. LeZotte  
District 4



Nai Hsueh  
District 5



Tony Estremera  
District 6



Gary Kremen  
District 7

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Santa Clara Valley Water District  
San Jose, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Water District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 15, the District restated the net position of the Water Enterprise Fund related to the accounting for water inventory. The emphasis of this matter does not constitute a modification to our opinions.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pleasant Hill, California  
January 13, 2021

## **Management's Discussion and Analysis**

Our discussion and analysis of Valley Water's financial performance provides an overview of Valley Water's financial activities for the fiscal year ended June 30, 2020. This information is presented in conjunction with the audited financial statements that follow this section.

### **Financial Highlights**

- The net position of Valley Water was \$2.7 billion as of June 30, 2020. Of this amount, \$163.8 million (unrestricted, but committed and assigned net position) may be used to meet Valley Water's ongoing obligations to citizens, businesses, stakeholders and creditors.
- Valley Water's net position increased by \$283.6 million during the current fiscal year. The net position of the governmental activities increased by \$62.2 million and the net position of the business-type activities by \$221.4 million, which includes \$134.4 million in water inventory due to the Board of Directors' decision to start recording water as inventory beginning in fiscal year 2020.
- As of the close of the current fiscal year, Valley Water's governmental funds reported combined ending fund balances of \$350.1 million, an increase of \$6.8 million in comparison with the prior fiscal year fund balances of \$343.3 million.
- The fund balance for the general fund was \$14.2 million, largely unchanged from the prior fiscal year. Committed and assigned fund balances were \$14.2 million or 100% of the total fund balance.
- The fund balances of the Watershed & Stream Stewardship and Safe, Clean Water & Natural Flood Protection funds were \$330.5 million, an increase of \$8.7 million from the prior fiscal year.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to statements
- Required and Other Supplementary information
- Statistical Information

### **Basic Financial Statements**

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements, and the Notes to the financial statements. The financial statements presented herein include all the activities of Valley Water and its component units using the integrated approach as prescribed by Generally Accepted Accounting Principles (GAAP). This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

## Management's Discussion and Analysis (continued)

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### Government-wide Financial Statements

The government-wide financial statements present the financial picture of Valley Water from an economic resources' measurement focus using the accrual basis of accounting.

They include the Statement of Net Position and the Statement of Activities:

*The Statement of Net Position.* The Statement of Net Position presents information on all Valley Water's assets, deferred outflow, liabilities, and deferred inflow, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Valley Water is improving or deteriorating.

*The Statement of Activities.* The Statement of Activities presents information showing how Valley Water's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues earned, and expenses incurred are reported in this statement even if the resulting cash flows will occur in future fiscal periods (e.g., earned but uncollected taxes and earned but unused vacation leave).

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type activities.

*Governmental activities* are principally supported by taxes and intergovernmental revenues and include general government, watershed management, and construction and debt service funding.

*Business-type activities* are those that are intended to recover all of a significant portion of their costs through user fees and charges and include the water utility operation fund.

The government-wide financial statements include not only Valley Water itself (known as the primary government), but also a legally separate Santa Clara Valley Water District Public Facilities Financing Corporation (the Corporation) for which Valley Water is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of Valley Water. Additional information on this legally separate entity can be found in Note 1(b) in the notes to basic financial statements.

The Government-wide Financial Statement can be found on pages 36 and 37 of this report.

### Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Valley Water, like other special districts, uses fund accounting to ensure and demonstrate compliance with

## Management's Discussion and Analysis (continued)

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finance-related legal requirements. The funds of Valley Water are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* Valley Water's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Valley Water's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Valley Water's projects.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and change in fund balances to the government-wide statements are provided to facilitate this comparison between *governmental funds* and *governmental activities*.

*Proprietary funds.* Valley Water maintains two-different types of proprietary funds: enterprise funds and internal service funds.

*Proprietary funds* are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information. Valley Water uses enterprise funds to account for its water utility operations fund.

*Internal service funds* are used to accumulate and allocate costs internally among the Valley Water's various functions. Valley Water uses internal service funds to account for its fleet of vehicles and computer equipment, risk management, and information technology activities. The internal service funds have been included within governmental activities and business-type in the government-wide financial statements.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside Valley Water. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Valley Water's own programs.

### Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found starting on page 49 of this report.

## Management's Discussion and Analysis (continued)

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### Other Information

The required supplementary information related to Valley Water's pension and OPEB plans is included after the Notes to the Financial Statements and can be found starting on page 112 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The balance in net position over a period of time is a useful indicator of a government's financial position. In the case of Valley Water, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,703.9 million at the end of the current fiscal year.

#### Valley Water Condensed Statement of Net Position

(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Cash and investments	\$ 427.8	\$ 406.6	\$ 288.2	\$ 263.8	\$ 716.0	\$ 670.4
Other assets	15.2	29.1	179.3	40.1	194.5	69.2
Capital assets	1,553.8	1,504.6	1,266.3	1,163.9	2,820.1	2,668.5
Total assets	1,996.8	1,940.3	1,733.8	1,467.8	3,730.6	3,408.1
Deferred amount on refunding	-	-	0.6	0.4	0.6	0.4
Pension and OPEB related	32.9	32.7	25.4	25.3	58.3	58.0
Total deferred outflows of resources	32.9	32.7	26.0	25.7	58.9	58.4
Net pension and OPEB liabilities	167.2	166.6	126.3	126.5	293.5	293.1
Long-term debt	65.5	73.6	458.0	470.8	523.5	544.4
Other liabilities	81.3	84.1	166.5	112.1	247.8	196.2
Total liabilities	314.0	324.3	750.8	709.4	1,064.8	1,033.7
Pension and OPEB related	11.8	7.0	9.0	5.4	20.8	12.4
Deferred inflow of resources	11.8	7.0	9.0	5.4	20.8	12.4
Net position						
Net investment in capital assets	1,478.4	1,421.6	689.2	625.3	2,167.6	2,046.9
Restricted	153.7	160.6	84.7	71.5	238.4	232.1
Unrestricted	71.8	59.5	226.1	81.8	297.9	141.3
Total net position	<u><u>\$ 1,703.9</u></u>	<u><u>\$ 1,641.7</u></u>	<u><u>\$ 1,000.0</u></u>	<u><u>\$ 778.6</u></u>	<u><u>\$ 2,703.9</u></u>	<u><u>\$ 2,420.3</u></u>

The largest portion of Valley Water's net position (80.2%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets still outstanding. Investment in capital assets are *not* available for future spending. Although Valley Water's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this

## Management's Discussion and Analysis (continued)

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reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For governmental activities, net investment in capital assets increased by \$56.8 million or 4.0% compared to the prior fiscal year. Capital assets, net of depreciation, increased by \$49.2 million. Long term liabilities, which include related debt outstanding, went down by \$7.5 million.

For business type activities, net investment in capital assets increased by \$63.9 million or 10.2% over the previous fiscal year. Capital assets, net of depreciation, increased by \$102.4 million. Long term liabilities, which include related debt outstanding, went down by \$13.0 million.

The balance of unrestricted net position may be used to meet Valley Water's ongoing obligations to citizens, customers, and creditors. For the current fiscal year, Valley Water's unrestricted net position increased by \$156.6 million. The decision by Valley Water's Board of Directors to record water as inventory starting in fiscal year 2020 accounted for \$134.4 million of the total increase.

## Management's Discussion and Analysis (continued)

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### Valley Water Condensed Statement of Activities (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Water charges	\$ -	\$ -	\$ 266.9	\$ 227.7	\$ 266.9	\$ 227.7
Operating grants and contributions	-	-	3.7	2.8	3.7	2.8
Capital grants and contributions	42.9	40.3	4.3	1.1	47.2	41.4
General revenues:						
Property taxes	148.4	143.8	30.2	30.4	178.6	174.2
Investment earnings	12.9	13.6	8.8	8.1	21.7	21.7
Miscellaneous	3.9	4.3	2.8	1.9	6.7	6.2
Total revenues	<u>208.1</u>	<u>202.0</u>	<u>316.7</u>	<u>272.0</u>	<u>524.8</u>	<u>474.0</u>
Expenses:						
General government	10.9	3.2	-	-	10.9	3.2
Watersheds	134.1	99.4	-	-	134.1	99.4
Interest on long-term debt	2.5	3.1	-	-	2.5	3.1
Water enterprise	-	-	226.9	222.0	226.9	222.0
Total expenses	<u>147.5</u>	<u>105.7</u>	<u>226.9</u>	<u>222.0</u>	<u>374.4</u>	<u>327.7</u>
Increase in net position before transfers	60.6	96.3	89.8	50.0	150.4	146.3
Transfers	1.6	2.7	(1.6)	(2.7)	-	-
Change in net position	<u>62.2</u>	<u>99.0</u>	<u>88.2</u>	<u>47.3</u>	<u>150.4</u>	<u>146.3</u>
Net position, beginning	1,641.7	1,542.7	778.6	731.3	2,420.3	2,274.0
Prior period adjustment	-	-	133.2	-	133.2	-
Net position, ending	<u><u>\$ 1,703.9</u></u>	<u><u>\$ 1,641.7</u></u>	<u><u>\$ 1,000.0</u></u>	<u><u>\$ 778.6</u></u>	<u><u>\$ 2,703.9</u></u>	<u><u>\$ 2,420.3</u></u>

#### Governmental activities

Net position in governmental activities increased by \$62.2 million during the fiscal year. Net revenues from operations of \$60.6 million, and transfers in of \$1.6 million, resulted in the increase in net position.

The fiscal year net revenue of \$60.6 million came from property tax of \$148.4 million, capital grants of \$42.9 million, investment earnings of \$12.9 million, and other revenues of \$4.0 million, less operating expenses of \$147.5 million. This fiscal year, Valley Water reduced the value of the Lower Guadalupe Flood Improvement capital asset as it was determined that the original flood protection capacity was significantly reduced. This impairment resulted in a capital asset write down of \$29.3 million.

## Management's Discussion and Analysis (continued)

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Compared to the prior fiscal year, revenues increased \$6.1 million and expenses increased by \$41.8 million. Key elements of the changes in revenues and expenses from prior year are as follows:

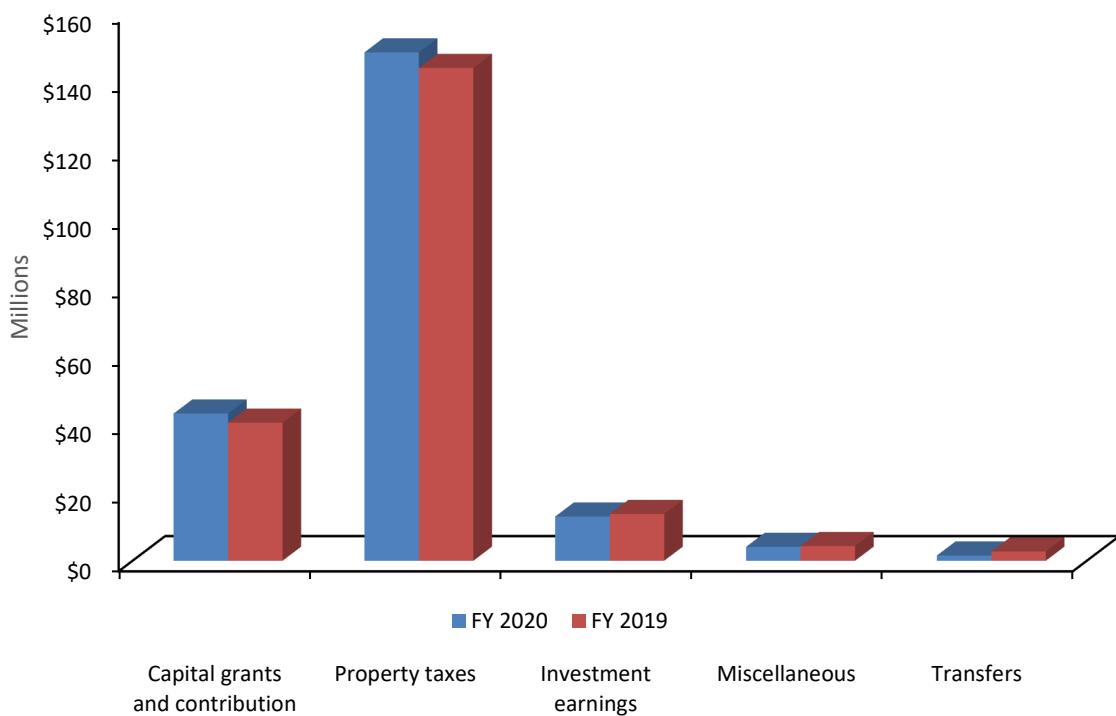
- Capital grants and contributions were \$2.6 million or 6.5% higher in the current fiscal year than the previous year as a result of capital reimbursements coming in \$4.0 million higher and offsetting the \$1.4 million decrease in benefit assessments. Reimbursements of capital costs were \$4.0 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Bay Area Restoration Authority for the South San Francisco Bay Shoreline Project. These receipts offset the decrease in capital grants received from the Department of Water resources for other flood management programs.
- Property taxes, the largest source of revenue at \$148.4 million or 71.3% of total revenues, increased by \$4.6 million or 3.2%, reflective of the strong property values in the Santa Clara county and the surrounding bay area.
- Investment earnings of \$12.9 million shows a slight drop of \$0.7 million or 5.5% when compared to the prior fiscal year.
- General government expenses were \$10.9 million, or \$7.7 million higher due to increases in salaries, CalPERS contributions, and spending on furniture and equipment. The redirection of certain staff charges to the newly created COVID project number residing in the General Fund also added to the increase in salaries for the current fiscal year.
- Watersheds expenditures were \$134.1 million or 34.9% higher compared to the previous fiscal year due to the asset impairment for the Lower Guadalupe Flood Improvement project noted above and to reflect payments for partnership funding agreements to the Santa Clara Valley Habitat Agency and the U.S. Army Corps of Engineers for flood protection.

Net transfers in were \$1.6 million during fiscal year 2020, compared to \$2.7 million in the prior fiscal year, reflecting less in transfers from the Water Enterprise Fund to the Information Technology Fund for small capital projects.

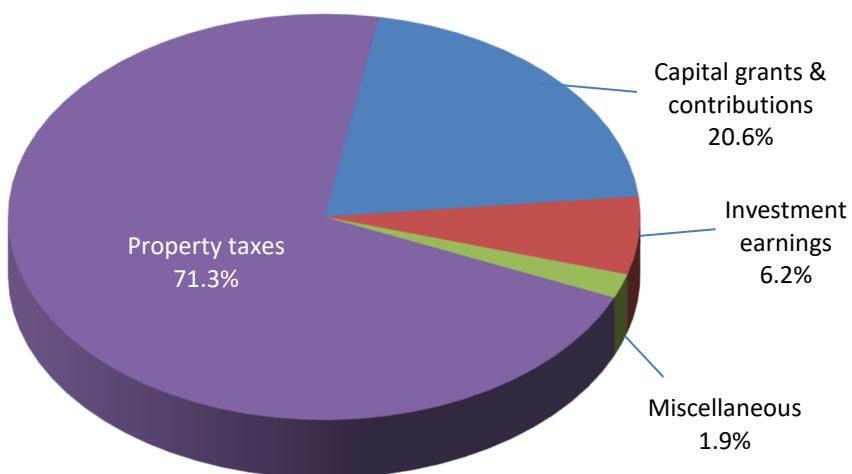
## Management's Discussion and Analysis (continued)

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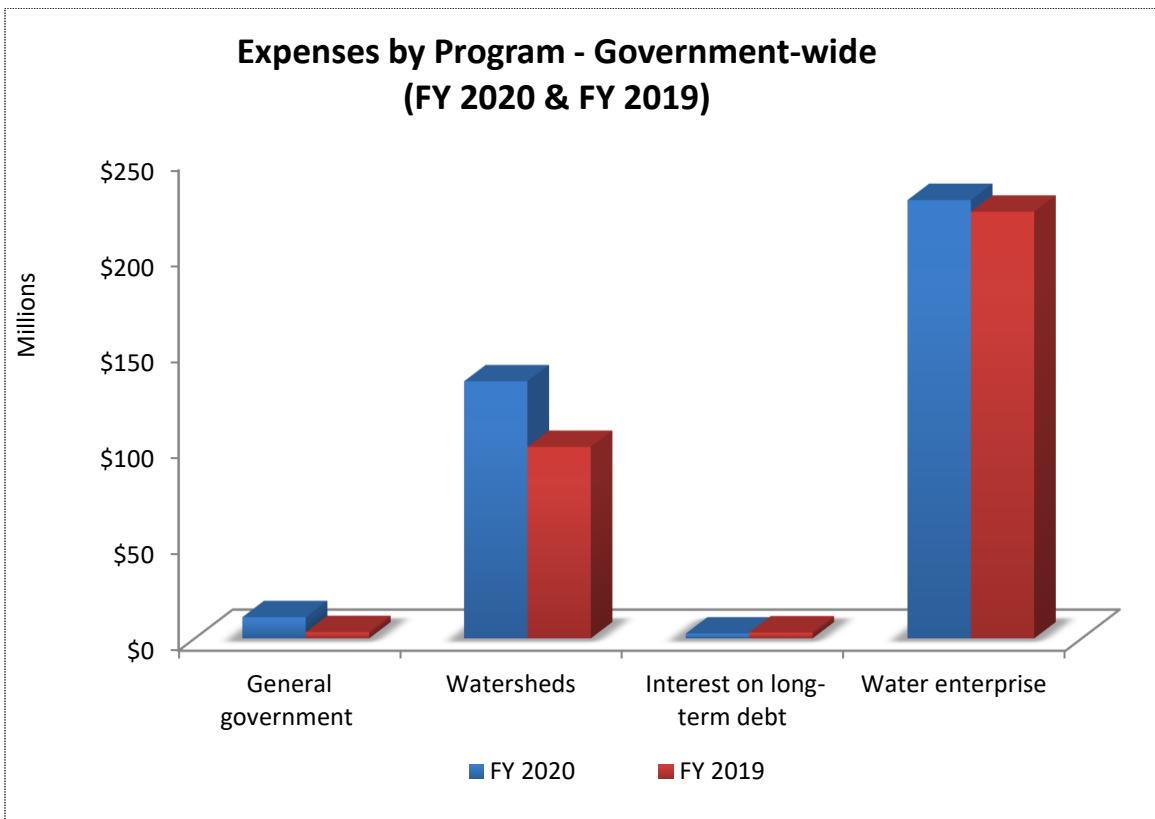
### Revenue by Sources – Governmental Activities (FY 2020 & FY 2019)



### Revenues by Sources – Governmental Activities (FY 2020)



## Management's Discussion and Analysis (continued)



### Business-type activities

Net position in business-type activities increased by \$221.4 million during the fiscal year. Fiscal year revenue included water charges of \$266.9 million, property taxes of \$30.2 million, investment earnings of \$8.8 million, operating grants and contributions of \$3.7 million, capital grants and contributions of \$4.3 million, and miscellaneous revenue of \$2.8 million. Operating expenses, including water purchases, were \$226.9 million. Net revenue before transfers was \$89.8 million. Net transfers out of \$1.6 million resulted in a change of net position of \$88.2 million for the current fiscal year. Starting this fiscal year, Valley Water's Board of Directors decided to recognize stored water as inventory. The implementation of this decision resulted in a \$133.2 million increase to the beginning net position for fiscal year 2020.

Compared to the prior fiscal year, total revenues increased by \$44.7 million and expenses increased \$4.9 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water charge revenue, at 84.3% of total revenue source, was \$39.2 million or 17.2% higher from the prior fiscal year. Groundwater and treated water

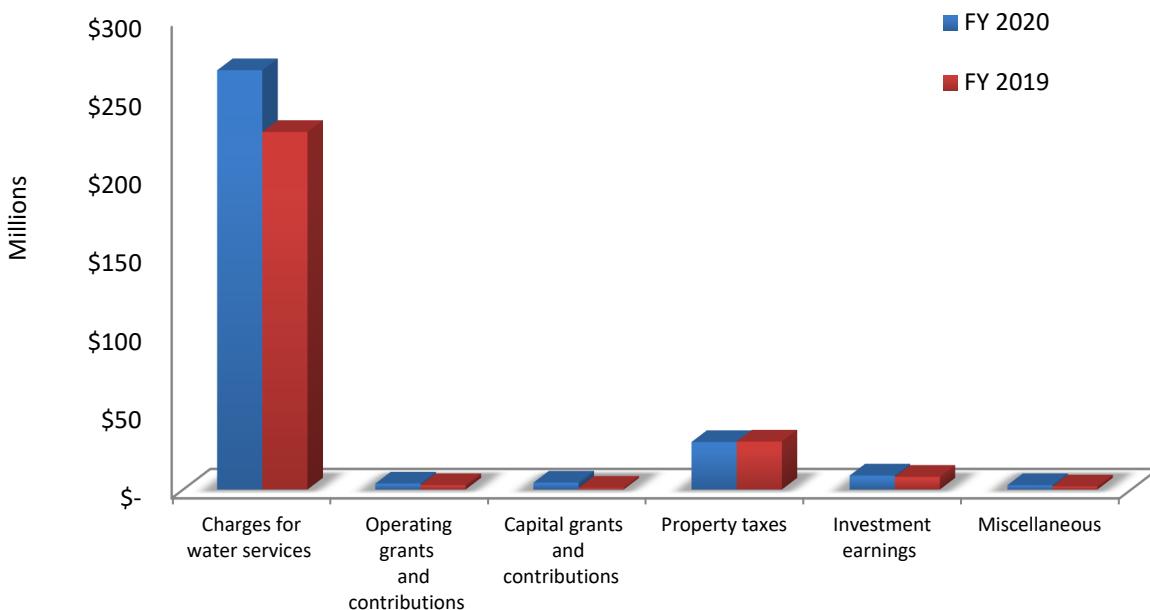
## Management's Discussion and Analysis (continued)

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revenues were up \$30.7 million and \$8.6 million, respectively. Groundwater volume was up versus prior year, and both revenue sources experienced higher water rates.

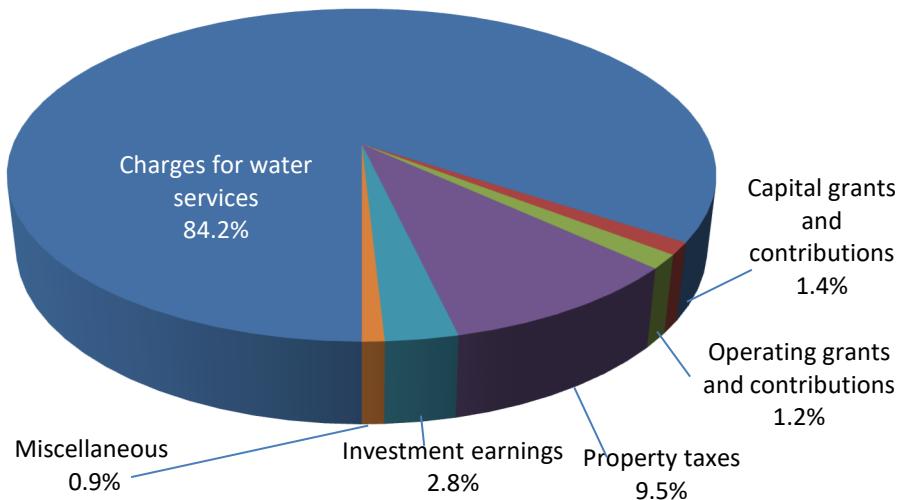
- Operating grants and contributions increased \$0.9 million over the prior fiscal year as more was received from the City of San Jose for its cost share payment of the Advanced Water Treatment Facility Integration agreement.
- Capital grants and contributions increased \$3.2 million compared to the last fiscal year as more capital costs reimbursements from the Department of Water Resources and the California Water Commission were received for flood management programs.
- Water enterprise expenses increased by \$4.9 million or 2.2% over the prior fiscal year due to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

**Revenues by Sources - Business-type Activities  
(FY 2020 & FY 2019)**



## Management's Discussion and Analysis (continued)

### Revenues by Source – Business-type Activities (FY 2020)



Cash flow for the government-wide activities shows a net increase of \$45.6 million for the current fiscal year. A comparative breakdown of cash flow activities for the current and prior fiscal years is shown below.

#### Valley Water Condensed Statement of Cash Flow For the year ended June 30, 2020 and 2019

(in Millions)

	June 30, 2020			June 30, 2019		
	Governmental	Business-type	Total	Governmental	Business-type	Total
Cash flow from operating activities						
Net income	\$ 62.2	\$ 88.2	\$ 150.4	\$ 99.0	\$ 47.3	\$ 146.3
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	11.0	34.0	45.0	11.0	32.7	43.7
(Increase) decrease in current assets	15.9	(10.3)	5.6	(17.7)	10.4	(7.3)
(Increase) decrease in internal charges	(4.2)	4.2	-	(5.5)	5.5	-
Increase (decrease) in current liabilities	4.0	56.1	60.1	(4.9)	(54.1)	(59.0)
Increase (decrease) in deferred revenues	(7.0)	(1.2)	(8.2)	7.0	-	7.0
(Increase) decrease in deferred inflows/ outflows of resources	4.6	3.2	7.8	9.5	7.5	17.0
Net cash provided by operations	\$ 86.5	\$ 174.2	\$ 260.7	\$ 98.4	\$ 49.3	\$ 147.7
Cash provided/(used) by the decrease/ (increase) in investments	2.1	0.1	2.2	4.3	-	4.3
Cash provided/(used) by the decrease/ (increase) in capital assets	(60.1)	(136.4)	(196.5)	(81.7)	(62.9)	(144.6)
Cash provided/(used) by the increase/ (decrease) in non current liabilities	(7.3)	(13.5)	(20.8)	(16.5)	79.9	63.4
Net increase/(decrease) in cash	\$ 21.2	\$ 24.4	\$ 45.6	\$ 4.5	\$ 66.3	\$ 70.8

## Management's Discussion and Analysis (continued)

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### FINANCIAL ANALYSIS OF VALLEY WATER'S FUNDS

Valley Water uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following analysis refers to the Basic Financial Statements for the Governmental and Proprietary Funds beginning on page 38.

#### **Governmental funds**

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of June 30, 2020, Valley Water's governmental funds reported combined ending fund balances of \$350.1 million, an increase of \$6.8 million for the fiscal year.

Compared to the prior year, revenues increased by \$6.1 million and total expenditures increased by \$11.5 million. Property taxes went up \$4.6 million due to the upward trend of property values in the area. Reimbursements of capital cost were \$4.0 million higher as more funding was received in the Watershed Funds from the Department of Water Resources for the Prop 1E Stormwater Project and San Francisco Bay Area Restoration Authority for the South San Francisco Bay Shoreline Project.

Total expenditures were \$11.5 million higher compared to the prior fiscal year, due to payments on cost share agreements and other agreements for the Safe, Clean Water and Natural Flood Protection Program.

Approximately \$186.2 million or 53.2% of the total fund balance amount (\$350.1 million) constitutes committed and assigned for specific purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because of the external enforceable limitations on its use to 1) fund Safe, Clean Water & Natural Flood Protection projects (\$158.5 million) and; 2) pay debt service (\$5.4 million).

#### General fund

The general fund is the chief operating fund of Valley Water supporting all administrative and strategic support services costs for the organization. It accounts for all financial resources except those required to be accounted for in another fund and is supported primarily by overhead reimbursements from other funds. At the end of the current fiscal year, the committed and assigned fund balance of the General Fund was \$14.2 million. The total fund balance remained relatively flat as net revenues of \$0.9 million were largely offset by net transfers out of \$0.8 million.

#### Special revenue funds

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular watershed functions or activities of Valley Water. The available fund balances at the end of the current fiscal year for the special revenue funds were \$330.5 million, which increased during the current fiscal year by \$8.6 million or 2.7%.

## Management's Discussion and Analysis (continued)

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The change in fund balance for the Watershed and Stream Stewardship fund was \$18.7 million or 12.2% higher compared to last fiscal year. This was mainly due to the increase in capital cost reimbursements received and lower capital improvement project expenditures. Net revenue of \$50.8 million was offset by net transfers out of \$32.1 million (see Note 14).

Fund Balance for the Safe, Clean Water and Natural Flood Protection Program fund decreased by \$10.0 million as operating expenditures increased and revenues fell compared to the prior fiscal year. Net expenditures of \$30.9 million was mitigated by transfers in of \$20.9 million (see Note 14) to account for the \$10.0 million decrease in fund balance.

### COP construction fund

The COP construction fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. The beginning available fund balance of \$2.0 million was transferred out to the Watershed and Stream Stewardship fund (\$1.5 million) and Safe, Clean Water and Natural Flood Protection Program (\$0.5 million) to fund certain projects.

### COP debt service fund

The COP debt service fund is used to account for resources used for debt service payments. It has a total fund balance of \$5.4 million, all of which is reserved for payment of debt service.

## Proprietary funds

Valley Water's proprietary funds provide a detailed breakdown of the same type of information found in the government-wide financial statements.

### Water Enterprise fund

The Water Enterprise fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for to show net income or loss from operations. The fund is intended to be entirely or predominantly self-supported by user charges.

Net position of the Water Enterprise fund at the end of the fiscal year was \$969.0 million. Income from current year operation netted \$91.9 million. Operating revenues of \$267.1 million more than offset the \$180.6 million of operating expenses. Year over year, operating revenues increased \$39.4 million or 17.3% due to higher groundwater revenue, which was \$30.6 million more as a result of the increase in volume sold and increased rates. Treated Water revenue was also higher by \$8.6 million over the prior fiscal year, reflective of the increase in rates and volumes sold. Operating expenses were higher by \$5.3 million or 2.7%, due mainly to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

## Management's Discussion and Analysis (continued)

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Net non-operating income was \$2.6 million for fiscal year 2020 or \$1.6 million higher from the prior fiscal year. Higher operating grants revenues of \$1.0 million from the City of San Jose for the Advanced Water Treatment Facility cost-share agreement and \$0.5 million from well permit fees accounted for most of the increase for the current fiscal year.

### State Water Project fund

The State Water Project fund was established and approved by the Board of Directors on October 26, 2010. This fund accounts for the State Water Project Tax receipts pursuant to Section 1B of Article 13A of the California Constitution to pay for county-wide voter-approved State Water Project contract obligations. Fund resources are used for the Water System Revenue Bond and other related capital expenditures billed by the State of California Department of Water Resources and are accounted for in such a manner as to restrict the use of the resources exclusively for the State Water Project related costs.

Ending net position was \$31.9 million or \$0.5 million higher than the prior fiscal year. Operating expenses were \$22.7 million, of which \$21.8 million or 95.8% was cost associated with water purchases. Net non-operating revenues were \$23.2 million, with property taxes contributing \$21.8 million or 94.1% of the total.

### Internal Service Funds

Valley Water has three internal service funds - the Equipment Fund, Risk Management Fund, and Information Technology Fund. Revenues to the funds are generated from fees charged for services provided to Valley Water operating programs.

The Equipment fund charges replacement and maintenance costs to all operations, operating, and capital projects based on equipment assignment and hourly usage of equipment on projects. The fund's annual reimbursement charge for the replacement and maintenance cost of equipment is determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$10.2 million, or \$0.6 million more than the prior fiscal year.

The Risk Management fund charges premiums based on exposure levels by project for liability, property, worker's compensation and self-insurance costs. Revenues required to properly reimburse the Risk Management Fund are determined during the budget process and varies yearly depending upon need. Ending net position for the fund was \$3.8 million, or \$0.9 million less than the prior fiscal year.

The Information Technology fund was established on July 1, 2014 to account for the acquisition, installation, replacement and maintenance costs of district-wide capital charges related to information technology projects. Beginning with fiscal year 2019, the fund also accounts for annual operations associated with information technology activities. The annual reimbursement charge to the Information Technology Fund is determined during the budget process and varies yearly depending upon need. Operating revenues were \$15.1 million and operating expenses were \$23.2 million. The fund's net position was \$20.5 million or \$3.3 million lower than the prior fiscal year.

## Management's Discussion and Analysis (continued)

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### GENERAL FUND BUDGETARY HIGHLIGHTS

The summary table below shows a final budget of \$61.5 million for operating and capital expenditures for fiscal year 2020. The adopted budget was \$61.3 million. There were no capital projects carried forward from the prior year capital projects budget. Current fiscal year budget adjustments increased the final budget slightly.

Adopted Budget	+ Capital Projects Budget Remaining Carry-forward	+ Current Year Budget Adjustments	= Final Budget
\$61.3 million	\$0.0 million	\$0.2 million	\$61.5 million

Total expenditures (budgetary basis) in the General Fund for fiscal year 2020 was \$60.6 million, which is \$5.7 million higher than the prior year.

Beginning fiscal year 2019, all project expenditures relating to the Information Technology Department were moved to the Information Technology Fund. These expenditures were previously accounted for in the General Fund.

### CAPITAL ASSETS

Valley Water's capital asset balance, net of accumulated depreciation, for governmental and business-type activities amounts to \$2.8 billion at June 30, 2020. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), machinery and equipment. During fiscal year 2020, the total increase in Valley Water's capital assets was \$151.6 million or 5.7%. Governmental and business-type activities increased by 3.3% and 8.8%, respectively.

Detailed information on Valley Water's capital assets activity for the current fiscal year can be found in Note 6 of this report.

## Management's Discussion and Analysis (continued)

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**Valley Water**  
**Capital Assets at June 30, 2020**  
**(in Millions)**

	<b>2020</b>	<b>2019</b>	<b>Increase/ Decrease</b>
<b>Governmental Activities</b>			
<b>Capital Assets</b>			
Land	\$ 191.7	\$ 191.7	\$ -
Intangibles - easements	27.4	27.3	0.1
Construction in progress	668.1	596.1	72.0
Buildings	42.0	42.0	-
Structure and improvements	772.6	784.0	(11.4)
Equipment	21.6	21.6	-
Intangible software	-	-	-
Less accumulated depreciation	(182.9)	(172.2)	(10.7)
<b>Internal Service Funds</b>			
Construction in progress	-	2.1	(2.1)
Equipment	31.4	28.8	2.6
Intangible software	4.3	2.6	1.7
Less accumulated depreciation	(22.4)	(19.4)	(3.0)
<b>Total Governmental Activities</b>	<b>\$ 1,553.8</b>	<b>\$ 1,504.6</b>	<b>\$ 49.2</b>
<b>Business-type Activities</b>			
Land	\$ 20.0	\$ 19.2	\$ 0.8
Intangibles - easement and software	0.2	0.2	-
Construction in progress	493.8	399.6	94.2
Contract water and storage rights	226.6	216.6	10.0
Buildings	97.2	91.0	6.2
Structures and improvements	939.5	918.7	20.8
Equipment	29.9	28.3	1.6
Less accumulated depreciation	(540.9)	(509.7)	(31.2)
<b>Business-type Activities</b>	<b>\$ 1,266.3</b>	<b>\$ 1,163.9</b>	<b>\$ 102.4</b>
<b>Total</b>			
<b>Capital Assets</b>			
Land	\$ 211.7	\$ 210.9	\$ 0.8
Intangibles - easements	27.6	27.5	0.1
Construction in progress	1,161.9	997.8	164.1
Contract water and storage rights	226.6	216.6	10.0
Buildings	139.2	133.0	6.2
Structure and improvements	1,712.1	1,702.7	9.4
Equipment	82.9	78.7	4.2
Intangible software	4.3	2.6	1.7
Less accumulated depreciation	(746.2)	(701.3)	(44.9)
<b>Total Governmental and and Business-type Activities</b>	<b>\$ 2,820.1</b>	<b>\$ 2,668.5</b>	<b>\$ 151.6</b>

## Management's Discussion and Analysis (continued)

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### LONG-TERM OBLIGATIONS

At the end of the current fiscal year, Valley Water had total long-term obligations of \$898.1 million. Valley Water's long-term obligations outstanding at the end of the fiscal year consisted of the following:

#### Valley Water's Outstanding Obligations (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Certificates of participation	\$ 65.5	\$ 73.6	\$ 79.1	\$ 124.4	\$ 144.6	\$ 198.0
Revenue bonds	-	-	378.9	346.3	378.9	346.3
Compensated absences	10.3	9.0	6.3	5.4	16.6	14.4
Semitropic water banking	-	-	10.0	10.0	10.0	10.0
Bond discount	-	-	-	(0.1)	-	(0.1)
Bond premium	9.9	11.5	37.0	38.6	46.9	50.1
Claims payable	7.5	7.1	-	-	7.5	7.1
Net pension liability	134.3	125.3	100.6	94.6	234.9	219.9
Other post employment benefit	33.0	41.3	25.7	31.9	58.7	73.2
Total	<u>\$ 260.5</u>	<u>\$ 267.8</u>	<u>\$ 637.6</u>	<u>\$ 651.1</u>	<u>\$ 898.1</u>	<u>\$ 918.9</u>

The credit ratings for Valley Water outstanding debt reflect a 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. Valley Water's ratings are the same on a secured and unsecured basis pursuant to the rating methodologies of the respective rating agencies.

Please see table below for current ratings.

	Water Utility		Watershed
	Senior Debt	Parity Debt	Debt
Moody's	Aa1	Aa1	Aa1
Standard & Poor's	AA-	N/A	AAA
Fitch	N/A	AA+	AA+

Valley Water's total obligations decreased by \$20.8 million during fiscal year 2020. \$7.3 million of the decrease was in the governmental activities and \$13.5 million of the decrease was in the business-type activities.

Additional information on Valley Water's long-term debt can be found in Note 7 of this report.

## Management's Discussion and Analysis (continued)

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### NEXT YEAR'S BUDGET

Valley Water's \$609.5 million budget for fiscal year 2021 will focus on the following work plan strategies:

- Actively pursue new water storage opportunities
- Actively participate in decisions regarding the California Delta Conveyance
- Lead Recycled and Purified Water Efforts with committed partners
- Engage and educate the community, elected officials and staff on future water supply strategies in Santa Clara County
- Advance Anderson Dam Seismic Retrofit Project
- Protect and maintain existing assets and infrastructure
- Pursue opportunities to improve internal capacity to acquire regulatory permits
- Attain net positive impact on the environment when implementing flood protection and water supply projects
- Promote the protection of creeks, bay, and other aquatic ecosystems from threats of pollution and degradation
- Continue the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Address future impacts of climate change to Valley Water's mission and operations
- Advance diversity and inclusion
- Maintain appropriate staffing levels and expertise
- Provide affordable and cost-effective level of services

### REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of Valley Water's finances, and to demonstrate Valley Water's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit as noted below.

Mail - 5750 Almaden Expressway, San Jose, CA 95118

Phone - (408) 265-2600

Email - [jsalandanan@valleywater.org](mailto:jsalandanan@valleywater.org)

## **BASIC FINANCIAL STATEMENTS**

**VALLEY WATER**  
 Statement of Net Position  
 June 30, 2020  
 (Dollars in Millions)

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 3)	\$ 427.8	\$ 288.2	\$ 716.0
Restricted cash and investments (Note 3)	5.5	0.1	5.6
Receivables (net):			
Accounts	2.8	38.6	41.4
Interest	2.3	-	2.3
Taxes	0.2	0.1	0.3
Inventory - water	-	134.4	134.4
Deposits and other assets	3.5	7.0	10.5
Total current assets	442.1	468.4	910.5
Internal balances	0.9	(0.9)	-
Capital assets (Note 6):			
Contract water and storage rights, net	-	38.5	38.5
Depreciable, net	666.6	713.8	1,380.4
Nondepreciable	887.2	514.0	1,401.2
Total assets	1,996.8	1,733.8	3,730.6
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding	-	0.6	0.6
Deferred outflows of resources - pension activities (Note 11)	26.8	20.8	47.6
Deferred outflows of resources - OPEB (Note 12)	6.1	4.6	10.7
Total deferred outflows of resources	32.9	26.0	58.9
<b>LIABILITIES</b>			
Accounts payable	17.9	32.0	49.9
Accrued liabilities	0.5	1.8	2.3
Commercial paper, net of discount (Note 7)	30.0	72.7	102.7
Deposits payable	3.8	6.7	10.5
Accrued interest payable	1.3	-	1.3
Total current liabilities	53.5	113.2	166.7
Noncurrent liabilities (Note 7):			
Due within one year	14.4	17.1	31.5
Due in more than one year	246.1	620.5	866.6
Total liabilities	314.0	750.8	1,064.8
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pension activities (Note 11)	5.2	4.0	9.2
Deferred inflows of resources - OPEB (Note 12)	6.6	5.0	11.6
Total deferred inflows of resources	11.8	9.0	20.8
<b>NET POSITION (Note 10)</b>			
Net investment in capital assets	1,478.4	689.2	2,167.6
Restricted:			
Debt service	4.1	0.1	4.2
Safe, Clean Water - other activities	149.6	-	149.6
Water Utility San Felipe emergency	-	3.3	3.3
GP5 Reserve	-	6.6	6.6
Water Utility rate stabilization	-	23.5	23.5
Water Utility state water project	-	16.8	16.8
Public-private partnership	-	8.0	8.0
Advanced water purification center	-	1.3	1.3
Supplemental water supply	-	15.1	15.1
Drought reserve	-	10.0	10.0
Unrestricted	71.8	226.1	297.9
Total net position	<u>\$ 1,703.9</u>	<u>\$ 1,000.0</u>	<u>\$ 2,703.9</u>

See accompanying notes to basic financial statements

**VALLEY WATER**  
 Statement of Activities  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

Description	Governmental Activities						Business-Type Activities	Total		
	General Government	Watersheds	Interest on Long-term Debt			Total				
<b>Expenses:</b>										
Operations and operating projects	\$ 10.9	\$ 134.1	\$ 2.5	\$ 147.5	\$ -	\$ -	\$ 147.5	\$ 147.5		
Water cost of production	-	-	-	-	-	226.9	226.9	226.9		
<b>Program revenues:</b>										
Charges for water services	-	-	-	-	-	266.9	266.9	266.9		
Operating grants and contributions	-	-	-	-	-	3.7	3.7	3.7		
Capital grants and contributions	-	42.9	-	42.9	-	4.3	47.2	47.2		
<b>Net program revenue (expense)</b>	<b>\$ (10.9)</b>	<b>\$ (91.2)</b>	<b>\$ (2.5)</b>	<b>\$ (104.6)</b>	<b>\$ 48.0</b>	<b>\$ (56.6)</b>				
<b>General revenues:</b>										
Property taxes (Note 8)				148.4		30.2	178.6	178.6		
Unrestricted investment earnings				12.9		8.8	21.7	21.7		
Miscellaneous				3.9		2.8	6.7	6.7		
<b>Transfers (Note 14)</b>				1.6		(1.6)	-	-		
<b>Total general revenues and transfers</b>				<b>166.8</b>		<b>40.2</b>	<b>207.0</b>	<b>207.0</b>		
<b>Change in net position</b>				62.2		88.2	150.4	150.4		
<b>Net position, beginning of year</b>				1,641.7		778.6	2,420.3	2,420.3		
<b>Prior period adjustment (Note 15)</b>				-		133.2	133.2	133.2		
<b>Net position, beginning of year, restated</b>				<b>1,641.7</b>		<b>911.8</b>	<b>2,553.5</b>	<b>2,553.5</b>		
<b>Net position, end of year</b>				<b>\$ 1,703.9</b>		<b>\$ 1,000.0</b>	<b>\$ 2,703.9</b>	<b>\$ 2,703.9</b>		

See accompanying notes to basic financial statements.

# VALLEY WATER

Balance Sheet  
 Governmental Funds  
 June 30, 2020  
 (Dollars in Millions)

## Special Revenue Fund

	General	Watershed & Stream Stewardship	
<b>ASSETS</b>			
Cash and investments (Note 3)	\$ 13.6	\$ 173.2	
Restricted cash and investments (Note 3)	-	0.1	
Receivables:			
Accounts	-	0.3	
Interest	2.3	-	
Taxes	-	0.2	
Deposits and other assets	0.2	2.3	
<b>Total assets</b>	<b>\$ 16.1</b>	<b>\$ 176.1</b>	
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1.4	\$ 1.3	
Accrued liabilities	0.5	-	
Commercial papers	-	-	
Deposits payable	-	2.8	
<b>Total liabilities</b>	<b>1.9</b>	<b>4.1</b>	
<b>Fund balances (Note 9):</b>			
Restricted fund balance	-	-	
Committed fund balance	8.2	160.5	
Assigned fund balance	6.0	11.5	
Total fund balances	14.2	172.0	
<b>Total liabilities and fund balances</b>	<b>\$ 16.1</b>	<b>\$ 176.1</b>	

See accompanying notes to basic financial statements.

<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>		<u>Total Governmental Funds</u>
<u>Safe, Clean Water &amp; Natural Flood Protection Program</u>	<u>COP Construction Fund</u>	<u>COP Debt Service</u>		
\$ 199.4	\$ -	\$ -	\$ 5.4	\$ 386.2
-	-	-	-	5.5
2.5	-	-	-	2.8
-	-	-	-	2.3
-	-	-	-	0.2
0.9	-	-	-	3.4
<b>\$ 202.8</b>	<b>\$ -</b>	<b>\$ 5.4</b>		<b>\$ 400.4</b>
\$ 13.3	\$ -	\$ -	\$ -	\$ 16.0
-	-	-	-	0.5
30.0	-	-	-	30.0
1.0	-	-	-	3.8
<b>44.3</b>	<b>-</b>	<b>-</b>		<b>50.3</b>
158.5	-	5.4		163.9
-	-	-	-	168.7
-	-	-	-	17.5
<b>158.5</b>	<b>-</b>	<b>5.4</b>		<b>350.1</b>
<b>\$ 202.8</b>	<b>\$ -</b>	<b>\$ 5.4</b>		<b>\$ 400.4</b>

**VALLEY WATER**  
 Reconciliation of the Balance Sheet of  
 Governmental Funds to the Statement of Net Position  
 June 30, 2020  
 (Dollars in Millions)

Amount reported for governmental activities in the statement of net position are different because:

Fund balances of governmental funds	\$ 350.1
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	1,540.5
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	35.4
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	(1.3)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds:	
Certificates of participation	(65.5)
Net original issue premium	(9.9)
Compensated absences	(9.8)
Net pension liability and related deferrals	(103.6)
Net OPEB liability and related deferrals	<u>(32.0)</u>
Net position of governmental activities	<u><u>\$ 1,703.9</u></u>

See accompanying notes to basic financial statements

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**VALLEY WATER**  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	<u>Special Revenue Fund</u>	
	General	Watershed & Stream Stewardship
<b>Revenues:</b>		
Property taxes (Note 8)	\$ 9.2	\$ 93.1
Benefit assessments (Note 8)	-	13.4
Use of money and property:		
Investment income (Note 5)	0.5	5.2
Rental	-	1.7
Reimbursement of capital costs (Note 4)	-	15.2
Other	0.1	1.6
Total revenues	<u>9.8</u>	<u>130.2</u>
<b>Expenditures:</b>		
Current:		
Operations and operating projects	5.9	51.4
Capital improvement projects	3.0	28.0
Debt service:		
Principal repayment	-	-
Interest and fiscal agent fees	-	-
Total expenditures	<u>8.9</u>	<u>79.4</u>
Excess (deficiency) of revenues over (under) expenditures	<u>0.9</u>	<u>50.8</u>
<b>Other financing sources (uses):</b>		
Transfers in (Note 14)	0.4	1.6
Transfers out (Note 14)	(1.2)	(33.7)
Total other financing sources (uses)	<u>(0.8)</u>	<u>(32.1)</u>
Net change in fund balances	0.1	18.7
Fund balances, beginning of year	<u>14.1</u>	<u>153.3</u>
Fund balances, end of year	<u>\$ 14.2</u>	<u>\$ 172.0</u>

See accompanying notes to basic financial statements.

Special Revenue Fund Safe, Clean Water & Natural Flood Protection Program	Capital Project Fund COP Construction Fund	Debt Service Fund COP Debt Service	Total Governmental Funds
\$ 46.1	\$ -	\$ -	\$ 148.4
-	-	-	13.4
5.8	-	0.1	11.6
0.4	-	-	2.1
14.3	-	-	29.5
-	-	-	1.7
<b>66.6</b>	<b>-</b>	<b>0.1</b>	<b>206.7</b>
22.9	-	-	80.2
73.9	-	-	104.9
-	-	8.1	8.1
0.7	-	3.5	4.2
<b>97.5</b>	<b>-</b>	<b>11.6</b>	<b>197.4</b>
<b>(30.9)</b>	<b>-</b>	<b>(11.5)</b>	<b>9.3</b>
20.9	-	11.5	34.4
-	(2.0)	-	(36.9)
20.9	(2.0)	11.5	(2.5)
(10.0)	(2.0)	-	6.8
168.5	2.0	5.4	343.3
<b>\$ 158.5</b>	<b>\$ -</b>	<b>\$ 5.4</b>	<b>\$ 350.1</b>

## VALLEY WATER

### Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2020 (Dollars in Millions)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 6.8
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays, net of depreciation.	
Capital Outlay	60.5
Depreciation	(11.0)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but they do not require the use of current financial resources. This amount represents the net change in accrued interest expense not reported in governmental funds.	0.1
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.	
Certificates of participation repayment	8.1
Net original issue premium	1.6
Internal service funds are used by management to charge the costs of equipment, information technology, and risk management to individual funds. The net revenue of internal service funds is reported with governmental activities.	0.6
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds:	
Compensated absences	(1.1)
Change in net OPEB liability, deferred inflows and outflows	3.1
Change in net pension liability, deferred inflows and outflows	<u>(6.5)</u>
Change in net position of governmental activities	<u>\$ 62.2</u>

See accompanying notes to basic financial statements

# VALLEY WATER

## Statement of Net Position

Proprietary Funds

June 30, 2020

(Dollars in Millions)

	Business-type Activities			Governmental Activities	
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds		
				Internal Service Funds	
<b>ASSETS</b>					
Current assets:					
Cash and investments (Note 3)	\$ 271.2	\$ 17.0	\$ 288.2	\$ 41.6	
Receivables:					
Accounts	38.6	-	38.6	-	
Taxes	-	0.1	0.1	-	
Inventory - water	134.4		134.4	-	
Deposits and other assets	7.0	-	7.0	0.1	
Total current assets	<u>451.2</u>	<u>17.1</u>	<u>468.3</u>	<u>41.7</u>	
Non current assets:					
Restricted cash and investments (Note 3)	0.1	-	0.1	-	
Capital assets (Note 6):					
Contract water rights, net	23.4	15.1	38.5	-	
Depreciable, net	713.8	-	713.8	13.3	
Nondepreciable	514.0	-	514.0	-	
Total non current assets	<u>1,251.3</u>	<u>15.1</u>	<u>1,266.4</u>	<u>13.3</u>	
Total assets	<u>1,702.5</u>	<u>32.2</u>	<u>1,734.7</u>	<u>55.0</u>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred amount on refunding	0.6	-	0.6	-	
Deferred outflows of resources - pension activities (Note 11)	20.8	-	20.8	1.6	
Deferred outflows of resources - OPEB (Note 12)	4.6	-	4.6	0.4	
Total deferred outflows of resources	<u>26.0</u>	<u>-</u>	<u>26.0</u>	<u>2.0</u>	
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	31.7	0.3	32.0	1.9	
Accrued liabilities	1.8	-	1.8	-	
Commercial paper (Note 7)	72.7	-	72.7	-	
Deposits payable	6.7	-	6.7	-	
Claims payable (Note 13)	-	-	-	2.1	
Bonds payable - current (Note 7)	15.7	-	15.7	-	
Compensated absence	1.4	-	1.4	0.1	
Total current liabilities	<u>130.0</u>	<u>0.3</u>	<u>130.3</u>	<u>4.1</u>	
Non current liabilities:					
Bonds payable - net of discounts and premiums (Note 7)	479.4	-	479.4	-	
Claims payable (Note 13)	-	-	-	5.4	
Compensated absence	4.9	-	4.9	0.4	
Net pension liability (Note 11)	100.6	-	100.6	10.4	
Other post employment benefits liability (Note 12)	25.6	-	25.6	1.5	
Other debt	10.0	-	10.0	-	
Total non current liabilities	<u>620.5</u>	<u>-</u>	<u>620.5</u>	<u>17.7</u>	
Total liabilities	<u>750.5</u>	<u>0.3</u>	<u>750.8</u>	<u>21.8</u>	
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows of resources - pension activities (Note 11)	4.0	-	4.0	0.3	
Deferred inflows of resources - OPEB (Note 12)	5.0	-	5.0	0.4	
Total deferred inflows of resources	<u>9.0</u>	<u>-</u>	<u>9.0</u>	<u>0.7</u>	
<b>NET POSITION (Note 10)</b>					
Net investment in capital assets	674.1	15.1	689.2	13.3	
Restricted:					
Cash with fiscal agents	0.1	-	0.1	-	
San Felipe operations	3.3	-	3.3	-	
GP5 reserve	6.6	-	6.6	-	
State water project	-	16.8	16.8	-	
Rate stabilization	23.5	-	23.5	-	
Public-private partnership	8.0	-	8.0	-	
Advanced water purification center	1.3	-	1.3	-	
Supplemental water supply	15.1	-	15.1	-	
Drought reserve	10.0	-	10.0	-	
Unrestricted	227.0	-	227.0	21.2	
Total net position	<u>\$ 969.0</u>	<u>\$ 31.9</u>	<u>1,000.9</u>	<u>\$ 34.5</u>	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(0.9)		
Net position of business-type activities			<u>\$ 1,000.0</u>		

See accompanying notes to basic financial statements.

## VALLEY WATER

Statement of Revenues, Expenses and Changes in Net Position  
 Proprietary Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Business-type Activities			Governmental Activities	
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds	
<b>Operating revenues:</b>					
Ground water production charges	\$ 112.6	\$ -	\$ 112.6	\$ -	
Treated water charges	152.6	-	152.6	-	
Surface and recycled water revenue	1.7	-	1.7	-	
Charges for services	-	-	-	25.7	
Other	0.2	-	0.2	-	
Total operating revenues	267.1	-	267.1	25.7	
<b>Operating expenses:</b>					
Sources of supply	64.1	21.8	85.9	-	
Water treatment	38.5	-	38.5	-	
Transmission and distribution:					
Raw water	14.0	-	14.0	-	
Treated water	1.7	-	1.7	-	
Administration and general	32.0	-	32.0	6.5	
Equipment maintenance	-	-	-	25.7	
Depreciation and amortization	30.3	0.9	31.2	2.8	
Total operating expenses	180.6	22.7	203.3	35.0	
Operating income (loss)	86.5	(22.7)	63.8	(9.3)	
<b>Nonoperating revenues (expenses):</b>					
Property taxes (Note 8)	8.4	21.8	30.2	-	
Investment income (Note 5)	8.8	-	8.8	1.3	
Operating grants	3.7	-	3.7	-	
Rental income	0.1	-	0.1	-	
Other	1.0	1.4	2.4	0.3	
Interest and fiscal agent fees	(19.4)	-	(19.4)	-	
Net nonoperating revenues (expenses)	2.6	23.2	25.8	1.6	
Income before capital contributions and transfers	89.1	0.5	89.6	(7.7)	
Capital contributions (Note 4)	4.3	-	4.3	-	
Transfers in (Note 14)	1.1	-	1.1	4.1	
Transfers out (Note 14)	(2.6)	-	(2.6)	-	
Change in net position	91.9	0.5	92.4	(3.6)	
Net position, beginning of year	743.9	31.4	775.3	38.1	
Prior period adjustments					
Inventory, beginning of year	133.2	-	133.2	-	
Net position, beginning of year, restated	877.1	31.4	908.5	38.1	
Net position, end of year	\$ 969.0	\$ 31.9	\$ 1,000.9	\$ 34.5	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(0.9)		
Net position of business-type activities			\$ 1,000.0		

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:

Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	\$ 92.4
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(4.2)
Change in net position of business-type activities	\$ 88.2

See accompanying notes to basic financial statements.

# VALLEY WATER

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2020

(Dollars in Millions)

	Business-type Activities			Governmental Activities	
	Water Enterprise Fund	State Water Project Fund	Total Enterprise Funds	Internal Service Funds	
				Governmental Activities	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 252.9	\$ -	\$ 252.9	\$ -	\$ -
Payments to suppliers	(37.1)	(26.3)	(63.4)	(18.9)	
Payments to employees	(88.3)	-	(88.3)	(10.1)	
Payment for interfund services provided	(11.1)	-	(11.1)	25.7	
Net cash provided by (used for) operating activities	<u>116.4</u>	<u>(26.3)</u>	<u>90.1</u>	<u>(3.3)</u>	
<b>Cash flows from noncapital financing activities:</b>					
Property taxes received	8.7	22.4	31.1	-	
Operating grant	3.7	-	3.7	-	
Well permits, refunds and adjustments	1.0	1.4	2.4	0.2	
Transfers in from other funds	1.1	-	1.1	-	
Net cash provided by noncapital financing activities	<u>14.5</u>	<u>23.8</u>	<u>38.3</u>	<u>0.2</u>	
<b>Cash flows from capital and related financing activities:</b>					
COP/revenue bonds issuance/(payment)	(14.4)	-	(14.4)	-	
Commercial papers issuance/(payment)	52.7	-	52.7	-	
Capital grants	4.3	-	4.3	-	
Interest and fiscal agent fees paid	(19.4)	-	(19.4)	-	
Payments for contract water rights	(10.0)	-	(10.0)	-	
Acquisition and construction of capital assets	(123.6)	-	(123.6)	(2.0)	
Transfers in from other funds	-	-	-	4.1	
Transfers out to other funds	(2.6)	-	(2.6)	-	
Net cash provided by/(used for) capital and related financing activities	<u>(113.0)</u>	<u>-</u>	<u>(113.0)</u>	<u>2.1</u>	
<b>Cash flows from investing activities:</b>					
Proceeds from sale of investments	0.1	-	0.1	-	
Rental income received	0.1	-	0.1	-	
Interest received on cash and investments	8.8	-	8.8	1.3	
Net cash provided by/(used for) investing activities	<u>9.0</u>	<u>-</u>	<u>9.0</u>	<u>1.3</u>	
Net increase (decrease) in cash and cash equivalents	<u>26.9</u>	<u>(2.5)</u>	<u>24.4</u>	<u>0.3</u>	
Cash and cash equivalents, beginning of year	<u>244.3</u>	<u>19.5</u>	<u>263.8</u>	<u>41.3</u>	
Cash and cash equivalents, end of year	<u><u>\$ 271.2</u></u>	<u><u>\$ 17.0</u></u>	<u><u>\$ 288.2</u></u>	<u><u>\$ 41.6</u></u>	
<b>Cash and cash equivalents are reported on the Statement of Net Position as follows:</b>					
Cash and investments	\$ 271.2	\$ 17.0	\$ 288.2	\$ 41.6	
Restricted cash and investments	0.1	-	0.1	-	
Less cash and investments not meeting the definition of cash equivalents	(0.1)	-	(0.1)	-	
Cash and cash equivalents, end of year	<u><u>\$ 271.2</u></u>	<u><u>\$ 17.0</u></u>	<u><u>\$ 288.2</u></u>	<u><u>\$ 41.6</u></u>	
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ 86.5	\$ (22.7)	\$ 63.8	\$ (9.3)	
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>					
Depreciation, amortization and asset deletion	30.3	0.9	31.2	2.8	
<b>Change in operating assets and liabilities:</b>					
(Increase)/decrease in deposits and other assets	2.8	-	2.8	-	
(Increase)/decrease in accounts receivable	(13.0)	-	(13.0)	-	
(Increase)/decrease in inventory	(1.2)	-	(1.2)	-	
Increase/(decrease) in accounts payable	14.7	(4.5)	10.2	1.1	
Increase/(decrease) in accrued liabilities	(3.7)	-	(3.7)	-	
Increase/(decrease) in deferred revenues	(1.2)	-	(1.2)	-	
Increase/(decrease) in compensated absences	0.9	-	0.9	-	
Increase/(decrease) in deposits payable	(2.8)	-	(2.8)	-	
Increase/(decrease) in claims payable	-	-	-	0.4	
Increase/(decrease) in other post employment benefits payable	(6.3)	-	(6.3)	(0.7)	
Increase/(decrease) in deferred inflows/outflow of resources	3.4	-	3.4	0.1	
Increase/(decrease) in pension liabilities	6.0	-	6.0	2.3	
Net cash provided (used) by operating activities	<u><u>\$ 116.4</u></u>	<u><u>\$ (26.3)</u></u>	<u><u>\$ 90.1</u></u>	<u><u>\$ (3.3)</u></u>	
<b>Noncash investing, capital, and financing activity:</b>					
Deletion of capital assets	\$ -	\$ -	\$ -	\$ -	\$ 0.1

See accompanying notes to basic financial statements.

**VALLEY WATER**  
Statement of Assets and Liabilities  
Agency Fund  
June 30, 2020  
(Dollars in Millions)

**ASSETS**

Cash and investments (Note 3)	\$ 0.2
Total assets	<u><u>\$ 0.2</u></u>

**LIABILITIES**

Deposits payable	\$ 0.2
Total liabilities	<u><u>\$ 0.2</u></u>

See accompanying notes to basic financial statements.

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

**NOTE 1 - THE FINANCIAL REPORTING ENTITY**

**(a) Description of the Reporting Entity**

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County.

Valley Water is governed by a seven-member Board of Directors (District Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of Valley Water by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members. As required by state law, the Valley Water must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board of Directors adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

Valley Water has broad powers relating to all aspects of flood control and storm waters within the District, whether such waters have their sources within Valley Water. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of the District. Valley Water acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. Valley Water also directly supports the environment and the community through careful stewardship.

As required by generally accepted accounting principles (GAAP) in the United States of America, the accompanying basic financial statements present Valley Water and its component unit. The component unit discussed below is included in Valley Water's reporting entity because of the significance of its operational and financial relationship with Valley Water.

**(b) Blended Component Unit**

The Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) was established on December 16, 1987 for the purpose of providing assistance to Valley Water in financing the acquisition, construction and improvement of public buildings, works and equipment for Valley Water. Although legally separate from Valley Water, the PFFC is reported as if it were part of the primary government because its sole purpose is to provide financing to Valley Water under the debt issuance documents of the district, and its governing board is Valley Water's governing board. The operations of the PFFC are accounted for in the debt service and capital project funds.

Separate financial statements are not issued for the PFFC.

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

*Government-wide Financial Statements*

The statement of net position and statement of activities display information about the primary government (Valley Water) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of Valley Water. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

Certain eliminations have been made in regard to interfund activities. All internal balances in the statement of net position have been eliminated except those representing balances between the government activities and business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated. However, transactions between the governmental and business-type activities have not been eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of Valley Water and for each function of Valley Water's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position is available, restricted resources are used for qualified expenses before any unrestricted resources are spent.

*Fund Financial Statements*

The fund financial statements provide information about Valley Water's funds, including agency funds and the blended component unit. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented.

Valley Water reports the following Governmental Funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental functions of Valley Water that are not accounted for through other funds.

The *Special Revenue Type Funds* are used to account for specific revenue sources for which expenditures are restricted by law or regulation or committed by board resolutions to finance particular watershed or safe, clean and natural flood protection functions or activities of Valley Water. Valley Water has the following special revenue type funds:

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

- The *Watershed and Stream Stewardship Fund* is funded by Valley Water's one percent property tax allocation and benefit assessments and used to protect, restore, or enhance the watersheds, streams and natural resources therein. Starting from fiscal year 2009, this fund was redefined to consolidate all watershed stewardship activities from a portion of Valley Water's ad valorem property tax allocation.

The Watershed and Stream Stewardship Fund includes the following watershed activities that were based on their geographic boundaries (zone funds):

- ◆ The *Lower Peninsula Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of San Francisquito Creek, Matadero Creek, Barron Creek, Adobe Creek, Stevens Creek, and Permanente Creek. The geographic area includes the Cities of Palo Alto, Los Altos, Mountain View, the Town of Los Altos Hills, and portions of Cupertino.
- ◆ The *West Valley Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe Slough, Sunnyvale West Outfall, Sunnyvale East Outfall, Calabazas Creek, San Tomas Aquino Creek, and Saratoga Creek. The geographic area includes portions of the Cities of Sunnyvale, Cupertino, Monte Sereno, San Jose, Santa Clara, Campbell, Saratoga and the Town of Los Gatos.
- ◆ The *Guadalupe Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of the Guadalupe River. The major tributaries are Los Gatos Creek, Canoas Creek, Ross Creek, Guadalupe Creek, and Alamitos Creek. The geographic area includes portions of the Cities of Santa Clara, San Jose, Campbell, Monte Sereno, and the Town of Los Gatos.
- ◆ The *Coyote Watershed* is defined by geographic boundaries encompassing the tributaries and watersheds of Coyote Creek. The major tributaries are Lower Penitencia Creek, Scott Creek, Berryessa Creek, Upper Penitencia Creek, Silver Creek, Thompson Creek, Fisher Creek, and Packwood Creek. The geographic area includes the City of Milpitas and portions of the Cities of San Jose and Morgan Hill.

- The *Safe, Clean Water & Natural Flood Protection Program* is used to account for the countywide special parcel tax approved by voters on November 6, 2012, with a sunset date of June 30, 2028. (See Note 17 - Subsequent Events regarding November 3, 2020 voter approved renewal.) This program replaces the Clean, Safe Creeks and Natural Flood Protection Plan that was approved by voters in November 2000.
- The *Capital Project Type Funds* are used to account for COP proceeds used for the construction of major capital projects with their respective watersheds. The COP Construction Fund is Valley Water's sole capital project type fund.
- The *Debt Service Type Funds* are used to account for monies being held for reserve requirements and arbitrage rebate for Valley Water's debt payments. The COP Debt Service Fund is Valley Water's sole debt service type fund.

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

Valley Water reports the following Proprietary Funds:

- The *Water Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.
- The *State Water Project Fund* accounts for all revenues and costs associated with the State Water Project.
- The *Internal Service Funds* account for the financing of goods or services provided by one department or agency of Valley Water to other departments or agencies on a cost-reimbursement basis.
  - The *Equipment Fund* accounts for the maintenance and operation of Valley Water's vehicle fleet, heavy construction, and information system equipment.
  - The *Risk Management Fund* accounts for the monies set aside to pay for all claims, judgments, and premium cost.
  - The *Information Technology Fund* accounts for the replacement, operations, and maintenance of district-wide information technology projects.

Valley Water reports *Agency Funds* (Fiduciary Fund type) to account for assets held by Valley Water as an agent for private organizations and/or other governments.

- The *Deposit Fund* is used to account for the collection and payment of funds held in trust for specific purposes.

**(b) Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which Valley Water gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. Capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

Proprietary funds are reported using the economic resource measurement focus and the accrual basis of accounting and distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water enterprise fund is the sale of water to outside customers, and of Valley Water's internal service funds are charges for services provided to internal departments. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary funds *operating* revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. *Non-operating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Agency funds are used to account for assets held by Valley Water in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds. Agency funds do not have a measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**(c) Cash and Investments**

While maintaining safety and liquidity, Valley Water maximizes its investment return by pooling its available cash for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

Valley Water reported investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

For purposes of the Statement of Cash Flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

**(d) Inventory**

Proprietary fund inventory consists of materials and supplies held for consumption. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes, chemical inventories are presented under deposits and other assets.

Starting fiscal year 2020, the Valley Water's Board of Directors decided to record stored water as inventory. Water inventory is listed as a separate line item on the financial statements.

**VALLEY WATER**  
 Notes to Basic Financial Statements  
 For the Year Ended June 30, 2020

The component of water inventory as of the end of the current fiscal year is shown below. Water inventory is valued based on the rolling average of imported water purchase cost.

<u>Type</u>	<u>Acre Feet</u>		
	<u>Unit Cost</u>	<u>Volume</u>	<u>Total (in millions)</u>
Semitropic ground water bank reserves	\$331	344,662	\$ 114.1
Local reservoir storage	331	61,462	20.3
<b>Total</b>			<b>\$ 134.4</b>

**(e) Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition cost on the date contributed. Capital assets of governmental activities include pipelines, channel linings, floodwalls, levees, bridge flood proofing, box culverts and re-vegetation. Valley Water defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

**(f) Amortization of Contract Water Rights**

Valley Water has contracted with the State of California for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represent reimbursement of capital costs for transportation facilities (the capital cost component). The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

**(g) Amortization of Water Banking Rights**

Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Water Enterprise Fund has capitalized the cost of the program and amortizes its cost over the 40-year entitlement period using the straight-line method.

**(h) Amortization of Water Delivery Rights**

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Water Enterprise Fund capitalizes the capital cost component and amortizes such component, using the straight-line method, over the remaining entitlement period.

**(i) Receivables**

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. For the current fiscal year, the allowance balance was \$5.9 million. At the end of every fiscal year, a review of outstanding receivables results in the recalculation of the bad debt allowance where delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance.

**(j) Accrued Vacation and Sick Leave Pay**

It is the policy of Valley Water to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

**(k) Bond Premiums, Discounts and Issuance Costs**

Water Enterprise and Watershed debt premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

On the statement of net position and the statement of activities, the premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable are reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

**VALLEY WATER**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

**(l) Accounting for Encumbrances**

Valley Water employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other commitments for expenditure of funds are recorded as assignment of fund balance since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

**(m) Net position**

Valley Water's fund net position is classified based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, Valley Water expends the restricted funds and then the unrestricted funds.

**(n) Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(o) Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Valley Water's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019

**(p) Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Valley Water's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## VALLEY WATER

### Notes to Basic Financial Statements For the Year Ended June 30, 2020

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019

#### **(q) Fair Value Measurement**

Valley Water has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. Valley Water categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

#### **(r) Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

#### **(s) New Pronouncements**

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on Valley Water’s financial reporting process. Current and future new standards which may impact Valley Water include the following:

##### Current Accounting Pronouncements:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. Valley Water has implemented this GASB standard.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government’s holding of the equity interest meets the definition of an investment and

**VALLEY WATER**  
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For the Year Ended June 30, 2020

for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. This pronouncement is not applicable to Valley Water.

Future Accounting Pronouncements:

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or fiscal year 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

**NOTE 3 - CASH AND INVESTMENTS**

Total Valley Water cash and investments reported on the financial statements at June 30, 2020 are as follows (in millions):

Statement of Net Position:		
Cash and investments	\$	716.0
Restricted cash and investments		5.6
Statement of Fiduciary Net Position:		
Cash and investments		0.2
	<u>\$</u>	<u>721.8</u>

**Investments**

At June 30, 2020, cash and investments based on fair value consist of the following (in millions):

U.S. Government Agencies	\$	300.7
U.S. Treasury Obligations		25.9
Medium Term Notes		18.6
Local Agency Investment Fund		75.0
Mutual Funds		0.1
Supranational Obligations		10.3
Municipal Bonds		65.5
Negotiable Certificates of Deposit		1.2
Time Certificates of Deposit		172.5
Money Market Funds		47.7
Total Investments	<u>\$</u>	<u>717.5</u>
Carrying amount of cash		4.3
Total Cash and Investments	<u>\$</u>	<u>721.8</u>

As of June 30, 2020, the fair value of Valley Water's investment in the State investment pool (LAIF) was \$75.0 million in non-restricted cash. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

**VALLEY WATER**  
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**Authorized Investments by Valley Water**

Valley Water's Investment Policy and the California Government Code allow Valley Water to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to Valley Water. The following items also identify certain provisions of Valley Water and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address Valley Water's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of Valley Water, rather than the general provisions of the California Government Code or Valley Water's investment policy, when more restrictive.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit (B)	5 years	Satisfactory CRA	5%	\$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
California Local Agency Investment Fund (C)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	--
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) Valley Water Board of Directors approved investments in California based local banks with a threshold of a minimum of 4% invested in banks with up to \$10 billion in assets and 1% in banks with up to \$2 billion in assets for a limit of 5 years in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any legally allowable deposits.

(C) LAIF will accept no more than \$75 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

**Restricted Cash and Investments for Bond Interest and Redemption**

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B and 2019C, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

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As of June 30, 2020, the amount invested in assets held by fiscal agent amounted to \$5.4 million and was equal to or in excess of the amount required at that date.

**Restricted Cash and Investments for Capital Projects**

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2020, the total balance of the taxable and the tax-exempt commercial paper certificate accounts held by fiscal agent is \$0.1 million. Both account balances were cash transfers from Valley Water to fiscal agent to fund maturing interest payments on commercial papers outstanding.

**Restricted Cash and Investments for Watershed Management Projects**

Valley Water has entered into certain cost sharing agreements with the U.S. Army Corps of Engineers (the Corps). Under these agreements, Valley Water is required to deposit monies into escrow accounts to be used by the Corps for watershed management projects. At June 30, 2020, Valley Water's restricted deposits held in escrow for construction of the Guadalupe Watershed project amounted to \$0.1 million.

**Authorized Investments by Debt Agreements**

Valley Water must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Valley Water fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, Valley Water ordinances, policies, and bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations (A)	N/A	N/A
U.S. Agency Securities (B)	N/A	N/A
State Obligations (C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit (D)	N/A	N/A
Money Market Funds	N/A	AAA
Collateralized Repurchase Agreements (E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer (G)	N/A	N/A
Local Agency Investment Fund of the State of CA	N/A	N/A
Supranational Obligations	N/A	AA

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America,

**VALLEY WATER**  
Notes to Basic Financial Statements  
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provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

- (B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMA"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.
- (C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.
- (D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3.0 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.
- (E) Repurchase agreements collateralized by Direct Obligations, GNMA, FNMA or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50.0 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.
- (F) Investment agreements, guaranteed investment contracts, funding agreement, or any other form of corporate note representing the unconditional obligations of entities or agencies

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with the unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

(G) Any investment approved in writing by the Certificate Insurer.

**Interest Rate Risk**

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Valley Water generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of Valley Water's investments to market interest rate fluctuations, summarized by the following table, shows the distribution to Valley Water's investments by maturity or earliest call date (in millions).

	<u>Total</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
U.S. Government Agencies	\$ 238.9	\$ 65.1	\$ 57.9	\$ 115.9
U.S. Government Agencies - Callable	61.8	-	-	61.8
U.S. Treasury Obligations	25.9	8.1	9.3	8.5
Medium Term Notes	6.1	3.0	-	3.1
Medium Term Notes - Callable	12.4	2.0	3.1	7.3
Local Agency Investment Fund	75.0	75.0	-	-
Mutual Funds	0.1	0.1	-	-
Supranational Obligations	10.4	7.1	-	3.3
Municipal Bonds	64.1	9.2	7.8	47.1
Municipal Bonds - Callable	1.5	-	-	1.5
Negotiable Certificates of Deposit	1.2	0.7	-	0.5
Time Certificates of Deposit	172.4	172.4	-	-
Money Market Funds	<u>47.7</u>	<u>47.7</u>	<u>-</u>	<u>-</u>
 Total Investments	 <u>\$ 717.5</u>	 <u>\$ 390.4</u>	 <u>\$ 78.1</u>	 <u>\$ 249.0</u>

**Credit Risk**

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The ensuing table shows the minimum rating required by the California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2020 for each investment type as provided by Standard and Poor's (in millions).

**VALLEY WATER**  
 Notes to Basic Financial Statements  
 For the Year Ended June 30, 2020

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end					Not Rated
				AAA	AA+	AA	AA-		
U.S. Government Agencies	\$ 300.7	AA-	\$ -	\$ -	\$ 259.8	\$ -	\$ -	\$ -	\$ 40.9
U.S. Treasury Obligations	25.9	AA-	25.9	-	-	-	-	-	-
Medium Term Notes	18.6	AA-	-	10.3	5.2	-	-	-	3.1
Local Agency Investment Fund	75.0	N/A	-	-	-	-	-	-	75.0
Mutual Funds	0.1	AAA	-	0.1	-	-	-	-	-
Supranational Obligations	10.4	AA	-	10.4	-	-	-	-	-
Municipal Bonds	65.5	AA-	-	9.2	22.0	31.1	3.2	-	-
Negotiable Certificates of Deposit	1.2	AA-	-	-	-	-	-	-	1.2
Time Certificates of Deposit	172.4	N/A	-	-	-	-	-	-	172.4
Money Market Funds	47.7	N/A	-	-	-	-	-	-	47.7
Total Investments	<u>\$ 717.5</u>		<u>\$ 25.9</u>	<u>\$ 30.0</u>	<u>\$ 287.0</u>	<u>\$ 31.1</u>	<u>\$ 3.2</u>		<u>\$ 340.3</u>

### Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2020, those investments consisted of the following (in millions):

Issuer	Investment Type	Reported Amount
<b>Government-Wide</b>		
Federal Home Loan Bank	U.S. Government Agency	\$ 105.6
Federal Farm Credit Bank	U.S. Government Agency	107.9
Federal Home Loan Mortgage Corp.	U.S. Government Agency	40.9
Federal National Mortgage Association	U.S. Government Agency	42.3

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Valley Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions but not in Valley Water's name.

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 Notes to Basic Financial Statements  
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**Fair Value Measurement and Application**

Valley Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to Valley Water).

Shown below is a summary of the fair value hierarchy of Valley Water's investment at fair value on June 30, 2020 (in millions):

<b>Investments by Fair Value Level</b>	<u>6/30/2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Uncategorized</u>
U.S. Government Agencies	\$ 300.7	\$ 300.7	\$ -	\$ -
U.S. Treasury Obligations	25.9	25.9	-	-
Medium Term Notes	18.6	-	18.6	-
Mutual Funds	0.1	-	0.1	-
Supranational Obligations	10.4	-	10.4	-
Municipal Bonds	65.5	-	65.5	-
Negotiable Certificates of Deposit	1.2	-	1.2	-
Time Certificates of Deposit	172.4	-	172.4	-
Subtotal - Leveled Investments	<u>594.8</u>	<u>326.6</u>	<u>268.2</u>	<u>-</u>
Local Agency Investment Fund	75.0	-	-	75.0
Money Market Funds	47.7	-	-	47.7
Subtotal - Uncategorized	<u>122.7</u>	<u>-</u>	<u>-</u>	<u>122.7</u>
<b>Total Investments</b>	<b><u>\$ 717.5</u></b>	<b><u>\$ 326.6</u></b>	<b><u>\$ 268.2</u></b>	<b><u>\$ 122.7</u></b>

Deposits and withdrawals in the State Investment Pool are made on the basis of \$1 and are not using fair value. Accordingly, Valley Water's investments of \$75.0 million in LAIF at June 30, 2020 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

**NOTE 4 - REIMBURSEMENT OF CAPITAL COSTS**

Valley Water derives certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The table on the next page shows a summary of such reimbursements during fiscal year 2020 (in millions).

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 Notes to Basic Financial Statements  
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Reimbursement of Capital Costs  
 (In Millions)

	Governmental Funds	Proprietary Funds
<b>Local Agencies:</b>		
City of Gilroy	\$ 0.2	\$ -
City of Mountain View	0.1	-
City of Palo Alto	0.2	-
San Benito County Water District	-	0.3
San Francisco Bay Restoration Authority	14.7	-
<b>State Agency:</b>		
Department of Water Resources	11.3	2.8
California Water Commission	-	0.7
<b>Federal Agency</b>		
US Department of Agriculture	3.0	-
<b>Other</b>		
Apple	-	0.5
<b>Total</b>	<b><u>\$ 29.5</u></b>	<b><u>\$ 4.3</u></b>

**NOTE 5 - INVESTMENT INCOME**

Valley Water earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following table represents the investment income as reported in the financial statements, the current year GASB 31 fair value adjustment, and the unadjusted interest income at June 30, 2020 (in millions).

	<u>Interest as Reported</u>	<u>GASB 31 Fair Value Adjustment</u>	<u>Unadjusted Interest Income</u>
<b>Fund:</b>			
General	\$ 0.5	\$ 0.1	\$ 0.4
Watershed & Stream Stewardship	5.2	2.1	3.1
Safe, Clean Water	5.8	2.2	3.6
COP Construction	0.1	-	0.1
Water Enterprise	8.8	3.3	5.5
Internal Service			
Equipment	0.2	0.1	0.1
Risk Insurance	0.5	0.2	0.3
Information Technology	0.6	0.2	0.4
<b>Total Interest</b>	<b><u>\$ 21.7</u></b>	<b><u>\$ 8.2</u></b>	<b><u>\$ 13.5</u></b>

**VALLEY WATER**  
 Notes to Basic Financial Statements  
 For the Year Ended June 30, 2020

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2020 was as follows (in millions):

	Balance July 1, 2019	Additions	Deletions	Transfers / Adjustments	Balance June 30, 2020
<b>Governmental Activities</b>					
Nondepreciable capital assets:					
Land	\$ 191.7	\$ -	\$ -	\$ -	\$ 191.7
Intangibles - easement	27.4	-	-	-	27.4
Construction in progress					
Governmental funds	596.1	89.9	-	(17.9)	668.1
Internal service funds	2.1	0.3	-	(2.4)	-
Total nondepreciable capital assets	<u>817.3</u>	<u>90.2</u>	<u>-</u>	<u>(20.3)</u>	<u>887.2</u>
Depreciable capital assets:					
Buildings	42.0	-	-	-	42.0
Structures and improvements	784.0	-	(29.3)	17.9	772.6
Equipment:					
Governmental funds	21.6	-	-	-	21.6
Internal service funds	28.8	1.9	(0.1)	0.8	31.4
Intangible Software	2.6	-	-	1.7	4.3
Total depreciable capital assets	<u>879.0</u>	<u>1.9</u>	<u>(29.4)</u>	<u>20.4</u>	<u>871.9</u>
Less accumulated depreciation and amortization					
Buildings	(15.3)	(0.8)	-	-	(16.1)
Structures and improvements	(137.3)	(9.3)	-	-	(146.6)
Equipment:					
Governmental funds	(19.7)	(0.5)	-	-	(20.2)
Internal service funds	(17.3)	(2.6)	0.1	-	(19.8)
Intangible - software	(2.1)	(0.5)	-	-	(2.6)
Total accumulated depreciation and amortization	<u>(191.7)</u>	<u>(13.7)</u>	<u>0.1</u>	<u>-</u>	<u>(205.3)</u>
Net depreciable capital assets	<u>687.3</u>	<u>(11.8)</u>	<u>(29.3)</u>	<u>20.4</u>	<u>666.6</u>
Total capital assets, net	<u><u>\$ 1,504.6</u></u>	<u><u>\$ 78.4</u></u>	<u><u>\$ (29.3)</u></u>	<u><u>\$ 0.1</u></u>	<u><u>\$ 1,553.8</u></u>
<b>Business-type activity</b>					
Nondepreciable capital assets:					
Land	\$ 19.2	\$ 0.8	\$ -	\$ -	\$ 20.0
Intangible - easement and software	0.2	-	-	-	0.2
Construction in progress	399.6	122.2	-	(28.0)	493.8
Total nondepreciable capital assets	<u>419.0</u>	<u>123.0</u>	<u>-</u>	<u>(28.0)</u>	<u>514.0</u>
Depreciable capital assets:					
Contract water and storage rights	216.6	10.0	-	-	226.6
Buildings	91.0	-	-	6.2	97.2
Structures and improvements	918.7	-	-	20.8	939.5
Equipment	28.3	0.6	-	1.0	29.9
Total depreciable capital assets	<u>1,254.6</u>	<u>10.6</u>	<u>-</u>	<u>28.0</u>	<u>1,293.2</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(175.7)	(12.4)	-	-	(188.1)
Buildings	(10.2)	(2.1)	-	-	(12.3)
Structures and improvements	(300.3)	(15.5)	-	-	(315.8)
Equipment	(23.5)	(1.2)	-	-	(24.7)
Total accumulated depreciation and amortization	<u>(509.7)</u>	<u>(31.2)</u>	<u>-</u>	<u>-</u>	<u>(540.9)</u>
Net depreciable capital assets	<u>744.9</u>	<u>(20.6)</u>	<u>-</u>	<u>28.0</u>	<u>752.3</u>
Total capital assets, net	<u><u>\$ 1,163.9</u></u>	<u><u>\$ 102.4</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,266.3</u></u>

**VALLEY WATER**  
Notes to Basic Financial Statements  
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During fiscal year 2020, addition to construction in progress for the current fiscal year was \$90.3 million in the government-wide activities. The breakdown of additions to the construction in progress was as follows: \$16.9 million to the watersheds, \$73.1 million to the Safe, Clean Water & Natural Flood Protection Fund, and \$0.3 million in the internal service funds. There were 68 in progress and completed projects during the fiscal year with the major projects listed below (in millions):

- \$35.9 - Upper Llagas Creek
- \$13.7 - Permanente Creek
- \$11.7 - San Francisco Bay Shoreline EIA Design and Part Construction
- \$6.3 - San Francisco Bay Shoreline
- \$4.4 - Berryessa Creek, Lower, Penitencia Phase 2
- \$1.5 - San Francisquito Creek
- \$1.5 - Coyote Creek, Montague to I-280
- \$1.4 - Almaden Lake Improvement
- \$1.3 - Lower Penitencia Creek Improvements
- \$1.2 - Cunningham Flood Detention
- \$1.2 - Salt Ponds A5-11 Restoration
- \$1.1 - Main/Madrone Pipeline Restoration
- \$1.1 - Palo Alto Flood Basin Tide Gate Improvements
- \$1.0 - Sunnyvale East and West Channel

New construction in progress amounted to \$122.2 million in the business-type activities. There were 50 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$59.6 - Rinconada Water Treatment Plant Reliability Improvement
- \$19.0 - 10-year Pipeline and Rehabilitation
- \$17.3 - Pacheco Reservoir Expansion Project
- \$11.6 - Anderson Dam Seismic Retrofit
- \$6.3 - Coyote Pumping Plant Warehouse
- \$3.1 - Rinconada Water Treatment Plant Residuals Remediation
- \$1.0 - Dam Safety Seismic Stability

Capital asset depreciation and amortization incurred by the primary government for the current fiscal year are as follows (in millions):

General government	\$ 1.6
Watershed and Stream Stewardship	8.6
Safe, clean water and natural flood protection	0.7
Capital assets held by Valley Water's internal service funds are charged to the various functions based on their usage of assets.	<u>2.8</u>
Total depreciation expense – governmental activities	<u>\$ 13.7</u>

Total depreciation and amortization expense – business-type activity

Water cost of production \$ 31.2

**VALLEY WATER**  
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**NOTE 7 - SHORT-TERM AND LONG-TERM LIABILITIES**

**(a) Short-term debt**

On December 17, 2002, the Valley Water Board authorized a commercial paper program, through the PFFC. The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short-term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On May 15, 2012, the Valley Water Board authorized the execution and delivery of certain agreements in connection with the commercial paper program in an aggregate principal amount not to exceed \$100.0 million.

On January 13, 2015, the Valley Water Board took certain actions to support an increase in the commercial paper program to \$150.0 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 22, 2020, Valley Water issued \$17.7 million of Tax Exempt and \$25.0 million of Taxable commercial paper to reimburse Water Utility capital project costs incurred between May 2019 and February 2020. On June 25, 2020, Valley Water issued \$10.0 million of Taxable commercial paper to prefund Water Utility costs incurred in March 2020 and in the future.

As of June 30, 2020, outstanding commercial paper was \$102.7 million, consisting of \$30.0 million issued through the PFFC for the benefit of the Safe, Clean Water Program and \$72.7 million issued through the PFFC for the benefit of the Water Utility Enterprise.

Commercial paper activity for the year ended June 30, 2020 was as follows (in millions):

Commercial Paper Program	Outstanding	
	Authorized	Amount
Beginning balance	\$ 150.0	\$ 50.0
Additions	-	52.7
Ending balance	<u>\$ 150.0</u>	<u>\$ 102.7</u>

**VALLEY WATER**  
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**(b) Long-term liabilities**

Valley Water's long-term liabilities outstanding consisted of the following (in millions):

Type of indebtedness	Maturity	All-in True Interest Cost*	Authorized and Issued	June 30, 2020	Due Within One Year
<b>Governmental activities</b>					
Certificates of participation (COP)					
2012A COP	2024	1.41%	\$ 52.9	\$ 19.2	\$ 4.5
2017A COP	2030	2.56%	59.4	46.3	4.0
Compensated absences				10.3	2.4
Claims payable				7.5	2.1
Net pension liability				134.3	-
Other post employment liability				33.0	-
Bond premium				9.9	1.4
Total general long-term obligations				<u>\$ 260.5</u>	<u>\$ 14.4</u>
<b>Business-type activity</b>					
2006B Water revenue bond	2035	5.39%	\$ 25.6	\$ 17.3	\$ 0.9
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	49.6	1.9
2019A Water revenue bond	2039	3.75%	15.2	15.0	0.2
2019B Water revenue bond	2034	3.81%	80.0	78.4	1.7
2019C Water revenue bond		2.76%	38.3	37.0	1.9
2016C Water revenue COP bond	2029	2.13%	43.1	34.9	3.3
2016D Water revenue COP bond	2029	3.14%	55.0	44.3	4.2
Bond discount				-	-
Bond premium				37.0	1.6
Compensated absences				6.3	1.4
Net pension liability				100.6	-
Other post employment liability				25.7	-
Semitropic water banking agreement	2035		46.9	10.0	-
Total enterprise funds debt				<u>\$ 637.6</u>	<u>\$ 17.1</u>

\* All-in true interest cost represents the total cost of a bond financing, taking account any accrued interest, premium or discount and costs of issuance.

**VALLEY WATER**  
 Notes to Basic Financial Statements  
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The following is a summary of changes in long-term liabilities as of June 30, 2020 (in millions):

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Due Within One Year
<b>Governmental activities:</b>					
2012A COP	\$ 23.5	\$ -	\$ (4.3)	\$ 19.2	\$ 4.5
2017A COP	50.0	-	(3.8)	46.2	4.0
Compensated absences	9.0	6.1	(4.9)	10.2	2.4
Claims payable (See Note 13)	7.1	0.4	-	7.5	2.1
Net pension liability (See Note 11)	125.3	9.1	-	134.4	-
Other post employment benefits (See Note 12)	41.4	-	(8.4)	33.0	-
Premium on refunded debt	11.5	-	(1.5)	10.0	1.4
<b>Total governmental activities long-term liabilities</b>	<b>\$ 267.8</b>	<b>\$ 15.6</b>	<b>\$ (22.9)</b>	<b>\$ 260.5</b>	<b>\$ 14.4</b>
<b>Business-type activity:</b>					
2006B Water revenue bonds	\$ 18.1	\$ -	\$ (0.8)	\$ 17.3	\$ 0.9
2016A Water revenue bonds	106.3	-	-	106.3	-
2016B Water revenue bonds	75.2	-	-	75.2	-
2017A Water revenue bonds	51.4	-	(1.8)	49.6	1.9
2019A Water revenue bonds	15.2	-	(0.2)	15.0	0.2
2019B Water revenue bonds	80.0	-	(1.6)	78.4	1.7
2019C Water revenue bonds	-	38.3	(1.3)	37.0	1.9
2007B Water revenue COP	38.0	-	(38.0)	-	-
2016C Water revenue COP	38.0	-	(3.1)	34.9	3.3
2016D Water revenue COP	48.4	-	(4.1)	44.3	4.2
Bond discount on refunding	(0.1)	0.1	-	-	-
Premium on debt issuance	38.6	-	(1.6)	37.0	1.6
Compensated absences	5.4	4.6	(3.7)	6.3	1.4
Net pension liability (See Note 11)	94.6	6.0	-	100.6	-
Other post employment benefits (See Note 12)	32.0	-	(6.3)	25.7	-
Semitropic water banking agreement (See Note 15)	10.0	-	-	10.0	-
<b>Total business-type activity long-term liabilities</b>	<b>\$ 651.1</b>	<b>\$ 49.0</b>	<b>\$ (62.5)</b>	<b>\$ 637.6</b>	<b>\$ 17.1</b>

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The aggregate maturities of long-term debt are as follows (in millions):

Bonds Payable	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 8.5	\$ 3.1	\$ 14.1	\$ 19.5
2022	8.9	2.7	14.8	19.1
2023	9.2	2.3	15.3	18.5
2024	9.7	1.9	15.9	18.0
2025	4.3	1.5	16.4	17.4
2026-2030	24.9	3.9	93.9	76.6
2031-2035	-	-	95.4	55.7
2036-2040	-	-	76.2	35.7
2041-2045	-	-	82.1	18.8
2046-2050	-	-	33.9	2.7
<b>Total bonds payable requirements</b>	<b>65.5</b>	<b>\$ 15.4</b>	<b>458.0</b>	<b>\$ 282.0</b>
Compensated absence	10.3		6.3	
Premium	9.9		37.0	
Claims payable	7.5		-	
OPEB	33.0		25.7	
Pension	134.3		100.6	
Semitropic water banking agreement	-		10.0	
<b>Total outstanding non-current liabilities at June 30, 2020</b>	<b>\$ 260.5</b>		<b>\$ 637.6</b>	

### **Governmental Activities**

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for governmental activities outstanding as of June 30, 2020:

#### 2012A Certificates of Participation

In November 2012, Valley Water issued \$53.0 million of Refunding and Improvement Certificates of Participation, Series 2012A, to be executed and delivered through the PFFC. The proceeds of 2012A COPs were used to: (1) refinance \$52.4 million of the 2003A Certificates of Participation; (2) finance the cost of certain flood control improvements; (3) fund a reserve fund; and (4) pay the costs of issuing the 2012A Certificates. The 2012A COPs are payable from the 1994 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

**VALLEY WATER**  
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**2017A Certificates of Participation**

In March 2017, Valley Water issued \$59.4 million of Refunding and Improvement Certificates of Participation, Series 2017A, to be executed and delivered through the PFFC. The proceeds of the 2017A COPs were used to: (1) refinance the \$5.3 million outstanding balance of the 2004A Certificates of Participation; (2) refinance the \$54.2 million outstanding balance of the 2007A Certificates of Participation; (3) finance the cost of certain flood control improvements; and (4) pay the costs of issuing the 2017A Certificates. The 2017A COPs are payable from the 1994 and 1995 Installment Payments, which are payable by Valley Water, and are secured by a pledge of and lien on, the Valley Water Flood Control System Revenues pursuant to Master Resolution No. 94-60 Flood Control System Revenues adopted by the Valley Water Board on June 23, 1994.

**Claims Payable**

Valley Water is self-insured and reports all its risk management activities in its Risk Management Internal Service Fund. Detailed information and calculation of the claims payable account balance are explained in Note 13, Risk Management.

**Business-type Activity**

The following provides a brief description of Valley Water's debt, and other long-term liabilities, for business-type activity outstanding as of June 30, 2020:

**2006B Water Utility System Refunding Revenue Bonds**

In December 2006, Valley Water issued \$99.8 million of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of \$57.4 million of the 2006A and 2006B Bonds were used to refinance \$55.3 million of the remaining 2000A and 2000B and the proceeds of \$42.4 million of 2006A and 2006B were used to repay approximately \$40.9 million of commercial paper notes. In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

**2016A/B Water Systems Refunding Revenue Bonds**

In March 2016, Valley Water issued \$181.5 million of Water Systems Refunding Revenue Bonds comprising of Series 2016A for \$106.3 million and Taxable Series B for \$75.2 million, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay \$73.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay \$75.0 million of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues.

**VALLEY WATER**  
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2017A Water System Refunding Revenue Bonds

In May 2017, Valley Water issued \$54.7 million of Water Systems Refunding Revenue Bonds to refund the \$64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water Systems Refunding Revenue Bonds

In April 2019, Valley Water issued \$95.3 million of Water System Refunding Revenue Bonds to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10).

2019C Water Systems Refunding Revenue Bonds

In November 2019, Valley Water issued \$38.3 million of Water System Refunding Revenue Bonds to refinance all the currently outstanding Water Utility Revenue Certifications of Participation Taxable Series 2007B and fund costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019C Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10)

2007B Water Utility Revenue Certificates of Participation

In October 2007, Valley Water issued \$131.0 million of Water Utility Revenue Certificates of Participation, Series 2007A and Taxable Series 2007B, to be executed and delivered through the PFFC. The proceeds of the 2007A and 2007B COPs were used to finance capital construction projects in the Water Utility Enterprise. A 2007A Debt Service Reserve Fund was funded for the 2007A and 2007B COPs by purchasing a surety. The 2007A issuance was \$77.3 million fixed rate COPs with a 30-year maturity. The 2007B issuance of \$53.7 million are floating rate COPs based on the three-month LIBOR rate plus 32 basis points with a 30-year maturity. The 2007A and 2007B COPs are payable from 2007 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The 2007A COPs were refunded by the 2017A Water System Refunding Revenue Bonds in May 2017. The 2007B COPs were refunded by the 2019C Water System Refunding Revenue Bonds in November 2019.

2016C/D Water Utility Revenue Certificates of Participation

In March 2016, Valley Water issued \$98.0 million of Water Utility Systems Improvement Projects Revenue Certification of Participation, Series 2016C for \$43.4 million and Taxable Series 2016D for \$55.0 million, to be executed and delivered through the PFFC. Proceeds of the 2016C and 2016D COPs, along with the original issue premium will be used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2016C and 2016D COPs are payable from 2016 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

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Semitropic Water Banking Agreement

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. At June 30, 2020, Valley Water has \$10.0 million outstanding liability related to water storage and banking rights.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in Valley Water's various enterprise funds and on the governmental activities column in the statement of net position.

**(c) Other Debt Related Information**

Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein. Certain of these master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contracts contain provisions concerning the application of applicable Valley Water revenues if certain of the following conditions occur: default on debt service payments; the failure of Valley Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contract contain acceleration provisions that allows a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

Resolutions and other financing agreements associated with Valley Water's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. Valley Water believes it is in compliance with all significant covenants, limitations, and restrictions.

Financial obligations incurred under the commercial paper program, issued through the PFFC, currently include the obligations to reimburse the bank issuing direct pay letter of credit supporting the commercial paper program and to pay letter of credit fees to the bank. Valley Water's failure to comply with certain such obligations could result in an event of default. If an event of default occurs, the bank may exercise one or more rights and remedies. In addition to rights and remedies provided for under the law, the bank can declare all financial obligations with respect to such letter of credit to be immediately due and payable, cause the issuance of commercial paper to be temporarily ceased, or terminate the letter of credit which would cause the issuance of commercial paper to be permanently ceased. Commercial paper certificates are not subject to acceleration.

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Valley Water has pledged future flood control system revenues to repay \$65.5 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of flood control improvements. The certificates of participation (COPs) are payable from installment payments that are secured by flood control system revenues and are payable through fiscal years 2024 (2012A) and 2030 (2017A). The total principal and interest remaining to be paid on the combined debt is \$80.8 million. A ten-year comparison of flood control system revenues to related debt service titled "Flood Control System Historical Operating Results – Combined Statements of Revenues and Debt Service Coverage – Last Ten Fiscal Years" can be found in the Statistical Section.

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$458.0 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. Total principal outstanding and interest costs remaining to be paid on the combined debt is \$740.1 million.

**NOTE 8 - PROPERTY TAXES AND BENEFIT ASSESSMENTS**

Valley Water derives certain revenues from the assessment of property tax parcel levies and the levy of benefit assessments and a special parcel tax. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter approved levy to repay capital and operating costs related to imported water from the State Water Project. Benefit Assessments are collected as part of duly authorized debt repayment phase of the voter-approved assessments. In November 2000, voters approved a 15-year special parcel tax to fund the countywide Clean, Safe Creeks & Natural Flood Protection Program. The levy became effective July 1, 2001 and is based on the proportionate storm water runoff for each property.

In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection (Safe, Clean Water) special parcel tax. The Safe, Clean Water program builds on the success of the Clean, Safe Creeks and Natural Flood Protection (Clean, Safe Creeks) plan approved by the voters in 2000. The Safe, Clean Water program replaced the Clean, Safe Creeks measure in its entirety beginning July 1, 2013 (see Note 17 - Subsequent Events for additional information on the recent ballot measure). The Safe, Clean Water special parcel tax will provide an estimated total of \$723.0 million of revenue for operations and capital projects. The program will be funded by a combination of revenues from the continuation of an annual special tax, reserves from unspent funds of the Clean, Safe Creeks plan, and state and federal funding. For fiscal year 2020, the budget includes \$45.5 million of special parcel tax for this program.

Property tax and benefit assessment revenues recorded for the year ended June 30, 2020 are shown on the following page (in millions).

**VALLEY WATER**  
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	General Fund	Special Revenue Funds	Water Enterprise Fund
Property taxes:			
1% tax allocation	\$ 9.2	\$ 93.1	\$ 8.4
Special parcel tax	-	46.1	-
Voter approved indebtedness:			
State water	-	-	21.8
Total taxes	9.2	139.2	30.2
Benefit assessments	-	13.4	-
Total property taxes and benefit assessments	<u>\$ 9.2</u>	<u>\$ 152.6</u>	<u>\$ 30.2</u>

The County of Santa Clara (County) is responsible for the assessment, collection, and apportionment of property taxes for Valley Water. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). Valley Water is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

Valley Water has elected to participate in the "Teeter Plan" offered by the County whereby Valley Water receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

#### **NOTE 9 - FUND BALANCES**

In the fund financial statements, governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily to the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- Non-spendable fund balance includes net resources that cannot be spent because they are either a) not spendable because of their form, or b) must be maintained intact pursuant to legal or contractual requirements.
- Restricted fund balance includes amounts that are subject to limitations imposed by either: a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes spendable resources that can only be used for specific purposes pursuant to constraints imposed by formal action of Valley Water's highest level of decision-making authority, the Valley Water Board, through adopted resolutions. Those constraints remain binding unless the Valley Water Board removes or changes in the same

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manner to previously commit those resources. These Valley Water Board's actions must occur prior to June 30<sup>th</sup> of the applicable fiscal year.

- Assigned fund balance includes amounts that are constrained by Valley Water's intent to be used for specific purposes, but are neither restricted nor committed. The intent can be established or changed at the discretion of the Valley Water Board, or an official designated for that purpose, the Chief Executive Officer, in accordance with the provisions of the Governance Policies of the Board, Policy No. EL-5, *Purchasing and Contracts*.
- Unassigned fund balance represents residual net resources that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Spending Prioritization in Using Available Resources

When an expense is incurred for purposes for which both restricted resources and unrestricted resources fund balance are available, Valley Water considers restricted resources to be spent first. When committed, assigned, and unassigned resources can be used for the same purpose, Valley Water's flow assumption is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The various fund balances are established by actions of the Board of Directors and can be increased, reduced or eliminated by similar actions with the exception of contracts and commitments on the assigned fund balance, which can be reduced or eliminated without the action of the Board of Directors. Valley Water's reserve amounts are reviewed annually to ensure compliance with Valley Water's reserve policy. Changes to the restricted, committed and assigned reserves are presented to the Board of the Directors for review and approval.

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Detailed schedule of fund balances as of June 30, 2020 is as follows (in millions):

	General	Watershed & Stream Steward	Natural Flood Protection Program	COP Construction	COP Debt Service	Total Governmental Funds
<b>Restricted Fund Balance:</b>						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 5.4	\$ 5.4
SCW-current authorized Capital Projects	-	-	158.5	-	-	158.5
Total restricted fund balance	-	-	158.5	-	5.4	163.9
<b>Committed Fund Balance:</b>						
Operating & capital	8.2	97.7	-	-	-	105.9
Current authorized capital projects	-	62.8	-	-	-	62.8
Total committed fund balance	8.2	160.5	-	-	-	168.7
<b>Assigned Fund Balance:</b>						
Contracts and commitments	5.7	7.4	-	-	-	13.1
Market valuation	0.3	3.0	-	-	-	3.3
Benefits assessment reserve	-	1.1	-	-	-	1.1
Total assigned fund balance	6.0	11.5	-	-	-	17.5
Total fund balances	<u>\$ 14.2</u>	<u>\$ 172.0</u>	<u>\$ 158.5</u>	<u>\$ -</u>	<u>\$ 5.4</u>	<u>\$ 350.1</u>

**NOTE 10 - NET POSITION**

The proprietary funds financial statements utilize a net position presentation. Net position is categorized as follows: (1) invested capital assets (net of related debt), (2) restricted and (3) unrestricted.

**Net Investment in Capital Assets** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

**Restricted Net position** – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net position** – This category represents net position of Valley Water, not restricted for any project or other purpose.

The following table shows the detailed schedule of the proprietary funds' net position as of June 30, 2020 (in millions).

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	Water Enterprise Fund	State Projects Fund	Equipment Fund	Risk Management Fund	Information Technology Fund
<b>Restricted Net Position</b>					
San Felipe emergency reserve	\$ 3.3	\$ -	\$ -	\$ -	\$ -
Cash on hand with fiscal agents	0.1	-	-	-	-
GP5 reserve	6.6	-	-	-	-
Rate stabilization	23.5	-	-	-	-
Public-private partnership	8.0	-	-	-	-
WUE SVAWPC reserve	1.3	-	-	-	-
Supplemental water supply	15.1	-	-	-	-
Drought reserve	10.0	-	-	-	-
State water project	-	16.8	-	-	-
<b>Total restricted net position</b>	<b>67.9</b>	<b>16.8</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Unrestricted Net Position</b>					
Operating and capital	48.7	-	3.3	-	0.7
Water inventory	134.4	-	-	-	-
Current authorized projects	39.2	-	-	-	9.3
Market valuation	4.9	-	0.1	0.2	0.4
Property self-insurance/catastrophic	-	-	-	6.1	-
Encumbrances	108.5	-	2.0	0.3	6.0
Net pension liability	(76.5)	-	(3.1)	(2.0)	(0.1)
Net other post-employment benefits	(32.2)	-	(1.0)	(0.8)	(0.2)
<b>Total unrestricted net position</b>	<b>227.0</b>	<b>-</b>	<b>1.3</b>	<b>3.8</b>	<b>16.1</b>
<b>Net Investment in Capital Assets</b>	<b>674.1</b>	<b>15.1</b>	<b>8.9</b>	<b>-</b>	<b>4.4</b>
<b>Net Position</b>	<b>\$ 969.0</b>	<b>\$ 31.9</b>	<b>\$ 10.2</b>	<b>\$ 3.8</b>	<b>\$ 20.5</b>

**NOTE 11 - EMPLOYEES' RETIREMENT PLAN**

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Valley Water's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members

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are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by the Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 2.0%*	7.0% + 3.0%*	6.75% + 1.0%
Required employer contribution rates	10.276% plus \$15.3 million prepayment for prior unfunded service cost		

\* Member additional contribution towards Valley Water's CalPERS cost per negotiated agreement with the bargaining units

**Employees Covered** – As of the most recent CalPERS annual valuation report, dated July 2020, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	814
Active employees	752

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2020 contributions to the plan were \$28.3 million. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

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### **Net Pension Liability**

Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return <sup>(1)</sup>	7.375%
Mortality rate table <sup>(2)</sup>	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

<sup>(1)</sup>Net of pension plan investment and administrative expenses; includes inflation

<sup>(2)</sup>The mortality rate table was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuarial Scale BB.

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

### **Change in Assumptions**

#### ***Inflation Rate***

For the measurement date of June 30, 2019, the inflation rate was 2.75%.

#### ***Discount Rate***

The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each

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Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above, adjusted to account for assumed administrative expenses.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class <sup>(1)</sup>	Current Strategic Allocation	Real Rates of Return Years 1-10 <sup>(2)</sup>	Real Rates of Return Years 11+ <sup>(3)</sup>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

<sup>(1)</sup> In the CalPERS CAFR, Fixed Income is included in Global Debt Securities, Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

<sup>(2)</sup> An expected inflation of 2.00% used for this period.

<sup>(3)</sup> An expected inflation of 2.92% used for this period.

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**Changes in the Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period (in millions):

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning balance	\$813.7	\$593.8	\$219.8
<b>Changes recognized for the Measurement Period:</b>			
Service cost	16.5	-	16.5
Interest on total pension liability	58.3	-	58.3
Difference between expected and actual experience	13.4	-	13.4
Contribution from employer	-	26.6	(26.6)
Contribution from employees	-	7.6	(7.6)
Net investment income	-	39.3	(39.3)
Benefit payments, including refunds of employee contributions	(38.4)	(38.4)	-
Administrative expense	-	(0.4)	0.4
Net changes	49.8	34.7	15.1
Ending balance	<u>\$863.5</u>	<u>\$628.5</u>	<u>\$234.9</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in millions):

	Discount Rate		
	-1%	Current	+1%
Plan Net Pension Liability	\$ 348.5	\$ 234.9	\$ 140.7

To present a more conservative estimate of the pension liability, applying a 3.25% discount rate, for example, would result in a pension liability of approximately \$696.5 million.

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**Pension Plan Fiduciary Net Position**

Detailed information about Valley Water's pension plan fiduciary net position is available in separately issued CalPERS financial reports.

**Pension Expenses and Deferred Outflow/Inflow of Resources**

For the year ended June 30, 2020 (for measure period ended June 30, 2019), Valley Water recognized pension expense of \$43.6 million. As of June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in millions):

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Pension contribution subsequent to measurement date	\$ 28.3	\$ -
Change in assumptions	9.3	(4.2)
Net difference between actual and expected experience	10.0	(1.7)
Net difference between projected and actual earnings on plan investments	-	(3.3)
<b>Total</b>	<b>\$ 47.6</b>	<b>\$ (9.2)</b>

\$28.3 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as shown in the succeeding table.

Measurement Periods Ended June 30	Deferred Outflows(Inflows) <u>of Resources</u>	
	2020	\$11.4
2021	(4.1)	
2022	2.0	
2023	0.9	
<b>Total</b>	<b><u>\$10.2</u></b>	

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**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

Valley Water provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. Valley Water must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

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**Benefits Provided**

	<b>Hire/Retirement Date</b>	<b>Eligibility Rule (Years of Continuous Service)</b>	<b>Valley Water's Required Contribution</b>
	Retired prior to July 1, 1988		Fixed amount of \$165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 or later and hired prior to December 30, 2006	10 years 15 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent.
<b>Classified</b>			
Employee Association (AFSCME Local 101)	Retired from July 1, 1990 or later and hired between December 30, 2006 and March 1, 2007	10 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
Engineers Society (IFPTE-Local 21)		15 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
Professional Managers Association (IFPTE – Local 21)	Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

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	<b>Hire/Retirement Date</b>	<b>Eligibility Rule (Years of Continuous Service)</b>	<b>Valley Water's Required Contribution</b>
	Retired prior to July 1, 1988		Fixed amount of \$165 per month.
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree.
	Retired from July 1, 1990 through June 18, 1995	10 years 15 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent.
<b><u>Unclassified</u></b>	Retired from June 19, 1995 through October 21, 1996	10 years 15 years 25 years	100% medical premium for retiree. 100% medical premium for retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years 15 years 25 years	100% medical premium for retiree. 100% medical, dental, and vision coverages for the retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents.
	Hired on or after December 30, 2006 and prior to March 1, 2007	10 years 15 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.  Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable

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	<b>Hire/Retirement Date</b>	<b>Eligibility Rule (Years of Continuous Service)</b>	<b>Valley Water's Required Contribution</b>
<b><u>Unclassified</u></b>  <b>At Will</b>	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't)  25 years	to active employees or retirees, whichever is less.  Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years  20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.  Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare eligible dependents who are enrolled in Valley Water's health plan must also enroll in Medicare upon their eligibility date. Valley Water reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in Valley Water's medical plan. As of July 1, 2009, all Medicare eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

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Valley Water provides the unclassified group of retirees \$50,000 life insurance upon retirement with a five-year phase out in declining increments of \$10,000 per year after retirement.

**Employees Covered** – As of the most recent OPEB annual valuation report, dated June 30, 2019, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	846
Active employees	753

### Contributions

On June 24, 2008, Valley Water's Board of Directors adopted a resolution approving the agreement and election of Valley Water to prefund OPEB through CalPERS under its California Employer's Retiree Benefit Trust (CERBT) Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. On September 9, 2008, Valley Water joined CERBT. The Board of Directors approved the reallocation of \$17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2017. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees' Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. For the fiscal year ended June 30, 2020, the District's total contribution to the plan amounted to \$10.8 million. All funds with payroll charges contribute to the actuarially determined contribution.

### Net OPEB Liability

Valley Water's net OPEB liability was measured on June 30, 2019 for reporting date June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount Rate	7.59%
Inflation	3.00%
Salary Increases	3.25%
Investment Rate of Return	7.59%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover <sup>(1)</sup>	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate <sup>(2)</sup>	5.50% grading to ultimate 4% for medical and flat 3% for dental and vision

<sup>(1)</sup>Net of OPEB plan investment expenses, including inflation

<sup>(2)</sup>The mortality rate table was developed based on CalPERS' nonindustrial miscellaneous public agency experience study for 14 years ending June 2011.

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The long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and expected real rates of returns for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Rates of Return: 1-10 Years <sup>(1)</sup>	Real Rates of Return: 11-60 Years <sup>(2)</sup>
Global Equity	59.0%	4.80%	5.98%
Fixed Income	25.0%	1.10%	2.62%
Global Real Estate (REITs)	8.0%	3.20%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	0.25%	1.46%
Commodities	3.0%	1.50%	2.87%

<sup>(1)</sup>An expected inflation of 2.00% used for this period.

<sup>(2)</sup>An expected inflation of 2.92 used for this period.

### **Discount Rate**

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that Valley Water contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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**Changes in OPEB Liability**

The following table shows the changes in net OPEB liability recognized over the measurement period (in millions):

	Increase / (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)=(a)-(b)
Beginning balance	\$ 180.8	\$ 107.5	\$ 73.3
Changes recognized for the Measurement period:			
Service cost	2.6	-	2.6
Interest cost	12.9	-	12.9
Effect of changes in actuarial assumptions loss/(gain)	(5.5)	-	(5.5)
Other liability experience loss/(gain)	(8.0)	-	(8.0)
Contribution	-	10.1	(10.1)
Benefits payments	(10.1)	(10.1)	-
Non benefit related administrative expenses from plan trusts	-	(0.1)	0.1
Expected investment return	-	7.7	(7.7)
Investment experience loss/(gain)	-	(1.1)	1.1
Net changes	<u>(8.1)</u>	<u>6.5</u>	<u>(14.6)</u>
Ending balance	<u>\$ 172.7</u>	<u>\$ 114.0</u>	<u>\$ 58.7</u>

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019 (in millions):

	Discount Rate		
	-1%	Current	+1%
Net OPEB Liability	\$ 78.7	\$ 58.6	\$ 41.7

**Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates**

The following presents the net OPEB liability of Valley Water, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019 (in millions):

	Discount Rate		
	-1%	Current	+1%
Net OPEB Liability	\$ 40.7	\$ 58.6	\$ 80.2

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**OPEB Plan Fiduciary Net Position**

Detailed information about Valley Water's OPEB plan fiduciary net position is available in separately issued CalPERS CERBT financial reports.

**OPEB Expense and Deferred Outflow/Inflow of Resources**

For the year ended June 30, 2020, Valley Water recognized OPEB credit expense of \$5.9 million. At June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in millions):

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	\$ 10.7	\$ -
Changes in assumption		(4.5)
Difference between actual and expected experience	-	(6.4)
Net difference between projected and actual earnings on plan investment	-	(0.7)
<b>Total</b>	<b><u>\$ 10.7</u></b>	<b><u>\$ (11.6)</u></b>

\$10.7 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in millions):

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2021	(\$3.1)
2022	(3.1)
2023	(2.5)
2024	(2.3)
2025	(0.6)
<b>Total</b>	<b><u>(\$11.6)</u></b>

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**NOTE 13 - RISK MANAGEMENT**

Valley Water is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Valley Water reports all of its risk management activities in its Risk Management Internal Service Fund.

Valley Water's deductibles and maximum coverage are as follows (in thousands):

<u>Coverage Descriptions</u>	Commercial Insurance Deductibles	Coverage
General liability	\$2,000	\$50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2020, the liability for self-insurance claims was \$7.5 million. This liability is the Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2020 are as follows (in millions):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2018	\$3.5	\$3.0	\$6.5
Current year premiums, incurred claims and changes in estimates	1.6	0.1	1.7
Claim payments	(0.9)	(0.3)	(1.2)
Claims payable at June 30, 2019	4.2	2.8	7.0
Current year premiums, incurred claims and changes in estimates	1.0	0.3	1.3
Claim payments	(0.7)	(0.1)	(0.8)
Claims payable at June 30, 2020	4.5	\$ 3.0	\$ 7.5
Current Portion	<u><u>\$1.5</u></u>	<u><u>\$0.6</u></u>	<u><u>\$2.1</u></u>

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**NOTE 14 - TRANSFERS IN AND OUT**

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

In the year ended June 30, 2020, the following transfers occurred between funds:

- \$0.4 million was transferred from the Watershed and Stream Stewardship Fund to the General Fund to support drought induced tree removal projects
- \$0.1 million was transferred from the Water Enterprise Fund to the Watershed and Stream Stewardship Fund to help pay for the Safe Clean Water Renewal efforts
- \$1.6 million was transferred from the COP Construction Fund to the Watershed and Stream Stewardship Fund to fund certain projects
- \$0.2 million was transferred from the General Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to assist with Winfield Warehouse costs
- \$0.5 million was transferred from the COP Construction Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund certain projects
- \$20.2 million was transferred from the Watershed and Stream Stewardship Fund to the Safe, Clean Water and Natural Flood Protection Program Fund to fund the Encampment Clean-up Program and Upper Penitencia Creek and Upper Llagas Creek Flood Protection projects
- \$0.5 million was transferred from the General Fund to the COP Debt Service Fund to pay debt service payments
- \$11.0 million was transferred from the individual zone Funds to the COP Debt Service Fund to pay debt service payments
- \$0.5 million was transferred each from the General Fund and Watershed Fund to the Water and Enterprise Fund for the Open Space credit
- \$1.7 million and \$2.5 million were transferred from the Watershed and Stream Stewardship Fund, and Water Enterprise Fund, respectively, to the Information Technology Fund to fund capital projects

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Interfund transfers for the year ended June 30, 2020, is as follows (in millions):

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Watershed and Stream Stewardship	\$
General Fund		0.4
Watershed & Stream Stewardship	Water Enterprise	0.1
	COP Construction Fund	1.6
Safe, Clean Water Fund	General Fund	0.2
	COP Construction Fund	0.5
	Watershed and Stream Stewardship	20.2
COP Debt Service Fund	General Fund	0.5
	Lower Peninsula Watershed	2.3
	West Valley Watershed	1.8
	Guadalupe Watershed	3.7
	Coyote Watershed	3.1
Water Enterprise	General Fund	0.5
	Watershed & Stream Stewardship	0.6
Information Technology Fund	Watershed and Stream Stewardship	1.6
	Water Enterprise	2.5
Total interfund transfers		<u>\$ 39.6</u>

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**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

Starting fiscal year 2020, Valley Water's Board of Directors decided to record stored water as inventory. The impact of the implementation on the beginning net position is as follows:

<u>Net Position</u>	(Dollars in Millions)	
	<u>Government-wide</u>	<u>Business-type</u>
Beginning balance	\$ 1,641.5	\$ 778.6
Inventory adjustment	-	133.2
Beginning balance, restated	<u>\$ 1,641.5</u>	<u>\$ 911.8</u>

**NOTE 16 - COMMITMENTS**

**(a) Contract and Purchase Commitments**

As of June 30, 2020, governmental funds had encumbrances of approximately \$44.9 million, while proprietary funds had open purchase commitments of approximately \$116.9 million related to new or existing contracts and agreements. These encumbrances are only commitments for the expenditure of funds and do not represent actual expenditures or liabilities.

A detailed breakdown of encumbrances of the governmental and proprietary funds is shown below (in millions).

<b>Fund</b>	Fund Balances		
	Governmental Assigned	Proprietary Unrestricted	Total
General Fund	\$ 5.7	\$ -	\$ 5.7
Watershed and Streams			
Stewardship Fund	7.4	-	7.4
Safe, Clean Water and Natural			
Flood Protection	31.8	-	31.8
Water Enterprise Fund	-	108.5	108.5
Equipment Fund	-	2.0	2.0
Risk Management Fund	-	0.3	0.3
Information Technology Fund	-	6.1	6.1
Total	<u>\$ 44.9</u>	<u>\$ 116.9</u>	<u>\$ 161.8</u>

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**(b) San Felipe Project Water Deliveries**

Valley Water has contracted with the U.S. Department of the Interior (USDI) for water deliveries from the Central Valley Project. The contract requires the District to operate and maintain Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities of the USDI.

During fiscal year 2017, Valley Water amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are \$7.5 million. The semi-annual payments starting January 2017 is \$7.7 million. The amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was \$431.9 million. The remaining commitment as of June 30, 2020 was \$210.4 million.

**(c) Participation Rights in Storage Facilities**

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

As of June 30, 2020, Valley Water has paid \$49.8 million towards the base fee obligation of this agreement. Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2020 rate to retrieve Tier 1 water is \$73.49 per acre-feet. During the first 10 years, Valley Water had a reservation for the full 35 percent allocation; by January 1, 2006, if Valley Water's contributions towards the program capital costs did not equal \$46.9 million, Valley Water's permanent storage allocation would have been reduced. Valley Water decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

Valley Water currently has a storage allocation of 350,000 acre-feet. As of June 30, 2020, Valley Water has 344,662 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$28.7 million has been recorded through fiscal year 2020. Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

**(d) Partnership Agreement Between Valley Water, the City of Palo Alto, and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County**

On December 10, 2019, the Board approved an agreement between Valley Water and its local partners, the City of Palo Alto and Mountain View, to further develop water supplies and

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infrastructure to meet the County's water supply needs. The three main parts of the agreement include: (1) funding a local salt removal facility, owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers, (2) an effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and (3) a water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

The financial impact to Valley Water includes funding the local salt removal facility in the amount of \$16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay \$0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay \$1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for water charge related revenues. Timing of such payments are still to be determined.

**NOTE 17 - CONTINGENCIES**

**(a) Litigation**

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that Valley Water is aware of which are significant and may have a potentially impact on the financial statements.

**Great Oaks Water Company v. Valley Water**

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that Valley Water's groundwater charges for 2005-06 violated the law and sought a partial refund. After its claim was deemed denied, Great Oaks filed a lawsuit alleging, among other things, that Valley Water's groundwater production charges violated Proposition 218 (which added Article XIID to the California Constitution), because proceeds are used to fund projects and services that benefit the general public, not just ratepayers (*Great Oaks Water Company v. Santa Clara Valley Water District*, Santa Clara County Superior Court Case No. 2005-CV-053142; Cal. Court of Appeals Case Nos. HO35260 and HO35885; Cal. Supreme Court No. S231846 (the "Great Oaks Case"). Great Oaks also alleged that the groundwater production charges violated the Law. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately \$4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately \$1.3 million, and the court awarded post-judgment interest of \$886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgement by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of \$7.4million in its audited financial statements for Fiscal Year 2017.

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In 2015, the Court of Appeal reversed in full the judgment of the trial court. The Court of Appeal found that Valley Water's groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme Court to review the Court of Appeal's ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court's decision in a similar case, *City of Buenaventura v. United Water Conservation District* ("UWCD"). In late 2017, the California Supreme Court issued its opinion in the UWCD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIIIIC of the California Constitution does apply. The Supreme Court vacated the Court of Appeal's decision and remanded the Great Oaks case for reconsideration in light of its UWCD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oaks' request to consider whether Valley Water's groundwater production charges violated Article XIIIIC of the California Constitution, as this cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012-CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641). In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV-195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately \$1.0 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIIIIC of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. See Note (17) Subsequent Events, regarding Valley Water's settlement with Shatto Corporation.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

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**Flooding in the City of San Jose**

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, Valley Water owns and maintains the Leroy Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water receded within a short period of time after February 21, 2017.

As of the date of this Official Statement, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of \$10.0 million; however, Valley Water cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event (one case was dismissed). Valley Water is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. A hearing on the removal motion has been set for September 1, 2020.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water settled 162 of such claims in September 2019 at a total cost of approximately \$0.7 million.

On September 30, 2020, Pacific Gas & Electric Corporation filed a civil action against Valley Water claiming personal property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

On or about June 14, 2018, San Jose Unified School District filed a civil action against Valley Water claiming property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

**(b) Grants and Subventions**

Valley Water has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

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**(c) Central Valley Project**

On June 7, 1977, Valley Water entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to the District up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

In compliance with the Central Valley Improvement Act (CVPIA), the District entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, Valley Water entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

**(d) Perchlorate**

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by Valley Water, both the plume size and number of wells impacted have been reduced. As of June 2019, perchlorate was present above the Maximum Contaminant Level (MCL) in fewer than 10 domestic water supply wells. As of June 2020, perchlorate is present above the MCL in fewer than 5 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation. Since this issue is no longer of legal significance, it will not be reported in next year's Comprehensive Annual Financial Report.

**(e) Rinconada Water Treatment Plant Upgrade**

On May 26, 2015, the Board awarded a \$179.9 million construction contract to Balfour Beatty Infrastructure, Inc. ("Balfour Beatty") for the Rinconada Water Treatment Plant (WTP) Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including flocculation/sedimentation, ozone generation, and washwater recover facilities. Such project also includes the installation of an electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

Valley Water's contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire

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construction period, with the newly constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty's current estimated completion date of Phase 2 work is more than two years later than originally provided in the construction schedule. Valley Water advised Balfour Beatty of Valley Water's concerns regarding quality of construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty's lack of diligence to ensure progress is made in a timely manner. On March 10, 2020, Valley Water and Balfour Beatty entered into an amendment to their original construction contract ("Amendment One") pursuant to which the scope of work was reduced such that Balfour Beatty only responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Amendment One reduced the contract amount by approximately \$39.8 million. Balfour Beatty Infrastructure Inc. has completed the scope of work described in Amendment One. On January 12, 2021, Valley Water accepted the work as complete and will submit the Notice of Completion for recording with the County of Santa Clara Clerk/Recorder. As a result of Valley Water's delay in accepting the completed project, Balfour Beatty filed a California Government Code Claim pursuant to section 900 et. seq. on December 7, 2020 alleging entitlement to monetary compensation for Valley Water's breach of contract and violation of Public Contract Code section 7107 relating to the timely release of contract retention, which is approximately \$7.4 million.

**(f) Factors Affecting Water Supply**

Valley Water has access to several sources of water, both imported and local, which provides flexibility in managing its water supplies to meet the needs of the County. Under normal water conditions, Valley Water imports about half of its water supply under contracts with the California State Water Project (SWP) and the federal CVP, and obtains the other half from local surface water and groundwater resources. Certain water retailers in the County may also import water from the San Francisco Public Utility Commission's (SFPUC) Regional Water System, have their own local surface water supplies, and/or can deliver recycled water. To address factors which may impact these water supplies, Valley Water has undertaken several planning efforts focused on identifying strategies to safeguard the reliability and sustainability of County and State-side water resources on which Valley Water relies, assessing risks from climate change, economic and regulatory uncertainties, environmental and social conflicts, and other considerations.

Valley Water completed its 2015 Urban Water Management Plan ("UWMP") on June 20, 2016 (District Resolution No. 16-50), pursuant to California Water Code Sections 10610 through 10657 (the Urban Water Management Planning Act). The Urban Water Management Planning Act requires urban water suppliers such as Valley Water to review, update and adopt an UWMP at least every five years. Valley Water's current UWMP was prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities and towns. Valley Water's 2015 UWMP updated water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presented water supply projections and included Valley Water's Water Shortage Contingency Plan to address dry year objectives and operations. Completion of UWMP updates allows Valley Water to remain eligible for state water bank assistance and for state grant funding. The next UWMP update cycle is scheduled for development and completion by July 2021.

A key finding of the 2015 UWMP was that Valley Water must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. These investments were described in Valley Water's Water Supply Master Plan 2040 approved by the Board in November 2019 (the "Water Supply Master Plan").

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The Water Supply Master Plan recommends a three-prong strategy to ensure a reliable water supply through 2040: secure existing supplies and infrastructure, increase water conservation and water reuse, and optimize the use of existing supplies and infrastructure. The process of developing the Water Supply Master Plan involved evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary 100-year lifecycle cost projections for the water supply projects and programs considered in the Water Supply Master Plan ranges from less than \$100 million to over \$1 billion and are over \$2.3 billion in the aggregate. The impact of the implementation of the various groups of water supply projects and programs on Valley Water's water supply reliability are provided in the Water Supply Master Plan. Through a Monitoring and Assessment Program ("MAP"), Valley Water expects to continue implementation planning for the Water Supply Master Plan projects. The MAP report summarizes changes in demand forecasts, project descriptions, and water supply reliability analyses and is present to the Board annually.

The Board approved an updated long-term water supply reliability level of service goal on January 14, 2019. The goal is to develop supplies to meet at least 100 percent of annual water demand identified in the Water Supply Master Plan during non-drought years and at least 80 percent of annual water demand in drought years. The projects identified in the Water Supply Master Plan, along with the baseline supplies and infrastructure, is projected meet the water supply reliability level of service goals, even though there are small supply shortages in demand year 2030. The Water Supply Master Plan provides that such small shortages, if they materialize, will be managed by short-term water purchases rather than additional capital projects. The objectives and projects in the Water Supply Master Plan are incorporated into the Capital Improvement Program.

### **Endangered Species Act Issues**

Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the State and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Delta Plan, and the proposed Delta Conveyance Project to develop a long-term solution for conflicts in the Bay-Delta. However, there has been significant recent litigation concerning ESA and CESA issues and water moving through the Delta for export to contractors.

Various legal actions have been filed, and are anticipated to be filed, involving the conveyance of water through the Delta by DWR, via the SWP, and by USBR, via the CVP.

**2019 Revised Federal Biological Opinions Litigation.** Three significant lawsuits have been filed against the United States challenging as unlawful, revised biological opinions ("BOs") issued in October 2019 by the National Marine Fisheries Service ("NMFS") and the United States Fish and Wildlife Service ("FWS"). The State (through its natural resources agencies) filed one of these lawsuits in February 2020 (*California Natural Resources Agency, et al. v. Ross*). Another lawsuit

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was filed by environmental groups in December 2019 (*Pacific Coast Federation of Fishermen's Association, et al. v. Ross*), and a third lawsuit was filed by other environmental groups, the Central Delta Water Agency and the South Delta Water Agency in May 2020, (*AquaAlliance et al. v. United States Bureau of Reclamation*). These cases have been consolidated before Judge Drodz in the United States District Court for the Eastern District of California, Case Nos. 20-cv-00431, 20-cv-00426, and 20-cv-00878.

The foregoing three lawsuits allege violation of the Administrative Procedure Act ("APA"), the ESA and the National Environmental Policy Act ("NEPA"). Such cases arise from the BOs and associated permits issued by the FWS and NMFS under the ESA for the long-term, coordinated operations of the CVP and the SWP, and USBR's reliance upon those opinions and permits. For the last decade, the SWP and CVP operations have been controlled by a pair of BOs issued in 2008 and 2009 by FWS and NMFS, respectively, and their reasonable and prudent alternatives ("RPAs"). On August 2, 2016, the USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. DWR and USBR worked to refine operations of the SWP and CVP to reflect water quality regulations, existing ESA restrictions, updated hydrology, developing scientific data, and enhanced real-time monitoring capacity. In January of 2019, USBR issued a Biological Assessment that proposed a new long-term operating plan that would control through 2030. On July 1, 2019, NMFS released a draft BO that found the proposed plan would cause jeopardy and included an RPA. DWR and USBR continued to work with the FWS and NMFS to refine the proposed operations to prevent jeopardy. On October 21, 2019, NMFS and FWS issued new BOs that concluded that the long-term operations plan would not cause jeopardy. On February 19, 2020, USBR completed its NEPA review of the long-term operating plan and issued a Record of Decision adopting the October 2019 BOs.

In these cases, the State and environmental groups allege that NMFS and FWS violated the APA in reaching no jeopardy conclusions in the October 2019 BOs. The State and such environmental groups also allege that USBR violated the ESA by relying on the BOs and that USBR failed to comply with NEPA in issuing its Record of Decision.

Many water agencies, districts, authorities and other government entities have either intervened in these cases or have filed motions to intervene that remain pending. These include, for example, the State Water Contractors association ("SWC"), San Luis & Delta-Mendota Water Authority, Westlands Water District, Tehama-Colusa Canal Authority, Sacramento River Settlement Contractors.

In two cases, the State and environmental groups brought motions for a preliminary injunction seeking to prevent USBR from implementing the new long-term operations plan and asking the court to require the federal defendants to abide by the 2008 and 2009 BOs pending a determination on the merits of their claims. The Court granted the preliminary injunction for one aspect of the operations plan for a limited amount of time in May 2020 and denied the preliminary injunction for all other aspects.

Depending on the outcome of the litigation, SWP and CVP water supplies may be slightly higher or remain similar to levels from 2009 through 2019 under the 2009 biological opinion.

**California Incidental Take Permit and SWP Long-Term Operations EIR Litigation.** To Valley Water's knowledge, between five to seven lawsuits have been filed against the State in three or four different Superior Courts by State and federal water contractors and by environmental groups concerning the DWR's March 2020 Final Environmental Impact Report ("EIR") and the California

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Department of Fish and Wildlife's ("CDFW") Incidental Take Permit ("ITP") for the long-term operation of the SWP. Under CESA, DWR is required to obtain an ITP to minimize, avoid and mitigate impacts to threatened or endangered species, including the Delta Smelt and other fish species, as a result of SWP operations. In past years, DWR obtained coverage for SWP operations under CESA by securing a "consistency determination" from CDFW based on BOs issued by the NMFS and FWS. In 2018, as federal agencies were working to update their BOs, President Trump issued a Presidential Memorandum to accelerate their completion. In February 2019, DWR and CDFW announced that they would pursue a separate State permit to ensure the SWP's compliance with the CESA.

In November 2019, DWR issued its draft EIR for long-term operations of the SWP. The draft EIR found that the project would have no significant environmental impacts. However, the draft EIR also discussed several project alternatives, including "Alternative 2[b]-Proposed Project with Dedicated Water for Delta Outflow from SWP." In December 2019, DWR applied to CDFW for an ITP under the CESA. Despite the draft EIR finding of no significant impact, in its ITP application, DWR described the project in terms closer to Alternative 2b than what it had originally proposed. On March 27, 2020, DWR certified its final EIR, which adopted "Refined Alternative 2b" as the approved project. However, "Refined Alternative 2b" includes several project components that were neither described in the original project description nor in Alternative 2b. In announcing its final EIR, DWR also announced that it does not expect long-term SWP operations to result in an increase in the amount of water exported south of the Delta as compared to that under the prior 2008/2009 federal BOs. On March 31, 2020, CDFW issued an ITP consistent with the final EIR. The ITP and Final EIR will significantly limit exports in wetter years as compared to what is allowed under the 2019 revised federal BOs, with potential reductions of up to 400,000 acre-feet in April and May. The EIR and ITP apply only to SWP operations, not CVP operations.

In April 2020, Metropolitan Water District and Mojave Water Agency jointly filed suit against the State in Fresno Superior Court, as did the San Luis & Delta Mendota Water Authority, Friant Water Authority, and the Tehama Colusa Canal Authority. SWC and Kern County Water Agency jointly filed another lawsuit. These lawsuits allege, among other things, that the State violated CEQA or CESA by: (a) changing the project description after the draft EIR and certifying new "Refined Alternative 2b" without adequate disclosure or public comment; and (b) failing to use the best available science and requiring unnecessary and unjustified fish avoidance and mitigation measures. Metropolitan Water District and Mojave Water Agency also allege in their lawsuit that the State breached its SWP contract by agreeing to mitigation measures stronger than necessary under the CESA, reducing the amount of water that will be delivered and increasing charges. In contrast, the Sierra Club, Center for Biological Diversity and two other environmental groups jointly filed suit against the State in San Francisco Superior Court, alleging that the final EIR and ITP violate the Delta Reform Act and CEQA and do not go far enough in protecting threatened fish species. The Sierra Club, Center for Biological Diversity and the environmental groups allege that the final EIR And ITP allow too much water to be exported south of the Delta and fail to account for the cumulative impacts of SWP operations. Finally, they allege DWR violated CEQA by failing to analyze the Delta Conveyance Facility, the single tunnel project proposed by Governor Newsom. The foregoing lawsuits could be coordinated and consolidated.

The final EIR and ITP could result in less SWP water being exported south of the Delta than would otherwise be authorized under the 2019 revised federal BOs. Valley Water cannot determine at this time whether the final EIR and ITP will result in less SWP water being delivered to contractors than had been delivered for 11 years under the former (2008 and 2009) federal BOs.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2020

**Bay-Delta and Imported Water Litigation**

***Delta Stewardship Council Delta Plan Litigation.*** In 2013, the federal government, SWP contractors, including Valley Water, and several environmental groups, filed suit against the Delta Stewardship Council (“DSC”), challenging its Bay-Delta Plan. The Delta Reform Act of 2009 (“DRA”) established the co-equal goals of restoring the Bay-Delta ecosystem and increasing the reliability of Delta water supplies. The DRA also created the DSC, which was charged with developing a plan that accomplishes these goals. SWC and Valley Water allege that the Bay-Delta Plan violates the DRA because, among other things, its Regulation WR P1 provides that the DSC may reject any projects involving water moving through the Bay-Delta if local agencies do not demonstrate efforts to reduce local water demand, improve efficiency and/or increase local water supplies. Environmental groups sued the DSC alleging that the Bay-Delta Plan violates the DRA because it does not set forth enforceable, quantified minimum water flows or other measurable objectives. The trial court held that the Bay-Delta Plan violated the DRA because it did not set forth quantified water flow objectives or other measurable limits.

In 2020, the Court of Appeal issued an opinion rejecting the arguments of both the SWP contractors and environmental groups, holding that the Bay-Delta Plan does not violate the DRA. The Court of Appeals rejected the SWP contractors’ arguments that the Bay-Delta Plan exceeded the DSC’s jurisdiction by regulating local water agencies and local water use by requiring agencies to demonstrate reduced reliance on the Delta, as well as their other arguments. The Court of Appeals also rejected the argument that the Bay-Delta Plan violates the DRA because it does not contain quantified or measurable water flow limits or targets. The Court of Appeals’ decision could impact SWP contractors’ ability to participate in multi-year water transfers if a SWP contractor, such as Valley Water, is unable to demonstrate reduced reliance on imported Delta water to the satisfaction of the DSC, which may require proof of local retail water agencies or purveyors showing reduced reliance on imported water. However, single-year water transfers are not impacted, as the DRA expressly exempts such transfers.

***Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation.*** In late 2018, the SWRCB released its “Phase 1” amendments to the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Water Quality Control Plan (“Bay Delta WQCP”), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta. Phase 2 amendments will focus on the Sacramento River, its tributaries and the northern and central Delta. Among other things, the Phase 1 amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. The SWRCB announced that it anticipates in forthcoming Phase 2 amendments concerning the Sacramento River and its tributaries and north and central Delta, that it expects to impose a higher, adaptive 45% – 65% unimpaired flow requirement.

Approximately 24 entities, including Valley Water, filed suit against the SWRCB in 13 lawsuits concerning the Phase 1 Bay-Delta WQCP amendments. Such lawsuits have been consolidated in Sacramento Superior Court in Case No. JCCP 5013. Several water and irrigation districts, environmental groups, the cities of San Francisco and Modesto, the United States, and one Indian tribe are plaintiffs/petitioners. The public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights; and the environmental groups allege they are not protective of fish enough. This consolidated litigation is in an early stage. Valley Water’s expects to file a dismissal in this matter and to address the issues raised in the lawsuit through a voluntary agreement process. The Phase

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1 amendments as well as the anticipated Phase 2 amendments could reduce the supply of imported water available to Valley Water, SFPUC, and other State and federal water contractors.

***Litigation Relating to Monterey Amendments to SWP Contract.*** In late 1994, SWP contractors and DWR entered into an agreement in Monterey to substantially amend the standard SWP contract. In 1995 the first of several CEQA lawsuits challenging the “Monterey Amendments” was filed after a SWP contractor prepared an EIR for these amendments. That case settled after DWR agreed to prepare a new EIR for the Monterey Amendments, which was named the “Monterey Plus” project. In 2010, DWR certified its final Monterey Plus EIR. Central Delta Water Agency and several NGOs filed suit against DWR thereafter (Sacr. Sup. Ct. Case No. 34-2010-80000561) (“*Central Delta I*”), alleging that the Monterey Plus EIR violated CEQA because it failed to provide an adequate description of the project and its impacts, failed to adequately analyze alternatives and mitigation measures, contained inadequate responses to public comments, and was not properly circulated. The plaintiffs also alleged that DWR’s CEQA findings were not supported by substantial evidence. A related lawsuit was filed, *Rosedale-Rio Bravo Water Storage District v. DWR* (Sacr. Sup. Ct. Case No. 34-2010-80000703), alleging only that the Monterey Plus EIR failed to adequately analyze the operations of the proposed Kern Water Bank. Finally, the Central Delta Water Agency filed a second, separate lawsuit challenging the validity of the transfer of the Kern Water Bank from the Kern County Water Agency to the Kern Water Bank Authority (Sacr. Sup. Ct. Case No. 34-2010-80000719, “*Central Delta II*”). These three actions were ordered related and assigned to a Sacramento Superior Court Judge. *Central Delta II* has been stayed pending resolution of *Central Delta I*.

In a decision in 2014 in *Central Delta I* and *Rosedale-Rio Bravo*, the court upheld the majority of the Monterey Plus EIR. However, the court found that the Monterey Plus EIR did not sufficiently analyze or address the operation of the Kern Water Bank and issued a writ for DWR to further analyze its operations and recertify the Monterey Plus EIR. The *Central Delta I* plaintiffs appealed the rejection the CEQA claims (Ct. of App. 3d. Dist. Case No. C078249). The parties completed appellate court briefing in July of 2016. This case remains pending, as the Court of Appeal has not yet issued a decision.

As ordered by the trial court, DWR conducted further environmental review of the Kern Water Bank, and, in 2016, issued its revised EIR: “Monterey Plus — Kern Water Bank Development and Continued Use Operation.” The Center for Food Safety and other NGOs (represented by *Central Delta I & II*’s counsel) filed suit shortly thereafter, alleging various CEQA violations (*Center for Food Safety v. DWR*, Sacr. Sup. Ct. Case No. 34-2016-800002469). The court denied all of plaintiffs’ claims in an order and judgment in October 2017, and plaintiffs appealed. The parties completed appellate court briefing approximately 20 months ago, and this action is also pending in the Court of Appeal (Ct. of App. 3d Dist. Case No. C086215).

***DWR SWP Contract Long-Term Extension Validation Action.*** DWR filed a validation action in Sacramento County Superior Court in 2018 (Sacr. Sup. Ct No. 34-2018-00246183) to validate the legality of its approval of long-term extensions of all SWP contracts, including Valley Water’s contract. A judgment in favor of DWR would provide that the matters contained therein are in conformity with applicable law, as set forth in such validation action. However, there can be no assurance that a court exercising equitable powers or judicial discretion would not hear an action challenging the matters set forth in such judgment. In February 2019, Valley Water filed an answer supporting DWR’s allegations, as did several other SWP contractors. However, several environmental groups and counties and districts filed answers or separate actions opposing DWR’s approval, asserting that the approval violates CEQA, the Public Trust Doctrine and the DRA. This

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For the Year Ended June 30, 2020

case is in its initial procedural stage. All cases have been consolidated and assigned to Judge Culhane, and the administrative record is being prepared.

**Oroville Spillway Environmental Damage Cases.** In response to record rainfall in early 2017, DWR's Oroville Dam filled and excess water ran down its spillway (as designed). The spillway, however, failed and caused water and debris to be released, uncontrolled, into the Feather River. The District Attorney of Butte County (People of State of CA v. DWR) and other individuals and entities have filed suit for environmental damage or property damage resulting from the spillway failure. These cases have been consolidated in Sacramento Superior Court Case No. JCCP 4974. The Butte County District Attorney is seeking \$51.0 billion in damages (\$25k/day penalty + \$10/pound of spillway and materials discharged into river) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that contractors are not liable for DWR's operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public, and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts). If a judgment in this case resulted in the award in the amount of the maximum damages being sought by Butte County and it was determined that DWR could recover these costs from SWP contractors, Valley Water's share could be approximately \$1.3 billion. Valley Water cannot predict the outcome of this litigation or the damages in the event that Butte County prevails.

DWR's cost estimate for the Oroville Spillways Emergency Recovery Project is currently \$1.1 billion, but no determination has been made as to the amount for which SWP contractors will ultimately be responsible. The Federal Emergency Management Agency's ("FEMA") Public Assistance program allows for the reimbursement of up to 75 percent of eligible costs for federally declared disasters. As a result, DWR has issued debt for 25 percent of total project costs, resulting in an annual increase of about \$0.6 million to Valley Water's Statement of Charges. To date, FEMA has reimbursed DWR for approximately 50 percent of total project costs and DWR is considering appeal of this decision. If DWR is not successful in obtaining further reimbursement from FEMA and instead issues debt to be repaid by SWP contractors, Valley Water's share of project costs could increase by an additional \$0.6 million per year.

Valley Water cannot predict the outcome of these Delta-related cases. However, Valley Water believes that any new decision or order by a State or federal court related to one or more of the above-described biological opinions and leading to adverse decisions reducing State Water Project and/or Central Valley Project supplies would not have a material impact on Valley Water's ability to pay debt service on the 2020 Bonds or the Installment Payments.

#### **NOTE 18 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 13, 2021.

On or about October 7, the District and Shatto Corporation entered into a settlement agreement by which both parties dismissed with prejudice all actions each had against the other. Shatto will pay Valley Water \$1.1 million.

On October 14, 2020, Valley Water closed on a debt issuance to finance capital improvement costs for the water utility system. The financing was authorized by Valley Water's Board of Directors at its September 8, 2020, regular meeting. Total debt proceeds of \$216.0 million plus \$20.0 million of original issue premium were used to repay \$99.3 million of commercial paper that was issued as

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interim financing for previously-incurred costs (Water System Refunding Revenue Bonds, Series 2020A/B) and generate \$135.0 million of new money proceeds to fund eligible capital costs over the next one to two years (Revenue Certificates of Participation, Water Utility System Improvement Projects, Series 2020AC/D). Valley Water received 'AA+' and 'Aa1' credit ratings on the debt from Fitch and Moody's respectively. The debt obligations will be repaid over 30 years at fixed rates. Valley Water achieved very favorable pricing with an aggregate, all-in true interest cost of 2.69% and achieved budgetary debt service savings of approximately \$5.0 million for the new fiscal year.

On October 15, 2020, Valley Water submitted a letter of interest (LOI) for the Pacheco Reservoir Expansion Project to the U.S. Environmental Protection Agency (EPA) for a loan under its Water Infrastructure Finance and Innovation Act (WIFIA) loan program. The LOI described the project and its community benefits in detail and provided information on the creditworthiness of Valley Water as a borrower. The EPA will announce in 3 months which projects across the national are invited to apply for a WIFIA loan. The federal WIFIA loan program, previously identified by Valley Water as a preferential, low-cost option for borrowing funds to finance the development, design, and construction of the project, can fund up to 49% of eligible capital costs. In its notice of funding availability, the EPA estimated that its budget authority for its fiscal year ending September 30, 2021 may provide for approximately \$5.0 billion in loans to selected projects, with additional funding possibility available from prior year carryover resources.

On October 30, 2020, Valley Water executed and delivered a Certificate Purchase and Reimbursement Agreement (the "Reimbursement Agreement") dated October 1, 2020 by and among Valley Water, the Corporation, U.S. Bank National Association as administrative agent and sole lead arranger of the other three lenders that are parties thereto (each as lender and together, the "Lenders"). Under the Reimbursement Agreement, Valley Water may issue up to \$170.0 million of Santa Clara Valley Water District Revolving Certificates, Series C (Tax-Exempt) and Series D (Taxable) (the "Revolving Certificates") to be purchased by the Lenders. The TRANS secures the Revolving Certificates on a parity with the Commercial Paper Certificates. The Reimbursement Agreement currently expires on October 27, 2023. As of the publication date of the CAFR, Valley Water has not issued any Revolving Certificates pursuant to the Reimbursement Agreement. The Reimbursement Agreement has a three-year term through October 27, 2023, with renewal options pursuant to Board Resolution 20-11 adopted by the Valley Water Board on April 28, 2020.

On November 3, 2020, the Measure S parcel tax met the two-thirds supermajority vote required for approval with a voter passing result of 75.64%. The measure to renew the Safe, Clean Water and Natural Flood Protection Program which ensures public health and safety by protecting drinking water supply, reducing toxins and contaminants, and providing flood protection, renews Valley Water's existing parcel tax, without increasing rates, and averages \$.006 per square foot annually. Passage of this measure is estimated to generate an estimated \$45.5 million per year for Valley Water.

On December 7, 2020, Balfour Beatty filed a California Government Code Claim pursuant to section 900 et. Seq. alleging entitlement to monetary compensation for Valley Water's breach of contract and violation of Public Contract Code section 7107 relating to timely release of contract retention on the Rinconada Water Treatment Plant Upgrade, which is approximately \$7.4 million. On January 12, 2021, the District has accepted the work as complete.

**Required  
Supplementary  
Information**

**VALLEY WATER**

Schedule of Changes In Net Pension Liability and Related Ratios  
June 30, 2020  
Last 10 Years\*  
(Dollars in Millions)

	2015	2016	2017	2018	2019	2020
<b>Total pension liability</b>						
Service cost	\$ 14.3	\$ 13.7	\$ 13.8	\$ 15.7	\$ 16.0	\$ 16.5
Interest on total pension liability	46.3	48.8	51.1	53.1	54.9	58.4
Differences between expected and actual experience	-	(0.2)	(3.2)	(4.7)	(1.4)	13.3
Changes in assumptions	-	(12.0)	-	44.3	(8.1)	-
Benefit payments, including refunds of employee contributions	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Net change in pension liability	35.6	22.5	31.3	75.9	26.1	49.8
Total pension liability, beginning	622.2	657.8	680.3	711.6	787.5	813.6
Total pension liability, ending (a)	<b>\$ 657.8</b>	<b>\$ 680.3</b>	<b>\$ 711.6</b>	<b>\$ 787.5</b>	<b>\$ 813.6</b>	<b>\$ 863.4</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 13.8	\$ 15.2	\$ 17.0	\$ 19.0	\$ 20.1	\$ 26.6
Contributions - employee	9.0	6.2	6.6	6.6	7.0	7.6
Net investment income	75.7	11.5	2.8	56.5	47.2	39.3
Benefits payment	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Administrative expenses	-	(0.6)	(0.3)	(0.7)	(0.9)	(0.4)
Other miscellaneous income / (expenses)	-	-	-	-	(1.6)	-
Net change in fiduciary net position	73.5	4.5	(4.3)	48.9	36.5	34.7
Plan fiduciary net position, beginning	434.7	508.2	512.7	508.4	557.3	593.8
Plan fiduciary net position, ending (b)	<b>\$ 508.2</b>	<b>\$ 512.7</b>	<b>\$ 508.4</b>	<b>\$ 557.3</b>	<b>\$ 593.8</b>	<b>\$ 628.5</b>
Net pension liability, ending (a - b)	<b>\$ 149.6</b>	<b>\$ 167.6</b>	<b>\$ 203.2</b>	<b>\$ 230.2</b>	<b>\$ 219.8</b>	<b>\$ 234.9</b>
Plan fiduciary net position as a percentage of total pension liability	77.26%	75.36%	71.44%	70.77%	72.98%	72.79%
Covered payroll	\$ 77.9	\$ 78.0	\$ 79.6	\$ 84.1	\$ 88.5	\$ 92.1
Net pension liability as a percentage of covered payroll	192.04%	214.87%	255.28%	273.72%	248.36%	255.05%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%	7.15%

\*Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.

**VALLEY WATER**

Schedule of Employer Pension Contributions  
 June 30, 2020  
 Last 10 Years\*  
 (Dollars in Millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 13.9	\$ 16.5	\$ 18.6	\$ 19.7	\$ 22.6	\$ 25.4
Contributions in relation to the actuarially determined contribution	(13.9)	(16.5)	(18.6)	(19.7)	(26.1)	(29.4)
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3.5)</u>	<u>\$ (4.0)</u>
 Covered payroll <sup>(1)</sup>	 \$ 78.0	 \$ 79.6	 \$ 84.1	 \$ 88.5	 \$ 92.1	 \$ 95.0
Contribution as a percentage of covered payroll	17.82%	20.73%	22.12%	22.26%	24.54%	26.74%

<sup>(1)</sup>The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

*\*Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.*

**VALLEY WATER**  
 Schedule of Changes In Net OPEB Liability and Related Ratios  
 June 30, 2020  
 Last 10 Years\*  
 (Dollars in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>Total OPEB liability</b>			
Service cost	\$ 2.9	\$ 2.9	\$ 2.6
Interest on total OPEB liability	12.0	12.5	12.9
Effect of change in actuarial assumptions/methods	-	-	(5.5)
Benefits payment	(8.5)	(8.9)	(10.1)
Other liability experience loss / (gain)	-	-	(8.0)
Net change in OPEB liability	<u>6.4</u>	<u>6.5</u>	<u>(8.1)</u>
Total OPEB liability, beginning	<u>167.8</u>	<u>174.3</u>	<u>180.8</u>
Total OPEB liability, ending (a)	<u><u>\$ 174.2</u></u>	<u><u>\$ 180.8</u></u>	<u><u>\$ 172.7</u></u>

<b>Plan fiduciary net position</b>			
Contributions	\$ 11.5	\$ 11.9	\$ 10.1
Benefits payment	(8.5)	(8.9)	(10.1)
Expected investment income	6.2	7.1	7.8
Investment experience (loss) / gain - differences between expected and actual experience	<u>2.9</u>	<u>0.8</u>	<u>(1.2)</u>
Net change in fiduciary net position	<u>12.1</u>	<u>10.9</u>	<u>6.6</u>
Plan fiduciary net position, beginning	<u>84.5</u>	<u>96.6</u>	<u>107.5</u>
Plan fiduciary net position, ending (b)	<u><u>\$ 96.6</u></u>	<u><u>\$ 107.5</u></u>	<u><u>\$ 114.1</u></u>
Net OPEB liability, ending (a - b)	<u><u>\$ 77.6</u></u>	<u><u>\$ 73.3</u></u>	<u><u>\$ 58.6</u></u>

Plan fiduciary net position as a percentage of total OPEB liability	55.45%	59.46%	66.07%
Covered payroll	\$ 79.7	\$ 84.1	\$ 88.5
Net OPEB liability as a percentage of covered payroll	97.37%	87.16%	66.21%
Discount rate	7.28%	7.28%	7.28%

*\* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

**VALLEY WATER**  
 Schedule of Employer Other Post Employment Benefit Contributions  
 June 30, 2020  
 Last 10 Years\*  
 (Dollars in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 9.5	\$ 10.2	\$ 10.8
Contributions in relation to the actuarially determined contribution	(12.5)	(10.2)	(10.8)
Contribution Deficiency / (Excess)	<u>\$ (3.0)</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll <sup>(1)</sup>	 \$ 84.1	 \$ 88.5	 \$ 91.0
Contribution as a percentage of covered payroll	14.86%	11.53%	11.87%

<sup>(1)</sup> The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

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*\* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.*

**VALLEY WATER**  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual  
 Budgeted Governmental Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	General Fund				Variance with Final Budget
	Original Budget	Final Budget	Budgetary Basis Actual	Positive (Negative)	
<b>Revenues:</b>					
Property taxes	\$ 8.4	\$ 8.4	\$ 9.2	\$ 0.8	
Use of money and property:					
Investment income	0.2	0.2	0.5	0.3	
Rental	-	-	-	-	
Reimbursement of capital costs	-	-	-	-	
Other	-	-	0.1	0.1	
Total revenues	<u>8.6</u>	<u>8.6</u>	<u>9.8</u>	<u>1.2</u>	
<b>Expenditures:</b>					
<b>Operating budget:</b>					
Operations and operating projects	58.6	58.8	58.6	0.2	
Debt service:					
Principal repayment	0.5	0.5	0.5	-	
Interest and fiscal charges	-	-	-	-	
Total operating budget	<u>59.1</u>	<u>59.3</u>	<u>59.1</u>	<u>0.2</u>	
<b>Capital budget:</b>					
Capital improvement projects	2.2	2.2	1.5	0.7	
Total expenditures	<u>61.3</u>	<u>61.5</u>	<u>60.6</u>	<u>0.9</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(52.7)</u>	<u>(52.9)</u>	<u>(50.8)</u>	<u>2.1</u>	
<b>Other financing sources (uses):</b>					
Intra-district overhead reimbursement	54.1	54.1	52.2	(1.9)	
Transfers in	0.9	0.9	0.4	(0.5)	
Transfers out	(0.7)	(0.7)	(0.7)	-	
Total other financing sources	<u>54.3</u>	<u>54.3</u>	<u>51.9</u>	<u>(2.4)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	<u>\$ 1.6</u>	<u>\$ 1.4</u>	<u>1.1</u>	<u>\$ (0.3)</u>	
<b>Reconciliation of GAAP and budgetary basis:</b>					
Expenditures of prior year encumbrances recognized on the GAAP basis:					
Operations and operating projects	(1.8)				
Capital improvement projects	(2.0)				
Current year encumbrances recognized on the budgetary basis:					
Operations and operating projects	2.4				
Capital improvement projects	0.4				
Fund Balances, beginning of year			<u>14.1</u>		
Fund Balances, end of year			<u>\$ 14.2</u>		

See accompanying notes to required supplementary information

Watershed & Stream Stewardship						Safe, Clean Water & Natural Flood Protection					
Original Budget	Final Budget	Budgetary Basis		Final Budget		Original Budget	Final Budget	Budgetary Basis		Final Budget	
		Actual	(Negative)	Positive	(Negative)			Actual	(Negative)	Positive	(Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
86.1	86.1	93.1		7.0		45.5	45.5	46.1		0.6	
2.0	2.0	5.2		3.2		2.4	2.4	5.8		3.4	
1.4	1.4	1.7		0.3		-	-	0.4		0.4	
7.3	7.3	15.2		7.9		13.5	13.5	14.3		0.8	
0.2	0.2	1.6		1.4		-	-	-		-	
<u>97.0</u>	<u>97.0</u>	<u>116.8</u>		<u>19.8</u>		<u>61.4</u>	<u>61.4</u>	<u>66.6</u>		<u>5.2</u>	
58.4	57.1	51.7		5.4		17.3	22.4	20.5		1.9	
-	-	-		-		0.8	0.8	-		0.8	
-	-	-		-		2.3	2.3	0.7		1.6	
<u>58.4</u>	<u>57.1</u>	<u>51.7</u>		<u>5.4</u>		<u>20.4</u>	<u>25.5</u>	<u>21.2</u>		<u>4.3</u>	
28.4	65.7	19.0		46.7		34.0	133.1	70.9		62.2	
<u>86.8</u>	<u>122.8</u>	<u>70.7</u>		<u>52.1</u>		<u>54.4</u>	<u>158.6</u>	<u>92.1</u>		<u>66.5</u>	
10.2	(25.8)	46.1		71.9		7.0	(97.2)	(25.5)		71.7	
-	-	-		-		-	-	-		-	
2.3	2.4	4.1		1.7		18.6	21.2	20.9		(0.3)	
(21.5)	(24.1)	(22.8)		1.3		-	-	-		-	
<u>(19.2)</u>	<u>(21.7)</u>	<u>(18.7)</u>		<u>3.0</u>		<u>18.6</u>	<u>21.2</u>	<u>20.9</u>		<u>(0.3)</u>	
<u>\$ (9.0)</u>	<u>\$ (47.5)</u>	<u>27.4</u>		<u>\$ 74.9</u>		<u>\$ 25.6</u>	<u>\$ (76.0)</u>	<u>(4.6)</u>		<u>\$ 71.4</u>	
		(1.6)		(9.2)						(3.2)	
		2.0								0.8	
		0.1								10.7	
		<u>153.3</u>								<u>168.5</u>	
		<u>\$ 172.0</u>								<u>\$ 158.5</u>	

**VALLEY WATER**  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2020

Valley Water annually adopts a budget in June to be effective July 1 for the ensuing fiscal year. Annual appropriated budgets are adopted for the general fund, special revenue funds, and for all proprietary funds. The COP construction and COP debt service funds are not budgeted.

Legal budgetary (expenditure) control is established at the fund level, further controlled within the fund at the category level. The categories are defined as the operating budget (operations and maintenance, debt service, and operating projects) and the capital budget (capital improvement projects) in the budget and actual budgetary basis schedules. The amounts stated therein as proposed expenditures become appropriations to the various organization units. The Board may amend the budget by motion during the fiscal year. The Chief Executive Officer is authorized to transfer appropriations within budget categories by fund. All unencumbered appropriations for operations and maintenance, operating projects and debt service lapse at fiscal year-end. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated. Unexpended appropriations for capital projects are carried forward until project completion or termination.

The budget process is based upon accounting for certain transactions on a basis other than the Generally Accepted Accounting Principles (GAAP) basis. The results of operations are presented in the budget and actual schedules in accordance with the budgetary basis to provide a meaningful comparison with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

- Certain accruals (primarily accrued vacation and sick leave pay) are excluded from the budgetary basis because such amounts are budgeted on a cash basis.
- Year-end encumbrances are recognized as expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until incurred.
- Certain budgeted debt service expenditures in special revenue funds are recorded as operating transfers out on a GAAP basis.
- Intra-district overhead reimbursement on a budgetary basis is reflected as a reimbursement of expenditures on a GAAP basis.

Reported budget amounts reflect the annual budget as originally adopted and as subsequently amended by the Board of Directors. The budget amounts are based on estimates of Valley Water's expenditures/expenses and the proposed means of financing them. The final budget of capital improvement projects includes budget adjustments related to capital projects' period year balance forward. Actual expenditures for capital items, as in the case of special revenue funds, may vary significantly from budget due to the timing of such expenditures.

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**Supplemental  
Information**

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**Schedule of Revenues, Expenditures and Change in Fund Balances – Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Funds**

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**Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual Selected Watershed Activities Contained Within the Watershed and Stream Stewardship Fund**

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**VALLEY WATER**  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balances  
 Selected Watershed Activities  
 Within the Watershed and Stream Stewardship Fund  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Lower Peninsula Watershed	West Valley Watershed
<b>Revenues:</b>		
Benefit assessments	\$ 2.7	\$ 2.3
Total revenues	<u>2.7</u>	<u>2.3</u>
<b>Expenditures:</b>		
<b>Debt service:</b>		
Principal repayments	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2.7</u>	<u>2.3</u>
<b>Other financing source (uses):</b>		
Transfers out	<u>(2.7)</u>	<u>(2.3)</u>
Total other financing sources (uses)	<u>(2.7)</u>	<u>(2.3)</u>
Net change in fund balances	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>

Guadalupe Watershed	Coyote Watershed	Total
\$ 4.5	\$ 3.9	\$ 13.4
4.5	3.9	13.4
-	-	-
-	-	-
-	-	-
4.5	3.9	13.4
(4.5)	(3.9)	(13.4)
(4.5)	(3.9)	(13.4)
-	-	-
-	-	-
\$ -	\$ -	\$ -

**VALLEY WATER**  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual  
 Selected Watershed Activities  
 Within the Watershed and Stream Stewardship Fund  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Lower Peninsula Watershed					Variance with Original Budget
	Original Budget	Final Budget	Budgetary Basis Actual	Final Budget Positive (Negative)	Original Budget	
<b>Revenues:</b>						
Benefit assessments	\$ 2.7	\$ 2.7	\$ 2.7	\$ -	\$ 2.3	
Total revenues	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>-</u>	<u>2.3</u>	
<b>Expenditures:</b>						
Debt service:						
Principal repayment	1.3	1.3	1.8	(0.5)	1.4	
Interest and fiscal charges	1.0	1.0	0.5	0.5	0.5	
Total expenditures	<u>2.3</u>	<u>2.3</u>	<u>2.3</u>	<u>-</u>	<u>1.9</u>	
Excess (deficiency) of revenues over (under) expenditures	0.4	0.4	0.4	-	0.4	
<b>Other financing sources (uses):</b>						
Transfers out	(0.4)	(0.4)	(0.4)	-	(0.4)	
Total other financing sources (uses)	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>-</u>	<u>(0.4)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financial uses	\$ -	\$ -	\$ -	\$ -	\$ -	

West Valley Watershed			Guadalupe Watershed			
Final Budget	Budgetary Basis Actual	Variance with Final Budget	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget
		Positive (Negative)				Positive (Negative)
\$ 2.3	\$ 2.3	\$ -	\$ 4.5	\$ 4.5	\$ 4.5	\$ -
<u>2.3</u>	<u>2.3</u>	<u>-</u>	<u>4.5</u>	<u>4.5</u>	<u>4.5</u>	<u>-</u>
1.4	1.6	(0.2)	2.8	2.8	3.3	(0.5)
0.5	0.3	0.2	0.9	0.9	0.4	0.5
<u>1.9</u>	<u>1.9</u>	<u>-</u>	<u>3.7</u>	<u>3.7</u>	<u>3.7</u>	<u>-</u>
0.4	0.4	-	0.8	0.8	0.8	-
(0.4)	(0.4)	-	(0.8)	(0.8)	(0.8)	-
<u>(0.4)</u>	<u>(0.4)</u>	<u>-</u>	<u>(0.8)</u>	<u>(0.8)</u>	<u>(0.8)</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# SANTA CLARA VALLEY WATER DISTRICT

Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Continued)  
 Selected Watershed Activities Contained  
 Within the Watershed and Stream Stewardship Fund  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Coyote Watershed				Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Budgetary Basis	Actual	
	\$	\$	\$	\$	
<b>Revenues:</b>					
Benefit Assessments	\$ 3.9	\$ 3.9	\$ 3.9	\$ -	
Total revenues	<u>3.9</u>	<u>3.9</u>	<u>3.9</u>	<u>-</u>	
<b>Expenditures:</b>					
Debt service:					
Principal repayment	2.1	2.1	2.6	(0.5)	
Interest and fiscal charges	1.1	1.1	0.5	0.6	
Total expenditures	<u>3.2</u>	<u>3.2</u>	<u>3.1</u>	<u>0.1</u>	
Excess (deficiency) of revenues over (excess) of expenditures	0.7	0.7	0.8	0.1	
<b>Other financing sources (uses):</b>					
Transfers out	(0.7)	(0.7)	(0.8)	(0.1)	
Total other financing sources (uses)	<u>(0.7)</u>	<u>(0.7)</u>	<u>(0.8)</u>	<u>(0.1)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

## **Water Enterprise and State Water Project Funds**

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### **Schedules of Revenues, Expenses and Change in Fund Net Position Budget and Actual**

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**VALLEY WATER**  
 Schedule of Revenues, Expenses and  
 Changes in Net Position - Budget and Actual  
 Water Enterprise and State Water Project Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

<b>Water Enterprise Fund</b>							
	Original Budget	Final Budget	Budgetary Basis Actual	Variance with Final Budget			
				Positive (Negative)			
<b>Revenues:</b>							
Property taxes	\$ 7.5	\$ 7.5	\$ 8.4	\$ 0.9			
Intergovernmental services	1.2	1.2	3.7	2.5			
Ground water production charges	105.0	105.0	112.6	7.6			
Treated water charges	169.5	169.5	152.6	(16.9)			
Surface and recycled water revenue	2.8	2.8	1.7	(1.1)			
Investment income	2.8	2.8	8.8	6.0			
Capital reimbursements	11.9	11.9	4.3	(7.6)			
Other	1.0	1.0	1.3	0.3			
Total revenues	<u>301.7</u>	<u>301.7</u>	<u>293.4</u>	<u>(8.3)</u>			
<b>Expenses:</b>							
<b>Current:</b>							
Operations and operating projects	159.8	161.8	143.8	18.0			
<b>Debt Service:</b>							
Principal repayment	14.0	14.0	13.1	0.9			
Interest and fiscal charges	29.8	29.8	21.1	8.7			
<b>Capital outlay:</b>							
Capital improvement projects	133.5	155.6	132.2	23.4			
Total expenses	<u>337.1</u>	<u>361.2</u>	<u>310.2</u>	<u>51.0</u>			
<b>Excess (deficiency) of revenues over (under) expenses before transfers</b>							
Transfers in	(35.4)	(59.5)	(16.8)	42.7			
Transfers out	1.1	1.1	1.1	-			
Excess (deficiency) of revenues and other financing sources over (under) expenses	<u>(2.5)</u>	<u>(2.6)</u>	<u>(2.6)</u>	<u>-</u>			
	<u>\$ (36.8)</u>	<u>\$ (61.0)</u>	<u>(18.3)</u>	<u>\$ 42.7</u>			
<b>Reconciliation of GAAP and budgetary basis:</b>							
Depreciation and amortization expense not budgeted			(30.3)				
Capitalized expenditures			123.6				
Inventory adjustment not budgeted			1.3				
Debt principal and GAAP basis accruals for interest payable			14.8				
GAAP basis expenses and other liabilities			9.1				
Expenses of prior year encumbrances recognized on the GAAP basis:							
Operations and operating projects			(8.6)				
Capital improvement projects			(63.9)				
Current year encumbrances recognized on the budgetary basis:							
Operations and operating projects			8.0				
Capital improvement projects			56.2				
Net position, beginning of year			<u>877.1</u>				
Net position, end of year			<u>\$ 969.0</u>				

State Water Project Fund						Total					
Original Budget	Final Budget	Budgetary Basis		Variance with Final Budget		Original Budget	Final Budget	Budgetary Basis		Variance with Final Budget	
		Actual	(Negative)	Positive	(Negative)			Actual	(Negative)	Positive	(Negative)
\$ 18.0	\$ 18.0	\$ 21.8	\$ 3.8	\$ 25.5	\$ 25.5	\$ 30.2	\$ 4.7				
-	-	-	-	1.2	1.2	3.7	2.5				
-	-	-	-	105.0	105.0	112.6	7.6				
-	-	-	-	169.5	169.5	152.6	(16.9)				
-	-	-	-	2.8	2.8	1.7	(1.1)				
-	-	-	-	2.8	2.8	8.8	6.0				
-	-	-	-	11.9	11.9	4.3	(7.6)				
1.0	1.0	1.4	0.4	2.0	2.0	2.7	0.7				
<u>19.0</u>	<u>19.0</u>	<u>23.2</u>	<u>4.2</u>	<u>320.7</u>	<u>320.7</u>	<u>316.6</u>	<u>(4.1)</u>				
25.1	25.1	24.8	0.3	184.9	186.9	168.6	18.3				
-	-	-	-	14.0	14.0	13.1	0.9				
-	-	-	-	29.8	29.8	21.1	8.7				
-	-	-	-	133.5	155.6	132.2	23.4				
<u>25.1</u>	<u>25.1</u>	<u>24.8</u>	<u>0.3</u>	<u>362.2</u>	<u>386.3</u>	<u>335.0</u>	<u>51.3</u>				
(6.1)	(6.1)	(1.6)	4.5	(41.5)	(65.6)	(18.4)	47.2				
-	-	-	-	1.1	1.1	1.1	-				
-	-	-	-	(2.5)	(2.6)	(2.6)	-				
<u>\$ (6.1)</u>	<u>\$ (6.1)</u>	<u>(1.6)</u>	<u>\$ 4.5</u>	<u>\$ (42.9)</u>	<u>\$ (67.1)</u>	<u>(19.9)</u>	<u>\$ 47.2</u>				
		(0.9)				(31.2)					
		-				123.6					
		-				1.3					
		-				14.8					
		-				9.1					
		-				(8.6)					
		-				(63.9)					
		3.0				11.0					
		-				56.2					
		<u>31.4</u>				<u>908.5</u>					
		<u>\$ 31.9</u>				<u>\$ 1,000.9</u>					

## **Internal Service Funds**

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The Internal Service Funds are similar to Enterprise Funds, except that services are rendered to other District units rather than to District customers. This fund type consists of the Equipment Fund, Risk Management Fund, and Information Technology Fund.

**Equipment Fund** - the fund is used to account for the maintenance and operation of the District's fleet vehicles and heavy construction equipment. Financing is provided through rental charges to operations based upon usage.

**Risk Management Fund** – the fund is used to account for the monies set aside to pay for all claims, judgment and premium costs. Financing is provided through premiums charged to District operations.

**Information Technology Fund** – the fund is used to account for the maintenance and replacement of district-wide capital related information technology projects. Financing is provided through rental charges to operations based upon usage.

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**VALLEY WATER**  
 Combining Statement of Net Position  
 Internal Service Funds  
 June 30, 2020  
 (Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 4.6	\$ 14.7	\$ 22.3	\$ 41.6
Inventory	0.1	-	-	0.1
Total current assets	<u>4.7</u>	<u>14.7</u>	<u>22.3</u>	<u>41.7</u>
Noncurrent assets:				
Capital assets				
Depreciable assets	22.2	-	11.2	33.4
Accumulated depreciation	<u>(13.3)</u>	<u>-</u>	<u>(6.8)</u>	<u>(20.1)</u>
Total noncurrent assets	<u>8.9</u>	<u>-</u>	<u>4.4</u>	<u>13.3</u>
Total assets	<u>13.6</u>	<u>14.7</u>	<u>26.7</u>	<u>55.0</u>
Deferred outflows of resources - pension activities	0.6	0.6	0.4	1.6
Deferred outflows of resources - OPEB	0.1	0.1	0.2	0.4
Deferred outflows of resources	<u>0.7</u>	<u>0.7</u>	<u>0.6</u>	<u>2.0</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	0.2	0.2	1.5	1.9
Claims payable	-	2.1	-	2.1
Compensated absence	0.1	-	-	0.1
Total current liabilities	<u>0.3</u>	<u>2.3</u>	<u>1.5</u>	<u>4.1</u>
Non current liabilities:				
Claims payable	-	5.4	-	5.4
Net Pension liability	2.5	2.8	5.1	10.4
Other post employment benefits liability	0.8	0.7	-	1.5
Compensated absence	0.2	0.2	-	0.4
Total non current liabilities	<u>3.5</u>	<u>9.1</u>	<u>5.1</u>	<u>17.7</u>
Total liabilities	<u>3.8</u>	<u>11.4</u>	<u>6.6</u>	<u>21.8</u>
Deferred inflows of resources - pension activities	0.2	0.1	-	0.3
Deferred inflows of resources - OPEB	0.1	0.1	0.2	0.4
Deferred inflows of resources	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.7</u>
<b>NET POSITION</b>				
Net investment in capital assets	8.9	-	4.4	13.3
Unrestricted	<u>1.3</u>	<u>3.8</u>	<u>16.1</u>	<u>21.2</u>
Total net position	<u>\$ 10.2</u>	<u>\$ 3.8</u>	<u>\$ 20.5</u>	<u>\$ 34.5</u>

**VALLEY WATER**  
 Combining Statement of Revenues, Expenses and  
 Changes in Fund Net Position  
 Internal Service Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	<u>Equipment</u>	<u>Risk Management</u>	<u>Information Technology</u>	<u>Total</u>
<b>Operating revenues:</b>				
Vehicle service charges	\$ 5.7	\$ -	\$ -	\$ 5.7
Computer equipment use charges	-	-	15.1	15.1
Self-insurance service charges	-	4.9	-	4.9
Total operating revenues	<u>5.7</u>	<u>4.9</u>	<u>15.1</u>	<u>25.7</u>
<b>Operating expenses:</b>				
Administration and general	-	6.5	-	6.5
Equipment maintenance	3.7	-	22.0	25.7
Depreciation and amortization	1.6	-	1.2	2.8
Total operating expenses	<u>5.3</u>	<u>6.5</u>	<u>23.2</u>	<u>35.0</u>
Operating Income (loss)	<u>0.4</u>	<u>(1.6)</u>	<u>(8.1)</u>	<u>(9.3)</u>
<b>Nonoperating revenues:</b>				
Investment income	0.1	0.5	0.7	1.3
Gain on sale of capital assets	0.1	-	-	0.1
Other	-	0.2	-	0.2
Total nonoperating revenues	<u>0.2</u>	<u>0.7</u>	<u>0.7</u>	<u>1.6</u>
Income (loss) before transfers	0.6	(0.9)	(7.4)	(7.7)
Transfer in	-	-	4.1	4.1
Change in net position	0.6	(0.9)	(3.3)	(3.6)
Net position, beginning of year	<u>9.6</u>	<u>4.7</u>	<u>23.8</u>	<u>38.1</u>
Net position, end of year	<u><u>\$ 10.2</u></u>	<u><u>\$ 3.8</u></u>	<u><u>\$ 20.5</u></u>	<u><u>\$ 34.5</u></u>

**VALLEY WATER**  
 Combining Statement of Cash Flows  
 Internal Service Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Equipment	Risk Management	Information Technology	Total
<b>Cash flows from operating activities:</b>				
Receipts from interfund services provided	\$ 5.7	\$ 4.9	\$ 15.1	\$ 25.7
Payments to suppliers	(2.5)	(3.9)	(12.5)	(18.9)
Payments to employees	(1.4)	(2.0)	(6.7)	(10.1)
Net cash provided (used) by operating activities	1.8	(1.0)	(4.1)	(3.3)
<b>Cash flows from noncapital financing activities:</b>				
Other receipts (payments)	-	0.2	-	0.2
Net cash provided by noncapital financing activities	-	0.2	-	0.2
<b>Cash flows from capital and related financing activities:</b>				
Acquisition and disposal of capital assets	(1.4)	-	(0.6)	(2.0)
Transfers in - capital project reimbursement	-	-	4.1	4.1
Net cash (used) by capital and related financing activities	(1.4)	-	3.5	2.1
<b>Cash flows from investing activities:</b>				
Interest received on cash and investments	0.1	0.5	0.7	1.3
Net increase/(decrease) in cash and cash equivalents	0.5	(0.3)	0.1	0.3
Cash and cash equivalents, beginning of year	4.1	15.0	22.2	41.3
Cash and cash equivalents, end of year	\$ 4.6	\$ 14.7	\$ 22.3	\$ 41.6

**Reconciliation of operating income to net cash provided**

**by operating activities:**

Operating income (loss)	\$ 0.4	\$ (1.6)	\$ (8.1)	\$ (9.3)
-------------------------	--------	----------	----------	----------

**Adjustments to reconcile operating income (loss)**

**to net cash provided by operating activities:**

Depreciation, amortization and asset deletion	1.6	-	1.2	2.8
---	-----	---	-----	-----

**Change in operating assets and liabilities:**

Increase/(decrease) in accounts payable	(0.1)	0.1	1.1	1.1
Increase/(decrease) in claims payable	-	0.4	-	0.4
Increase/(decrease) in GASB68 Retirement payable	-	0.2	2.1	2.3
Increase/(decrease) in OPEB/GASB75 payable	(0.2)	(0.2)	(0.3)	(0.7)
Increase/(decrease) in def inflows/outflows of resources	0.1	0.1	(0.1)	0.1
Net cash used for operating activities	\$ 1.8	\$ (1.0)	\$ (4.1)	\$ (3.3)

**VALLEY WATER**  
 Schedule of Revenues, Expenses and  
 Changes in Fund Net Position - Budget and Actual  
 Internal Service Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Equipment			Variance with Final Budget	
	Original Budget	Final Budget	Budgetary Basis Actual	Positive (Negative)	
<b>Revenues:</b>					
Investment income	\$ -	\$ -	\$ 0.1	\$ 0.1	
Vehicle service charges	5.7	5.7	5.7	-	
Computer equipment use charges	-	-	-	-	
Self-insurance service charges	-	-	-	-	
Gain on sale of fixed assets	0.2	0.2	0.1	(0.1)	
Other	-	-	-	-	
<b>Total revenues</b>	<b>5.9</b>	<b>5.9</b>	<b>5.9</b>	<b>-</b>	
<b>Expenditures:</b>					
<b>Current:</b>					
Operations and operating projects	4.8	4.8	3.8	1.0	
Capital equipment acquisition	2.2	1.9	1.9	-	
<b>Total expenditures</b>	<b>7.0</b>	<b>6.7</b>	<b>5.7</b>	<b>1.0</b>	
<b>Excess (deficiency) of revenues over (under) expenditures before transfers</b>					
Transfer in	-	-	-	-	
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<b>\$ (1.1)</b>	<b>\$ (0.8)</b>	<b>0.2</b>	<b>\$ 1.0</b>	
<b>Reconciliation of GAAP and budgetary basis:</b>					
Depreciation and amortization expense not budgeted			(1.6)		
Capitalized expenditures			1.7		
Expenditures of prior year encumbrances recognized on the GAAP basis:					
Operations and operating projects			-		
Capital improvement projects			(1.4)		
Current year encumbrances recognized on the budgetary basis:					
Operations and operating projects			(0.1)		
Capital improvement projects			1.8		
Net position, beginning of year			9.6		
Net position, end of year	<b>\$ 10.2</b>				

Risk Management						Information Technology					
Original Budget	Final Budget	Budgetary Basis		Variance with Final Budget		Original Budget	Final Budget	Budgetary Basis		Variance with Final Budget	
		Actual	Positive (Negative)	Actual	Positive (Negative)			Actual	Positive (Negative)		
\$ 0.3	\$ 0.3	\$ 0.5	\$ 0.2	\$ 0.2	\$ 0.2	\$ 15.4	\$ 15.4	\$ 15.1	\$ 0.7	\$ 0.5	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	15.4	15.4	15.1	(0.3)		
5.6	5.6	4.9	(0.7)	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
-	-	0.2	0.2	-	-	-	-	-	-	-	
<u>5.9</u>	<u>5.9</u>	<u>5.6</u>	<u>(0.3)</u>	<u>15.6</u>	<u>15.6</u>	<u>15.6</u>	<u>15.6</u>	<u>15.8</u>	<u>0.2</u>		
5.8	6.7	6.1	0.6	17.0	15.5	15.7	(0.2)				
-	-	-	-	4.1	13.9	9.4	4.5				
<u>5.8</u>	<u>6.7</u>	<u>6.1</u>	<u>0.6</u>	<u>21.1</u>	<u>29.4</u>	<u>25.1</u>	<u>4.3</u>				
0.1	(0.8)	(0.5)	0.3	(5.5)	(13.8)	(9.3)	4.5				
-	-	-	-	4.1	4.1	4.1	-				
<u>0.1</u>	<u>(0.8)</u>	<u>(0.5)</u>	<u>0.3</u>	<u>(1.4)</u>	<u>(9.7)</u>	<u>(5.2)</u>	<u>4.5</u>				
		-				(1.2)					
		-				0.5					
		(0.5)					(1.0)				
		-					(1.4)				
		0.2						1.0			
		-						4.0			
		4.7						23.8			
		<u>\$ 3.9</u>						<u>\$ 20.5</u>			

**VALLEY WATER**  
 Schedule of Revenues, Expenses and  
 Changes in Fund Net Position - Budget and Actual (Continued)  
 Internal Service Funds  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Total				Variance with Final Budget
	Original Budget	Final Budget	Budgetary Basis Actual	Positive (Negative)	
<b>Revenues:</b>					
Investment income	\$ 0.5	\$ 0.5	\$ 1.3	\$ 0.8	
Vehicle service charges	5.7	5.7	5.7	-	
Computer equipment use charges	15.4	15.4	15.1	(0.3)	
Self-insurance service charges	5.6	5.6	4.9	(0.7)	
Gain on sale of fixed assets	0.2	0.2	0.1	(0.1)	
Other	-	-	0.2	0.2	
Total revenues	<u>27.4</u>	<u>27.4</u>	<u>27.3</u>	<u>(0.1)</u>	
<b>Expenditures:</b>					
<b>Current:</b>					
Operations and operating projects	27.6	27.0	25.6	1.4	
Capital equipment acquisition	6.3	15.8	11.3	4.5	
Total expenditures	<u>33.9</u>	<u>42.8</u>	<u>36.9</u>	<u>5.9</u>	
<b>Excess (deficiency) of revenues over (under) expenditures before transfers</b>					
Transfer in	(6.5)	(15.4)	(9.6)	5.8	
Transfer in	4.1	4.1	4.1	-	
Excess (deficiency) of revenues and other financing resources over (under) expenditures and other financial uses	<u>\$ (2.4)</u>	<u>\$ (11.3)</u>	<u>(5.5)</u>	<u>\$ 5.8</u>	
<b>Reconciliation of GAAP and budgetary basis:</b>					
Depreciation and amortization expense not budgeted			(2.8)		
Capitalized expenditures			2.2		
Expenditures of prior year encumbrances recognized on the GAAP basis:					
Operations and operating projects			(1.5)		
Capital improvement projects			(2.8)		
Current year encumbrances recognized on the budgetary basis:					
Operations and operating projects			1.1		
Capital improvement projects			5.8		
Net position, beginning of year			38.1		
Net position, end of year	<u>\$ 34.6</u>				

## **Agency Fund**

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Agency fund type is used to account for assets held by the District in a fiduciary capacity as an agent for individuals, private organizations, other governments and/or other funds.

**Deposit Fund** - The fund is used to account for the collection and payment of expenditures for funds held in trust for specific restricted purposes.

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**VALLEY WATER**  
 Statement of Changes in Assets and Liabilities  
 Agency Fund  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

	Balance July 2, 2019	Additions	Deletions	Balance June 30, 2020
<b><u>Deposit Fund</u></b>				
<b>Assets:</b>				
Cash and investments (Note 3)	\$ 0.2	\$ 0.6	\$ (0.6)	\$ 0.2
Total assets	<u>\$ 0.2</u>	<u>\$ 0.6</u>	<u>\$ (0.6)</u>	<u>\$ 0.2</u>
<b>Liabilities:</b>				
Deposits payable	\$ 0.2	\$ 0.5	\$ (0.5)	\$ 0.2
Total liabilities	<u>\$ 0.2</u>	<u>\$ 0.5</u>	<u>\$ (0.5)</u>	<u>\$ 0.2</u>

## **Capital Assets Used in the Operation of Governmental Activities**

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Capital assets consist of land, improvements to land, buildings, equipment and intangibles that are used in operations and that have initial useful lives extending beyond a single reporting period.

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**VALLEY WATER**  
 Capital Assets Used in the Operation of Governmental Activities  
 Schedule By Source  
 June 30, 2020  
 (Dollars in Millions)

**Governmental activities capital assets:**

Land	\$ 191.7
Buildings	42.0
Structures and improvements	772.6
Equipment	53.0
Construction in process	668.1
Intangibles:	
Easements	27.4
Computer Software	4.3
<b>Total governmental funds capital assets</b>	<b><u>\$ 1,759.1</u></b>

**Investments in governmental activities capital assets by source:**

General fund	\$ 88.4
Special revenue funds:	
Watershed & Stream Stewardship	1,131.8
Safe, Clean Water & Natural Flood Protection	505.6
Internal service funds	33.3
<b>Total governmental funds capital assets</b>	<b><u>\$ 1,759.1</u></b>

**VALLEY WATER**  
 Capital Assets Used in the Operation of Governmental Activities  
 Schedule By Function and Activity  
 June 30, 2020  
 (Dollars in Millions)

Dept	Function and Activity	Structures and			Construction		Intangibles			Total
		Land	Buildings	Improvements	Equipment	in Progress	Easements	Software		
<b>100</b>	<b>CEO Support Operations</b>									0.4
102	Chief Executive Office	\$	-	\$	-	\$	0.4	\$	-	\$
<b>200</b>	<b>Watershed Operations</b>					5.2				5.2
210	Chief Operating Office	-	-	-						
<b>210</b>	<b>Watershed Management Division</b>					0.1				0.1
215	Watershed Business Management	-	-	-						
250	Lower Peninsula/West Valley Mgmt.	-	-	-		0.2				0.2
270	Guadalupe Watershed Mgmt.	-	-	-		0.4				0.4
<b>310</b>	<b>Capital Program Services Division</b>					0.4				0.4
340	Capital Program Services Departments	-	-	-						
<b>410</b>	<b>Water Utility Enterprise Operations</b>									
410	Chief Operating Office	-	-	-		0.1				0.1
420	Water Utility Enterprise	-	-	-		0.2				0.2
<b>600</b>	<b>Administration</b>									
602	Chief Administrative Office	-	-	-		0.2				0.2
<b>670</b>	<b>Financial Services Division</b>									
610	Office of Administrative Services	-	-	-		0.1				0.1
670	Business And Finance Program	-	-	-		1.7				1.7
<b>710</b>	<b>Information Management Division</b>									
715	Information Management Division	-	-	-		0.2				0.2
720	Information Mgmt. Support Departments	-	-	-		9.1				9.1
<b>810</b>	<b>General Services Division</b>									
815	Technical Services Division	-	-	-		-				-
820	Technical Services Support Division	-	-	-		1.2				1.2
765	Records and Library	-	-	-		0.2				0.2
820	Warehouse Services	-	-	-		3.9				3.9
885	Equipment Management	-	-	-		16.9				16.9
<b>910</b>	<b>Human Resources Program</b>									
660	Human Resources Program	-	-	-		0.1				0.1
<b>Other:</b>										
	District-wide property		191.7	42.0	772.6	12.4	668.1	27.4	4.3	1,718.5
	<b>Total capital assets</b>		<b>\$ 191.7</b>	<b>\$ 42.0</b>	<b>\$ 772.6</b>	<b>\$ 53.0</b>	<b>\$ 668.1</b>	<b>\$ 27.4</b>	<b>\$ 4.3</b>	<b>\$ 1,759.1</b>

**VALLEY WATER**  
 Capital Assets Used in the Operation of Governmental Activities  
 Schedule of Changes By Function and Activity  
 For the Year Ended June 30, 2020  
 (Dollars in Millions)

<b>Governmental Capital Assets</b>					
<b>Dept</b>	<b>Function and Activity</b>	<b>Governmental Capital Assets</b>	<b>Governmental Capital Assets</b>		
		<b>July 1, 2019</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2020</b>
<b>100</b>	<b>CEO Support Operations</b>				
102	Chief Executive Office	\$ 0.4	\$ -	\$ -	\$ 0.4
<b>200</b>	<b>Watershed Operations</b>				
202	Chief Operating Office	5.2	-	-	5.2
<b>210</b>	<b>Watershed Management Division</b>				
215	Watershed Business Management	0.1	-	-	0.1
230	Watershed Planning	-	-	-	-
250	Lower Peninsula/West Valley Mgmt.	0.2	-	-	0.2
270	Guadalupe Watershed Mgmt.	0.4	-	-	0.4
<b>310</b>	<b>Capital Program Services Division</b>				
340	Capital Program Services Departments	0.6	-	-	0.6
<b>410</b>	<b>Water Utility Enterprise Operations</b>				
410	Chief Operating Office	0.1	-	-	0.1
420	Water Utility Enterprise	0.2	-	-	0.2
<b>600</b>	<b>Administration</b>				
602	Chief Administrative Office	0.2	-	-	0.2
<b>670</b>	<b>Financial Services Division</b>				
610	Office of Administrative Services	0.1	-	-	0.1
670	Business And Finance Program	1.7	-	-	1.7
<b>710</b>	<b>Information Management Division</b>				
715	Information Management Division	0.2	-	-	0.2
720	Information Mgmt. Support Departments	9.5	0.2	-	9.7
<b>810</b>	<b>General Services Division</b>				
820	Technical Services Support Division	1.2	-	(0.1)	1.1
765	Records and Library	0.2	-	-	0.2
820	Warehouse Services	3.7	-	-	3.7
885	Equipment Management	17.4	1.7	(2.7)	16.4
<b>910</b>	<b>Human Resources Program</b>				
660	Human Resources Program	0.1	-	-	0.1
<b>Other:</b>					
	District-wide property	<u>1,654.9</u>	<u>92.9</u>	<u>(29.3)</u>	<u>1,718.5</u>
		<u><u>\$ 1,696.4</u></u>	<u><u>\$ 94.8</u></u>	<u><u>\$ (32.1)</u></u>	<u><u>\$ 1,759.1</u></u>

## SANTA CLARA VALLEY WATER DISTRICT

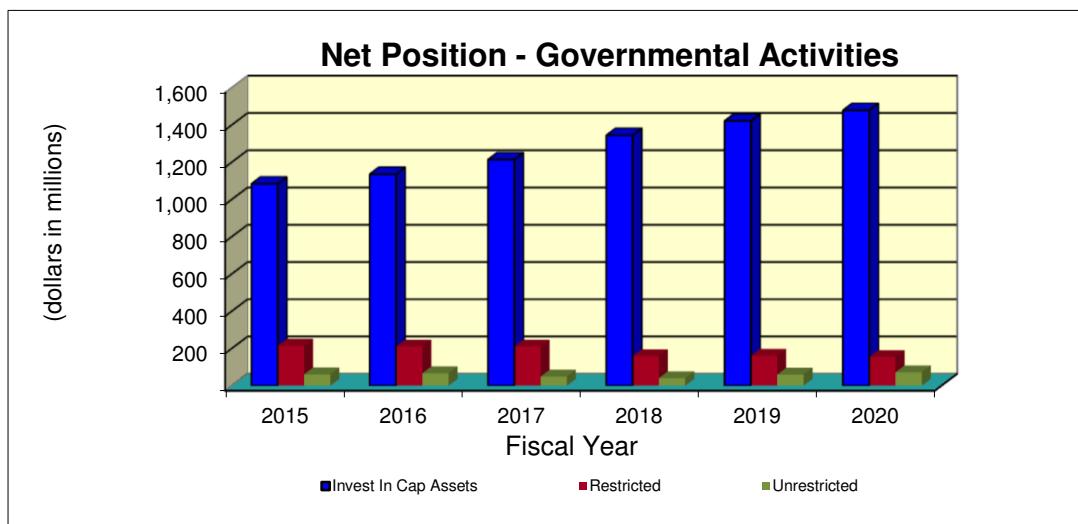
### Statistical Section

This part of the District's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the District's overall financial health.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	144
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the District's most significant local revenue source, water sales.	152
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.	159
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	165
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	167

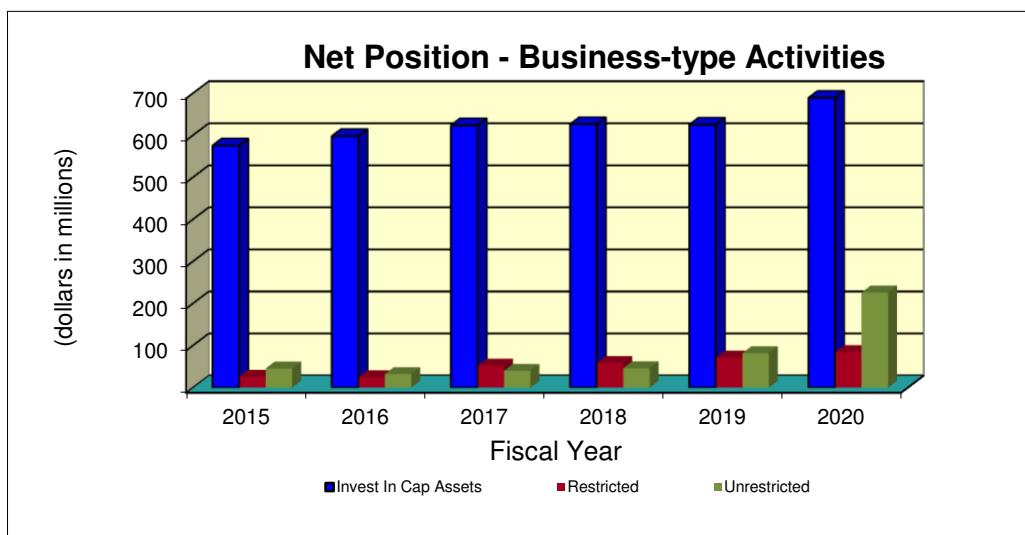
**VALLEY WATER**  
**Net Position by Component**  
**Government-wide**  
**Last Ten Fiscal Years**  
**(Dollars in Millions)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Governmental activities</b>				
Net Investment in capital assets	\$ 915.1	\$ 964.4	\$ 1,011.1	\$ 1,036.9
Restricted	157.2	166.8	182.7	214.7
Unrestricted	141.6	142.3	144.0	144.2
<b>Total governmental activities net position</b>	<b><u>\$ 1,213.9</u></b>	<b><u>\$ 1,273.5</u></b>	<b><u>\$ 1,337.8</u></b>	<b><u>\$ 1,395.8</u></b>
<b>Business-type activities</b>				
Net Investment in capital assets	\$ 524.6	\$ 554.3	\$ 575.7	\$ 573.4
Restricted	26.8	28.1	30.1	30.0
Unrestricted	92.7	86.7	97.7	127.9
<b>Total business-type activities net position</b>	<b><u>\$ 644.1</u></b>	<b><u>\$ 669.1</u></b>	<b><u>\$ 703.5</u></b>	<b><u>\$ 731.3</u></b>
<b>Primary government</b>				
Net Investment in capital assets	\$ 1,439.7	\$ 1,518.7	\$ 1,586.8	\$ 1,610.3
Restricted	184.0	194.9	212.9	244.7
Unrestricted	234.3	229.0	241.6	272.1
<b>Total primary government net position</b>	<b><u>\$ 1,858.0</u></b>	<b><u>\$ 1,942.6</u></b>	<b><u>\$ 2,041.3</u></b>	<b><u>\$ 2,127.1</u></b>



Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017	2018	2019	2020
\$ 1,083.6	\$ 1,135.6	\$ 1,213.8	\$ 1,344.1	\$ 1,421.6	\$ 1,478.4
215.0	210.2	209.9	158.1	160.6	153.7
60.7	66.4	49.0	40.5	59.5	71.8
<b>\$ 1,359.3</b>	<b>\$ 1,412.2</b>	<b>\$ 1,472.7</b>	<b>\$ 1,542.7</b>	<b>\$ 1,641.7</b>	<b>\$ 1,703.9</b>
\$ 575.9	\$ 598.1	\$ 623.8	\$ 626.5	\$ 625.3	\$ 689.2
26.1	24.6	52.1	58.7	71.5	84.7
45.4	32.2	39.9	46.1	81.8	226.1
<b>\$ 647.4</b>	<b>\$ 654.9</b>	<b>\$ 715.8</b>	<b>\$ 731.3</b>	<b>\$ 778.6</b>	<b>\$ 1,000.0</b>
\$ 1,659.4	\$ 1,733.7	\$ 1,837.7	\$ 1,970.7	\$ 2,046.9	\$ 2,167.6
241.1	234.8	262.0	216.7	232.1	238.4
106.2	98.6	88.9	86.6	141.3	297.9
<b>\$ 2,006.7</b>	<b>\$ 2,067.1</b>	<b>\$ 2,188.6</b>	<b>\$ 2,274.0</b>	<b>\$ 2,420.3</b>	<b>\$ 2,703.9</b>



**VALLEY WATER**  
 Changes in Net Position  
 Government-wide  
 Last Ten Fiscal Years  
 (Dollars in Millions)

	2011	2012	2013
<b>Expenses</b>			
Governmental activities:			
General government:	\$ 10.0	\$ 5.4	\$ 6.4
Watersheds	54.6	50.3	51.7
Interest on long-term debt	7.5	7.0	8.0
Total governmental activities expenses	<u>72.1</u>	<u>62.7</u>	<u>66.1</u>
Business-type activities:			
Water enterprise	155.4	158.9	161.6
Total primary government expenses	<u>\$ 227.5</u>	<u>\$ 221.6</u>	<u>\$ 227.7</u>
<b>Program Revenues</b>			
Governmental activities:			
Capital grants and contributions	\$ 38.6	\$ 32.6	\$ 34.9
Business-type activities:			
Charges for services	121.3	141.8	155.7
Operating grants and contributions	1.5	1.1	1.0
Capital grants and contributions	10.4	11.8	4.6
Total business-type activities program revenues	<u>133.2</u>	<u>154.7</u>	<u>161.3</u>
Total primary government program revenues	<u>\$ 171.8</u>	<u>\$ 187.3</u>	<u>\$ 196.2</u>
Net (expense)/revenue			
Governmental activities	\$ (33.4)	\$ (30.1)	\$ (31.2)
Business-type activities	(22.1)	(4.2)	(0.3)
Total primary government net expense	<u>\$ (55.5)</u>	<u>\$ (34.3)</u>	<u>\$ (31.5)</u>
<b>General Revenues and Other Changes in Net Position</b>			
Governmental activities:			
Property taxes	\$ 86.2	\$ 88.2	\$ 92.7
Unrestricted investment earnings	3.3	2.3	3.5
Miscellaneous	2.2	2.5	2.9
Transfers	(2.8)	(3.3)	(3.7)
Total governmental activities	<u>88.9</u>	<u>89.7</u>	<u>95.4</u>
Business-type activities:			
Property taxes	23.2	22.3	24.2
Unrestricted investment earnings	1.8	1.1	1.2
Miscellaneous	1.6	2.6	5.6
Transfers	2.8	3.3	3.7
Total business-type activities	<u>\$ 29.4</u>	<u>\$ 29.3</u>	<u>\$ 34.7</u>
<b>Changes in Net Position</b>			
Governmental activities			
	\$ 55.5	\$ 59.6	\$ 64.2
Business-type activities	7.3	25.1	34.4
Total primary government	<u>\$ 62.8</u>	<u>\$ 84.7</u>	<u>\$ 98.6</u>

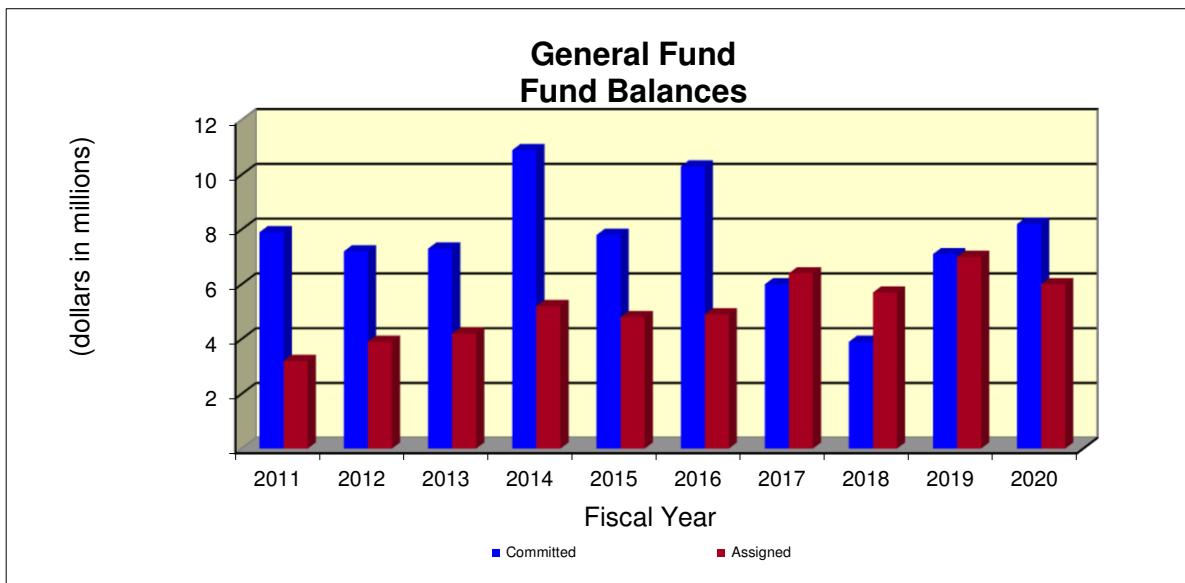
Source: Santa Clara Valley Water District, General Accounting Unit

2014	2015	2016	2017	2018	2019	2020
\$ 6.9	\$ 20.4	\$ 5.9	\$ 9.3	\$ 8.4	\$ 3.2	\$ 10.9
61.3	56.8	57.7	69.2	85.8	99.4	134.1
6.1	5.8	6.0	4.3	3.1	3.0	2.5
<u>74.3</u>	<u>83.0</u>	<u>69.6</u>	<u>82.8</u>	<u>97.3</u>	<u>105.6</u>	<u>147.5</u>
<b>173.8</b>	<b>186.2</b>	<b>207.3</b>	<b>199.6</b>	<b>229.4</b>	<b>222.1</b>	<b>226.9</b>
<b>\$ 248.1</b>	<b>\$ 269.2</b>	<b>\$ 276.9</b>	<b>\$ 282.4</b>	<b>\$ 326.7</b>	<b>\$ 327.7</b>	<b>\$ 374.4</b>
\$ 25.8	\$ 17.8	\$ 19.4	\$ 16.6	\$ 61.2	\$ 40.3	\$ 42.9
172.4	154.8	151.2	190.9	231.0	227.7	266.9
1.2	2.1	2.1	2.0	4.4	2.8	3.7
3.5	0.9	3.2	17.5	4.4	1.1	4.3
<u>177.1</u>	<u>157.8</u>	<u>156.5</u>	<u>210.4</u>	<u>239.8</u>	<u>231.6</u>	<u>274.9</u>
<b>\$ 202.9</b>	<b>\$ 175.6</b>	<b>\$ 175.9</b>	<b>\$ 227.0</b>	<b>\$ 301.0</b>	<b>\$ 271.9</b>	<b>\$ 317.8</b>
\$ (48.6)	\$ (65.1)	\$ (50.2)	\$ (66.2)	\$ (36.1)	\$ (65.4)	\$ (104.6)
3.4	(28.5)	(50.8)	10.8	10.4	9.5	48.0
<u>\$ (45.2)</u>	<u>\$ (93.6)</u>	<u>\$ (101.0)</u>	<u>\$ (55.4)</u>	<u>\$ (25.7)</u>	<u>\$ (55.9)</u>	<u>\$ (56.6)</u>
\$ 100.6	\$ 107.6	\$ 114.4	\$ 123.3	\$ 129.9	\$ 143.8	\$ 148.4
3.8	3.7	5.0	1.2	2.5	13.6	12.9
2.6	3.0	3.6	4.1	6.7	4.3	3.9
0.3	11.4	(19.9)	(1.9)	8.2	2.7	1.6
<u>107.3</u>	<u>125.7</u>	<u>103.1</u>	<u>126.7</u>	<u>147.3</u>	<u>164.4</u>	<u>166.8</u>
27.0	27.7	30.5	44.8	37.4	30.4	30.2
1.6	1.6	2.9	1.0	1.3	8.1	8.8
3.3	3.1	4.9	2.5	6.4	1.9	2.8
(0.3)	(11.4)	19.9	1.9	(8.2)	(2.7)	(1.6)
<u>\$ 31.6</u>	<u>\$ 21.0</u>	<u>\$ 58.2</u>	<u>\$ 50.2</u>	<u>\$ 36.9</u>	<u>\$ 37.7</u>	<u>\$ 40.2</u>
\$ 58.7	\$ 60.6	\$ 52.9	\$ 60.5	\$ 111.2	\$ 99.0	\$ 62.2
35.0	(7.5)	7.4	61.0	47.3	47.2	88.2
<u>\$ 93.7</u>	<u>\$ 53.1</u>	<u>\$ 60.3</u>	<u>\$ 121.5</u>	<u>\$ 158.5</u>	<u>\$ 146.2</u>	<u>\$ 150.4</u>

**VALLEY WATER**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**  
**(Dollars in Millions)**

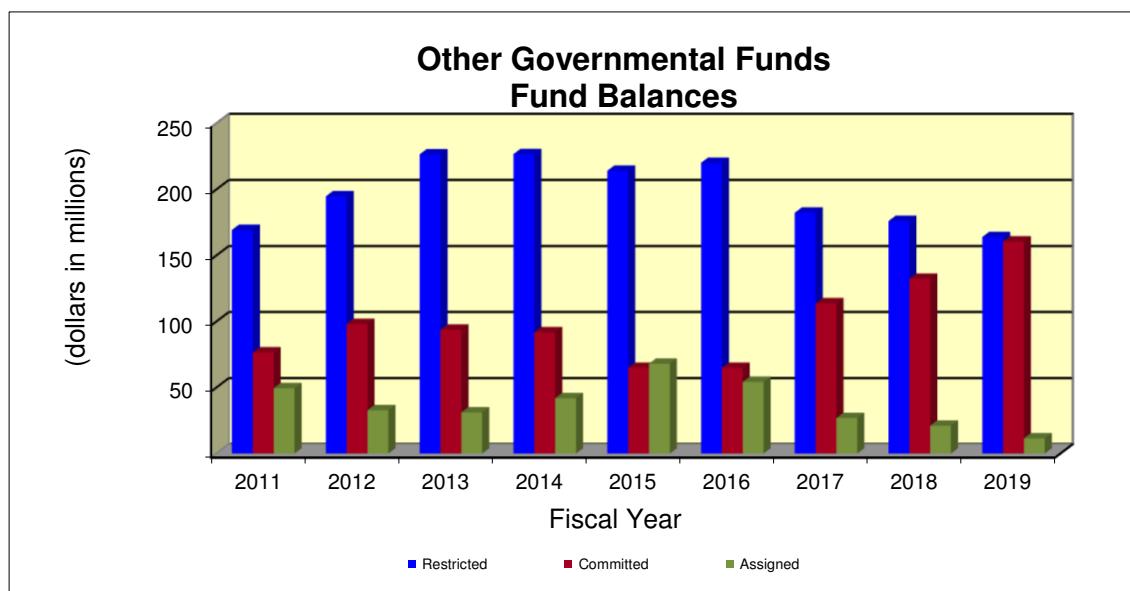
*Data incorporating GASB 54 implementation*

	Restated			
	2011	2012	2013	2014
General Fund				
Committed	\$ 7.9	\$ 7.2	\$ 7.3	\$ 10.9
Assigned	3.2	3.9	4.2	5.2
Total general fund	<u><u>\$ 11.1</u></u>	<u><u>\$ 11.1</u></u>	<u><u>\$ 11.5</u></u>	<u><u>\$ 16.1</u></u>
All other governmental funds				
Restricted	\$ 163.4	\$ 169.3	\$ 194.7	\$ 226.5
Committed	86.2	76.5	98.1	93.7
Assigned	43.5	49.5	32.8	31.1
Total all other governmental funds	<u><u>\$ 293.1</u></u>	<u><u>\$ 295.3</u></u>	<u><u>\$ 325.6</u></u>	<u><u>\$ 351.3</u></u>



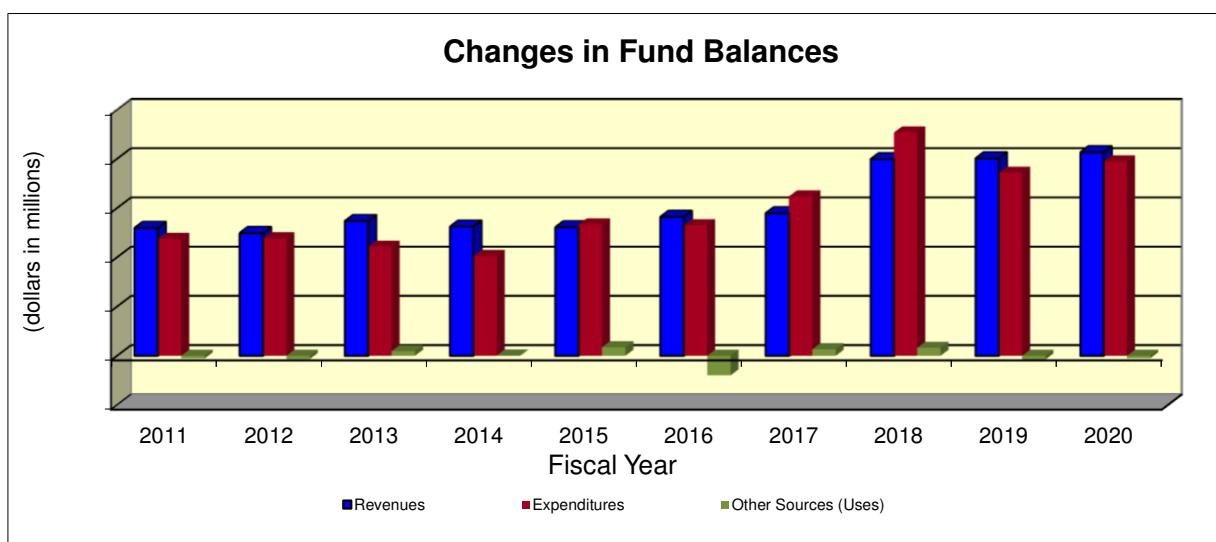
Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017	2018	2019	2020
\$ 7.8	\$ 10.3	\$ 6.0	\$ 3.9	\$ 7.1	\$ 8.2
4.8	4.9	6.4	5.7	7.0	6.0
<b>\$ 12.6</b>	<b>\$ 15.2</b>	<b>\$ 12.4</b>	<b>\$ 9.6</b>	<b>\$ 14.1</b>	<b>\$ 14.2</b>
<b> </b>					
\$ 226.7	\$ 214.1	\$ 220.1	\$ 182.3	\$ 176.0	\$ 163.9
91.8	64.9	64.9	113.7	132.2	160.5
41.9	68.0	54.2	26.9	21.1	11.5
<b>\$ 360.4</b>	<b>\$ 347.0</b>	<b>\$ 339.2</b>	<b>\$ 322.9</b>	<b>\$ 329.3</b>	<b>\$ 335.9</b>



**VALLEY WATER**  
 Changes in Fund Balances of Governmental Funds  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)  
 (Dollars in Millions)

	2011	2012	2013	2014
<b>Revenues</b>				
Property taxes	\$ 86.2	\$ 88.2	\$ 97.2	\$ 100.6
Benefit assessments	19.1	19.1	19.2	16.1
Use of money and property:				
Investment income	2.9	1.6	1.8	2.6
Rental	1.4	1.4	1.4	1.6
Reimbursement of capital costs	19.5	13.5	15.8	9.6
Other	0.7	0.9	1.4	0.7
Total Revenues	<u>129.8</u>	<u>124.7</u>	<u>136.8</u>	<u>131.2</u>
<b>Expenditures</b>				
Operations and operating project	53.8	51.4	49.2	50.4
Capital improvement projects	48.4	51.4	44.8	36.9
Debt Service:				
Principal repayment	9.3	9.7	10.9	8.1
Interest and fiscal charges	7.2	6.8	5.9	5.9
Total expenditures	<u>118.7</u>	<u>119.3</u>	<u>110.8</u>	<u>101.3</u>
Excess of revenues				
over (under) expenditures	11.1	5.4	26.0	29.9
<b>Other financing sources (uses)</b>				
Transfers in	21.0	24.4	21.2	34.4
Transfers out	(23.8)	(27.7)	(24.9)	(34.1)
Proceeds from issuance of debt	-	-	53.0	-
Payment to refunded bond escrow agent	-	-	(53.5)	-
Net original issue premium	-	-	8.9	-
Total other financing sources (uses)	<u>(2.8)</u>	<u>(3.3)</u>	<u>4.7</u>	<u>0.3</u>
Net change in fund balances	<u>\$ 8.3</u>	<u>\$ 2.1</u>	<u>\$ 30.7</u>	<u>\$ 30.2</u>
Debt service as a percentage of non-capital expenditures	23.2%	23.0%	25.7%	18.8%



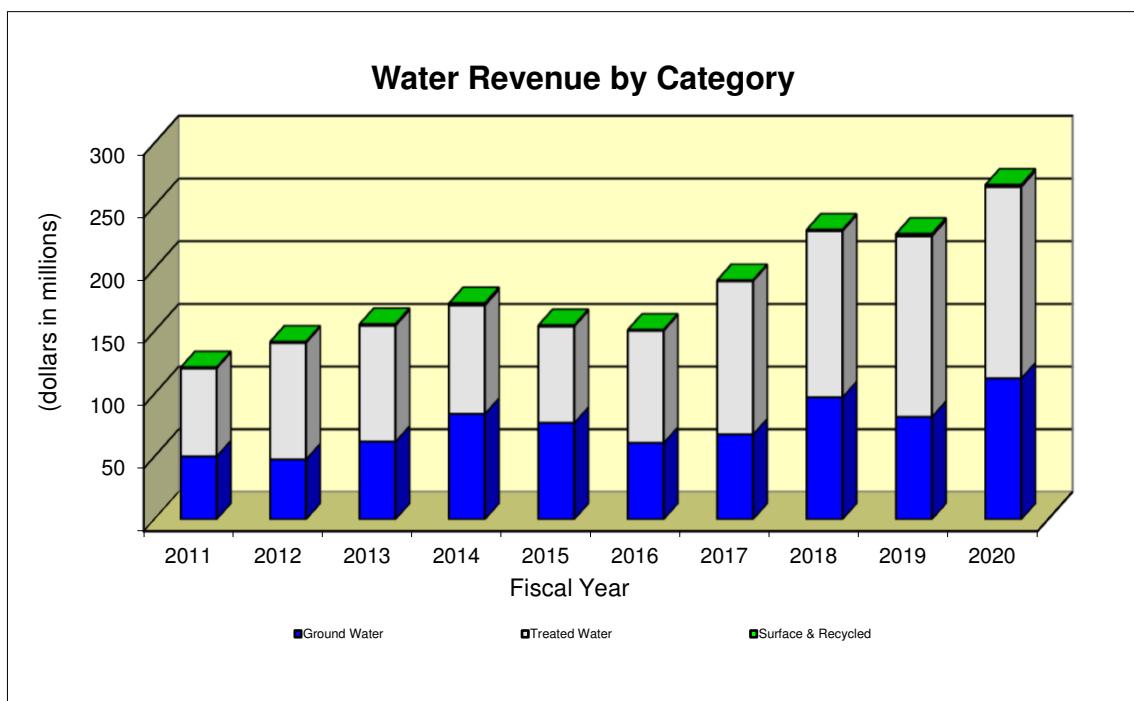
Source: Santa Clara Valley Water District, General Accounting Unit

	2015	2016	2017	2018	2019	2020
\$	107.6	\$ 114.4	\$ 123.3	\$ 129.9	\$ 143.8	\$ 148.4
	16.1	14.7	14.8	14.8	14.7	13.4
	2.5	3.7	1.0	2.3	12.4	11.6
	1.7	1.8	1.8	1.9	2.0	2.1
	1.7	4.7	1.8	46.4	25.5	29.5
	0.9	1.8	2.0	4.4	2.1	1.7
	<u>130.5</u>	<u>141.1</u>	<u>144.7</u>	<u>199.7</u>	<u>200.5</u>	<u>206.7</u>
	65.4	57.8	67.5	70.9	68.2	80.2
	54.0	61.9	81.6	142.7	104.3	104.9
	8.4	7.6	8.0	8.7	8.7	8.1
	5.5	5.1	4.7	4.4	4.7	4.2
	<u>133.3</u>	<u>132.4</u>	<u>161.8</u>	<u>226.7</u>	<u>185.9</u>	<u>197.4</u>
	(2.8)	8.7	(17.1)	(27.0)	14.6	9.3
	30.1	26.5	17.4	31.0	17.3	34.4
	(21.5)	(46.4)	(19.3)	(22.9)	(21.1)	(36.9)
	-	-	68.9	-	-	-
	-	-	(60.4)	-	-	-
	-	-	-	-	-	-
	<u>8.6</u>	<u>(19.9)</u>	<u>6.6</u>	<u>8.1</u>	<u>(3.8)</u>	<u>(2.5)</u>
\$	<u>5.8</u>	<u>\$ (11.2)</u>	<u>\$ (10.5)</u>	<u>\$ (18.9)</u>	<u>\$ 10.8</u>	<u>\$ 6.8</u>
	13.0%	13.4%	15.0%	13.7%	13.8%	9.0%

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

**VALLEY WATER**  
**Water Revenue by Category**  
**Last Ten Fiscal Years**  
**(Dollars in Millions)**

Fiscal Year	Ground Water Revenue	Treated Water Revenue	Surface & Recycled Water Revenue	Total Water Revenue
2011	\$ 50.4	\$ 70.1	\$ 0.8	\$ 121.3
2012	48.0	92.9	0.8	141.8
2013	62.1	92.4	1.3	155.7
2014	84.3	86.4	1.7	172.4
2015	77.1	76.8	0.9	154.8
2016	61.1	89.4	0.7	151.2
2017	67.9	122.2	0.7	190.9
2018	97.5	132.5	1.0	231.0
2019	81.9	144.0	1.8	227.7
2020	112.6	152.6	1.7	266.9



Source: Santa Clara Valley Water District, Wells & Water Production Unit

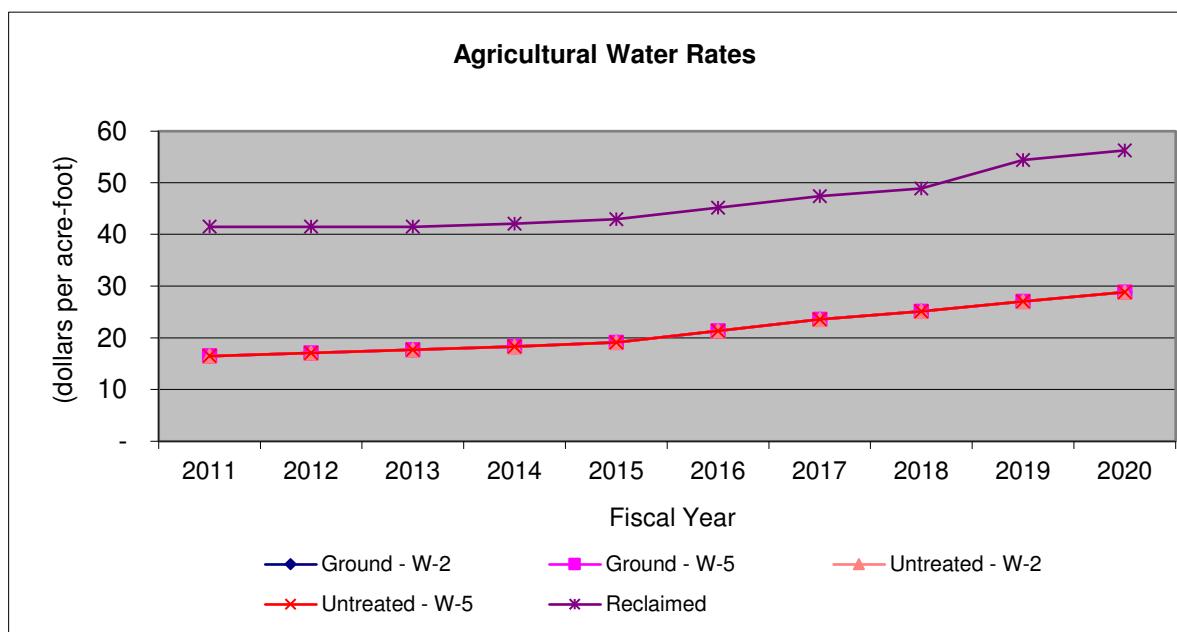
**Valley Water**  
**Principal Water Revenue Customers**  
**Current year and Nine years ago**  
**(Dollars in Millions)**

Water Customer	Fiscal Year 2020			Fiscal Year 2011		
	Water Revenue	Rank	Percent of Total Water Revenue	Water Revenue	Rank	Percent of Total Water Revenue
San Jose Water Company	\$ 155.4	1	58.22%	\$ 68.0	1	56.06%
Santa Clara City Water Department	20.5	2	7.68%	10.0	2	8.24%
California Water Service Company	18.6	3	6.97%	6.8	4	5.61%
San Jose City Water	18.3	4	6.86%	8.6	3	7.09%
Sunnyvale City Water Department	13.3	5	4.98%	6.5	5	5.36%
Great Oaks Water Company	10.6	6	3.97%	4.2	6	3.46%
City of Milpitas	4.2	7	1.57%	2.2	8	1.81%
Gilroy City Water Department	4.0	8	1.50%	2.3	7	1.90%
City of Cupertino	3.7	9	1.39%	2.0	10	1.65%
Morgan Hill City Water Department	3.6	10	1.35%	2.0	9	1.65%
Total	<u>\$ 248.6</u>		<u>93.14%</u>	<u>\$ 110.6</u>		<u>91.18%</u>
Total Water Sales	<u>\$ 266.9</u>			<u>\$ 121.3</u>		

Source: Santa Clara Valley Water District, Revenue Management Unit

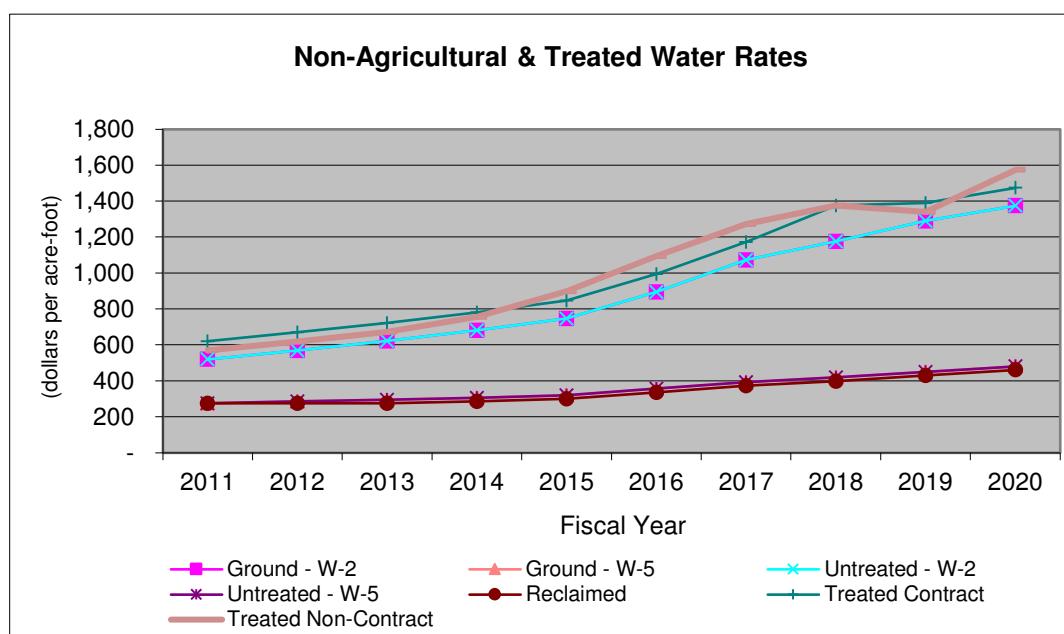
**Valley Water**  
**Water Enterprise Rates Summary**  
**Last Ten Fiscal Years**  
**(Rates in Dollars per Acre-foot)**

Fiscal Year	Groundwater Rates				Treated Water Rates	
	Zone W-2		Zone W-5		Contract	Non Contract
	AG	Non-AG	AG	Non-AG		
2011	16.50	520.00	16.50	275.00	620.00	570.00
2012	17.10	569.00	17.10	285.00	669.00	619.00
2013	17.70	622.00	17.70	295.00	722.00	672.00
2014	18.30	680.00	18.30	305.00	780.00	755.00
2015	19.14	747.00	19.14	319.00	847.00	897.00
2016	21.36	894.00	21.36	356.00	994.00	1,094.00
2017	23.59	1,072.00	23.59	393.00	1,172.00	1,272.00
2018	25.09	1,175.00	25.09	418.00	1,375.00	1,375.00
2019	27.02	1,289.00	27.02	450.00	1,389.00	1,339.00
2020	28.86	1,374.00	28.86	481.00	1,474.00	1,574.00



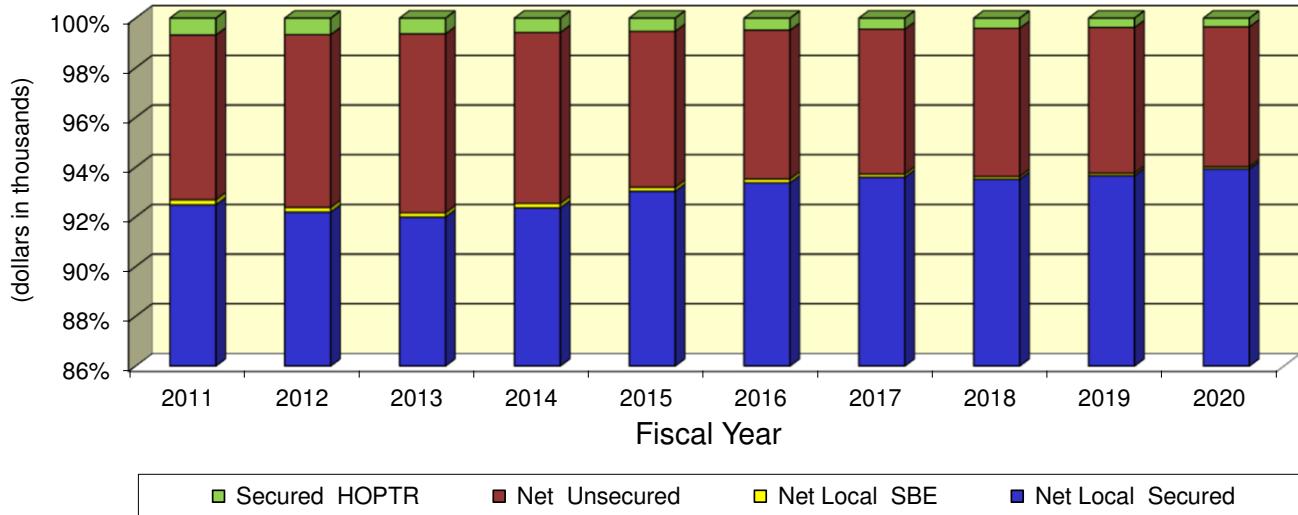
Source: Santa Clara Valley Water District, Wells & Water Production Unit

Untreated Water Rates				Reclaimed Water Rates	
Zone W-2		Zone W-5		AG	Non-AG
AG	Non-AG	AG	Non-AG	AG	Non-AG
16.50	520.00	16.50	275.00	41.50	275.00
17.10	569.00	17.10	285.00	41.50	275.00
17.70	622.00	17.70	295.00	41.50	275.00
18.30	680.00	18.30	305.00	42.10	285.00
19.14	747.00	19.14	319.00	42.94	299.00
21.36	894.00	21.36	356.00	45.16	336.00
23.59	1,072.00	23.59	393.00	47.38	373.00
25.09	1,175.00	25.09	418.00	48.88	398.00
27.02	1,289.00	27.02	450.00	54.41	430.00
28.86	1,374.00	28.86	481.00	56.25	461.00



**Valley Water**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
(Dollars in Thousands)

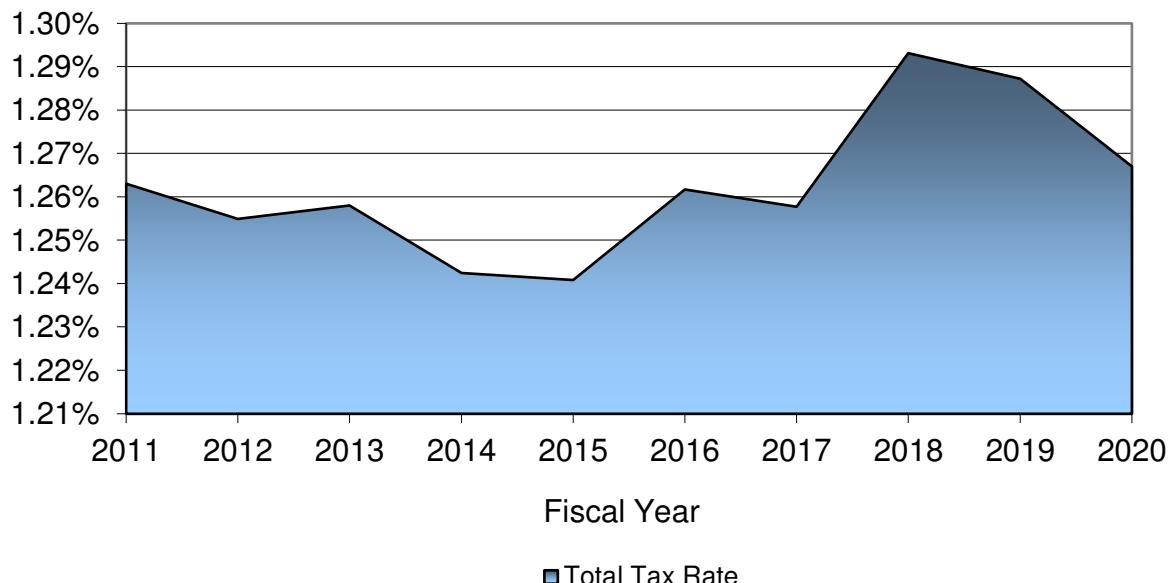
<b>Fiscal Year</b>	<b>Exempt Valuation</b>				<b>District Direct Rate</b>	<b>Total District Direct Tax</b>			
	<b>Net Local Secured</b>	<b>SBE</b>	<b>Total Secured</b>	<b>Net Unsecured</b>			<b>(c) = (a+b)</b>	<b>(d)</b>	<b>(c x d)</b>
2011	\$ 274,020,130	\$ 595,208	\$ 274,615,338	\$ 19,652,921	\$ 294,268,259	\$ 2,007,881	\$ 296,276,140	0.0072%	\$ 21,331.88
2012	275,581,705	557,469	276,139,174	20,791,740	296,930,914	1,978,658	298,909,572	0.0064%	19,130.21
2013	283,903,536	525,302	284,428,838	22,225,683	306,654,521	1,951,818	308,606,339	0.0069%	21,293.84
2014	308,939,519	596,002	309,535,521	23,021,092	332,556,613	1,920,733	334,477,346	0.0070%	23,413.41
2015	332,220,200	577,096	332,797,296	22,417,252	355,214,548	1,891,373	357,105,921	0.0065%	23,211.88
2016	362,318,558	594,415	362,912,973	23,239,529	386,152,502	1,874,832	388,027,334	0.0057%	22,117.56
2017	392,058,176	524,128	392,582,304	24,439,939	417,022,243	1,850,004	418,872,247	0.0086%	36,023.01
2018	420,616,061	476,901	421,092,962	26,855,499	447,948,461	1,824,379	449,772,840	0.0062%	27,885.92
2019	452,259,125	451,125	452,710,250	28,342,158	481,052,408	1,808,872	482,861,280	0.0042%	20,280.17
2020	484,249,401	442,613	484,692,014	29,026,589	513,718,603	1,791,435	515,510,038	0.0041%	21,135.91



Source: County of Santa Clara Compilation of Tax Rates & Information

**Valley Water**  
**Property Tax Rates-Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

Fiscal Year	Basic County Wide Levy	County	Cities	Santa Clara Valley Water District	Schools and Other Districts	Total Tax Rate
2011	1.0000%	0.0388%	0.0350%	0.0072%	0.1820%	1.2630%
2012	1.0000%	0.0388%	0.0334%	0.0064%	0.1763%	1.2549%
2013	1.0000%	0.0388%	0.0316%	0.0069%	0.1807%	1.2580%
2014	1.0000%	0.0388%	0.0279%	0.0070%	0.1687%	1.2424%
2015	1.0000%	0.0388%	0.0253%	0.0065%	0.1702%	1.2408%
2016	1.0000%	0.0388%	0.0223%	0.0057%	0.1949%	1.2617%
2017	1.0000%	0.0388%	0.0207%	0.0086%	0.1896%	1.2577%
2018	1.0000%	0.0597%	0.0186%	0.0062%	0.2087%	1.2932%
2019	1.0000%	0.0565%	0.0170%	0.0042%	0.2095%	1.2872%
2020	1.0000%	0.0557%	0.0226%	0.0041%	0.1846%	1.2670%



Source: County of Santa Clara, Department of Finance (tax rate area 17-028)

**Valley Water**  
**Principal Property Tax Payers**  
**Current year and Nine years ago**  
(Dollars in Thousands)

Taxpayer	Fiscal Year 2020 <sup>(2)</sup>			Fiscal Year 2011 <sup>(3)</sup>		
	Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Taxable Assessed Value	Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Taxable Assessed Value
Leland Stanford Jr, University	\$ 6,983,802	1	1.35%			
Google Inc.	6,283,409	2	1.22%			
Campus Holdings Inc.	3,570,308	3	0.69%			
Sobrato Interests	2,249,529	4	0.44%			
Essex Portfolio LP	1,884,353	5	0.37%			
Apple Computer Inc.	1,634,773	6	0.32%	\$ 972,198	4	0.33%
Cisco Technology	1,618,351	7	0.31%	1,213,574	2	0.41%
Intel Corporation	1,030,820	8	0.20%	698,963	8	0.24%
VF Mall LLC	928,753	9	0.18%			
Lockheed Missiles and Space Co. Inc.	928,354	10	0.18%			
Applied Materials Inc.	892,091	11	0.17%			
FRIT San Jose Town & Country Village LLC	866,976	12	0.17%			
San Jose Water Works	840,794	13	0.16%			
CW SPE LLC	756,467	14	0.15%			
Trishman Speyer Archstone-Smith	684,287	15	0.13%			
Samsung Electronics America, Inc.	683,044	16	0.13%			
Yahoo Holdings Inc.	669,497	17	0.13%	593,084	9	0.20%
River View Apartments LLC	666,236	18	0.13%			
Menlo & Juniper Networks LLC	623,437	19	0.12%			
Xeres Ventures LLC	586,734	20	0.11%			
Pacific Gas & Electric Co.				1,652,772	1	0.56%
Pacific Bell dba AT&T CA				469,557	10	
Blackhawk Development				1,050,470	3	0.35%
Silicon Valley CA, LLC				814,802	6	
Westfield Malls				813,341	7	0.27%
The Irvine Company, LLC				908,310	5	0.31%
<b>Total</b>	<b>\$ 34,382,015</b>		<b>6.66%</b>	<b>\$ 9,187,071</b>		<b>2.67%</b>
<b>Net Assessed Value of Taxable Property</b>	<b>\$ 515,510,038</b>			<b>\$ 296,276,140</b>		

<sup>(1)</sup> Includes taxable properties only.

<sup>(2)</sup> Source: California Municipal Statistics, Inc.

<sup>(3)</sup> Source: Santa Clara County Tax Collector's Office

Valley Water  
Computation of District Act Debt Margin  
June 30, 2020  
(Dollars in Millions)

Authorized short-term debt under authority of District Act Section 25.6	\$ 8.0
Outstanding short-term debt under Section 25.6, June 30, 2020	<u>-</u>
District Act Section 25.6 debt margin on short-term debt	<u><u>\$ 8.0</u></u>

Note:

The Santa Clara Valley Water District's debt issuance practices are governed by the provisions of California law and Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act). The District Act sets the limit on short term debt obligations (maturity of less than five years) at \$8,000,000.

The District may also issue short term notes under the tax and revenue anticipation note statute included in the California Government Code (sections 53850-53858). Under the tax and revenue anticipation note statute, the District may issue notes, provided the principal and interest are not to exceed 85% of the uncollected revenues of the District on the date such notes are issued (and subject to certain other limitations including a 15 month maturity provision). Section 53851 provides that the tax and revenue anticipation note statute is separate authority for the District to issue notes and any amount borrowed under the tax and revenue anticipation note statute is not limited by any other provision of law.

The District has elected to issue notes under the tax and revenue anticipation note statute to support the commercial paper program because it allows a larger amount of notes to be issued even though there is a shorter limitation on maturities.

The District is in compliance with its District Act and the debt issuance provisions of California law.

**Valley Water**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
**(Dollars in Millions, Except Per Capita)**

Fiscal Year	Governmental Activities		Business-type Activities		
	General Obligation Bonds	Certificate of Participation	General Obligation Bonds	Revenue Bonds/	Certificate of Participation
2011	\$ -	\$ 142.1	\$ 0.4	\$ 213.3	
2012	-	132.5	-	208.4	
2013	-	131.2	-	201.8	
2014	-	122.4	-	201.5	
2015	-	117.1	-	191.5	
2016	-	108.4	-	440.1	
2017	-	105.5	-	443.6	
2018	-	95.3	-	423.8	
2019	-	85.1	-	509.2	
2020	-	75.4	-	495.0	

Source: Santa Clara Valley Water District, General Accounting Unit

Total Primary Government	Percentage of Personal Income	Per Capita
\$ 355.8	0.3180%	\$ 188
340.9	0.2788%	179
333.0	0.2549%	181
323.9	0.2283%	173
308.6	0.2154%	163
548.5	0.3163%	285
549.1	0.2890%	283
519.1	0.2483%	267
594.3	0.2815%	304
570.4	0.2675%	291

**Valley Water  
Revenue Bond Coverage  
Last Ten Fiscal Years  
(Dollars in Millions)**

	2011	2012	2013	2014
Adjusted revenues	\$ 133.7	\$ 154.8	\$ 171.1	\$ 182.3
Adjusted operating expenses	108.1	111.5	111.1	118.1
Net revenue	<u>25.6</u>	<u>43.3</u>	<u>60.0</u>	<u>64.2</u>
 <u>Senior debt obligations</u>				
Net revenue available for debt service	25.6	43.3	60.0	64.2
Debt obligation				
Principal	5.0	5.2	7.0	7.0
Interest	8.0	7.9	7.6	7.5
Debt service requirement	<u>13.0</u>	<u>13.1</u>	<u>14.6</u>	<u>14.5</u>
Coverage factor (1.25 required) <sup>(1)</sup>	<u>1.96</u>	<u>3.28</u>	<u>4.11</u>	<u>4.42</u>
 <u>Parity obligations</u>				
Net revenue available for debt service				
Debt obligation				
Principal				
Interest				
Debt service requirement				
Coverage factor (1.25 required) <sup>(2)</sup>				
 <u>Senior/parity/subordinate obligations</u>				
Net revenue available for debt service				
Debt obligation - senior and parity				
Senior				
Parity				
subordinate				
Debt service requirement				
Coverage factor (1.10 required) <sup>(3)</sup>				

Source: Santa Clara Valley Water District General Accounting Unit

In July 1994, the District refunded its outstanding water revenue bonds and restructured its debt covenants under a Senior Master Resolution (94-58, as amended by 06-80) governing the issuance of all Water Utility System Senior debt obligations, including the method of calculating Senior Debt Service coverage ratio.

In February 2016, the District Board adopted the Water Utility Parity System Master Resolution (16-10) governing issuance of all Water Utility System Parity debt obligations, calculating the method of calculating Parity Debt Service coverage ratio.

Prescribed by the aforementioned Master Resolutions, operating revenues and expenses include adjustments which relate primarily to intergovernmental revenues, depreciation and amortization, other post employment benefits, and compensated absences and claims.

2015	2016	2017	2018	2019	2020
\$ 154.7	\$ 182.4	\$ 207.9	\$ 254.2	\$ 242.3	\$ 284.6
130.9	141.4	130.3	172.4	148.1	146.6
<u>23.8</u>	<u>41.0</u>	<u>77.6</u>	<u>81.8</u>	<u>94.2</u>	<u>138.0</u>
23.8	41.0	77.6	81.8	94.2	138.0
7.5	3.9	3.8	2.1	2.2	0.8
7.5	6.1	4.8	1.8	2.1	1.5
<u>15.0</u>	<u>10.0</u>	<u>8.6</u>	<u>3.9</u>	<u>4.3</u>	<u>2.3</u>
1.59	4.10	8.97	21.16	21.94	60.00
31.0	69.0	77.9	89.9	135.7	
-	-	6.3	8.6	12.3	
2.1	12.4	15.0	15.1	18.6	
2.1	12.4	21.3	23.7	30.9	
<u>14.97</u>	<u>5.54</u>	<u>3.67</u>	<u>3.78</u>	<u>4.39</u>	
41.0	77.6	81.8	94.2	138.0	
10.0	8.6	3.9	4.3	2.3	
2.1	12.4	21.3	23.7	30.9	
0.2	-	0.4	1.7	0.3	
<u>12.3</u>	<u>21.0</u>	<u>25.6</u>	<u>29.7</u>	<u>33.5</u>	
3.34	3.68	3.21	3.17	4.12	

<sup>(1)</sup> The senior obligation minimum debt service coverage requirement is 1.25, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

<sup>(2)</sup> The parity obligation minimum debt service coverage requirement is 1.25, per the Parity Master Resolution (16-10).

<sup>(3)</sup> The senior/parity/subordinate obligation minimum debt service coverage requirement is 1.10, per the Water Utility Senior Master Resolution (94-58, as amended by 06-80).

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

**Valley Water**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2020**

2019-20 Assessed Valuation

	515,510,038.00		District's Share of
	Total Debt-06/30/2020	% Applicable <sup>(1)</sup>	Debt-06/30/2020
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Santa Clara County	\$ 881,455,000	100%	\$ 881,455,000
Foothill-DeAnza Community College District	607,960,590	100%	607,960,590
San Jose-Evergreen Community College District	857,235,939	100%	857,235,939
West Valley-Mission Community College District	617,330,000	99.045%	611,434,499
Other Community College Districts	387,453,748	0.052-75.229%	93,473,580
Gilroy Unified School District	284,057,495	100%	284,057,495
Palo Alto Unified School District	273,760,962	100%	273,760,962
San Jose Unified School District	527,019,025	100%	527,019,025
Santa Clara Unified School District	1,043,175,000	100%	1,043,175,000
Other Unified School Districts	342,675,270	1.143-100%	285,758,085
Campbell Union High School District	372,245,000	100%	372,245,000
East Side Union High School District	903,308,548	100%	903,308,548
Fremont Union High School District	520,515,088	100%	520,515,088
Other High School Districts	316,758,515	0.551-100%	215,800,901
Campbell School District	218,860,233	100%	218,860,233
Cupertino Union School District	281,813,303	100%	281,813,303
Evergreen School District	143,994,612	100%	143,994,612
Franklin McKinley School District	138,154,978	100%	138,154,978
Los Altos School District	177,350,000	100%	177,350,000
Los Gatos Union School District	76,655,000	100%	76,655,000
Moreland School District	98,962,251	100%	98,962,251
Oak Grove School District	228,549,095	100%	228,549,095
Sunnyvale School District	217,180,820	100%	217,180,820
Other School Districts	737,788,043	4.444-100%	730,512,123
City of Gilroy	27,087,578	100%	27,087,578
City of Palo Alto	58,775,000	100%	58,775,000
City of San Jose	468,980,000	100%	468,980,000
City of Saratoga	8,075,000	100%	8,075,000
Saratoga Fire Protection District	2,533,961	100%	2,533,961
El Camino Hospital District	120,690,000	100%	120,690,000
City Community Facilities Districts	31,121,325	100%	31,121,325
City of San Jose Special Assessment Bonds	7,505,000	100%	7,505,000
Other City 1915 Act Bonds (Estimated)	27,615,000	100%	27,615,000
Midpeninsula Regional Open Space District	88,810,000	67.377%	59,837,514
<b>Santa Clara Valley Water District Benefit Assessment District</b>	<b>65,495,000</b>	<b>100%</b>	<b>65,495,000</b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 10,666,947,505</b>

Ratios to the 2019-20 Assessed Valuation

Direct Debt	( \$65,495,000 )	0.01%
Total Direct and Overlapping Tax and Assessment Debt		2.07%

**OVERLAPPING GENERAL FUND DEBT:**

	Total Debt-06/30/2020	% Applicable <sup>(1)</sup>	District's Share of
	Total Debt-06/30/2020	% Applicable <sup>(1)</sup>	Debt-06/30/2020
Santa Clara County General Fund Obligations	\$ 966,725,100	100%	\$ 966,725,100
Santa Clara County Pension Obligation Bonds	346,996,639	100%	346,996,639
Santa Clara County Office of Education Certificates of Participation	3,480,000	100%	3,480,000
Foothill-De Anza Community College District General Fund Obligations	24,092,620	100%	24,092,620
San Jose-Evergreen Community College District Other Post-Employment Benefit Obligations	47,450,000	100%	47,450,000
Gavilan Joint Community College District General Fund Obligations	6,925,000	75.229%	5,209,608
West Valley-Mission Community College District General Fund Obligations	50,780,000	99.045%	50,295,051
Gilroy Unified School District Certificates of Participation	24,245,000	100%	24,245,000
Other Unified School District School General Fund Obligations	59,474,057	1.143-100%	48,604,730
East Side Union High School District Benefit Obligations	27,475,000	100%	27,475,000
Other Union High School District General Fund Obligations	28,177,797	.0554-100%	25,344,968
Alum Rock Union School District Certificates of Participation	15,920,000	100%	15,920,000
Other School District General Fund Obligations	14,963,159	20.951-100%	14,743,403
City of Cupertino Certificates of Participation	27,010,000	100%	27,010,000
City of Gilroy Certificates of Participation	35,710,000	100%	35,710,000
City of San Jose General Fund Obligations	407,780,000	100%	407,780,000
City of Santa Clara General Fund Obligations	15,000,000	100%	15,000,000
City of Sunnyvale General Fund Obligations	13,145,000	100%	13,145,000
Other City General Fund Obligations	61,420,843	100%	61,420,843
Santa Clara County Vector Control District Certificates of Participation	2,010,000	100%	2,010,000
Midpeninsula Regional Park District General Fund Obligations	111,985,600	67.377%	75,452,538
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 2,238,110,500</b>
Less: Santa Clara County supported general fund obligations			32,131,373
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 2,205,979,127</b>

**OVERLAPPING TAX INCREMENT DEBT:**

	\$ 1,764,745,000	100%	\$ 1,764,745,000
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**TOTAL DIRECT DEBT**

**\$ 65,495,000**

\$ 14,604,308,005

\$ 14,572,176,632

**GROSS COMBINED TOTAL DEBT**

(2)

\$ 14,669,803,005

\$ 14,637,671,632

**NET COMBINED TOTAL DEBT**

(1) The percent of overlapping debt applicable to the Water District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the Water District divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to the 2019-20 Assessed Valuation

	Ratio
Total Direct Debt	0.01%
Gross Combined Total Debt	2.85%
Net Combined Total Debt	2.84%
<u>Ratio to Redevelopment Incremental Valuation (\$58,410,378.854)</u>	
Total Overlapping Tax Increment Debt	3.02%

Source: California Municipal Statistics, Inc.

**Valley Water**  
**Demographic and Economic Statistics**  
**For Santa Clara County**  
**Last Ten Fiscal Years**

Fiscal Year	Population <sup>(1)</sup>	Personal Income (in \$000) <sup>(2)</sup>	Per Capita Personal Income (in \$000)	Change In Consumer Price Index <sup>(3)</sup>	School Enrollment <sup>(4)</sup>	Total Employment <sup>(5)</sup>	Unemployment Rate <sup>(5)</sup>
2011	1,890,909	\$ 111,880,131	59.167	1.1%	266,267	798,200	9.9%
2012	1,899,567	122,259,021	64.362	0.9%	270,109	794,236	8.5%
2013	1,842,254	130,624,491	70.905	1.4%	273,701	865,900	6.8%
2014	1,868,558	141,873,705	75.927	3.0%	276,175	879,500	5.4%
2015	1,889,638	143,292,442	75.831	2.3%	276,689	993,400	3.7%
2016	1,927,888	173,428,896	89.958	2.7%	274,948	996,800	4.0%
2017	1,938,180	190,001,690	98.031	3.5%	273,264	992,900	3.8%
2018	1,947,798	209,019,944	98.522	3.9%	272,132	1,035,600	2.7%
2019	1,954,286	211,110,143	99.177	2.7%	267,224	1,026,700	2.6%
2020	1,961,969	213,221,244	108.677	1.6%	263,449	926,700	10.7%

Source: <sup>(1)</sup> State of California - Department of Finance, Demographics & Research Unit.

<sup>(2)</sup> U.S. Department of Commerce - Bureau of Economic Analysis;

actual data available up to 2018; personal income data for 2019 & 2020 are preliminary and assumes a 1% increase from prior year.

<sup>(3)</sup> U.S. Department of Labor - Bureau of Labor Statistics - San Francisco Bay Region

<sup>(4)</sup> State of California - Department of Education and Santa Clara County Office of Education (grades K to 12)

<sup>(5)</sup> State of California - Employment Development Department

**Valley Water**  
**Principal Employers**  
**Current Year and Nine Years ago**  
*(unaudited)*

Company or Organization	Fiscal Year 2020			Fiscal Year 2011		
	Employees <sup>(1)</sup>	Rank	Percentage of Total County Employment	Employees <sup>(2)</sup>	Rank	Percentage of Total County Employment
Apple Inc.	25,000	1	2.70%	10,000	2	1.25%
Google, Inc. / Alphabet	23,000	2	2.48%			
County of Santa Clara	18,570	3	2.00%			
Stanford University	15,576	4	1.68%			
Facebook Inc.	15,407	5	1.66%			
Tesla Motors Inc.	15,000	6	1.62%			
Stanford Health Care	14,143	7	1.53%			
Cisco Systems	13,683	8	1.48%	13,000	1	1.63%
Kaiser Permanente Northern California	12,500	9	1.35%			
University of California Santa Cruz	8,915	10	0.96%			
Safeway	8,509	11	0.92%			
Gilead Sciences Inc.	8,268	12	0.89%			
Intel Corp.	7,975	13	0.86%	5,000	3	0.63%
City of San Jose	7,728	14	0.83%			
Applied Materials Inc.	6,200	15	0.67%			
Nvidia Corp	6,000	16	0.65%			
Target Corp.	5,500	17	0.59%			
Juniper Networks Inc.	5,130	18	0.55%			
San Mateo County	5,103	19	0.55%			
Stanford Children's Health	5,005	20	0.54%	2,951	9	0.37%
Maxim Integrated Products, Inc.				4,706	4	0.59%
JDS Uniphase Corp.				4,000	5	0.50%
Santa Clara Valley Medical Center				3,500	6	0.44%
Flextronics International				3,490	7	0.44%
Yahoo, Inc.				3,000	8	0.38%
Adobe Systems, Inc.				2,700	10	0.34%
<b>Total</b>	<b>227,212</b>		<b>24.51%</b>	<b>52,347</b>		<b>6.57%</b>
<b>Total County Employment<sup>(3)</sup></b>	<b>926,700</b>			<b>798,200</b>		

Source: <sup>(1)</sup> Silicon Valley Business Journal

<sup>(2)</sup> Rich's Business Information - Santa Clara County

<sup>(3)</sup> State of California - Employment Development Department

**Valley Water**  
**Full-time Equivalent District Employees by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Office of the CEO	11	10	10	10	10	10	11	11	17	20
Office of the District Counsel	9	9	9	9	9	9	10	10	11	11
Community & Government Relations	7	8	8	8	8	18	23	27	28	32
County-Wide Watershed Management	117	105	98	98	98	112	109	109	133	133
Capital Programs	143	126	117	112	115	118	112	112	108	111
Water Utility Operations	43	43	43	43	43	43	43	43	41	41
Water Supply	11	11	11	11	11	11	11	11	8	8
Water Conservation	10	10	10	10	10	10	11	11	12	12
Surface & Groundwater Management	34	34	34	34	34	36	33	33	35	35
Water Quality	22	22	22	22	22	22	28	28	24	24
Control Systems	11	11	11	11	11	11	14	14	14	14
Water Utility Maintenance	23	23	23	23	23	23	28	28	28	28
Treated Water Operations	36	36	36	36	36	38	44	44	43	43
Raw Water Operations	25	25	25	25	25	28	37	37	37	40
Administrative & Business Management	11	8	8	8	8	8	11	11	3	5
Clerk of the Board	12	12	12	12	12	12	14	14	10	10
Organizational Training & Development	6	6	6	6	6	6	4	4	4	8
Business Support Services	16	16	16	16	16	16	16	16	20	25
Library & Records	6	6	6	6	6	6	5	5	6	6
Budget Office	8	8	8	8	8	8	7	7	7	10
Accounting	18	18	18	16	18	18	17	17	16	16
Information & Systems Management	43	39	39	39	39	39	36	36	32	32
Technical Services	3	3	3	3	3	3	3	3	3	3
Wells & Water Production	18	18	18	18	18	18	18	18	15	15
Real Estate & Right-of-Way	8	8	8	8	8	9	10	10	8	10
Equipment Management	12	12	12	12	12	12	12	12	10	10
Warehouse & Inventory Control	6	6	6	6	6	6	5	5	5	5
Facilities Maintenance	15	15	15	15	15	15	15	15	14	16
Purchasing	9	9	9	9	9	10	10	10	9	12
Permits	16	16	16	13	16	16	14	14	16	16
Contracts Administration	5	4	4	4	4	5	5	5	5	10
Human Resources & Benefits	21	21	21	19	21	21	18	18	22	22
Health & Safety	6	6	6	10	6	6	10	10	9	9
<b>Total</b>	<b>741</b>	<b>704</b>	<b>688</b>	<b>680</b>	<b>686</b>	<b>723</b>	<b>744</b>	<b>748</b>	<b>753</b>	<b>792</b>

Source: Santa Clara Valley Water District, Human Resources & Benefits Unit

**Valley Water**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>District Well Ordinance Program</b>										
New Wells	775	541	443	513	407	424	321	410	325	298
Destroyed Wells	653	531	502	744	1,504	1,167	945	463	494	387
Well Permits	1,626	1,740	1,265	1,697	2,285	1,799	1,546	1,272	1,078	1,123
Well Inspections	1,517	1,350	1,080	1,398	2,092	1,848	1,687	1,093	1,030	1,163
<b>Watershed Management</b>										
Miles of Vegetation Removed/Managed	175	241	221	206	177	164	116	168	163	161
Cubic Yards of Sediment Removed	15,623	32,456	21,456	34,596	4,129	3,929	83,792	34,881	19,279	49,641
Miles of Bank Erosion Protection	1.8	0.5	1.1	2.1	0.2	1.2	0.5	0.5	0.2	0.3
<b>Laboratory Services Unit</b>										
Water Samples Tested (approx.)	132,638	111,265	158,082	170,055	169,182	178,934	179,252	156,347	151,118	151,500
Water Quality Violations	-	-	-	-	-	-	-	-	-	-
<b>Water Measurement Program</b>										
Meter Reads/Site Visits	5,981	5,939	6,019	5,964	5,908	5,934	5,489	6,264	5,384	6,740
Meter Repairs/Preventative Maintenance	328	316	313	272	201	323	301	307	381	183
Backflow Device Tests	170	151	177	159	203	153	149	227	188	217
<b>Community Projects Review</b>										
Permits Issued	229	220	257	201	220	289	228	177	160	137
Land Development Review Requests	1,030	964	865	940	843	45	124	749	938	809
Underground Service Alerts	28,651	37,348	46,599	53,782	58,871	12,118	8,042	8,529	9,859	8,560
Requests for Flood Zone Information	90	70	72	51	24	92	26	18	18	11
Environmental Impact Reports Reviewed	107	55	33	65	68	32	56	53	83	82
Water Resource Protec. Ordinance Violations	125	234	193	184	130	220	163	186	208	240
<b>Human Resources</b>										
Permanent Positions Hired	13	17	21	31	54	150	112	133	79	162
Temporary Workers Employed	121	112	140	247	134	276	259	122	108	110
Employment Applications Processed	1,000	2,685	1,524	4,236	5,746	5,621	5,847	5,668	5,370	7,860
<b>Health &amp; Safety</b>										
Ergonomic Assessments	44	36	39	38	42	46	44	47	37	12
Confined Space Assessments	247	117	139	261	147	204	120	223	192	205
Employee Safety Committee Meetings	10	11	9	11	12	12	12	11	8	6
<b>Projects Managed by Type:</b>										
Capital Projects	138	129	126	131	160	165	121	130	121	114
Operating Projects	46	48	43	36	35	39	23	29	17	16
Operations Projects	354	365	396	394	415	409	358	351	335	328

Source: Santa Clara Valley Water District, various government departments

**Valley Water**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Water Utility Enterprise</b>										
Acres of groundwater recharge ponds	393	393	393	393	393	393	393	393	393	393
Miles of canals	17	17	17	17	17	17	17	17	17	17
Miles of pipeline	143	144	144	144	144	144	144	144	144	144
Miles of tunnels	8	8	8	8	8	8	8	8	8	8
Number of treatment plants	3	4	4	4	4	4	4	4	4	4
Number of pumping stations	5	5	5	5	5	5	5	5	5	5
Number of treated water reservoirs	1	1	1	1	1	1	1	1	1	1
<b>Water Utility Operations</b>										
Process Control Instrumentation	1128	1161	1406	1,680	1,443	1,493	1,548	1,534	1,542	1,710
Mechanical Drives	54	54	72	61	56	73	58	61	61	61
Chemical Mixers	87	87	89	111	95	95	92	88	88	126
Electrical Motors	407	432	452	512	439	455	468	464	468	531
Power Distribution Equipment	736	913	1248	1,673	1,140	1,155	1,089	859	870	890
Pumps	496	515	547	601	515	518	517	518	517	584
Utility Vaults & Structures	1050	1051	1062	1,095	1,114	1,340	1,156	1,122	1,166	1,195
Chemical & Water Storage Tanks	179	192	199	176	174	203	168	173	196	202
Valves	1059	1070	1613	1,702	1,600	1,676	1,695	1,710	1,758	1,987
Valve Operators	577	579	799	869	783	782	781	782	789	841
Generators	23	26	25	27	25	29	29	27	30	33
Flow Meters	271	296	381	387	347	377	399	360	361	395
Electric Drives	160	170	173	208	165	162	172	183	191	196
Blowers & Compressors	164	174	146	208	188	185	184	181	187	188
Miscellaneous Equipment	459	467	477	3,306	1,441	1,350	1,356	1,322	1,327	1,345
<b>Watersheds</b>										
Miles of creeks and rivers managed for flood control	700	700	700	700	700	700	700	800 +*	800 +*	800 +*
Number of reservoirs	10	10	10	10	10	10	10	10	10	10
Total District reservoir capacity (acre-feet)	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415	169,415
Acres of Wildlife Habitat Restored	N/A	N/A	569	569	326	326	310	364	364	364
<b>Fleet Equipment</b>										
Class I Passenger Vehicles	190	190	185	186	182	184	179	178	178	175
Class II Heavy Duty Trucks	79	78	82	84	87	82	90	94	94	97
Class III Tractors, Const. Equip., Generators, Forklifts	25	26	24	27	26	26	21	26	26	26
Class IV Misc. Small Tools & Engines	648	643	655	474	506	506	534	478	415	521

Source: Santa Clara Valley Water District, various government departments

\* There are more than 800 miles of creeks in Santa Clara County (SC Co.). SCVWD owns 278 miles of streams in SC Co. Only a portion of these have been modified with flood protection projects. Those are the streams that are maintained by SCVWD.

**Valley Water**  
**Flood Control System**  
**Historical Operating Results**  
**Combined Statement of Revenues and Debt Service Coverage**  
**Last Ten Fiscal Years**  
**(Dollars in Millions)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Flood Control System Revenues:</b>				
Benefit assessment, gross <sup>1</sup>	\$ 19.3	\$ 19.3	\$ 19.4	\$ 16.3
Property tax	47.6	48.5	55.6	57.6
Investment income	1.1	0.6	0.2	1.0
Rental income	1.1	1.2	1.2	1.3
Other	0.6	0.8	1.3	0.7
<b>Total Flood Control System Revenue</b>	<b><u>\$ 69.7</u></b>	<b><u>\$ 70.4</u></b>	<b><u>\$ 77.7</u></b>	<b><u>\$ 76.9</u></b>
<b>Debt Service:</b>				
2003A Certificates of participation <sup>2</sup>	\$ 7.0	\$ 6.0	\$ 1.1	\$ -
2004A Certificates of participation <sup>3/4</sup>	2.4	2.3	2.4	1.4
2007A Certificates of participation <sup>3</sup>	5.8	5.8	5.8	5.8
2012A Certificates of participation	-	-	6.4	6.1
2017A Certificates of participation <sup>4</sup>	-	-	-	-
<b>Total Debt Service</b>	<b><u>\$ 15.2</u></b>	<b><u>\$ 14.1</u></b>	<b><u>\$ 15.7</u></b>	<b><u>\$ 13.3</u></b>
<b>Coverage</b>	<b>4.61</b>	<b>5.00</b>	<b>4.95</b>	<b>5.80</b>

<sup>1</sup> The benefit assessment presented on the Statement of Revenues, Expenditures and Changes in Fund Balances are net of collection fees. For the purpose of the Flood Control System Debt Service Coverage, collection fees are excluded. Therefore, the benefit assessments presented above have been increased as follows (in thousands):

FY2020 - \$ 135  
 FY2019 - \$ 149  
 FY2018 - \$ 148  
 FY2017 - \$ 149  
 FY2016 - \$ 149  
 FY2015 - \$ 162  
 FY2014 - \$ 163  
 FY2013 - \$ 194  
 FY2012 - \$ 193  
 FY2011 - \$ 193

In accordance with voter authorizations, benefit assessments are set at 1.25 of gross debt service allocable to flood control projects starting during Fiscal Year 2001.

Source: Santa Clara Valley Water District, General Accounting Unit

2015	2016	2017 <sup>5</sup>	2018	2019	2020
\$ 16.2	\$ 14.8	\$ 14.9	\$ 14.9	\$ 14.9	\$ 13.5
62.9	68.0	74.8	79.5	90.7	93.1
0.9	1.3	0.3	0.7	4.9	5.2
1.4	1.5	1.5	1.6	1.7	1.7
0.6	1.2	1.9	4.0	1.7	1.6
<b>\$ 82.0</b>	<b>\$ 86.8</b>	<b>\$ 93.4</b>	<b>\$ 100.7</b>	<b>\$ 113.9</b>	<b>\$ 115.1</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1.3	1.1	1.1	-	-	-
5.8	5.8	5.8	-	-	-
6.1	5.3	5.3	5.3	5.3	5.3
-	-	-	6.9	6.9	5.8
<b>\$ 13.2</b>	<b>\$ 12.2</b>	<b>\$ 12.2</b>	<b>\$ 12.2</b>	<b>\$ 12.2</b>	<b>\$ 11.1</b>
6.21	7.14	7.68	8.29	9.37	10.37

<sup>2</sup> The 2003A Certificates were refunded by the 2012A Certificates.

<sup>3</sup> The 2004A and 2007A Certificates were refunded by the 2017A Certificates.

<sup>4</sup> The 2004A and 2017A debt service payments exclude the portion paid by the District General Fund as this portion of debt service was not payable from benefit assessments (see Flood Control Master Resolution 94-60).

<sup>5</sup> The Fiscal Year 2017 debt service coverage calculation was adjusted above to correct overstated debt service previously reported.

Dollar amounts rounded to the thousands prior to fiscal year 2020 were rounded to the millions for comparability; totals and ratios for these periods may not add due to independent rounding.

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