



Santa Clara Valley Water District

File No.: 20-0875

Agenda Date: 9/22/2020

Item No.: *4.3.

SUPPLEMENTAL BOARD AGENDA MEMORANDUM

SUBJECT:

Financial Status Update and Strategy Recommendations during COVID-19 Pandemic.

REASON FOR SUPPLEMENTAL MEMORANDUM:

This report conveys additional information received after the initial report was released, consistent with Executive Limitations Policy EL-7-10-5.

RECOMMENDATION:

- A. *Receive financial status update as it relates to the impact of the COVID-19 Pandemic;
- B. *Direct staff not to pursue a mid-year water rate adjustment for FY 2020-21;
- C. *Direct staff to continue to pursue partnerships to assist with water related programs and to continue to expand outreach and support for small businesses; and
- D. *Direct staff to implement a Retailer Loan Program based on the attached draft termsheet

SUMMARY:

The Budget Review Working Group met on September 2 and September 9. On September 2, the Budget Review Working Group reviewed and discussed the following topics:

- Local economy status
- Financial status related to cash and debt
- Revenue collection status including water charges and property taxes
- California Public Employee's Retirement System (CalPERS) unfunded liability status
- Other Post-Employment Benefits (OPEB) unfunded liability status
- FY 20 unaudited close
- Potential areas of surplus and overspend in the FY 2020-21 budget
- Potential impacts to capital project efforts

The key takeaways from the September 2 meeting can be summarized as follows:

- The local economy has seen little change since May when the Board adopted no increase to water rates for Groundwater Benefit Zones W-2 and W-7 for FY 2020-21
- Valley Water's total cash and investment position remains relatively unchanged since the Pandemic started while staff has made a concerted effort to increase liquidity

- Staff is moving forward with Board approval on efforts to expand access to cash via a line of credit, and to take advantage of the low interest rate market by issuing long term debt for the Water Utility
- Water charge revenue collections are on track for FY 2020-21
- The majority of retailers have not increased water rates for FY 2020-21
- Property tax collections are on track for FY 2020-21
- Valley Water's CalPERS unfunded liability is projected to be 100% funded by FY 3038-39 assuming that CalPERS can achieve an average 7% annual return
 - Continuing the annual \$3 million "OPEB redirect" beyond FY 2021-22 is projected to help achieve 100% funding by FY 2034-35
- Valley Water's OPEB unfunded liability is projected to be 100% funded by FY 2027-28 or FY 2028-29
- No disruptions to capital program or operations are foreseen at this time due to the Pandemic

On September 9, the Budget Review Working Group reviewed and discussed the following topics:

- Customer Assistance Program status
- Federal Stimulus Fund opportunity status
- FY 2020-21 Mid-year water rate adjustment analysis

The key takeaways from the September 9 meeting can be summarized as follows:

- Procurement staff have initiated outreach efforts in support of local small businesses
- Staff has provided trash abatement assistance to the City of San Jose on a couple of occasions during the pandemic and is evaluating additional opportunities
- Finance staff have prepared a draft Retailer loan program termsheet to assist retailers in temporarily funding unpaid customer water bills
- Valley Water staff continues to advocate for Federal Stimulus funding
- Forgoing a mid-year water rate increase for FY 2020-21 will cause the need for higher water rate increases in future years in the absence of offsetting cost cutting actions

Based on their review of this information (also summarized in Attachment 1), the Budget Review Working Group has the following recommendations for the full Board:

1. Direct staff not to pursue a mid-year water rate adjustment for FY 2020-21 because local economic conditions have not changed much since May, and Valley Water's current financial position is such that incremental revenue from an increase is not needed at this time
2. Direct staff to continue to pursue partnerships to assist with water related programs and to continue to expand outreach and support for small businesses
3. Direct staff to implement a Retailer Loan Program based on the attached draft termsheet (see Attachment 2)

FINANCIAL IMPACT:

Implementing the Retailer Loan Program would utilize \$5 million of 1% ad valorem property tax

revenue, that may or may not be repaid depending on the impact of the pandemic on retail customer delinquencies.

Not pursuing a mid-year water rate adjustment for FY 2020-21 would mean forgoing roughly \$10 million of incremental revenue for the Water Utility relative to the adopted FY 2020-21 budget.

CEQA:

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

Attachment 1: PowerPoint

Attachment 2: Retailer Loan Termsheet

UNCLASSIFIED MANAGER:

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