

## **Budget Transmittal Letter for Fiscal Year 2023-24 & 2024-25 Rolling Biennial Budget**

May 16, 2023

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

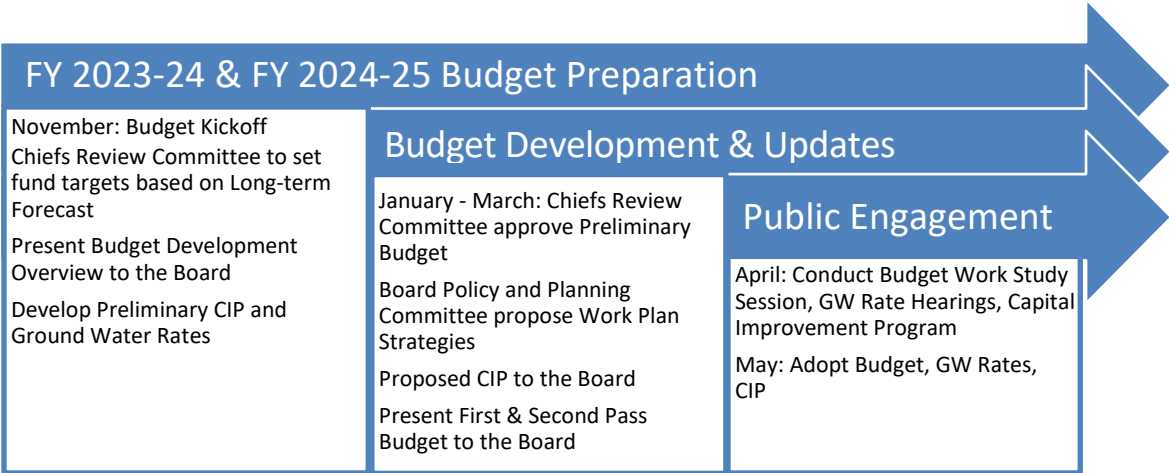
In accordance with Valley Water Policy, I am submitting the Fiscal Years 2023-24 (FY24) & 2024-25 (FY25) Proposed Operating and Capital Rolling Biennial Budget for the Santa Clara Valley Water District (Valley Water). This Budget represents Valley Water's second year after transitioning to a rolling biennial budget, which allows us to budget for FY24 and plan for FY25. In the rolling biennial budget process, the Board adopts a one-year budget and approves a second year Plan, with the FY25 Plan serving as a starting point for the next biennial budget cycle. The rolling biennial budget is updated annually, which is aligned with the guiding State, District Act and Valley Water Policies, and is conducive to long-term planning while remaining responsive to the dynamic and ever-changing needs of the organization. Additionally, it represents Valley Water's mission of providing Santa Clara County safe, clean water for a healthy community, environment, and economy. This Budget 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.

In FY24 & FY25, Valley Water will focus on smart investments in water infrastructure and technology to ensure Santa Clara County has sufficient safe, clean water for every person, business, and farm now and into the future. In all focus areas we will continue to engage the community and not lose sight of our environmental stewardship goals such as a net positive impact on the environment. Moderate rate increases will allow us to continue to ensure Santa Clara Valley has access to safe, clean water in future drought conditions, while also actively working to mitigate the possibility of future flooding events.

### **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 their intended purposes, aiding management in demonstrating compliance with finance-related legal and contractual provisions.

The budget development process begins in November of each year and concludes on June 30, with the posting of the adopted budget. The budget development process for the FY24 and FY25 Biennial Budget 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. The Budget was developed based on the Board’s current strategies; the FY 2023-24 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.

Given the uncertainty posed by worsening climate change, it is imperative that Valley Water ensures a safe, clean water supply for our community. Valley Water continues to invest in critical infrastructure for our water supply and to protect our communities from serious flooding and remains strongly committed to environmental justice and prioritizing our disadvantaged communities including the unhoused population. Valley Water is responding to these goals in several ways, including expanded efforts with the proposed addition of 10 new positions for FY 2023-24 and 3 new positions for FY 2024-25.

**REVENUE**

The FY 2023-24 & 2024-25 Proposed Rolling Biennial Budget includes projected revenues of approximately \$633.7 million in FY 2023-24, a net increase of \$52.8 million from the \$580.9 million included in the FY 2022-23 Adopted Budget. This 9.1% increase is primarily derived from the increase in water charges revenue (\$63.6 million), property taxes (\$11.9 million), special parcel taxes (\$2.6 million), and other operating and non-operating revenues (\$2.1 million), offset by decreases capital reimbursements (-\$19.3 million), as well as benefit assessment (-\$6.4 million) taxes and intergovernmental services (-\$1.8 million). In FY 2024-25, revenues are estimated to be \$730.1 million, a net increase of \$96.4 million from the FY 2023-24 budget. The 15.2% growth is primarily attributed to higher water charges revenue (\$76.6 million), capital reimbursements (\$10.9 million), property taxes (\$4.9 million), other operating/non-operating (\$1.9), the special parcel tax (\$1.2 million), intergovernmental services (\$0.9 million), and benefit assessment taxes (\$0.2 million).

## **APPROPRIATIONS/OUTLAYS**

Net total operating and capital outlays for the FY 2023-24 Proposed Budget is \$856.6 million, which includes \$97.4 million in debt service outlays. For the FY 2024-25 Plan, net total operating and capital outlays is \$980.4 million, which includes \$119.3 million in debt service outlays. 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 2023-24 Proposed Budget total \$386.4 million, a decrease of \$16.1 million from the FY 2022-23 Adopted Budget. The decrease in net outlays is primarily due to reduction of water purchases for the district. Net operating outlays for the FY 2024-25 Plan total \$430.6 million, an increase of \$44.2 million from the FY 2023-24 Budget, for the Palo Alto Water Reuse Agreement Project, Delta Conveyance Gap Funding, Los Vaqueros Reservoir participation, Water Rate Assistance Program, district election costs, Evelyn Fish Ladder construction and vegetation removal work beyond the Stream Maintenance Program 2 limits.

### **NET CAPITAL OUTLAYS**

Net capital project appropriations total \$372.7 million in the FY 2023-24 Proposed Budget, a decrease of \$59.7 million from the 2022-23 Adopted Budget. It is anticipated that \$97.2 million of the FY 2022-23 Adjusted Budget for capital projects also will carry forward into FY 2023-24 at the close of the current fiscal year as most capital improvement projects will require multiple years to complete. For the FY 2024-25 Plan, net capital project appropriations total \$430.5 million, an increase of \$57.7 million from the FY 2023-24 Budget; \$16.6 million of the FY 2023-24 Budget for capital projects is estimated to be carried forward into the FY 2024-25 Budget. 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 \$124.9 million in FY 2023-24 and \$130.7 million in FY 2024-25. 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 projects. For FY 2023-24, Valley Water anticipates issuing approximately \$268.8 million in debt proceeds, of which \$230.4 million is to finance the Water Utility system infrastructure improvements and \$38.4 million is for Safe, Clean Water (SCW) capital projects.

### **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 2023-24 & FY 2024-25 Rolling Biennial

Operating and Capital Budget document beginning on page 3–51. Overall, budgeted reserves for Fiscal Year 2023-24 are expected to increase \$71.5 million to a total of \$474.0 million versus the Adopted FY 2022-23 Budget. This increase is primarily due to higher water charges revenue associated with increased water demand assumptions, increase in property tax revenue, and lower funding for the Capital Improvement Program in FY 2023-24. For FY 2024-25, budgeted reserves are estimated to increase \$54.7 million to a total of \$528.7 million. This overall increase is primarily due to increased water charges revenue, capital reimbursements and debt proceeds offset by increased Capital Outlays.

(\$ in Thousands)	Budgetary Basis Actual 2021-22	Adopted Budget 2022-23	Projected Year End 2022-23	Planned Budget 2023-24	Proposed Budget 2023-24	Change from 2022-23		Planned Budget 2024-25	Change from 2023-24	
						\$ Diff	% Diff		\$ Diff	% Diff
<b>Restricted Reserves</b>										
Safe, Clean Water & Natural Flood Protection Fund	174,451	151,692	210,788	184,208	185,841	34,149	23%↑	195,276	9,435	5%↑
Water Enterprise Funds	104,048	67,261	66,856	28,114	28,409	(38,852)	(58%)↓	41,657	13,248	47%↑
<b>Subtotal</b>	<b>278,499</b>	<b>218,953</b>	<b>277,644</b>	<b>212,322</b>	<b>214,250</b>	<b>(4,703)</b>	<b>(2%)↓</b>	<b>236,933</b>	<b>22,683</b>	<b>11%↑</b>
<b>Committed Reserves</b>										
General Fund	7,175	9,094	10,323	12,574	11,968	2,874	32%↑	12,670	702	6%↑
Watershed Stream Stewardship Fund	119,219	102,259	111,051	117,998	159,921	57,662	56%↑	185,849	25,928	16%↑
Water Enterprise Funds	124,595	56,310	99,431	75,326	67,179	10,869	19%↑	72,810	5,631	8%↑
Internal Service Funds	26,521	15,864	21,515	14,613	20,651	4,787	30%↑	20,415	(236)	(1%)↓
<b>Subtotal</b>	<b>277,510</b>	<b>183,527</b>	<b>242,320</b>	<b>220,511</b>	<b>259,719</b>	<b>76,192</b>	<b>42%↑</b>	<b>291,744</b>	<b>32,025</b>	<b>12%↑</b>
<b>Grand Total</b>	<b>556,009</b>	<b>402,480</b>	<b>519,964</b>	<b>432,833</b>	<b>473,969</b>	<b>71,489</b>	<b>18%↑</b>	<b>528,677</b>	<b>54,708</b>	<b>12%↑</b>

## DEBT OVERVIEW

The FY 2023-24 debt portfolio total outstanding principal of \$1.15 billion includes \$198.6 million for Watersheds and \$948.6 million for the Water Utility Enterprise. The annual debt service budget of \$97.4 million includes repayment of principal, interest and various banking and legal fees for the debt portfolio.

The long-term strategy is to issue short-term debt to provide just-in-time funding for eligible capital projects as actual expenditures are incurred. As the outstanding short-term debt obligations reach the program capacity, the outstanding short-term debt will be refunded with long-term debt to be repaid over 30 years. For the Water Utility Program, the issuance of long-term debt helps keep water charges stable over the long-term while ensuring inter-generational equity by matching the timing of the debt service repayment to the useful life of the asset and allowing for the completion of capital projects in a timely manner. The FY 2023-24 Protection and Augmentation of Water Supplies (PAWS) report demonstrates that Water Utility finances will be sustainable, including the issuance of debt, assuming the forecasted water charge increases.

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, approved by voters on November 3, 2020, authorized Valley Water to levy the special parcel tax with periodic Board review of the amount necessary to fund ongoing operations, maintenance and capital project costs planned under the SCW program.

The Santa Clara Valley Water District proactively manages its debt portfolio to ensure access to the public finance credit markets at the lowest available borrowing cost, preserve strong credit ratings, fulfill its fiduciary responsibility to its customers, and 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 Waters 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 2023-24.

	Water Utility	Watershed	Safe Clean	WIFIA
	Parity Debt	Debt	Water Debt	Debt
Moody's	Aa1	Aa1	Aa1	N/A
Standard & Poor's	N/A	AAA	N/A	N/A
Fitch	AA+	AA+	AA+	AA+

**STAFFING**

The FY 2023-24 & FY 2024-25 Proposed Rolling Biennial Budget includes 924 positions composed of, 919 regular positions and 5 limited term positions for FY 2023-24, and 927 positions including, 922 regular positions and 5 limited term positions for FY 2024-25. This includes funding for 10 new positions in FY 2023-24 and 3 new positions for FY 2024-25. For a comprehensive schedule of district-wide salaries and benefits, please refer to the *Salaries & Benefits* in the “Financial Overview” section.

### Regular Position Count by Organization Area

	Adjusted Budget 2021-22 <sup>2</sup>	Adopted Budget 2022-23 <sup>3</sup>	Change from 2022-23	Proposed Budget 2023-24 <sup>4</sup>	Change from 2023-24	Proposed Plan 2024-25 <sup>5</sup>
Board Appointed Officers <sup>1</sup>	76	78	1	79	0	79
Office of Integrated Water Management	54	56	0	56	0	56
External Affairs	46	46	1	47	0	47
Administrative Services	162	163	0	163	0	163
Water Utility	298	301	4	305	3	308
Watersheds	262	265	4	269	0	269
<b>Districtwide</b>	<b>898</b>	<b>909</b>	<b>10</b>	<b>919</b>	<b>3</b>	<b>922</b>

<sup>1</sup> Board Appointed Officers Include: Office of Chief Executive Office, District Counsel and Clerk of the Board.

<sup>2</sup> In FY 2021-22, Board approved 14 new regular positions and two limited term positions; Computer-Aided Design Unit moved from Watersheds to Office of Integrated Water Management.

<sup>3</sup> In FY 2022-23, Board approved 11 new positions

<sup>4</sup> In FY 2023-24, ten new positions are proposed.

<sup>5</sup> In FY 2024-25, three additional new positions are planned.

### FUTURE OUTLOOK

Due to abundant rain and snow fall, California and Santa Clara County has recovered from the historic drought. However, Valley Water is requesting residents, businesses and farms to make water conservation a way of life and observe a voluntary 15% reduction of water use compared to 2019 . As climate change creates more extreme weather events, such as severe droughts and flooding, Valley Water continues investing in our water infrastructure to ensure a reliable water supply for generations to come. This includes upgrading and maintaining our pipelines and water treatment plants, evaluating new water storage projects, increasing our use of recycled and purified water, and expediting the Anderson Dam Seismic Retrofit project. Valley Water is using all financial resources available to offset the expected rate impacts including vigorously pursuing federal and state grant funding. It is prudent fiscal policy to start planning for the future by acting now and prioritizing projects for climate unknowns like drought and other natural disasters. Valley Water will remain committed to providing Santa Clara County with safe, clean water for a healthy life, environment, and economy.

Sincerely,



Rick L. Callender, Esq.  
Chief Executive Officer