

Valley Water Overview

Valley Water (Santa Clara Valley Water District) is the largest multi-purpose water supply, watershed stewardship and flood management special district in California. Valley Water serves nearly 2 million people in Santa Clara County by:

- Providing a reliable and safe supply of water.
- Enhancing streams and watersheds through creek restoration and habitat protection.
- Providing flood protection for homes, schools and businesses.
- Partnering with other agencies to provide trails, parks and open space for community recreation.

Valley Water's role as a multi-purpose agency enables it to use a comprehensive regional approach to water resources management and environmental protection that would not be possible if these services were fragmented among several agencies.

Located at the southern end of the San Francisco Bay, Santa Clara County is home to Silicon Valley. As the county's primary water resources agency, Valley Water serves 15 cities and towns, including Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga and Sunnyvale. Valley Water also serves the county's unincorporated areas.

Collaboration with the community we serve is not only important but has proven to result in more successful outcomes. By seeking public input, Valley Water is respecting the fact that our operations and projects have a direct impact on people's lives.

Community action created Valley Water, when farmers and business representatives formed the Santa Clara Valley Water Conservation Committee in the 1920s.

At that time, groundwater supplies were being overpumped, causing the land to subside or sink. The committee pursued creation of an organization to manage and replenish groundwater supplies, and the resulting Santa Clara Valley Water Conservation District later constructed reservoirs throughout the county to conserve water. The 1929 Santa Clara Valley Water District Act gives Valley Water its authority to operate as a state special district, with jurisdiction throughout Santa Clara County.

The District Act authorizes Valley Water to "...provide comprehensive water management for all beneficial uses and protection from flooding within Santa Clara County. Valley Water may take action to carry out all of the following purposes:

(a) to protect Santa Clara County from flood and storm waters of the district, including tidal flood waters and the flood and storm waters of streams that have their sources outside the district, but flow into the district;

(b) to protect from those flood or storm waters the public highways, life and property in the district, and the watercourses and watersheds of streams

flowing within the district;

(c) to provide for the conservation and management of flood, storm, reclaimed, or recycled waters, or other waters from any sources within or outside the watershed in which the district is located for beneficial and useful purposes, including spreading, storing, retaining, and causing the waters to percolate into the soil within the district;

(d) to protect, save, store, recycle, distribute, transfer, exchange, manage, and conserve in any manner any of the waters;



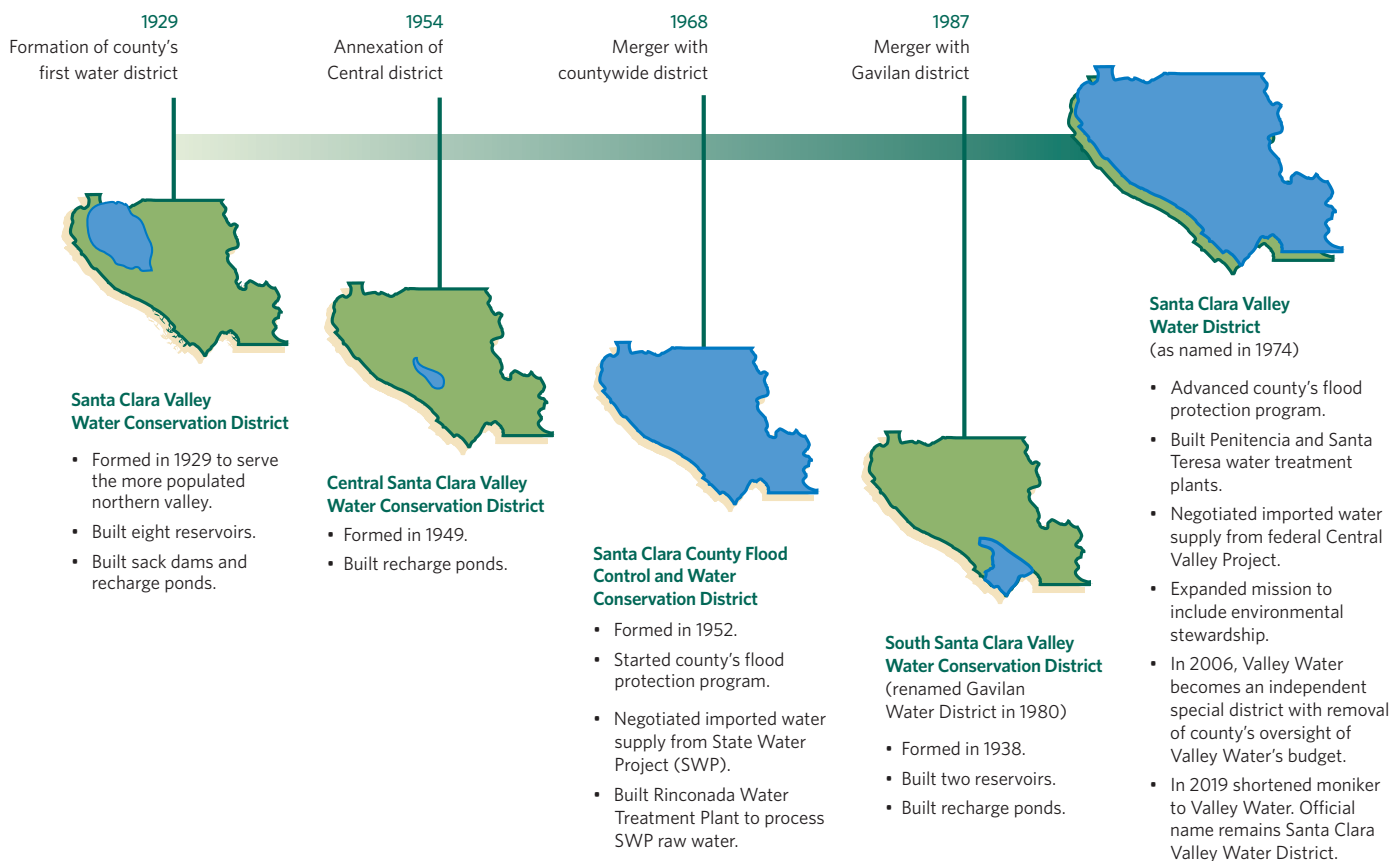
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(e) to increase, and prevent the waste or diminution of, the water supply in the district;

(f) to obtain, retain, reclaim, protect, and recycle drainage, storm, flood waters or treated wastewaters, or other waters from any sources, within or outside the watershed in which Valley Water is located for any beneficial uses within the district;

(g) and to enhance, protect, and restore streams, riparian corridors, and natural resources in connection with carrying out the objects and purposes set forth in this section.”

Evolution of Valley Water



Today's Santa Clara Valley Water District is the result of the consolidation of four agencies over time, as shown above. Valley Water's products and services have grown along with its increased levels of responsibility for critical water resource and environmental management functions.

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Local Economy

With the COVID-19 pandemic in the rear-view mirror, the local economy is recovering from the pandemic downturn in early 2020. While the region continues to address COVID-19 concerns, the death rate per capita declined in 2022 and the rollout of COVID-19 vaccines contributed to the local economic upswing. The region recovered from pandemic job losses by April 2022. The rise and fall of the stock market drove large shifts in venture funding and IPOs. Additionally, the demand for commercial space was affected by remote work, which created extra capacity on roadways and significantly decreased demand for public transit.

The local area's March 2023 unemployment rate was 3.3%, up from a revised 3.2% in February 2023, and above the estimate of 2.9% from the previous year. This is lower than the unemployment rate of 4.8% for California and 3.6% for the United States during the same period.¹

The local area's unemployment rate hit a historic low of 1.8% in May 2022, as 88,000 jobs were added between mid-2021 and mid-2022 (a growth rate of 5.4%). At the end of 2022, however, layoffs commenced in Silicon Valley. There was a 1% decrease in the region's share of the 1.1 million-person workforce for the largest tech companies, which continues to become more concentrated. The 30 largest firms accounted for 42% of employment, with Google, Apple and Meta representing 19%.²

The April 2023 Bay Area Consumer Price Index (CPI), a measure of price of goods and services such as energy, transportation, and housing, increased by 0.4% over the previous two months. This slight increase was influenced by higher prices for shelter, with decreases to food and energy prices. The CPI increased 4.2% over the past year, with food prices advancing 6.1%, and energy prices decreasing 7.9% (primarily due to lower prices for gasoline).³ The cost of living in the county is high, which is challenging for low-income families with housing affordability being one of the key contributing factors prompting concern.

Annual inflation in the U.S. in April was at 4.9%.⁴ The Federal Reserve increased interest rates by 0.25 percentage points, from 5.0% to 5.25% following its May 3, 2023

meeting making the benchmark rate the highest it's been since 2007.⁵ This marks the tenth straight meeting it has raised rates in an effort to reduce liquidity to the financial markets and reduce inflation.^{6,7} In their statement for the May 3rd rate increase, the Federal Reserve included language that they will take into account the cumulative tightening of monetary policy, the lags with which it affects economic activity and inflation, and economic and financial developments in determining the extent to which additional policy firming may be appropriate to return inflation to 2% over time.⁵

According to the U.S. Bureau of Economic Analysis' (BEA) "advance" estimate for the first quarter of 2023 released on April 27, 2023, the real gross domestic product (GDP) increased at an annual rate of 1.1% in the first quarter of 2023. This increase reflected the following:

- Increases in consumer spending, exports, federal government spending, state and local spending, and nonresidential fixed investment, which were offset by
- Decreases in private inventory investment and residential fixed investment.⁸

In 2022, COVID-19 dropped to the sixth leading cause of death in the region with 3,320 deaths, compared to the third leading cause in 2021. The total number of COVID cases rose to 642,200 in 2022, with a quarter of the population having contracted the virus.²

The region's population continues to decline, with its share of young people also decreasing. This is due to a 74% rise in domestic outmigration, a reversal of the net flow of foreign immigrants, declining birth rates, and rising death rates. With net foreign immigration negative in 2021 for the first time in recent history, the trend reversed in 2022. The population continues to age, with the number of residents over age 65 up 32% since 2011 and number of children under age 18 down 8%.²

At \$144,400, average annual earned income in the Bay Area is 60% higher than in California overall (\$83,060), and almost twice the national figure in 2022 (\$76,800). While per capita income and average wages increased

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in the region, high inflation eroded some of those gains, with inflation outpacing year-over-year gains in median household income. As of January 2023, the minimum wage ordinance ranged from \$16 to \$18.15 per hour. Income disparity remains high in the area. In 2022, the top 10% of households held 66% of the wealth; eight of the wealthiest residents held more wealth than the bottom 50% (nearly half a million households) combined. Despite a relatively low household poverty rate of 5% in 2022, nearly one-third of all local area households did not earn enough money to meet basic needs without public or private/informal assistance.²

In 2022, home prices continued to increase, up nearly 7% over the prior year with a median price of \$1.8 million in Santa Clara County. Many residents are also struggling to afford rents or mortgages; nearly half of all renters are financially burdened by housing costs. Potential first-time homebuyers are also less likely to afford a median-priced home in the region compared to California (38%) or nationwide (61%). In 2022, only 27% of first-time homebuyers in the region were able to afford a median priced home, down from 32% in 2021.²

Based on data through November, there were 23,300 homes sold in 2022, a 25% drop year-over-year. This follows a spike in 2021 (30,900 homes sold). The number of homes sold below \$1 million has decreased by more than half over the past four years, affecting the region's increasing median home sale prices. High housing costs limit the ability to pay for basic needs, which can prompt families to share living spaces and increase homelessness. In 2022, building permits issued for multi-family units exceeded 80% for the first time since 2014. Statewide, 53% of residential units were for multi-family development.²

With the persistence of remote work, office leasing volumes decreased in 2022 by 30%. The average amount of space per lease has sharply declined, indicating companies require less office space. However, businesses requiring other commercial space have not downsized. Office rates did not outpace inflation like other space types. Additionally, with layoffs in the tech sector at the end of 2022, businesses have started to sublease their spaces.²

Over the past two fiscal years, local cities in the region progressively tightened their budgets to accommodate revenue declines and spending related to the pandemic. In FY22, local cities experienced declines in both revenues and expenses, with an estimated 5% decline in revenues and 6% decline in expenses, year-over-year. Aggregate revenues have declined by \$400 million, including a 15% decline in charges for services and 71% decline in investment earnings.²

This FY 2023-24 and 2024-25 Biennial Budget represents Valley Water's continuation of a rolling biennial budget. This process allows us to plan for the upcoming fiscal years 2024 and 2025 with the goal of providing longer-term transparency to the public regarding Valley Water's plans and helps maintain our financial strength.

Valley Water will continue to prudently plan for projects that we are committed to deliver for the public as we navigate through potential severe weather (drought and floods), changes in our local economy and global political and environmental changes.

¹ State of California Employment Development Department (EDD), April 21, 2023 labor market info

² Joint Venture Silicon Valley Institute for Regional Studies, 2023 Silicon Valley Index

³ US BLS (Bureau of Labor Statistics), May 10, 2023 Release - CPI April 2023

⁴ US Inflation Calculator (April 2023, released May 10, 2023)

⁵ Federal Reserve FOMC statement (May 3, 2023 release)

⁶ Bankrate.com, February 1, 2023

⁷ CNBC (May 3, 2023)

⁸ U.S. Bureau of Economic Analysis (BEA), April 27, 2023 News Release

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Governance and Board of Directors

The District Act outlines the structure, function and operations of Valley Water's Board of Directors, which governs Valley Water and directs the board appointed officers. Valley Water's Board of Directors is comprised of seven members each elected from equally-divided districts drawn through a formal process. The purpose of the board, on behalf of Santa Clara County, is to provide Silicon Valley safe, clean water for a healthy life, environment and economy. The directors serve over-lapping four-year terms, a structure created pursuant to the adoption of the District Act. Elections are held in November of even number years. The Valley Water Board of Directors elects a new chair and vice chair annually in January.

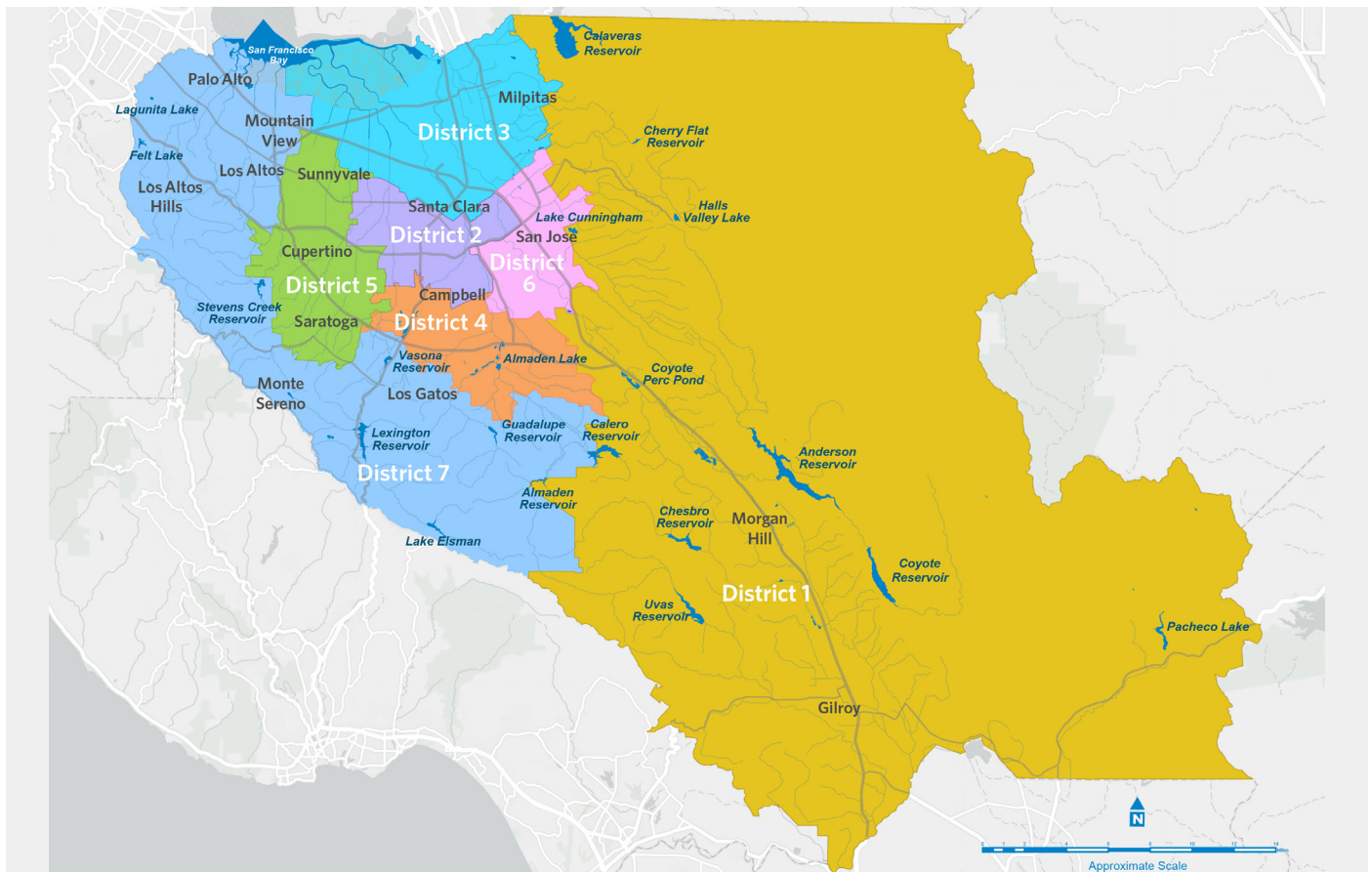
The Board sets direction for Valley Water through its policy governance structure. Through adopted policies, the Board determines Valley Water's mission, goals, and outcomes

to be achieved for the good of the public. Specifically, the Board's Ends policies are the outcomes expected to be achieved by the organization for its customers. These include ensuring a safe, reliable and affordable source of water; natural flood protection; water resources stewardship; and climate change mitigation and adaptation. The CEO dedicates resources to implement programs and projects that achieve the Board's Ends policies.

In meeting the Board's Ends policies, the CEO and other Board Appointed Officers (BAOs) are solely accountable to the Board for organizational performance, which is monitored quarterly. The Board regularly reviews and updates Ends and Executive Limitations policies to ensure they reflect the Board's collective values and perspectives. The Board's Policies can be viewed at:

<https://www.valleywater.org/how-we-operate/board-governance-policies>.

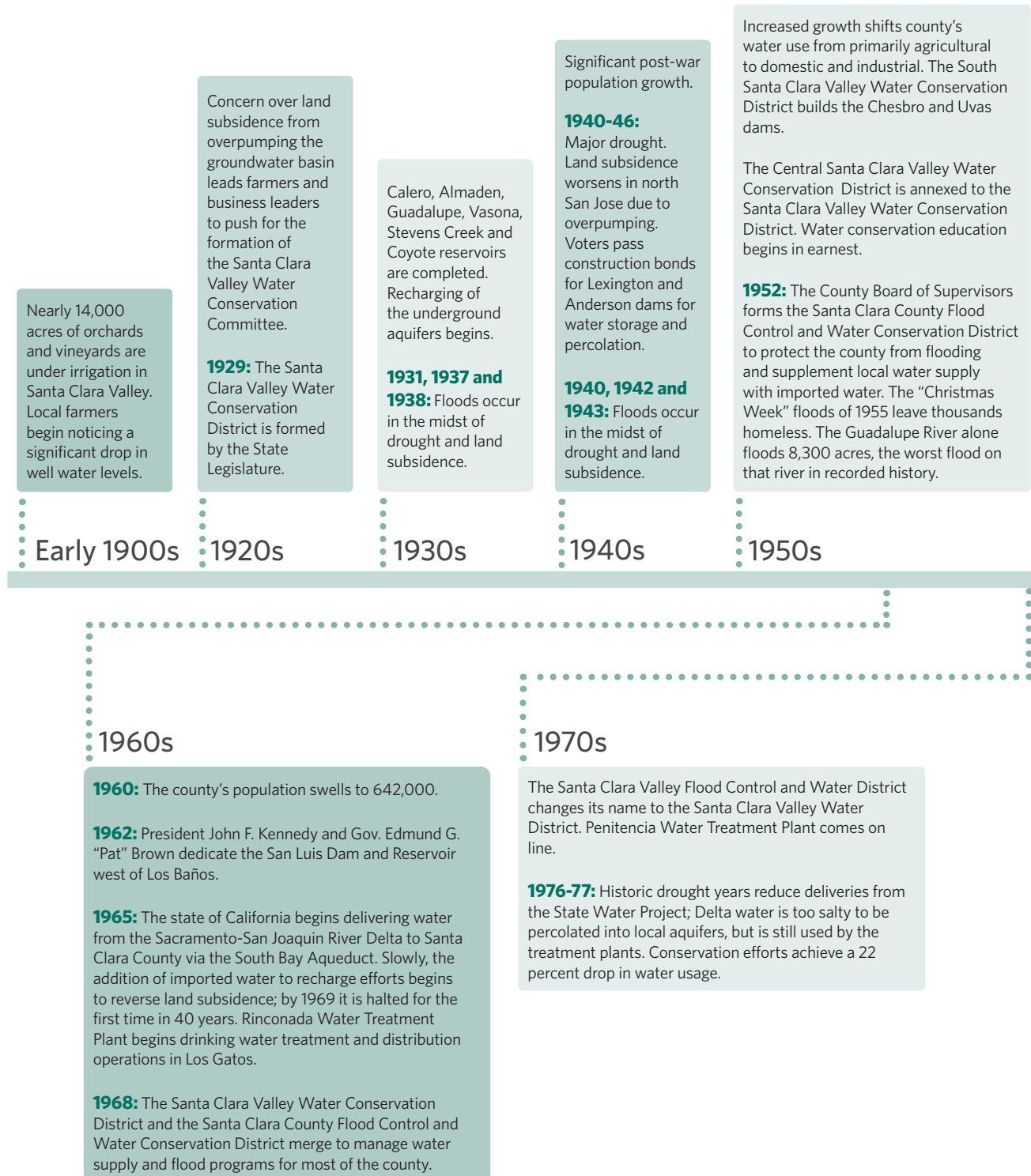
Board directorial districts



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History Timeline

For 92 years, Valley Water has improved and expanded its products and services to meet the growing needs of Santa Clara County residents.



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Environmental concerns are addressed as part of every construction project. Underground storage tanks are discovered leaking and potentially contaminating drinking water. The Santa Teresa Water Treatment Plant begins operation. Severe flooding occurs; voters approve funding for much-needed flood protection projects through benefit assessments.

1980: The South Santa Clara Valley Water Conservation District is renamed the Gavilan Water District.

1987: South county voters approve annexing Gavilan Water District to the Santa Clara Valley Water District. The federal Central Valley Project, San Felipe Division, begins delivery of imported water to the county from San Luis Reservoir just as the valley enters a seven-year drought period. The county's population nears 1.7 million.

1980s

The 1987-93 drought drives Valley Water to seek new sources of water through recycling, water banking and aggressive water conservation.

1995: Flooding in the county highlights the need for flood protection, especially on the Guadalupe River in downtown San Jose.

1997: Valley Water completes the IWRP long-term water supply planning process and initiates the Water Treatment Improvement Project (WTIP) to address increasingly stringent state and federal water quality standards. Coyote Creek flooded several sites between Morgan Hill and San José, causing damage to homes and businesses.

1998: Flooding occurs on San Francisquito Creek and in the county. Changing community priorities, a growing commitment to staff diversity, strict state and federal regulations and an evolving environmental ethic lead Valley Water into the 21st Century.

1990s

Valley Water takes a lead role in the fight against MTBE water contamination, addresses perchlorate contamination of more than 1000 South County wells and partners with local wastewater agencies to increase recycling. The first phase of the WTIP is completed and the second phase launched.

2000: County voters approved the Clean, Safe Creeks and Natural Flood Protection Plan (Measure B) and approve a special tax to ensure continuity of flood protection and stream stewardship services for 15 more years.

2005: The 15-year, \$346 million Downtown Guadalupe Flood Protection Project is completed, protecting an estimated 95,000 people from flooding and restoring critical endangered species habitat.

2006: Santa Teresa Water Treatment Plant delivers Valley Water's first ozonated water, providing customers better-tasting, more healthful tap water.

2007: Assembly Bill 2435 is enacted, ending county oversight of Valley Water's budget and other procedural holdovers from the 1968 merger. Penitencia Water Treatment Plant begins delivering ozonated water to customers.

2009: Valley Water Board calls for 15% mandatory conservation in response to continuing water shortage; recession drives significant Valley Water budget reductions.

2010: Assembly Bill 466 enacted, increasing the boundaries for the Board of Directors from five to seven districts.

2012: 74% of county voters approve the Safe, Clean Water (Measure B), a special tax to ensure continuity of flood protection, dam maintenance and stream stewardship services for 15 more years.

2014: The Silicon Valley Advanced Water Purification Center is completed, producing 8 million gallons a day of purified recycled water to enhance the quality of recycled "purple pipe" water used for non-potable purposes and demonstrating technologies that can be used to purify water to augment drinking water supplies.

2015: Entering the fourth year of drought, the Board adopted a resolution calling for a countywide water use reduction of 30% compared to 2013. Valley Water began a large-scale modernization of the Rinconada Water Treatment Plant, the second-largest of Valley Water's plants.

2000-2022

2016: Mid-year, the Board voted to reduce the water use reduction target to 20%. The implementation of fluoridation was completed in December 2016 for South, East and North San Jose, and Milpitas.

2017: In January, the Board adopted a resolution continuing the 20% water use reduction target and three day per week watering restriction.

2018: After a 2017 flood impacted neighborhoods along Coyote Creek, the Board approved changes to Anderson Reservoir operations to reduce the risk of flooding downstream. Crews completed short-term flood protection improvements in the Rock Springs neighborhood before the winter began. The Board and the City of San Jose approved a new Emergency Action Plan to prepare for and respond to flooding on Coyote Creek.

2019: The California Water Commission awarded the Pacheco Reservoir Expansion Project \$484.55 million under Proposition 1, and approved Valley Water's request for early funding of \$24.2 million to proceed with next steps, such as completing environmental documents and permit applications. The project would expand Pacheco Reservoir's storage capacity to provide for increased emergency water supplies, improved operational flexibility, improved water quality, additional water supply reliability, and ecosystem benefits throughout our region and the Sacramento-San Joaquin Delta.

2020: In November, Santa Clara County voters overwhelmingly approved Measure S, a renewal of Valley Water's Safe, Clean Water and Natural Flood Protection Program that will continue to provide the funding for local projects that support Valley Water's mission. Beginning in October, Valley Water lowered water levels in Anderson Reservoir in response to an order by the Federal Energy Regulatory Committee to reduce the risk to the public should the dam fail during a large earthquake. Anderson Reservoir will be unavailable for a decade as Valley Water builds a new, larger outlet tunnel and retrofits the dam.

2021: As Santa Clara County endures a second year of drought, the Valley Water Board declared a drought emergency in June and called for 15% mandatory conservation. Valley Water releases the draft Environmental Impact Report for the proposed expansion of Pacheco Reservoir in south Santa Clara County. In July, Valley Water held a groundbreaking ceremony for the Anderson Dam Tunnel Project.

2022: In April, Valley Water held a groundbreaking ceremony to commemorate the start of construction on the first phase of the South San Francisco Bay Shoreline Project. Valley Water is partnering with the U.S. Army Corps of Engineers, the California State Coastal Conservancy, and the U.S. Fish & Wildlife Service on the construction of this multi-objective infrastructure project.

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Board Committees

Committees are made up of board members that advise the Board on an ongoing basis for an assigned subject purpose.

Board Policy and Planning Committee: Provides support to the Board in areas of:

1. Board planning process.
2. Board Committees' principles and structures.
3. Board and organization performance monitoring.
4. Other tasks as assigned by the Board.

Board Audit Committee: Assist the Board, consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan and coordinate execution of Board audits.

Board Ethics and Conduct Committee: Consider initiation of investigation of allegations against a Board member in accordance with Board Governance Policy GP-6.

Capital Improvement Program (CIP) Committee: Provide a venue for more detailed discussions regarding capital project validation, including recommendations on prioritizing, deleting, and/or adding projects to the CIP, as well as monitoring implementation progress of key projects in the CIP.

Climate Adaptation and Sustainability Committee: Plan for the future of Valley Water with respect to undeniable climate change; reduce Valley Water carbon footprint and accurate accounting of such; and investigation of an ecological footprint accounting for Valley Water in addition to financial accounting.

Diversity and Inclusion Ad Hoc Committee: Work on Board and Director identified diversity and inclusion issues.

Environmental Creek Cleanup Committee: Discuss homelessness and encampment issues and bring discussion and recommendations back to the Board.

Recycled Water Committee: Develop a long-term proposal for how Valley Water can work together with other local agencies on recycled water opportunities within Valley Water boundaries, to establish a collaborative process to facilitate policy discussion and sharing of technical information on recycled water issues.

Stream Planning and Operations Committee (SPOC): Track progress of Initialing Parties of the FAHCE Settlement Agreement in completing requirements enabling dismissal of water rights complaint and commencement of restoration program. Identify/recommend Board actions to ensure expeditious completion of requirements defined in Purpose 1, including engagement with appointed boards and senior officials of other Initialing Parties. Identify/track progress of District and non-District activities that may affect the FAHCE Settlement Agreement and implementation.

Water Conservation and Demand Management Committee: Support the Board in achieving its policy to provide a reliable water supply to meet current and future water usage by making policy recommendations related to demand management.

Water Storage Exploratory Committee: Receive and discuss information on issues related to additional water storage options.

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Board Advisory Committees

Committees made up of constituents/elected officials that are formed and managed in accordance with Board resolution.

Agricultural Water Advisory Committee: To assist the Board with policies and issues pertaining to agricultural water supply and use, and in the annual review of groundwater production charges.

Environmental and Water Resources Committee: To assist the Board with policies and issues pertaining to water supply, flood protection and environmental stewardship.

Santa Clara Valley Water Commission: To assist the Board with policies and issues pertaining to water supply, flood protection and environmental stewardship, as well as in the annual review of groundwater production charges.

Santa Clara Valley Water District Youth Commission: Assist the Board with policy review and development, provide comment on activities in the implementation of Valley Water's mission for Board consideration, and to identify Board-related issues pertaining to public policy education, outreach, and all matters impacting Santa Clara County youth and Valley Water.

Joint Committees

Committees made up of board members and other agency staff that are formed to advise the Board and or in accordance with agreements, contracts, etc.

Joint Recycled Water Advisory Committee with the City of Sunnyvale: Develop a long-term proposal for how Valley Water and City of Sunnyvale can work together on recycled water opportunities, to establish a collaborative process to facilitate policy discussion and sharing of technical information on recycled water issues.

Joint Recycled Water Policy Advisory Committee with the City of San Jose/Santa Clara/TPAC: Required per term in the City-Valley Water 40-year Integration Agreement. The Committee shall tender its advice to Valley Water's Board of Directors and the City Council of the City of San José with respect to policy matters relating to the production, distribution and use of recycled water from facilities under administration by these agencies.

Joint Recycled Water Policy Committee with the Cities of Palo Alto, East Palo Alto, and Mountain View:

Develop a long-term proposal for how Valley Water and the Palo Alto Regional Water Quality Control Plant (RWQCP) partner agencies, other stakeholders, and interested parties, can work together on recycled water opportunities, to advance common interest, and to establish a collaborative process to facilitate policy discussion and sharing of technical information on recycled water issues.

Joint Water Resources Committee with the Cities of Morgan Hill and Gilroy:

Advance common South County water interests and receive input from stakeholders and interested parties when undertaking the following:

1. Reviewing current practices and future needs for groundwater management in the Llagas groundwater sub-basin.
2. Facilitating policy discussion and sharing of technical information on water supply planning for South County.
3. Identifying the current and future demand for recycled water as well as jointly identifying funding sources for implementation of the South County Recycled Water Master Plan.

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4. Facilitating policy discussion and sharing of technical information on furthering development and use of recycled water in South County.
5. Facilitating policy discussion and sharing of socio-economic information on homelessness in South County.

San Felipe Division Reach One Committee: Discuss the Initial Asset Evaluation Report, attempt to reach a joint recommendation for a Condition Level, and discuss policy issues.

Board Working Groups

Board Working Groups are made up of board members that advise the Board on an assigned subject/purpose, limited in scope and duration.

Delta Conveyance Authority Group: Information sharing.

Financial Sustainability Group: Review organizational financial sustainability factors.

External Monitoring Committee

Committee made up of members of the community nominated by the Directors.

Safe, Clean Water Independent Monitoring Committee: Annually reviews the implementation of the intended results of the program and reports its findings to the Board, which makes the Committee report available to the residents and voters of Santa Clara County.

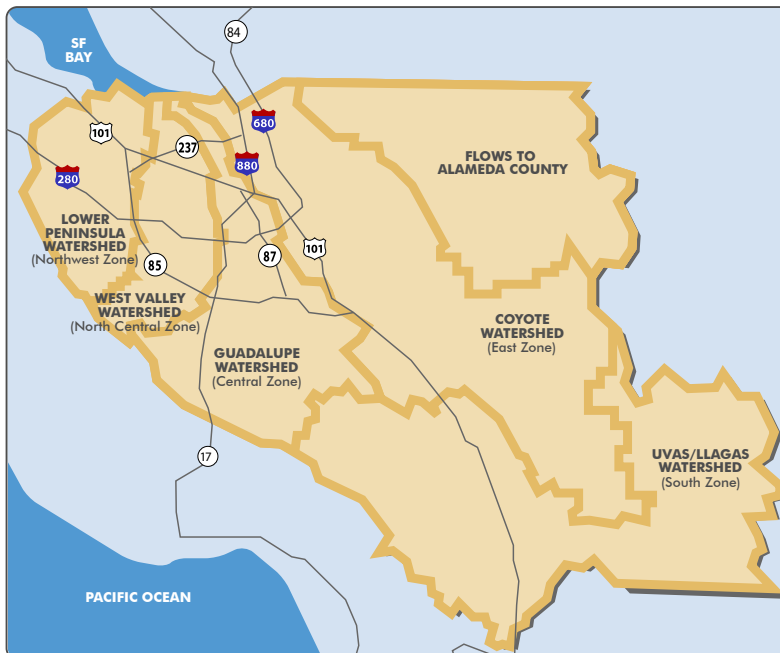
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Groundwater Benefit Zones in Santa Clara County



As part of Valley Water's core water supply function, four distinct groundwater benefit zones form the basis for establishing District water charges. Zone W-2 roughly encompasses the Santa Clara Subbasin north of Metcalf Road. Zone W-5 encompasses the valley floor of the Llagas Subbasin from approximately East Main Avenue in Morgan Hill south to the Pajaro River. Zone W-7 encompasses the Coyote Valley south of Metcalf Road to just north of East Main Avenue. Zone W-8 encompasses portions of the outlying areas south of the Uvas and Chesbro reservoirs, west of Santa Teresa Boulevard, and generally north of Hecker Pass Highway. Water charges are set separately for each zone, reflecting Valley Water activities benefiting each zone.

Watershed Areas and Flood Control Zones of Santa Clara County



More than 800 miles of creeks flow through Santa Clara County. Valley Water works to protect both the natural attributes of these waterways and the communities that surround them as part of its watershed stewardship core function. Sixty-eight years of working for flood protection has reduced the intensity and frequency of flooding in Santa Clara County.