

## **Budget Transmittal Letter for Fiscal Year 2022-23 & 2023-24 Rolling Biennial Budget**

May 10, 2022

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

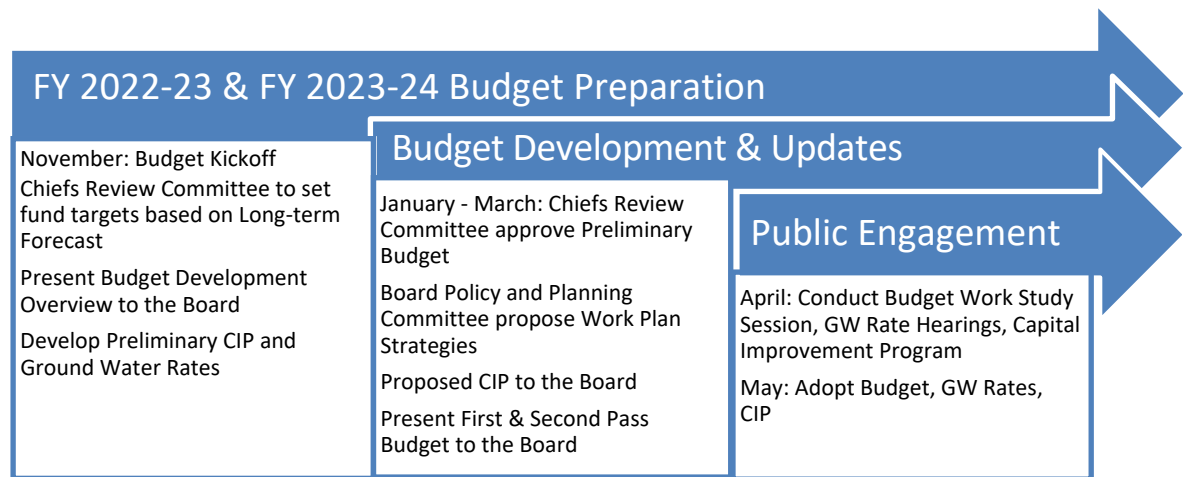
In accordance with Valley Water Policy, I am submitting the Fiscal Years 2022-23 (FY23) & 2023-24 (FY24) Proposed Operating and Capital Rolling Biennial Budget for the Santa Clara Valley Water District (Valley Water). This Budget represents Valley Water's transition to a rolling biennial budget, which allows us to budget for FY23 and plan for FY24. In the rolling biennial budget process, the Board adopts a one year budget and approves a second year Plan, with the FY24 Plan serving as a starting point for the next biennial budget cycle. The rolling biennial budget is updated annually, which is aligned with the guiding State, District Act and Valley Water Policies, and is conducive to long-term planning while remaining responsive to the dynamic and ever-changing needs of the organization. Additionally, it represents Valley Water's mission of providing Santa Clara County safe, clean water for a healthy life, environment, and economy. This Budget provides a comprehensive financial plan that includes a forecast of operating and non-operating revenues and expenditures; financing of long-term capital improvement plans to support infrastructure needs; and funding for the repayment of long-term debt.

In FY23 & FY24, Valley Water will focus on smart investments in water infrastructure and technology to ensure Santa Clara County has sufficient safe, clean water for every person, business, and farm now and into the future. Additionally, we have made significant increases in funding of our conservation programs to promote water conservation as a way of life and equitably prioritize funding to protect and maintain our flood protection assets. In all focus areas we will continue to engage the community and not lose sight of our environmental stewardship goals such as a net positive impact on the environment. Moderate rate increases will allow us to act now to ensure we have enough water to get through the current drought emergency and prepare us for future droughts.

### **FINANCIAL OVERVIEW**

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

The budget development process begins in November of each year and concludes on June 30, with the posting of the adopted budget. The budget development process for the FY23 and FY24 Biennial Budget includes several process improvements and numerous public hearings, as well as input from the Board on urgent priorities for the upcoming fiscal year.



## VALLEY WATER PRIORITIES

In developing the budget, the Board directed its Board Policy and Planning Committee (Committee) to identify and summarize the Board's strategies. This budget is the culmination of the Committee's final recommendation, which ultimately resulted in Board action to accept and adopt the Committee's recommendation. In developing this budget, management identified where resources could shift and scrutinized additional funding requests that would help the organization achieve results.

This proposed budget demonstrates a fiscally responsible, balanced budget that meets the community's expectations of Valley Water. This budget was developed based on the Board's FY 2022-23 Work Plan Goals highlighted below:

1. Efficiently manage water resources across business areas
2. Provide a reliable, safe, and affordable water supply for current and future generations in all communities served
3. Provide Natural Flood Protection to reduce risk and improve health and safety
4. Sustain ecosystem health while managing local water resources for flood protection and water supply
5. Mitigate Carbon Emissions and Adapt Valley Water Operations to Climate Change Impacts
6. Promote effective management of water supply, flood protection, and environmental stewardship through responsive and socially responsible business services

Valley Water is responding to these goals in several ways, including expanded efforts with the proposed addition of 11 new positions for FY 2022-23 and 5 new positions for FY 2023-24.

The organization will incorporate specific activities that address the Board's Work Plan Goals and will periodically update the Board Policy and Planning Committee and the full Board throughout the fiscal year and bring adjustments back to the Board if needed.

## **REVENUE**

The FY 2022-23 & 2023-24 Proposed Rolling Biennial Budget includes projected revenues of approximately \$580.9 million in FY 2022-23, a net increase of \$41.5 million from the \$539.4 million included in the FY 2021-22 Adopted Budget. This increase is primarily derived from the increase in capital reimbursements (\$52.1 million), property taxes (\$8.7 million), intergovernmental services (\$2.0 million) and special parcel taxes (\$2.5 million), offset by decreases in water charges revenue (-\$23.5 million), as well as benefit assessment taxes and other operating and non-operating revenues (-\$0.3 million). In FY 2023-24, revenues are estimated to be \$655.6 million, a net increase of \$74.7 million from the FY 2022-23 Budget. The 12.9% growth is primarily attributed to higher water charges revenue (\$62.1 million), capital reimbursements (\$13.9 million), property taxes (\$4.5 million), other operating/non-operating (\$0.1), and the special parcel tax (\$1.1 million), offset by lower benefit assessment taxes (-\$5.1 million), and intergovernmental services (-\$1.9 million).

## **APPROPRIATIONS/OUTLAYS**

Net total operating and capital outlays for the FY 2022-23 Proposed Budget is \$917.2 million, which includes \$82.4 million in debt service outlays. For the FY 2023-24 Plan, net total operating and capital outlays is \$1.003 billion, which includes \$105.4 million in debt service outlays. This figure does not include capital carry forward that was appropriated by the Board in prior years and is net of General Fund intra-district reimbursements and Internal Service Fund charges.

## **NET OPERATING OUTLAYS**

Net operating outlays for the FY 2022-23 Proposed Budget total \$402.5 million, an increase of \$48.4 million from the FY 2021-22 Adopted Budget. The increase in net outlays is primarily due to Water Banking and Drought Emergency projects, new positions, funding for Enterprise Resource Program (ERP), Water Infrastructure Finance and Innovation Act (WIFIA) program, district election costs, general insurance cost increases, creek maintenance guideline consultant services, Evelyn Avenue Fish ladder design services, and Valley Habitat Agency funding. Net operating outlays for the FY 2023-24 Plan total \$409.3 million, an increase of \$6.8 million from the FY 2022-23 Budget.

## **NET CAPITAL OUTLAYS**

Net capital project appropriations total \$432.4 million in the FY 2022-23 Proposed Budget, an increase of \$20.2 million from the 2021-22 Adopted Budget. It is anticipated that \$67.4 million of the FY 2021-22 Adjusted Budget for capital projects also will carry forward into FY 2022-23 at the close of the current fiscal year as most capital improvement projects will require multiple years to complete. For the FY 2023-24 Plan, net capital project appropriations total \$488.2 million, an increase of \$55.8 million from the FY 2022-23 Budget; \$26.6 million of the FY 2022-23 Budget for capital projects is estimated to be carried forward into the FY 2023-24 Budget. The capital budget represents those projects that have been identified and prioritized in the Five-Year Capital Improvement Program (CIP).

## **INTRA-DISTRICT REIMBURSEMENTS**

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements, totaling \$115.0 million in FY 2022-23 and \$122.2 million in FY 2023-24. Intra-district charges reimburse

the General Fund and Service Funds for functions such as finance, accounting, payroll, human resources, information technology, facilities, organizational leadership, and fleet management.

## OTHER FINANCING SOURCES/USES

Other financing sources include debt financing proceeds to fund capital projects. For FY 2022-23, Valley Water anticipates issuing approximately \$334.5 million in debt proceeds, of which \$281.5 million is to finance the Water Utility system infrastructure improvements and \$53.0 million is for Safe, Clean Water (SCW) capital projects.

## RESERVES

Valley Water reserves are comprised of Restricted Fund Balance reserves, Committed Fund Balance reserves and Assigned Fund Balance reserves. Within these categories are budgeted reserves and special purpose reserves; further detail is found in the FY 2022-23 & FY 2023-24 Rolling Biennial Operating and Capital Budget document beginning on page 3–45. Overall, budgeted reserves for Fiscal Year 2022-23 are expected to increase \$66.2 million to a total of \$402.5 million versus the Adopted FY 2021-22 Budget. This increase is primarily due to decreases in projected FY 2021-22 capital outlays for capital projects, an increase in unsecured capital reimbursements, and increased debt proceeds. For FY 2023-24, budgeted reserves are estimated to increase \$30.4 million to a total of \$432.8 million in FY 2023-24. This overall increase is primarily due to increased unsecured capital reimbursements and debt proceeds offset by increased Capital Outlays. These increases are offset with a decrease in the WUE Fund for purchases of emergency and supplemental water to replenish groundwater levels as Valley Water contends with the continued drought emergency.

| (\$ in Thousands)                                    | Budgetary<br>Basis Actual<br>2020-21 | Adopted<br>Budget<br>2021-22 | Projected<br>Year End<br>2021-22 | Planned<br>Budget<br>2022-23 | Proposed<br>Budget<br>2022-23 | Change from<br>2021-22 |        | Planned<br>Budget<br>2023-24 | Change from<br>2022-23 |        |
|--|--------------------------------------|------------------------------|----------------------------------|------------------------------|-------------------------------|------------------------|--------|------------------------------|------------------------|--------|
|  |                                      |                              |                                  |                              |                               | \$ Diff                | % Diff |                              | \$ Diff                | % Diff |
| Restricted Reserves                                  |                                      |                              |                                  |                              |                               |                        |        |                              |                        |        |
| Safe, Clean Water & Natural<br>Flood Protection Fund | 132,433                              | 123,854                      | 155,601                          | 193,049                      | 151,692                       | 27,838                 | 22%↑   | 184,208                      | 32,516                 | 21%↑   |
| Water Enterprise Funds                               | 72,088                               | 60,107                       | 92,891                           | 67,261                       | 67,261                        | 7,154                  | 12%↑   | 28,114                       | (39,147)               | (58%)↓ |
| Subtotal   | 204,521                              | 183,961                      | 248,492                          | 260,310                      | 218,953                       | 34,992                 | 19%↑   | 212,322                      | (6,631)                | (3%)↓  |
| Committed Reserves                                   |                                      |                              |                                  |                              |                               |                        |        |                              |                        |        |
| General Fund   | 7,130                                | 6,576                        | 6,982                            | -                            | 9,094                         | 2,518                  | 38%↑   | 12,574                       | 3,480                  | 38%↑   |
| Watershed Stream<br>Stewardship Fund                 | 131,489                              | 74,324                       | 110,668                          | 104,150                      | 102,259                       | 27,935                 | 38%↑   | 117,998                      | 15,739                 | 15%↑   |
| Water Enterprise Funds                               | 225,519                              | 56,730                       | 86,422                           | 60,183                       | 56,310                        | (420)                  | (1%)↓  | 75,326                       | 19,016                 | 34%↑   |
| Internal Service Funds                               | 29,083                               | 14,714                       | 18,946                           | 12,264                       | 15,864                        | 1,150                  | 8%↑    | 14,613                       | (1,251)                | (8%)↓  |
| Subtotal   | 393,221                              | 152,344                      | 223,018                          | 176,597                      | 183,527                       | 31,183                 | 20%↑   | 220,511                      | 36,984                 | 20%↑   |
| Grand Total  | 597,742                              | 336,305                      | 471,510                          | 436,907                      | 402,480                       | 66,175                 | 20%↑   | 432,833                      | 30,353                 | 8%↑    |

## DEBT OVERVIEW

The FY 2022-23 debt portfolio total outstanding principal of \$1.02 billion includes \$158.6 million for Watersheds and \$863.5 million for the Water Utility Enterprise. The annual debt service budget of \$82.4 million includes repayment of principal, interest and various banking and legal fees for the debt portfolio.

The long-term strategy is to issue short-term debt to provide just-in-time funding for eligible capital projects as actual expenditures are incurred. As the outstanding short-term debt obligations reach the program capacity, the outstanding short-term debt will be refunded with long-term debt to be repaid over 30 years. For the Water Utility Program, the issuance of long-term debt helps keep water charges stable over the long-term while ensuring inter-generational equity by matching the timing of the debt service repayment to the useful life of the asset and allowing for the completion of capital projects in a timely manner. The February 2022 Protection and Augmentation of Water Supplies (PAWS) report demonstrates that Water Utility finances will be sustainable, including the issuance of debt, assuming the forecasted water charge increases.

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

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

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

## BOND RATINGS

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

Please see table below for ratings going into FY 2022-23.

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

## STAFFING

The FY 2022-23 & FY 2023-24 Proposed Rolling Biennial Budget includes 918 positions including, 904 regular positions, 9 limited term positions, and 5 fellowships for FY 2022-23, and 923 positions including, 909 regular positions, 9 limited term positions, and 5 fellowships for FY 2023-24. This includes funding for 11 new positions in FY 2022-23 and 5 new positions for FY 2023-24. For a comprehensive schedule of district-wide salaries and benefits, please refer to the *Salaries & Benefits* in the "Financial Overview" section.

### Regular Position Count by Organization Area

|                                       | Adjusted<br>Budget<br>2020-21 <sup>2</sup> | Adjusted<br>Budget<br>2021-22 <sup>3</sup> | Proposed<br>Budget<br>2022-23 | Change<br>from<br>2021-22 | Proposed<br>Plan<br>2023-24 | Change<br>from<br>2022-23 |
|---------------------------------------|--|--|-------------------------------|---------------------------|-----------------------------|---------------------------|
| Board Appointed Officers <sup>1</sup> | 73   | 75   | 77                            | 2                         | 77                          | 0                         |
| Office of Integrated Water Management | 38   | 53   | 55                            | 2                         | 56                          | 1                         |
| External Affairs                      | 42   | 45   | 45                            | 0                         | 45                          | 0                         |
| Administrative Services               | 159  | 162  | 163                           | 1                         | 163                         | 0                         |
| Water Utility                         | 293  | 297  | 300                           | 3                         | 304                         | 4                         |
| Watersheds                            | 254  | 261  | 264                           | 3                         | 264                         | 0                         |
| <b>Districtwide</b>                   | <b>859</b>                                 | <b>893</b>                                 | <b>904</b>                    | <b>11</b>                 | <b>909</b>                  | <b>5</b>                  |

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

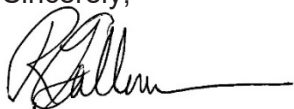
<sup>2</sup> In FY 2020-21, A new Office of Integrated Water Management was created. A new Racial Equity, Diversity and Inclusion unit was created in External Affairs.

<sup>3</sup> During FY 2021-22, Board approved 14 new regular positions and 2 limited term positions; Computer-Aided Design and Drafting (CADD) Unit moved from Watersheds to Office of Integrated Water Management.

### FUTURE OUTLOOK

Santa Clara County residents and businesses are being affected by a historic drought and Valley Water is being proactive in combating the current drought emergency. We continue to mandate a 15% reduction in water use compared to 2019. As spring and summer months approach, the Board of Directors may consider other measures to increase conservation. Additionally, as we face climate change and more severe droughts, Valley Water is investing in our water infrastructure to ensure a reliable water supply for generations to come. This includes upgrading and maintaining our pipelines and water treatment plants, evaluating new water storage projects, increasing our use of recycled and purified water, and expediting the Anderson Dam Seismic Retrofit project. Valley Water is using all financial resources available to offset the expected rate impacts. This strategy includes drawing down cash reserves to help pay for emergency water purchases, and vigorously pursuing federal and state grant funding. Additionally, Valley Water is transferring property tax revenues previously earmarked for other uses, as a onetime measure to offset rate impacts in FY 2022–23. It is prudent fiscal policy to start planning for the future by acting now and prioritizing projects for climate unknowns like drought and other natural disasters. Valley Water will remain committed to providing Santa Clara County with safe, clean water for a healthy life, environment, and economy.

Sincerely,



Rick L. Callender, Esq.  
Chief Executive Officer