



SANTA CLARA VALLEY WATER DISTRICT

NON-AGENDA

May 12, 2023

Board Policy EL-7 Communication and Support to the Board
The BAOs shall inform and support the Board in its work.

Page		<u>CEO BULLETIN & NEWSLETTERS</u>
		CEO Bulletin: None
		<u>BOARD MEMBER REQUESTS & INFORMATIONAL ITEMS</u>
3		BMR/IBMR Weekly Reports: 05/12/23
4		Memo from Aaron Baker, Chief Operating Officer, to the Board, dated 5/9/23, providing a water supply and conservation updated.
16		Memo from Chris Hakes, Acting Assistant CEO, to Rick Calendar, CEO, dated 5/8/23, providing a revised Safe, Clean Water and Natural Flood Protection Program FY2021-22 Annual Report.
17		Memo from Darin Taylor, CFO, to the Board, dated 5/9/23, responding to BMR-23-0005 – Internal Service Funds/Overhead Information requested by Director Beall at the 4/26/23 Budget Work-Study Session.
		<u>INCOMING BOARD CORRESPONDENCE</u>
22		Board Correspondence Weekly Report: 05/12/23
25		Email from Bruce Neill to the Board, dated 5/5/23, conveying thanks for the lawn maintenance on District-owned property in his neighborhood and requesting water quality information for Coyote Creek. C-23-0096
26		Email from Danny Garza, copied to the Board, dated 5/8/23, regarding is unavailability to participate in the 2023 National Reiver Cleanup training. C-23-0097
		<u>OUTGOING BOARD CORRESPONDENCE</u>
30		Email from Director Keegan to Diana Martin, dated 5/4/23, regarding her concerns about encampments along Saratoga Creek adjacent to Hampton Place.
34		Letter from Chair Varela and CEO Callender, to Morgan Hill Mayor Mark Turner and City Manager Christina Turner, dated 5/3/23 providing follow-up information to previous correspondence regarding the encampments located along the western embankment of the Llagas Creek immediately north of Edes Court in the City of Morgan Hill.

Board correspondence has been removed from the online posting of the Non-Agenda to protect personal contact information. Lengthy reports/attachments may also be removed due to file size limitations. Copies of board correspondence and/or reports/attachments are available by submitting a public records request to publicrecords@valleywater.org.

BOARD MEMBER REQUESTS and Informational Items

Report Name: Board Member Requests

Request	Request Date	Director	BAO/Chief	Staff	Description	20 Days Due Date	Expected Completion Date	Disposition
R-23-0003	04/25/23	Beall	Yoke	Mcelroy	Director Beall asked staff to provide a copy of the FMLA/CFRA policy/work instructions.	05/18/23		

TO: Valley Water Board**FROM:** Aaron Baker**SUBJECT:** Water Supply and Conservation Update**DATE:** May 9, 2023

Santa Clara County received high levels of precipitation in winter and spring of 2023. On March 16, 2023, according to the U.S. Drought Monitor, Santa Clara County was out of drought. In addition, local reservoirs are full, groundwater levels are healthy, and for the first time since 2006, Valley Water has received 100 percent of imported water allocations. As Valley Water's water supply outlook improved considerably, on April 11, 2023, Valley Water's Board unanimously approved to:

- Rescind Valley Water Resolutions 22-20 and 21-68 calling for a countywide mandatory 15% water-use reduction compared to 2019 usage; and
- Call for a countywide voluntary 15% water-use reduction call compared to 2019 usage; and
- Direct Valley Water's CEO to bring forward a recommendation for Board consideration to support water conservation as a way of life in our county.

Staff will present a proposed resolution and revised enforcement ordinance to support water conservation as a way of life to the Water Conservation and Demand Management Committee on May 22, 2022 and to the Board on June 13, 2023, as discussed with the Committee on April 24, 2023.

Valley Water continues several efforts to maintain high levels of water conservation after drought, including public messaging, classroom education, Speakers Bureau events, and promoting water conservation programs year-round. Valley Water concluded its drought-related EOC on April 11, 2023 as the Board rescinded the water shortage emergency condition. Valley's Water's latest water supply and water conservation efforts will be described in the Water Supply and Conservation Report.

ATTACHMENTS:

Attachment 1: Water Supply and Conservation Report



Aaron Baker
Chief Operating Officer
Water Utility Enterprise

Water Supply and Conservation Report

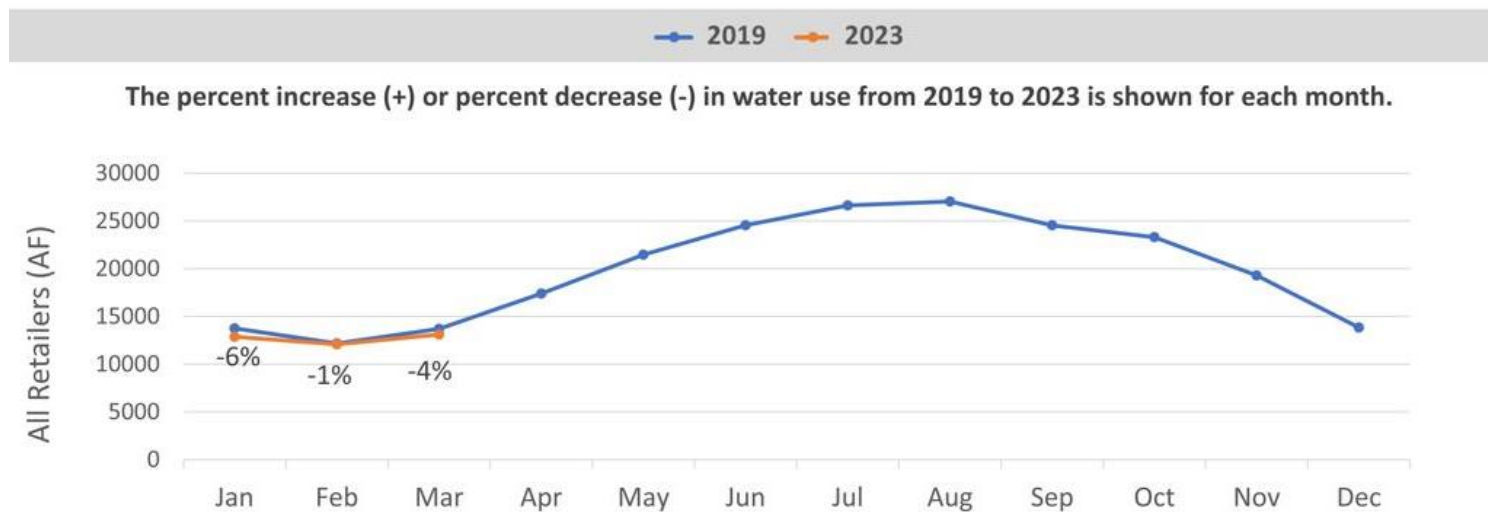
APRIL 2023

Drought Resolution Implementation

On June 9, 2021, the Board adopted Valley Water Resolution 21-68 which declared a water shortage emergency condition pursuant to California Water Code §350, called for water use reduction of 15% compared to 2019, and urged the County of Santa Clara (County) to proclaim a local emergency. The County adopted a Resolution ratifying the proclamation of a local emergency due to the drought on June 22, 2021. California's Governor included Santa Clara County as part of a drought emergency proclamation on July 8, 2021, and this proclamation included all California counties on October 19, 2021. Valley Water activated its Emergency Operations Center (EOC) on June 16, 2021 to assist with resolution implementation and other drought-related efforts. Valley Water Resolution 22-20 amended Valley Water Resolution 21-68 on April 12, 2022 to call for no more than 2 days of irrigation in a week for ornamental lawns and prohibit excessive runoff, midday irrigation, and irrigation after rainfall. On May 24, 2022, the Board approved Ordinance 22-02 to enforce these restrictions. The ordinance went into effect on June 1, 2022. On September 13, 2023, the Board amended Ordinance 22-02 to include the State's ban against watering commercial, industrial, and institutional (CII) non-functional turf amongst its list of enforceable restrictions. On April 11, 2023, the Board rescinded the Water Shortage Emergency Condition and mandatory water use reduction of 15% compared to 2019 due to improved water supply outlook. This was replaced with a call for voluntary water use reduction of 15% compared to 2019. On April 11, 2023, the drought-related EOC was concluded.

Retailer Water Use Reduction

The graph below depicts total water use from the 13 retailers in Santa Clara County to help track progress towards achieving Valley Water's 15% call for water use reduction made in June 2021.



- 2023 precipitation has increased the water levels in our local reservoirs and also increased the snowpack in the Sierra. According to the U.S. Drought Monitor, Santa Clara County is no longer in drought.
- Santa Clara County exceeded the Governor’s call for 15% water use reduction compared to 2020 usage in March. Countywide water savings in March 2023 compared to March 2020 was 23%.
- Countywide water savings was 4% in March 2023 compared to March 2019. Winter use represents primarily indoor water use, which generally increased following COVID due to increased water use for sanitation.
- Valley Water continues its conservation and drought-messaging with the “Say Yes to Saving Water” campaign. The multilingual, multi-platform campaign encourages residents, businesses, farms, and others to follow watering restrictions and take actions, both large and small, that can increase water savings.

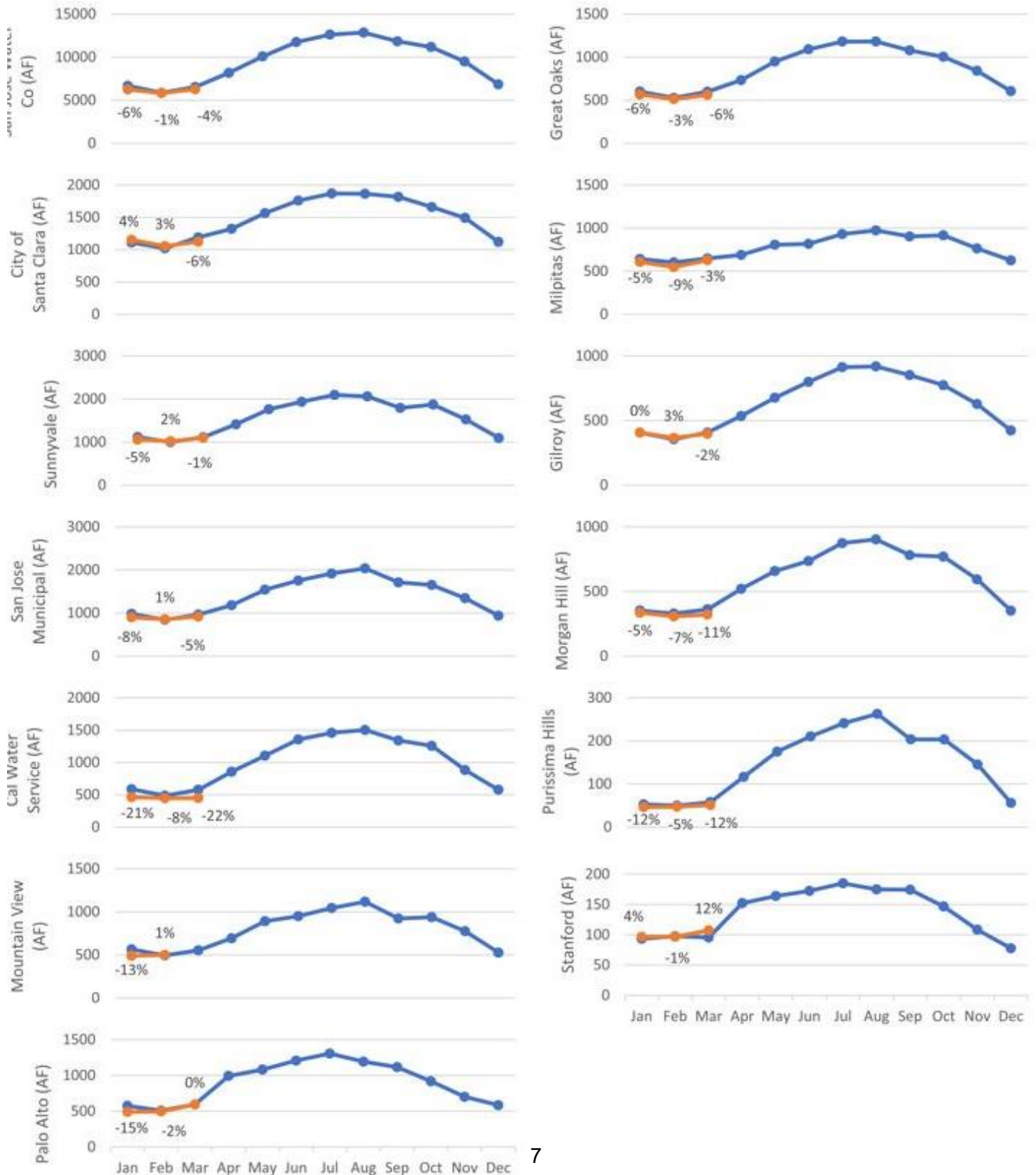
Baseline Year	Santa Clara County	
	2019	2020
March 2023 Savings	4%	23%
Cumulative*	7%	13%
* Cumulative for 2019 baseline begins in June 2021 and for 2020 baseline begins in July 2021		

The graphs on the following page depict water use by each of Valley Water’s 13 retailers to help track progress towards achieving the 15% call for water use reduction made in June 2021. Note that City of Palo Alto Utilities (Palo Alto) and Purissima Hills Water District (Purissima) normally do not use Valley Water sources of water. A large proportion of water used by the City of Mountain View Public Works (Mountain View) and Stanford Utilities (Stanford) is not from Valley Water sources.

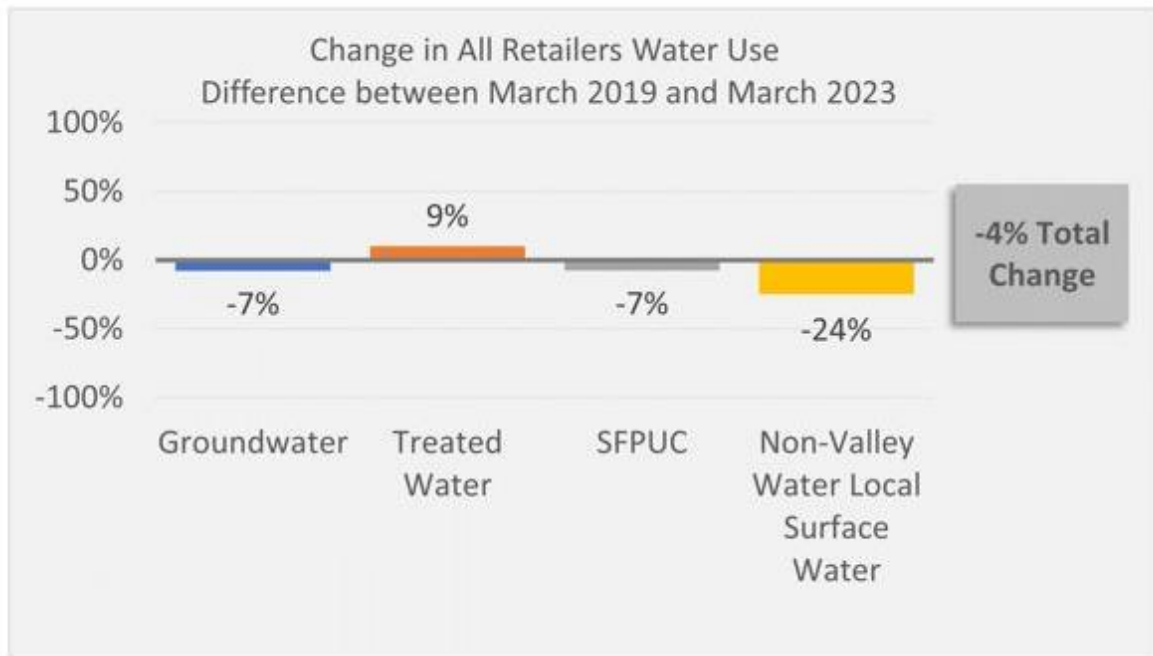
Monthly Water Use by Retailer (AF)

— 2019 — 2023

The percent increase (+) or percent decrease (-) in water use from 2019 to 2023 is shown for each month.



The graph below depicts changes between the retailers' different types of water use.



The table below shows Valley Water retailers' water usage volumes by type.

Water Retailer	Total Water Use in Acre-Feet (March 2019)					Total Water Use in Acre-Feet (March 2023)				
	Groundwater	Treated Water	SFPUC	Non-Valley Water Local Surface Water	SUM	Groundwater	Treated Water	SFPUC	Non-Valley Water Local Surface Water	SUM
San Jose Water Company	1,440	2,900	-	2,190	6,530	1,270	3,340	-	1,660	6,280
Santa Clara, City	720	220	240	-	1,190	650	180	300	-	1,120
Sunnyvale	10	120	990	-	1,110	10	430	660	-	1,100
San Jose Municipal Water	40	600	320	-	960	60	550	310	-	920
California Water Service	170	410	-	-	580	210	240	-	-	450
Palo Alto	-	-	590	-	590	-	-	590	-	590
Mountain View	20	40	490	-	550	10	40	520	-	580
Great Oaks	600	-	-	-	600	560	-	-	-	560
Milpitas	-	270	370	-	650	-	220	410	-	630
Gilroy	410	-	-	-	410	400	-	-	-	400
Morgan Hill	360	-	-	-	360	320	-	-	-	320
Purissima Hills Water	-	-	60	-	60	-	-	50	-	50
Stanford	-	-	100	-	100	-	-	110	-	110
Total	3,770	4,570	3,170	2,190	13,690	3,490	5,000	2,940	1,660	13,100

Collaboration with the County, Retailers, and Cities

- In April, Valley Water continued to monitor actions related to the adoption of the Model Water Efficient New Development Ordinance (MWENDO) and provide staff support to municipalities as part of ongoing efforts to support the County's and cities' interests in expanding water efficiency measures.
- While the 2022 version of California's Title 24 building code update was effective January 1, 2023, jurisdictions can adopt additional measures like MWENDO at any time.

Water Conservation Programs

Valley Water is actively promoting ways our community can save water through rebates, free water-saving devices, and behaviors. The Online Shopping Cart (eCart) Program offers free water-saving devices to homes and businesses. The Landscape Rebate Program (LRP) provides rebates for converting high-water use landscapes to low-water-use landscapes, as well as retrofitting existing irrigation equipment with approved high-efficiency irrigation equipment. With the decrease in winter rains, application submittal rates have begun to increase.

Estimated conservation program applications received in 2023 are shown below.

Program	January	February	March	April
Landscape Rebate Program Applications	126	120	158	211
Water-saving Device Orders	116	114	167	168

Local non-profit Our City Forest hosted their monthly two-day Do-It-Yourself (DIY) Lawn Bust Workshop, sponsored by Valley Water, in April with 10 participants in attendance for the virtual portion of training and 6 for the hands-on training where they learned to design and convert turf lawn into a drought-tolerant landscape and how to leverage Valley Water's Landscape Rebate Program for their own homes. In addition, Valley Water is sponsoring Qualified Water Efficient Landscaper Certification (QWEL) training, an EPA WaterSense labeled professional certification in irrigation system audits. The 20-hour course is offered for landscape professionals and students who live and work throughout Santa Clara County. Spanned from March to early April, Valley Water hosted an in-person training for Spanish speakers with 32 students in attendance. Valley Water sponsors these courses in both English and Spanish to increase accessibility to the course. The next QWEL course will be offered in October through zoom and will be in English.

Water Waste Enforcement

Valley Water began enforcing outdoor water waste restrictions against runoff, midday watering, and watering after rainfall, and a limit of two days a week of watering for non-functional turf on June 1, 2022. On September 13, 2022, Valley Water's Board of Directors amended the Ordinance 22-02 to allow Valley Water to enforce the State of California's ban against watering non-functional turf on commercial, industrial, and institutional properties. The Water Waste Program is enforcing these restrictions while continuing its educational mission. The number of water waste reports since program launch in June 2022 is shown below.

	June '22	July '22	Aug '22	Sept '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	April '23
Water Waste Reports	515	236	484	286	221	156	79	58	45	35	39

Complaints of violations against water waste restrictions are submitted by members of the public. A total of 39 water waste complaints were received in April 2023. Six of the complaints received are enforceable, as they relate to the restrictions listed in Ordinance 22-02 and occurred in service areas supplied by Valley Water sources; the remaining are not enforceable but are addressed through education. Each complaint may include multiple reports of violations against water waste restrictions. Below is a breakdown of the numbers of reported water waste violations related to the restrictions listed in Ordinance 22-02. Not all violations are verified by staff to be occurring, such as those related to watering after rainfall. Nine second complaints on the same violation have been received between the launch of the enforcement program through the end of April.

Enforceable Water Waste	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
More than 2 days of watering	76	39	113	83	54	26	17	12	8	6	0
Watering from 9AM-6PM	84	30	92	45	29	14	4	0	2	1	0
Watering within 48 hours of	11	4	3	21	4	19	17	19	7	7	0
Runoff	199	95	210	129	118	46	21	18	7	7	6
Watering CII non-functional turf	n/a	n/a	n/a	15	38	18	5	1	4	1	0
Total	370	168	418	293	243	123	64	50	28	22	6

Drought and Water Conservation Outreach

- In April, media attention focused on the Board's unanimous decision to rescind the water shortage emergency condition and end the call for a 15% mandatory water-use reduction in Santa Clara County. Several media outlets covered the Board meeting on April 11, including the Mercury News, NBC Bay Area, KTVU, KPIX and ABC7 News. Staff prepared a news release on the Board's action, including a quote from Chair Varela, published on District News and shared on social media. Staff was also interviewed by reporters from KTVU, KPIX and NBC Bay Area, Telemundo and Univision. A statement from Chair Varela regarding increased allocations from the State Water Project and Central Valley Project was also published on District News and shared on social media.
- Our spring water conservation campaign continued with our Yards Have Evolved slogan, featuring the beauty of a landscape transformation from lawns to water-efficient plants. The campaign features video and audio, digital, social and newspaper ads. We also continued promoting our Outdoor Water Surveys. Staff shared water-efficient gardening resources with partner cities and retailers, offering bill inserts, handouts, display tables, digital banners, and web content.
- Community outreach conducted two Speakers Bureau presentations in April. On April 6, 2023, staff gave a virtual presentation via Zoom to Water 101 Academy participants. On April 11, 2023, the team gave an in-person presentation to residents of the Terraces Los Gatos retirement community.
- On social media, staff continued to share the importance of conservation even if we are no longer in drought. Posts included tips to save water, information on our rebate programs, and native plant alternatives to grass.

- Statistics for public outreach efforts are shown below.

Outreach Type	April 2023
Social Media¹	
Impressions ²	6,743,812
Engagements ³	323,389
Link Clicks	67,484
Video Views	1,540,807
Website Page Views	
Water conservation webpages	75,825
BeHeard.ValleyWater.org/drought-information	
Media	
Media Mentions ⁴	508
Speakers Bureau	
Presentations ⁵	2

¹Includes Facebook, Twitter, Instagram, YouTube and LinkedIn

²Impressions are the number of times a post is displayed in a newsfeed.

³Engagements are the number of times a user interacts with a post, such a retweet, click, and more.

⁴Includes TV, radio, social media, online and print

⁵ Office of Communications and Government Relations

Drought and Water Conservation Education

- In April, the Education Outreach Program (EO) supported 64 educators and 1,764 students through 33 in-person presentations, two assembly programs and an Earth Day event. EO staff continued the collaboration with The City of San Jose's Walk n'Roll Program and led two assembly programs at Forest Hill Elementary. During the assemblies, EO staff engaged with over 700 K-5th grade students who recited The Water Conservation Pledge and learned about ways to save water every day with the Valley Water mascot, H2Cool. During all EO programs, students engage in discussions on the importance of water conservation, stewardship, and pollution prevention. Students and educators receive Water Conservation Pledge posters, bookmarks and either water conservation stickers or drought-tolerant native wildflower seeds after every presentation to reinforce the water conservation messaging and inspire conversations with their families.
- The table below shows Education Outreach efforts in Fiscal Year 2023, all of which included drought and water conservation messaging.

EDUCATION OUTREACH PRESENTATION NUMBERS			
MONTH	STUDENTS &	PUBLIC ATTENDEES	FY23 YEAR TO DATE
July – March	9,654	529	10,183
April	1,828	164	1,992
Total	11,482	693	12,175

Committee Updates

- Water supply-related updates are being provided regularly at Committee meetings to receive feedback and guidance. These updates were provided to the Santa Clara Valley Water Commission, Joint Water Resources Committee, and Water Conservation and Demand Management Committee in April.

Water Supply Operations and Outlook

- The cumulative rainfall in San José in this rainfall year through May 1, 2023, is 21.14 inches or 153% of the long-term average for the valley floor for this date. The current rainfall year extends from July 1, 2022, to June 30, 2023.
- Total reservoir storage as a percentage of unrestricted reservoir capacity is 58% for May 1, 2023, which is 98% of the (20-year) average storage for May.

Imported Water

- California's water year runs from October 1 to September 30 and is the official timeframe used to compare hydrologic records. Water Year 2020 to 2022 was the driest three-year period on record, breaking the old record set by the last drought from Water Year 2013 to 2015.
- Since December 2022, a number of strong atmospheric rivers have impacted California, leading to increased storage across California's major reservoirs. As of May 1, 2023, Shasta Reservoir is at 116% of average of this date, Oroville Reservoir is at 118% of average for this date, and Folsom Reservoir is at 112% of average of this date. All three reservoirs are expected to reach full capacity to this year.
- As of May 1, storage in San Luis Reservoir is approximately 2,010 thousand acre-feet (TAF), which is 120% of the average for this date. Storage capacity in the reservoir is split between the State Water Project (SWP) and Central Valley Project (CVP), and both portions of the reservoir have been full since early April.
- On April 20, 2023, the California Department of Water Resources announced an increase to the 2023 SWP allocation from 75% to 100%.
- On April 20, 2023, the U.S. Bureau of Reclamation announced an increase to the 2023 Central Valley Project (CVP) allocation from 80% to 100% for South-of-Delta Agricultural contractors. The allocation for South-of-Delta Municipal & Industrial contractors remains at 100%.

Treated Water

- Due to rain and stormwater runoff events between January and March, total organic carbon and turbidity levels in April remained slightly elevated in our source water (South Bay Aqueduct and Calero Reservoir) to the plants. Valley Water took proactive measures to optimize the water treatment process and mitigate impact.
- Source water algal toxins and taste and odor compounds were below our internal trigger levels and treated water delivered met all applicable drinking water standards.

Groundwater Recharge

- Since January 2023, Valley Water has been conducting full recharge operations in creeks downstream of local reservoirs.
- Most North County off-stream facilities are running full due to the availability of imported water and local water.
- Normal recharge operations in the Llagas Subbasin resumed in mid-March in off-stream facilities in Morgan Hill after the repair of a major pipeline that carries imported water from San Luis Reservoir. However, the Madrone

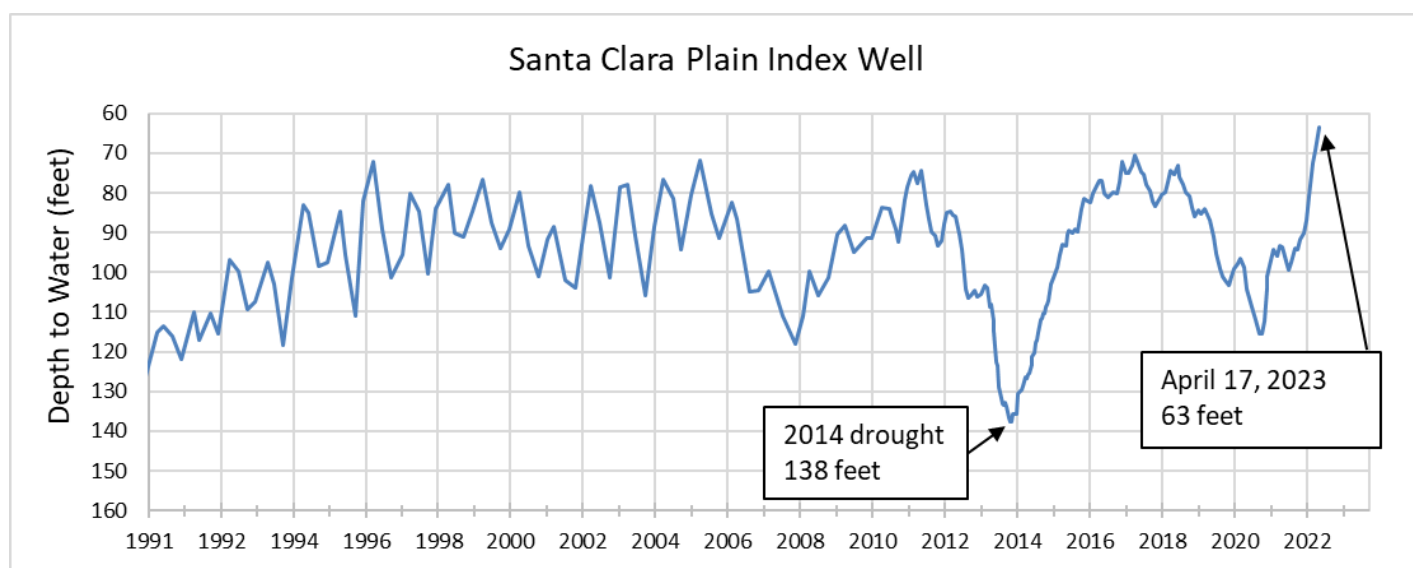
Channel and Main Avenue Ponds were taken offline in May for pond cleaning, which will increase their productivity during the summer season and beyond.

- Countywide recharge in CY 2023 is projected to be 131% of normal (*i.e.*, of the 20-year historical average).

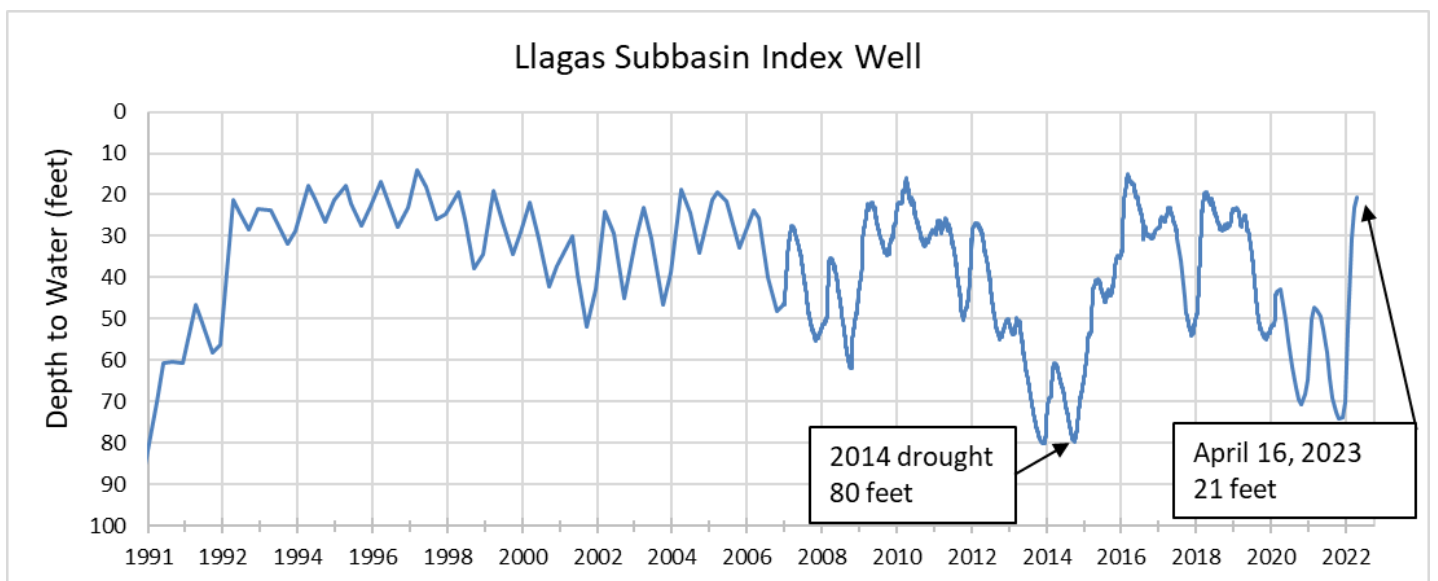
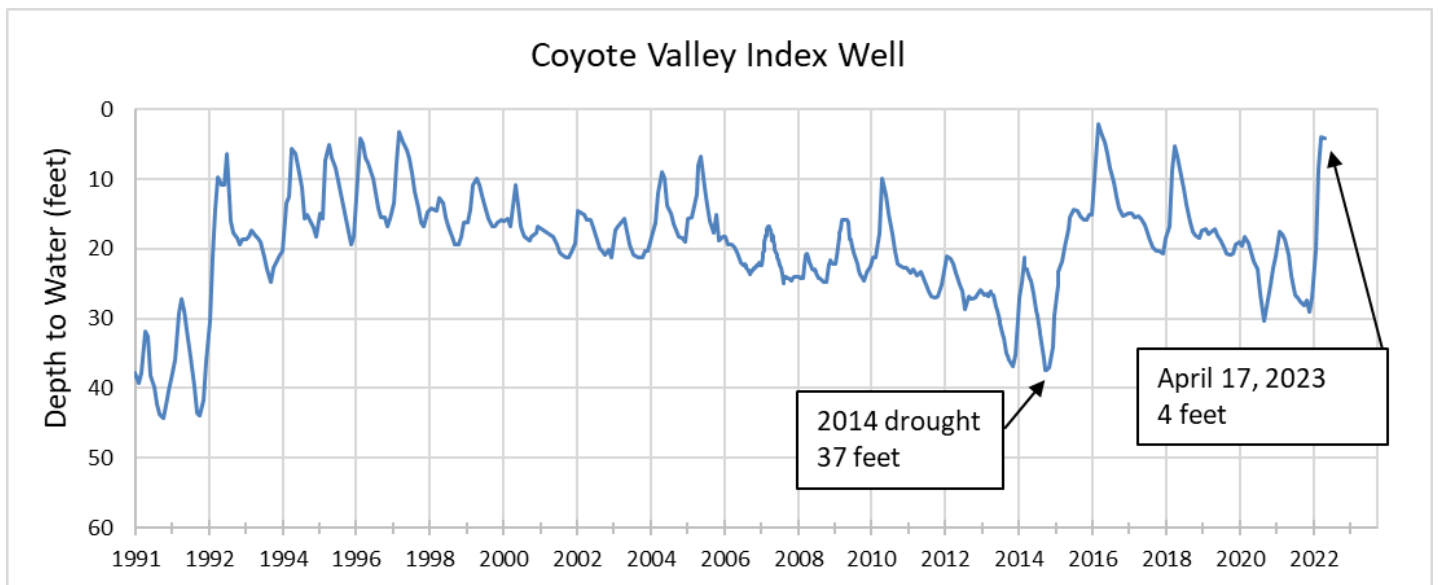
Groundwater Conditions:

Groundwater levels in most Valley Water key monitoring wells are higher than last month and all are higher relative to April 2022, indicating that most groundwater levels have recovered to healthy, predrought conditions. No new dry wells were reported in April.

- North County Groundwater
 - The current water level at the regional index well has increased about 6 feet since last month and is about 75 feet above the minimum water level in 2014. The water level at this well is about 30 feet higher compared to this time last year.
 - Groundwater levels are more than 56 to 100 feet above thresholds established to minimize the risk of permanent subsidence.
 - No dry wells were reported in April. Since the onset of the current drought, a total of two dry wells have been reported in North County, all in the foothills where yield is generally less reliable.



- South County Groundwater
 - The current water level in the Coyote Valley and Llagas Subbasin regional index wells are the same and increased by about 3 feet, respectively, since last month and are about 33 and 59 feet, respectively, above the minimum water level in 2014. Additionally, the water levels in these wells are about 17 and 29 feet higher, respectively, compared to this time last year.
 - No dry wells were reported in April. Since the onset of the current drought, a total of six dry domestic wells have been reported in South County, with most located near the foothills where yield is generally less reliable. Valley Water works to provide affected well owners with appropriate assistance, including information on available resources or billing support as needed.



Federal Coordination

- Valley Water directors and senior staff met with Bureau of Reclamation officials and Members of Congress during the spring advocacy trip to Washington, DC. Staff thanked Reclamation and the congressional delegation for all the support that our agency and region received throughout the drought, and for 100% of CVP water supplies allocated at the end of March. Valley Water advocated for tools to become more drought resilient in the future, including expanding water recycling and creating new storage (e.g., Pacheco, Los Vaqueros, Sisk Dam Raise) to capture as much rainfall as possible during these wet years.
- Directors and staff will meet with Bureau of Reclamation regional staff at the upcoming ACWA Spring Conference in Monterey to continue advocating for these and other ways to ensure future drought resilience.

Staffing and Resources

- Drought emergency expenses are expenditures supplemental to the regular budget that would not have been adopted had there been no drought. Due to the timing of monthly financial system closes, drought expenditures are reported one month behind in this monthly report.

- The FY 2022-23 Adopted Budget of \$37 million for drought emergency is comprised of \$17 million for emergency water purchases, \$7 million for water banking expenses to help bring approximately 32,000 acre-feet of water banked at Semitropic Water Storage District into the county, and \$13 million for conservation programs and drought-related public relations. Budget adjustments will be brought to the Board for any additional expenses incurred during the year.
- March 2023 expenses totaled approximately \$12.3 million spent or encumbered this fiscal year primarily for emergency water purchases tied to contracts executed in prior years, recovery of stored water from Semitropic Water Storage District, operating supplies and services for public relations including conservation-related communications, rebates, eCart supplies, temps and interns, and labor expenses for staff time directly supporting Valley Water's drought response program.

Expanded Opportunities

Purified Water Project

The Purified Water Project will replenish groundwater supplies with purified water and expand usage of recycled and purified water, a drought-resilient, locally-controlled water source.

- Staff continues to work with our partner agencies on agreements, technical requirements, and the draft Environmental Impact Report (EIR).
- The City of Palo Alto City Council approved the staff funding agreement to support the Purified Water Project on April 17, 2023.
- A groundwater tracer study is currently being performed at the Budd Ponds to confirm the speed of groundwater flow to inform the zone of controlled drinking water well construction.

Flood-Managed Aquifer Recharge (Flood-MAR) Study

Valley Water is collaborating with a team of water experts from the University of California system (referred to as UC Water) to complete a reconnaissance study for Flood-MAR implementation in Santa Clara County. The study began in 2021. Study deliverables include a GIS-based tool to identify potential sites for Flood-MAR projects in Santa Clara County and an evaluation of institutional/regulatory requirements for implementing Flood-MAR projects.

- Drafts are currently being reviewed by staff.
- Valley Water has applied for a Proposition 1 Integrated Regional Watershed Management grant to begin the first phase of a feasibility study. The proposal is currently under review by the California Department of Water Resources.

Drought Response Plan

Valley Water is developing a Drought Response Plan (DRP) to improve water supply reliability in Santa Clara County during times of future shortage through a WaterSMART grant from the Bureau of Reclamation. Valley Water's DRP will evaluate new approaches for determining when to request water use reductions from the public and develop a response framework to employ during future droughts.

- Internal work continues to develop potential drought triggers and water shortage actions. Next steps will be to draft a technical memo providing the background on the proposed actions and triggers and to meet with water retailers and the external Task Force for their input.

**MEMORANDUM**

FC 14 (01-25-23)

TO: Rick L. Callender, Esq.
Chief Executive Officer**FROM:** Christopher Hakes, Acting
Assistant Chief Executive
Officer**SUBJECT:** Revised Safe, Clean Water and Natural
Flood Protection Program FY2021-22 Annual
Report**DATE:** May 8, 2023

The Safe, Clean Water and Natural Flood Protection Program's FY2021-22 Annual Report (<https://tinyurl.com/SCWFY22AnnualReport>) is revised to correct the financial data in Appendix A-1.2 Cumulative Financial Summary and to address minor graphic layout errors as identified during the Independent Monitoring Committee's review of the FY2021-22 Annual Report.

The revised Annual Report includes updates to Appendix A-1.2 Cumulative Financial Summary to reflect capital project carryforward from the prior 2012 Safe, Clean Water Program into the renewed Safe, Clean Water Program, which became effective on July 1, 2021. This one-time adjustment totaled \$15.83 million. Multiple capital projects were updated to reflect the carryforward amounts. FY2021-22 actuals remain as stated in the Annual Report and no updates were made. The revised annual report will also be emailed to the IMC members.

DocuSigned by:

A handwritten signature in black ink that reads "Christopher Hakes". The signature is enclosed in a blue DocuSign signature box.
0F4E8DE1003D4CD...

Christopher Hakes, P.E.
Acting Assistant Chief Executive Officer
Office of Integrated Water Management

cc: Luz Penilla, Jessica Collins, Meenakshi Ganjoo, Wade Blackard
MG:wb

MEMORANDUM

TO: Board of Directors

FROM: Darin Taylor, CFO

SUBJECT: Internal Service Funds / Overhead
Information in response to question from
Director Beall at 4/26/23 Budget Work-Study
Session

DATE: May 9, 2023

The purpose of this memorandum is to provide a response to Director Beall's question regarding the makeup of the internal service funds, cost as a percentage of the total budget, components of overhead charges and allocation methodology.

OVERVIEW

During the Work-Study Session to consider the Fiscal Year 2023-24 Proposed Operating and Capital Rolling Biennial Budget, Director Beall inquired about the makeup of the internal service funds, cost as a percentage of the total budget, components of overhead charges and allocation methodology. The administrative support costs are composed of the General Fund and the Internal Service Funds, which include the Fleet Management Fund, Risk Management Fund, and the Information Technology Fund.

RESPONSE

During the Work-Study Session to consider the Fiscal Year 2023-24 Proposed Operating and Capital Rolling Biennial Budget, the Proposed Budget by fund and organization was presented to the Board on slide 42:

Proposed Budget by Fund and Organization

42

Projects managed within Organization and by Fund

FY24 Proposed (\$ in millions)	BAO	CEA	Admin	OIWM	WU	WS	Debt	Salary Savings	Total
General Fund & Internal Service Funds	\$31.4	\$14.7	\$ 93.6	\$ 0.4	\$ 0.2	\$ 1.5	\$ 0.5	\$ (1.0)	\$ 141.3
WS and Stream Stewardship Funds	1.0	2.0	4.0	4.9	0.1	89.5	11.2	(0.7)	111.9
Safe, Clean Water Fund	0.1	3.9	1.0	2.6	3.6	61.8	9.5	(0.3)	82.0
Water Enterprise and State Water Funds	3.7	2.3	6.9	150.2	331.4	77.8	76.3	(1.7)	647.1
Total	\$36.2	\$23.0	\$ 105.4	\$ 158.1	\$ 335.2	\$ 230.7	\$ 97.4	\$ (3.7)	\$ 982.3

FY25 Plan (\$ in millions)	BAO	CEA	Admin	OIWM	WU	WS	Debt	Salary Savings	Total
General Fund & Internal Service Funds	\$34.6	\$16.3	\$ 98.5	\$ 0.5	\$ 0.2	\$ 1.6	\$ -	\$ (1.0)	\$ 150.5
WS and Stream Stewardship Funds	1.0	2.1	4.2	5.4	0.0	92.7	5.8	(0.8)	110.4
Safe, Clean Water Fund	0.1	3.9	1.1	2.7	3.6	142.5	10.3	(0.3)	163.8
Water Enterprise and State Water Funds	3.9	2.4	9.4	135.3	390.9	43.9	103.3	(1.7)	687.4
Total	\$39.6	\$24.7	\$ 113.1	\$ 143.9	\$ 394.7	\$ 280.7	\$ 119.3	\$ (3.9)	\$ 1,112.1

Note: Negative amounts due to salary savings in projects managed by Finance.

Slide 42 showed the total operating and capital outlays of \$982.3 million for the FY24 Proposed Budget, of which \$141.3 million are budgeted for the General Fund and Internal Service Funds and make up 14.4% of the total Proposed Budget; this amount is defined as the overhead costs. The General Fund and Internal Service Funds dollar amounts and percentages, as compared to the total Proposed Budget, are as follows:

- General Fund – \$89.4 million; 9.1%
- Fleet Management Fund – \$7.0 million; 0.7%
- Risk Management Fund – \$10.9 million; 1.1%
- Information Technology Fund – \$34.1 million; 3.5%

FY24 Proposed (\$ in millions)	BAO	CEA	Admin	OIWM	WU	WS	Debt	Salary Savings	Total
General Fund	\$23.8	\$14.7	\$ 49.1	\$ 0.4	\$ 0.2	\$ 1.5	\$ 0.5	\$ (0.8)	\$ 89.4
Fleet Management Fund	-	-	7.0	-	-	-	-	(0.0)	7.0
Risk Management Fund	7.6	-	3.3	-	-	-	-	(0.0)	10.9
Information Technology Fund	-	-	34.2	0.0	-	0.0	-	(0.2)	34.1
Total General Fund & Service Funds	\$31.4	\$14.7	\$ 93.6	\$ 0.4	\$ 0.2	\$ 1.5	\$ 0.5	\$ (1.0)	\$ 141.3

Valley Water utilizes fund accounting to track and fund overhead costs which are accounted for via intra-district reimbursements to the General Fund and Internal Service Funds. Unlike most government agencies, these funds do not have a dedicated source of revenue outside of a diminutive amount in ad valorem property tax revenue for the General Fund and minor interest earnings for the Internal Service Funds. Considering the organization's overhead allocation methodology, the process utilized to recover overhead costs is to charge direct service funds, such as the Water Utility Enterprise Fund, based on salary or labor cost allocations.

GENERAL FUND & INTERNAL SERVICE FUNDS SUMMARIES

General Fund

The General Fund is Valley Water's primary funding source for administrative and strategic support services. These services are provided to the Water Utility Enterprise and Watershed programs and projects. They are necessary for the governance and delivery of vital water management and watershed stewardship services to the community. The main purposes of the resources budgeted to the General Fund are to provide:

- Executive leadership and oversight.
- Long and short-term financial planning.
- A capable and knowledgeable workforce.
- Sustainable assets, equipment, and infrastructure.

The Offices of the Chief Executive Officer, District Counsel, Clerk of the Board, Chief of External Affairs, and Chief Operating Officer of Administrative Services are budgeted in the General Fund. For more detailed information, including projects, refer to the General Fund section of the Proposed Budget beginning on page 6-102.

Fleet Management Fund

The Fleet Management Fund was established to capture the operations, maintenance and replacement costs of District-owned vehicles and equipment such as: sedans, vans, pickup trucks and field equipment (Class I); heavy duty trucks and trailers (Class II); heavy construction equipment (Class III); and, portable equipment including large pumps, electrical panels, hose and fittings, air compressors, chain saws, weed whackers, generators, etc. (Class IV).

For more detailed information, including projects, refer to the Fleet Management Fund section of the Proposed Budget beginning on page 6-121.

Risk Management Fund

This Risk Management Fund was established to provide for liability, property, workers' compensation insurance, and self-insurance costs. Included in this fund are various health and safety programs designed to ensure the safety and wellbeing of employees, a reserve for catastrophic uninsured property loss, and self-insurance reserves for both known and unreported Workers Compensation and liability claims set at levels prescribed by actuarial studies. Currently, loss prevention efforts are being integrated with other performance-based objectives such as quality and cost-control to ensure that health and safety activities are integrated into the day-to-day operations of the Valley Water business. Valley Water supports the philosophy that all accidents and injuries are preventable through the establishment of and compliance with safe work procedures and best management practices for our industry.

For more detailed information, including projects, refer to the Risk Management Fund section of the Proposed Budget beginning on page 6-125.

Information Technology Fund

The Information Technology Fund was established to capture the operation, maintenance, and replacement costs to support the technology and information security needs of Valley Water. It accounts for all network, data center, telecom, servers, computers, and business and support applications.

For more detailed information, including projects, refer to the Information Technology Fund section of the Proposed Budget beginning on page 6-129.

2016 CONSULTANT STUDY REGARDING VALLEY WATER OVERHEAD METHODOLOGY

In 2016, Valley Water engaged Raftelis Financial Consultants (RFC) to review Valley Water's overhead allocation methodology and compare it to industry best practices. The report focused on the distribution basis by which each support function was allocated to the programs/funds/divisions that receive those support services.

The report's Executive Summary states that "The District's current overhead allocation methods provide a fair and reasonable distribution of the allocable overhead costs of the various general fund and other service fund divisions." Specifically, RFC agreed that using salaries was the most reasonable allocation

bases for the vast majority of support divisions. Also, RFC agreed with Valley Water's usage metrics to allocate Fleet costs and certain IT support costs. The report can be provided to the Board if so requested.

CONCLUSION

Overall, the purpose of the General Fund and Internal Service Funds is to ensure that Valley Water has the necessary resources to operate efficiently and effectively, while covering the indirect expenses associated with providing such services. Generally, the percentage cost of service funds can vary in the 10% to 30% range across industries, depending on the level of support services required. In Valley Water's case, 14.4% is in the lower portion of this range and will vary going forward depending on changes in the organization's operations. Valley Water conducts an annual review of overheard costs, during every budget cycle, and adjusts its overhead costs accordingly to ensure quality service to the community while ensuring long term financial sustainability for the organization.

INCOMING BOARD CORRESPONDENCE

Board Correspondence (open)

Correspond No	Rec'd By District	Rec'd By COB	Letter To	Letter From	Description	Disposition	BAO/ Chief	Staff	Draft Response Due Date	Draft Response Submitted	Writer Ack. Sent	Final Response Due Date
C-23-0030	01/18/23	01/18/23	All	STEPHEN QUAN	Email from Stephen Quan, to the Board of Directors, dated 01/18/23, regarding Dam Levels and the Drought.	Refer to Staff	Baker	Williams	01/26/23	01/31/23	n/a	02/01/23
C-23-0045	02/23/23	02/24/23	All	MELISSA MALLORY	EMail from Melissa Mallory regarding unhouse along Los Gatos Creek Trail.	Refer to Staff	Blank	Yerrapotu Codianne	03/04/23	03/03/23	n/a	03/10/23
C-23-0076	03/31/23	04/03/23	All	H.K. WILLARD	Email from H.K. Willard to the Board dated 3/31/23 regarding misleading information in March Water News.	Refer to Staff	Gibson	Rocha	04/11/23	04/07/23	n/a	04/17/23
C-23-0083	04/13/23	04/14/23	Keegan	IRENE MARIN	Email from Irene Marin to Director Keegan, regarding unhoused performing unlawful acts complex.	Refer to Staff	Yerrapotu Blank	Codianne	04/22/23	04/24/23	n/a	04/28/23
C-23-0094	05/02/23	05/03/23	All	JANICE BARTON	Email from Janice Barton to the Board dated 5/2/23	Refer to Staff	Richardson	Hakes Mccarter	05/11/23	-	n/a	05/17/23

Correspond No	Rec'd By District	Rec'd By COB	Letter To	Letter From	Description	Disposition	BAO/ Chief	Staff	Draft Response Due Date	Draft Response Submitted	Writer Ack. Sent	Final Response Due Date
					questioning why the cost of the Anderson Dam retrofit project has doubled in price.							
C-23-0095	04/28/23	05/03/23	All	PIPER MCNULTY	Email from Piper McNulty to Director Hsueh, dated April 28, 2023, questioning the use of Roundup and another herbicide along the Regnart Creek trail in Cupertino.	Refer to Staff	Yerrapotu	Codianne	05/11/23	-	n/a	05/17/23
C-23-0096	05/05/23	05/05/23	All	BRUCE NEILL	Email from Bruce Neill to the Board, dated 5/5/23 requesting information on Coyote Creek water quality, before, during & after project; monitoring schedule & data; and flood wall plans and how it will impact	Refer to Staff	Yerrapotu	Neuman	05/13/23	-	n/a	05/19/23

Correspond No	Rec'd By District	Rec'd By COB	Letter To	Letter From	Description	Disposition	BAO/ Chief	Staff	Draft Response Due Date	Draft Response Submitted	Writer Ack. Sent	Final Response Due Date
					movement of small animals.							
C-23-0098	05/10/23	05/10/23	Varela	ELLEN LEE LEE Incorporated	Email from Ellen Lee to Chair Varela dated 5/10/23 inquiring about Gilroy's progress on the removal of lead service lines in w water service area.	Refer to Staff	Baker	Bogale	05/18/23	-	n/a	05/24/23