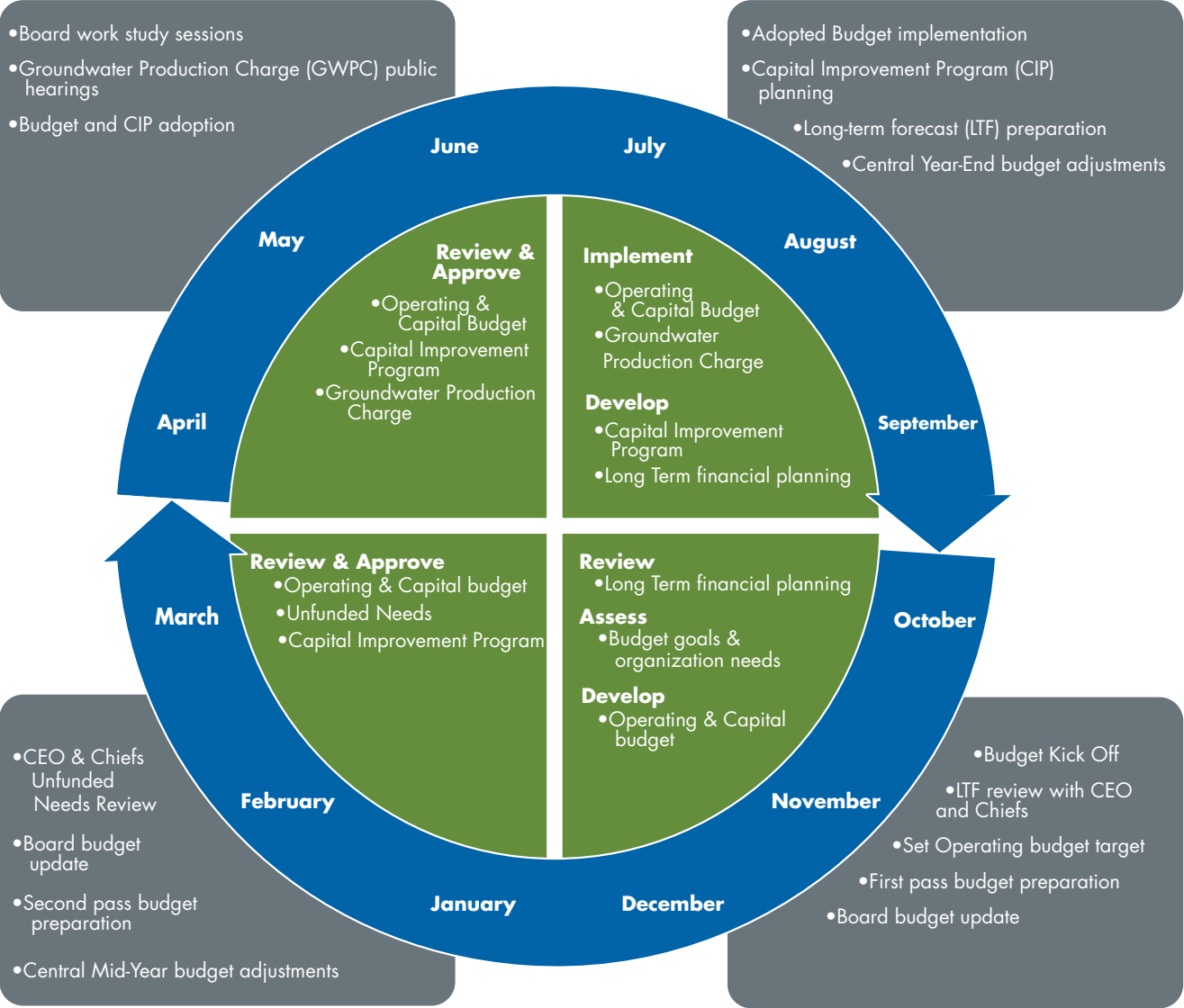


FINANCIAL OVERVIEW

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 annual Operating and Capital Budget. The budget is developed in coordination with and including the Financial Planning and Rate Setting as well as the Capital Improvement Plan (CIP) processes. New this year in the FY 2022-23 Operating and Capital Rolling Biennial Budget is the presentation of a rolling biennial budget which reflects a subsequent fiscal year plan in FY 2023-24. The second fiscal year serves as a planning tool, and will set the framework for the preparation of the FY 2023-24 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) Report. 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 detailed capital expenditure and impact of capital investments on operating budget, please visit: <https://www.valleywater.org/public-review-documents>.

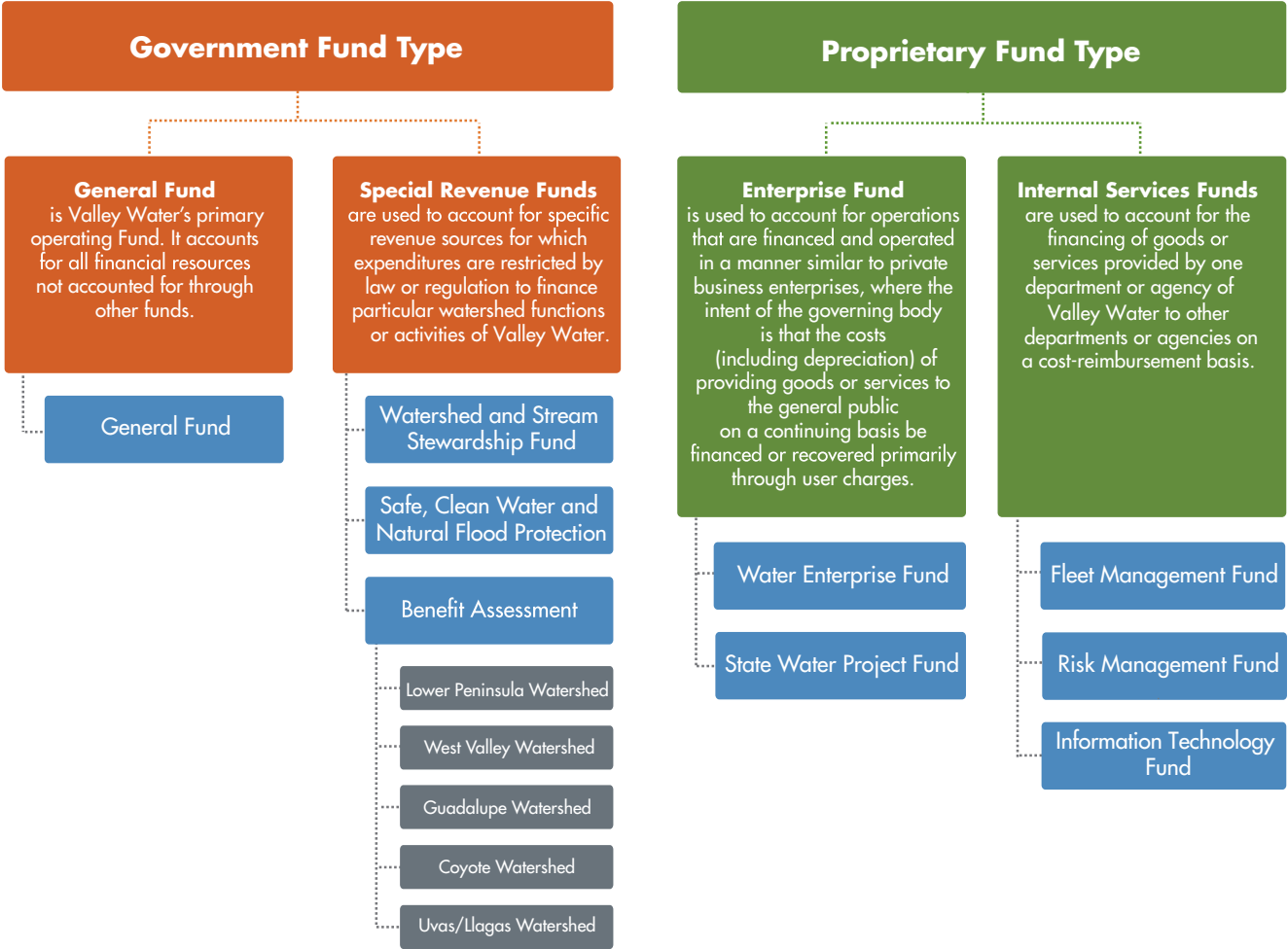
Other Planning Documents

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 2022-2023
- Requests of the 118th 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 Groundwater Management Plan
- Water Utility Water Supply Master Plan
- Watersheds Five Year Operations and Maintenance Plan

Financial Overview

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 Report.

The FY 2022-23 Budget includes projected revenues of approximately \$580.9 million. These revenues reflect a 7.7% increase from the \$539.4 million included in the FY 2021-22 Adopted Budget. The \$41.5 million net increase is primarily derived from the increase in capital reimbursements (\$52.1 million), property taxes (\$8.7 million), intergovernmental services (\$2.0 million) and special parcel taxes (\$2.5 million), offset by decreases in water charges revenue (-\$23.5 million), as well as benefit assessment taxes and other operating and non-operating revenues (-\$0.3 million).

The FY 2023-24 planned revenue of \$655.6 million reflects a net increase of \$74.7 million over the FY 2022-23 Budget. The 12.9% growth is primarily attributed to higher water charges revenue (\$62.1 million), capital

reimbursements (\$13.9 million), property taxes (\$4.5 million), and the special parcel tax (\$1.1 million), offset by lower benefit assessment taxes (-\$5.1 million) and intergovernmental services (-\$1.9 million).

The specific categories of revenue include:

Water Revenue

The main source of Valley Water revenue is from water charges which is projected at \$264.9 million for FY 2022-23, a decrease of 8% over the FY 2021-22 Adopted Budget. The FY 2023-24 water revenue estimate of \$327.0 million is a 23% increase over FY 2022-23. Revenues from treated water are the largest source with an estimated amount of \$139.7 million and increasing by \$31.3 million to an estimated \$171.0 in FY 2023-24. Groundwater production charges are budgeted at \$122.0 million growing to \$152.4 million, and surface/recycled water sales are projected at \$3.2 million increasing to \$3.6 million for FY 2022-23 and FY 2023-24 respectively. These estimates include rate increases of 15.0% in Zone W-2, 5.2% in Zone W-5, 10.3% 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 account for usage declining in the first fiscal year due to the drought conservation efforts and restores most of the utilization in the second fiscal year assuming relief in drought conditions. Further discussion on groundwater production charges is provided in the Water Utility Enterprise Fund Summary section of this budget and in the FY 2022-23 PAWS Report.

Property Tax

Property tax revenues are estimated at \$153.1 million for FY 2022-23, an increase of 6.0% from the FY 2021-22 Adopted Budget. The planned FY 2023-24 amount assumes a 3% increase totaling \$157.7 million. Valley Water benefits from two types of property taxes: 1% ad valorem and levies for State Water Project (SWP) indebtedness (\$27.0 million each year). More information on property tax revenue is included in the Major Sources of Revenue section later in this chapter.

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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 and finally approved ongoing Safe, Clean Water and Natural Flood Protection Program by voters November 2020. The Special Parcel Tax for FY 2022-23 is budgeted at \$49.6 million, and FY 2023-24 projected revenue is \$50.7 million reflecting an increase of 5.4% in FY 2022-23 and 2.2% in FY2023-24. Further details on the Special Parcel Tax can be located in the Major Sources of Revenues section.

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 \$13.3 million for FY 2022-23 and \$8.2 million planned for FY 2023-24. Further explanation of Benefit Assessments 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 will be undertaken during this budget period. District-wide capital reimbursements are budgeted at \$87.1 million for FY 2022-23 and projected at \$101.0 million in FY 2023-24. More information is included in the Major Sources of Revenue section.

Interest

Overall interest earnings are estimated at \$6.0 million in FY 2022-23 and FY 2023-24, maintaining FY 2021-22 Adopted Budget levels.

Intergovernmental Services

Intergovernmental Services revenue are reimbursements from cost sharing agreements with local cities and agencies. The FY 2022-23 totals \$3.3 million in this category and is primarily comprised of reimbursements from the San Benito Water District for O&M San Felipe Reach 1 projects (\$0.6 million) and for the Pacheco project (\$1.9 million); and, reimbursements from local agencies (\$0.8 million) for conservation incentive programs such as the Lawn Rebate Program, Greywater Program, and Home Water Use Reports.

Other Revenue

Other Operating and Non-Operating Revenues comprised of receipts from minor sources such as rental income and the sale of vehicles totals \$3.5 million and \$3.6 million in FY 2022-23 and FY 2023-24 respectively.

Appropriations/Outlays

Total FY 2022-23 operating and capital outlays are budgeted at \$1,032.2 million, which includes intra-district reimbursements of \$115.0 million, or a net total operating and capital outlays of \$917.2 million. These figures do not include capital carry forward (\$67.4 million) appropriated by the Board in prior years. The \$115.0 million of intra-district charges are comprised of General Fund reimbursements (66.3%) and Internal Service Funds charges (33.7%). Of the total FY 2022-23 net outlays, operating outlays (including debt service) accounts for \$484.8 million, an increase of approximately \$59.4 million compared to the FY 2021-22 Adopted Budget of \$425.4 million. The total net capital outlays make up \$432.4 million compared to the FY 2021-22 Adopted Budget of \$412.1 million, accounting for an increase of \$20.2 million.

The planned FY 2023-24 total operating and capital outlays are projected to increase by \$92.8 million over FY 2022-23 reaching \$1,124.9 million. The total net of intra-district reimbursements is \$1,002.8 million, of which \$514.6 million is net operating expenses and \$488.2 million are net Capital expenses. This would reflect a net increase of 6.1% or \$29.8 million in operating

Financial Overview

outlays (including debt service) over FY 2022-23, primarily for debt service payments. Net capital outlay increases are 12.9% over the FY 2022-23 level, attributable to capital outlays for projects in progress. These amounts do not include the projected capital projects carryforward of \$26.6 million and is net of an estimated \$122.2 million in intra-district reimbursements comprised of General Fund reimbursements (65.7%) and Internal Service Funds charges (34.3%).

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

- Infrastructure maintenance and construction needs (ensuring dam safety, managing infrastructure for reliability, care of Valley Water facilities and assets)
- Advancing Valley Water's interests in countywide stormwater resource planning
- Active participation 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
- Responding to drought conditions by improving water supply, including conservation and supplemental water purchases
- 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
- Advancing racial equity, diversity and inclusion efforts
- Addressing future impacts of climate change to Valley Water's mission and operations.

Valley Water is responding to these challenges in several ways including the addition of new positions, increased funding for additional water purchases, and investments in conservation incentive programs. These and other efforts are discussed in the Fund Summaries chapter.

Intra-district Reimbursements

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements. For FY 2022-23, the total is \$115.0 million, and \$122.2 million planned in FY 2023-24. 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 and 40% by Watersheds Funds.

Capital Outlays

The capital budget represents the projects that have been identified and prioritized in the 5-Year Capital Improvement Program (CIP). FY 2022-23 net capital project outlays total \$432.4 million, an increase of \$20.2 million as compared to the net FY 2021-22 Adopted Budget of \$412.1 million. It is anticipated that \$67.4 million of the FY 2021-22 Adjusted Budget for capital projects will be carried forward to FY 2022-23 as most capital projects require multiple years to complete.

Net Capital Outlays are planned to reach \$488.2 million in FY 2023-24 reflecting a \$55.8 million increase over the prior year budgeted levels. The model shows approximately \$26.6 million of the prior year's capital funds are anticipated to carry forward to FY 2023-24.

Other Financing Sources/Uses

Other financing sources and uses include proceeds from debt issuance. Valley Water anticipates issuing bonds or commercial paper for approximately \$334.5 million in FY 2022-23, and \$398.9 million in FY 2023-24, to finance various Water Utility and Safe, Clean Water and Natural Flood Protection capital improvement projects.

Reserves

Overall, budgeted reserves for FY 2022-23 are estimated at \$402.5 million, an increase of \$66.2 million compared to the FY 2021-22 Adopted Budget level. Projections for

Financial Overview

FY 2023-24 show reserves increasing \$30.4 million further for a total of \$432.8 million.

Staffing

The 2022-23 Budget includes 904 regular positions, 9 limited-term positions and 5 fellowships. This staffing level includes 11 added regular positions to support priorities such as: Water Utility and Watershed Management capital improvement projects; Safe, Clean Water commitments including watershed maintenance efforts, flood protection infrastructure, and the grants and public arts programs; and, administrative support to sustain service levels. Five additional regular positions are planned in FY 2023-24 to strive to meet project timelines and 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 Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Change from 2021-22 Adopted	
					\$ Diff	% Diff
Groundwater Production Charges	\$ 132,111,494	\$ 135,253,000	\$ 114,934,000	\$ 122,002,000	\$ (13,251,000)	(9.8)%
Treated Water Charges	154,912,013	150,449,000	127,699,000	139,746,000	(10,703,000)	(7.1)%
Surface&Recycled Water Charges	2,747,092	2,778,000	2,778,000	3,207,000	429,000	15.4%
Benefit Assessment	12,369,053	13,453,662	13,453,662	13,274,144	(179,518)	(1.3)%
Property Tax	138,655,785	144,411,295	147,872,932	153,122,151	8,710,856	6.0%
Special Parcel Tax	46,095,042	47,105,387	47,106,738	49,645,791	2,540,404	5.4%
Intergovernmental Services	4,020,068	1,242,326	1,264,295	3,267,274	2,024,948	163.0%
Operating Other	654,325	737,505	731,026	688,044	(49,461)	(6.7)%
Capital Reimbursements	19,897,679	35,059,000	41,663,000	87,116,000	52,057,000	148.5%
Interest Income *	8,600,227	6,000,000	6,000,000	6,000,000	—	—
Non-Operating Other	4,500,015	2,880,279	2,768,873	2,850,370	(29,909)	(1.0)%
TOTAL REVENUE	\$ 524,562,793	\$ 539,369,454	\$ 506,271,526	\$ 580,918,774	\$ 41,549,320	7.7%
OUTLAYS						
Operating Outlays						
Operations **	\$ 366,757,387	\$ 423,633,190	\$ 442,025,916	\$ 478,614,808	\$ 54,981,618	13.0%
Operating Project	3,586,872	5,772,935	7,397,935	8,484,926	2,711,992	47.0%
Debt Service	51,363,856	71,264,693	71,264,693	82,350,473	11,085,780	15.6%
Total Operating Outlays	\$ 421,708,115	\$ 500,670,818	\$ 520,688,544	\$ 569,450,207	\$ 68,779,390	13.7%
Capital Outlays						
Capital Projects	\$ 284,265,608	\$ 440,233,177	\$ 488,302,127	\$ 462,788,575	\$ 22,555,398	5.1%
Carry Forward Capital Projects	—	52,075,664	\$	67,372,222	15,296,558	29.4%
Total Capital Outlays	\$ 284,265,608	\$ 492,308,841	\$ 488,302,127	\$ 530,160,797	\$ 37,851,956	7.7%
TOTAL OUTLAYS****	\$ 705,973,723	\$ 992,979,659	\$ 1,008,990,671	\$ 1,099,611,004	\$ 106,631,345	10.7%
Less Intra-District Reimb	(87,448,512)	(103,345,913)	(105,003,759)	(115,000,864)	(11,654,951)	11.3%
NET OUTLAYS	\$ 618,525,211	\$ 889,633,746	\$ 903,986,912	\$ 984,610,140	\$ 94,976,394	10.7%
OTHER FINANCING SOURCES/(USES)						
Debt Proceeds	\$ 164,470,000	\$ 259,288,000	\$ 271,484,000	\$ 334,491,000	\$ 75,203,000	29.0%
Transfers In	27,668,485	11,684,277	12,769,128	36,740,517	25,056,240	214.4%
Transfers Out	(27,668,485)	(11,684,277)	(12,769,128)	(36,568,603)	(24,884,326)	213.0%
TOTAL OTHER SOURCES/(USES)	\$ 164,470,000	\$ 259,288,000	\$ 271,484,000	\$ 334,662,914	\$ 75,374,914	29.1%
BALANCE AVAILABLE	\$ 70,507,582	\$ (90,976,292)	\$ (126,231,386)	\$ (69,028,452)	\$ 21,947,840	(24.1)%

Financial Overview

Combined Fund Summary - All Funds (Continued)

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Change from 2021-22 Adopted	
					\$ Diff	% Diff
YEAR-END RESERVES						
Restricted Reserves						
WUE Rate Stabilization	\$ 25,069,620	\$ 53,332,567	\$ 80,476,138	\$ 67,476,138	\$ 14,143,571	26.5%
Contingency Reserve	—	5,000,000	5,000,000	5,000,000	—	—
WUE San Felipe Emergency	3,348,086	3,360,045	3,360,085	3,410,085	50,040	1.5%
WUE State Water Project Tax Reserve	7,218,060	2,523,006	6,608,934	6,352,289	3,829,283	151.8%
CP Debt Service	15,317	—	6,999	6,999	6,999	—
WUE Water Supply	15,477,000	7,877,000	7,877,000	5,277,000	(2,600,000)	(33.0)%
WUE SVAWPC	1,298,138	908,138	908,138	908,138	—	—
WUE Drought Reserve	10,000,000	10,000,000	10,000,000	—	(10,000,000)	(100.0)%
GP5 Reserve	9,669,736	7,106,660	8,653,356	8,830,684	1,724,024	24.3%
SCW Currently Authorized Projects	75,382,052	39,599,917	74,190,907	47,365,114	7,765,197	19.6%
SCW Operating and Capital Reserve	57,042,203	54,254,365	51,409,664	74,326,854	20,072,489	37.0%
Total Restricted Reserves	\$ 204,520,212	\$ 183,961,698	\$ 248,491,221	\$ 218,953,301	\$ 34,991,603	19.0%
Committed Reserves						
Currently Authorized Projects ***	\$ 126,767,164	\$ 14,824,063	\$ 58,079,455	\$ 13,147,429	\$ (1,676,634)	(11.3)%
Operating and Capital Reserve	253,241,078	124,666,918	152,620,758	158,532,815	33,865,897	27.2%
Workers Compensation Liability	6,621,000	6,621,000	6,621,000	6,621,000	—	—
Catastrophy - Property Self-Insurance	6,591,184	6,230,869	5,696,818	5,226,255	(1,004,614)	(16.1)%
Total Committed Reserves	\$ 393,220,426	\$ 152,342,850	\$ 223,018,031	\$ 183,527,499	\$ 31,184,649	20.5%
TOTAL YEAR-END RESERVES	\$ 597,740,638	\$ 336,304,548	\$ 471,509,252	\$ 402,480,800	\$ 66,176,252	19.7%

Financial Overview

Combined Fund Summary - All Funds (Continued)

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Change from 2021-22 Adopted	
					\$ Diff	% Diff
Outlay Summary by Account Type						
OPERATING OUTLAY						
Salaries and Benefits	\$ 142,198,496	\$ 158,930,947	\$ 161,445,388	\$ 170,824,512	\$ 11,893,565	7.5%
Salary Savings Factor	—	(2,610,625)	(2,610,625)	(2,693,924)	(83,299)	3.2%
Services & Supplies	162,627,688	197,840,079	214,016,787	234,381,116	36,541,037	18.5%
Intra-District Charges	65,518,074	75,245,723	76,572,301	84,588,030	9,342,307	12.4%
OPERATING OUTLAY TOTAL	\$ 370,344,258	\$ 429,406,124	\$ 449,423,851	\$ 487,099,734	\$ 57,693,610	13.4%
DEBT SERVICE						
Services & Supplies	\$ 1,758,451	\$ 3,265,251	\$ 3,265,251	\$ 5,849,371	\$ 2,584,120	79.1%
Debt Service	49,605,404	67,999,442	67,999,442	76,501,102	8,501,660	12.5%
DEBT SERVICE TOTAL	\$ 51,363,855	\$ 71,264,693	\$ 71,264,693	\$ 82,350,473	\$ 11,085,780	15.6%
CAPITAL PROJECTS						
Salaries and Benefits	\$ 38,706,507	\$ 48,255,173	\$ 48,825,343	\$ 50,324,593	\$ 2,069,420	4.3%
Salary Savings Factor	—	(809,151)	(809,151)	(816,046)	(6,894)	0.9%
Services & Supplies	223,628,663	364,686,966	411,854,476	382,867,193	18,180,228	5.0%
Carry Forward Capital Projects	—	52,075,664	—	67,372,222	15,296,558	29.4%
Intra-District Charges	21,930,437	28,100,190	28,431,459	30,412,834	2,312,645	8.2%
CAPITAL PROJECTS TOTAL	\$ 284,265,607	\$ 492,308,842	\$ 488,302,127	\$ 530,160,796	\$ 37,851,957	7.7%
TOTAL OUTLAYS****	\$ 705,973,720	\$ 992,979,659	\$ 1,008,990,671	\$ 1,099,611,003	\$ 106,631,347	10.7%

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

(**) Operations outlay does 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 Basis Actual 2020-21	Adopted Budget 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24	Change from 2022-23	
					\$ Diff	% Diff
Groundwater Production Charges	\$ 132,111,494	\$ 135,253,000	\$ 122,002,000	\$ 152,379,000	\$ 30,377,000	24.9%
Treated Water Charges	154,912,013	150,449,000	139,746,000	171,022,000	31,276,000	22.4%
Surface&Recycled Water Charges	2,747,092	2,778,000	3,207,000	3,625,000	418,000	13.0%
Benefit Assessment	12,369,053	13,453,662	13,274,144	8,201,932	(5,072,212)	(38.2)%
Property Tax	138,655,785	144,411,295	153,122,151	157,651,055	4,528,904	3.0%
Special Parcel Tax	46,095,042	47,105,387	49,645,791	50,737,999	1,092,208	2.2%
Intergovernmental Services	4,020,068	1,242,326	3,267,274	1,340,295	(1,926,979)	(59.0)%
Operating Other	654,325	737,505	688,044	694,243	6,199	0.9%
Capital Reimbursements	19,897,679	35,059,000	87,116,000	101,021,000	13,905,000	16.0%
Interest Income *	8,600,227	6,000,000	6,000,000	6,000,000	—	—
Non-Operating Other	4,500,015	2,880,279	2,850,370	2,903,515	53,144	1.9%
TOTAL REVENUE	\$ 524,562,793	\$ 539,369,454	\$ 580,918,774	\$ 655,576,039	\$ 74,657,264	12.9%
OUTLAYS						
Operating Outlays						
Operations **	\$ 366,757,387	\$ 423,633,190	\$ 478,614,808	\$ 491,584,595	\$ 12,969,787	2.7%
Operating Project	3,586,872	5,772,935	8,484,926	7,185,892	(1,299,034)	(15.3)%
Debt Service	51,363,856	71,264,693	82,350,473	105,352,727	23,002,254	27.9%
Total Operating Outlays	\$ 421,708,115	\$ 500,670,818	\$ 569,450,207	\$ 604,123,214	\$ 34,673,007	6.1%
Capital Outlays						
Capital Projects	\$ 284,265,608	\$ 440,233,177	\$ 462,788,575	\$ 520,874,546	\$ 58,085,971	12.6%
Carry Forward Capital Projects	—	52,075,664	67,372,222	26,622,204	(40,750,018)	(60.5)%
Total Capital Outlays	\$ 284,265,608	\$ 492,308,841	\$ 530,160,797	\$ 547,496,750	\$ 17,335,953	3.3%
TOTAL OUTLAYS****	\$ 705,973,723	\$ 992,979,659	\$ 1,099,611,004	\$ 1,151,619,964	\$ 52,008,960	4.7%
Less Intra-District Reimb	(87,448,512)	(103,345,913)	(115,000,864)	(122,197,372)	(7,196,508)	6.3%
NET OUTLAYS	\$ 618,525,211	\$ 889,633,746	\$ 984,610,140	\$ 1,029,422,592	\$ 44,812,452	4.6%
OTHER FINANCING SOURCES/(USES)						
Debt Proceeds	\$ 164,470,000	\$ 259,288,000	\$ 334,491,000	\$ 398,905,000	\$ 64,414,000	19.3%
Transfers In	27,668,485	11,684,277	36,740,517	25,026,134	(11,714,383)	(31.9)%
Transfers Out	(27,668,485)	(11,684,277)	(36,568,603)	(19,732,534)	16,836,069	(46.0)%
TOTAL OTHER SOURCES/(USES)	\$ 164,470,000	\$ 259,288,000	\$ 334,662,914	\$ 404,198,600	\$ 69,535,686	20.8%
BALANCE AVAILABLE	\$ 70,507,582	\$ (90,976,292)	\$ (69,028,452)	\$ 30,352,047	\$ 99,380,499	(144.0)%

Financial Overview

Combined Fund Summary - All Funds (Continued)

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24	Change from 2022-23	
					\$ Diff	% Diff
YEAR-END RESERVES						
Restricted Reserves						
WUE Rate Stabilization	\$ 25,069,620	\$ 53,332,567	\$ 67,476,138	\$ 32,476,138	\$ (35,000,000)	(51.9)%
Contingency Reserve	—	5,000,000	5,000,000	5,000,000	—	—
WUE San Felipe Emergency	3,348,086	3,360,045	3,410,085	3,460,085	50,000	1.5%
WUE State Water Project Tax Reserve	7,218,060	2,523,006	6,352,289	4,546,282	(1,806,007)	(28.4)%
CP Debt Service	15,317	—	6,999	6,999	—	—
WUE Water Supply	15,477,000	7,877,000	5,277,000	2,677,000	(2,600,000)	(49.3)%
WUE SVAWPC	1,298,138	908,138	908,138	908,138	—	—
WUE Drought Reserve	10,000,000	10,000,000	—	—	—	—
GP5 Reserve	9,669,736	7,106,660	8,830,684	9,039,229	208,545	2.4%
SCW Currently Authorized Projects	75,382,052	39,599,917	47,365,114	24,619,601	(22,745,513)	(48.0)%
SCW Operating and Capital Reserve	57,042,203	54,254,365	74,326,854	129,588,796	55,261,942	74.4%
Total Restricted Reserves	\$ 204,520,212	\$ 183,961,698	\$ 218,953,301	\$ 212,322,268	\$ (6,631,033)	(3.0)%
Committed Reserves						
Currently Authorized Projects ***	\$ 126,767,164	\$ 14,824,063	\$ 13,147,429	\$ 9,270,738	\$ (3,876,691)	(29.5)%
Operating and Capital Reserve	253,241,078	124,666,918	158,532,815	199,112,366	40,579,551	25.6%
Workers Compensation Liability	6,621,000	6,621,000	6,621,000	6,621,000	—	—
Catastrophy - Property Self-Insurance	6,591,184	6,230,869	5,226,255	5,506,475	280,220	5.4%
Total Committed Reserves	\$ 393,220,426	\$ 152,342,850	\$ 183,527,499	\$ 220,510,579	\$ 36,983,080	20.2%
TOTAL YEAR-END RESERVES	\$ 597,740,638	\$ 336,304,548	\$ 402,480,800	\$ 432,832,847	\$ 30,352,047	7.5%

Financial Overview

Combined Fund Summary - All Funds (Continued)

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24	Change from 2022-23	
					\$ Diff	% Diff
Outlay Summary by Account Type						
OPERATING OUTLAY						
Salaries and Benefits	\$ 142,198,496	\$ 158,930,947	\$ 170,824,512	\$ 179,730,119	\$ 8,905,607	5.2%
Salary Savings Factor	—	(2,610,625)	(2,693,924)	(2,824,977)	(131,053)	4.9%
Services & Supplies	162,627,688	197,840,079	234,381,116	232,383,523	(1,997,593)	(0.9)%
Intra-District Charges	65,518,074	75,245,723	84,588,030	89,481,821	4,893,792	5.8%
OPERATING OUTLAY TOTAL	\$ 370,344,258	\$ 429,406,124	\$ 487,099,734	\$ 498,770,486	\$ 11,670,753	2.4%
DEBT SERVICE						
Services & Supplies	\$ 1,758,451	\$ 3,265,251	\$ 5,849,371	\$ 5,079,371	\$ (770,000)	(13.2)%
Debt Service	49,605,404	67,999,442	76,501,102	100,273,356	23,772,254	31.1%
DEBT SERVICE TOTAL	\$ 51,363,855	\$ 71,264,693	\$ 82,350,473	\$ 105,352,727	\$ 23,002,254	27.9%
CAPITAL PROJECTS						
Salaries and Benefits	\$ 38,706,507	\$ 48,255,173	\$ 50,324,593	\$ 53,935,082	\$ 3,610,489	7.2%
Salary Savings Factor	—	(809,151)	(816,046)	(872,863)	(56,817)	7.0%
Services & Supplies	223,628,663	364,686,966	382,867,193	435,096,777	52,229,583	13.6%
Carry Forward Capital Projects	—	52,075,664	67,372,222	26,622,204	(40,750,018)	(60.5)%
Intra-District Charges	21,930,437	28,100,190	30,412,834	32,715,550	2,302,716	7.6%
CAPITAL PROJECTS TOTAL	\$ 284,265,607	\$ 492,308,842	\$ 530,160,796	\$ 547,496,750	\$ 17,335,953	3.3%
TOTAL OUTLAYS****	\$ 705,973,720	\$ 992,979,659	\$ 1,099,611,003	\$ 1,151,619,963	\$ 52,008,960	4.7%

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

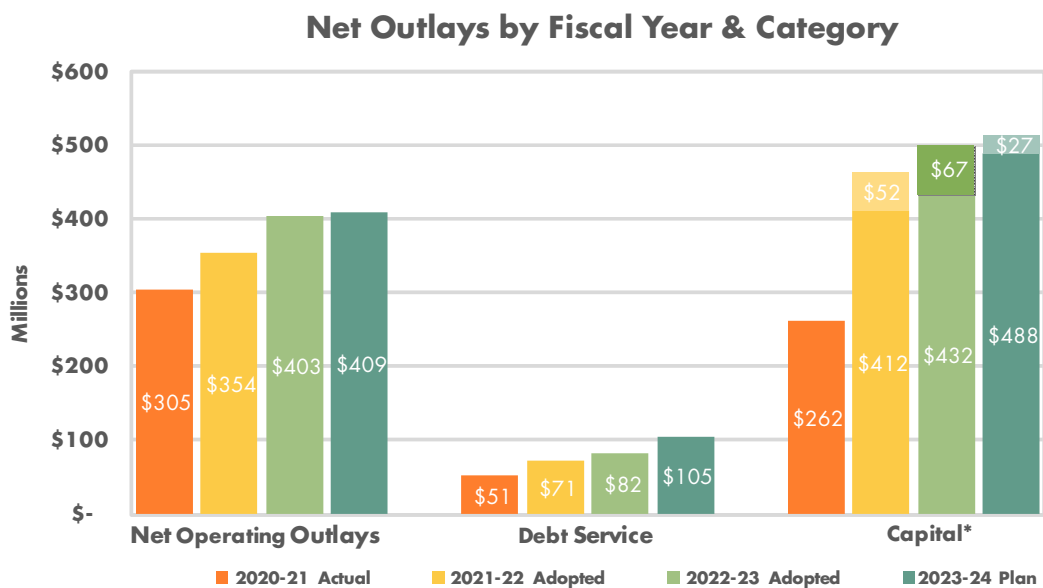
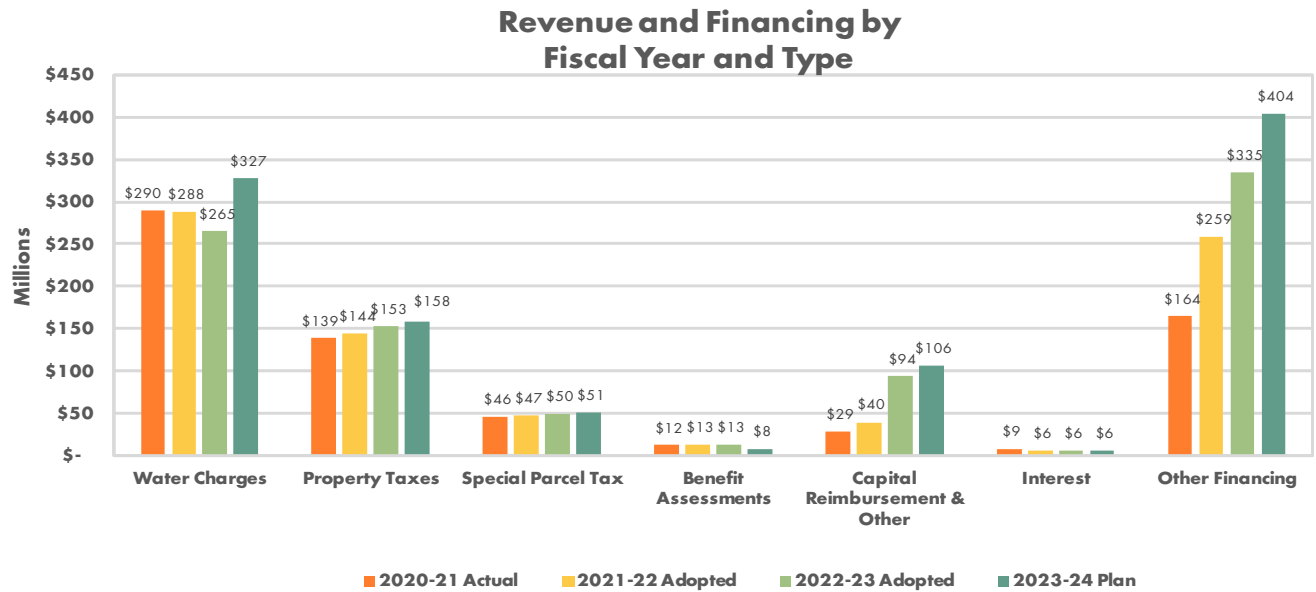
(**) Operations outlay does not include OPEB Expense-unfunded liability

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

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

Financial Overview

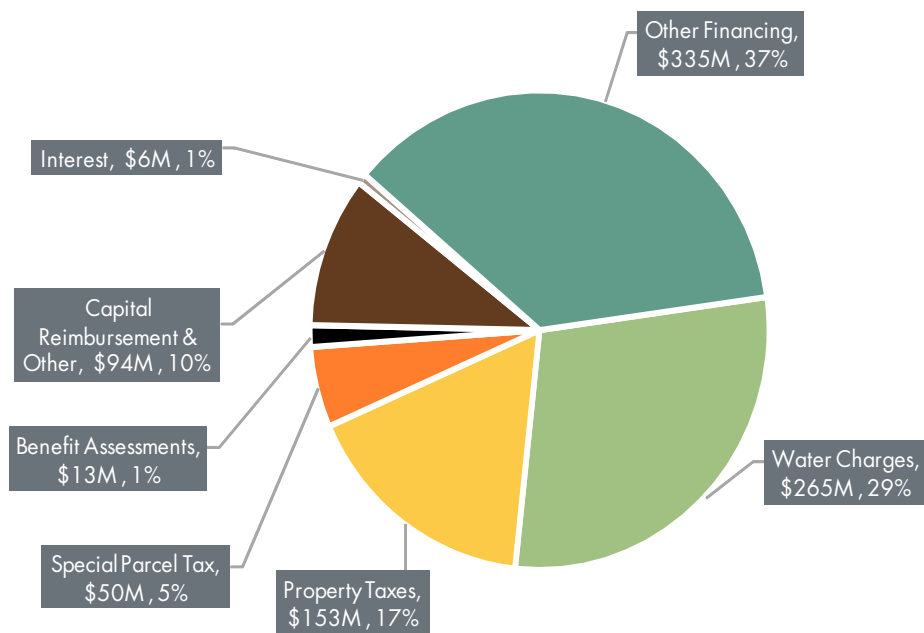
Revenue and Outlays



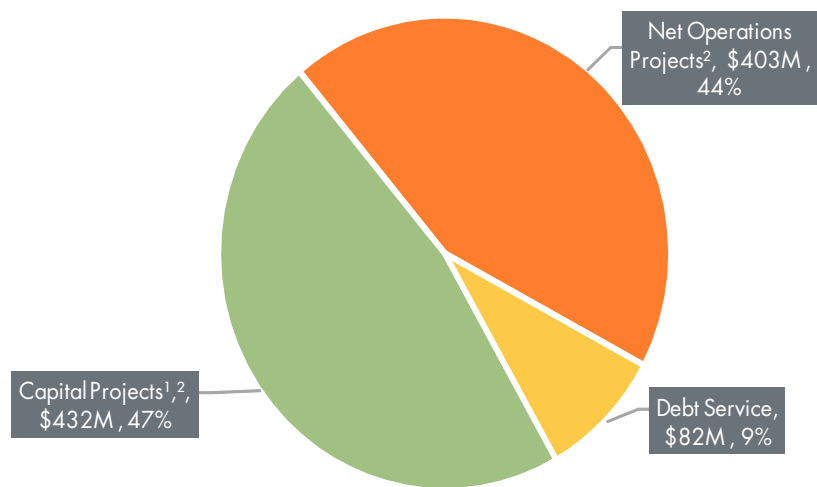
* Capital budget includes current year budget and prior year capital budget carry forward in the lighter shade

Financial Overview

FY 2022-23 Revenue and Debt Financing, \$916 Million



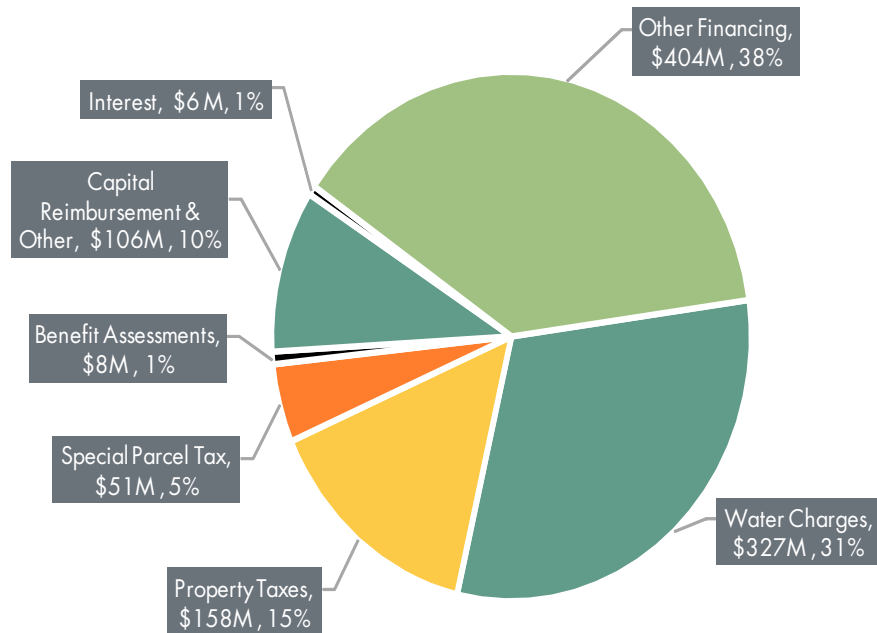
FY 2022-23 Net Outlays By Category, \$917 Million



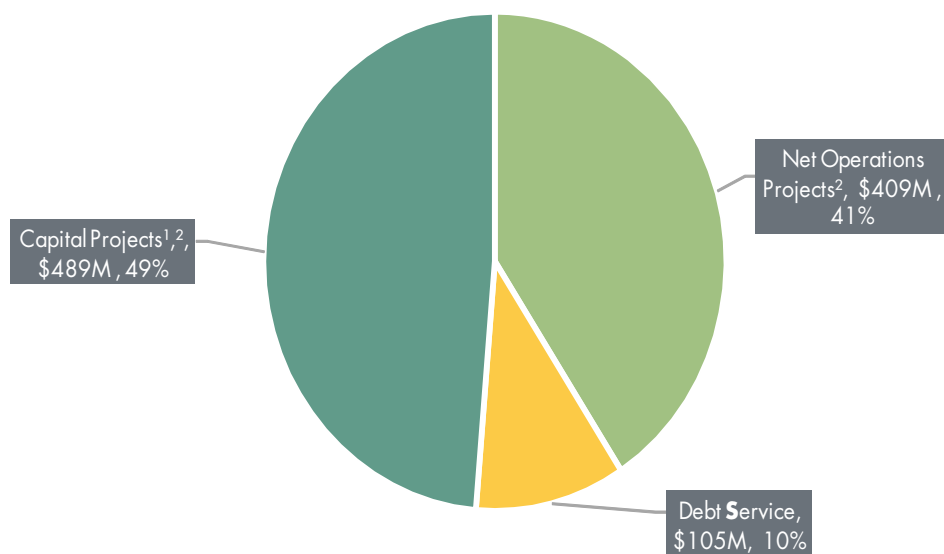
¹Capital Projects Outlay does not include capital budget estimated to be carried forward from prior year
²Capital and Operations are net of intra-district reimbursements.

Financial Overview

FY 2023-24 Revenue and Debt Financing, \$1,060 Million



FY 2023-24 Net Outlays By Category, \$1,003 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.

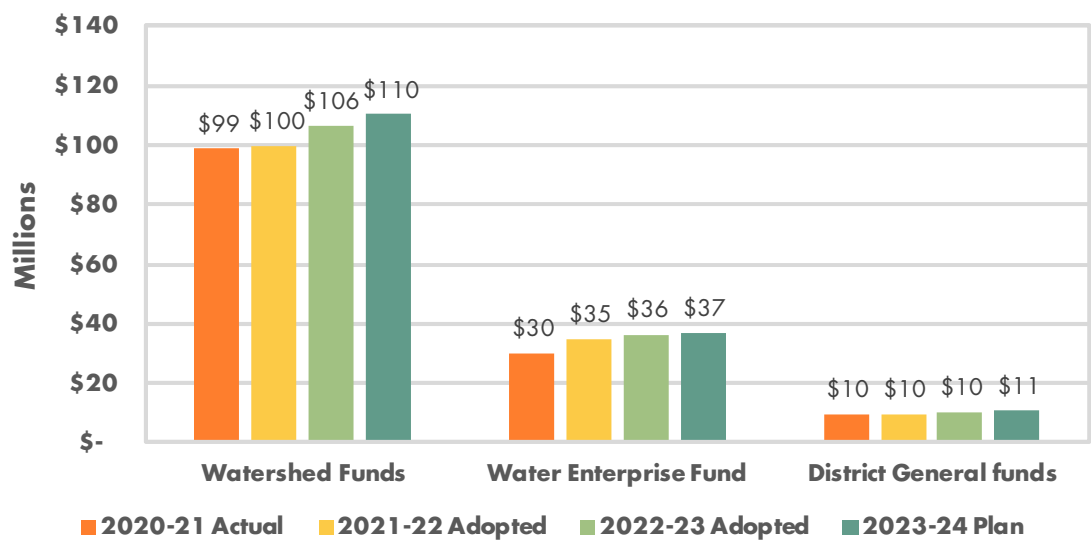
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MAJOR SOURCES OF REVENUES

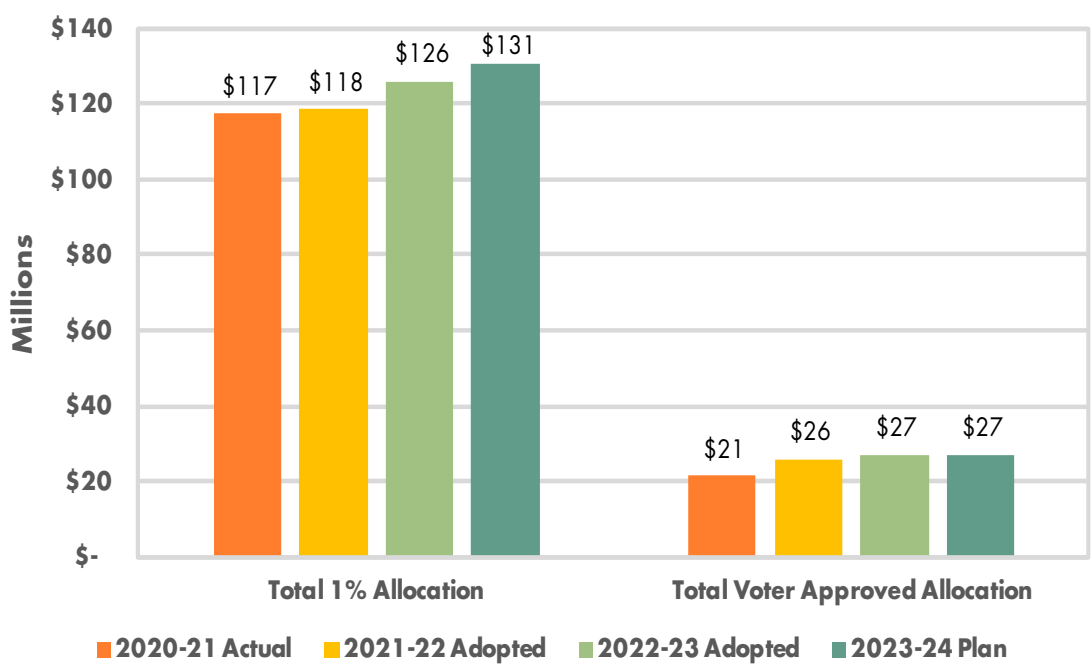
Financial Overview

Property Taxes

Property Taxes by Fiscal Year and Fund Group



Property Taxes by Taxing Authority Type



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.

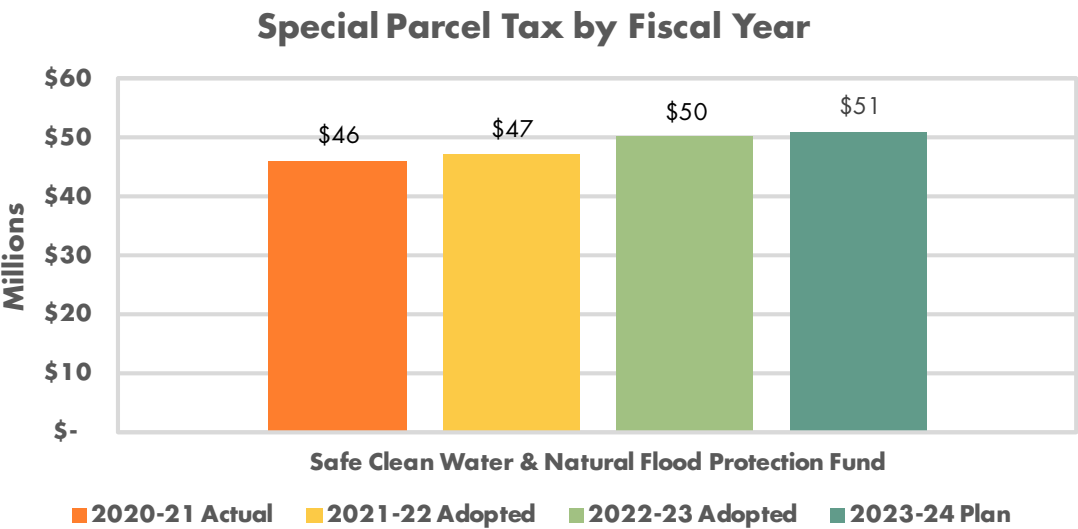
For FY 2022-23, Valley Water is projecting \$126.1 million in 1% Ad Valorem tax revenue, a 6.5% increase over the FY 2021-22 Adopted Budget. The increase reflects the assessed valuation growth of all property in Santa Clara County. For FY 2023-24, Valley Water is projecting \$130.7 million in 1% Ad Valorem tax revenue.

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. In FY 2022-23, Valley Water expects to collect \$27.0 million, based on the projected operation costs for the fiscal year. Valley Water expects these operation costs to maintain this level and projects to collect the same amount in FY 2023-24 (\$27.0 million).

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Property Tax					
1 % Ad Valorem Property Tax					
Watershed & Stream Stewardship Fund	\$ 98,621,201	\$ 99,651,159	\$ 102,804,338	\$ 106,390,743	\$ 110,212,284
Water Utility Enterprise Fund	8,910,849	8,927,304	9,119,192	9,435,263	9,772,771
District General Fund	9,777,201	9,832,832	9,949,402	10,296,145	10,666,000
Total 1% Allocation	\$ 117,309,251	\$ 118,411,295	\$ 121,872,932	\$ 126,122,151	\$ 130,651,055
State Water Project Debt Service	\$ 21,346,535	\$ 26,000,000	\$ 26,000,000	\$ 27,000,000	\$ 27,000,000
Total Property Tax	\$ 138,655,786	\$ 144,411,295	\$ 147,872,932	\$ 153,122,151	\$ 157,651,055

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, the Clean, Safe Creeks Program. In November 2020, voters overwhelmingly approved Measure S, a renewal of the Safe, Clean Water and Natural Flood Protection Program.

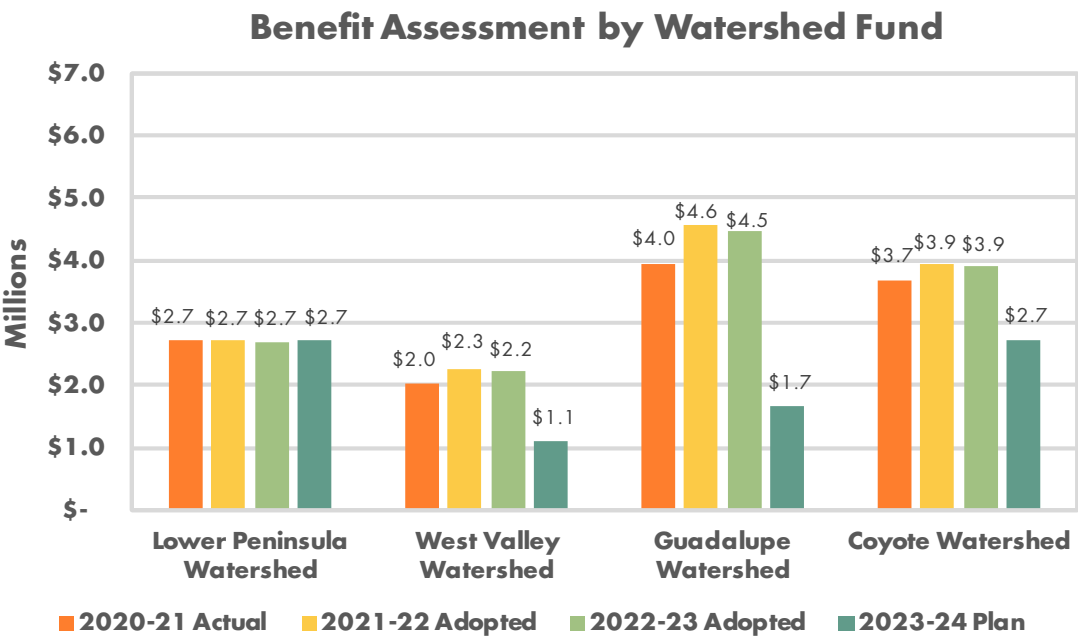
The special parcel tax levy is based on the proportionate distribution of storm water runoff per parcel, and may be increased annually by either the prior year's San Francisco-Oakland-San Jose Consumer Price Index for all Urban Consumers (CPI) or 2%, whichever is greater.

A report released by the Bureau of Labor Statistics indicates that the change in CPI from February 2021 to February 2022 is 5.19%. For FY 2022-23, special parcel tax revenues are expected to increase by 5.4% over the FY 2021-22 Adopted Budget. The increase is mainly due to the increase in the San Francisco-Oakland-Hayward Consumer Price Index for all Urban Consumer (CPI), which was 5.19% from February 2021 to February 2022. As noted previously, the tax levy may be increased by the higher of the CPI or 2%, whichever is greater. The FY 2023-24 Planned amount assumes an increase of 2.2%, which reflects the Board adopted 2% increase in the special tax rates, and partially due to an anticipated increase in eligible parcels based on construction activity in the county. Staff will reevaluate this adjustment in the development the FY 2023-24 & FY 2024-25 Operating and Capital Rolling Biennial Budget.

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Special Parcel Tax					
Safe Clean Water & Natural Flood Protection Fund	\$ 46,095,042	\$ 47,105,387	\$ 47,106,738	\$ 49,645,791	\$ 50,737,999
Total Special Parcel Tax	\$ 46,095,042	\$ 47,105,387	\$ 47,106,738	\$ 49,645,791	\$ 50,737,999

Financial Overview

Benefit Assessment



Financial Overview

Benefit Assessment

The Flood Control Benefit Assessment was first authorized by the Valley Water Board of Directors in 1981, and later by the 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 complete paying off the bonds associated with this program.

FY 2022-23 and FY 2023-24 continues under this debt repayment phase of the Benefit Assessment program with benefit assessments levied at 1.25 times the annual debt service. For FY 2022-23, the Benefit Assessment revenue receipts are anticipated to come in at \$13.3 million. In FY

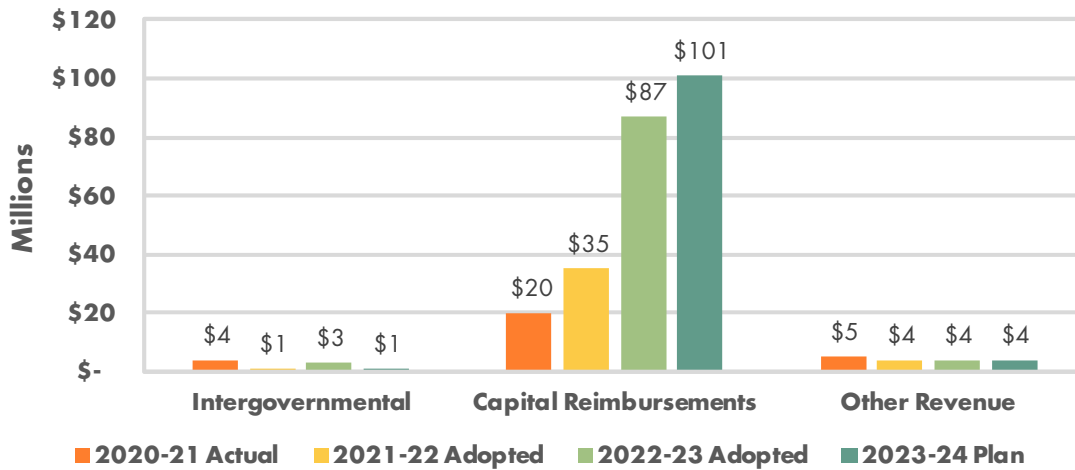
2023-24, the Benefit Assessment revenue receipts are projected at \$8.2 million. The decrease in revenue collection in FY 2023-24 is due to some bonds associated with this program being paid in full. As Valley Water continues to pay down principal, the amount collected will decrease.

	Budgetary Basis Actual 2020-21		Adopted Budget 2021-22		Projected Year End 2021-22		Adopted Budget 2022-23		Proposed Plan 2023-24	
Benefit Assessment										
Lower Peninsula Watershed Fund	\$	2,707,708	\$	2,707,552	\$	2,707,552	\$	2,703,278	\$	2,704,621
West Valley Watershed Fund		2,017,250		2,256,627		2,256,627		2,218,285		1,099,964
Guadalupe Watershed Fund		3,955,671		4,553,263		4,553,263		4,458,666		1,663,168
Coyote Watershed Fund		3,688,425		3,936,220		3,936,220		3,893,914		2,734,179
Total Benefit Assessments	\$	12,369,054	\$	13,453,662	\$	13,453,662	\$	13,274,143	\$	8,201,932

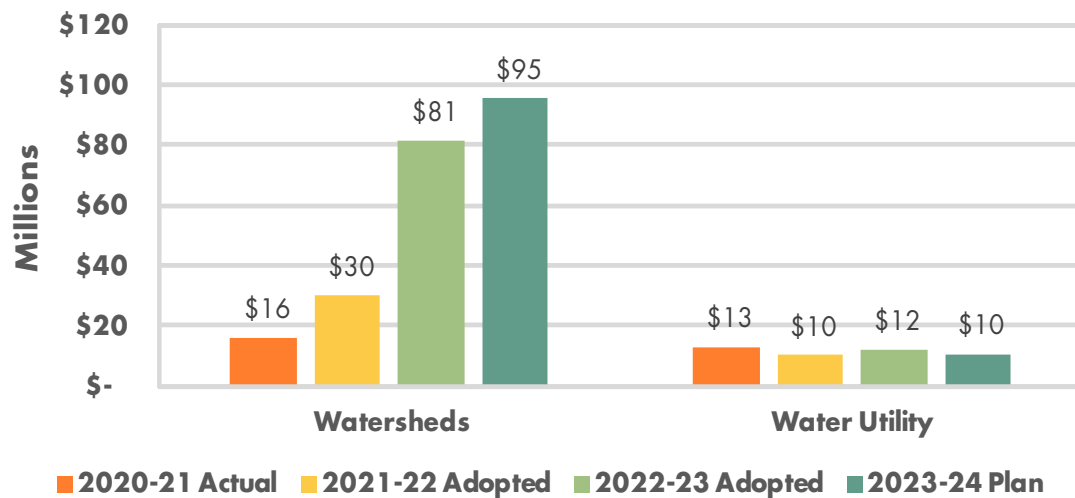
Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

Intergovernmental, Capital Reimbursements and Other Revenue by Fiscal Year



Intergovernmental, Capital Reimbursements and Other Revenue by Fiscal Year & Fund Group



Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

Intergovernmental Services

Valley Water anticipates receiving intergovernmental services revenue for the Water Utility. For FY 2022-23, the intergovernmental revenue is budgeted at \$3.3 million. For FY 2023-24, the intergovernmental revenue is projected at \$1.3 million. 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 the Pacheco project, and for conservation rebate programs funded by state grants and local cost sharing agreements.

Capital Reimbursement Revenue

Capital reimbursement revenue are expected at \$87.1 million for FY 2022-23 and \$101.0 million for FY 2023-24.

Water Utility Enterprise receipts in FY 2022-23 are budgeted at \$7.3 million comprised of \$4.2 million from California Water Commission for the Pacheco Reservoir Expansion Project, \$2.6 million from the US Bureau of Reclamation (USBR) Title 16 funding for the recycled water pipeline efforts in South County, and \$0.5 million for small capital improvements on the San Felipe pipeline from San Benito County Water District (SBCWD). FY 2023-24 reimbursements of \$7.3 million are comprised of \$3.8 million from California Water Commission for the Pacheco Reservoir Expansion Project, \$2.7 million for the South County Recycled Water Pipeline Project from the USBR, and \$0.8 million for small capital improvements on the San Felipe pipeline from San Benito County Water District.

Watershed and Stream Stewardship fund capital reimbursement are budgeted at \$28.0 million in FY 2022-23 and \$30.3 million in FY 2023-24 for the San Francisco Bay Shoreline Project.

Safe, Clean Water fund reimbursements of \$51.8 million in FY 2022-23 and \$63.5 million in FY 2023-24. The FY 2022-23 reimbursements are comprised of: state subventions for Berryessa Creek, Calaveras Boulevard to I-680 Project (\$0.8 million); state subventions for Upper Llagas Creek, Buena Vista Rd. to Wright Ave. Project (\$1.0 million); anticipated grants and partnerships (upstream funding) for San Francisquito Creek, SF Bay to Middlefield Rd (\$10.0 million); and anticipated funding from Natural Resources Conservation Service (NRCS) for the Upper Llagas Creek - Phase 2b (\$40.0 million). The FY 2023-24 reimbursements are comprised of: state subventions for Upper Llagas Creek, Buena Vista Rd. to Wright Ave. Project (\$1.0 million); anticipated funding from the City of Palo Alto/CalTrans (Newell Bridge) for San Francisquito Creek, SF Bay to Middlefield Rd. (\$8.94 million); anticipated grants and partnerships (upstream funding) for San Francisquito Creek, SF Bay to Middlefield Rd. (\$13.51 million); and anticipated funding from NRCS for the Upper Llagas Creek - Phase 2b (\$40.0 million).

Other Revenue

The other operating and non-operating revenue category totals \$3.5 million in FY 2022-23 and \$3.6 million in FY 2023-24. In FY 2022-23 approximately \$1.6 million is budgeted for Watersheds, \$1.8 million for Water Utility and \$0.1 million for the Internal Service Funds. FY 2023-24 has planned \$1.7 million is budgeted for Watersheds, \$1.8 million for Water Utility and \$0.1 million for the Internal Service Funds.

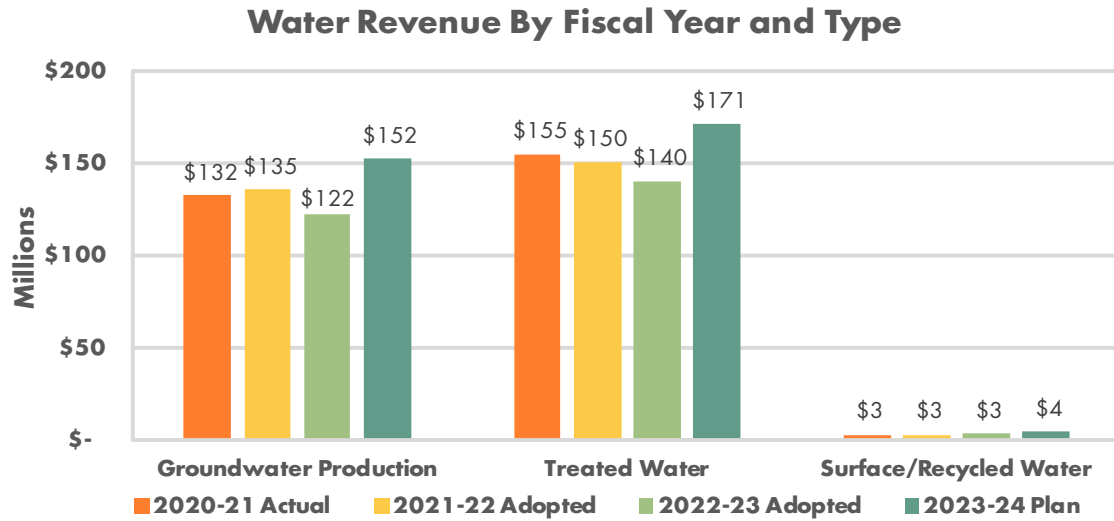
Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Intergovernmental Services					
Safe Clean Water & Natural Flood Protection Fund	\$ 976	\$ —	\$ —	\$ —	\$ —
Water Utility Enterprise Fund	4,019,092	1,242,326	1,264,295	3,267,274	1,340,295
Total Intergovernmental Services	\$ 4,020,068	\$ 1,242,326	\$ 1,264,295	\$ 3,267,274	\$ 1,340,295
Capital Reimbursements					
Watershed & Stream Stewardship Fund	\$ 4,975,834	\$ 20,886,000	\$ 28,451,000	\$ 27,985,000	\$ 30,300,000
Safe Clean Water & Natural Flood Protection Fund	8,493,253	7,560,000	7,560,000	51,826,000	63,455,000
Water Utility Enterprise Fund	6,428,592	6,613,000	5,652,000	7,305,000	7,266,000
Total Capital Reimbursements	\$ 19,897,679	\$ 35,059,000	\$ 41,663,000	\$ 87,116,000	\$ 101,021,000
Other					
Watershed & Stream Stewardship Fund	\$ 2,085,616	\$ 1,622,567	\$ 1,622,567	\$ 1,671,244	\$ 1,721,382
Safe Clean Water & Natural Flood Protection Fund	348,955	—	—	—	—
Water Utility Enterprise Fund	750,408	945,217	827,332	786,170	794,376
State Water Project Fund	1,739,393	1,000,000	1,000,000	1,000,000	1,000,000
District General Fund	67,257	—	—	30,000	30,000
Internal Service Funds	162,711	50,000	50,000	51,000	52,000
Total Other	\$ 5,154,340	\$ 3,617,784	\$ 3,499,899	\$ 3,538,414	\$ 3,597,758
Total Intergov'l & Other Revenues	\$ 29,072,087	\$ 39,919,110	\$ 46,427,194	\$ 93,921,688	\$ 105,959,053

Financial Overview

Water Revenue



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 groundwater wells
- **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 non-potable use in crop irrigation, landscaping and industrial uses.

Budgeted water revenue levels in FY 2022-23 and FY 2023-24 are based on the water rate charges recommendations made to the Board.

Revenue estimates reflect an increase of 15% in groundwater production charges for the North County (Zone W-2) when compared to FY 2021-22. In the Llagas Subbasin (Zone W-5), revenue estimates reflect an increase of 5.2% in the groundwater production charge when compared to FY 2021-22. In the Coyote Valley (Zone W-7) revenue estimates reflect an increase of 10.3% in the groundwater production charge when compared to FY 2021-22. 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 2021-22.

For all zones, the same annual rate increases are projected in FY 2023-24.

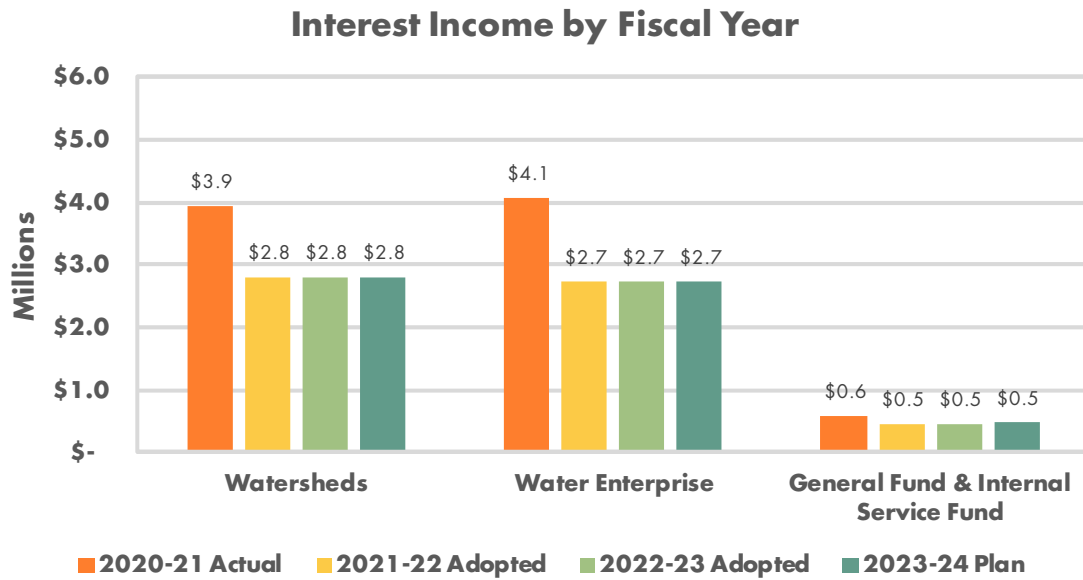
The FY 2022-23 water use estimate of 192,000 AF represents a 40,000 AF decrease, or 17%, decrease compared to the FY 2021-22 adopted water budget usage amount of 232,000 AF due to the current drought Santa Clara County is in and the Board's call for conservation (15% compared to 2019). The FY 2023-24 water use estimate increases to 205,400 AF, assuming there is future relief to the drought and 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.

Water charges are necessary to pay for drought response and preparation, critical investments in water system infrastructure rehabilitation and upgrades, expanded storage capacity, water imported via California's state and federal water systems and the development of future supplies including purified water. The water charges are shown in the accompanying Water Enterprise Fund schedules.

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Water Revenue					
Groundwater Production Charges	\$ 132,111,494	\$ 135,253,000	\$ 114,934,000	\$ 122,002,000	\$ 152,379,000
Treated Water Charges	154,912,013	150,449,000	127,699,000	139,746,000	171,022,000
Surface & Recycled Water Charges	2,747,092	2,778,000	2,778,000	3,207,000	3,625,000
Total Water Revenue	\$ 289,770,599	\$ 288,480,000	\$ 245,411,000	\$ 264,955,000	\$ 327,026,000

Financial Overview

Interest Income



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> and select District Debt and Investment Management.

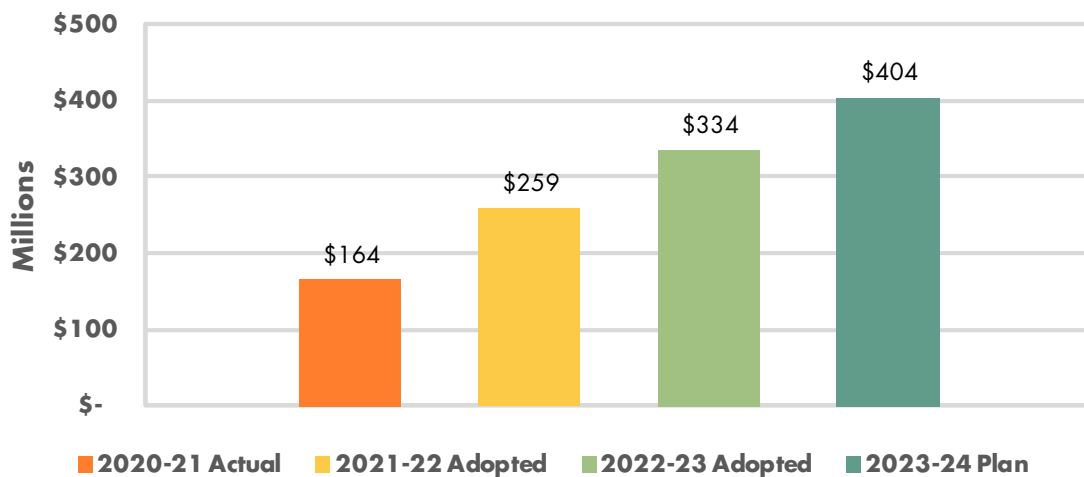
FY 2022-23 and FY 2023-24 interest earnings revenue are estimated to be \$6.0 million per year. The estimates assume an average portfolio yield of 1.0%, which reflects the rates in the current market environment.

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Interest Income					
Watershed & Stream Stewardship Fund	\$ 1,993,917	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000
Safe Clean Water & Natural Flood Protection Fund	1,949,318	1,561,000	1,561,000	1,561,000	1,561,000
Water Utility Enterprise Fund	4,067,798	2,731,500	2,731,500	2,731,500	2,731,500
General Fund	117,809	150,000	120,000	150,000	150,000
Service Funds	471,386	307,500	337,500	307,500	307,500
Total Interest Income	\$ 8,600,228	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000

Financial Overview

Other Financing

Other Financing by Fiscal Year



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 \$334.5 million in debt proceeds in FY 2022-23, of which \$281.5 million is for the Water Utility Enterprise fund and \$53.0 million is for the Safe, Clean Water and Natural Flood Protection fund.

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.

Inter-fund transfers are also included in this category. They are monies transferred internally between Valley Water Funds.

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
OTHER FINANCING SOURCES/(USES)					
Debt Proceeds	\$ 164,470,000	\$ 259,288,000	\$ 271,484,000	\$ 334,491,000	\$ 398,905,000
Transfers In	27,668,485	11,684,277	12,769,128	36,740,517	25,026,134
Transfers Out	(27,668,485)	(11,684,277)	(12,769,128)	(36,568,603)	(19,732,534)
TOTAL OTHER SOURCES/(USES)	\$ 164,470,000	\$ 259,288,000	\$ 271,484,000	\$ 334,662,914	\$ 404,198,600

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SALARIES AND BENEFITS

Financial Overview

Salaries and Benefits

The FY 2022-23 Budget is based on a total of 918 positions, which includes 904 regular positions, nine limited term positions, and five management fellows.

The total FY 2022-23 budget for salaries and benefits is \$217.6 million, an increase of \$13.9 million or 6.8% from the FY 2021-22 Adopted Budget. The increase is primarily due to a 3% cost of living adjustment (COLA), step increase for eligible positions, funding for eleven new positions, \$6.8 million increase in CalPERS and deferred compensation costs, and a \$1.8 million increase in healthcare insurance costs.

For FY 2023-24, salaries and benefits are projected at \$230.0 million, a \$12.3 million or 5.7% increase compared to the FY 2022-23 budget. The increase is primarily attributed to a 3% COLA, funding for additional five new positions, and an increase in both CalPERS and health insurance costs.

Financial Overview

Summary of Positions

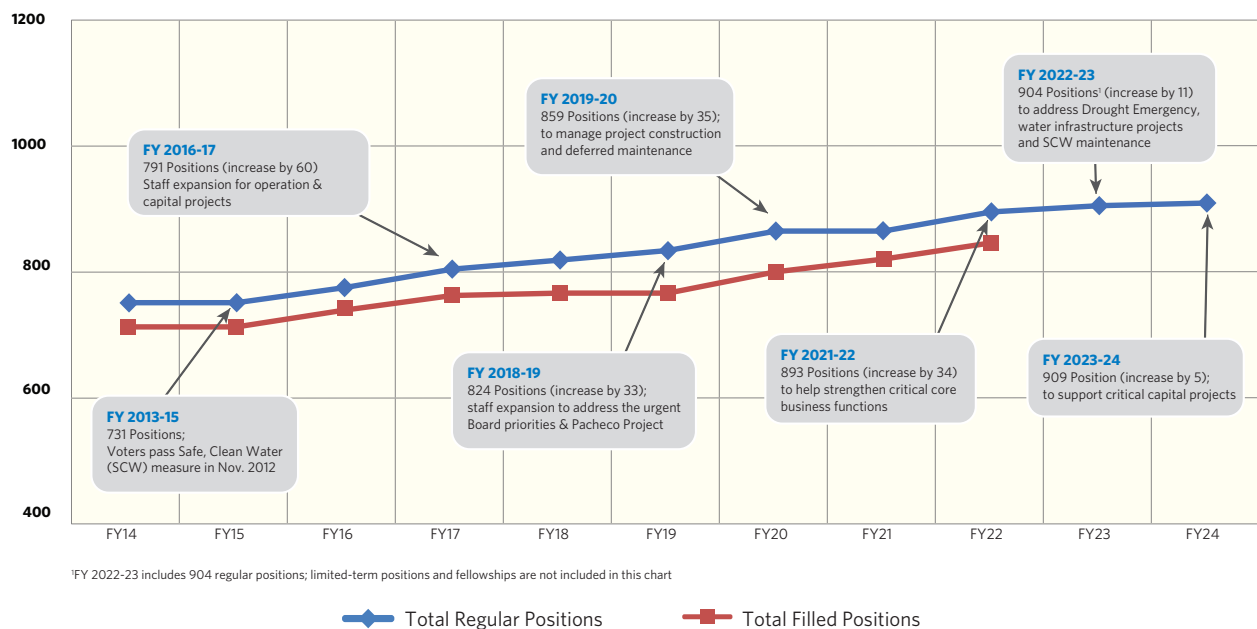
	Adopted Budget FY 2019-20	Adopted Budget FY 2020-21	Adopted Budget FY 2021-22	Adjusted Budget FY 2021-22 ²	Adopted Budget FY 2022-23 ³	Proposed Plan FY 2023-24 ³
Board Appointed Officers ¹	104	77	73	75	77	77
Office of Integrated Water Mgmt	—	—	39	53	55	56
External Affairs	36	39	45	45	45	45
Administrative Services	122	160	162	162	163	163
Water Utility	341	309	296	297	300	304
Watersheds	239	274	264	261	264	264
Total Regular Positions	842	859	879	893	904	909
Fellowships	4	4	5	5	5	5
Limited Term Positions	—	8	8	10	9	9
Total	846	871	892	908	918	923

(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 positions and 2 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. Five additional new positions are planned in FY 2023-24.

Valley Water Regular Position Trends, FY 2014-2024



¹FY 2022-23 includes 904 regular positions; limited-term positions and fellowships are not included in this chart

Financial Overview

Salaries and Benefits

	Budgetary Basis Actual 2020-21	Adopted Budget 2021-22	Projected Year End 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
Salaries-Regular Employee	\$ 116,454,752	\$ 134,274,831	\$ 136,209,837	\$ 138,917,334	\$ 146,521,694
Overtime	3,275,917	3,076,115	3,076,115	3,665,195	3,694,178
Special Pays	1,117,261	1,051,100	1,051,100	1,065,500	1,073,800
Salary Savings	—	(3,419,776)	(3,419,776)	(3,509,969)	(3,697,840)
Total Salaries	\$ 120,847,930	\$ 134,982,270	\$ 136,917,276	\$ 140,138,060	\$ 147,591,832
BENEFITS					
Fed & State Taxes & Benefits	\$ 1,773,245	\$ 1,992,985	\$ 1,992,985	\$ 2,063,301	\$ 2,174,455
Retirement Contributions	32,840,406	37,503,937	38,652,705	44,300,293	47,073,018
Group Ins-Active Employees	14,484,205	16,859,752	16,859,752	18,122,180	19,679,065
Group Ins-Retired Employees	10,972,360	12,427,400	12,427,400	13,015,300	13,442,300
Total Benefits	\$ 60,070,216	\$ 68,784,074	\$ 69,932,842	\$ 77,501,074	\$ 82,368,838
Net Total Salary & Benefits	\$ 180,918,146	\$ 203,766,344	\$ 206,850,118	\$ 217,639,134	\$ 229,960,670

Budget Hours

	Labor Hours 2020-2021	Labor Hours 2021-22	Labor Hours 2021-22	Labor Hours 2022-23	Labor Hours 2023-24
Salaries-Regular Employee	1,454,763	1,630,303	1,657,523	1,608,649	1,615,092
Overtime	32,513	27,964	27,964	31,827	30,568
Compensated Absences	215,897	286,735	286,735	297,420	301,511
Total Salaries	1,703,174	1,945,003	1,972,222	1,937,896	1,947,171

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 Valley Water staff 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 Policies 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.

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

Financial Overview

Utility Certificates of Participation and Revenue Bonds are encompassed within the criteria of 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 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 \$1.02 billion as of June 30, 2022. Scheduled annual debt service for FY 2022-23 is approximately \$82.4 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 Water Utility are the Water System Refunding Revenue Bonds 2016A/B with a final maturity of 2046, the Revenue Certificates of Participation 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

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 Certificates of Participation 2020C/D with a final maturity of 2041 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.

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 senior and parity bonds. Based on the financial models from the Water Utility Enterprise Finance organization, the projected debt service coverage ratios are as follows:

- FY 2022-23: 1.76
- FY 2023-24: 1.78
- FY 2024-25: 2.16
- FY 2025-26: 2.47
- FY 2026-27: 2.45

(Source: FY 2022-23 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

Financial Overview

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:

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 Rating

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

Financial Overview

Debt Service Payments Schedule

	Principal		Interest		Total ⁽¹⁾
Watersheds Certificates of Participation/Safe, Clean Water Revenue Bonds ⁽²⁾					
2022/23	\$	13,190,000	\$	4,129,860	\$ 17,319,860
2023/24		15,356,000		6,833,480	22,189,480
2024/25		9,480,000		10,319,445	19,799,445
2025/26		9,885,000		9,924,995	19,809,995
2026/27 and thereafter		264,605,000		140,212,155	404,817,155
Total	\$	312,516,000	\$	171,419,935	\$ 483,935,935
Water Utility Revenue Bonds / Certificates of Participation ⁽²⁾					
2022/23	\$	21,328,000	\$	30,028,242	\$ 51,356,242
2023/24		29,685,000		40,906,873	70,591,873
2024/25		29,040,000		42,572,924	71,612,924
2025/26		30,070,000		41,528,400	71,598,400
2026/27 and thereafter		976,315,000		564,420,196	1,540,735,196
Total	\$	1,086,438,000	\$	719,456,635	\$ 1,805,894,635
Commercial Paper					
2022/23	\$	—	\$	7,825,000	\$ 7,825,000
2023/24		—		7,492,000	7,492,000
2024/25		—		5,609,000	5,609,000
2025/26		—		6,740,000	6,740,000
2026/27 and thereafter		—		44,114,000	44,114,000
Total	\$	—	\$	71,780,000	\$ 71,780,000
Total All Outstanding Debt					
2022/23	\$	34,518,000	\$	41,983,102	\$ 76,501,102
2023/24		45,041,000		55,232,353	100,273,353
2024/25		38,520,000		58,501,369	97,021,369
2025/26		39,955,000		58,193,395	98,148,395
2026/27 and thereafter		1,240,920,000		748,746,351	1,989,666,351
Total	\$	1,398,954,000	\$	962,656,570	\$ 2,361,610,570

(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 2022A/B/C and Safe, Clean Water Series 2022A

Financial Overview

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

	Total Amount Sold	Date of Issue	True Interest Rate	Outstanding as of 6/30/22	2022-2023 Debt Service Payments			
					Principal	Interest	Total	
Watersheds Indebtedness								
2017A COPs ⁽²⁾	\$ 59,390,000	3/7/2017	2.555%	\$ 38,160,000	\$ 4,350,000	\$ 1,908,000	\$ 6,258,000	
2012A COPs	52,955,000	11/20/2012	1.409%	9,990,000	4,900,000	399,600	5,299,600	
2022A SCW Bonds	110,440,000	12/1/2022	3.330%	110,440,000	3,940,000	1,822,260	5,762,260	
SCW Commercial Paper - TE ⁽³⁾	—	various	—	—	—	2,262,000	2,262,000	
Total Watersheds	\$ 222,785,000			\$ 158,590,000	\$ 13,190,000	\$ 6,391,860	\$ 19,581,860	
Water Utility Indebtedness								
2016 Water Utility Refunding Revenue Bonds								
Series A	\$ 106,315,000	3/30/2016	3.252%	\$ 106,315,000	\$ —	\$ 5,315,750	\$ 5,315,750	
Series B - taxable	75,215,000	3/30/2016	4.319%	75,215,000	—	3,229,621	3,229,621	
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	2.128%	\$ 28,160,000	\$ 3,535,000	\$ 1,408,000	\$ 4,943,000	
Series D- taxable	54,970,000	3/30/2016	3.136%	35,590,000	4,595,000	1,158,255	5,753,255	
Subtotal	\$ 98,045,000			\$ 63,750,000	\$ 8,130,000	\$ 2,566,255	\$ 10,696,255	
2017 Water Utility Refunding Revenue Bonds								
Series A	\$ 54,710,000	5/2/2017	3.126%	\$ 45,770,000	\$ 2,050,000	\$ 2,288,500	\$ 4,338,500	
Subtotal	\$ 54,710,000			\$ 45,770,000	\$ 2,050,000	\$ 2,288,500	\$ 4,338,500	
2019 Water Utility Refunding Revenue Bonds								
Series A	\$ 15,225,000	4/25/2019	3.750%	\$ 14,500,000	\$ 265,000	\$ 725,000	\$ 990,000	
Series B - taxable	80,030,000	4/25/2019	3.810%	75,020,000	1,750,000	2,751,980	4,501,980	
Series C - taxable	38,280,000	11/26/2019	2.760%	32,990,000	2,200,000	843,794	3,043,794	
Subtotal	\$ 133,535,000			\$ 122,510,000	\$ 4,215,000	\$ 4,320,774	\$ 8,535,774	
2020 Water Utility Refunding Revenue Bonds								
Series A	\$ 24,120,000	10/14/2020	3.330%	\$ 24,120,000	\$ —	\$ 1,206,000	\$ 1,206,000	
Series B - taxable	68,530,000	10/14/2020	2.980%	68,530,000	—	2,033,285	2,033,285	
Subtotal	\$ 92,650,000			\$ 92,650,000	\$ —	\$ 3,239,285	\$ 3,239,285	
2020 Water Utility Certificates of Participation								
Series C	\$ 41,765,000	10/14/2020	2.070%	\$ 40,080,000	\$ 1,720,000	\$ 2,004,000	\$ 3,724,000	
Series D - taxable	81,560,000	10/14/2020	2.200%	78,320,000	3,300,000	1,486,649	4,786,649	
Subtotal	\$ 123,325,000			\$ 118,400,000	\$ 5,020,000	\$ 3,490,649	\$ 8,510,649	
2022 Water Utility Refunding Revenue Bonds								
Series A ⁽⁴⁾	\$ 92,365,000	11/1/2022	3.330%	\$ 92,365,000	\$ 500,000	\$ 1,768,401	\$ 2,268,401	
Series B - taxable ⁽⁴⁾	80,835,000	11/1/2022	4.530%	80,835,000	500,000	2,108,794	2,608,794	
Subtotal	\$ 173,200,000			\$ 173,200,000	\$ 1,000,000	\$ 3,877,195	\$ 4,877,195	
2022 Water Utility Certificates of Participation								
Series C- taxable ⁽⁴⁾	\$ 65,683,000	11/1/2022	4.530%	\$ 65,683,000	\$ 913,000	\$ 1,700,213	\$ 2,613,213	
Subtotal	\$ 65,683,000			\$ 65,683,000	\$ 913,000	\$ 1,700,213	\$ 2,613,213	

Financial Overview

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

	Total Amount Sold	Date of Issue	True Interest Rate	Outstanding as of 6/30/22	2022-2023 Debt Service Payments		
					Principal	Interest	Total
<i>Water Utility Commercial Paper</i> ⁽³⁾							
Commercial Paper(3)	—	various	—	—	—	5,563,000	5,563,000
<i>Total Water Utility</i>	\$ 922,678,000			\$ 863,493,000	\$ 21,328,000	\$ 35,591,242	\$ 56,919,242
<i>Combined Total</i>	\$ 1,145,463,000			\$ 1,022,083,000	\$ 34,518,000	\$ 41,983,102	\$ 76,501,102

(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.

(4) The 2022A/B/C bonds are expected to be issued around 11/1/2022

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RESERVE POLICY AND FUND BALANCES

Financial Overview

Valley Water Reserve Policy

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 2040, 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.

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- 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.

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 senior and 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,

Financial Overview

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.

Silicon Valley Advanced Water Purification Center 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 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

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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.

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 evaluations conducted bi-annually for general liability and workers

Financial Overview

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.

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.

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 extreme weather events. 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 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 these reserves are automatically re-

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appropriated 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.

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.

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

Financial Overview

Reserves Schedule

	Estimated Balances					
	Year-End 2020-21	Adopted 2021-22	Projected YE 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24	
GENERAL FUND						
Committed Reserves						
Operating and Capital Reserve	\$ 7,130,125	\$ 6,575,512	\$ 6,981,706	\$ 9,094,273	\$ 12,573,529	
Currently Authorized Projects *	—	—	—	—	—	
Total General Fund Reserves	\$ 7,130,125	\$ 6,575,512	\$ 6,981,706	\$ 9,094,273	\$ 12,573,529	
SPECIAL REVENUE FUNDS (WATERSHEDS)						
Restricted Reserves						
CP Debt Service	\$ 8,318	\$ —	\$ —	\$ —	\$ —	
Rate Stabilization	—	25,000,000	25,000,000	25,000,000	25,000,000	
Contingency Reserve	—	5,000,000	5,000,000	5,000,000	5,000,000	
SCW Operating and Capital Reserve	57,042,203	54,254,365	51,409,664	74,326,854	129,588,796	
SCW Currently Authorized Projects*	75,382,052	39,599,917	74,190,907	47,365,114	24,619,601	
Total Restricted Reserves	\$ 132,432,573	\$ 123,854,282	\$ 155,600,571	\$ 151,691,968	\$ 184,208,397	
Committed Reserves						
Operating and Capital Reserve	\$ 97,803,767	\$ 68,457,190	\$ 97,809,670	\$ 96,652,218	\$ 114,194,336	
Currently Authorized Projects *	33,685,007	5,866,617	12,858,668	5,606,763	3,803,923	
Total Committed Reserves	\$ 131,488,774	\$ 74,323,807	\$ 110,668,338	\$ 102,258,981	\$ 117,998,259	
Total Special Revenue Funds Reserves	\$ 263,921,347	\$ 198,178,089	\$ 266,268,909	\$ 253,950,949	\$ 302,206,656	
Total Governmental Funds	\$ 271,051,472	\$ 204,753,601	\$ 273,250,615	\$ 263,045,222	\$ 314,780,185	
WATER ENTERPRISE & STATE WATER PROJECT FUNDS						
Restricted Reserves						
Rate Stabilization	\$ 25,069,620	\$ 28,332,567	\$ 55,476,138	\$ 42,476,138	\$ 7,476,138	
WUE San Felipe Emergency	3,348,086	3,360,045	3,360,085	3,410,085	3,460,085	
WUE State Water Project Tax Reserve	7,218,060	2,523,006	6,608,934	6,352,289	4,546,282	
CP Debt Service	6,999	—	6,999	6,999	6,999	
WUE Water Supply	15,477,000	7,877,000	7,877,000	5,277,000	2,677,000	
WUE SVAWPC	1,298,138	908,138	908,138	908,138	908,138	
WUE Drought Reserve	10,000,000	10,000,000	10,000,000	—	—	
GP5 Reserve	9,669,736	7,106,660	8,653,356	8,830,684	9,039,229	
Total Restricted Reserves	\$ 72,087,639	\$ 60,107,416	\$ 92,890,650	\$ 67,261,333	\$ 28,113,871	
Committed Reserves						
Operating and Capital Reserve	\$ 140,225,692	\$ 47,772,364	\$ 42,020,102	\$ 49,185,921	\$ 69,862,954	
Currently Authorized Projects *	85,292,965	8,957,446	44,402,114	7,124,270	5,463,042	
Total Committed Reserves	\$ 225,518,657	\$ 56,729,810	\$ 86,422,216	\$ 56,310,191	\$ 75,325,996	
Total Water Enterprise Funds Reserves	\$ 297,606,296	\$ 116,837,226	\$ 179,312,866	\$ 123,571,524	\$ 103,439,867	

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Reserves Schedule (Continued)

	Estimated Balances				
	Year-End 2020-21	Adopted 2021-22	Projected YE 2021-22	Adopted Budget 2022-23	Proposed Plan 2023-24
INTERNAL SERVICE FUNDS:					
Committed Reserves					
Operating and Capital Reserve	\$ 8,081,494	\$ 1,861,852	\$ 5,809,286	\$ 3,600,397	\$ 2,481,548
Currently Authorized Projects *	7,789,192	—	818,668	416,396	3,773
Workers Compensation Liability	6,621,000	6,621,000	6,621,000	6,621,000	6,621,000
Catastrophy - Property Self-Insurance	6,591,184	6,230,869	5,696,818	5,226,261	5,506,475
Total Committed Reserves	\$ 29,082,870	\$ 14,713,721	\$ 18,945,772	\$ 15,864,054	\$ 14,612,796
Total Internal Service Funds Reserves	\$ 29,082,870	\$ 14,713,721	\$ 18,945,772	\$ 15,864,054	\$ 14,612,796
Total Proprietary Funds	\$ 326,689,166	\$ 131,550,947	\$ 198,258,638	\$ 139,435,578	\$ 118,052,663
TOTAL RESERVE SUMMARIES					
Total Proprietary Funds	\$ 326,689,166	\$ 131,550,947	\$ 198,258,638	\$ 139,435,578	\$ 118,052,663
Total Governmental Funds	271,051,472	204,753,601	273,250,615	263,045,222	314,780,185
Total Year-End Reserves	\$ 597,740,638	\$ 336,304,548	\$ 471,509,253	\$ 402,480,800	\$ 432,832,848
Total Restricted Reserves	204,520,212	183,961,698	248,491,221	218,953,301	212,322,268
Total Committed Reserves	393,220,426	152,342,850	223,018,032	183,527,499	220,510,580
Total Year-End Reserves	\$ 597,740,638	\$ 336,304,548	\$ 471,509,253	\$ 402,480,800	\$ 432,832,848

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