



Santa Clara Valley Water District

File No.: 22-1072

Agenda Date: 9/27/2022

Item No.: 4.3.

BOARD AGENDA MEMORANDUM

SUBJECT:

Receive Update on Impacts of a Potential Recession and Recent High Inflation Trends on Santa Clara Valley Water District's Finances.

RECOMMENDATION:

- A. Receive information on impacts of a potential recession as well as recent high inflation trends on Santa Clara Valley Water District's finances; and
- B. Provide feedback and direction to staff as necessary.

SUMMARY:

On June 28, 2022, the Board expressed a desire to have a discussion on Santa Valley Water District's (Valley Water) economic outlook as it relates to a potential economic recession in the near future. At its July 12, 2022 meeting, the Board referred a discussion of the Valley Water economic outlook and planning for a potential recession to the Capital Improvement Program (CIP) Committee. On September 1, 2022, the CIP Committee discussed the topic and provided feedback for staff to incorporate in its September 27, 2022 discussion with the full Board.

Staff has prepared a PowerPoint presentation (Attachment 1) that details the likely impacts of a potential recession as well as the impact of the recent high inflation trend on the upcoming financial planning cycle. The potential impacts can be summarized as follows:

- Revenue - Staff expects a negligible impact on Water Utility and Safe Clean Water revenues, but Watershed Stream Stewardship Fund revenues could be affected and should be watched.
- Debt Financing - Staff anticipates that rising borrowing rates will impact debt service costs for the Water Utility and Safe Clean Water Funds in a few years, partially offset by higher investment portfolio earnings.
- O&M Costs - Staff expects higher supplies and services, as well as employee benefits costs, but recession may ease the high inflation trend.
- Capital Costs - Staff anticipates that the proposed FY 2024-28 CIP will be higher than Board adopted FY 2023-27 CIP due to recent high inflation trends, but recession may ease inflation

and create more competition for capital work.

Increasing costs will likely warrant the preparation of scenarios for each major fund that incorporate prioritization/sequencing of capital projects based on funding filters and other Board input to address potential affordability issues.

The proposed staff approach to address the aforementioned potential impacts can be summarized as follows:

1. Utilize the Funding Filters for Prioritization presented in Attachment 1 to inform capital project sequencing analysis and funding scenarios for future Board consideration.
2. Take advantage of recession opportunities such as:
 - a. Favorable conditions for hiring (to replace retirements, etc...)
 - b. Competitive bids for capital construction
3. Provide periodic updates to the CIP Committee including:
 - a. Recession/inflation impact reviews as needed that would be elevated to the full Board if necessary
 - b. Proceed with the CIP annual schedule and ongoing project implementation reviews per the CIP Committee Work Plan

There are several opportunities in the near term for the Board or the CIP Committee to weigh in on the preparation of scenarios that may be needed including the following opportunities:

- At the November 22, 2022 Board meeting, staff is planning to bring forward the annual Water Rate Planning Overview that would include a discussion of water rate scenarios
- At the December 12, 2022 CIP Committee meeting, staff is planning to discuss the Preliminary CIP Overview, which would include a fund financial analysis preview and scenario discussion as per the CIP Committee Work Plan.
- At the January 10, 2023 Board Meeting, staff will present the annual reviews of the preliminary CIP, the preliminary water rate analysis, and the preliminary fund financial analysis (including the Safe Clean Water Fund and the Watershed and Stream Stewardship Fund), which will include scenario discussions.

Staff is seeking Board feedback on the proposed staff approach and next steps.

ENVIRONMENTAL JUSTICE IMPACT:

While individual operations and capital projects discussed may have environmental justice impacts, which would be reported to the Board accordingly, having a discussion on impacts of a potential recession and recent high inflation trends has no environmental justice impacts.

FINANCIAL IMPACT:

There is no financial impact associated with this item.

CEQA:

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

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

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