



Santa Clara Valley Water District

File No.: 25-0109

Agenda Date: 1/14/2025
Item No.: *3.6.

BOARD AGENDA MEMORANDUM

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Work Study Session on the Capital Improvement Program Preliminary Fiscal Year 2026-2030 Five-Year Plan and Preliminary Fiscal Year 2025-2026 Groundwater Production Charges.

RECOMMENDATION:

- A. Review the Capital Improvement Program Evaluation Team's recommended funding scenarios for the CIP Preliminary Fiscal Year 2026-2030 (FY 2026-30) Five-Year Plan and approve the recommendations for the Water Utility Enterprise Fund (Fund 61) and the inclusion of three projects in the CIP Draft FY 2026-30 Five-Year Plan;
- B. Review proposed adjustments and modifications to the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program) Fund (Fund 26);
- C. Set the time and place for a Public Hearing for modifications to the Safe, Clean Water Program for February 11, 2025; and
- D. Discuss and provide direction on the preliminary FY 2025-26 (FY 26) Groundwater Production Charge analysis.

SUMMARY:

Each year, the Capital Improvement Program (CIP) team prepares its rolling five-year plan, which is presented for Board consideration and approval. The CIP Five-Year Plan describes the Santa Clara Valley Water District (Valley Water) capital investments by type of improvement and provides information on planned capital projects and Valley Water's intended source(s) of funding.

The annual CIP development process, wherein capital project plans are updated to reflect changes to scope, schedule or planned expenditures (as detailed in Attachment 1), works in coordination with the biennial budget process, which allocates funding to these projects, and the groundwater production charge process, which establishes water rates.

This Work Study Session combines, for Board review: the baseline CIP Preliminary FY 2026-30 Five-Year Plan (Attachment 2), which reflects all processed changes to scope, schedule or planned expenditures, and consists of a list of projects organized by type of improvement, with estimated costs and proposed funding sources; and the Preliminary FY 2025-26 Groundwater Production

Charge Analysis.

Background

As part of the annual CIP process, capital project plans are updated to reflect all changes to scope, schedule, or planned expenditures from the Board Adopted CIP FY 2025-29 Five-Year Plan and referenced as Project Plan Updates (Attachment 1).

Included in Attachment 1 is the re-categorization of the Watershed Asset Rehabilitation Program (WARP)(62084001). As part of last year's CIP Development Cycle for the CIP FY 2025-29 Five-Year Plan, staff recommended that WARP be categorized as a Small Capital Improvement Project (Small Capital), as it was originally introduced into the CIP as a Small Capital project. Upon further analysis, WARP is more similar to the proposed Pipeline Maintenance Program (PMP), which is being recommended for inclusion in the CIP as an ongoing program that will allow for the identification and planning for small-to-medium-scale pipeline rehabilitation projects. Staff is proposing a recategorization and name change for WARP to remove the "Small Capital" reference for the development of the CIP FY 2026-30 Five-Year Plan.

Based on the project plan updates presented in Attachment 1, the total CIP Five-Year Plan increased by \$122.91M. The total project cost (TPC) increases or decreases (with inflation) from the Board Adopted CIP FY 2025-29 Five-Year Plan by fund are as follows: General Fund (Fund 11) increased by \$216K; Watersheds Stream Stewardship Fund (Fund 12) increased by \$83.27M; Safe, Clean Water and Natural Flood Protection Program Fund (Fund 26) decreased by \$4.30M; Water Utility Enterprise Fund (Fund 61) increased by \$70.46M; and Information Technology Fund (Fund 73) decreased by \$26.73M. These totals are the baseline Preliminary Five-Year Plan totals and do not reflect any recommended or pending changes.

Along with the review of the baseline CIP Preliminary FY 2026-30 Five-Year Plan, staff is seeking Board input on the preliminary analysis to incorporate into the development of the groundwater production charge recommendation. The groundwater production charge analysis includes a water demand projection, a discussion of key capital project funding, and several scenarios for Board consideration.

Capital Investments Not Included in the CIP

Valley Water contributions to water infrastructure capital investments led by external agencies are not included in the CIP Preliminary FY 2026-30 Five-Year Plan. While not included in the CIP, these investments are being evaluated through the development of the Water Supply Master Plan (WSMP) 2050 and budgeted and forecasted through operating projects. They are also included and reflected in the financial modeling that is analyzed during the development of the CIP Five-Year Plan. These investments include:

1. Sisk Dam Raise Project
2. Delta Conveyance Project

Additionally, to ensure consistency with Valley Water's various planning efforts, CIP staff continues coordinating with staff leading the development of the WSMP 2050. The WSMP 2050 assumes that capital projects included in the Five-Year Plan that repair/replace existing infrastructure are a baseline for inclusion in their planning efforts.

Initially Validated Unfunded Projects

Each year, Valley Water staff can submit new projects to be considered for inclusion in Valley Water's CIP. For each potential new project, staff develops a business case to compare capital, non-capital, and non-asset alternative solutions; evaluates the lifecycle costs of these solutions; and identifies a recommended solution that minimizes lifecycle cost while balancing service levels and risk.

Between October and November each year, these newly proposed, initially validated projects are presented to the CIP Committee and Board, along with a list of currently unfunded projects, which have been validated during prior years, for review and comment. CIP Committee and Board feedback is considered when preparing the recommended scenarios for developing the CIP Preliminary Five-Year Plan.

During this CIP Development Cycle, the Board will consider 11 unfunded projects: four initially validated and seven previously validated/currently unfunded projects.

Capital Project Prioritization - Funding Categories

As funding constraints due to rising capital costs continue to be addressed, and in response to recent recommendations from the CIP Performance Audit, staff has developed Funding Categories to enhance the Board-approved Funding Filters for Prioritization tool.

Categories 1 and 2 focus on further prioritizing existing infrastructure projects based on their Business Risk Exposure (BRE) scores as assigned in the Asset Management Plan (AMP). Category 3 applies to existing infrastructure projects with a lower risk of failure, and new infrastructure projects.

Further details of the three Categories are as follows:

1. Category 1: ≥ 19 points

Category 1 Projects meet Valley Water's objectives to repair/replace its existing infrastructure within certain timeframes, targeting the inclusion of projects with an AMP BRE score that is ≥ 88 and have public health and safety benefits. In addition, projects that are currently in the construction phase or externally mandated (required by law, regulation, federal order, lawsuit, etc.) are automatically included in Category 1.

2. Category 2: 13-18.5 points

Category 2 Projects meet Valley Water's objectives to repair/replace its existing infrastructure within certain timeframes, targeting the inclusion of projects with an AMP BRE score that is between 76-87 and have public health and safety benefits.

3. Category 3: ≤ 12.5

Category 3 Projects have a lower risk of failure and an AMP BRE score of ≤ 75 , which includes existing infrastructure projects and new infrastructure projects, as identified/prioritized in Valley Water's Master Plans and Program Plans. In addition, small capital improvement projects and placeholder projects are automatically included in Category 3.

Valley Water's CIP Five-Year Plan includes projects that meet the criteria for all three Categories, all of which are critical to meeting Valley Water's mission. In alignment with Ends Policies (goals and objectives for accomplishing Valley Water's Mission), the Board may approve the funding of projects in any category.

Attachment 3 provides an overview of the Funding Categories for all capital projects, by Fund based on the Board-adopted CIP FY 2025-29 Five-Year Plan. The CIP Evaluation Team reviewed the Funding Categories to help inform the development of recommendations for Board consideration.

Further, each of the Initially Validated/Unfunded existing infrastructure projects has been ranked based on points received according to the funding filters and BRE scores. New infrastructure projects are automatically placed in Category 3, as referenced above.

The CIP Evaluation Team (Chief Executive Officer (CEO), Assistant CEO, Chiefs and Deputies of the divisions initiating, delivering, implementing, and operating capital projects) meets in November of each year to consider the CIP Committee and Board feedback, review the financial models, and determine which, if any, initially validated or unfunded projects should be recommended for inclusion in the CIP. To ensure Valley Water's high-priority business needs are met in adherence to Board policy, the CIP Evaluation Team reviews the projects based upon:

- Board Priorities
- Asset's remaining lifespan
- Available funding/staff resources
- Urgency of investment

Based upon the outcome of its review, the CIP Evaluation Team recommends whether the newly proposed capital projects should be funded in the CIP Preliminary FY 2026-30 Five-Year Plan or remain on the unfunded list. Shown below in Table 1 and included in Attachment 4 are the CIP Evaluation Team's recommendations regarding the Initially Validated and Unfunded Projects.

**Table 1: CIP Evaluation Team Recommendations for
FY 25 Initially Validated and Unfunded Projects**

Project Name	Estimated Total Project Cost (\$ thousands w/inflation)	Phase	Potential Funding Source	FY 2024-25 Funding Category	CIP Evaluation Team Recommendations
FY 2023-24 Initially Validated Projects					
Coyote Dam Seismic Retrofit	\$406,400	Planning	Fund 61	Category 1 - Existing Infrastructure	Include in the funded CIP FY26-30 Five-Year Plan
Pipeline Maintenance Program*	\$55,375	Plan/Design/Const.	Fund 61	Category 2 - Existing Infrastructure	Include in the funded CIP FY26-30 Five-Year Plan
Almaden-Calero Canal Rehabilitation - Phase II	\$12,950	Planning	Fund 61	Category 3 - Existing Infrastructure	Move to the unfunded list
Enterprise Resource Planning (ERP) System Replacement	\$33,508	Planning	Fund 73	Category 3 - Existing Infrastructure	Include in the funded CIP FY26-30 Five-Year Plan
Current Unfunded Projects					
Llagas Creek - Lower, Capacity Restoration, Buena Vista Road to Pajaro River	\$98,831**	Planning	Fund 12	Category 1 - Existing Infrastructure	Re-validate following emergency repair work
Permanente & Hale Creek Concrete Replacement	\$20,810	Planning/Design	Fund 12	Category 1 - Existing Infrastructure	Remain on the unfunded list until FY28
Calabazas/San Tomas Aquino Creek Marsh Connection - Construction (ONLY)	\$34,562	Construction	Fund 12	Category 2 - Existing Infrastructure	Remain on the unfunded list pending available funding/resources
Pond A4 - Phase 2 (Construction ONLY)	\$32,128	Construction	Fund 12	Category 3 - NEW Infrastructure	Remain on the unfunded list pending available funding/resources
South Babb Flood Protection - Long-Term	\$22,070	Planning	Fund 12	Category 3 - Existing Infrastructure	Remain on the unfunded list pending available funding/resources
Alamitos Operable Dam Replacement	\$13,889	Planning	Funds 12/61	Category 3 - Existing Infrastructure	Remain on the unfunded list pending available funding/resources
Palo Alto Purified Water Project (PAPWP)	\$1,097,076***	Planning	Fund 61	Category 3 - NEW Infrastructure	Remain on the unfunded list pending further development of SIPWP

* Renewal of the 10-yr Pipeline Inspection and Rehabilitation Project (sunsets in FY28)

** Llagas Capacity has prior year actuals = \$6,947, TPC = \$105,778

*** PAPWP Fund 61 unfunded cost is \$14,633,000; Public Private Partnership (P3 contribution for PAPWP) is \$1,082,443,000

Required Modification to the Safe, Clean Water and Natural Flood Protection Program

As reported in the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program) FY 2024 Annual Report, the United States Army Corps of Engineers (USACE) informed Valley Water that the South San Francisco Bay Shoreline Phase II Feasibility Study had determined that there were insufficient overall project benefits to justify a federal project for the alternative considered. Phase II covers Economic Impact Areas (EIAs) 1-4, encompassing the shoreline areas between San Francisquito Creek in Palo Alto and Permanente Creek in Mountain View and covering Palo Alto and Mountain View communities. The study determined damages from coastal flooding are not great enough to justify the cost of a levee until sea level rise is greater in several decades.

Consequently, in the first 15-year funding cycle (FY 2022 - 2036) of the Safe, Clean Water Program, Valley Water cannot implement Project E7: San Francisco Bay Shoreline Protection (Project E7) key performance indicator (KPI) #1, which requires Valley Water provide a portion of the local share of funding for planning, design, and construction of Environmental Impact Areas 1-4.

The USACE decision not to advance the project necessitates modifying KPI #1 in accordance with the Safe, Clean Water Program’s Change Control Process. Furthermore, approximately \$23M (inflated) in unspent funding must be reallocated.

Phase I of Project E7 is for Environmental Impact Area 11 (San Francisco Bay Shoreline, EIA 11 Project (00044026)) and was initially included under the 2012 Safe, Clean Water Program, which was renewed by voters in 2020. USACE began construction work on Phase 1 EIA 11, Reaches 1 through 3, in December 2021 and is estimated to continue until Summer 2025. Approximately 90% of the construction contract has been completed.

Phase 1 EIA 11, Reaches 4 and 5, are in the design phase. USACE has identified project cost

updates that have nearly tripled from \$194M to \$545M, of which Valley Water is responsible for a portion of the local share.

The project partners are exploring ways to lower the cost of construction of Reaches 4-5. Additionally, USACE and the non-federal partners are looking for alternative measures that meet project objectives and reduce construction costs. Valley Water is expecting an updated cost estimate from USACE this spring.

Valley Water staff has updated the project plan for Project number 00044026 to reflect the known cost increases. There are additional cost increases that are yet to be quantified, such as the improvements to the UPRR-owned infrastructure in the project area, ecotone design and construction costs, pond breaching, monitoring, and adaptive management. Staff anticipates these additional costs to be estimated in the upcoming fiscal year as the project design further develops.

Valley Water has secured approximately \$15M from the 2012 Safe, Clean Water Program, \$61M million from the San Francisco Bay Restoration Authority's Measure AA Program, and \$14.7M from a Coastal Conservancy grant, and \$8M from the State Department of Water Resources-Subventions to support the Phase 1 EIA 11 Project.

While EIA 11 is included in the Safe, Clean Water Program as part of the project description for Project E7, it is not currently included as part of Project E7's KPIs. As referenced below, to help close the funding shortfall for EIA 11, the CIP Evaluation Team is recommending bringing EIA 11, Reaches 4-5, back into Project E7, KPI #1, to utilize the approximately \$23M (inflated) in funding that must be reallocated from EIAs 1-4. To close the remaining shortfall, Valley Water plans to utilize revenue bonds that can be paid back over a 30-year time frame, thus reducing the impact on the near-term financial health of its funds.

For more information on the proposed adjustments and modifications to Project E7 please see Attachment 5. A draft of the public notice ad for the proposed Public Hearing is included as Attachment 6.

For more information on the Safe, Clean Water Program, including the Program's Change Control Process visit <https://www.valleywater.org/safe-clean-water-and-natural-flood-protection-program>.

Recommended Funding Scenarios for Consideration

The CIP Evaluation Team reviewed the fund models after inputting the project plan updates (Attachment 1), which were then utilized to prepare the baseline CIP Preliminary FY 2026-30 Five-Year Plan. Based on the impact these changes had on the health of Funds 12, 26, and 61, and taking into consideration feedback received from the CIP Committee and the Board, the Team has prepared recommendations for each fund for the January 14, 2025, Board work study review of the CIP Preliminary FY 2026-30 Five-Year Plan.

Fund 12 Recommended Scenario = Baseline, with the following modifications:

1. Include the ERP System Replacement - \$33.5M (30% allocation of \$33.5M)
2. Recommend a Public Hearing to move the San Francisco Bay Shoreline, EIA 11 Project (00044026) back into the Safe, Clean Water Program (Fund 26) to utilize approximately \$23M

in unspent funds from the San Francisco Bay Shoreline, EIA's 1-4 Project (26444002) (KPI #1), which cannot be fully implemented due to the USACE decision not to pursue design and construction of EIAs 1-4

3. Reduce the Board-approved fund transfer from Fund 12 to Fund 26 from \$27.9M to \$10M to balance the fiscal health of both funds (planned for future years)

Fund 26 Recommended Scenario = Baseline, with the following modifications:

1. Include the ERP System Replacement - \$33.5M (10% allocation of \$33.5M)
2. Recommend a Public Hearing to move the San Francisco Bay Shoreline, EIA 11 Project (00044026) back into the Safe, Clean Water Program (Fund 26) to utilize approximately \$23M in unspent funds from the San Francisco Bay Shoreline, EIA's 1-4 Project (26444002) (KPI #1), which cannot be fully implemented due to the USACE decision not to pursue design and construction of EIAs 1-4
3. Reduce the Board-approved fund transfer from Fund 12 to Fund 26 from \$27.9M to \$10M to balance the fiscal health of both funds (planned for future years)

Fund 61 Recommended Scenario = Baseline, with the following modifications:

1. Include the ERP System Replacement - \$33.5M (60% allocation of \$33.5M)
2. Include the Coyote Dam Seismic Retrofit - \$406.4M
3. Include the Pipeline Maintenance Program - \$55.4M
4. Present the following scenarios for Board Consideration
 - a. Modified Baseline with:
 - i. No Pacheco Reservoir Expansion Project (PREP)
 - ii. No PREP partner funding
 - iii. 15% PREP partner funding

New Project Plan Updates/Project Plan Update Revisions to Funded Capital Projects

Since the Significant Project Plan Updates submittal deadline this October, new project plan updates have been processed. The changes below were not finalized in time for the December 16, 2024, CIP Committee Meeting, but since then have been incorporated into the Baseline Preliminary FY 2026-30 Five-Year Plan.

A list of the new project plan updates is provided below and incorporated into Attachment 1:

1. Upper Penitencia Creek, Coyote Creek to Dorel Drive (E4) (26324001)
2. San Francisco Bay Shoreline, EIAs 5-10 (26444004)
3. Coyote 10B Freshwater Wetlands (40214023)

Additional Pending Project Plan Updates/Project Plan Update Revisions to Funded Capital Projects

Since the December 16, 2024, CIP Committee presentation, additional project plan updates have been identified. The pending changes have not been finalized or incorporated into the Baseline CIP Preliminary FY 2026-30 Five-Year Plan. The changes will be incorporated for the February 25, 2025, Board Meeting.

A list of the projects with pending changes is provided below:

1. Anderson Dam Tunnel Project (91864006)
2. Coyote Creek Chillers (91864008)
3. Cross Valley Pipeline Extension Project (91864010)
4. Anderson Dam Seismic Retrofit Project (91864005)
5. Llagas Creek - Upper, CORPS Coordination (E6a) Project (26174052)
6. Upper Berryessa Creek - USACE Coordination Project (26174041)
7. San Francisquito Creek - SF Bay to Searsville Dam (E5) Project (26284002)
8. Small Capital Improvement Projects Forecast Revisions
9. Administrative Project Plan Updates

Projects Planned for Closure

Additionally, eight (8) projects in the Board Adopted CIP FY 2025-29 Five-Year Plan are anticipated to be completed and/or closed out by June 2025, as listed below:

1. Permanente Creek, SF Bay to Foothill Expressway (10244001)
2. Berryessa Creek, Lower Penitencia Creek to Calaveras Blvd. Phase 1 (40174004)
3. SCW Fish Passage Improvements (D4.3) (26044002)
4. Permanente Creek, SF Bay to Foothill Expressway (26244001)
5. Coyote Percolation Dam Replacement (91864009)
6. Santa Teresa Water Treatment Plant Filter Media Replacement (93284013)
7. Rinconada Water Treatment Plant Residuals Remediation (93294058)
8. Data Consolidation (73274009)

Board Member Request

In November 2024, following the Presidential election, staff received a Board member request for a list of capital projects that rely on federal funding, through loans, partnerships, or grants. At this time, there has been no indication that the status of federal funding will be impacted under the incoming new administration; however, the fact that the CIP Five-Year Plan is updated on a rolling annual basis

allows Valley Water to be highly adaptable to changing conditions. Should federal funding be impacted, staff will bring forward recommendations and scenarios for the Board's consideration to address any resulting funding shortfall. In parallel, Valley Water continues to seek grant and partnership funding to support the financial health of its funds and will continue to lobby the federal government to secure critical federal funding sources. Staff will present this information in a supplemental memorandum on Friday, January 10, 2025.

Summary of Groundwater Production Charge Analysis

Staff has prepared the preliminary FY 2025-26 groundwater production charge analysis, which includes several scenarios for Board review. Staff is seeking Board input on the preliminary analysis to incorporate into developing the groundwater production charge recommendation.

The groundwater production charge reflects the benefit of Valley Water activities to protect and augment groundwater supplies and is applied to water extracted from the groundwater basin in Zones W-2, W-5, W-7, and W-8. Zone W-2 encompasses the Santa Clara groundwater subbasin north of Metcalf Road or the North County. Zone W-5 overlays the Llagas subbasin from northern Morgan Hill south to the Pajaro River. Zone W-7 overlays the Coyote Valley south of Metcalf Road to northern Morgan Hill, and W-8 encompasses the area below Uvas and Chesbro Reservoirs.

The groundwater production charge recommendation will be detailed in the 54th Annual Report on the Protection and Augmentation of Water Supplies that staff plans to provide to the Clerk of the Board on February 28, 2025. The Public Hearing on groundwater production charges is scheduled to open on April 8, 2025. It is anticipated that the Board will set the FY 2025-26 groundwater production charges by May 13, 2025, and become effective on July 1, 2025.

The FY 2025-26 groundwater production charge and surface water charge setting process will be conducted consistent with the District Act requirements, and Board Resolutions 99-21 and 12-10 (Attachments 7 and 8).

Water Use Assumptions

Valley Water managed water use for FY 2023-24 is estimated to have been approximately 204,600 acre-feet (AF), roughly 2,400 AF lower than budgeted due to slower than anticipated rebound. Water use is budgeted higher for FY 2024-25 at 222,500 AF based on a continued rebound from the previous drought. The projected water use of 219,000 AF in FY 2025-26 is slightly lower compared to FY 2024-25 budget. The multi-year projection has been adjusted to reflect an ongoing moderate rebound from the previous drought, returning to around 230,000 AF by FY 2031-32.

Groundwater Production Charge Projection Scenarios

Staff has prepared an initial recommended baseline groundwater production charge projection scenario for Board review, consistent with the CIP Evaluation Team's recommendation to fund three new projects. In addition, staff has prepared several additional scenarios, including a range of assumptions for capital projects. Staff can model additional scenarios for the Board as needed.

Valley Water's participation in the Los Vaqueros Reservoir Expansion Project has been eliminated from all scenarios.

For the recommended baseline scenario, the increase in the North County Zone W-2 Municipal and Industrial (M&I) groundwater production charge is 9.9% for FY 2025-26. In South County, for the FY2025-26 recommended baseline scenario, increases in the M&I groundwater production charge projections are 7.9% for Zone W-5; 11.2% for Zone W-7; and 8.0% for Zone W-8.

The overall impact of the preliminary analysis for the recommended baseline scenario for FY 2025-26 on the average household would be an estimated increase of \$7.60 per month in North County, \$1.58 per month in South County Zone W-5, \$2.89 per month in South County in Zone W-7, and \$1.18 per month in South County in Zone W-8.

Staff assumes the continuation of the Contract Treated Water Surcharge at \$115/AF to maintain alignment with retailers' costs to pump water from their wells.

Staff has prepared the following scenarios for Board consideration:

Scenario 1) Recommended Baseline with Moderate Water Use Rebound:

This scenario includes the following projects and assumptions:

1. Water Conservation: voluntary conservation continues, with moderate water use rebound from the previous drought; FY 2025-26 water use is projected at 219 thousand acre-feet (kAF)
2. Anderson Seismic Retrofit Project leveraging WIFIA loan (up to 49% of TPC)
3. Pacheco Reservoir Expansion Project (PREP) with \$504M Proposition 1 grants, WIFIA loan (up to 49% of TPC) and Partnership Participation at 35% of TPC
4. Purified Water Program with the City of San Jose (includes Phase 1 Demonstration Facility and Phase 2 Full-Scale Facility as a placeholder)
5. Delta Conveyance State Water Project (SWP) portion at 3.23%
6. B.F. Sisk Dam Raise and Reservoir Expansion Project participation with up to 60 TAF storage
7. Capital Master Plan Implementation Projects Placeholder - Assumes \$377M in anticipated costs from FY 27 to FY 35 for new pipelines, pipeline rehabilitations, treatment plant upgrades, and SCADA implementation projects.
8. Agricultural rates set at or below 10% of the lowest groundwater benefit zone M&I rate (Zone W-8)

Scenario 2) Recommended Baseline excluding Pacheco Reservoir Expansion Project: This includes the same projects and assumptions as Scenario 1 but excludes the Pacheco Reservoir Expansion Project.

Scenario 3) Recommended Baseline with 15% Partnership Participation Funding for Pacheco Reservoir Expansion Project: This includes the same projects and assumptions as Scenario 1.

Scenario 4) Recommended Baseline with 0% Partnership Participation Funding for Pacheco Reservoir Expansion Project: This includes the same projects and assumptions as Scenario 1.

Staff can model additional scenarios for the Board as needed. Valley Water's participation in the Los Vaqueros Reservoir Expansion Project has been eliminated from all scenarios.

Other Assumptions

All scenarios assume the continued practice of relying on the State Water Project (SWP) Tax to pay for 100% of the SWP contractual obligations. Pursuant to Water Code Section 11652, Valley Water, whenever necessary, is required to levy on all property in its jurisdiction not exempt from taxation, a tax sufficient to provide for all payments under its SWP contract with the California Department of Water Resources (DWR). All scenarios assume setting the SWP Tax for FY 2025-26 at \$28M. The SWP Tax for the average household in Santa Clara would be about \$42 per year.

A Drought Reserve was established in FY 2015-16 to help minimize future rate impacts and complement the Supplemental Water Supply Reserve. The reserve (\$10M) was used fully in FY 2022-23 due to the previous drought. The staff analysis assumes that future reserve levels gradually build to \$20M over subsequent years beginning with \$1M in FY 2025-26.

All scenarios assume Water Utility operations cost \$268.6M in FY 2025-26 versus the FY 2024-25 adopted budget of \$268.4M.

The preliminary analysis does not include unfunded capital projects or additional unfunded operations cost needs identified by staff.

Summary of Groundwater Production Charge Analysis Issues

Staff is seeking Board direction to be incorporated into the Report on Protection and Augmentation of Water Supplies (PAWS) scheduled to be filed with the Clerk of the Board on February 28, 2025.

CIP Board Committee

The Board established a CIP Committee to review and discuss in greater detail the various processes and information used to prepare an annual update to the CIP Five-Year Plan. In 2024, the CIP Committee was comprised of Director Nai Hsueh (CIP Committee Chair), Director Tony Estremera (CIP Committee Vice Chair), and Director Jim Beall.

The CIP Committee met monthly in 2024 to review and discuss information related to capital projects, the development of the CIP, and to provide feedback to staff and recommendations to the full Board, as required.

CIP Committee Review of the CIP Preliminary FY 2026-30 Five-Year Plan

On December 16, 2024, the CIP Committee reviewed the baseline CIP Preliminary FY 2026-30 Five-

Year Plan. The CIP Committee reviewed the CIP Evaluation Team's recommended funding scenarios to support the overall financial health of Funds 12, 26, and 61.

In reviewing the project plan updates (Attachment 1), the corresponding financial analysis, and the CIP Evaluation Team's recommendations for Funds 12, 26, and 61, the CIP Committee provided feedback, but made no additional recommendations for the Board's consideration regarding the CIP Preliminary FY 2026-30 Five-Year Plan.

Review and Approval Process for the CIP FY 2026-30 Five-Year Plan

Receiving Board direction regarding the Recommended CIP Preliminary FY 2026-30 Five-Year Plan (Attachment 2) will allow staff to proceed with preparing the CIP Draft FY 2026-30 Five-Year Plan for Fund 61 projects. The board direction regarding Fund 12 and Fund 26 will follow the Safe, Clean Water Program Public Hearing, recommended to be held on February 11, 2025.

The CIP Draft FY 2026-30 Five-Year Plan is scheduled to be presented to the Board at its meeting on February 25, 2025. At that time, staff will recommend that the Board review and authorize the release of the CIP Draft FY 2026-30 Five-Year Plan for a 60-day public review period. After the public review and responses to comments are completed, a Resolution to Adopt the CIP Final FY 2026-30 Five-Year Plan will be presented to the Board in May 2025 for approval in conjunction with the FY 2025-26 biennial budget.

The proposed changes to the CIP are summarized by Fund and will be presented in the PowerPoint presentation (Attachment 9).

Additionally, to ensure consistency with Valley Water's various planning efforts, CIP staff continues to coordinate with staff leading the development of the Water Supply Master Plan 2050, Watershed Master Plans (formerly One Water Plan), and Watersheds and Water Utility Asset Renewal Plans. These plans assume that capital projects included in the Five-Year Plan that repair/replace existing infrastructure are baseline projects for inclusion in their planning efforts. If necessary, these plans will be updated to align with the CIP FY 2026-30 Five-Year Plan, as adopted by the Board.

Communications and Community Outreach

Informing members of the community about the CIP efforts, process and program details remains an integral part of Valley Water's communications and public engagement. Staff regularly invites community members to participate in the CIP public comment period, the CIP Public Hearings, and other milestone dates through frequent social media posts. Staff promotes monthly CIP committee meetings on Nextdoor, Facebook and Twitter (X) and boosts them on Facebook once the meeting agenda is posted online, typically within the week leading up to those scheduled meetings.

In early December 2024, a detailed blog about the CIP Five-Year Plan and process was shared with the community. A three-blog series to highlight projects within the CIP launched in January. These blogs will be posted on valleywaternews.org and shared in Valley Water's newsletter, Facebook, and Twitter (X). Staff also posts on the CIP webpage and project pages about how to submit public

comments and other reminders about ways community members can participate in the CIP process.

Additionally, Valley Water's public events, including scheduled Speakers Bureau presentations, serve as venues for staff to remind community members about the CIP efforts and how they can participate in that process. Staff supports all Board-approved CIP efforts with year-round community engagement. CIP project outreach includes the distribution of information through mailings, social media updates, email blasts, Nextdoor notifications, hosting public meetings, and updating project webpages with details about current project progress. On average, staff post about CIP projects approximately five times per month, across all our platforms.

ENVIRONMENTAL JUSTICE IMPACT:

While individual capital projects may have environmental justice impacts and conduct outreach and engagement to impacted communities, which will be reported to the Board accordingly, the CIP Preliminary FY 2026-30 Five-Year Plan and the FY 2025-26 Groundwater Production Preliminary Analysis Work Study Session has no environmental justice impact.

The CIP Preliminary FY 2026-30 Five-Year Plan is a projection of Valley Water's capital funding for planned capital projects. Its purpose is to document planned capital projects to help integrate Valley Water work with the larger community by aligning Valley Water planning with other local agency planning efforts. The CIP Preliminary Five-Year Plan documents any changes to capital projects' planned funding and expenditures and is updated and brought to the Board of Directors for approval each year in January.

Each February, upon the Board's direction, the CIP Draft Five-Year Plan has a 60-day public review period. To ensure meaningful engagement of all Santa Clara County communities in the decision-making process, staff provides a copy of the CIP Draft Five-Year Plan to Santa Clara County, its cities, and land use agencies and publishes a public notification for a review before the Board of Directors adopts the Resolution to Adopt the CIP Five-Year Plan in May.

The CIP is thus produced each year in collaboration with government, academic, private, non-governmental, and non-profit organizations, as well as diverse and disadvantaged communities, and as such, adheres to the Board's General Principles and Ends Policies, which are integral in ensuring that Valley Water meets its mission.

FINANCIAL IMPACT :

While there is no direct financial impact associated with the recommended action to approve the CIP Preliminary FY 2026-30 Five-Year Plan, the CIP Five-Year Plan presents a funding plan that shows the intended source of funds for each project. Valley Water's FY 2025-26 proposed biennial budget will include the approved projects in the first year of the CIP FY 2026-30 Five-Year Plan.

Furthermore, this preliminary analysis of the groundwater production charges does not have any immediate financial impact, however, the adopted groundwater production charges will affect the

future finances of the Water Utility Enterprise.

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: Project Plan Updates from CIP FY 2025-29 5-Year Plan

Attachment 2: Baseline CIP Preliminary FY 2026-30 5-Year Plan

Attachment 3: Capital Project Funding Categories

Attachment 4: Initially Validated/Unfunded Recommendations

Attachment 5: Proposed Adjustments and Modifications

Attachment 6: Draft Notice of Public Hearing

Attachment 7: SCVWD Resolution No. 99-21

Attachment 8: SCVWD Resolution No. 12-10

Attachment 9: PowerPoint

*Supplemental Board Agenda Memo

*Supplemental Attachment 1: CIP Projects with Federal Funding

*Handout 3.6-A: PowerPoint, revised slide

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