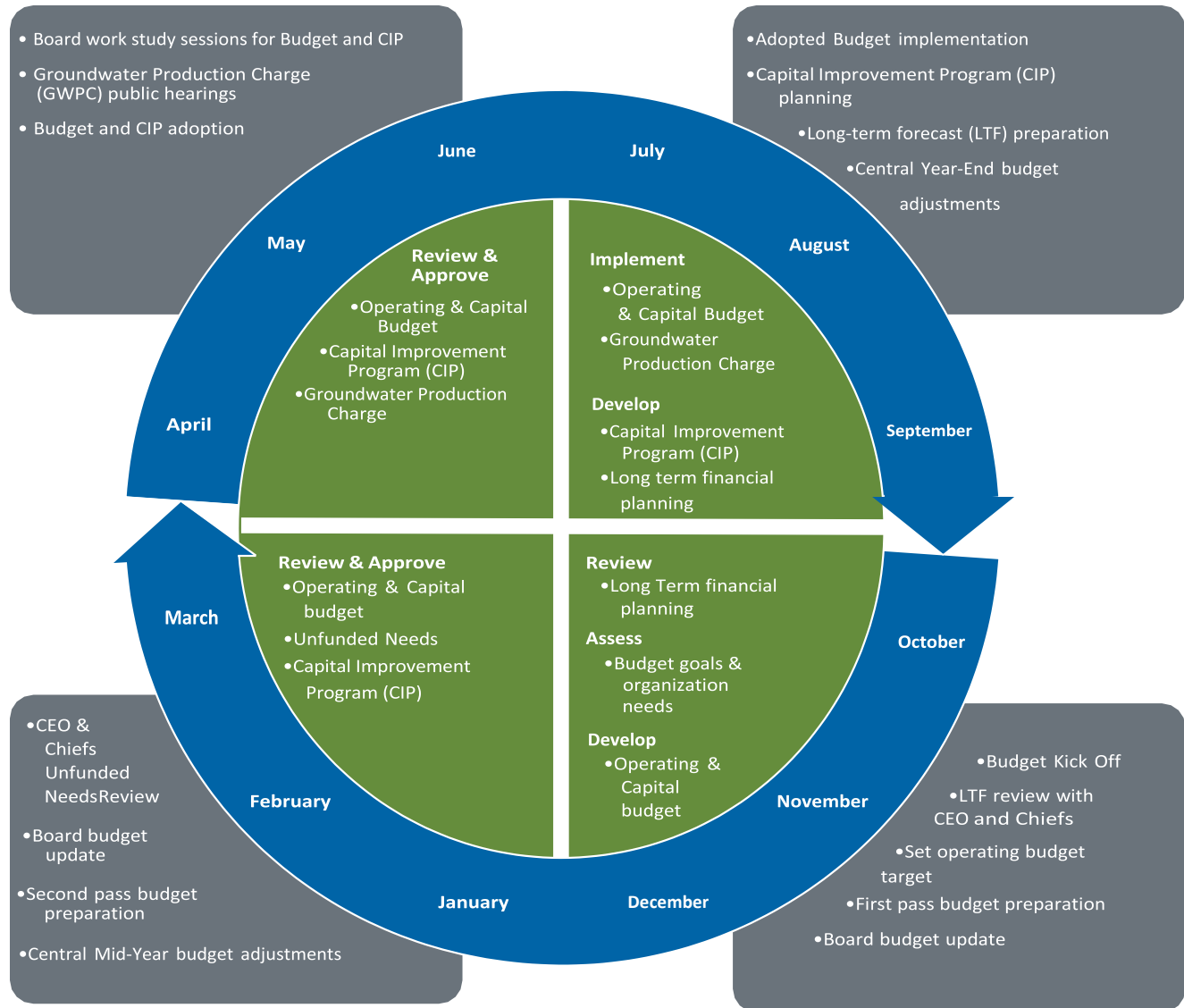


Financial Overview

Budget Process Overview



Financial Overview

Budget Development

In accordance with the District Act and Valley Water Board of Directors' Governance Policies, Valley Water prepares and adopts an Operating and Capital Budget annually. The budget is developed in coordination with and including the Financial Planning and Rate Setting the Capital Improvement Plan (CIP) processes. The FY 2023-24 & FY 2024-25 Operating and Capital Rolling Biennial Budget is the presentation of a rolling biennial budget which reflects a subsequent fiscal year plan in FY 2024-25. The second fiscal year serves as a planning tool and will set the framework for the preparation of the FY 2024-25 Operating and Capital Rolling Biennial Budget in the following year.

Financial Planning and Rate Setting

Every year staff prepares a rolling ten-year expenditure forecast that provides the basis for developing the budget targets and for analyzing the long-term financial sustainability of the various Valley Water funds. For the Water Utility Enterprise funds, Valley Water uses the "revenue requirements" methodology to set the groundwater production charge and other water charges for each zone. In general, costs associated with operations, capital, debt service and reserve requirements are estimated over a 10-year time frame. The amount not funded by property taxes, interest earnings, debt proceeds, and other income is covered by water charges. A water charge projection is calculated for each zone to recover the revenue requirements over a 10-year time frame in accordance with the pricing policy (Board Resolution 99-21). The water charge setting process is conducted in accordance with the District Act and Board resolution 12-10 and includes the preparation of an annual report on the Protection and Augmentation of Water Supplies (PAWS). The report provides information on present and future water requirements for the County, water supply available to Valley Water, future capital and operating requirements, benefits and services provided by Valley Water, financing methods, and water charges by zone. A series of public hearings and meetings are conducted with advisory committees and stakeholders to ensure that feedback is gathered for the Board to consider in establishing water charges each year.

Capital Improvement Plan

Valley Water prepares a Capital Improvement Program (CIP) annually. It is a five-year rolling CIP, meaning that it is updated annually and covers the upcoming five-year period. The CIP is approved by the Board each year and is publicly available for review. The CIP includes project descriptions, schedules, and forecasts for capital funding needs. The CIP is the primary means of coordinating schedules and budgets for capital work.

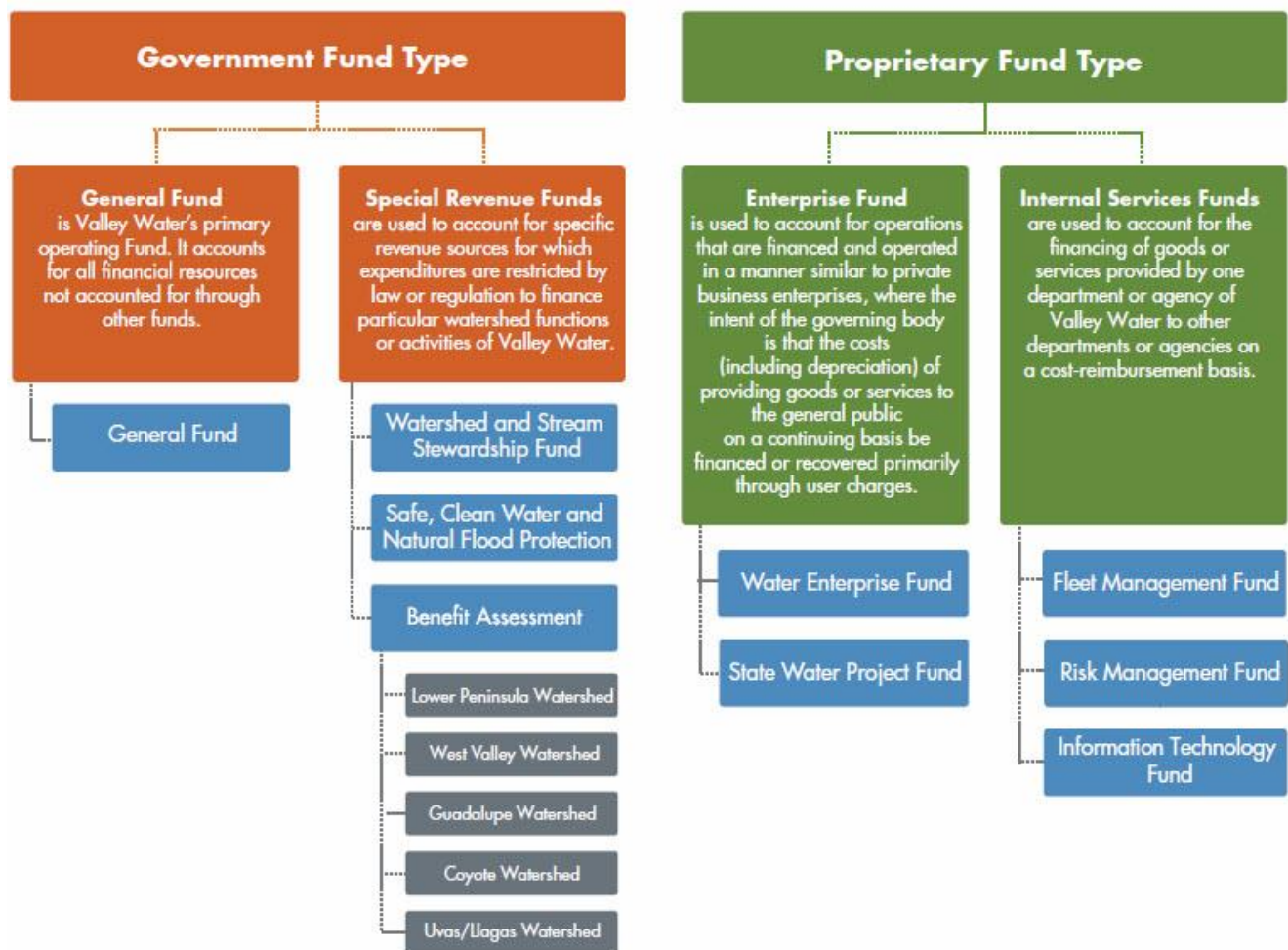
For detail of capital expenditures and the impact of capital investments on the operating budget, please visit: <https://www.valleywater.org/public-review-documents>.

Other Planning Documents

Valley Water's budget is informed by many planning documents including but not limited to:

- Countywide Water Reuse Master Plan (CoRe Plan)
- One Water Plan
- Protection and Augmentation of Water Supplies Report 2023-24
- Requests of the 119th Congress
- Safe, Clean Water and Natural Flood Protection 5-Year Implementation Plan
- Stream Maintenance Program Manual
- Water Utility Enterprise Five Year Operations and Maintenance Plan
- Water Utility Water Supply Master Plan
- Watersheds Five Year Operations and Maintenance Plan

Valley Water Fund Structure



Financial Overview

Basis of Budgeting

The Budget is prepared using the modified accrual basis. Revenues are recognized only when they become measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the payments are incurred, or an encumbrance is made.

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

Revenue

Revenue projections are, in general, taken from Valley Water's long-range planning documents. These planning tools are updated annually based on the best information available. They are documented annually as part of the Annual Report on the Protection and Augmentation of Water Supplies (PAWS), the Flood Control Benefit Assessments Report, and the Safe, Clean Water and Natural Flood Protection Annual Report.

The FY 2023-24 Budget includes projected revenues of \$633.7 million. These revenues are a net increase of 9.1% from the \$580.9 million included in the FY 2022-23 Adopted Budget. The net \$52.8 million increase is primarily derived from an increase in water charges revenue (\$63.6 million), property taxes (\$11.9 million), special parcel tax (\$2.6 million), and Interest and other operating and non-operating revenues (\$2.1 million), offset by decreases in capital reimbursements (-\$19.3 million), benefit assessment taxes (-\$6.4 million), and intergovernmental services (-\$1.8 million).

The FY 2024-25 planned revenue of \$730.1 million reflects a net increase of \$96.4 million over 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), interest and other operating and non-operating revenues (\$1.8 million), special parcel tax (\$1.1 million), intergovernmental services (\$0.9 million), and benefit assessment taxes (\$0.2 million).

The specific categories of revenue include:

Water Revenue

The main source of Valley Water revenue is from water charges which is projected at \$328.6 million for FY 2023-24, an increase of 24.0% over the FY 2022-23 Adopted Budget. The FY 2024-25 water revenue estimate of \$405.1 million is a 23.3% increase over FY 2023-24. Revenues from treated water are the largest source with an estimated amount of \$174.1 million in FY 2023-24 and increasing by \$40.4 million to an estimated \$214.5 million in FY 2024-25. Groundwater production charges are budgeted at \$150.9 million growing to \$186.5 million, and surface/recycled water sales are projected at \$3.6 million increasing to \$4.1 million for FY 2023-24 and FY 2024-25 respectively. These estimates include rate increases of 14.5% in Zone W-2, 5.9% in Zone W-5, 12.9% in Zone W-7, and 8.0% in Zone W-8 for municipal and industrial groundwater charges in each fiscal year of the biennial budget. Furthermore, estimates anticipate water usage rebounding 7.9% in FY 2023-24 and an additional 7.5% in FY 2024-25 due to estimated population growth and residents resuming water usage as drought conditions have passed.

Further discussion on groundwater production charges is provided in the Water Utility Enterprise Fund Summary section of this budget and in the FY 2023-24 PAWS Report.

Financial Overview

Property Tax

Property tax revenues are estimated at \$165.0 million for FY 2023-24, an increase of 7.8% from the FY 2022-23 Adopted Budget. The planned FY 2024-25 amount assumes a 3% increase totaling \$169.9 million. Valley Water benefits from two types of property taxes: 1% ad valorem and levies for State Water Project (SWP) indebtedness. The 1% ad valorem is estimated at \$138.0 million in FY 2023-24 and \$141.9 million in FY 2024-25. Levies for State Water Project (SWP) indebtedness are budgeted at \$27.0 million in FY 2023-24 and \$28.0 million in FY 2024-25. More information on property tax revenue is included in the Major Sources of Revenue section later in this chapter.

Special Parcel Tax

The Safe, Clean Water and Natural Flood Protection Program special parcel tax was approved in 2000 as the Clean, Safe Creeks and Natural Flood Protection Plan, then again in 2012 as the Safe, Clean Water and Natural Flood Protection Program; most recently, an ongoing Safe, Clean Water and Natural Flood Protection Program was approved by voters in November 2020. The Special Parcel Tax for FY 2023-24 is budgeted at \$52.3 million, and FY 2024-25 projected revenue is \$53.4 million reflecting an increase of 5.3% in FY 2023-24 and 2.2% increase in FY 2024-25. Further details on the Special Parcel Tax and its uses can be located in the Major Sources of Revenues section, the Safe, Clean Water & Natural Flood Protection Fund summary, and the Safe, Clean Water & Natural Flood Protection Annual Report.

Benefit Assessments

Benefit assessment revenue consists of levies approved by voters in 1986 and 1990 to support financing for flood control capital improvements and are set at 1.25 times the duly authorized annual debt service requirements for assessed parcels in each watershed. Benefit Assessment revenue budget is \$6.9 million for FY 2023-24 and \$7.1 million is planned for FY 2024-25. Benefit Assessment taxes are described further in the Major Sources of Revenue and in the Watershed Management Fund Summary sections.

Capital Reimbursements

Capital reimbursements are from local, state, and federal agencies for specified capital projects that are already completed or would be undertaken during this budget period. District-wide capital reimbursements are budgeted at \$67.8 million for FY 2023-24 and projected at \$78.7 million in FY 2024-25. See the Major Sources of Revenue section for further details.

Interest

Overall interest earnings are estimated at \$7.2 million in FY 2023-24 and \$9.0 million in FY 2024-25. The increase of \$1.8 million is primarily due to the expectation of a moderately higher interest rate earned by the portfolio.

Intergovernmental Services

Intergovernmental Services revenue are reimbursements from cost sharing agreements with local cities and agencies. The FY 2023-24 totals \$1.4 million in this category and is comprised of reimbursements from local agencies (\$0.8 million) for conservation incentive programs such as the Lawn Rebate Program, Greywater Program, and Home Water Use Reports, and for reimbursements from the San Benito Water District for O&M San Felipe Reach 1 projects (\$0.6 million).

The Planned FY 2024-25 amount of \$2.3 million is comprised of San Felipe Reach 1 projects O&M reimbursements from the San Benito Water District (\$0.8 million) and conservation incentive program reimbursements (\$1.5 million) which includes contributions from local agencies (\$0.8 million) and reimbursements from the State of California for Prop 1 (\$0.7 million).

Financial Overview

Other Revenue

Other Operating and Non-Operating Revenues comprised of receipts from minor sources such as rental income and the sale of vehicles totals \$4.5 million in FY 2023-24 and FY 2024-25.

Appropriations/Outlays

Total FY 2023-24 operating and capital outlays are budgeted at \$981.5 million, which includes intra-district reimbursements of \$124.9 million, and these net to total operating and capital outlays of \$856.6 million. These figures do not include capital carry forward (\$97.2 million) appropriated by the Board in prior years. The \$124.9 million of intra-district charges are comprised of General Fund reimbursements (64.2%) and Internal Service Funds charges (35.8%). Of the total FY 2023-24 net outlays, operating outlays (including debt service) accounts for \$483.9 million, reflecting a minor decrease of \$1.0 million compared to the FY 2022-23 Adopted Budget of \$484.9 million. The total net capital outlays make up \$372.7 million compared to the FY 2023-23 Adopted Budget of \$432.4 million, accounting for a \$59.7 million decrease.

The planned FY 2024-25 total operating and capital outlays are projected to increase by \$129.7 million over FY 2023-24, reaching \$1,111.1 million. The total net of intra-district reimbursements is \$980.4 million, of which \$550.0 million is net operating expenses and \$430.4 million are net capital expenses. These amounts do not include the projected capital projects carryforward of \$16.6 million and is net of an estimated \$130.7 million in intra-district reimbursements comprised of General Fund reimbursements (64.5%) and Internal Service Funds charges (35.5%).

The increase in net outlays over the Biennial Budget reflects continued efforts to maintain service levels that support key strategic objectives. Objectives and issues facing Valley Water include but are not limited to:

- Maintaining optimal conditions in all Valley Water infrastructure such as levees, concrete channels, culverts, percolation ponds, dams and reservoirs, water distribution systems, water treatment plants, various operations buildings, and other facilities
- Delivering an ambitious capital program on time and within budget
- Advancing Valley Water's interests in countywide stormwater resource planning
- Actively participating in decisions regarding California Delta Conveyance
- Leading efforts to advance recycled and purified water efforts within Santa Clara County
- Pursuing new water supply and increased water storage opportunities
- Providing safe, clean water and natural flood protection equitably to all Santa Clara County while protecting ecosystem functions and enhancing habitats
- Attaining net positive impact on the environment when completing projects
- Addressing future impacts of climate change to Valley Water's mission and operations.
- Addressing encampments in coordination with regional partners and progressing on an Unhoused Task Force framework

Intra-district Reimbursements

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements. FY 2023-24 budgeted levels are \$124.9 million, and \$130.7 million planned 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. Approximately, 60% of intra-district charges is paid by the Water Utility Enterprise, 40% by Watersheds Funds.

Financial Overview

Capital Outlays

The capital budget represents the projects that have been identified and prioritized in the 5-Year Capital Improvement Program (CIP). FY 2023-24 net capital project outlays total \$372.7 million, a decrease of \$59.7 million as compared to the net FY 2022-23 Adopted Budget of \$432.4 million. It is anticipated that \$97.2 million of the FY 2022-23 Adjusted Budget for capital projects will be carried forward to FY 2023-24 as most capital projects require multiple years to complete.

Net Capital Outlays are planned to reach \$430.5 million in FY 2024-25 reflecting a \$57.7 million increase over the prior year budgeted level and assumes \$16.6 million of the prior year's capital funds will carry forward to FY 2024-25.

Other Financing Sources/Uses

Other financing sources and uses include proceeds from debt issuance. Valley Water anticipates issuing bonds or commercial paper for approximately \$268.8 million in FY 2023-24, and \$321.6 million in FY 2024-25, to finance various Water Utility and Safe, Clean Water and Natural Flood Protection capital improvement projects.

Reserves

Overall, budgeted reserves for FY 2023-24 are estimated at \$474.0 million, an increase of \$71.5 million compared to the FY 2022-23 Adopted Budget level. Projections for FY 2024-25 show reserves increasing \$54.7 million further for a total of \$528.7 million.

Staffing

The FY 2023-24 Budget includes 919 regular positions (which include four fellowships and two apprentice positions) and five limited-term positions for a total position count of 924. This staffing level includes 10 new positions to support priorities such as: Water Utility and Watershed Management capital improvement projects; develop an apprenticeship program to fill Instrument Systems Control Technician positions; convert temporary staffing to permanent for ongoing pre-construction and other field monitoring associated with Stream Maintenance Program (SMP) activities; provide an increased level of service for encampment cleanups. There are three additional positions planned in FY 2024-25, increasing the regular position count to 922 positions to strive to meet the Board's priorities. For a comprehensive schedule of district-wide salaries and benefits, please refer to the salaries & benefits section in this chapter.

Financial Overview

Combined Fund Summary - All Funds

		Budgetary		Adopted		Projected		Adopted		Change from	
		Basis Actual		Budget		Year End		Budget		2022-23 Adopted	
		2021-22		2022-23		2022-23		2023-24		\$ Diff	% Diff
REVENUE											
Groundwater Production Charges	\$	125,029,429	\$	122,002,000	\$	121,199,000	\$	150,871,000	\$	28,869,000	23.7%
Treated Water Charges		145,365,475		139,746,000		139,194,000		174,081,000		34,335,000	24.6%
Surface&Recycled Water Charges		2,003,338		3,207,000		3,207,000		3,613,000		406,000	12.7%
Benefit Assessment		13,447,241		13,274,144		13,548,559		6,891,766		(6,382,378)	-48.1%
Property Tax		157,363,023		153,122,151		160,755,100		165,019,497		11,897,346	7.8%
Special Parcel Tax		46,954,690		49,645,791		49,645,791		52,277,018		2,631,227	5.3%
Intergovernmental Services		6,295,559		3,267,274		1,352,294		1,424,295		(1,842,979)	-56.4%
Operating Other		798,232		688,044		773,288		782,045		94,001	13.7%
Capital Reimbursements		21,355,292		87,116,000		50,759,000		67,836,000		(19,280,000)	-22.1%
Interest Income *		7,166,167		6,000,000		7,200,000		7,200,000		1,200,000	20.0%
Non-Operating Other		6,248,250		2,850,370		3,627,968		3,680,056		829,686	29.1%
TOTAL REVENUE	\$	532,026,696	\$	580,918,774	\$	551,262,000	\$	633,675,677	\$	52,756,903	9.1%
OUTLAYS											
Operating Outlays											
Operations **	\$	414,212,665	\$	478,614,808	\$	494,653,489	\$	470,385,433	\$	(8,229,375)	-1.7%
Operating Project		8,535,774		8,484,926		9,319,926		6,603,095		(1,881,831)	-22.2%
Debt Service		58,076,369		82,350,473		72,234,010		97,434,264		15,083,791	18.3%
Total Operating Outlays	\$	480,824,808	\$	569,450,207	\$	576,207,425	\$	574,422,792	\$	4,972,585	0.9%
Capital Outlays											
Capital Projects	\$	372,726,483	\$	462,788,575	\$	487,012,428	\$	407,071,536	\$	(55,717,039)	-12.0%
Carry Forward Capital Projects		-		67,372,222		-		97,173,535		29,801,313	44.2%
Total Capital Outlays	\$	372,726,483	\$	530,160,797	\$	487,012,428	\$	504,245,071	\$	(25,915,726)	-4.9%
TOTAL OUTLAYS****	\$	853,551,291	\$	1,099,611,004	\$	1,063,219,853	\$	1,078,667,863	\$	(20,943,141)	-1.9%
Less Intra-District Reimb		(97,328,083)		(115,000,864)		(115,000,864)		(124,927,947)		(9,927,083)	8.6%
NET OUTLAYS	\$	756,223,208	\$	984,610,140	\$	948,218,989	\$	953,739,916	\$	(30,870,224)	-3.1%
OTHER FINANCING SOURCES/(USES)											
Debt Proceeds	\$	171,725,418	\$	334,491,000	\$	360,741,074	\$	268,775,583	\$	(65,715,417)	-19.6%
Transfers In		15,838,532		36,740,517		37,014,927		15,471,947		(21,268,570)	-57.9%
Transfers Out		(15,838,532)		(36,568,603)		(36,843,013)		(10,178,347)		26,390,256	-72.2%
TOTAL OTHER SOURCES/(USES)	\$	171,725,418	\$	334,662,914	\$	360,912,988	\$	274,069,183	\$	(60,593,731)	-18.1%
BALANCE AVAILABLE	\$	(52,471,094)	\$	(69,028,452)	\$	(36,044,001)	\$	(45,995,056)	\$	23,033,396	-33.4%

Financial Overview

Combined Fund Summary - All Funds

	Budgetary		Adopted		Projected		Adopted		Change from	
	Basis Actual		Budget		Year End		Budget		2022-23 Adopted	
	2021-22		2022-23		2022-23		2023-24		\$ Diff	% Diff
YEAR-END RESERVES										
Restricted Reserves										
WUE Rate Stabilization Reserve	\$	54,069,620	\$	42,476,138	\$	41,066,971	\$	6,066,971	\$	(36,409,167) -85.7%
WUE San Felipe Emergency Reserve		3,430,832		3,410,085		3,480,832		3,530,832		120,747 3.5%
WUE State Water Project Tax Reserve		11,398,101		6,352,290		11,141,456		8,816,456		2,464,166 38.8%
WUE Debt Service Reserve		10,239		6,999		10,239		-		(6,999) -100.0%
WUE Supplemental Water Supply Reserve		7,877,000		5,277,000		5,277,000		5,277,000		- 0.0%
WUE SVAWPC Reserve		1,298,138		908,138		1,298,138		-		(908,138) -100.0%
WUE Drought Reserve		10,000,000		-		-		-		- 0.0%
WUE Guiding Principal #5 (GP5) Reserve		15,963,574		8,830,684		4,581,693		4,718,017		(4,112,667) -46.6%
SCW Rate Stabilization Reserve		25,000,000		25,000,000		25,000,000		25,000,000		- 0.0%
SCW Contingency Reserve		5,000,000		5,000,000		5,000,000		5,000,000		- 0.0%
SCW Currently Authorized Projects Reserve***		123,267,581		47,365,114		121,634,047		37,906,382		(9,458,732) -20.0%
SCW Operating and Capital Reserve		21,183,313		74,326,854		59,154,025		117,935,002		43,608,148 58.7%
Total Restricted Reserves	\$	278,498,398	\$	218,953,302	\$	277,644,401	\$	214,250,660	\$	(4,702,642) -2.1%
Committed Reserves										
Currently Authorized Projects Reserve***	\$	108,147,611	\$	13,147,429	\$	57,129,006	\$	11,963,405	\$	(1,184,024) -9.0%
Operating and Capital Reserve		156,554,679		158,532,809		173,243,837		232,838,010		74,305,201 46.9%
WUE San Jose Water Purification Reserve		-		-		-		1,000,000		1,000,000 0.0%
Liability/Workers' Comp Self-Insurance		7,714,800		6,621,000		8,337,000		8,337,000		1,716,000 25.9%
Property Self-Insurance/Catastrophic		5,092,670		5,226,261		3,609,913		5,580,026		353,765 6.8%
Total Committed Reserves	\$	277,509,760	\$	183,527,499	\$	242,319,756	\$	259,718,441	\$	76,190,942 41.5%
TOTAL YEAR-END RESERVES	\$	556,008,158	\$	402,480,801	\$	519,964,157	\$	473,969,101	\$	71,488,300 17.8%

Financial Overview

Combined Fund Summary - All Funds

		Budgetary		Adopted		Projected		Adopted		Change from	
		Basis Actual		Budget		Year End		Budget		2022-23 Adopted	
		2021-22		2022-23		2022-23		2023-24		\$ Diff	% Diff
Outlay Summary by Account type											
OPERATING OUTLAY											
Salaries and Benefits	\$	155,777,427	\$	170,824,512	\$	170,824,512	\$	175,496,202	\$	4,671,690	2.7%
Salary Savings Factor		-		(2,693,924)		(2,693,924)		(2,772,242)		(78,318)	2.9%
Services & Supplies		195,131,092		234,381,116		251,254,797		213,700,765		(20,680,351)	-8.8%
Intra-District Charges		71,839,920		84,588,030		84,588,030		90,563,802		5,975,772	7.1%
OPERATING OUTLAY TOTAL	\$	422,748,439	\$	487,099,734	\$	503,973,415	\$	476,988,527	\$	(10,111,207)	-2.1%
DEBT SERVICE											
Services & Supplies	\$	1,837,359	\$	5,849,371	\$	5,745,371	\$	4,486,371	\$	(1,363,000)	-23.3%
Debt Service		56,239,010		76,501,102		66,488,639		92,947,893		16,446,791	21.5%
DEBT SERVICE TOTAL	\$	58,076,369	\$	82,350,473	\$	72,234,010	\$	97,434,264	\$	15,083,791	18.3%
CAPITAL PROJECTS											
Salaries and Benefits	\$	44,100,828	\$	50,324,593	\$	50,324,593	\$	54,105,280	\$	3,780,687	7.5%
Salary Savings Factor		-		(816,046)		(816,046)		(877,577)		(61,531)	7.5%
Services & Supplies		303,137,487		382,867,193		407,091,047		319,479,687		(63,387,506)	-16.6%
Carry Forward Capital Projects		-		67,372,222		-		97,173,535		29,801,313	44.2%
Intra-District Charges		25,488,168		30,412,835		30,412,835		34,364,145		3,951,310	13.0%
CAPITAL PROJECTS TOTAL	\$	372,726,483	\$	530,160,797	\$	487,012,429	\$	504,245,070	\$	(25,915,727)	-4.9%
TOTAL OUTLAYS ****	\$	853,551,291	\$	1,099,611,004	\$	1,063,219,854	\$	1,078,667,861	\$	(20,943,143)	-1.9%

(*) Interest income does not include GASB31 market value adjustment

(**) Operations outlays do not include OPEB Expense-unfunded liability

(***) Currently Authorized Projects Reserve is unspent budget for authorized capital projects

(****) Total Outlays amounts may have a slight variance due to rounding

Financial Overview

Combined Fund Summary - All Funds

		Budgetary		Adopted		Adopted		Proposed		Change from	
		Basis Actual		Budget		Budget		Plan		2023-24 Adopted	
		2021-22		2022-23		2023-24		2024-25		\$ Diff	% Diff
REVENUE											
Groundwater Production Charges	\$	125,029,429	\$	122,002,000	\$	150,871,000	\$	186,506,000	\$	35,635,000	23.6%
Treated Water Charges		145,365,475		139,746,000		174,081,000		214,524,000		40,443,000	23.2%
Surface&Recycled Water Charges		2,003,338		3,207,000		3,613,000		4,088,000		475,000	13.1%
Benefit Assessment		13,447,241		13,274,144		6,891,766		7,123,978		232,212	3.4%
Property Tax		157,363,023		153,122,151		165,019,497		169,910,451		4,890,954	3.0%
Special Parcel Tax		46,954,690		49,645,791		52,277,018		53,427,112		1,150,094	2.2%
Intergovernmental Services		6,295,559		3,267,274		1,424,295		2,294,595		870,300	61.1%
Operating Other		798,232		688,044		782,045		791,064		9,019	1.2%
Capital Reimbursements		21,355,292		87,116,000		67,836,000		78,715,000		10,879,000	16.0%
Interest Income *		7,166,167		6,000,000		7,200,000		9,000,000		1,800,000	25.0%
Non-Operating Other		6,248,250		2,850,370		3,680,056		3,733,847		53,791	1.5%
TOTAL REVENUE	\$	532,026,696	\$	580,918,774	\$	633,675,677	\$	730,114,047	\$	96,438,370	15.2%
OUTLAYS											
Operating Outlays											
Operations **	\$	414,212,665	\$	478,614,808	\$	470,385,433	\$	519,177,459	\$	48,792,026	10.4%
Operating Project		8,535,774		8,484,926		6,603,095		7,267,304		664,209	10.1%
Debt Service		58,076,369		82,350,473		97,434,264		119,312,987		21,878,723	22.5%
Total Operating Outlays	\$	480,824,808	\$	569,450,207	\$	574,422,792	\$	645,757,750	\$	71,334,958	12.4%
Capital Outlays											
Capital Projects	\$	372,726,483	\$	462,788,575	\$	407,071,536	\$	465,391,424	\$	58,319,888	14.3%
Carry Forward Capital Projects		-		67,372,222		97,173,535		16,555,107		(80,618,428)	-83.0%
Total Capital Outlays	\$	372,726,483	\$	530,160,797	\$	504,245,071	\$	481,946,531	\$	(22,298,540)	-4.4%
TOTAL OUTLAYS****											
Less Intra-District Reimb		(97,328,083)		(115,000,864)		(124,927,947)		(130,739,541)		(5,811,594)	4.7%
NET OUTLAYS	\$	756,223,208	\$	984,610,140	\$	953,739,916	\$	996,964,740	\$	43,224,824	4.5%
OTHER FINANCING SOURCES/(USES)											
Debt Proceeds	\$	171,725,418	\$	334,491,000	\$	268,775,583	\$	321,557,944	\$	52,782,361	19.6%
Transfers In		15,838,532		36,740,517		15,471,947		21,182,050		5,710,103	36.9%
Transfers Out		(15,838,532)		(36,568,603)		(10,178,347)		(21,182,050)		(11,003,703)	108.1%
TOTAL OTHER SOURCES/(USES)	\$	171,725,418	\$	334,662,914	\$	274,069,183	\$	321,557,944	\$	47,488,761	17.3%
BALANCE AVAILABLE	\$	(52,471,094)	\$	(69,028,452)	\$	(45,995,056)	\$	54,707,251	\$	100,702,307	-218.9%

Financial Overview

Combined Fund Summary - All Funds

		Budgetary		Adopted		Adopted		Proposed		Change from
		Basis Actual		Budget		Budget		Plan		2023-24 Adopted
		2021-22		2022-23		2023-24		2024-25		\$ Diff % Diff
YEAR-END RESERVES										
Restricted Reserves										
WUE Rate Stabilization Reserve	\$	54,069,620	\$	42,476,138	\$	6,066,971	\$	26,975,131	\$	20,908,160 344.6%
WUE San Felipe Emergency Reserve		3,430,832		3,410,085		3,530,832		3,580,832		50,000 1.4%
WUE State Water Project Tax Reserve		11,398,101		6,352,290		8,816,456		5,801,456		(3,015,000) -34.2%
WUE Debt Service Reserve		10,239		6,999		-		-		- 0.0%
WUE Supplemental Water Supply Reserve		7,877,000		5,277,000		5,277,000		5,277,000		- 0.0%
WUE SVAWPC Reserve		1,298,138		908,138		-		-		- 0.0%
WUE Drought Reserve		10,000,000		-		-		-		- 0.0%
WUE Guiding Principal #5 (GP5) Reserve		15,963,574		8,830,684		4,718,017		22,175		(4,695,842) -99.5%
SCW Rate Stabilization Reserve		25,000,000		25,000,000		25,000,000		25,000,000		- 0.0%
SCW Contingency Reserve		5,000,000		5,000,000		5,000,000		5,000,000		- 0.0%
SCW Currently Authorized Projects Reserve***		123,267,581		47,365,114		37,906,382		25,547,832		(12,358,550) -32.6%
SCW Operating and Capital Reserve		21,183,313		74,326,854		117,935,002		139,728,262		21,793,260 18.5%
Total Restricted Reserves	\$	278,498,398	\$	218,953,302	\$	214,250,660	\$	236,932,688	\$	22,682,028 10.6%
Committed Reserves										
Currently Authorized Projects Reserve***	\$	108,147,611	\$	13,147,429	\$	11,963,405	\$	7,766,848	\$	(4,196,557) -35.1%
Operating and Capital Reserve		156,554,679		158,532,809		232,838,010		268,985,517		36,147,507 15.5%
WUE San Jose Water Purification Reserve		-		-		1,000,000		1,000,000		- 0.0%
Liability/Workers' Comp Self-Insurance		7,714,800		6,621,000		8,337,000		8,337,000		- 0.0%
Property Self-Insurance/Catastrophic		5,092,670		5,226,261		5,580,026		5,654,299		74,273 1.3%
Total Committed Reserves	\$	277,509,760	\$	183,527,499	\$	259,718,441	\$	291,743,664	\$	32,025,223 12.3%
TOTAL YEAR-END RESERVES	\$	556,008,158	\$	402,480,801	\$	473,969,101	\$	528,676,352	\$	54,707,251 11.5%

Financial Overview

Combined Fund Summary - All Funds

		Budgetary Basis Actual		Adopted Budget		Adopted Budget		Proposed Plan		Change from 2023-24 Adopted	
		2021-22		2022-23		2023-24		2024-25		\$ Diff	% Diff
Outlay Summary by Account type											
OPERATING OUTLAY											
Salaries and Benefits	\$	155,777,427	\$	170,824,512	\$	175,496,202	\$	188,684,542	\$	13,188,340	7.5%
Salary Savings Factor		-		(2,693,924)		(2,772,242)		(2,941,114)		(168,872)	6.1%
Services & Supplies		195,131,092		234,381,116		213,700,765		244,899,190		31,198,425	14.6%
Intra-District Charges		71,839,920		84,588,030		90,563,802		95,802,145		5,238,343	5.8%
OPERATING OUTLAY TOTAL	\$	422,748,439	\$	487,099,734	\$	476,988,527	\$	526,444,763	\$	49,456,236	10.4%
DEBT SERVICE											
Services & Supplies	\$	1,837,359		5,849,371		4,486,371		4,168,961	\$	(317,410)	-7.1%
Debt Service		56,239,010	\$	76,501,102	\$	92,947,893	\$	115,144,026		22,196,133	23.9%
DEBT SERVICE TOTAL	\$	58,076,369	\$	82,350,473	\$	97,434,264	\$	119,312,987	\$	21,878,723	22.5%
CAPITAL PROJECTS											
Salaries and Benefits	\$	44,100,828	\$	50,324,593	\$	54,105,280	\$	55,909,361	\$	1,804,081	3.3%
Salary Savings Factor		-		(816,046)		(877,577)		(901,418)		(23,841)	2.7%
Services & Supplies		303,137,487		382,867,193		319,479,687		375,446,085		55,966,398	17.5%
Carry Forward Capital Projects		-		67,372,222		97,173,535		16,555,107		(80,618,428)	-83.0%
Intra-District Charges		25,488,168		30,412,835		34,364,145		34,937,396		573,251	1.7%
CAPITAL PROJECTS TOTAL	\$	372,726,483	\$	530,160,797	\$	504,245,070	\$	481,946,531	\$	(22,298,539)	-4.4%
TOTAL OUTLAYS ****	\$	853,551,291	\$	1,099,611,004	\$	1,078,667,861	\$	1,127,704,281	\$	49,036,420	4.5%

(*) Interest income does not include GASB31 market value adjustment

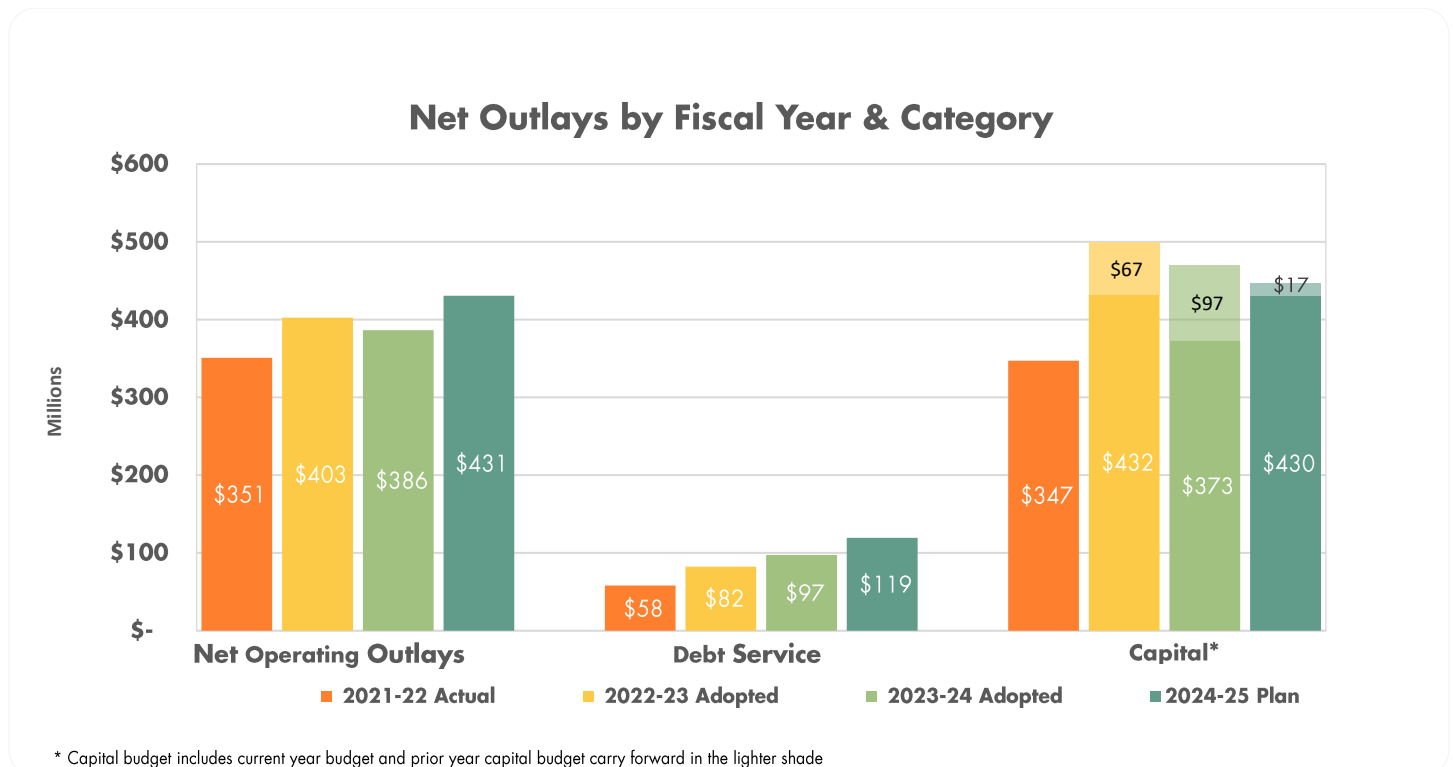
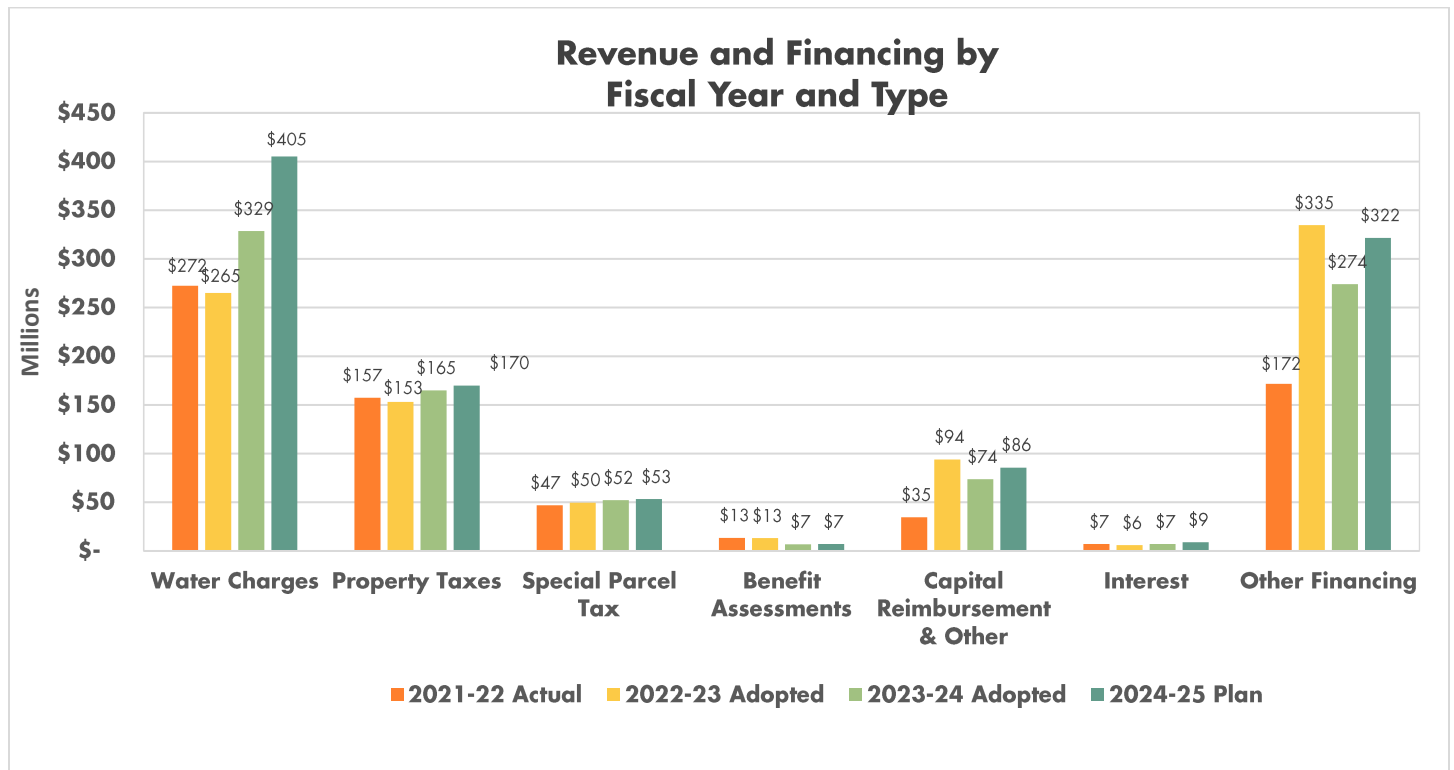
(**) Operations outlays do not include OPEB Expense-unfunded liability

(***) Currently Authorized Projects Reserve is unspent budget for authorized capital projects

(****) Total Outlays amounts may have a slight variance due to rounding

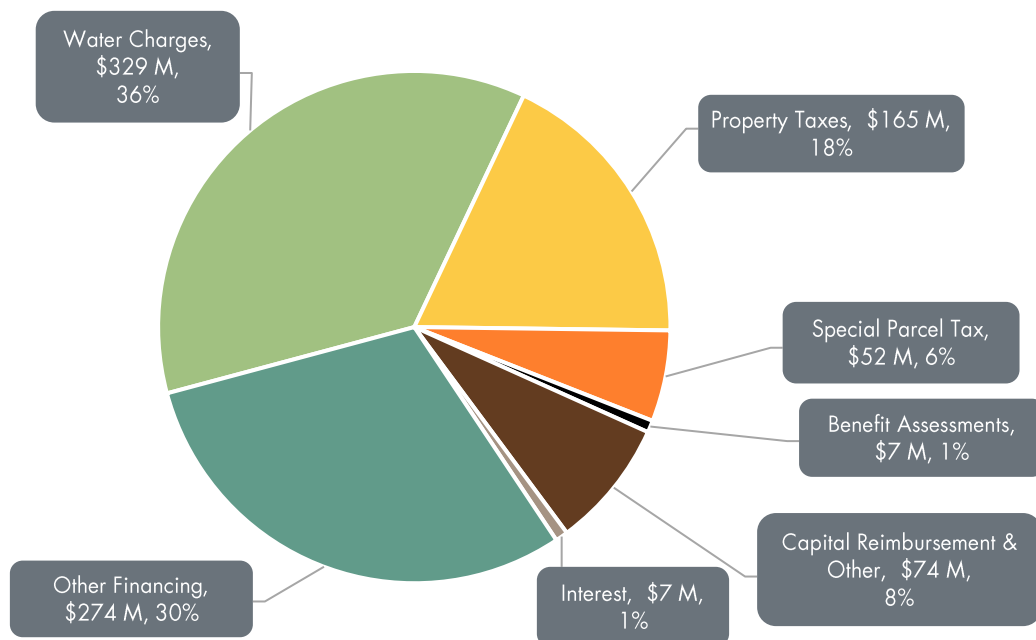
Financial Overview

Revenue and Outlays

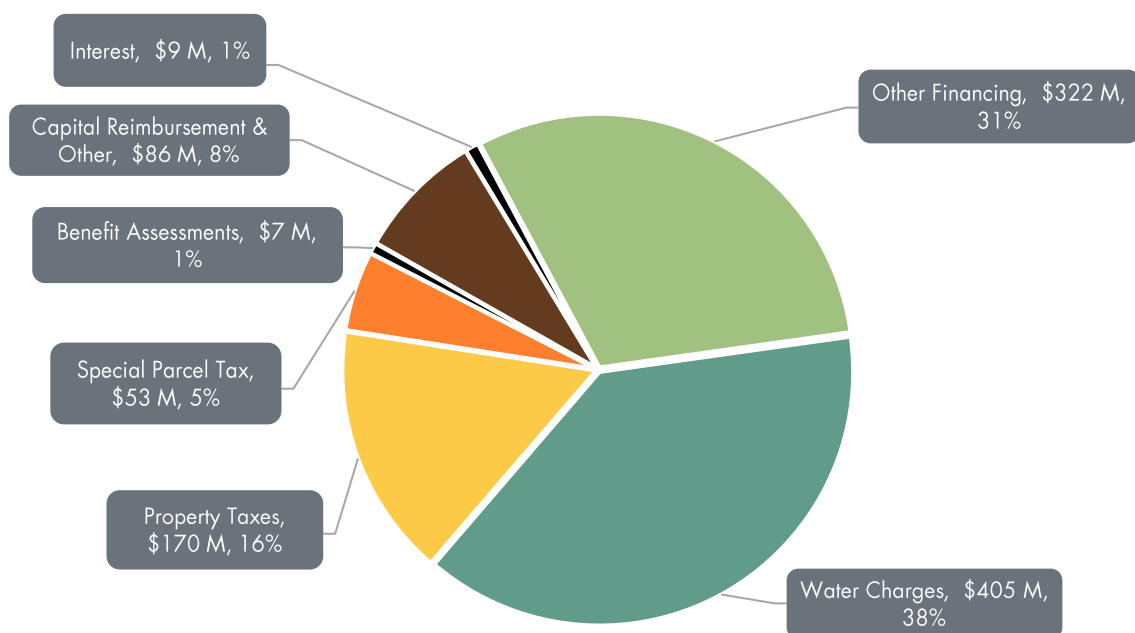


Financial Overview

FY 2023-24 Adopted Revenue and Debt Financing, \$908 Million

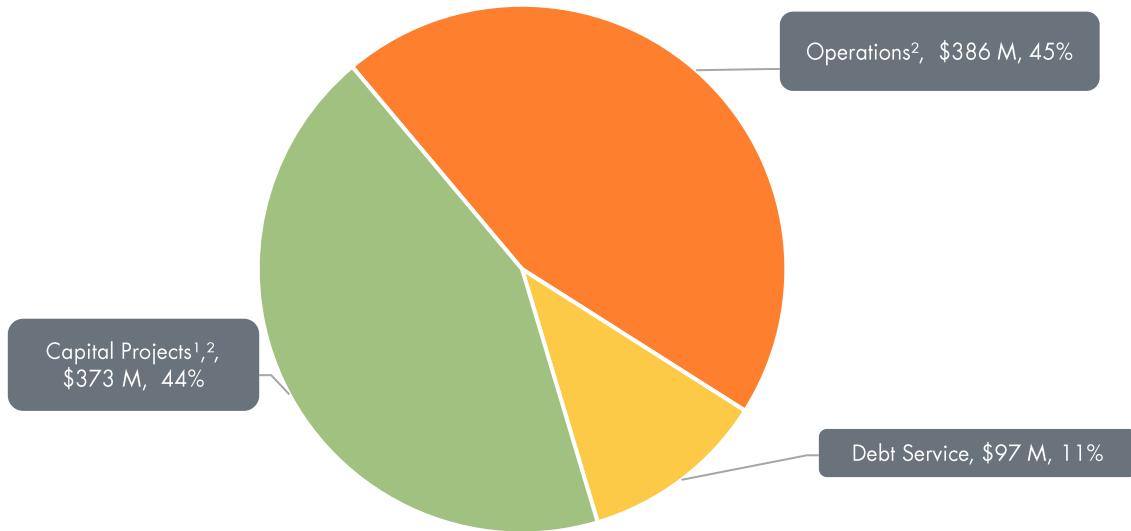


FY 2024-25 Plan Revenue and Debt Financing, \$1,052 Million



Financial Overview

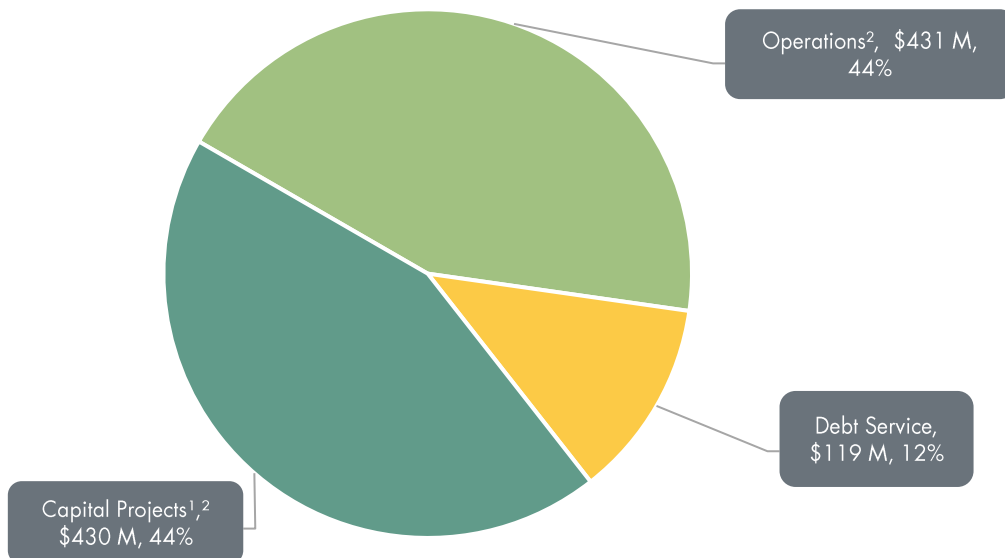
FY 2023-24 Adopted Net Outlays By Category, \$857 Million



¹Capital Projects Outlay does not include capital budget estimated to be carried forward from prior year

²Capital and Operations are net of intra-district reimbursements.

FY 2024-25 Plan Net Outlays By Category, \$980 Million



¹Capital Projects Outlay does not include capital budget estimated to be carried forward from prior year

²Capital and Operations are net of intra-district reimbursements.

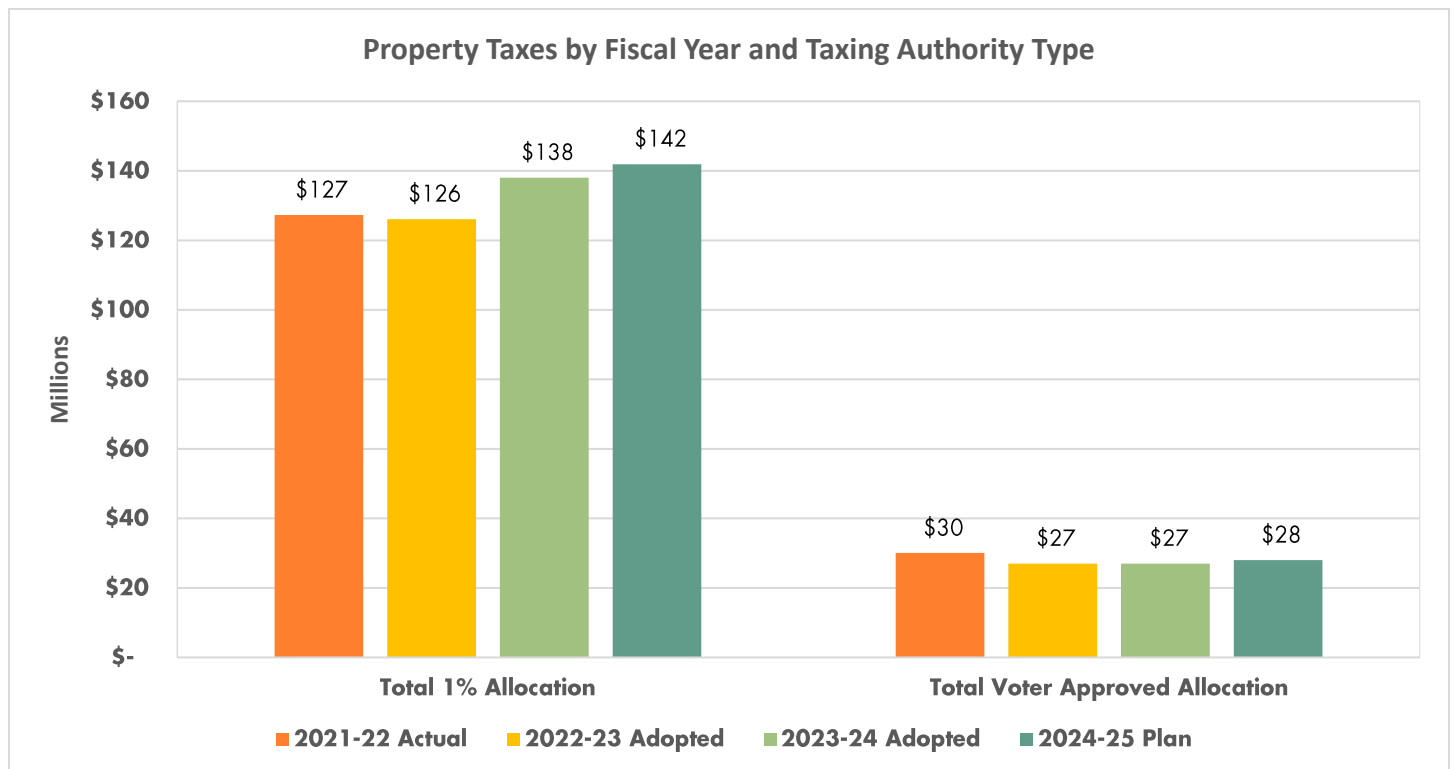
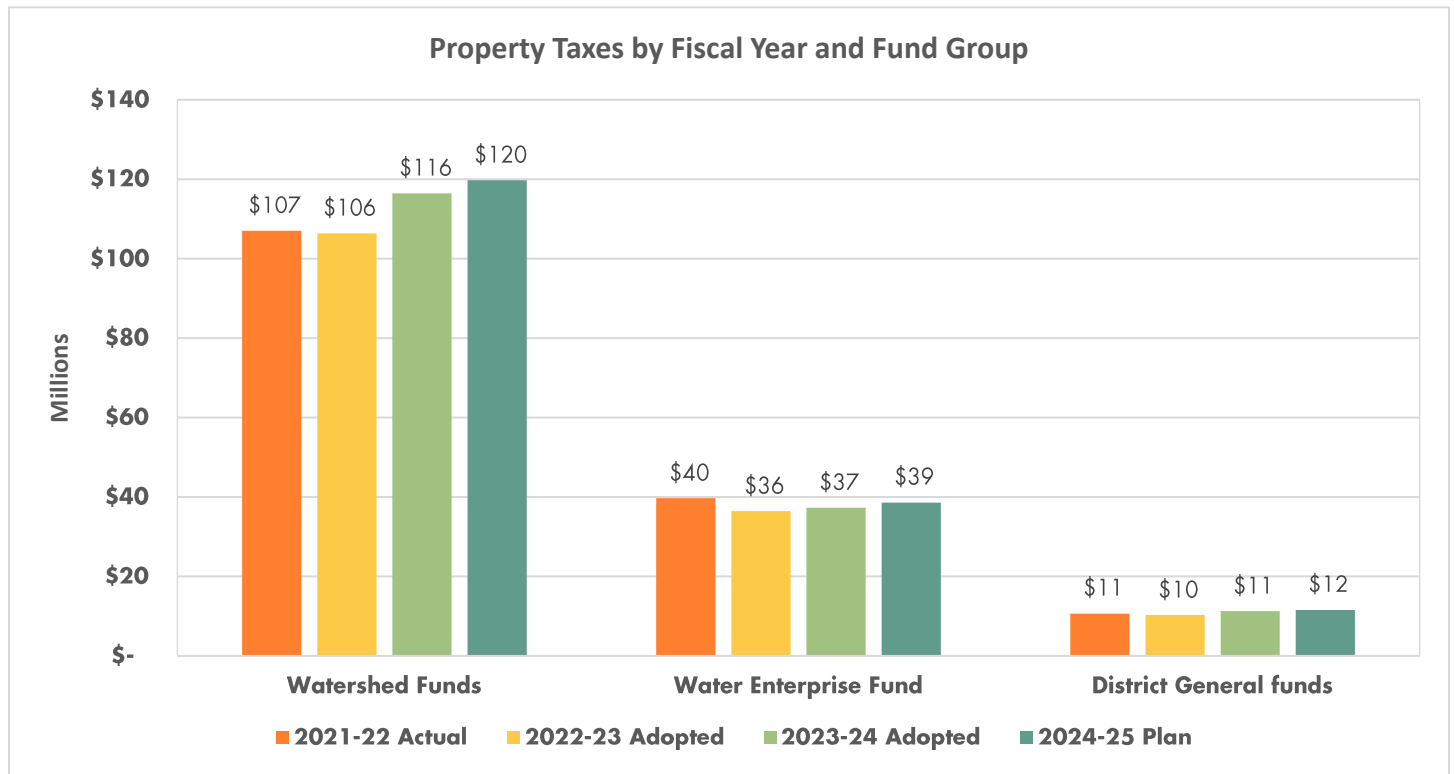
Financial Overview

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MAJOR SOURCES OF REVENUE

Financial Overview

Property Taxes



Financial Overview

Property Taxes

Valley Water's property tax revenues are comprised of two distinct categories: an allocated share of countywide 1% Ad Valorem property tax receipts and a voter-approved levy for State Water Project (SWP) contract obligations.

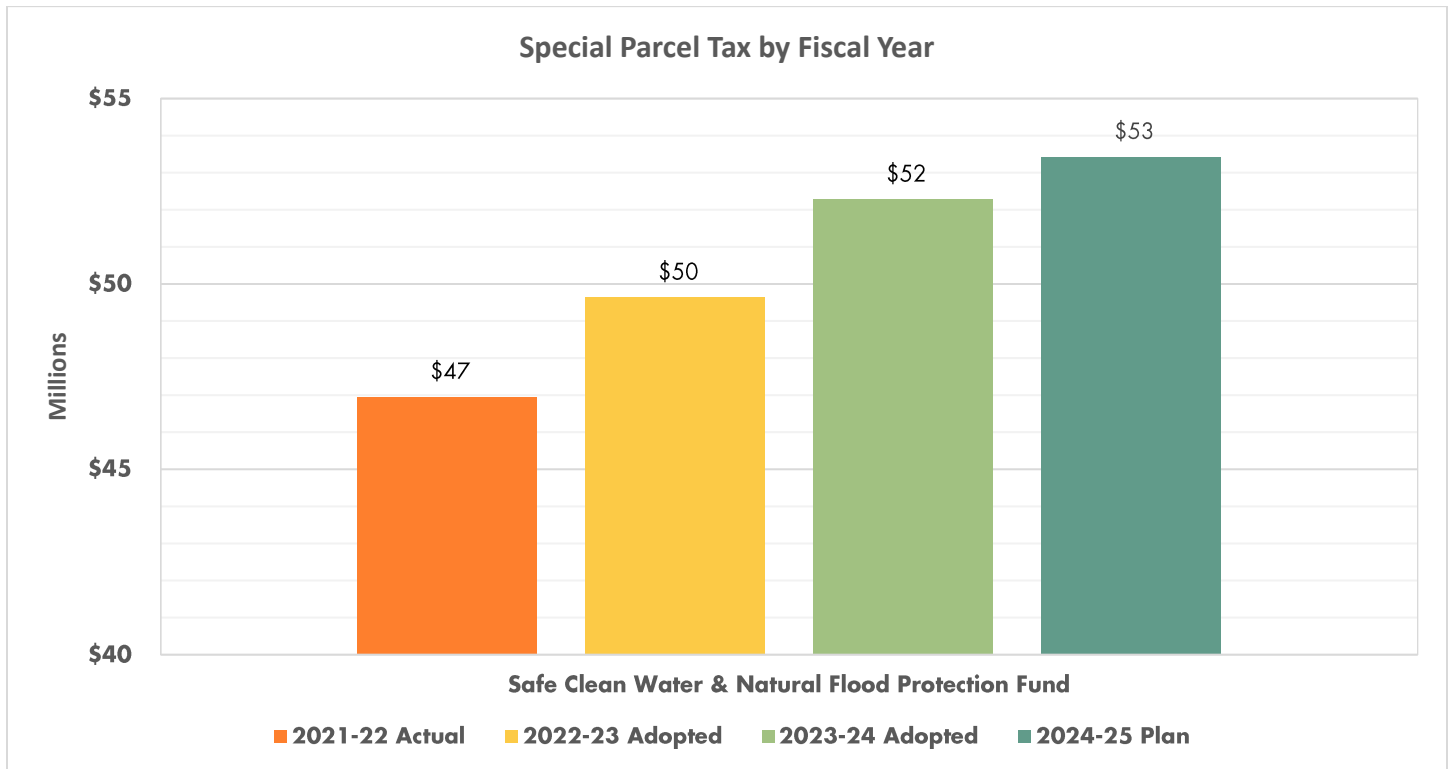
For FY 2023-24, Valley Water is projecting \$138.0 million in 1% Ad Valorem tax revenue, a 9.4% increase over the FY 2023-23 Adopted Budget. The increase reflects the growth in the assessed value of all property in Santa Clara County. For FY 2024-25, 1% Ad Valorem tax is projected to increase 2.8% to \$141.9 million.

Valley Water also levies a State Water Project property tax based on its annual indebtedness to the State pursuant to its water supply contract dated November 20, 1961. This indebtedness is part of Valley Water's SWP water purchase costs and pays for construction, maintenance, and operation of SWP infrastructure and facilities. For FY 2023-24 and FY 2024-25, based on the projected operation costs, SWP taxes are projected at \$27.0 million and \$28.0 million, respectively.

	Budgetary Basis Actual 2021-22	Adopted Budget 2022-23	Projected Year End 2022-23	Adopted Budget 2023-24	Proposed Plan 2024-25
Property Tax					
1 % Ad Valorem Property Tax					
Watershed Stream Stewardship Fund	\$ 106,997,869	\$ 106,390,743	\$ 112,843,700	\$ 116,443,701	\$ 119,728,881
Water Enterprise Fund	9,653,085	9,435,263	9,999,800	10,314,710	10,604,045
District General Fund	10,650,548	10,296,145	10,911,600	11,261,086	11,577,525
Total 1% Allocation	\$ 127,301,502	\$ 126,122,151	\$ 133,755,100	\$ 138,019,497	\$ 141,910,451
State Water Project Debt Service	\$ 30,061,522	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 28,000,000
Total Property Tax	\$ 157,363,024	\$ 153,122,151	\$ 160,755,100	\$ 165,019,497	\$ 169,910,451

Financial Overview

Special Parcel Tax



Financial Overview

Special Parcel Tax

In November 2000, over two-thirds of Santa Clara County voters approved the original 15-year special parcel tax to fund Valley Water's countywide Clean, Safe Creeks and Natural Flood Protection Program (Clean, Safe Creeks Program). In November 2012, the voters approved the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program) that built upon the success of its predecessor Clean, Safe Creeks Program. In November 2020, voters overwhelmingly approved Measure S, a renewal of the Safe, Clean Water Program. The special parcel tax levy is based on the land use and parcel size rather than assessed property value. The Board of Directors may adjust it annually by either the prior year's San Francisco-Oakland-San Jose Consumer Price Index for all Urban Consumers (CPI) or 2%, whichever is greater.

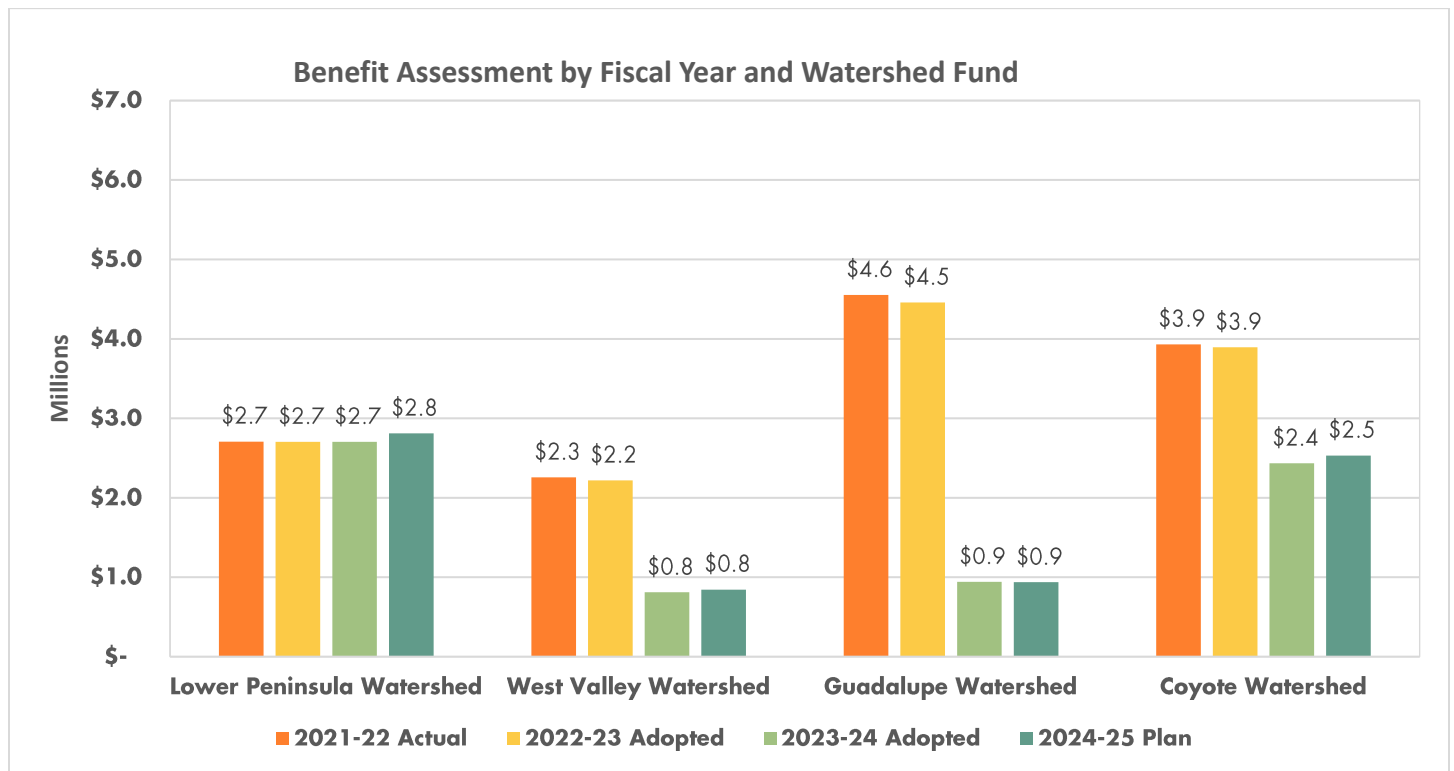
A report released by the Bureau of Labor Statistics indicated that the change in CPI for the last year (from February 2022 to February 2023) was 5.3%. For FY 2023-24, the Board of Directors approved an increase in the special parcel tax revenues to equal the change in CPI of 5.3% over the FY 2022-23 Adopted Budget. As noted previously, the tax levy may be increased by the CPI or 2%, whichever is greater.

The FY 2024-25 Planned amount assumes an increase of 2.2% over the FY 2023-24 Budget, which reflects the Board adopted 2% increase in the special tax rates, and an anticipated increase in eligible parcels based on construction activity in the county. Staff will reevaluate the revenue assumptions during the development of FY 2024-25 & FY 2025-26 Operating and Capital Rolling Biennial Budget.

	Budgetary Basis Actual 2021-22		Adopted Budget 2022-23		Projected Year End 2022-23		Adopted Budget 2023-24		Proposed Plan 2024-25	
Special Parcel Tax										
Safe Clean Water & Natural Flood Protection Fund	\$	46,954,690	\$	49,645,791	\$	49,645,791	\$	52,277,018	\$	53,427,112
Total Special Parcel Tax	\$	46,954,690	\$	49,645,791	\$	49,645,791	\$	52,277,018	\$	53,427,112

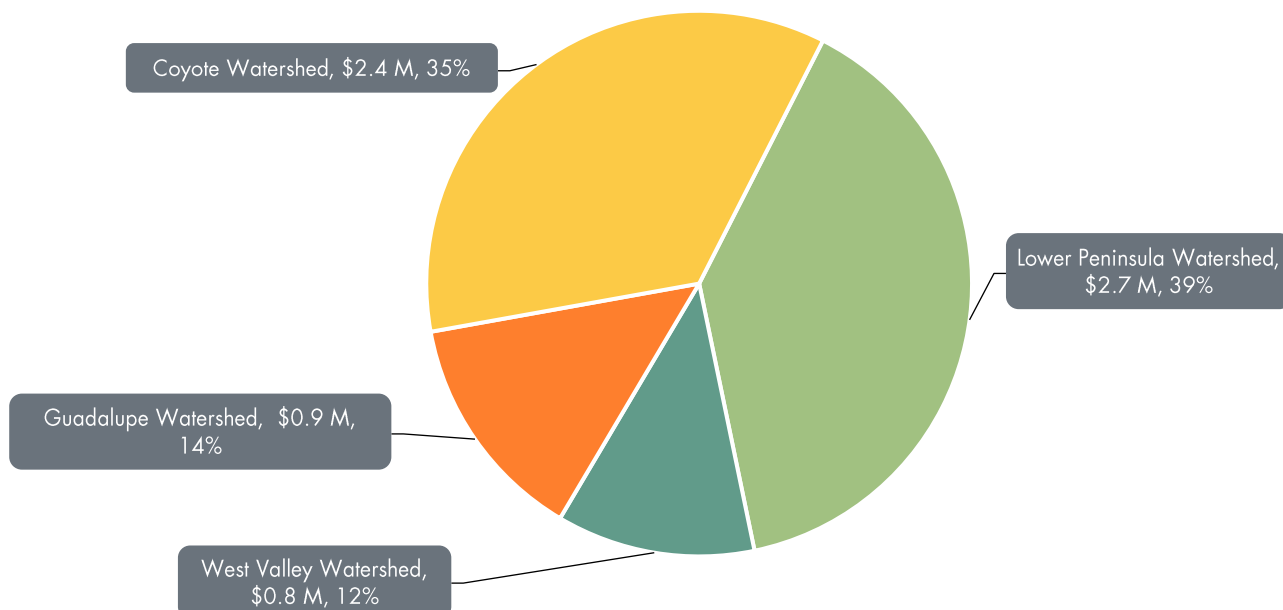
Financial Overview

Benefit Assessment

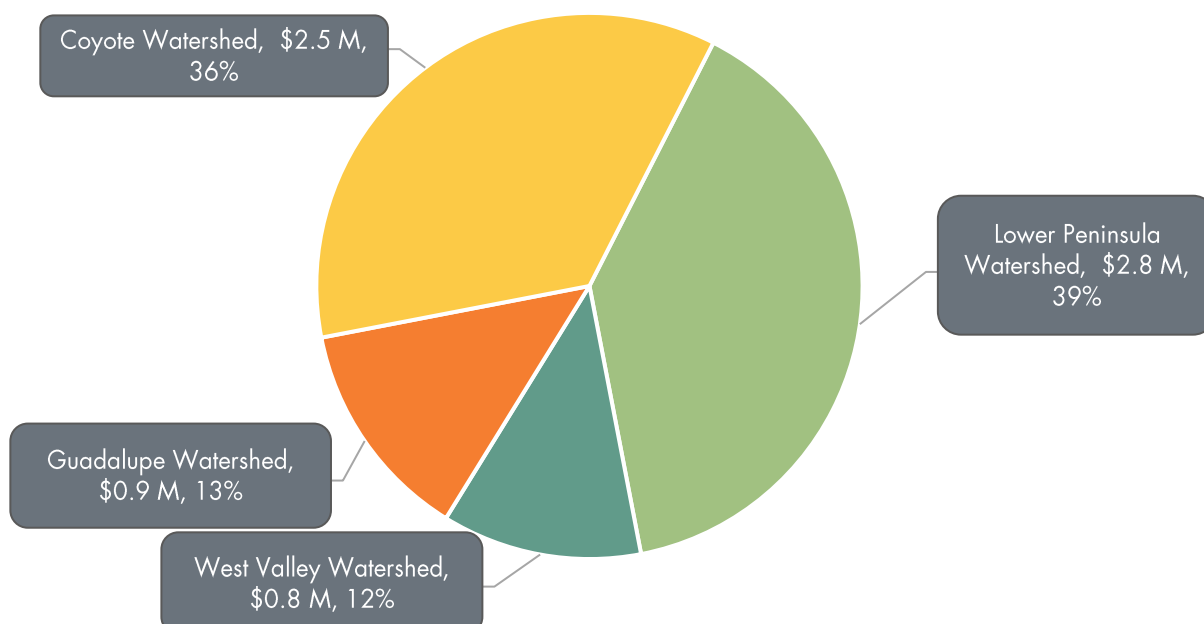


Financial Overview

FY 2023-24 Adopted Benefit Assessments, \$6.9 Million



FY 2024-25 Plan Benefit Assessments, \$7.1 Million



Financial Overview

Benefit Assessment

The Flood Control Benefit Assessment was first authorized by the Valley Water Board of Directors in 1981, and later by ballot measures in 1982, 1986, and 1990. The program had a sunset date of 2000 but the assessment will continue until 2030, when Valley Water will payoff the bonds associated with this program.

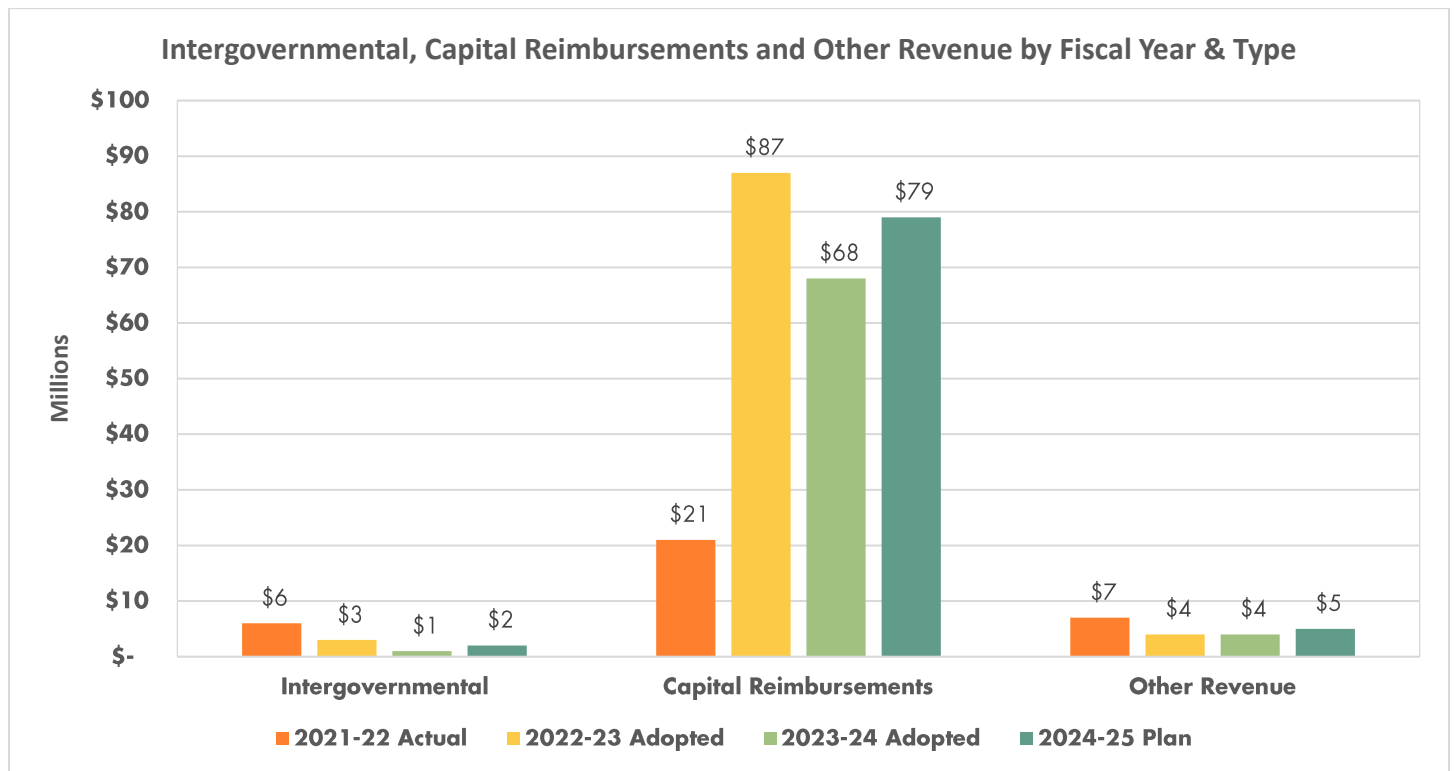
FY 2023-24 and FY 2024-25 continue under this debt repayment phase of the Benefit Assessment program with benefit assessments levied at 1.25 times the annual debt service.

For FY 2023-24 and FY 2024-25, the Benefit Assessment revenue receipts are projected at \$6.9 million and \$7.1 million, respectively. The decrease in revenue collection from previous years is due to some bonds associated with this program being paid in full in FY 2022-23. As Valley Water continues to pay down principal, the amount collected will decrease.

	Budgetary Basis Actual		Adopted Budget		Projected Year End		Adopted Budget		Proposed Plan	
	2021-22		2022-23		2022-23		2023-24		2024-25	
Benefit Assessment										
Lower Peninsula Watershed	\$	2,707,090	\$	2,703,278	\$	2,811,590	\$	2,704,621	\$	2,811,834
West Valley Watershed		2,256,452		2,218,285		2,250,776		811,318		843,479
Guadalupe Watershed		4,552,966		4,458,666		4,494,779		941,188		937,515
Coyote Watershed		3,930,734		3,893,914		3,991,414		2,434,639		2,531,150
Total Benefit Assessments	\$	13,447,242	\$	13,274,143	\$	13,548,559	\$	6,891,766	\$	7,123,978

Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue



Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

Intergovernmental Services

Valley Water anticipates receiving intergovernmental services revenue of \$1.4 million in FY 2023-24 and \$2.3 million in FY 2024-25 in the Water Utility Enterprise Fund. These funds are primarily for reimbursement from the San Benito County Water District (SBCWD) for operating maintenance of the San Felipe Division Reach 1, and for conservation activities funded by state grants and local cost sharing agreements.

Capital Reimbursement Revenue

Capital reimbursement revenue are expected at \$67.8 million in FY 2023-24 and \$78.7 million in FY 2024-25.

Water Utility Enterprise receipts in FY 2023-24 are budgeted at \$10.3 million, comprised of \$3.0 million from the Department of Water Resources for the Cross Valley Pipeline Extension project, \$3.8 million from California Water Commission for the Pacheco Reservoir Expansion project, \$2.7 million from the US Bureau of Reclamation for the recycled water pipeline project in South County, and \$0.8 million from San Benito County Water District for small capital improvements on the San Felipe Division Reach 1. In FY 2024-25, the only reimbursement anticipated is \$41,000 for shared capital improvements expenses on the San Felipe Division Reach 1 from San Benito County Water District.

Watershed and Stream Stewardship Fund capital reimbursement are expected to be \$34.2 million in FY 2023-24, comprised of \$18.9 million in state subvention funds for the San Francisco Bay Shoreline project, \$11.4 million Measure AA grant for the San Francisco Bay Shoreline project and \$3.9 million for Calabazas/San Tomas Aquino Creek-Marsh Connection project. In FY 2024-25 reimbursements totaling \$12.7 million are comprised of \$12.2 million in Measure AA grants and state subvention funds for the San Francisco Bay Shoreline project and \$0.5 million state subvention for the Llagas Creek Lower Capacity Restoration project.

Safe, Clean Water Fund reimbursements of \$23.4 million in FY 2023-24, comprised of: state subventions of \$1.0 million for the Llagas Creek –Upper, Buena Vista to Wright project and \$22.4 million unsecured funding from Natural Resources Conservation Service (NRCS) for Llagas Creek - Phase 2B Construction project. In FY 2024-25, reimbursements total \$66.0 million, comprised of: \$10.0 million in unsecured grants and partnerships (upstream funding) for San Francisquito Creek, SF Bay to Middlefield Road project; and \$56.0 million in unsecured funding from NRCS for the Upper Llagas Creek - Phase 2B Construction project.

Other Revenue

The other operating and non-operating revenue total \$4.5 million per fiscal year. Approximately \$1.8 million is budgeted for Watersheds, \$2.6 million for Water Utility and \$0.1 million for the Internal Service funds.

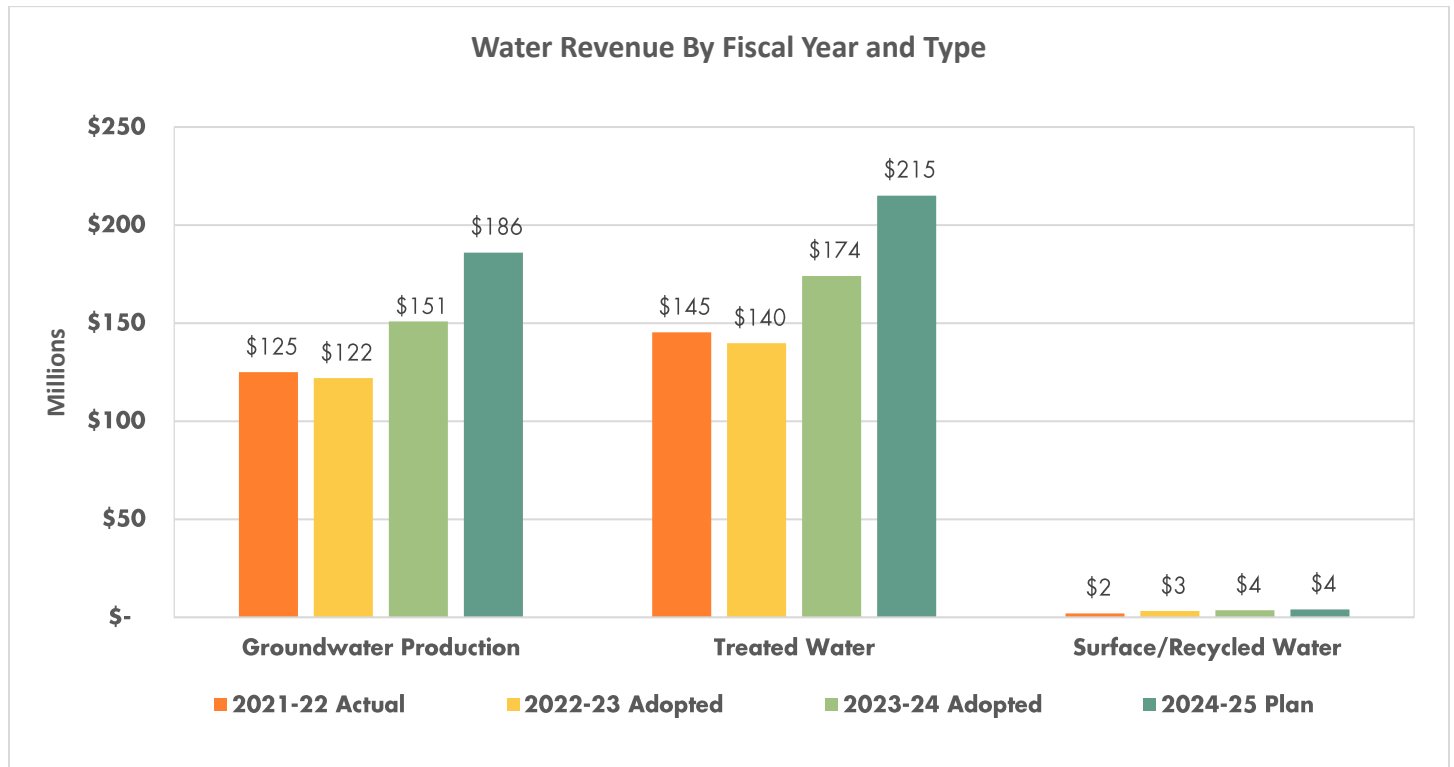
Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

	Budgetary Basis Actual 2021-22		Adopted Budget 2022-23		Projected Year End 2022-23		Adopted Budget 2023-24		Proposed Plan 2024-25	
Intergovernmental Services										
Watershed Stream Stewardship Fund	\$	138,050	\$	–	\$	–	\$	–	\$	–
Safe Clean Water & Natural Flood Protection Fund		7,184		–		–		–		–
Water Enterprise Fund		5,340,252		3,267,274		1,352,294		1,424,295		2,294,595
Internal Service Funds		134,089		–		–		–		–
District General Fund		675,984		–		–		–		–
Total Intergovernmental Services	\$	6,295,559	\$	3,267,274	\$	1,352,294	\$	1,424,295	\$	2,294,595
Capital Reimbursements										
Watershed Stream Stewardship Fund	\$	10,782,233	\$	27,985,000	\$	36,982,000	\$	34,170,000	\$	12,674,000
Safe Clean Water & Natural Flood Protection Fund		4,963,901		51,826,000		3,841,000		23,400,000		66,000,000
Water Enterprise Fund		5,609,159		7,305,000		9,936,000		10,266,000		41,000
Total Capital Reimbursements	\$	21,355,293	\$	87,116,000	\$	50,759,000	\$	67,836,000	\$	78,715,000
Other										
Watershed Stream Stewardship Fund	\$	2,767,660	\$	1,671,244	\$	1,756,490	\$	1,809,184	\$	1,863,458
Safe Clean Water & Natural Flood Protection Fund		550,642		–		–		–		–
Water Enterprise Fund		1,645,607		786,170		1,594,766		1,602,917		1,611,453
State Water Project Fund		1,742,266		1,000,000		1,000,000		1,000,000		1,000,000
District General Fund		139,789		30,000		30,000		30,000		30,000
Internal Service Funds		200,520		51,000		20,000		20,000		20,000
Total Other	\$	7,046,484	\$	3,538,414	\$	4,401,256	\$	4,462,101	\$	4,524,911
Total Intergov'l & Other Revenues	\$	34,697,336	\$	93,921,688	\$	56,512,550	\$	73,722,396	\$	85,534,506

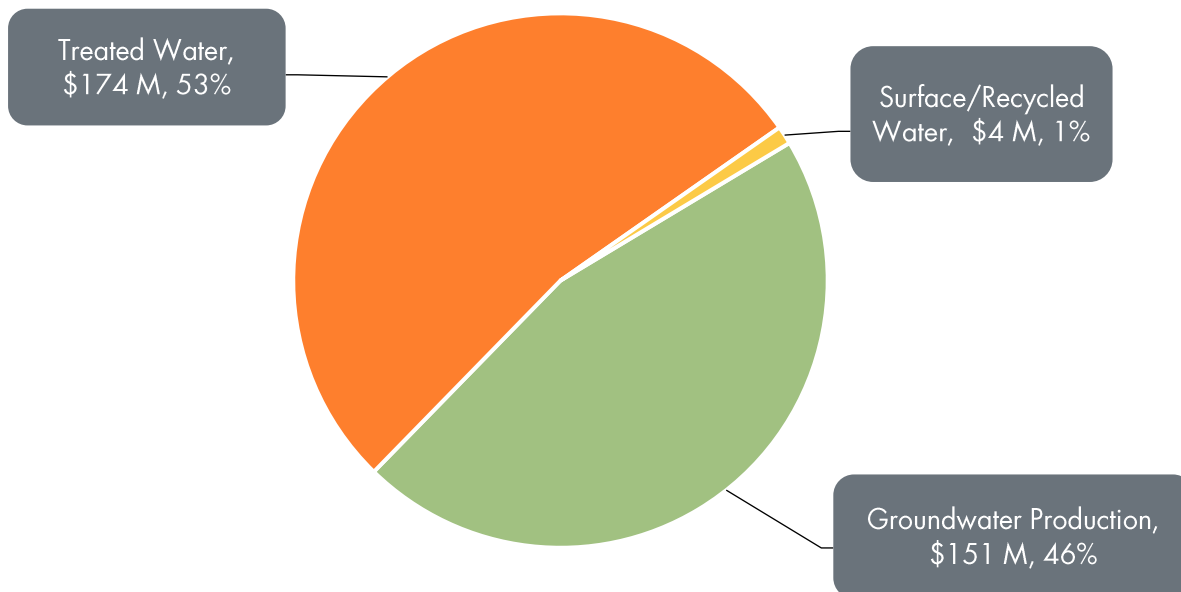
Financial Overview

Water Revenue

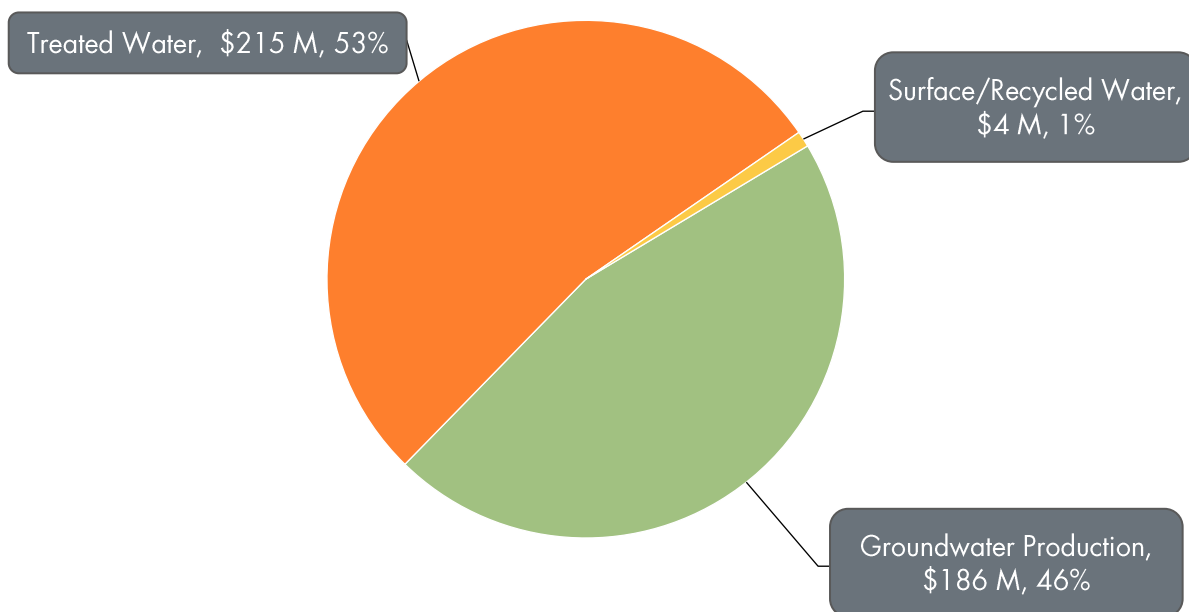


Financial Overview

FY 2023-24 Adopted Water Revenue \$329 Million



FY 2024-25 Plan Water Revenue \$405 Million



Financial Overview

Water Revenue

Valley Water's water revenue is comprised of charges for the following types of water usage:

- **Groundwater Production** - Water produced by pumping from the underground water basins
- **Treated Water** - Water which has been processed through a Valley Water treatment plant
- **Surface Water** - Water diverted from streams, creeks, reservoirs, or raw water distribution lines
- **Recycled Water** - Wastewater which has been treated for use in crop irrigation, landscaping, and industrial uses

Water revenues in FY 2023-24 Budget and FY 2024-25 Plan are based on staff's recommendations to the Board. Water charges are necessary to provide funding for critical infrastructure and operational needs, water imported via California's state and federal water systems, and the development of future supplies and storage. The water charges are shown in the accompanying Water Utility Charge Summary schedule found in the Water Enterprise Fund Summary section of this book.

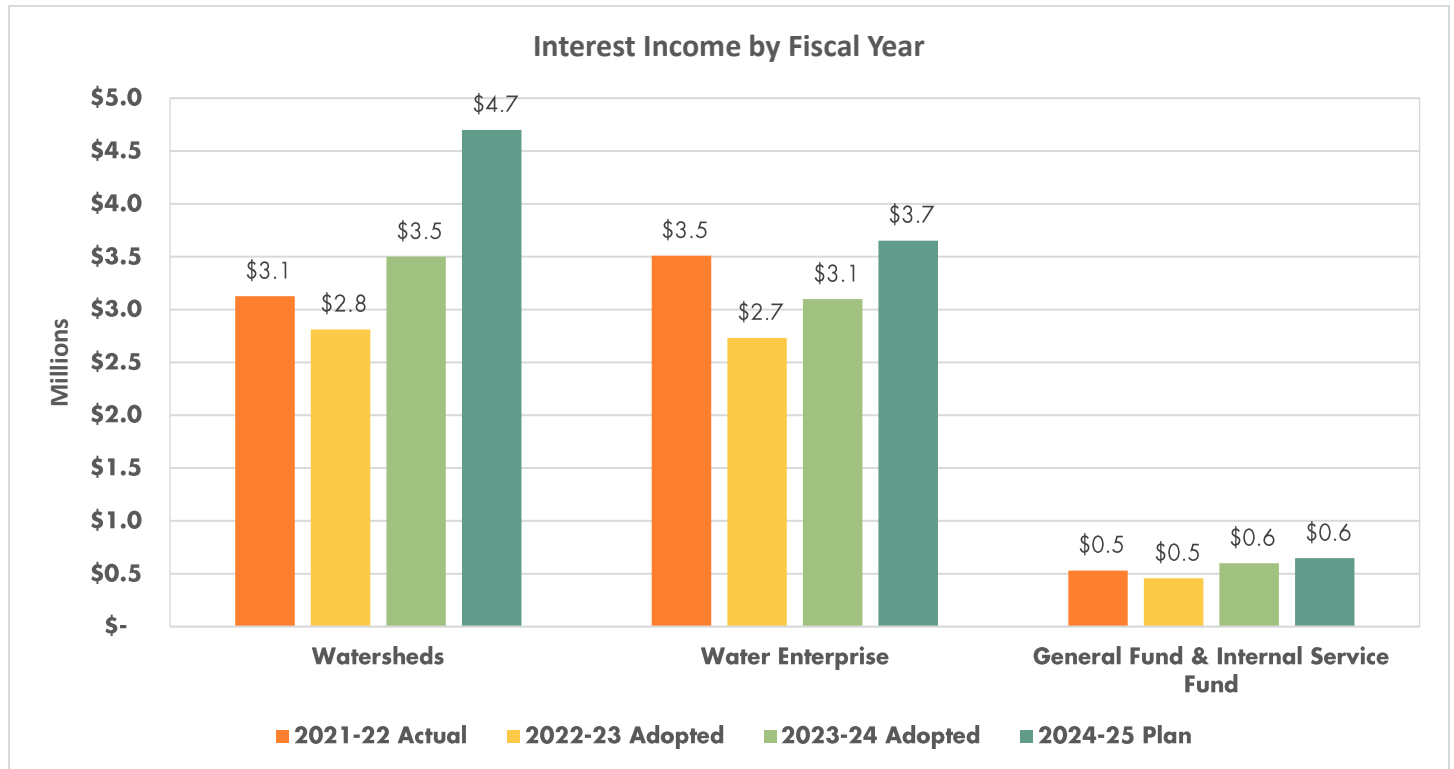
FY 2023-24 revenue estimates reflect an increase of 14.5% in groundwater production charges for the North County (Zone W-2) when compared to FY 2022-23. In the Llagas Subbasin (Zone W-5), revenue estimates reflect an increase of 5.9% in the groundwater production charge when compared to FY 2022-23. In the Coyote Valley (Zone W-7) revenue estimates reflect an increase of 12.9% in the groundwater production charge when compared to FY 2022-23. In the foothills below the Uvas and Chesbro reservoirs (Zone W-8), revenue estimates reflect an increase of 8.0% to the groundwater production charge relative to FY 2022-23. For all zones, the same annual rate increases are projected in FY 2024-25.

The FY 2023-24 water use estimate of 207,000 AF represents a 15,000 AF, or 7.8% increase compared to the FY 2022-23 adopted water budget usage amount of 192,000 AF. In FY 2024-25 water use estimate increases to 222,000 AF, assuming water use rebounds over time back to pre-drought levels. Additionally, other sources such as Hetch Hetchy and local retail water supplies like San Jose Water Company, Stanford, and South Bay Water Recycling provide approximately 70,000 acre-feet of water per year to Santa Clara County. Valley Water does not receive revenue for these sources of supply.

	Budgetary Basis Actual 2021-22	Adopted Budget 2022-23	Projected Year End 2022-23	Adopted Budget 2023-24	Proposed Plan 2024-25
Water Revenue					
Groundwater Production Charges	\$ 125,029,429	\$ 122,002,000	\$ 121,199,000	\$ 150,871,000	\$ 186,506,000
Treated Water Charges	145,365,475	139,746,000	139,194,000	174,081,000	214,524,000
Surface&Recycled Water Charges	2,003,338	3,207,000	3,207,000	3,613,000	4,088,000
Total Water Revenue	\$ 272,398,242	\$ 264,955,000	\$ 263,600,000	\$ 328,565,000	\$ 405,118,000

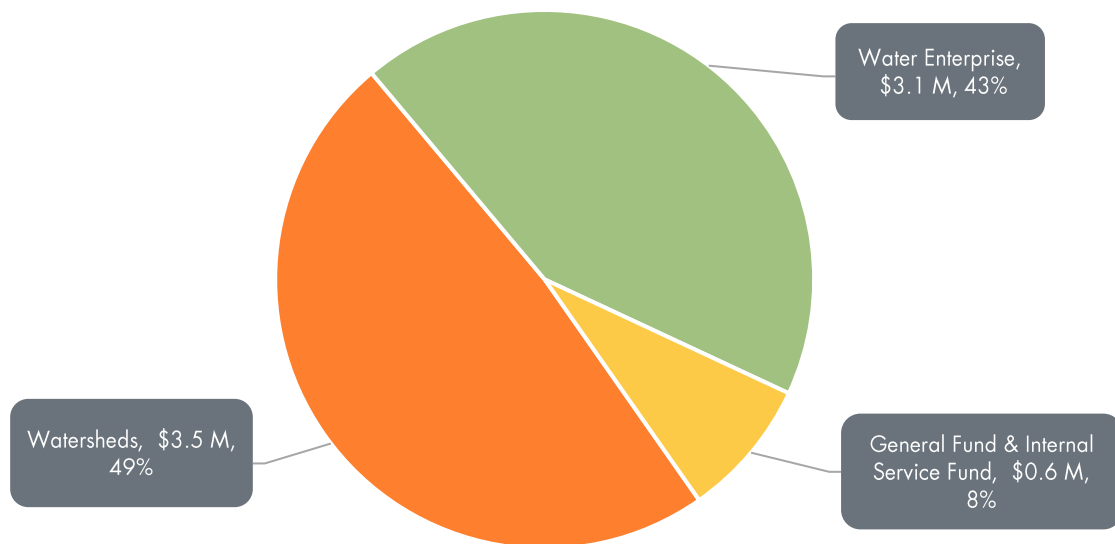
Financial Overview

Interest Income

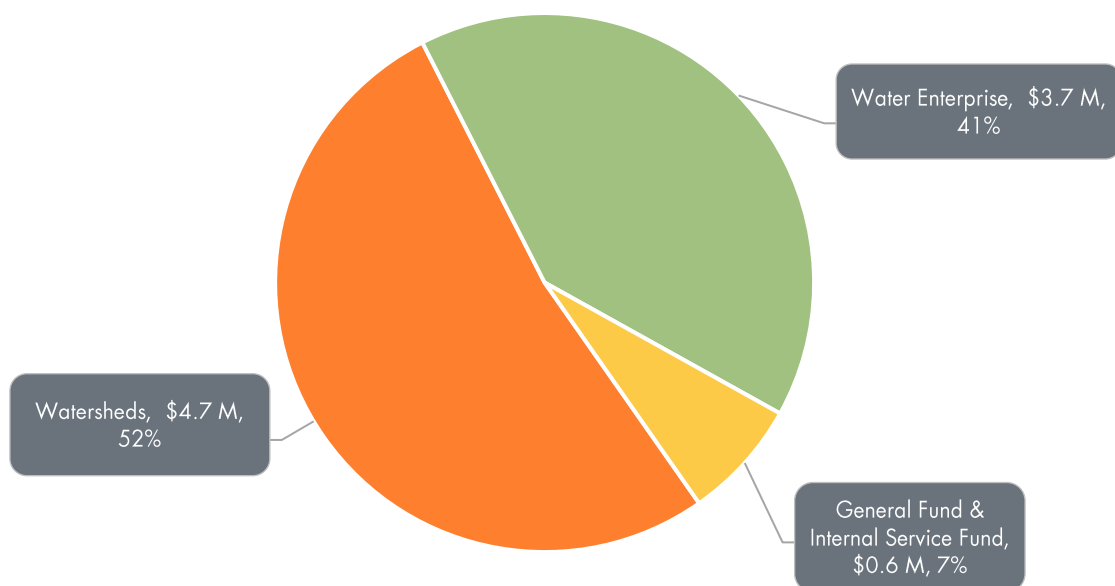


Financial Overview

FY 2023-24 Adopted Interest Earnings, \$7.2 Million



FY 2024-25 Plan Interest Earnings, \$9.0 Million



Financial Overview

Interest Income

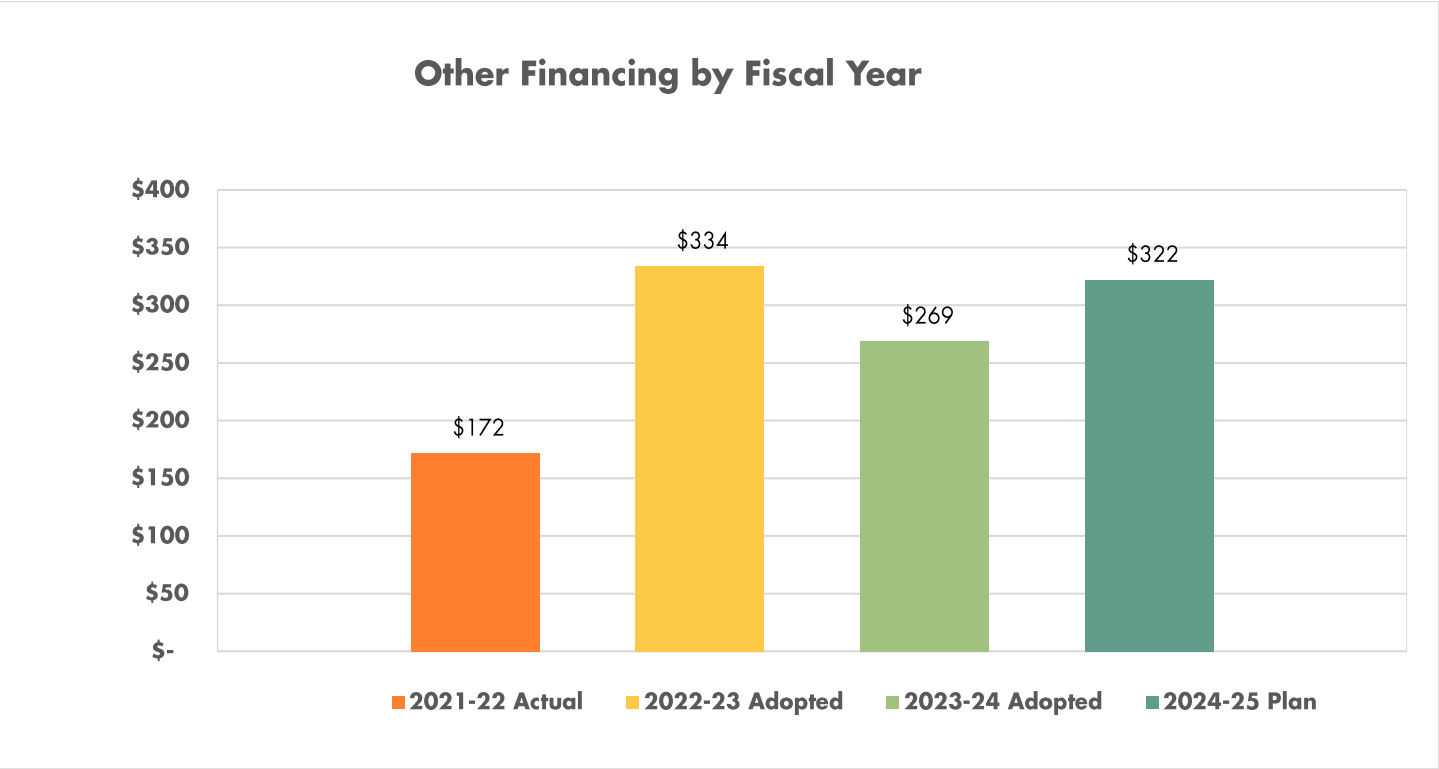
Valley Water invests funds not immediately required for daily operations in various securities as authorized by California Government Code 53600 et.al. Valley Water's investment policy limits portfolio holdings to obligations of the U.S. Treasury, U.S. federal agencies, the state of California's Local Agency Investment Fund, bankers acceptances, negotiable and time certificates of deposit, commercial paper, corporate notes and bonds, repurchase agreements, municipal obligations, mutual funds, and supranational obligations. Prohibited investments include securities not listed above, as well as fossil fuel companies, inverse floaters, range notes, interest-only strips derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, as specified in Section 53601.6 of the California Government Code. For additional information regarding the Valley Water's investment policy, please visit: [https:// www.valleywater.org/how-we-operate/financebudget/ investor-relations](https://www.valleywater.org/how-we-operate/financebudget/investor-relations) and select District Debt and Investment Management.

Interest earnings is estimated to be \$7.2 million for FY 2023-24 and \$9.0 million for FY 2024-25, respectively. The estimates assume an average portfolio yield of 1.2% for FY 2023-24 and 1.5% for FY 2024-25.

	Budgetary Basis Actual 2021-22		Adopted Budget 2022-23		Projected Year End 2022-23		Adopted Budget 2023-24		Proposed Plan 2024-25	
Interest Income										
Watershed Stream Stewardship Fund	\$	1,406,737	\$	1,250,000	\$	1,645,000	\$	1,630,000	\$	2,250,000
Safe Clean Water & Natural Flood Protection Fund		1,720,441		1,561,000		1,900,000		1,900,000		2,450,000
Water Enterprise Fund		3,509,629		2,731,500		3,100,000		3,125,000		3,652,000
General Fund		100,688		150,000		105,000		105,000		130,000
Service Funds		428,671		307,500		450,000		440,000		518,000
Total Interest Income	\$	7,166,166	\$	6,000,000	\$	7,200,000	\$	7,200,000	\$	9,000,000

Financial Overview

Other Financing



The Other Financing Sources and Uses category typically includes one-time or ongoing non-revenue financial transactions. Debt financing instruments in this category include commercial paper, short-term debt obligations, refunding revenue bonds, and certificates of participation (COPs). These financing instruments may be issued to assist in refunding and financing the costs of acquisition, design, construction, improvement, and installation of certain Water Utility and Safe, Clean Water and Natural Flood Protection Program capital projects.

Valley Water anticipates issuing approximately \$268.8 million in debt proceeds in FY 2023-24, of which \$230.4 million is for Water Utility and \$38.4 million is for the Safe, Clean Water program. In FY 2024-25, planned issuance is approximately \$321.6 million, \$250.3 million for Water Utility and \$71.3 million for Safe, Clean Water program, respectively.

All planned debt financing is factored in Valley Water’s long-term financial forecast models to ensure that pledged revenues are sufficient to meet or exceed the targeted debt service coverage ratio.

	Budgetary Basis Actual 2021-22	Adopted Budget 2022-23	Projected Year End 2022-23	Adopted Budget 2023-24	Proposed Plan 2024-25
OTHER FINANCING SOURCES/(USES)					
Debt Proceeds	\$ 171,725,418	\$ 334,491,000	\$ 360,741,074	\$ 268,775,583	\$ 321,557,944
TOTAL OTHER SOURCES/(USES)	\$ 171,725,418	\$ 334,491,000	\$ 360,741,074	\$ 268,775,583	\$ 321,557,944

SALARIES AND BENEFITS

Financial Overview

Salaries and Benefits

The FY 2023-24 salary and benefit budget is based on a total of 924 positions, which includes 919 regular positions and five limited term positions. The total salaries and benefits budget is \$226.0 million, an increase of \$8.3 million or 3.8% from the FY 2022-23 Adopted Budget. The increase is primarily due to a 3% cost of living adjustment (COLA), step increase for eligible positions, funding for ten new positions, and a \$1.7 million increase in health insurance costs.

In FY 2024-25, salaries and benefits are projected at \$240.8 million, a 6.5% increase compared to the FY 2023-24 budget. The increase is primarily attributed to a 3% COLA, funding for additional three new positions, an estimated \$5.4 million increase in CalPERS required contribution, and a \$2.0 million increase in health insurance costs.

Financial Overview

Summary of Positions

	Adopted Budget FY 2021-22	Adjusted Budget FY 2021-22 ⁽²⁾	Adopted Budget FY 2022-23 ⁽³⁾	Adopted Budget FY 2023-24 ⁽⁴⁾	Proposed Plan FY 2024-25 ⁽⁵⁾
Board Appointed Officers ⁽¹⁾	74	76	78	79	79
Office of Integrated Water Mgmt	40	54	56	56	56
External Affairs	46	46	46	47	47
Administrative Services	162	162	163	163	163
Water Utility	297	298	301	305	308
Watersheds	265	262	265	269	269
Total Regular Positions	884	898	909	919	922
Limited Term Positions	8	10	9	5	5
Total	892	908	918	924	927

¹ Board Appointed Officers include: Office of Chief Executive Office, District Counsel, and Clerk of the Board.

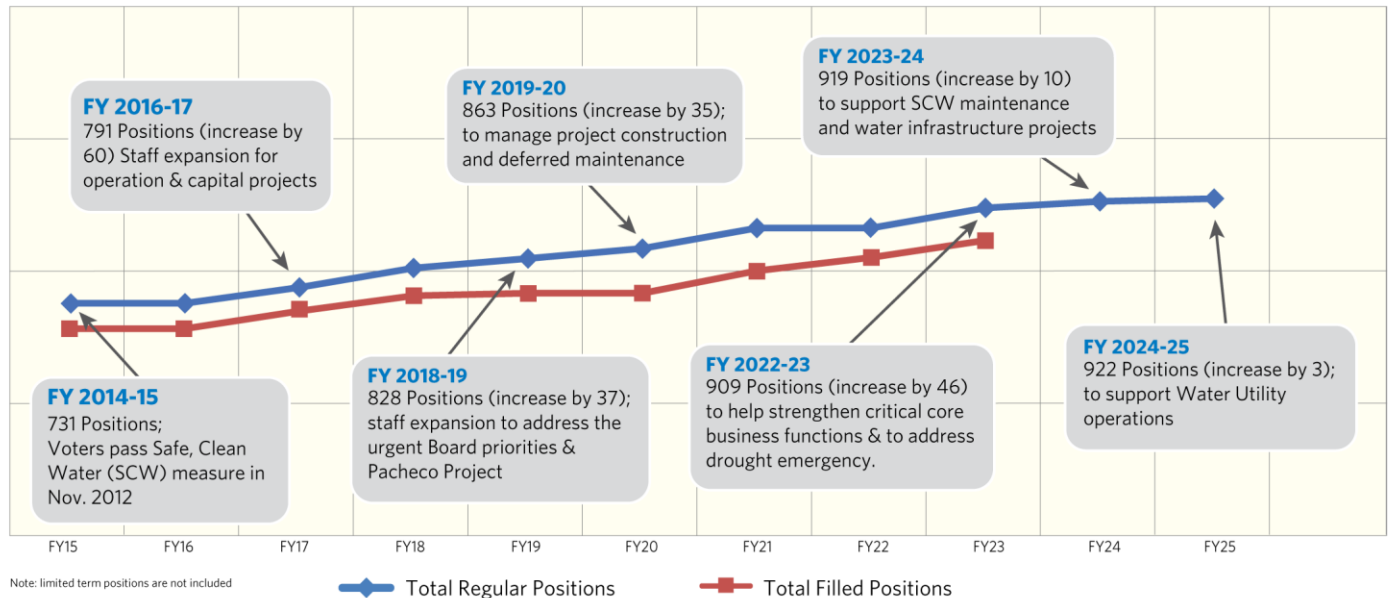
² During FY 2021-22, Board approved 14 new regular positions and two limited term positions; Computer-Aided Design Unit moved from Watersheds to Office of Integrated Water Management.

³ FY 2022-23, Board approved 11 new positions.

⁴ FY 2023-24, Board approved 10 new positions.

⁵ FY 2024-25, three additional new positions are planned.

Valley Water Regular Position Trends, FY 2015-2025



Financial Overview

Salaries and Benefits

	Budgetary Basis Actual 2021-22		Adopted Budget 2022-23		Projected Year End 2022-23		Adopted Budget 2023-24		Proposed Plan 2024-25	
Salaries										
Salaries	\$	128,256,168	\$	138,917,335	\$	138,917,336	\$	144,580,250	\$	152,139,332
Overtime		4,011,936		3,665,195		3,665,195		3,949,781		3,839,945
Special Pays		1,780,657		1,065,500		1,065,500		1,086,500		1,092,350
Salary Savings		—		(3,509,969)		(3,509,969)		(3,649,818)		(3,842,532)
Total Salaries	\$	134,048,761	\$	140,138,061	\$	140,138,062	\$	145,966,713	\$	153,229,095

Benefits										
Fed & State Taxes & Benefits	\$	1,939,529	\$	2,063,301	\$	2,063,299	\$	2,146,414	\$	2,257,520
Retirement Contributions		36,692,439		44,300,293		44,300,293		45,036,959		50,439,303
Group Ins-Active Employees		15,126,686		18,122,181		18,122,181		19,359,278		20,978,653
Group Ins-Retired Employees		12,077,851		13,015,300		13,015,300		13,442,300		13,846,800
Total Benefits	\$	65,836,505	\$	77,501,075	\$	77,501,073	\$	79,984,951	\$	87,522,276
Total Salary & Benefits	\$	199,885,266	\$	217,639,136	\$	217,639,135	\$	225,951,664	\$	240,751,371

	Labor Hours 2021-22	Labor Hours 2022-23	Labor Hours 2022-23	Labor Hours 2023-24	Labor Hours 2024-25
Budget Hours					
Regular Hours	1,631,189	1,608,649	1,608,649	1,621,818	1,624,443
Overtime	40,864	31,827	31,827	32,572	30,750
Compensated Absences	288,319	297,420	297,420	297,866	301,481
Total Hours	1,960,372	1,937,896	1,937,896	1,952,256	1,956,674

DEBT SERVICE

Financial Overview

Debt Service Overview

Provisions of the state constitution, laws, and various portions of Sections 14 and 25 of the District Act authorize the Board of Directors (Board) to incur short and long term debt under certain conditions and to issue bonds in a form designated by resolution of the Board, including designation of which participating watersheds are affected by the issuance of new debt. Sections 25.1 and 25.2 of District Act authorize the Board to issue revenue bonds for the Water Enterprise Fund. Valley Water's debt issuance practices are governed under the California Government and Water codes. The District Act authorizes short-term debt (maturity of less than five years) of up to a limit of \$8 million. Other provisions of state law authorize the issuance of short-term debt up to a specified percentage of revenue anticipated within a period of time.

Specifically, Valley Water may issue short term notes under the tax and revenue anticipation note statute included in the California Government Code (Sections 53850-53858). Under the tax and revenue anticipation note statute, Valley Water may issue notes for principal and interest which do not exceed 85% of the uncollected revenues of Valley Water on the date such notes are issued (and subject to certain other limitations including a 15-month maturity provision). Section 53851 provides that the tax and revenue anticipation note statute is separate authority for Valley Water to issue notes and any amount borrowed under the tax and revenue anticipation note statute is not limited by any other provision of law.

Board Policies - Executive Limitations

In addition to statutory requirements, the Board has adopted policies (Executive Limitations) related to debt:

EL-4.7 states that a Board Appointed Officer (BAO) shall:

"Not indebt the organization, except as provided in the District Act, and in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 90 days, or prior to the close of the fiscal year." Furthermore, the BAO shall:

- 4.7.1. Not issue debt (long or short-term obligations that are sold within the financial marketplace) that conflicts with the District Act or the legal authority of Valley Water, and without Board authorization;
- 4.7.2. Not issue debt without a demonstrated financial need;
- 4.7.3. Meet debt repayment schedules and covenants of bond documents;
- 4.7.4. Establish prudent Valley Water Debt Policies that are consistent with Board policies and provide guidance to employees in regards to administering the debt programs and agreements, including consideration for the appropriate level of debt for Valley Water to carry and structuring debt repayment to address intergenerational benefits;
- 4.7.5. Be consistent with Valley Water's Debt Policy and any addendums when issuing debt;
- 4.7.6. Maintain strong credit ratings and good investor relations;
- 4.7.7 Valley Water shall not do business with banks who do not have an Environmental, Social and Governance (ESG) ranking at or better than the "Average/Medium" category by at least one of the professional ESG research companies such as Sustainalytics, or other equivalent rankings published by other ESG research firms. Small and local banks/ credit unions located within the nine Bay Area counties with total assets at or below \$10 billion are exempt from this provision.

Financial Overview

Debt Policy

Valley Water proactively manages its outstanding liabilities to ensure access to the credit markets at the lowest available borrowing cost, to preserve strong credit standing with the municipal rating agencies, to fulfill its fiduciary responsibility to its customers, and to provide high quality water service, stream stewardship and flood protection at the lowest possible cost. Consistent with these commitments, Valley Water shall periodically review the cost of its outstanding liabilities for opportunities to appropriately reduce these costs through refinancing or restructuring. The CEO shall present the results of these periodic reviews to the Board of Directors.

Covenants and agreements related to outstanding Water Utility Certificates of Participation and Revenue Bonds are encompassed within the Parity Master Resolution adopted on February 23, 2016 (as amended from time to time). Water Utility coverage ratios required for debt service are set at a minimum of 1.25 times the annual debt service for parity lien debt. Valley Water is in compliance with all coverage ratio requirements for all outstanding debt. For additional information regarding Valley Water's debt policy, please visit: <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>.

Bond Ratings

The bond ratings for Valley Water's outstanding debt reflect high grade investment quality debt. They are based on Valley Water's 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.

Outstanding Debt

Total debt includes Certificates of Participation (COPs), Commercial Paper, Revolving Line of Credit, and Revenue Bonds of \$1.15 billion as of June 30, 2023. Scheduled annual debt service for FY 2023-24 is approximately \$97.4 million including financing and legal fees. There are no balloon payments in the future years or significant fluctuations in annual debt service.

Currently outstanding for the Watersheds are Series 2017A COPs, with a final maturity of 2030 and the 2012A COPs, with a final maturity of 2024. Debt service for these COPs is paid via benefit assessments, which are collected based on 125% of the annual debt service. Currently outstanding for the Safe Clean Water fund are the Series 2022A Refunding Revenue bonds with a final maturity of 2049 and Series 2022B Revenue COPs with a final maturity of 2026. Currently outstanding for the Water Utility are the Water System Refunding Revenue Bonds 2016A/B with a final maturity of 2046, the Revenue COP 2016C/ D with a final maturity of 2029, the Water System Refunding Revenue Bonds 2017A with a final maturity of 2037, the Water System Refunding Revenues Bonds Series Water System Refunding Revenue Bonds 2017A with a final maturity of 2037, the Water System Refunding Revenues Bonds Series 2019A/B with a final maturity of 2049, 2019C with a final maturity of 2036, the Water System Refunding Revenue Bonds 2020A/B with a final maturity of 2050, the Revenue COP 2020C/D with a final maturity of 2041, the Water System Refunding Revenue Bonds 2023A/B with a final maturity of 2052, the Revenue COP 2023C-1 with a final maturity of 2026, 2023C-2 with a final maturity of 2041, 2023D with a final maturity of 2026, as well as the Commercial Paper Certificates which are secured by Tax and Revenue Anticipation Notes that are subject to annual reauthorization by the Valley Water Board.

Financial Overview

On February 14, 2023, Valley Water executed two Water Infrastructure Finance and Innovation Act (WIFIA) Master Agreements (WMA) with the U.S. Environmental Protection Agency for certain Water Utility Enterprise and Safe, Clean Water capital projects. The WMA for the Water Utility Enterprise provides up to \$580 million of WIFIA loan capacity to fund the Anderson Dam Seismic Retrofit and Coyote Percolation Dam projects. The WMA for the Safe, Clean Water program provides up to \$147 million of WIFIA loan capacity to fund the Coyote Creek, Sunnyvale East and West Channels, and Upper Penitencia Creek flood protection projects. Valley Water has not drawn on any WIFIA loans as of June 30, 2023.

Planned Issuances

Valley Water is planning the issuance of debt to finance the Safe, Clean Water program and the Water Utility Enterprise to finance the long-term capital improvement plan. The source of debt service repayment for the Safe, Clean Water program will be the special parcel tax initially approved by Santa Clara County voters in the November 6, 2012 election and renewed in the November 3, 2020 election. Debt service for the Water Utility Enterprise is paid from water revenues. Bond covenants stipulate that Valley Water must maintain a minimum 1.25 debt service coverage ratio on all parity bonds. Based on the financial models from the Water Utility Enterprise Finance organization, the projected debt service coverage ratios are as follows:

- FY 2023-24: 1.96
- FY 2024-25: 1.99
- FY 2025-26: 2.38
- FY 2026-27: 2.60
- FY 2027-28: 2.98

(Source: FY 2023-24 Annual Report on the Protection and Augmentation of Water Supplies)

Investment Portfolio

Valley Water's investment portfolio is invested with the following three priorities in mind: safety, liquidity and yield. Safeguarding taxpayers' money and ensuring that Valley Water has funds available when needed to meet expenditures are the two most important goals. Once those goals are satisfied, Valley Water strives to earn a market rate of return on its investments. About 60% of the portfolio is invested in government securities, such as federal agency notes and US treasury notes. The remainder 40% of the portfolio is invested in instruments of the highest credit quality and in highly liquid instruments such as the Local Agency Investment Fund, money market mutual funds and Certificates of Deposit, as well as supranational/corporate medium term notes.

The investment holdings are reviewed for compliance with Valley Water's investment policy and California State Government Code by accounting staff on a monthly basis, and by the Valley Water's independent auditor on an annual basis. In addition, Valley Water's investment committee holds meetings at least quarterly to review the portfolio performance.

In addition to statutory requirements, the Board has adopted policies (Executive Limitations or EL) related to investment:

Financial Overview

EL-4.9 states that a Board Appointed Officer (BAO) shall:

Not invest or hold funds of Valley Water in accounts or instruments that are inconsistent with the following statement of investment policies:

- 4.9.1. Public funds not needed for the immediate necessities of Valley Water should, to the extent reasonably possible, be prudently invested or deposited to produce revenue for Valley Water consistent with the Board Investment Policy and applicable law.
- 4.9.2. The Treasurer or his or her designee shall submit quarterly investment reports to the Board as specified under Government Code Section 53646.
- 4.9.3. No investments will be made in fossil fuel companies with significant carbon emissions potential.

Bond Ratings

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

Financial Overview

Status of Bonded Indebtedness, Certificates of Participation, and Commercial Paper⁽¹⁾

	Total Amount Sold	Date of Issue	True Interest Cost	Outstanding as of 6/30/23	2023-2024 Debt Service Payments		
					Principal	Interest	Total
<u>Watersheds Indebtedness</u>							
2017A COPs ⁽²⁾	\$59,390,000	3/7/2017	2.56%	\$33,810,000	\$4,575,000	\$1,690,500	\$6,265,500
2012A COPs	52,955,000	11/20/2012	1.41%	5,090,000	5,090,000	203,600	5,293,600
2022A Safe, Clean Water Revenue Bonds	75,295,000	12/6/2022	4.13%	75,295,000	920,000	3,741,750	4,661,750
2022B Safe, Clean Water COPs	46,445,000	12/6/2022	3.01%	46,445,000	-	-	-
2023A Safe, Clean Water Revenue Bonds	38,530,000	11/1/2023	5.12%		247,000	481,625	728,625
Safe, Clean Water Commercial Paper -TE ⁽³⁾	38,000,000	various	variable	38,000,000	-	2,705,000	2,705,000
Total Watersheds	310,615,000			198,640,000	10,832,000	8,822,475	19,654,475
<u>Water Utility Indebtedness</u>							
2016 Water Utility Refunding Revenue Bonds							
Series A	\$106,315,000	3/30/2016	3.25%	\$106,315,000	\$ -	\$5,315,750	\$5,315,750
Series B - taxable	<u>75,215,000</u>	3/30/2016	4.32%	<u>75,215,000</u>	-	<u>3,229,621</u>	<u>3,229,621</u>
Subtotal	181,530,000			181,530,000	-	8,545,371	8,545,371
2016 Water Utility Certificates of Participation							
Series C	43,075,000	3/30/2016	2.13%	24,625,000	3,685,000	1,231,250	4,916,250
Series D - taxable	<u>54,970,000</u>	3/30/2016	3.14%	<u>30,995,000</u>	<u>4,740,000</u>	<u>1,032,169</u>	<u>5,772,169</u>
Subtotal	98,045,000			55,620,000	8,425,000	2,263,419	10,688,419
2017 Water Utility Refunding Revenue Bonds							
Series A	54,710,000	5/2/2017	3.13%	43,720,000	2,190,000	2,186,000	4,376,000
2019 Water Utility Refunding Revenue Bonds							
Series A	15,225,000	4/25/2019	3.75%	14,235,000	280,000	711,750	991,750
Series B - taxable	80,030,000	4/25/2019	3.81%	73,270,000	1,795,000	2,707,898	4,502,898
Series C - taxable	<u>38,280,000</u>	11/26/2019	2.76%	<u>30,790,000</u>	<u>2,190,000</u>	<u>801,554</u>	<u>2,991,554</u>
Subtotal	133,535,000			118,295,000	4,265,000	4,221,201	8,486,201
2020 Water Utility Refunding Revenue Bonds							
Series A	24,120,000	10/14/2020	3.33%	24,120,000	-	1,206,000	1,206,000
Series B - taxable	<u>68,530,000</u>	10/14/2020	2.98%	<u>68,530,000</u>	-	<u>2,033,285</u>	<u>2,033,285</u>
Subtotal	92,650,000			92,650,000	-	3,239,285	3,239,285
2020 Water Utility Certificates of Participation							
Series C	38,360,000	10/14/2020	2.07%	38,360,000	1,750,000	1,918,000	3,668,000
Series D - taxable	<u>75,020,000</u>	10/14/2020	2.20%	<u>75,020,000</u>	<u>3,370,000</u>	<u>1,473,218</u>	<u>4,843,218</u>
Subtotal	113,380,000			113,380,000	5,120,000	3,391,218	8,511,218
2023 Water Utility Refunding Revenue Bonds							
Series A	52,090,000	1/19/2023	4.19%	52,090,000	-	2,762,250	2,762,250
Series B - taxable	<u>69,045,000</u>	1/19/2023	5.11%	<u>69,045,000</u>	<u>1,025,000</u>	<u>3,721,760</u>	<u>4,746,760</u>
Subtotal	121,135,000			121,135,000	1,025,000	6,484,010	7,509,010
2023 Water Utility Certificates of Participation							
Series C1	117,365,000	1/19/2023	2.35%	117,365,000	-	-	-
Series C2	42,285,000	1/19/2023	3.22%	42,285,000	1,465,000	1,801,500	3,266,500
Series D - taxable	<u>62,615,000</u>	1/19/2023	4.33%	<u>62,615,000</u>	-	-	-
Subtotal	222,265,000			222,265,000	1,465,000	1,801,500	3,266,500
2024 Water Utility Refunding Revenue Bonds							
Series A	171,910,000	1/1/2024	5.04%	-	1,106,250	3,581,458	4,687,708
Series B - taxable	<u>105,100,000</u>	1/1/2024	6.44%	-	<u>1,106,250</u>	<u>2,802,667</u>	<u>3,908,917</u>
Subtotal	277,010,000			-	2,212,500	6,384,125	8,596,625

Financial Overview

Status of Bonded Indebtedness, Certificates of Participation, and Commercial Paper⁽¹⁾

	Total Amount Sold	Date of Issue	True Interest Cost	Outstanding as of 6/30/23	2023-2024 Debt Service Payments		
					Principal	Interest	Total
2024 Water Utility Certificates of Participation							
Series C	49,905,000	1/1/2024	5.09%		1,106,250	1,039,688	2,145,938
Series D- taxable	30,510,000	1/1/2024	6.49%		1,106,250	813,600	1,919,850
Subtotal	80,415,000			-	2,212,500	1,853,288	4,065,788
WU Commercial Paper ⁽³⁾	-	various	variable	-		6,009,000	6,009,000
Total Water Utility	1,374,675,000			948,595,000	26,915,000	46,378,416	73,293,416
Combined Total	1,685,290,000			1,147,235,000	37,747,000	55,200,891	92,947,891

(1) Annual debt service payments reflect principal and interest only and exclude fees.

(2) Approximately \$0.5M of the 2017A COPs annual debt service is funded by the general fund.

(3) Commercial Paper incurs variable rates that are subject to change pending actual market conditions at time of issuance.

Financial Overview

Debt Service Payment Schedule

	Principal	Interest	Total ⁽¹⁾
Watersheds Certificates of Participation/Safe, Clean Water Revenue Bonds⁽²⁾			
2023/24	\$ 10,832,000	\$ 6,117,475	\$ 16,949,475
2024/25	6,250,000	6,543,188	12,793,188
2025/26	7,730,000	10,277,125	18,007,125
2026/27	54,555,000	9,886,750	64,441,750
2027/28 and thereafter	191,310,000	138,200,625	329,510,625
Total	\$ 270,677,000	\$ 171,025,163	\$ 441,702,163
Water Utility Revenue Bonds / Certificates of Participation⁽²⁾			
2023/24	\$ 26,915,000	\$ 40,369,416	\$ 67,284,416
2024/25	114,811,000	56,425,837	171,236,837
2025/26	135,830,000	62,744,395	198,574,395
2026/27	33,210,000	61,430,915	94,640,915
2027/28 and thereafter	1,196,279,250	911,746,654	2,108,025,904
Total	\$ 1,507,045,250	\$ 1,132,717,218	\$ 2,639,762,468
Commercial Paper			
2023/24	\$ -	\$ 8,714,000	\$ 8,714,000
2024/25	-	12,314,000	12,314,000
2025/26	-	6,820,000	6,820,000
2026/27	-	9,136,000	9,136,000
2027/28 and thereafter	-	14,810,000	14,810,000
Total	\$ -	\$ 51,794,000	\$ 51,794,000
Total All Outstanding Debt			
2023/24	\$ 37,747,000	\$ 55,200,891	\$ 92,947,891
2024/25	121,061,000	75,283,025	196,344,025
2025/26	143,560,000	79,841,520	223,401,520
2026/27	87,765,000	80,453,665	168,218,665
2027/28 and thereafter	1,387,589,250	1,064,757,279	2,452,346,529
Total	\$ 1,777,722,250	\$ 1,355,536,380	\$ 3,133,258,630

(1) Annual debt service payments reflect principal and interest only and exclude fees.

(2) Includes projected principal and interest payments for the anticipated issuances of Water Utility Series 2024A/B/C/D and Safe, Clean Water Series 2023A

RESERVE POLICY AND FUND BALANCES

Financial Overview

Valley Water Reserve Policy

The Valley Water Reserve Policy is reviewed annually with the Board of Directors pursuant to Executive Limitation 4.6 - Financial Planning and Budgeting - "At least annually present the Board with information about Valley Water's financial reserves and schedule an opportunity for the public to comment thereon."

The Governmental Accounting Standards Board (GASB) 54 statement, issued in March 2009, required that governmental agencies adopt new standards of reporting fund balance no later than the first fiscal year beginning after June 15, 2010. While the GASB 54 requirement was specifically issued for governmental type funds, Valley Water, under its conservative and prudent fiscal policy, extended the requirement to include the enterprise and internal service funds (Water Utility Enterprise, State Water Project, Fleet Management, Information Technology, and Risk Management).

Key objectives of prudent financial planning are to ensure sufficient resources for current services and obligations, and to prepare for future anticipated funding requirements and unforeseen events. To meet these objectives, Valley Water will strive to have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserve funds will be accumulated and managed in a manner that allows Valley Water to fund costs consistent with the Capital Improvement Program, Water Supply Master Plan, and long-range financial plans while avoiding significant water charge fluctuations due to changes in cash flow requirements. Valley Water will also maintain a cash reserve position that may be utilized to fund unexpected fluctuations in revenues and operating/capital expenditures.

The level of reserves maintained and policies behind them are reviewed annually with the Board of Directors during budget deliberations.

Definitions

According to a GASB 54 statement issued in March 2009, there are four categories for reporting of fund balances depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund). NOTE: For the purpose of this reserve policy, only spendable fund balances are considered.
- Restricted fund balance - these are externally imposed legal restrictions or amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - these are self-imposed limitations or amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance - these are amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

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 which are defined as follows:

- Budgeted Reserves - Budgeted reserves may vary from those of the Annual Comprehensive Financial Report (ACFR) where it is appropriate to recognize actual cash transactions that are recorded in the ACFR as liabilities. Such adjustments include recognizing inter-fund loans, debt financing, and certain accruals as funding sources available for appropriation or as funding uses that reduce funds available for other purposes. These adjustments must be annually reconciled to the audited ACFR.
- Special Purpose Reserves, Water Utility Enterprise Fund – These reserves are per the Parity Master Resolution which allows establishment of special purpose reserves by District Board resolution. Amounts in the Special Purpose Reserves may be used to offset extraordinary expenses and to supplement Valley Water revenues to meet debt service coverage requirements. Special purpose reserves are restricted per debt financing agreements which are in accordance with bond covenants.

Financial Overview

Restricted Reserves

Debt Service Reserve

These reserves were established for various bond issuances. The funds are not available for general needs of Valley Water and must be maintained as dictated in the bond covenants of the various issuances. Not all bond issuances may have all of the following reserves, but the primary debt reserves are: Debt Service Reserve Fund (to fund payments should Valley Water not be able to make debt service payments due to cash shortfalls), Arbitrage Rebate (to accumulate funds to offset the potential liability from excess earnings) and Debt Service Payment Fund (a pass-through reserve for initiating debt service payments).

Debt Proceeds Reserve

Bond covenants prescribe the use of debt financing proceeds. Debt proceeds typically fund capital projects as described in various bond issues. Debt proceeds, however, are not claimed until project expenses are incurred. Unclaimed debt proceeds are held in trust and identified in Debt Proceeds Reserves.

Rate Stabilization Reserve for Bond Covenant - Water Utility Enterprise Fund

The Parity Master Resolution for the Water Utility Enterprise requires the provision of a Rate Stabilization Reserve to offset expenses and revenue shortfalls, and to supplement Valley Water revenues to meet debt service coverage requirements. The minimum funding level is 10% of annual debt service due on all parity obligations plus one month of adopted budget operations outlays. The specific level is to be financially prudent and based on reasonably anticipated needs.

Guiding Principal #5 (GP5) Reserve – Water Utility Enterprise Fund

In May 2018, Valley Water Board approved a resolution to establish GP5 – Equity and costs are important to allow certain communities/agencies to receive Valley Water contributions in the form of additional, incremental, dedicated and segregated funds exclusively for water conservation programs, recycled water, purified water, wastewater treatment plant environment updates, automatic meter infrastructure (AMI) updates, or dedicated environmental focused grants from FY 2019 through FY 2024, subject to 20% matching funds from the communities receiving Valley Water contributions. This funding source is limited to communities/agencies that currently pay State Water Project tax but receive an average of 85% of their water supply from non-District managed supplies. Valley Water's contributions shall not exceed the State Water Project taxes paid by these communities/agencies. Any unspent funds shall be returned to Valley Water by FY 2025-26. The GP5 reserve was established in FY 2019-20, and will continue through FY 2025-26, as a sub-category of the Rate Stabilization Fund to set aside the unspent/unencumbered balances as approved by the Board in FY 2018-19 and subsequent years. The minimum funding level for this reserve is \$0. The specific level is to be financially prudent and based on reasonably anticipated needs.

San Felipe Emergency Reserve - Water Utility Enterprise Fund

This special purpose reserve is required by Valley Water contractual obligations with the U.S. Bureau of Reclamation for the operation and maintenance of the San Felipe Division of the Central Valley Project. The purpose of the reserve is to provide resources for unusual operation and maintenance costs incurred during periods of special stress caused by damaging droughts, storms, earthquakes, floods, or emergencies threatening or causing interruption of water service.

Use of this reserve requires authorization by the U.S. Department of the Interior. Per contract, the funding level is accumulated in annual deposits of \$200,000 until the reserve totals \$1.75 million after which interest earned on the reserve is deposited annually.

Financial Overview

Silicon Valley Advanced Water Purification Center (SVAWPC) Reserve - Water Utility Enterprise Fund

This special purpose reserve serves as a fund for replacement of micro-filtration modules, reverse osmosis elements, and ultraviolet lamps at the Silicon Valley Advanced Water Purification Center (SVAWPC). Per the Recycled Water Facilities and Programs Integration Agreement between the City of San Jose and the Santa Clara Valley Water District dated March 2010, the annual contribution to the reserve may be up to \$810,000 starting in FY 2009-10 and adjusted annually by 3% for inflation, thereafter, until such time that the reserve reaches the reserve cap. The reserve cap was set in FY 2013-14 at \$2.6 million and is to be adjusted by 3% for inflation annually thereafter. The reserve cap is based on a five-year replacement schedule for the micro-filtration modules and reverse osmosis elements. The specific level of this reserve is to be set based on reasonably anticipated needs and uses.

Supplemental Water Supply Reserve - Water Utility Enterprise Fund

This special purpose reserve funds water banking activities, transfers, and exchanges necessary to augment supplies during water shortages and to sell or bank unused supplies when water resources are available. The minimum funding level is set at 20% - 50% of the annual imported water purchases budget based on prudent projections of hydrology, Delta conditions, and the water market.

Drought Reserve - Water Utility Enterprise Fund

This special purpose reserve funds drought response costs necessary to protect the residents, industry and riparian ecosystems of Santa Clara County, and to minimize water charge impacts during a drought emergency (as determined by the Board). To minimize water rate impacts, this reserve may be funded by Board direction to allocate actual surplus revenue that may have occurred during the prior year. Surplus revenue is defined as the positive difference between actual Water Utility operating revenue and budgeted Water Utility operating revenue. This reserve may also be funded by planned appropriations, which would be paid for by water rates and approved by the Board during annual water rate adoption. Drought response costs may include but not be limited to: water purchases and exchanges; special studies or system improvements related to delivery of water purchases; incremental conservation activities; and accelerated or opportunistic operations and maintenance activities spurred by the drought. The maximum funding level is set at 10% of adopted budget operating outlays.

Public-Private Partnership (P3) Reserve – Water Utility Enterprise Fund

This special purpose reserve provides a funding source for costs associated with Valley Water's Public-Private Partnership (P3) to design, build, finance, operate and maintain the Expedited Purified Water Program. The minimum funding level for this reserve is \$0, and the maximum is \$20 million. The specific level is to be financially prudent and based on reasonably anticipated needs.

State Water Project Tax Reserve - Water Utility Enterprise Fund

The purpose of the State Water Project Tax Reserve is to accumulate unspent funds for voter-approved State Water Project contract obligations. Funds accumulated in this reserve will be available to fund State Water Project contract obligations in subsequent years.

Currently Authorized Projects Reserve - Voter Approved Safe, Clean Water Fund

This reserve is designated to fund those capital projects that are included in the annually adopted 5-Year Capital Improvement Program (CIP) and which have had funding appropriated by the Board in prior years. The amount of this reserve for each fund at the end of a given fiscal year shall be based on the accumulated unexpended and unencumbered balances of Board-approved capital project appropriations remaining at the end of each fiscal year.

A portion of this reserve is automatically re-appropriated at the beginning of the following fiscal year consistent with those projects that have been identified in the 5-Year CIP for funding in that year. All remaining amounts shall stay in these reserves during the fiscal year unless a budget adjustment requiring the use of these reserves is approved by the Board. At the end of each fiscal year, these reserves shall also be adjusted for any capital projects that are closed out consistent with the 5-Year CIP.

Financial Overview

Encumbrance Reserves - Voter Approved Safe, Clean Water Fund and State Water Project Fund

This reserve represents the balance of outstanding encumbrances (contractual commitments) at year end, for which the goods or services have not been received. The reserved balance is available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The funding level of this reserve will be adjusted annually, at year-end, based on the remaining balance of encumbrances still outstanding as of the end of the fiscal year.

Operating and Capital Reserve - Voter Approved Safe, Clean Water Fund

The purposes of this reserve are to ensure adequate working capital for cash flow needs and to provide a funding source for operating and capital needs that arise during the year. The funding level is a minimum of 50% of adopted budget operations outlays. The minimum level includes remaining available resources after the needs of all other reserves have been met. The specific level of this reserve is to be set based on reasonably anticipated needs.

Safe, Clean Water (SCW) Rate Stabilization Reserve - Voter Approved Safe, Clean Water Fund

The SCW Rate Stabilization Reserve is required to offset timing differences between expenses and collection of the SCW special parcel tax to meet debt service coverage requirements. The minimum funding level is \$0. The specific level is to be financially prudent and based on reasonably anticipated needs. The annual amount to contribute or withdraw will be determined as financial conditions warrant and as approved by the Valley Water Board of Directors.

Contingency Reserve - Voter Approved Safe, Clean Water Fund

The Contingency Reserve for the Safe, Clean Water Fund is established and maintained as financial or other business conditions warrant. Funds accumulated in this reserve are used to ensure that Valley Water delivers on the commitments made in the November 2020 ballot. The minimum funding level is \$0. The specific level is to be financially prudent and based on reasonably anticipated needs. The annual amount to contribute or withdraw will be determined as financial or other business conditions warrant and as approved by the Valley Water Board of Directors.

Committed Reserves

Liability/Workers' Compensation Self-Insurance Reserve - Risk Management Fund

The Liability/Workers' Compensation Self-Insurance Reserve is to ensure that Valley Water's self-insurance programs have adequate resources for general liability and workers' compensation ultimate payouts for both known and incurred but not reported claims.

Additionally, because of Valley Water's high self-insured retention, and low claims volume, it also provides for reserve funds to cover one large liability loss which would otherwise virtually deplete existing reserves. The reserve is based on an independent actuarial evaluation conducted bi-annually for general liability and workers compensation programs. The reserve level is set each year based on the actuarially determined confidence level for total claims liabilities discounted to present value. The reserve is intended to be used for claim payouts that are greater than those budgeted.

The Board of Directors approved funding of Workers' Compensation Reserve at 90 percent actuarial confidence level and funding of General Liability Reserve at 90 percent confidence level at the April 28, 2009 board meeting.

Financial Overview

Property Self-Insurance/Catastrophic Reserve - Risk Management Fund

The Property Self-Insurance/Catastrophic Reserve purposes are to provide for uninsured property losses to Valley Water facilities such as pipelines and levees and to provide sufficient funds to initiate repair and recovery of damage to Valley Water facilities in advance of FEMA activation and reimbursement. The reserve may be used to pay for uninsured/uninsurable property losses which would adversely impact Valley Water operations and/or to cover all or a portion of District-paid expenses necessary to initiate immediate service restoration efforts. It is anticipated that in most cases, the reserves would be replenished from later reimbursement by FEMA for costs initially paid from this reserve. The reserve funding level is a minimum of \$5 million adjusted for outstanding reimbursements.

When this reserve is used, the corresponding reimbursements received are deposited in the Risk Management Fund to replenish the reserve directly or through subsequent adjustments to intra-district Risk Management Fund charges.

Floating Rate Debt Payment Stabilization Reserve - Water Utility Enterprise Fund

This reserve is intended to stabilize the debt service payments on floating rate debt which by its nature fluctuates constantly. This reserve will be for long-term floating rate debt and not short-term floating rate debt (i.e., commercial paper). The reserve may be funded at 10% of the floating rate debt service interest payment. The maximum amount is no more than 20% of total floating rate debt service interest payments for a fiscal year. Excess funds over 20% will be used to pay down floating rate debt when advisable (i.e., based on market conditions, future issuance plans, etc.). The minimum amount is \$0. Should payments for floating rate interest in a given fiscal year exceed budgeted amounts, this reserve will be drawn down to provide stabilization of debt service interest payments.

San Jose Water Purification Reserve - Water Utility Enterprise Fund

The purpose of this reserve is to advance a potable reuse capital project at the Silicon Valley Advanced Water Purification Facility, which includes planning for a future capital project and collaborating with City of San Jose and City of Santa Clara staff. Once a new capital project has been developed and approved by the Valley Water Board as part of the CIP process, this reserve will sunset.

Operating & Capital Reserve - except for Safe, Clean Water Fund

These reserves serve several purposes: to ensure adequate working capital for cash flow needs; to provide a funding source for operating and capital needs that arise during the year and, in the case of the water utility, to protect against revenue shortage caused by unusually wet years. The funding level for the Water Utility is a minimum of 15% of adopted budget operations outlays and a minimum of 50% for the Watershed Funds. For the General Fund and Internal Service Funds, the funding level is a minimum of 5% of total adopted budget operations outlays. The minimum level for each fund includes remaining available resources after the needs of all other reserves within those funds have been met. The specific level of this reserve is to be set based on reasonably anticipated needs.

Currently Authorized Projects Reserve - except for Safe, Clean Water Fund

These reserves are designated to fund those capital projects that are included in the annually adopted 5-Year Capital Improvement Program (CIP) and which have had funding appropriated by the Board in prior years. The amount of these reserves for each fund, shall be based on the accumulated unexpended and unencumbered balances of Board approved capital project appropriations remaining at the end of each fiscal year.

A portion of these reserves are automatically reappropriated to projects at the beginning of the following fiscal year consistent with those projects that have been identified in the 5-Year CIP for funding in that year. All remaining amounts shall stay in these reserves during the fiscal year unless a budget adjustment requiring the use of these reserves is approved by the Board. At the end of each fiscal year, these reserves shall also be adjusted for any capital projects that are closed out consistent with the 5-Year CIP.

Financial Overview

Assigned Reserves

Encumbrance Reserves - except for Safe, Clean Water Fund and State Water Project Fund

These reserves represent the balance of outstanding encumbrances (contractual commitments) at year end, for which the goods or services have not been received. The reserved balance is available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The funding level of these reserves will be adjusted annually, at year- end, based on the remaining balance of encumbrances still outstanding as of the end of the fiscal year.

Market Valuation Reserves

The reserves for market valuation represent the increase/ gain (only) in the market value of Valley Water's pooled investments as of the end of the fiscal year as a result of its compliance with the provisions of Government Accounting Standard Board Statement No. 31 (GASB 31), Accounting and Financial Reporting for Certain Investments and for External Investment Pools. GASB 31 requires Valley Water to report investments at fair market value in the Statement of Net Assets, the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Due to this requirement, investment income must be adjusted to reflect the fair value change from one fiscal year to the next fiscal year. However, Valley Water's investment policy dictates a buy-and-hold strategy in which, with very few exceptions, Valley Water holds all securities to their maturity, thereby not incurring any loss or gain that could impact the size and yield of the investment portfolio. These reserves do not represent cash available for appropriation and were established to ensure that the increase in the investment value does not result in an overstatement of funding available for expenditure.

Financial Overview

Reserve Schedule

	Estimated Balances									
	Year-End		Adopted	Projected YE	Adopted	Proposed				
	2021-22		2022-23	2022-23	Budget	Plan				
					2023-24	2024-25				
GENERAL FUND										
Committed Reserves										
Operating & Capital Reserve	\$	5,174,508	\$	9,094,273	\$	6,942,531	\$	10,573,015	\$	11,603,076
Currently Authorized Projects Reserve***		2,000,000		-		3,380,000		1,394,500		1,066,893
Total General Fund Reserves	\$	7,174,508	\$	9,094,273	\$	10,322,531	\$	11,967,515	\$	12,669,969
SPECIAL REVENUE FUNDS (WATERSHEDS)										
Restricted Reserves										
SCW Rate Stabilization Reserve	\$	25,000,000	\$	25,000,000	\$	25,000,000	\$	25,000,000	\$	25,000,000
SCW Contingency Reserve		5,000,000		5,000,000		5,000,000		5,000,000		5,000,000
SCW Operating & Capital Reserve		21,183,313		74,326,854		59,154,025		117,935,002		139,728,262
SCW Currently Authorized Projects Reserve***		123,267,581		47,365,114		121,634,047		37,906,382		25,547,832
Total Resticted Reserves	\$	174,450,894	\$	151,691,968	\$	210,788,072	\$	185,841,384	\$	195,276,094
Committed Reserves										
Operating & Capital Reserve	\$	93,111,564	\$	96,652,218	\$	108,305,843	\$	158,599,933	\$	185,848,950
Currently Authorized Projects***		26,107,618		5,606,763		2,745,227		1,320,710		-
Total Committed Reserves	\$	119,219,182	\$	102,258,981	\$	111,051,070	\$	159,920,643	\$	185,848,950
Total Special Revenue Funds Reserves	\$	293,670,076	\$	253,950,949	\$	321,839,142	\$	345,762,027	\$	381,125,044
Total Governmental Funds	\$	300,844,584	\$	263,045,222	\$	332,161,673	\$	357,729,542	\$	393,795,013
WATER ENTERPRISE & STATE WATER PROJECT FUNDS										
Restricted Reserves										
WUE Rate Stabilization Reserve	\$	54,069,620	\$	42,476,138	\$	41,066,971	\$	6,066,971	\$	26,975,131
WUE San Felipe Emergency Reserve		3,430,832		3,410,085		3,480,832		3,530,832		3,580,832
WUE State Water Project Tax Reserve		11,398,101		6,352,290		11,141,456		8,816,456		5,801,456
WUE Debt Service Reserve		10,239		6,999		10,239		-		-
WUE Supplemental Water Supply Reserve		7,877,000		5,277,000		5,277,000		5,277,000		5,277,000
WUE SVAWPC Reserve		1,298,138		908,138		1,298,138		-		-
WUE Drought Reserve		10,000,000		-		-		-		-
WUE Guiding Principal #5 (GP5) Reserve		15,963,574		8,830,684		4,581,693		4,718,017		22,175
Total Restricted Reserves	\$	104,047,504	\$	67,261,334	\$	66,856,329	\$	28,409,276	\$	41,656,594
Committed Reserves										
WUE San Jose Water Purification Reserve	\$	-	\$	-	\$	-	\$	1,000,000	\$	1,000,000
Operating & Capital Reserve		47,140,253		49,185,921		48,803,283		56,930,697		65,109,904
Currently Authorized Projects Reserve***		77,455,037		7,124,270		50,628,057		9,248,195		6,699,955
Total Committed Reserves	\$	124,595,290	\$	56,310,191	\$	99,431,340	\$	67,178,892	\$	72,809,859
Total Water Enterprise Funds Reserves	\$	228,642,794	\$	123,571,525	\$	166,287,669	\$	95,588,168	\$	114,466,453
INTERNAL SERVICE FUNDS:										
Committed Reserves										
Operating & Capital Reserve	\$	11,128,355	\$	3,600,397	\$	9,192,180	\$	6,734,369	\$	6,423,594
Currently Authorized Projects***		2,584,956		416,396		375,723		-		-
Liability/Workers' Comp Self-Insurance Reserve		7,714,800		6,621,000		8,337,000		8,337,000		8,337,000
Property Self-Insurance/Catastrophic Reserve		5,092,670		5,226,261		3,609,913		5,580,026		5,654,299
Total Committed Reserves	\$	26,520,781	\$	15,864,054	\$	21,514,816	\$	20,651,395	\$	20,414,893
Total Internal Service Funds Reserves	\$	26,520,781	\$	15,864,054	\$	21,514,816	\$	20,651,395	\$	20,414,893
Total Proprietary Funds	\$	255,163,575	\$	139,435,579	\$	187,802,485	\$	116,239,563	\$	134,881,346

Financial Overview

Reserve Schedule

	Estimated Balances					
	Year-End	Adopted	Projected YE	Adopted	Proposed	
	2021-22	2022-23	2022-23	Budget 2023-24	Plan 2024-25	
TOTAL RESERVE SUMMARIES						
Total Proprietary Funds	\$ 255,163,575	\$ 139,435,579	\$ 187,802,485	\$ 116,239,563	\$ 134,881,346	
Total Governmental Funds	300,844,584	263,045,222	332,161,673	357,729,542	393,795,013	
Total Year-End Reserves	\$ 556,008,159	\$ 402,480,801	\$ 519,964,158	\$ 473,969,105	\$ 528,676,359	
Total Restricted Reserves	\$ 278,498,398	\$ 218,953,302	\$ 277,644,401	\$ 214,250,660	\$ 236,932,688	
Total Committed Reserves	277,509,761	183,527,499	242,319,757	259,718,445	291,743,671	
Total Year-End Reserves	\$ 556,008,159	\$ 402,480,801	\$ 519,964,158	\$ 473,969,105	\$ 528,676,359	

(***) Currently Authorized Projects Reserve is unspent budget for authorized capital projects