

## Budget Transmittal Letter for Fiscal Year 2020-21

May 26, 2020

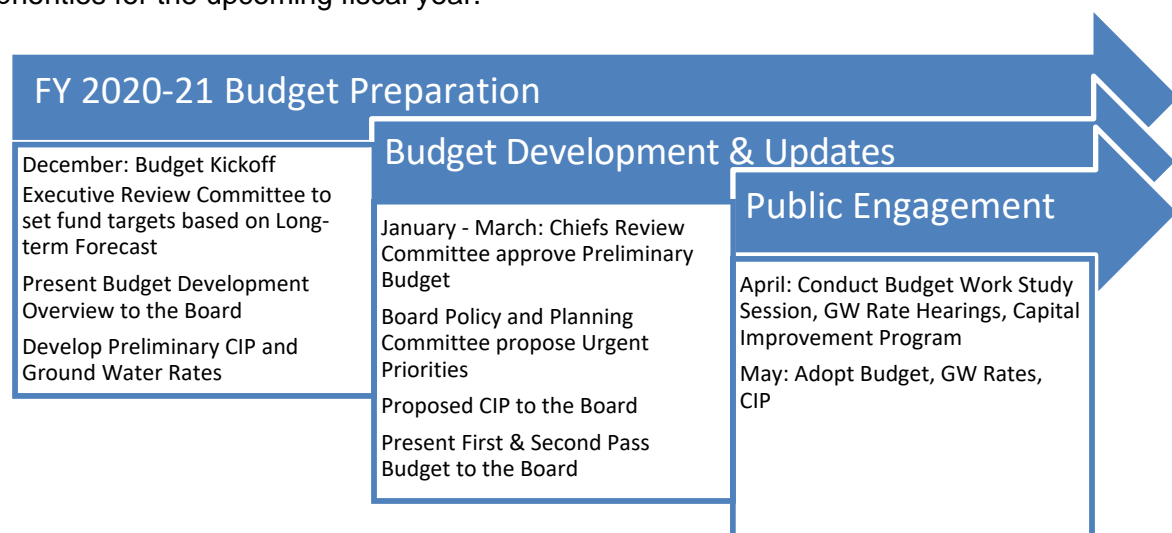
Honorable Members of the Board of Directors of the Santa Clara Valley Water District:

In accordance with Valley Water Policy, I am submitting the Fiscal Year 2020-21 (FY21) Budget for the Santa Clara Valley Water District (Valley Water). This budget represents Valley Water's mission of providing Silicon Valley safe, clean water for a healthy life, environment, and economy. This Budget also 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. The COVID-19 pandemic has created a level of economic uncertainty that is unprecedented. As an organization, we have identified shovel-ready projects and are preparing to act on potential stimulus funding and opportunities that will contribute to the economic recovery of Silicon Valley.

### 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 December of each year and concludes on June 30, with the posting of the budget. The budget development process for FY 2020-21 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**

This budget demonstrates a fiscally responsible, balanced budget that meets the community's expectations of Valley Water while also adapting to the COVID-19 pandemic. The Budget was developed based on the Board's current strategies; the FY 2020-21 Board Work Plan will be approved in the near future. The organization will incorporate specific activities that address the Board's urgent priorities into its workplan and periodically update the Board Policy and Planning Committee and the full Board throughout the fiscal year and bring adjustments back to the Board, if needed.

## **Revenue**

The FY 2020-21 Proposed Budget includes projected revenues of approximately \$506.6 million. These revenues are a net increase of \$4.8 million from the \$501.8 million included in the FY 2019-20 Adopted Budget. The increase is primarily derived from increases in 1% ad valorem property taxes (\$9.0 million), capital reimbursement revenue (\$11.0 million), interest and other income (\$2.2 million), and offset by a decrease to water revenue (-\$16.3 million), and benefit assessment revenues (-\$1.1 million).

## **Appropriations/Outlays**

Net total operating and capital outlays for the FY 2020-21 Proposed Budget is \$609.5 million. 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 2020-21 Proposed Budget is \$373.7 million, an increase of \$29.3 million from the FY 2019-20 Adopted Budget. The increase in net outlays reflects continued efforts to maintain service levels that support key strategic objectives and the Board priorities

## **Net Capital Outlays**

Net capital project appropriations total \$235.8 million in the FY 2020-21 Proposed Budget, an increase of \$51.3 million from the 2019-20 Adopted Budget. It is anticipated that \$64.4 million of the FY 2019-20 Adjusted Budget for capital projects also will carry forward into FY2020-21 at the close of the current fiscal year as most capital improvement projects will require multiple years to complete. 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 \$91.1 million in FY 2020-21. 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 improvements. For FY 2020-21, bond or commercial paper proceeds of \$135.5 million are planned in the Water Utility capital improvement program to finance critical water system infrastructure improvements.

### 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 2020-21 Operating and Capital Budget document beginning on page 3–39. Overall, budgeted reserves for Fiscal Year 2020-21 are expected to increase \$6.3 million to a total of \$349.2 million. The increase primarily occurs in the committed reserves portion of the Watershed Stream Stewardship Fund (\$33.3 million), Water Enterprise Funds (\$14.1 million) and General Fund (\$1.4 million). These increases are offset by decreases in the restricted reserves portion of the Safe, Clean Water & Natural Flood Protection Fund (-\$35.7 million) and the Water Enterprise Funds (-\$6.4 million).

| (\$ in Thousands)                                 | Budgetary    | Adopted | Projected | Proposed | Change from |        |
|---|--------------|---------|-----------|----------|-------------|--------|
|   | Basis Actual | Budget  | Year End  | Budget   | 2019-20     |        |
|   | 2018-19      | 2019-20 | 2019-20   | 2020-21  | \$ Diff     | % Diff |
| Restricted Reserves                               |              |         |           |          |             |        |
| Safe, Clean Water & Natural Flood Protection Fund | 157,745      | 116,073 | 119,626   | 80,381   | (35,692)    | (31%)↓ |
| Water Enterprise Funds                            | 71,527       | 65,529  | 73,942    | 59,126   | (6,403)     | (10%)↓ |
| Subtotal  | 229,272      | 181,602 | 193,568   | 139,507  | (42,095)    | (23%)↓ |
| Committed Reserves                                |              |         |           |          |             |        |
| General Fund                                      | 7,125        | 4,318   | 8,965     | 5,733    | 1,415       | 33%↑   |
| Watershed Stream Stewardship Fund                 | 133,305      | 82,195  | 108,119   | 115,513  | 33,318      | 41%↑   |
| Water Enterprise Funds                            | 65,204       | 57,267  | 50,289    | 71,380   | 14,113      | 25%↑   |
| Internal Service Funds                            | 32,862       | 17,500  | 19,980    | 17,035   | (465)       | (3%)↓  |
| Subtotal  | 238,496      | 161,280 | 187,353   | 209,661  | 48,381      | 30%↑   |
| Grand Total                                       | 467,768      | 342,882 | 380,921   | 349,168  | 6,286       | 2%↑    |

## Debt Overview

The FY 2020-21 debt portfolio total outstanding principal of \$866.2 million includes \$65.5 million for Watersheds, \$710.7 million for the Water Utility Enterprise, and \$90.0 million of Commercial Paper for Safe, Clean Water & Natural Flood Protection and Water Utility Enterprise projects. Annual debt service budget of \$61.8 million includes repayment of principal, interest and various banking and legal fees for the debt portfolio.

Valley Water's debt management strategy includes the use of a short-term Commercial Paper (CP) Program with a maximum program capacity of \$150 million, supported by a \$150 million Letter of Credit (LOC) from Bank of Tokyo Mitsubishi UFJ, LTD.

The long-term strategy is to issue CP to provide short-term just-in-time funding for capital expenditures. As the outstanding CP reaches the program capacity, the outstanding CP is refunded with long-term debt to be repaid over the remaining of life of the assets. For the Water Utility Program, the issuance of long-term debt helps keep water charges stable over the long-term while resulting in inter-generational equity and allows for the completion of capital projects in a timely manner. The water charge study shows that Water Utility finances will be healthy despite the issuance of debt, assuming that forecasted water charge increases are implemented.

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 was approved by voters on November 6, 2012 and has a sunset date of June 30, 2028.

The Santa Clara Valley Water District proactively manages its outstanding liabilities to ensure access to the credit markets at the lowest available borrowing cost, to preserve strong credit standing with the municipal rating agencies, to fulfill its fiduciary responsibility to its customers, and to provide high quality water service, stream stewardship and flood protection at the lowest possible cost.

## Bond Ratings

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

Please see table below for ratings going into FY 2020-21.

|                   | 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+       |

## Staffing

The FY 2020-21 Proposed Budget includes 871 positions including, 859 authorized regular positions, 8 limited term positions, and 4 fellowships, maintaining the same level as the FY 2019-20 Adjusted Budget. For a comprehensive schedule of district-wide salaries and benefits, please refer to the salaries & benefits in the "Financial Overview" section.

### Authorized Position Count by Organization Area

|                              | Adjusted<br>Budget<br>2018-19 | Adjusted<br>Budget<br>2019-20* | Proposed<br>Budget<br>2020-21** | Change*<br>from<br>2019-20 | % Change<br>from<br>2019-20 |
|------------------------------|-------------------------------|--------------------------------|---------------------------------|----------------------------|-----------------------------|
| Board Appointed Officers     | 103                           | 106                            | 77                              | 0                          | 0%                          |
| External Affairs             | 35                            | 38                             | 39                              | 0                          | 0%                          |
| IT & Administrative Services | 122                           | 131                            | 160                             | 0                          | 0%                          |
| Water Utility                | 341                           | 333                            | 309                             | 0                          | 0%                          |
| Watersheds                   | 223                           | 251                            | 274                             | 0                          | 0%                          |
| <b>Districtwide</b>          | <b>824</b>                    | <b>859</b>                     | <b>859</b>                      | <b>0</b>                   | <b>0%</b>                   |

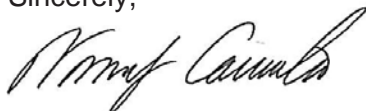
\* The FY 20 Adopted Budget authorized positions totaled 842 positions. Additionally, in FY 20 the Board approved additional 17 positions.

\*\* -Assistant Officer to External Affairs from Water Utility (1)  
-Twenty-three (23) positions to Watersheds from Water Utility (17 positions from Dam Safety & Capital Delivery Division and six (6) positions from CADD)  
-As of March 9, 2020, the HR Division transferred from the Office of the CEO to IT & Administrative Services (29 positions)

## Future Outlook

The COVID-19 pandemic has created a public health crisis that is affecting our community and economy in ways that have not been previously experienced. Facing a changed economic climate and in preparation of the economic recovery that will ensue, the organization has been refining project plans, prioritizing business continuity and maintaining the operation of our essential services to continue to provide safe, clean water to Santa Clara County. At the same time, it is important to maintain a long-term outlook given the major infrastructure investments planned for the next 10 years. Valley Water continues its ambitious capital program to help ensure a reliable and safe water supply. It is a wise fiscal policy to start planning for the future by acting now and prioritizing projects as the implications from this pandemic become more evident and opportunities arise to further drive the economic recovery in Santa Clara County. Valley Water is prepared to continue to provide an essential service to the community, create jobs and bolster the local economy.

Sincerely,



Norma Camacho  
Chief Executive Officer

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