Santa Clara Valley Water District
Board Audit Committee Meeting

HQ. Bldg. Boardroom, 5700 Almaden Expressway, San Jose, California
Join Zoom Meeting: https://valleywater.zoom.us/j/91608079873

REGULAR MEETING
AGENDA

Wednesday, September 17, 2025
1:00 PM

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

BOARD AUDIT COMMITTEE
Jim Beall, Chairperson - District 4
Shiloh Ballard, Vice Chairperson - District 2
Tony Estremera - District 6

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

NICOLE MERRITT
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-3262
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www.valleywater.org

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

Santa Clara Valley Water District
Board Audit Committee

REGULAR MEETING
AGENDA

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IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS

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- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: https://www.youtube.com/watch?v=TojJpYCxXm0

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https://valleywater.zoom.us/j/91608079873
Meeting ID: 916 0807 9873
Join by Phone:
1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the public: Members of the public who wish to address the Board/Committee on any item not listed on the agenda may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself to speak. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board/Committee. Speakers' comments should be limited to three minutes or as set by the Chair. The law does not permit Board/Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board/Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Board/Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

3.1. Approval of August 20, 2025, Board Audit Committee Minutes. 25-0775

Recommendation: Approve the minutes.

Manager: Candice Kwok-Smith, 408-630-3193

Attachments: Attachment 1: 08202025 BAC Minutes

4. REGULAR AGENDA:

4.1. Receive Update on the Implementation of the Management Response to the 2023 Capital Improvement Program (CIP) Process Performance Audit. 25-0625

Recommendation: Receive the status update on the implementation of the Management Response to the 2023 CIP Process Performance Audit.

Manager: Luz Penilla, 408-630-2228

Attachments: Attachment 1: PowerPoint
Attachment 2: CIP Performance Audit

4.2. Receive the Fiscal Year 2024-2025 Fourth Quarter Financial Status Update as of June 30, 2025. 25-0753

Recommendation: Receive the Fiscal Year 2024-2025 fourth quarter financial status update as of June 30, 2025.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: PowerPoint

4.3. Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2024. 25-0757

Recommendation: Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2024.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Audit Report, FY Ending 2024 WUE Funds

4.4. Discuss Potential Audit Topics for 2026 Annual Audit Plan, and Provide Further Guidance as Needed. 25-0755

Recommendation: Discuss potential audit topics for 2026 Annual Audit Plan, and provide further guidance as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: 2023 Risk Assessment Final Report

4.5. Discuss 2025 Annual Audit Plan (Capital Project Delivery; Contracting Practices; Conservation Strategies; Water Usage/Demand Forecasting), and Provide Feedback as Needed. 25-0754

Recommendation:
A. Discuss 2025 Annual Audit Plan; and
B. Provide feedback as needed.

Manager: Darin Taylor, 408-630-3068

4.6. Review and Discuss 2025 Board Audit Committee (BAC) Work Plan. 25-0756

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2025 BAC Work Plan.

Manager: Candice Kwok-Smith, 408-630-3193

Attachments: Attachment 1: BAC Work Plan

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

6. ADJOURN:

6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m., on October 15, 2025.

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Santa Clara Valley Water District

File No.: 25-0775

Agenda Date: 9/17/2025
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Approval of August 20, 2025, Board Audit Committee Minutes.

RECOMMENDATION:
Approve the minutes.

SUMMARY:
In accordance with the Ralph M. Brown Act, a summary of Committee discussions, and details of all actions taken by the Board Audit Committee, during all open and public Committee meetings, is transcribed and submitted to the Committee for review and approval.

Upon Committee approval, minutes transcripts are finalized and entered into the Committee's historical records archives and serve as historical records of the Committee's meetings.

ENVIRONMENTAL JUSTICE IMPACT:
The approval of minutes is not subject to environmental justice analysis.

ATTACHMENTS:
Attachment 1: 08202025 BAC Minutes

UNCLASSIFIED MANAGER:
Candice Kwok-Smith, 408-630-3193

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BOARD AUDIT COMMITTEE MEETING

DRAFT MINUTES

SPECIAL MEETING
WEDNESDAY, AUGUST 20, 2025
2:00 PM

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A special meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the Valley Water Headquarters Building Boardroom at 5700 Almaden Expressway, San Jose, California, and by Zoom teleconference, at 2:00 p.m.

1.1 Roll Call.

Committee members in attendance were: District 2 Director and Vice Chairperson Shiloh Ballard, and District 4 Director Jim Beall, Chairperson presiding, constituting a quorum of the Committee.

District 6 Director Estremera arrived as noted below.

Staff members in attendance were: Yvonne Arroyo, Emmanuel Aryee, Sarah Berning, Wade Blackard, Rita Chan, Theresa Chinte, Enrique De Anda, Amy Fonseca, Meenakshi Ganjoo, Rachael Gibson, Walter Gonzalez, Diahann Hudson, Candice Kwok-Smith, Cecil Lawson, Dave Leon, Olive Manaloto, Jennifer Martin, Anthony Mendiola, Nicole Merritt, Tony Ndah, Carlos Orellana, Max Overland, Luz Penilla, Alison Phagan, Manpreet Sra, Darin Taylor, Odilia Teixeira, Cheryl Togami, Kristen Yasukawa, and Tina Yoke.

Public in attendance were: George Skiles (Sjoberg Evashenk Consulting).

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA:

Chairperson Beall declared time open for public comment on any item not on the agenda. There was no one present who wished to speak.

3. APPROVAL OF MINUTES:

3.1. Approval of June 17, 2025, Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the June 17, 2025 Committee meeting.

Public Comments:
None.

It was moved by Vice Chairperson Ballard and seconded by Chairperson Beall and was carried by majority vote that the minutes be approved.

4. REGULAR AGENDA:

4.1. Receive and Discuss Financial Audit Reports for Fiscal Year (FY) 2024 From Valley Water's Joint Power Authority (JPA) Partners.

Recommendation: Receive and discuss financial audit reports for FY 2024 from Valley Water's JPA partners.

Darin Taylor and George Skiles reviewed the information on this item, per the attached Committee Agenda Memo, and reviewed the information contained in Attachments 1 - 4.

Darin Taylor, George Skiles, and Carlos Orellana were available to answer questions.

Public Comments:
None.

Director Estremera arrived.

The Committee received the information, took no formal action, and noted the following:

- The Committee confirmed that the audit reports for the San Francisquito Creek JPA and the San Luis & Delta Mendota Water Authority are still in process and will be presented to the BAC once available.
- The Committee noted interest in confirming whether any of the associated JPA agreements contain provisions regarding audit requirements including cost sharing specific obligations.
- The Committee confirmed that JPAs regardless of activity level are required under the Government Code to conduct audit reports.
- The Committee noted the addition of the JPA language in the BAC Charter and observed that the Board Policy and Monitoring Committee (BPMC) may provide guidance for Board member JPA participation and expectations.
- The Committee expressed concern about requests for future substantial financial investments and the potential impacts on federal funding without receiving timely JPA audit reports.
- The Committee expressed support for the BPMC to address the feedback and concerns regarding JPAs as provided by the BAC on this matter.

4.2. Receive a Status Update on the Implementation of Audit Recommendations; and Discuss Timing of Next Update.

Recommendation: A. Receive a status update on the implementation of audit recommendations; and
B. Discuss timing of next update.

Anthony Mendiola reviewed the information on this item, per the attached Committee Agenda Memo, and reviewed the information contained in Attachments 1 - 2.

Anthony Mendiola, Darin Taylor, George Skiles, and Luz Penilla were available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee confirmed the next update for the Capital Improvement Program Process Performance Audit will be presented at the BAC September 17, 2025, meeting.
- The Committee confirmed the renewed Management Response Update for the Safe, Clean Water Program Audit will be presented at the BAC Oct. 15, 2025, meeting, and the associated Conflict-of-Interest Update will be presented at the Sept. 23, 2025, Board meeting.
- The Committee confirmed the process for closing out Board directed audits with the recommendation from the Chief Audit Executive and noted that the BAC holds the final authority to formally close these audits.

4.3. Discuss Potential Audit Topics for 2026 Annual Audit Plan and Provide Further Guidance as Needed.

Recommendation: Discuss potential audit topics for 2026 Annual Audit Plan, and provide further guidance as needed.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo, and reviewed the information contained in Attachment 1.

George Skiles was available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee expressed support for seeing the dots filled in or completed audits identified on the heat map included in the current risk assessment results in Attachment 1.
- The Committee expressed interest in an updated risk assessment,

reviewing governance models, and developing flexible strategies to account for potential losses associated with Diversity, Equity, and Inclusion (DEI) federal grants and programs.

4.4. Discuss 2025 Annual Audit Plan, (Capital Project Delivery; Contracting Practices; Conservation Strategies; Water Usage/Demand Forecasting), and Provide Feedback as Needed.

Recommendation: A. Discuss 2025 Annual Audit Plan,
B. Provide feedback as needed.

Darin Taylor and George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and without further discussion noted the update on the 2025 Annual Audit Plan.

4.5. Review and Discuss the 2025 Board Audit Committee (BAC) Work Plan.

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2025 BAC Work Plan.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and without further discussion noted the update on the BAC Work Plan.

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:
This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

Nicole Merritt confirmed the Committee received and discussed the financial audit reports for FY 2024 from JPA partners, noted the interest in confirming whether any of the JPA agreements contain audit requirements including cost sharing and the support for the BPMC to address the BAC's feedback and concerns regarding JPAs under Item 4.1; received and noted status update on the implementation of audit recommendations under Item 4.2; discussed potential audit topics for 2026 Annual Audit Plan and expressed interest in an updated risk assessment, reviewing governance models, and flexible strategies to account for losses associated with DEI federal grants and programs under

Item 4.3; noted the update on the Annual Audit Plan under Item 4.4; and noted the update on the BAC Work Plan under Item 4.5.

6. ADJOURN:

6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m. on September 17, 2025.

Chairperson Beall adjourned the meeting at 3:26 p.m. The next regular meeting is scheduled to occur at 1:00 p.m. on September 17, 2025.

Nicole Merritt, Assistant Deputy Clerk II

Date approved:

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Santa Clara Valley Water District

File No.: 25-0625

Agenda Date: 9/17/2025
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Receive Update on the Implementation of the Management Response to the 2023 Capital Improvement Program (CIP) Process Performance Audit.

RECOMMENDATION:
Receive the status update on the implementation of the Management Response to the 2023 CIP Process Performance Audit.

SUMMARY:
The purpose of this item is to provide an update on the implementation of the Management Response to the 2023 Capital Improvement Program (CIP) Process Performance Audit (Attachment 1).

As reported in August 2024, of the eight recommendations, six have been completed, one is partially completed, and one is still in progress. All remaining items are on track to be completed by Quarter 4 of Fiscal Year 2026 (Q4 FY26).

Key updates include:

- Schedule & Spending (Recommendation 1)
- Performance Measurement System (Recommendation 2)

Background

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan was approved by the full Board. Shortly thereafter, at its January 19, 2022 meeting, the Board Audit Committee (BAC) identified three areas of interest to be audited in 2022. The first audit selected was Santa Clara Valley Water District's (Valley Water) CIP Process, ranked as the top priority audit topic (ID #1) in the 2022-2024 Annual Audit Work Plan.

At the April 20, 2022, BAC meeting, the Chief Audit Executive (CAE) reviewed the audit scoping document for the CIP Process Audit. On May 24, 2022, the full Board approved the initiation of the CIP Process Audit and approved Sjoberg Evashenk Consulting, Inc. as the auditor to conduct the audit. The CIP Process Audit was approved with an estimated cost of $117,325.

The objective of the CIP Process Audit is to evaluate Valley Water's capital project planning process and determine the extent to which it is consistent with relevant requirements, policies, and best practices.

At the BAC meeting on May 15, 2023, the CAE presented a summary of the draft CIP audit report to facilitate a discussion on the results of the performance audit. On May 31, 2023, staff received a copy of the draft report for Management's Response, initiating the 15-Business Day response time. On June 21, 2023, staff provided Management's Response for analysis by the CAE and inclusion in the "final" report.

At the August 16, 2023, BAC meeting, the BAC received the Final CIP Process Performance Audit Report with Management's Response (Attachment 2). The BAC referred the report to the CIP Committee, which CAE presented on September 18, 2023, and to the full Board for consideration, which CAE presented on October 24, 2023. On August 21, 2024, staff provided the first annual update on the status of audit implementation and reported on eight audit recommendations, six of which were completed, one was partially completed, and one was not yet completed. All recommendations deemed not completed were reported to be on track for completion by Quarter 4, Fiscal Year 2026 (Q4, FY26).

ENVIRONMENTAL JUSTICE IMPACT:
There are no Environmental Justice impacts associated with this item. Audits are a tool utilized by the BAC to monitor possible risks to the organization, and inform any guidance provided to staff to achieve the Board's priorities. There are no environmental impacts that result from this audit.

ATTACHMENTS:
Attachment 1: PowerPoint
Attachment 2: 2023 CIP Performance Audit Final Report

UNCLASSIFIED MANAGER:
Luz Penilla, 408-630-2228

Board Audit Committee

Implementation of Management Response to 2023 Capital Improvement Program Process Performance Audit

Presented by:

Luz Penilla, Assistant Officer - Office of Integrated Water Management

September 17, 2025

Background

1. May 2022 Board of Directors Request Audit of CIP Planning Process

Key Recommendations:

A. Ensure cost estimates are up-to-date and reflect reasonable rates of inflation.

B. Identify specific staff and contract resources required to complete projects.

C. Enhance the CIP 5-Year Plan by continuing to implement leading practices.

D. Improve transparency and consistency of information reported

Status of Recommendations

Key Recommendation (Summarized)	Management Response	Progress
1 A) Cost Estimates are Up-to-Date & Reflect Reasonable Inflation Rates; B) Identify Project Staff and Contract Resources; C) Memorialize Common Costs & Schedule Delays	A) Agree B) Agree C) Agree	**A) Completed** B) On-Track for Q4, FY26 C) On-Track for Q4, FY26
2. Performance Measurement System	A) Agree	A) On-Track for Q4, FY26
3. Formalize objective project prioritization and consider a performance-based prioritizing process	A) Agree	**A) Completed**
4. Formalize and consolidate CIP planning practices and procedures to reflect best practices, including establishing a formal, written process for establishing project contingencies.	A) Agree	**A) Completed**
5. Evaluate whether switching from annual updates to biennial CIP updates would benefit Valley Water.	A) Agree	**A) Completed**
6. Include additional details O&M costs in CIP 5-Year Plan	A) Agree	**A) Completed**
7. Implement quality control protocols to ensure that the data reported is consistent.	A) Agree	**A) Completed**
8. Improve Change Management Procedure, information aligns, and details are captured to point to the exact cause of changes.	A) Agree	**A) Completed**

Agenda

1. **Recommendation R1 – Schedule & Spending**
    A. Update Cost Estimates – **Completed**
    B. Identify Project Staff and Contract Resources (On Track for Q4, FY26)
    C. Memorialize Common Costs & Schedule Delays (On Track for Q4, FY26)

    Pause for Questions

2. **Recommendation R2 – Performance Measurement System**
    A. Tools
    B. Monitoring & Reporting
    C. Corrective Actions

    Pause for Questions

3. Next Steps

R1: Schedule & Spending

R1: Schedule & Spending

Problem: Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.

Recommendation Summarized: Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met

Status Update

R1A. Cost Estimates are Up-to-Date & Reflect Reasonable Inflation Rates - Completed

1) Project Plans Reviewed Annually
2) Independent Cost Estimator Provides Annual Inflation Rates
3) Annual Cost Estimating Training

R1B. Identify Project Staff and Contract Resources - On-Track for Q4, FY26

Workforce Planning & Reporting Software (VEMO)

1) FY24 Pilot Completed
2) FY25 Integration & Modifications for Capital Projects
3) FY26 Full Implementation

R1C. Memorialize Common Costs & Schedule Delays - On-Track for Q4, FY26

1) 48 Projects in Project Management Information System (Projectmates)
2) Lessons Learned Training led by Technical Review Committee

Pause for Questions

R2: Performance Measurement System

R2: Performance Measurement System

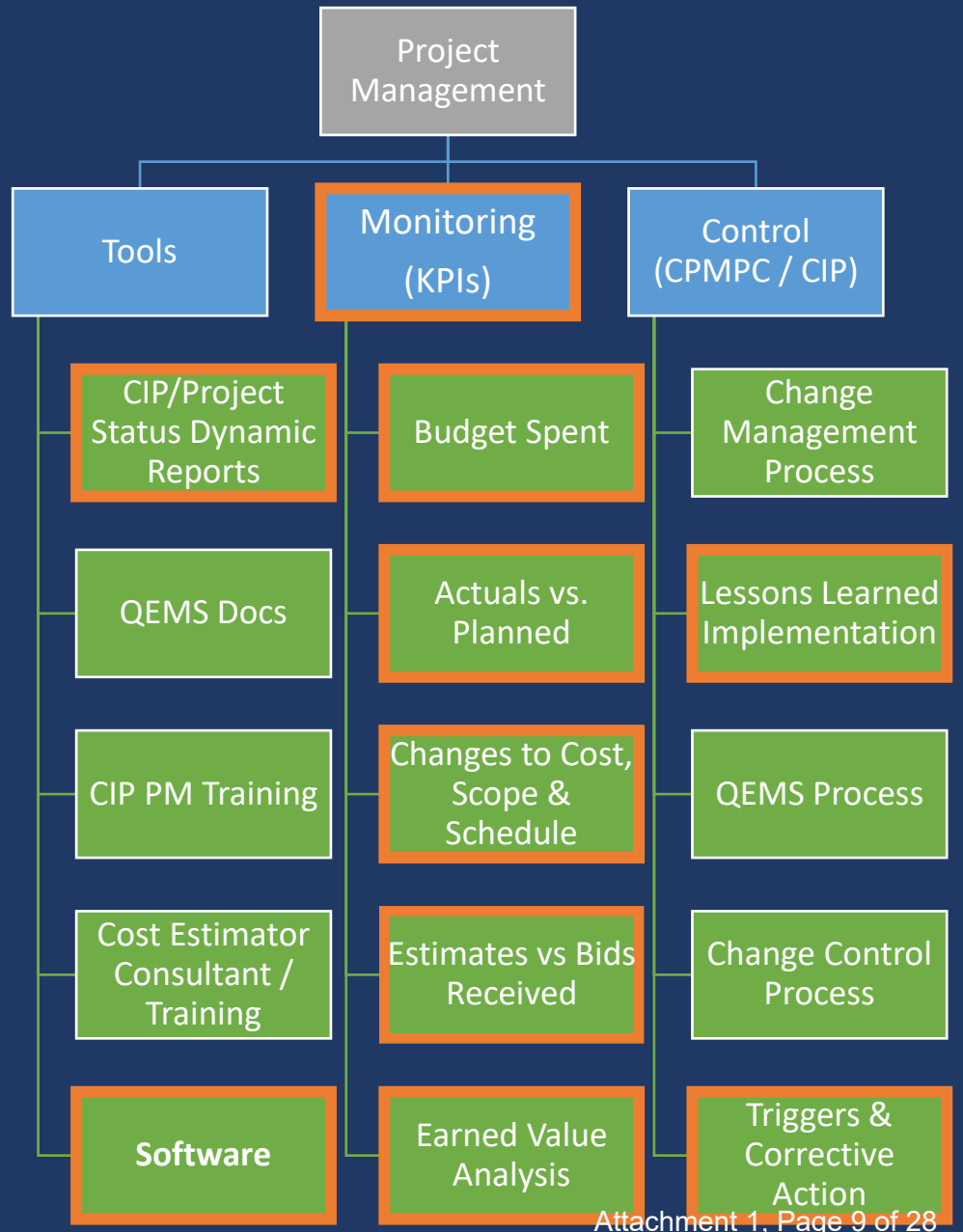
Improvements Related to R2

Problem: Valley Water's performance in delivering capital projects is obscured by the lack of a robust performance measurement system.

Recommendation Summarized: Develop a performance measurement system that effectively demonstrates Valley Water's performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans.

On-Track for Q4, FY26

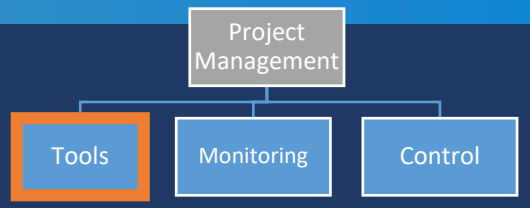
1) Enhanced Tools for Reporting & Monitoring
2) Identified Key Performance Indicators (KPIs)
3) Integrated Lessons Learned into CIP & Set Triggers for Corrective Action



R2: Performance Measurement System

Tools – VENA / MS Power Business Intelligence/Infor (ER)

Recommendation A: Monitor and report overall CIP performance to identify and improve areas in capital project and program delivery.



Status Update

R2A. Enhanced Tools for Monitoring & Reporting - Completed

1) Dynamic CIP / Project Status Reports
2) Integrated Financial Data, Briefings, and Milestones
3) Tracked Change Management Categories
4) Historical Data Trends for Future Estimates

Software

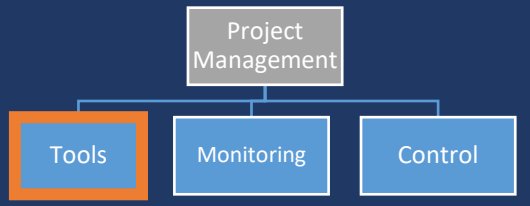
1) Minimized Manual Labor
2) Increased Awareness of Goals

R2: Performance Measurement System

Tools – Project Management Information System (PMIS) & Resource Management

1. Projectmates (PMIS) Status

A. 48 Projects
B. Change Orders
C. RFIs, Submittals & Invoicing Processing
D. Lessons Learned Database
E. Built-in Process Compliance
F. Earned Value Management Reporting System



2. VEMO Resource Management Status

A. FY24 Pilot
B. FY25 Modifications & Integration for Capital Projects
C. FY26 Capital Projects Implementation

R2: Performance Measurement System

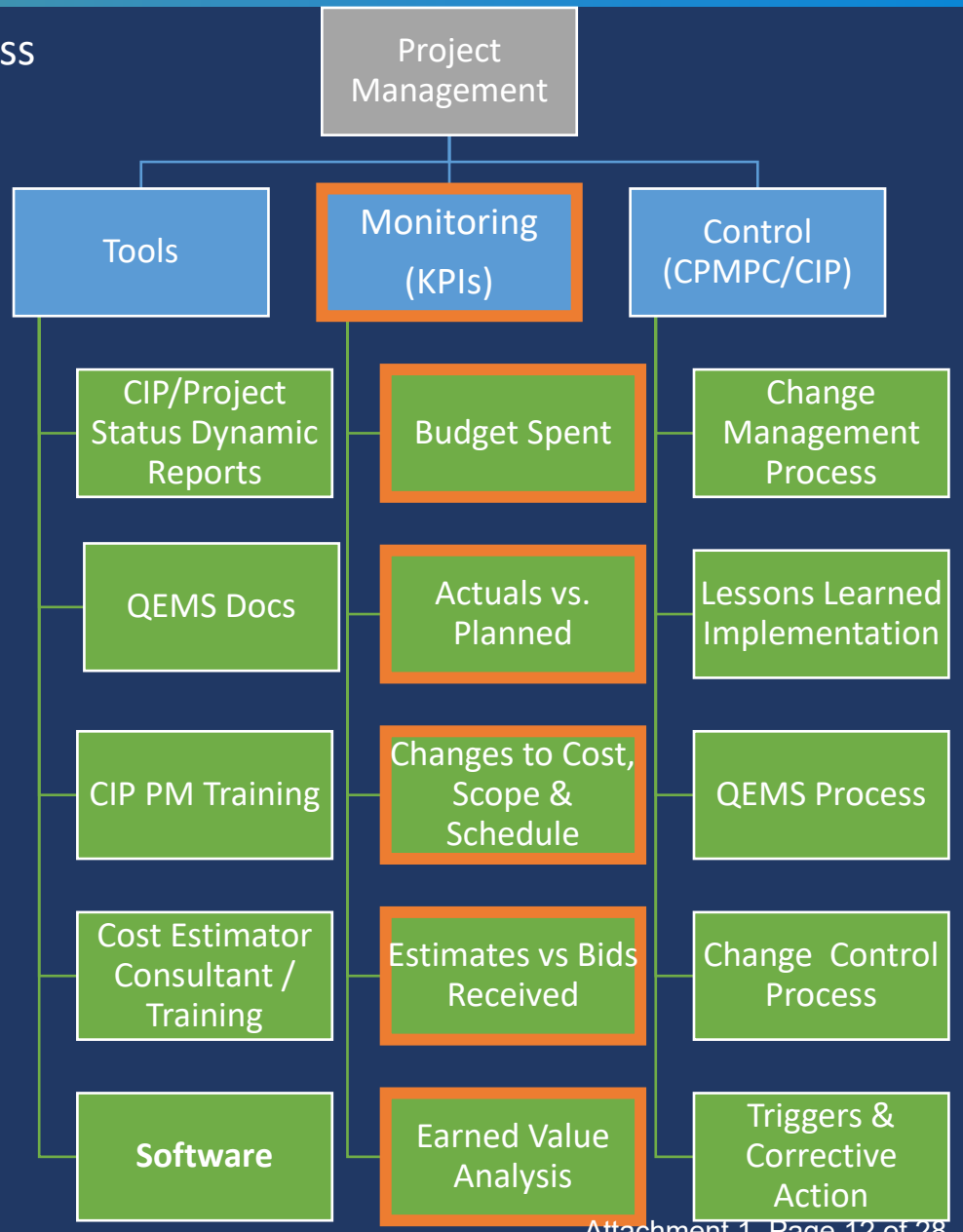
Recommendation B: Establish tangible targets to measure the effectiveness of the CIP in meeting agency goals.

Status Update

R2B. Tangible Targets for Performance Measurement & Corrective Action – On-Track for Q4 FY26

1) Identified Key Performance Indicators (KPIs) to Monitor and Corrective Actions

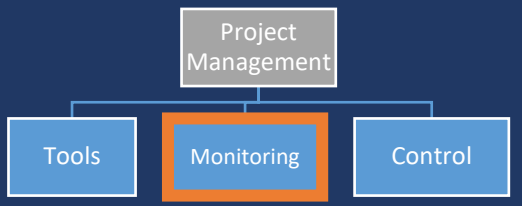
Recommendation C: Establish timelines to measure the impact of recent process improvements in CIP outcomes. Q4 FY26



R2: Performance Measurement System

Monitoring – Budget Spent

Did we spend what we asked for?



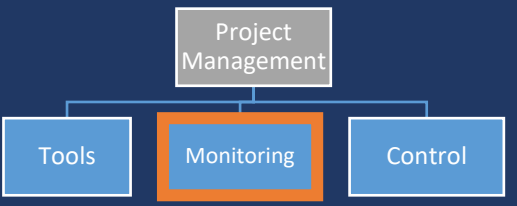
Tool	Monitoring Team	Target
Vena / Power BI	Budget Team	80% by end of Q4*

*Justification is required when under or over the planned expenditure.

R2: Performance Measurement System

Monitoring – Actuals vs. Planned Expenditures

Are we spending as planned?



Tool	Monitoring Team	Target
Vena / Power BI	CIP Team	80% to 110% Expenditure Rate*

*Justification is required when under or over the planned expenditure.

GOAL = = 80% Expenditure Rate

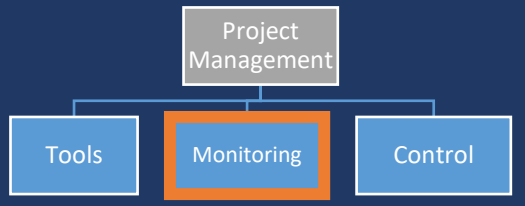
Fiscal Quarter	Budgetary Actuals	CumLtvPInd Exp	EXPD RATE
FQ2	$132,227,340	$167,632,820	78.9%

$$\text{Expenditure Rate} = \frac{\text{Actual Expenditures}}{\text{Planned Expenditures}} \text{ x } 100\%$$

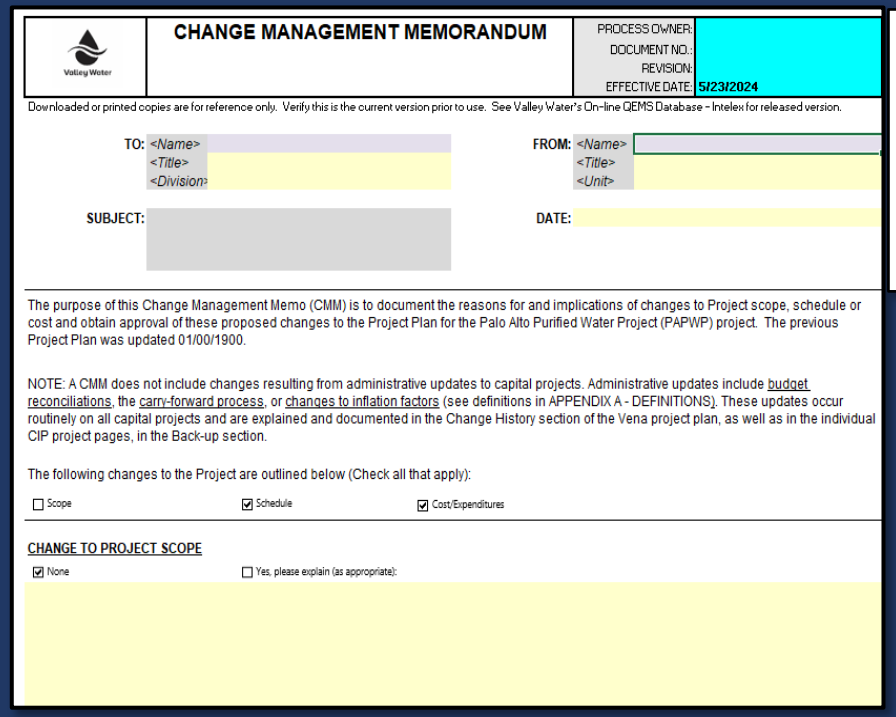
R2: Performance Measurement System

Monitoring - Changes to Cost, Scope, & Schedule

Is overall scheduling and cost estimating per Phase improving?



Tool	Monitoring Team	Target
Change Management Memo	CIP Team	Reduce the number of changes **within project manager's control**



CHANGE MANAGEMENT MEMORANDUM

PROCESS OWNER:
DOCUMENT NO.:
REVISION:
EFFECTIVE DATE: 5/23/2024

Downloaded or printed copies are for reference only. Verify this is the current version prior to use. See Valley Water's On-line QEMS Database - Intelex for released version.

TO: <Name> <Title> <Division>

FROM: <Name> <Title> <Unit>

SUBJECT:

DATE:

The purpose of this Change Management Memo (CMM) is to document the reasons for and implications of changes to Project scope, schedule or cost and obtain approval of these proposed changes to the Project Plan for the Palo Alto Purified Water Project (PAPWP) project. The previous Project Plan was updated 01/00/1900.

NOTE: A CMM does not include changes resulting from administrative updates to capital projects. Administrative updates include budget reconciliations, the carry-forward process, or changes to inflation factors (see definitions in APPENDIX A - DEFINITIONS). These updates occur routinely on all capital projects and are explained and documented in the Change History section of the Vena project plan, as well as in the individual CIP project pages, in the Back-up section.

The following changes to the Project are outlined below (Check all that apply):

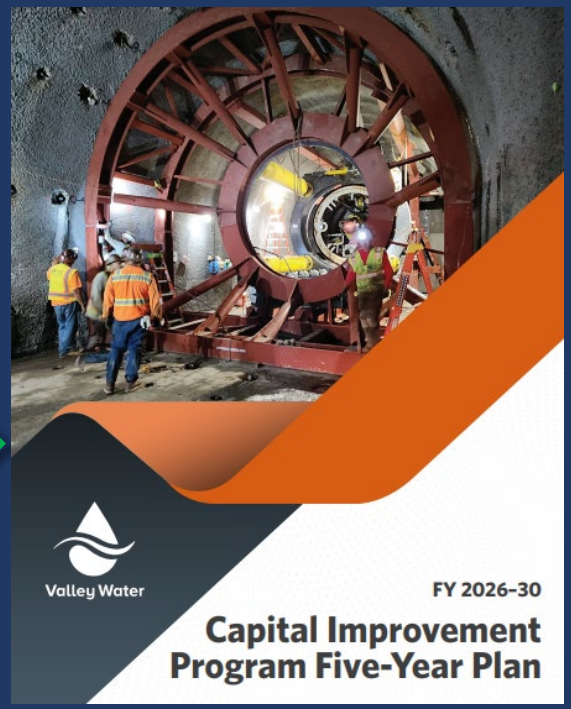
☐ Scope ☑ Schedule ☑ Cost/Expenditures

CHANGE TO PROJECT SCOPE

☑ None ☐ Yes, please explain (as appropriate):

Changes to Capital Project Plans are approved and documented via a CMM for incorporation into the CIP Five-Year Plan

CMMs



Change Management Categories

Status Update

Include Reason for Changes – Completed

1) QEMS Form W-751-125 Updated
2) Form Automated in Financial Planning Software

Change Categories

1) Unforeseen Events
   Including Added or Modified Permit Conditions
2) Clarifications
3) Stakeholder Requested

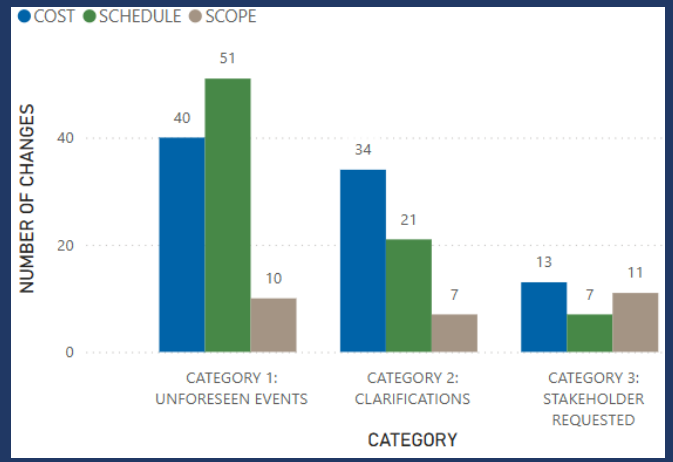


TABLE 5. REASONS FOR CHANGE(S)

Table 5 summarizes the reason(s) for change(s). Under each category, mark the applicable boxes identifying the reason(s) for change(s) to Scope, Schedule, and/or Cost. The reason(s) selected should match the justification(s) provided from this CMM.

CATEGORY 1: UNFORESEEN EVENTS		SCOPE	SCHEDULE	COST
COORDINATION: Coordination with Other Agencies/Projects/Property Owners/Partnerships		X	X	X
LABOR: Effort Changes, Restrictive work hours, or specialized methods of work				
MATERIALS: Procurement Issues (Supply Chain Issues or Delivery Days)				
REGULATORY: Inspection or Code Requirements, and/or preparation of permitting documents				
SITE CONDITIONS: Hidden or Less-than-ideal site conditions				
	A. Biological			
	B. Archaeological or Endangered Species Findings			
	C. Subsurface (Soil or Groundwater) Environmental Contamination			
	D. Utility Conflicts			
	E. Unhoused Citizen Issues			
	F. Other:			
UNPLANNED EVENTS: Natural disasters, accidents, or other emergencies				
OTHER:				
OTHER:				
OTHER:				

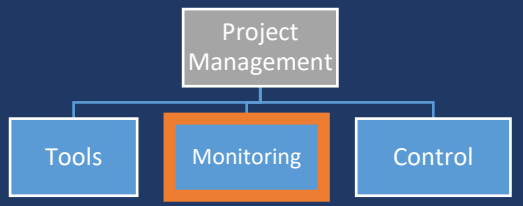
CATEGORY 2: CLARIFICATIONS		SCOPE	SCHEDULE	COST
CIP PLAN: Project falls outside CIP 15-year window.				
DOCUMENTS: Incorrect Building Plans (Oversight in original contract documents)				
GRANTS: Change in grant/reimbursement expectation				
INACCURATE ESTIMATES: Inaccurate estimates of the time, cost, or resources required to complete the project				
RESOURCES: Changes in the resources required to complete the project				
TASK CHANGES: Changes in the tasks required to fulfill the project's goals due to new information (e.g., planning study results.).				
OTHER:				
OTHER:				
OTHER:				

CATEGORY 3: STAKEHOLDER REQUESTED		SCOPE	SCHEDULE	COST
BOARD REQUEST: Direction/Decision		X	X	X
DISTRICT REQUEST: Addition, deletion, or revision to the physical work				
NEW STAKEHOLDER REQUEST: Change in project requirements or goals due to new stakeholders joining the project				
PUBLIC REQUEST: Demand/Acceptance				
OTHER:	Project moved to unfunded list as directed by Board, initiated SJPWP	X		
OTHER:				
OTHER:				

R2: Performance Measurement System

Monitoring - Changes to Cost, Scope, & Schedule Baseline

Are Construction Phase baseline schedules met?



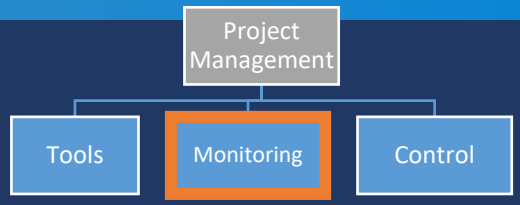
Tool	Monitoring Team	Target
Vena	CIP Team	For schedule and cost impacts within Valley Water's Control • Industry standard **schedule overrun is typically 20-30%** of baseline schedule*; • **Actual cost** not to exceed construction contract and contingency

*Contractor submits a baseline schedule after notice to proceed. Overrun differs depending on project factors such as project type, size, duration, and schedule impacts not within Valley Water's control.

R2: Performance Measurement System

Monitoring – Estimates vs Bids Received

Are construction contract cost estimates improving?

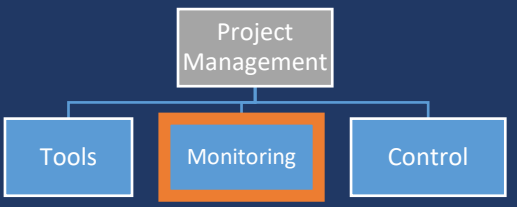


Tool	Monitoring Team	Target (TBD)
Construction Contracts Database	CCSU	Tracking trends starting in FY2023 due to the severe impacts of Covid 19 on construction

R2: Performance Measurement System

Monitoring – Earned Value Management Pilot FY25

How efficient are we?



Tool	Monitoring Team	Goal
VENA Earned Value Analysis Tool	CIP Team	Status* ≥ 0.80

Efficiency Ratios

1. Cost Performance Index (CPI)
2. Schedule Performance Index (SPI)
3. Status = (CPI + SPI)/2

Status	Description	Lower Value Limit
RED	Evaluate and/or update project plan	≤0.65
ORANGE	Needs immediate attention	0.65<0.8
LIGHT GREEN	Slightly behind schedule/budget	0.8≤ 0.89
GREEN	On track	0.90 ≤1

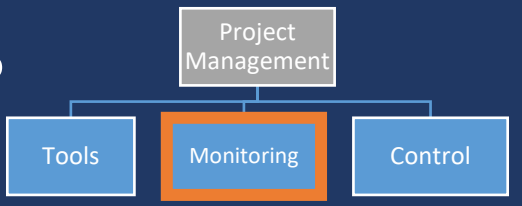
CPI = Earned Value/Actual Cost >1 under or within Budget; <1 Over Spending
SPI = Earned Value/Planned Value >1 Ahead of Schedule; <1 Behind Schedule

*Unforeseen events and stakeholder-requested changes must be considered.

R2: Performance Measurement System

Pilot Earned Value Management (EVM) in FY25

How do we implement Earned Value in VENA for projects not in construction?



Implementation

1. Add Planned Tasks & Milestones
2. Add Costs to Complete Tasks & Milestones*
3. Provide Percent Complete Updates

Quarterly Breifing Instructions
1.Write a summary on the status of milestones and/or challenges the project faced during the quarter. The maximum word count for each quarterly briefing is 90 words.
2.If applicable, explain the reasons for the project expenditures below 80% or above 110% of the planned expenditures.
3.Are we expecting the project to meet the 80% expenditure target by the end of the 4th quarter?
4.Please provide a brief update on the current fiscal year milestones.
5.Define all organizational acronyms in the quarterly briefing.

Quarterly Breifing Update			
Q1	Q2	Q3	Q4

Sample

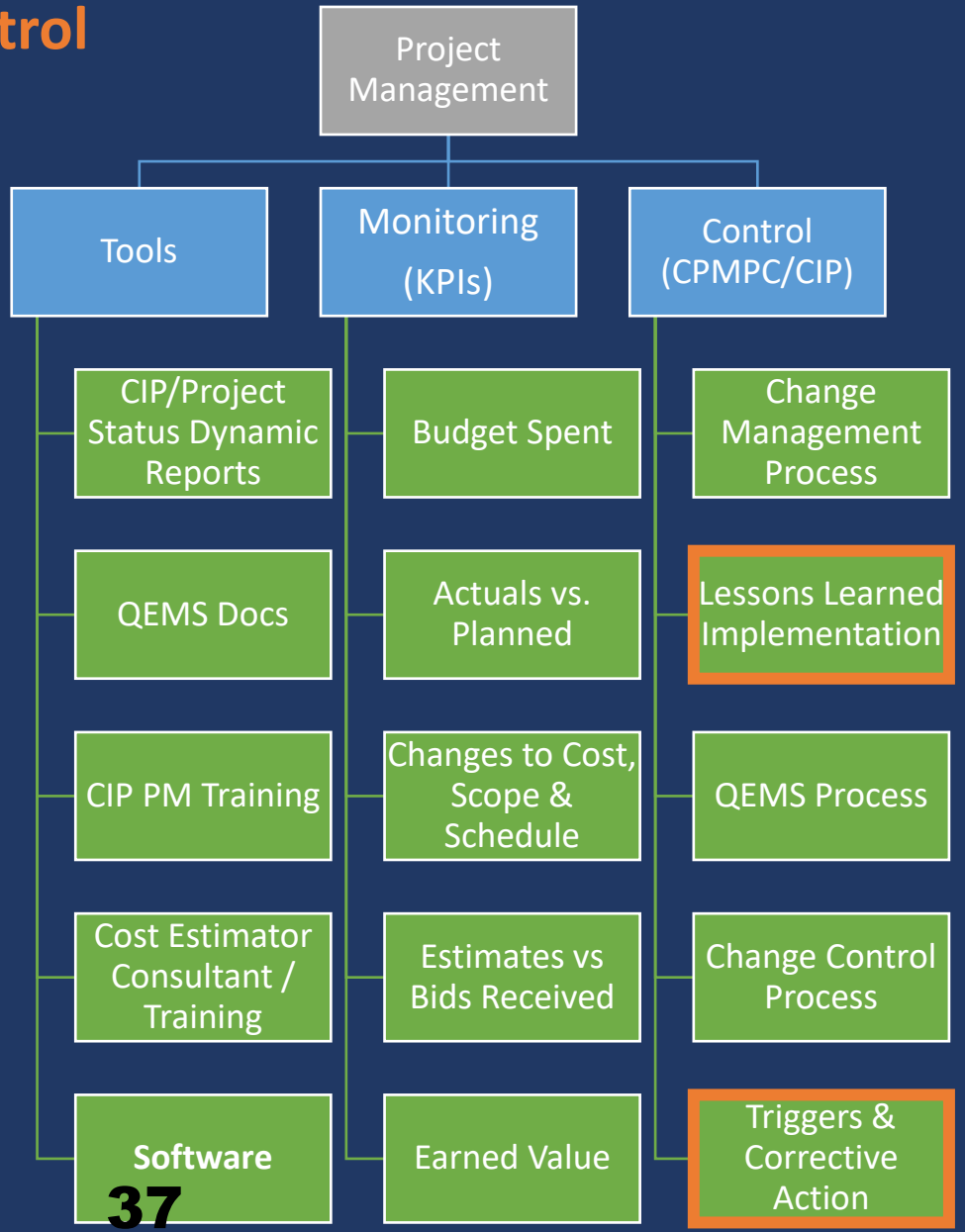
Task Code	Description OR Vendor and Cont/Agmt #	FY Milestone	1	2	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June		NOTES	3	COMPLETION PERCENTAGE* Q1	Q2	Q3	Q4
																	$0						
																	$0						
																	$0						
																	$0						
																	$0						

Planning
1207-Planning Project Managemer
1213-Problem Definition Report
1214-Conceptual Alternatives Repo
1216-Feasible Alternatives Matrix
1227-Stakeholder Engagement - Pl
1290-Planning Study Report
1299-Transition Report/Close-Out

*For projects in construction Projectmates (PMIS) built-in EVM Reporting System will use agreed-upon scheduled milestones for EVM analysis.

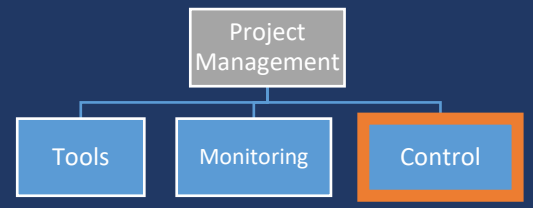
R2: Performance Measurement System

Capital Project Management Project Control



R2: Performance Measurement System

Control – Lessons Learned Implementation



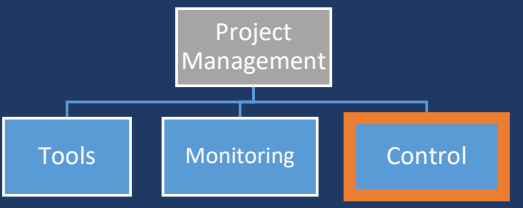
How are lessons learned identified, and issues avoided in the future?

1. **Lessons Learned Identified**
   A. Technical Review Committee Training
   B. Projectmates Database
   C. Staff

2. **Corrective Action**
   A. Contract Documents Update: Standards & Special Provisions
   B. QEMS
   C. Training

R2: Performance Measurement System

Control – Lessons Learned Implementation



Example: Coyote Creek Flood Protection Project and Coyote Creek Flood Management Measures Project

Problem: Four Project Manager Changes and Three Unit Manager Changes

Source of Problem:

- Significant staffing changes, resulting from retirements/separations, promotions and leaves

Solution:

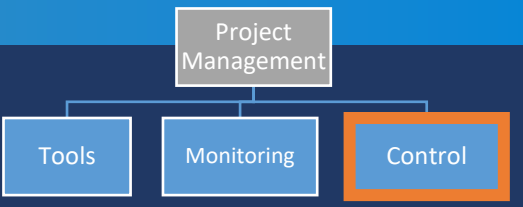
- Maintain Issues Log
- Maintain Decisions Log
- External Stakeholders Meeting Minutes (in Projectmates)
- Meeting Minutes of Important Meetings (in Projectmates)

Result:

- Use of Projectmates for all project documentation, including lessons learned, ensures project continuity despite staffing changes.

R2: Performance Measurement System

Corrective Actions for FY26



Criteria	Trigger (<70% of the adjusted budget spent)	Action*
1	Project was underspent in FY24	• **Project Success L1 Meeting:** Project Manager and/or Unit Manager collaborates with CIP Team to strategize for a successful upcoming year.
2	Criteria 1 applies & Project underspent Q1 (Jul–Sep)	• **Project Success L2 Meeting:** Capital Oversight Manager meets with Division Chief, CIP Team, and Budget Teams to strategize reversing negative trends before Q2 end (Dec) and ensure appropriate 1st Pass budget submission in November.
3	Criteria 2 applies & Project was underspent Q2 (Oct-Dec)	• **Project Success L3 Meeting:** Includes L2 and Chiefs Meeting to adjust strategy and reverse the negative trend before Q3 and February's second pass budget approval.

*Unforeseen events and stakeholder-requested changes must be considered.

Pause for Questions

Beyond Compliance: Advancing CIP Practices Through Collaboration and Innovation

2025 Water and Wastewater CIP Forum Conference

- Shared our CIP Performance Journey on a National Stage
- Gained participation for benchmarking study

2025 CIP Benchmarking Study

- Scope of work is in progress

Innovation Unit: AI Software

- Reservoir (Madison AI) for Government (Underway), Grammarly & VW Chat GPT
  - Transforms institutional knowledge into AI-powered workflows
  - Accelerates staff reporting and documentation

FY26 Next Steps

Next Steps

1. Continue Implementing Process Improvements
2. Perform Annual Evaluation of the Performance Measurement System and Goals
3. Provide Annual Updates to the BAC Committee
4. Conduct Benchmarking Study

END OF PRESENTATION

Santa Clara Valley Water District
Independent Board Auditor

Valley Water

Performance Audit of Valley Water's Capital Improvement Program

August 2023

SJOBERG EVASHENK CONSULTING, INC

455 Capitol Mall • Suite 700 • Sacramento, California • 95814 • Tel 916.443.1300 • www.secteam.com

Table of Contents

Report Highlights 2

Introduction and Background 3

- CIP Policies & Governance 4
- Valley Water Annual CIP 5-Year Plan Update Process 6
- CIP Programs 7
- Funding Sources 9
- Results of 2021 Risk Assessment 11

Scope and Methodology 12

Audit Findings 13

- Valley Water Implemented Many Leading CIP Planning Practices and Continuous Improvement Efforts Remain Ongoing 13
- Opportunities Exist to Better Ensure Valley Water Delivers Capital Projects as Programmed 18
- While Valley Water's CIP Planning Process Adheres to Many Leading Practices, Additional Opportunities for Improvement Exist 28
- Opportunities Exist to Improve Transparency and Consistency of Information Reported 36
- Revenue Forecasts Were Reasonably Close to Revenue Actuals 46

Recommendations 51

Appendix A – Valley Water's Implementation of CSMFO Leading Practices 53

Appendix B – Summary of Recommendations and Corrective Action Plan 55

REPORT HIGHLIGHTS

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RESULTS

The Santa Clara Valley Water District (Valley Water) has, since 2019, been focused on enhancing its Capital Improvement Program (CIP). During this time, it has implemented many practices that are in-line with both industry and leading practices, including establishing cross-department training, increasing the consistency with which Change Management Memos document changes in project scope and cost, implementing a new project management system (ProjectMates), and requiring the use of an independent cost estimates on all capital projects. These will have a continued positive impact on the success of future capital project delivery. This audit also found that revenue forecasts were reasonable and reliable, and debt financing and revenue forecasting practices aligned with peer and leading industry practices. However, opportunities for continued improvement exist throughout the CIP planning and delivery process. Doing so will better ensure planned milestones and targets related to total project costs and schedules are realistic and information reported is accurate and transparent.

BACKGROUND AND PURPOSE

Valley Water is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintenance of flood control channels, and oversight of rate setting and conservation efforts. Valley Water uses a 5-year rolling CIP plan to plan, manage, and deliver capital improvements in compliance with various statutes, regulations, and Board policies and goals. The result of Valley Water's CIP planning process is the Board's annual adoption of the updated CIP 5-Year Plan.

In May 2022, the Board of Directors requested Sjoberg Evashenk Consulting to conduct an audit of Valley Water's CIP planning process. The objective of this audit was to determine the extent to which Valley Water activities associated with planning, developing, executing, and monitoring its CIP 5-Year Plan are consistent with relevant requirements, policies, and best practices.

KEY FINDINGS

- Valley Water implemented many leading practices in developing its CIP 5-Year Plan, including practices recommended by the California Society of Municipal Finance Officers, Government Finance Officers Association, and California's largest public works agencies.
- Over the past five years, capital projects have not progressed in a manner envisioned by the CIP 5-Year Plan, resulting in cost increases and schedule delays. Actual capital spending was consistently and significantly less than planned despite having adequate financial resources to deliver the projects.
- While Change Management Memos reveal external factors that impacted project schedules (such as multi-government permitting processes), this audit revealed that outdated cost estimates and increased project costs affect Valley Water's ability to hit CIP targets, and that internal and external staffing resources may not be sufficient to meet project demands. Ensuring the CIP 5-Year Plan is achievable is important because an overly-ambitious plan may lead to program expenditures that are substantially lower than planned, and rate increases or bond issuances being implemented sooner than necessary.
- To better align the CIP planning process with industry leading practices, Valley Water should implement additional process improvements. This includes establishing more robust project prioritization processes, performance metrics to evaluate program success, and comprehensive capital planning policies and procedures, among others.
- Opportunities exist to strengthen the reliability of data used in developing the CIP 5-Year Plan. Annual capital budget amounts were not always consistently reported and did not always align with Valley Water's Financial System, and Change Management Memos did not always reflect sufficient information regarding the reasoning for cost increases and schedule delays.

KEY RECOMMENDATIONS

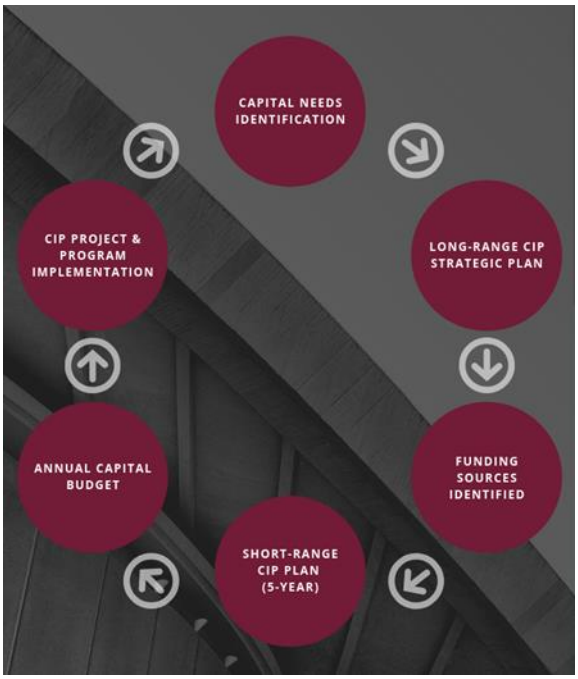
1. Improve CIP planning processes by ensuring key goals and milestones in the CIP plan are achievable. This should include:
   a. Ensuring cost estimates are up-to-date and reflect reasonable rates of inflation.
   b. Identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource.
2. Enhance the CIP 5-Year Plan by continuing ongoing efforts to implement leading practices as identified in this report.
3. Improve transparency and consistency of information reported in the CIP by implementing enhanced quality assurance procedures and ensuring compliance with Change Management Procedures.

Introduction and Background

The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood control channels, and overseeing water rate setting and conservation efforts. Valley Water is led by a seven-member Board of Directors (Board), with each Board director representing one of seven equally-divided districts in the Silicon Valley. The mission of Valley Water is to provide safe, clean water for a healthy life, environment, and economy.

In pursuit of this mission, Valley Water has established an annual Capital Improvement Program (CIP) planning process to plan, manage, and carry out capital improvements in compliance with laws and regulations, Board policies, and objectives and goals established by the Board. The result of this planning process is the updating and adoption of the rolling CIP 5-Year Plan, and includes updating the status of existing projects, identifying new projects to be added to the plan, and projecting capital expenditures, funding, and schedules associated with each project. The most recent iteration is the CIP 5-Year Plan for Fiscal Years (FY) 2022-23 through 2026-27. The CIP 5-Year Plan serves as a budget and project guide that implements the Valley Water Board's policies and directives, identifies funding sources for planned capital projects, and aligns with local land use jurisdiction's General Plans.

A leading practice in the capital planning lifecycle is to conduct an entity-wide capital needs assessment and call for projects, which includes determining the current state of capital assets and identifying both current and future capital needs. After a universe of potential projects is identified, an organization can develop a long-range CIP strategic plan that aligns the agency's capital plan with its long-term goals and objectives. Generally, the long-range CIP plan includes a combination of funded and unfunded projects. Once the long-range CIP plan is developed, an agency begins to identify funding sources to meet its capital needs and develops a short-range CIP plan.



In developing the short-range CIP, a leading practice is to develop an organization-wide prioritization process that ties quantitative and qualitative metrics to agency goals and objectives and helps to ensure the right mix of projects is programmed to best meet an agency's short- and long-term objectives. This plan includes projects that are planned to begin over the next five to six years and includes detailed project information, such as project scope of work, anticipated project costs by year and phase, funding sources, and project schedules and key milestones.

The short-range CIP provides a foundation to develop the annual capital budget, which generally includes planned capital expenses over the next one- to two-year period. After the annual capital budget is adopted, programmed projects are implemented and the capital planning life-cycle starts over again.

Valley Water maintains a CIP 5-Year Plan, updating it annually.

CIP Policies & Governance

Valley Water develops its CIP 5-Year Plan in accordance with California Government Code Section 65403, California Public Contract Code, and guidelines established by the Government Finance Officers Association (GFOA). To guide capital planning efforts and manage its assets Valley Water has a variety of program plans, master plans and asset management plans based on business areas, that define three primary goals:

1) To achieve a reliable water supply,
2) Improved flood protection, and
3) Healthy and resilient ecosystems.

In line with these plans, Valley Water's capital improvements are intended to comply with the Board established Ends Policies that describe the outcomes or results to be achieved by Valley Water staff and Executive Limitations that were established to balance the Ends Policies and set limits on staff activities in fulfilling them. Additionally, Valley Water follows Executive Limitations 4.3.1 and 4.4.1 that require an annual rolling CIP 5-Year Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan and requires Valley Water to demonstrate to the Board how projects included in the CIP 5-Year Plan align with the Board's capital priorities.

Valley Water's CIP 5-Year Plan is developed with projects selected based on their alignment with the following Ends Policies established by its Board:

- ✓ **Ends Policy E-2**: Valley Water provides a reliable, safe, and affordable water supply for current and future generations in all communities served.
- ✓ **Ends Policy E-3**: Natural flood protection is provided to reduce risk and improve health and safety for residents, businesses, and visitors, now and into the future.
- ✓ **Ends Policy E-3.1**: Maintain flood protection facilities to design levels of protection.
- ✓ **Ends Policy E-3.2**: Assist people, businesses, schools, and communities to prepare for, respond to, and recover from flooding through equitable and effective engage.
- ✓ **Ends Policy E-4:** Water resources stewardship protects and enhances ecosystem health.

According to Valley Water, program plans, master plans and asset management plans are developed to achieve the results established by the Ends Policies and to further define the goals and objectives of each Ends Policy. In Exhibit 1 is an illustration of how Valley Water's CIP process aligns with Ends Policies and the various plans used by Valley Water to program capital projects.

EXHIBIT 1. VALLEY WATER CIP PROCESS ALIGNMENT WITH ENDS POLICIES

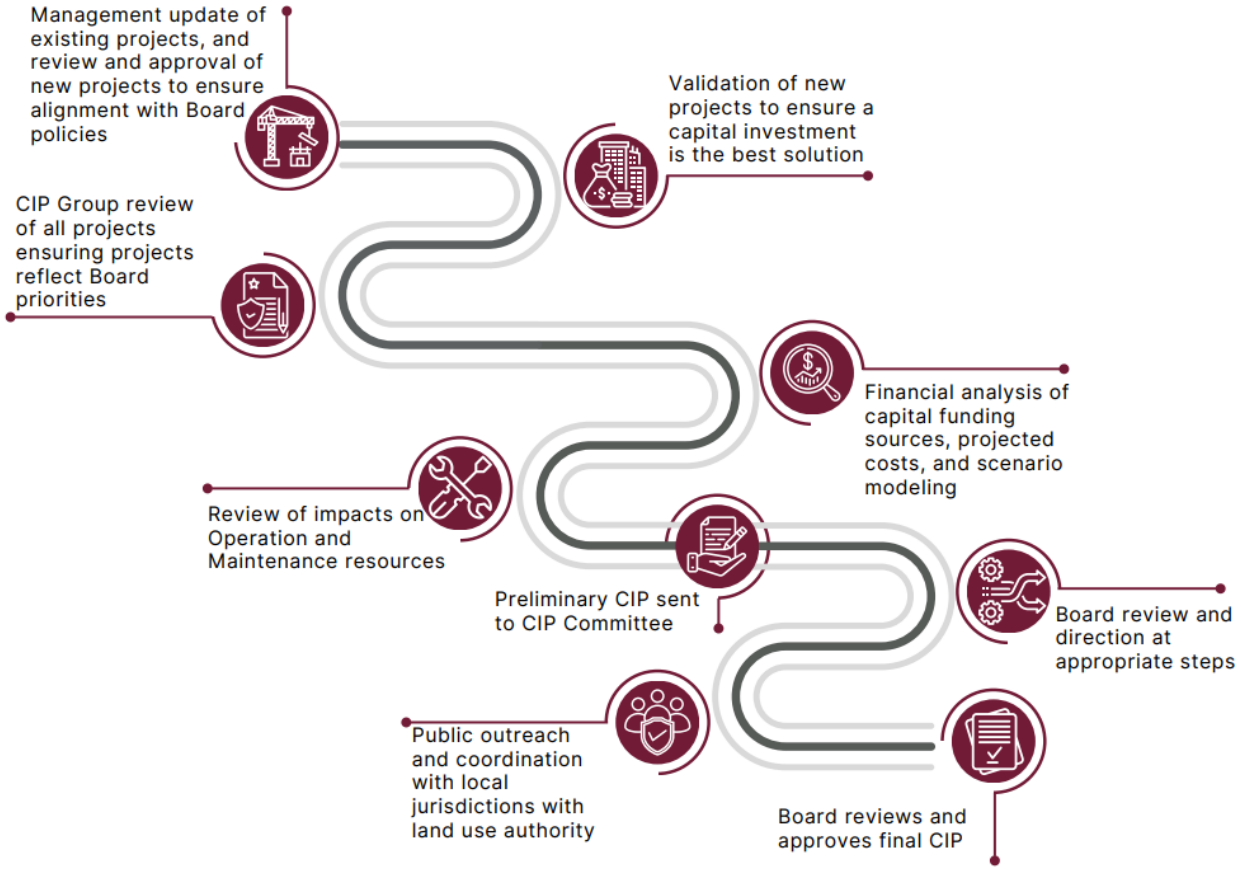
Source: Valley Water CIP 5-Year Plan FY 2022-26
Note: The Ends Policies were updated after the CIP 5-Year Plan was published and therefore do not reflect the updated Ends Policies presented above.

Consistent with these policies, Valley Water has established various formal and informal procedures to guide both capital planning and capital project delivery activities. For instance, Valley Water established procedures detailing the roles of its internal capital planning committee, project change management memo process, and capital project delivery process. These and other organizational procedures are stored in a repository referred to as Quality and Environmental Management System (QEMS). This includes, standard forms, such as project proposal templates, project calculation cover sheets, and individual project plan guideline templates—all of which promotes consistency and standardization in CIP planning processes.

Valley Water Annual CIP 5-Year Plan Update Process

As shown in Exhibit 2, Valley Water established an annual process to update its CIP 5-Year Plan. This process begins in April each year and is completed in the last quarter of the fiscal year with the Board's approval of the final CIP 5-Year Plan.

EXHIBIT 2. ANNUAL CIP 5-YEAR PLAN UPDATE PROCESS



Source: Auditor Generated from Valley Water CIP 5-Year Plan FY 2022-26 and Valley Water CIP training materials.

Specifically, beginning in April of each year, the CIP Coordinator, initiates a call for potential capital projects for the coming fiscal year cycle. As part of the call for projects, Valley Water staff develop project proposals, referred to as business cases, for new projects that they would like to be considered for inclusion in the CIP. The project proposals provide analyses that compare the business case for alternative solutions for a

given problem or failure using life-cycle cost analysis. These business cases were designed with the intent to reduce long-term costs, provide justification for project expenditures, better define the proposed project scope of work, and provide greater fiscal responsibility and public transparency. As part of the validation process, the CIP Group (also referred to as the CIP Evaluation Team), which is comprised of Valley Water capital division deputies, chiefs, Assistant Chief Executive Officer (ACEO), and Chief Executive Officer (CEO), is responsible for initiating and implementing capital projects, reviews and approves or rejects proposed projects, and ensures proposed projects align with Board policies and approved program plans.

In addition, Valley Water staff in the Business Planning and Analysis Unit's Capital Improvement Program meets with individual project managers and program management in August and September each year to review existing projects and discuss updates to the project scope of work, schedule, and budget. Project budgets, schedules, and/or scope of work may be modified for a variety of reasons, such as changes in market conditions, inflation, unforeseen conditions, additions and deletions to the project scope of work, and project delays. If changes are needed to the scope, schedule, or budget, then the Business Planning and Analysis Unit staff work with the project manager to develop a Change Management Memo (CMM) that formally documents the requested change and provides justification for the change. The CMM must be reviewed and approved by the associated project deputy.

Once all new project requests have been reviewed and existing projects updated, the CIP Group reviews all projects for alignment with Board priorities and conducts financial analysis to assess Valley Water's ability to fund projects based on known funding sources. Between November and December of each year, the CIP Group reviews financial modeling prepared by the Financial Planning and Revenue Collection Unit with assistance from the Treasury-Debt Management Unit and, in doing so, assesses the impact completed projects will have on Operations and Maintenance resources. The Board's CIP Committee also reviews management's project recommendations and Preliminary CIP 5-Year Plan and, in the following January, management presents the Preliminary CIP 5-Year Plan to the Board.

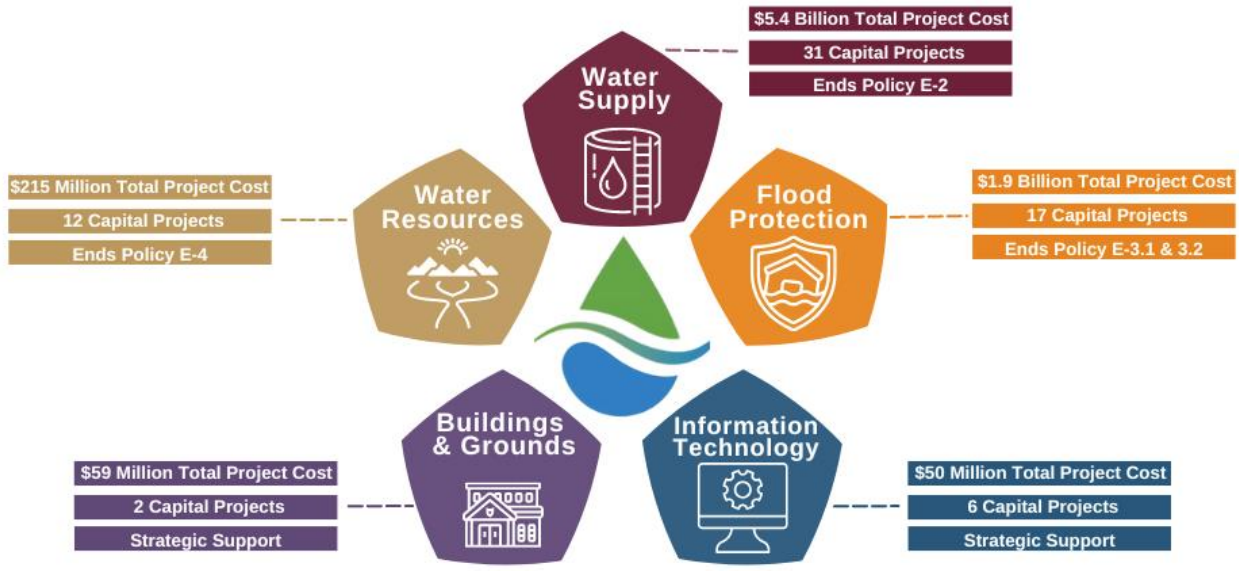
Feedback and direction provided by the CIP Committee and Board is incorporated into a draft CIP 5-Year Plan that is presented to the Board in February and used for public outreach and coordination with other land-use jurisdictions in March. A public hearing is held in April for community feedback and comments. The final CIP 5-Year Plan is submitted to the Board in May and reviewed and approved by the Board in June.

CIP Programs

The CIP is divided into five programs based on types of improvements: Water Supply Improvements, Flood Protection, Water Resources Stewardship, Building and Grounds, and Information Technology, as shown in Exhibit 3. The first three program improvement areas are directly aligned with the three primary goals set forth in Valley Water's various program plans, master plans and asset management plans—specifically Valley Water's goals to achieve a reliable water supply, improved flood protection, and healthy and resilient ecosystems. These programs further support the Boards Ends Policies, which describe the outcomes or results to be achieved by Valley Water staff. The final two types of improvement program areas—Building and Grounds and Information Technology—support the overall infrastructure of management for Valley

Water. Valley Water's CIP 5-Year Plan FY 2022-26 includes 68 projects within these five programs totaling nearly $8.0 billion, of which $2.6 billion is planned for the next five years.

EXHIBIT 3. CAPITAL IMPROVEMENT PROGRAM MAJOR PROGRAMS



Source: Valley Water CIP 5-Year Plan FY 2022-26

These capital improvement programs are described below.

- ✓ **Water Supply Program.** Providing clean and safe drinking water to the community is a foundational purpose of Valley Water and is a top priority in its CIP. The Water Supply Program is responsible for the planning, design, and construction of capital infrastructure related to water storage, treatment, and transmission. A large focus for the Water Supply Program moving forward will be maintaining and upgrading the infrastructure that is currently in place, including: storage facilities, including 10 surface reservoirs, 393 acres of recharge ponds, 76 miles of in-stream recharge, and Ground water basins; transmission facilities, including 142 miles of pipelines and three pump stations; three treatment facilities; and two recycled water facilities. Much of this infrastructure is approaching 50-60 years in age.

- ✓ **Flood Protection Program**. Safeguarding the local area against flooding through management of watersheds is also a top priority in the CIP, as Flood Protection is critical for community safety. Valley Water has jurisdiction over and manages approximately 275 miles of creeks in Santa Clara County which span across five separate watersheds: Lower Peninsula, West Valley, Guadalupe, Coyote, San Francisco Bay Shoreline, and Uvas/Llagas. Another key component of this program is maintaining and rehabilitating flood protection infrastructure.

- ✓ **Water Resource Stewardship Program**. Striving towards environmental enhancement has been a priority since 1999 and has served to bolster other program areas with its focus on healthy eco systems, clean and safe drinking water, and improved open space quality of life. Valley Water's environmental stewardship has yielded key results for the community including 92 projects that

resulted in 71 miles of public access, removing 15,000 lbs. of mercury from the creeks, and the removal of 20 fish passage impediments.

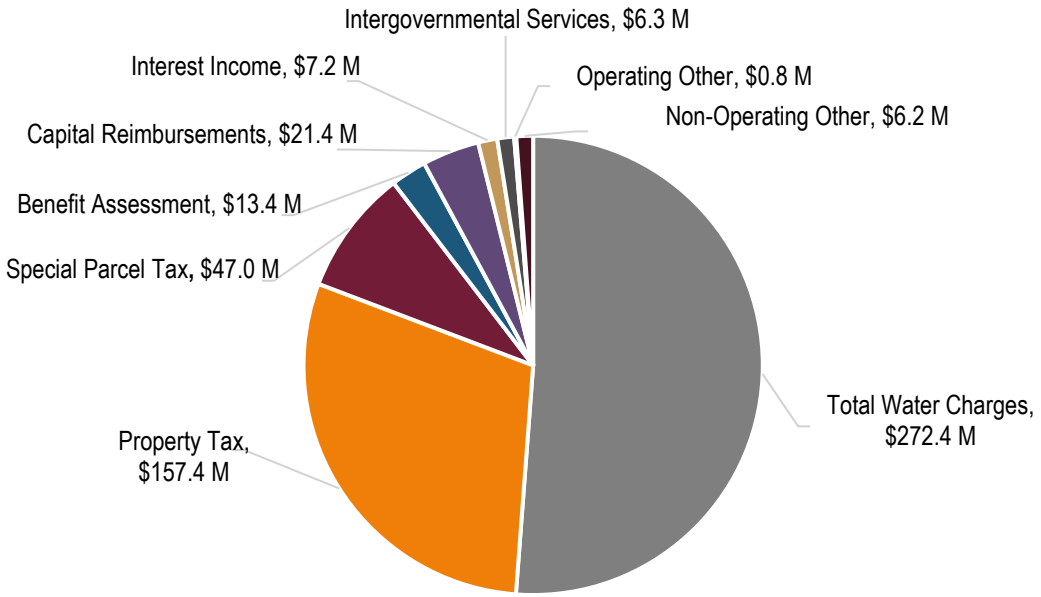
- ✓ **Building and Grounds Program**. This program is focused on the maintenance and upkeep of Valley Water's campus in San Jose, including facility management, small capital improvements, and updates to the Headquarters Operations Building.

- ✓ **Information Technology Program**. The Information Technology Program serves the technical support and management needs of Valley Water, with projects focused on data consolidation, information technology disaster recovery, and software upgrades. These technology improvements serve to achieve Valley Water's goals of managing their core responsibilities which are Water Supply, Flood Protection, and Water Resources Stewardship.

Funding Sources

In FY 2021-22, Valley Water received $532 million in revenue for its CIP—90 percent of the revenue received was from three revenue sources, as show in Exhibit 4. The largest revenue source consists of water rates charged to customers, which accounted for half of the total CIP revenue, and is dependent on both annual water rates set by the Valley Water Board and water consumption. The second largest revenue source is the ad valorem property tax which was nearly a third of the total CIP funding. This is a 1 percent property tax that is dependent on annual property values. The third largest revenue source, accounting for 9 percent of total CIP revenue, is a special parcel tax, referred to as Measure S, that is based on fixed parcels of land. These revenues can only be used for the Safe, Clean Water and Natural Flood Protection Program. The remaining 10 percent of CIP funding comes from a mix of benefit assessments, interest income, capital reimbursements, such as grants, and other revenue sources.

EXHIBIT 4. VALLEY WATER REVENUE SOURCES, FY 2021-22 ACTUALS



Source: Auditor generated based on data provided by the Chief Financial Officer for revenue actuals from FY 2021-22
Note: Total Water Charges reflect combined amounts for groundwater production, treated water, and surface recycled water charges.

Valley Water utilizes a combination of government funds and proprietary funds for its CIP.[1] Within these two fund types Valley Water has established a total of eight funds, as shown in Exhibit 5 below. Each fund has specific revenue sources according to their intended purposes, and 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. Further, each of these funds can only finance specific types of projects.

EXHIBIT 5. VALLEY WATER FUND STRUCTURE

Source: Valley Water CIP 5-Year Plan FY 2022-26

Of these eight funds, four funds are primarily used to track and manage the six primary revenue sources that fund capital projects, including water charges, property tax, special parcel tax, benefit assessments, capital reimbursements, and interest.[2] Exhibit 6 shows which fund each revenue source is organized into, and what type of improvements can be pursued by those funds for the three largest programs in the CIP.

[1] A governmental fund is generally used to account for tax-supported government activities. A proprietary fund is used to account for business-type activities often supported by fees or charges.
[2] Grant revenue receipts are categorized as capital reimbursements.

EXHIBIT 6. KEY CAPITAL PROGRAMS AND FUNDING SOURCES

			Capital Program		
	Key Revenue Sources	Fund	Water Supply	Flood Protection	Water Resources Stewardship
1	**Water Charges**	Water Utility Enterprise Fund	✓		✓
2	**Property Tax** (Ad Valorem)	Watershed and Stream Stewardship Fund	✓	✓	✓
3	**Special Parcel Tax** (Measure S)	Safe, Clean Water and Natural Flood Protection Fund	✓	✓	✓
4	**Benefits Assessments**	Benefit Assessment Fund[A]		✓	
5	**Capital Reimbursements**	Multiple Funds[B]	✓	✓	✓
6	**Interest**	Multiple Funds[B]	✓	✓	✓

Source: Auditor generated based on Valley Water CIP 5-Year Plan FY 2022-26

Notes:

A: According to the Chief Financial Officer, this pays for debt service associated with past debt issuances for flood protection projects.

B: Capital reimbursements do not have a separate stand-alone fund. Individual projects from different improvement type areas can receive capital reimbursements and monies would return to the specific funds that the project is funded by. Similarly, earnings from interest are reallocated proportionally back into the funds driving the interest earned.

Results of 2021 Risk Assessment

In 2021, the independent Board auditor issued an agency-wide risk assessment that identified several factors that, in the view of the auditor, presented challenges to the CIP planning process. This included three primary concerns:

- The CIP is not right-sized given Valley Water's resources and the availability of key personnel, including sufficient project staff and outsourced service providers as well as various support units (e.g., General Services and Real Estate Services), leading to the potential overcommitment of staff and predictable project delays.
- Potential projects are sometimes included in the CIP even when it is expected that the projects would not start within the established schedule, consuming limited staff resources for financial analysis and project planning.
- CIP projects lack performance indicators that effectively measure program or project success, or enable management and the Board to evaluate whether intended goals have been met.

Based on these concerns, the CIP planning process was included in the 2022-2024 Annual Audit Work Plan with the intent that it would identify opportunities to improve the CIP planning process (project initiation to CIP plan approval), evaluate potential steps that can be taken to right-size the CIP in a manner that considers the Agency's staffing resources, identify potential performance measures to measure success and monitor financial management, and identify best practices and lessons learned that can be adopted in future CIP 5-Year Plans.

Scope and Methodology

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan was approved by the Valley Water Board. Based on this work plan, the Board Audit Committee recommended that the Board initiate a performance audit of Valley Water's CIP Process, which was the top-ranked audit topic in the 2022-2024 Annual Audit Work Plan. On May 24, 2022, the Board approved the initiation of this audit and selected Sjoberg Evashenk Consulting as the auditor to conduct the audit. The objective of this audit was to determine the extent to which Valley Water activities associated with planning, developing, executing, and monitoring its CIP 5-Year Plan are consistent with relevant requirements, policies, and best practices. To meet the audit's objectives, SEC performed the following audit steps:

- Interviewed key CIP, project management, and Finance staff, as well as representatives of Valley Water management and the Board; reviewed all relevant policies, procedures, and staff guidance; and selected a sample of project files for review.
- Evaluated the processes employed by Valley Water to identify and prioritize projects for inclusion on the CIP 5-Year Plan; identify and secure funding sources to implement the CIP, including grant funding and administration, rate setting, debt financing; develop, monitor, and update the plan; and assess project outcomes and overall performance.
- Mapped out the CIP cycle, identifying key parties involved and business processes; identified potential gaps, inefficiencies, or opportunities for improvement.
- Determined whether CIP practices were in-line with the Board's policies and goals for the CIP.
- Evaluated historic trends relating to the CIP, including target start and completion dates, project budgets, and project goals, and compared to actual results; evaluated metrics established to define and evaluate project success or measure program performance.
- Conducted benchmarking research to identify leading practices in CIP planning and monitoring, and compared results with practices observed at Valley Water and, based on the results, identified potential opportunities for improvement.

Audit fieldwork was performed between August 2022 and March 2023. On April 28, 2023, a draft of this report was provided to management for review and discussion, and an exit conference was held with management on May 2, 2023. Valley Water management generally agreed with the conclusions presented in this report, and responses and feedback provided by management were considered and incorporated where applicable in the final report. Management's response to the audit recommendations is presented in **Appendix B** of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Findings

An effective CIP facilitates the planning, prioritization, and reporting related to long-term investments in capital infrastructure and technology. This requires reliable methods for identifying current and future needs, assessing costs and funding sources, prioritizing projects based on need and resource availability, developing timelines for project completion, evaluating performance based on the CIP plan, identifying lessons learned, and incorporating improvements based on lessons learned in CIP plan updates. By prioritizing investments and providing a roadmap for future expenditures, a CIP helps ensure that resources are used in the most effective and efficient manner to meet the needs of the community and organization.

This audit assessed Valley Water's processes for identifying needs, assessing costs and funding sources, prioritizing projects, developing project timelines, and evaluating project performance against the CIP 5-Year Plan. We found that Valley Water's CIP planning process incorporated many sound business practices, as detailed in the first finding of this report.

However, we also found that, for each of these critical steps in the CIP planning and delivery process, opportunities for improvement exist. For example, despite continuous improvement in CIP planning processes, opportunities continue to exist to better ensure Valley Water delivers capital projects as programmed. Achieving planned milestones or targets in the CIP 5-Year Plan proved challenging primarily because cost estimates were outdated; actual staffing resources required to hit CIP targets and milestones were not fully identified and available; established schedules did not always sufficiently account for external factors, such as permitting and California Environmental Quality Act (CEQA) requirements, and coordination with external agencies; and management's overall performance in meeting CIP goals and capital project delivery was not sufficiently monitored. Beyond, this however, this audit notes that while Valley Water had implemented numerous best and leading practices, opportunities for improvement include implementing protocols to more formally prioritize capital project investments, quantifying and measuring performance, incorporating additional information regarding ongoing operations and maintenance costs associated with capital improvements, and implementing quality control measures to ensure accuracy and consistency in data reported throughout the CIP 5-Year Plan. These findings are addressed in the remainder of this report.

Valley Water Implemented Many Leading CIP Planning Practices and Continuous Improvement Efforts Remain Ongoing

Valley Water implemented many leading practices related to the development and reporting of its CIP 5-Year Plan. Our review found that many of the practices and policies established by Valley Water align with leading practices identified by the California Society of Municipal Finance Officers (CSMFO),[3] GFOA,[4]

[3] CSMFO criteria to achieve the Meritorious and Excellence Award for Capital Budgets as cited in The CSMFO Budget Awards Program Overview & Explanation of Criteria

[4] GFOA Capital Planning Policy

California Multi-Agency Statewide CIP Benchmarking Study,[5] and practices implemented by peer agencies reviewed. Valley Water's capital planning practices generally aligned with leading practices and peers.

For example, Valley Water's CIP 5-Year Plan FY 2022-26 met most of the applicable criteria established by CSMFO. In some cases, the criteria set forth by CSMFO are relatively basic and focused on aesthetics—such as including a summary schedule of capital revenues by source, the identification of specific projects, the use of graphics and maps to clearly present relevant information, and ensuring readability and accessibility. Valley Water generally followed these recommended practices. More importantly, however, the CSMFO also sets forth criteria designed to establish a sound basis for planning capital projects in a transparent manner. This includes tying planned projects to specific revenue sources, reflecting estimated expenditures for the budget year and future years, including total project costs for multi-year projects, ensuring budget numbers are accurate and consistent throughout the document, connecting capital projects to agency-wide goals, reasonable estimates of future annual operating and maintenance costs of the infrastructure once delivered, and reliable revenue forecasts, among others. In most cases, we found Valley Water's CIP 5-Year Plan to be consistent with the criteria set forth by the CSMFO. We provide a table summarizing Valley Water's implementation of key components for capital budgets as identified by CSMFO in Appendix A of this report.

Valley Water Implementation of CSMFO Leading Practices:

- ✓ Clear summary schedules of capital revenue and expenditures by both project type and major type of improvement.
- ✓ Project details include clear narratives discussing the project status, details and timeline for project completion.
- ✓ For multi-year projects a total cost for the project is identifiable.
- ✓ The document demonstrates good use of graphics, artwork, maps, and charts and is readable and clear.

In addition to the leading practices set forth by the CSMFO, Valley Water reports in its CIP 5-Year Plan FY 2022-26 that it follows GFOA standards in the development and reporting of its plan. The GFOA generally requires agencies to establish CIP governance policies that address how the organization will approach CIP planning, address stakeholder input, define roles and responsibilities, and monitor the CIP program. Our review found that processes and practices implemented generally aligned with the leading practices identified in the GFOA Capital Planning Policy, as shown in Exhibit 7. For instance, in the CIP 5-Year Plan FY 2022-26, Valley Water provided a clear definition of what constituted as a capital improvement project and included an overview of its capital planning process.

[5] California Multi-Agency Statewide CIP Benchmarking Study Annual Report – Update 2022

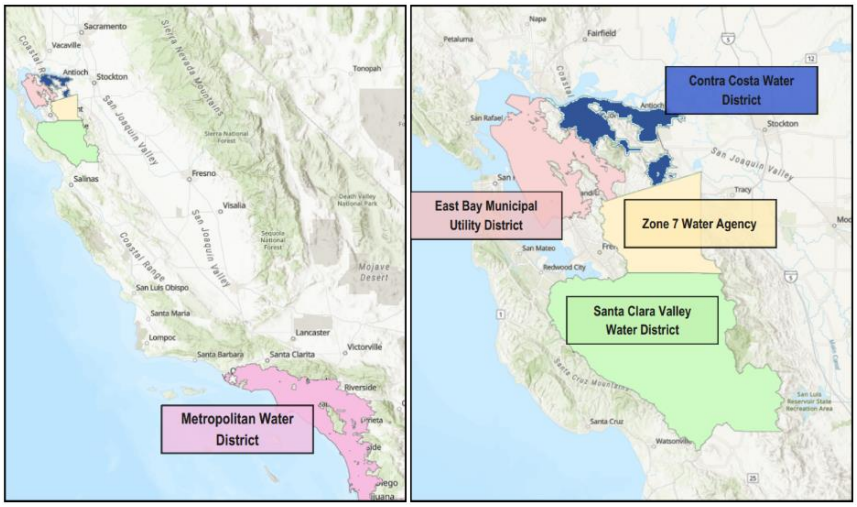
EXHIBIT 7. VALLEY WATER'S IMPLEMENTATION OF GFOA CAPITAL PLANNING LEADING PRACTICES

A description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.	✓
A clear definition of what constitutes a capital improvement project.	✓
Establishment of a capital improvement program review committee and identification of members	✓
A description of the role of the public and other external stakeholders in the process. (The level and type of public participation should be consistent with community expectations and past experiences.)	✓
Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources	P
A requirement that the planning process includes an assessment of the government's fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.	✓
A procedure for accumulating necessary capital reserves for both new and replacement purchases.	✓
A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt	✓
A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies.	✓
A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.	✓
A requirement that the plan include significant capital maintenance projects.	✓
Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.	✓

Source: Auditor Generated from GFOA Capital Planning Policies and Valley Water CIP 5-Year Plan FY 2022-26
Key: ✓ = Criterion Met and P = Criterion Partially Met

In addition to evaluating the extent to which Valley Water's CIP planning process aligns with CSMFO and GFOA, we interviewed and researched the CIP practices of four similarly situated peer water agencies: Contra Costa Water District, East Bay Municipal Utilities District (EBMUD), Zone 7 Water Agency, and Metropolitan Water District.

Our review of these four agencies revealed Valley Water's capital planning practices to be generally consistent with its peers. For example, peer agencies' CIP plans ranged in duration from two years to 10 years—the Valley Water CIP plan covers a 5-year period. In addition, as discussed later in this report, Valley Water's approach to debt financing and revenue forecasting, funding sources and methods, as well as challenges obtaining permits resulting in delays generally aligned with peers. In addition, although Valley Water's CIP budget was the largest amongst peers, Valley Water utilized similar staffing resources to develop its CIP 5-Year Plan although it updated its CIP annually; whereas, peers updated their short-range CIP biennially.



Recent Process Improvements Have Been Implemented, But Time is Needed to Measure Benefits

According to staff, the overall CIP planning process had generally remained consistent between FY 2006-07, when the Capital Program Planning and Analysis Unit developed Valley Water's first CIP, and about FY 2018-19. Over the last four years, a number of changes have been implemented to the CIP planning process as a result of direction from the Board of Directors, executive team, and initiatives led by new units established from organization restructuring prior audit recommendations. Specifically, starting in 2019, Valley Water's new Business Planning and Analysis Unit took on the CIP planning process duties. Exhibit 8 shows a summary of recent process improvements impacting the CIP planning process that have been adopted since 2019.

EXHIBIT 8. RECENT CHANGES IMPACTING THE CIP PROCESS

Source: Auditor generated based on interviews with Valley Water staff, review of presentations and reports to the Board, and example documents provided by staff.

These changes are consistent with leading practices and are fully expected to strengthen various aspects of the CIP planning process. For instance, establishing a Grants Management Team dedicates efforts to secure external funding to bolster available CIP funding. Holding Annual CIP Trainings and Individual Project Team Meetings should improve coordination across project teams and divisions in preparation for the annual CIP, reduce miscommunication, and clarify roles and expectations of involved parties. Implementing new tools like ProjectMates and Vemo could advance Valley Water's ability to manage underlying CIP project data and needs related to budgeting, change management, and staffing.

Yet, at the time of this audit, the changes shown in Exhibit 8 had only recently been implemented in the last four years. With capital projects often spanning several years from initial planning to design to construction, it will take many years before the effects of these efforts will become fully evident in CIP and project documentation. While it is too early to determine their full impact, it is evident that Valley Water has demonstrated positive effort toward improving the annual CIP process. As Valley Water continues to roll out these new initiatives, it should determine a timeline and plan for how it will assess whether these efforts produced intended results and improved the existing process.

Opportunities Exist to Better Ensure Valley Water Delivers Capital Projects as Programmed

As noted previously, an effective CIP facilitates the planning, prioritization, and reporting related to long-term investments in capital infrastructure and technology. The CIP 5-Year Plan is a plan for such investments, and an organization's measurable progress in meeting established targets and milestones is an indicator of, in the case of a CIP, the organization's performance in delivering programmed capital projects or of the achievability of the plan itself. This audit found, as noted above, that Valley Water's CIP planning process employs many of the policies and practices recommended by professional associations and observed in leading practices. Yet, our review of capital expenditures and project schedules over the past five fiscal years found that projects have not progressed in a manner envisioned by the CIP 5-Year Plan, and that actual capital spending was consistently and significantly less than planned despite having adequate financial resources to deliver the projects. This could suggest that:

a) Projects are not progressing as planned for reasons within and outside of Valley Water's control,

b) Budget data developed and provided for the annual capital budget is imprecise,

c) Annual capital budget requests are inflated, or

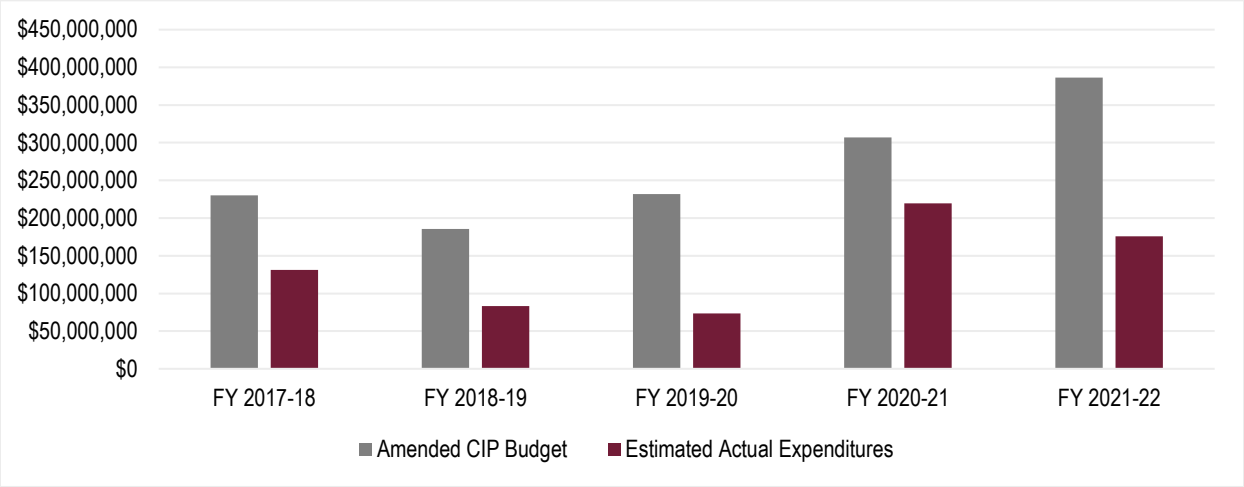
d) Internal and external staffing resources may be insufficient to meet project demands.

In this finding, we provide some detail demonstrating that projects are not progressing as planned. We also describe several factors that appear to contribute to this trend.

Annual Capital Expenditures Were Consistently and Significantly Less Than Planned

Best practices suggest that budget data should be carefully developed and tied to project phasing and timing, with on-going tracking and monitoring by an independent division of agency-wide capital project delivery. Over the past five fiscal years, FY 2017-18 through FY 2021-22, Valley Water consistently spent less in capital expenditures than budgeted, as shown in Exhibit 9. For example, although $386.3 million was budgeted for capital expenditures in FY 2021-22, only $175.8 million was expended—$210.5 million or nearly 54.5 percent less than budgeted.

EXHIBIT 9. ANNUAL CAPITAL BUDGET VERSUS ACTUAL EXPENDITURES, FY 2017-18 – FY 2021-22



Source: Valley Water CIP 5-Year Plans FY 2018-22 through FY2023-27 and Estimated Actuals provided by the Chief Financial Officer

Between FY 2017-18 and FY 2021-22, two programs, Water Supply Program and Flood Protection Capital Improvement Program, accounted for approximately 95 percent of the total capital budget—averaging $253.7 million of the average total capital budget of $268.1 million. Actual capital expenditures for both programs each year have been significantly less than planned, with an average of 43 percent of the budget spent by the Water Supply Program and 59 percent of the budget spent by the Flood Protection Capital Improvement Program over this five-year period. These two programs accounted for more than 90 percent of the unspent capital budget each fiscal year.

Within these two programs, several projects significantly contributed to the annual variances noted, as shown in Exhibit 10. For example, although the FY 2021-22 adjusted budget for the Anderson Dam project was $127.4 million in the CIP, actual expenditures during the fiscal year were only $42.7 million, a difference of $84.7 million, or 66 percent. In another example, although the FY 2019-20 and FY 2020-21 adjusted project budgets for the San Francisco Bay Project were reported as $33.4 million and $48.3 million respectively in the CIPs, there were no project expenditures during either fiscal year. According to Valley Water, although actual expenditures were less than planned, if actual expenditures are combined with amounts encumbered for contracts issued during the fiscal year, total amounts are closer to the annual budget amount. However, despite awarding contracts and encumbering funds for the fiscal year, little was actually spent against the encumbrances during the fiscal year, resulting in significant budget and encumbrance carry forwards to the next fiscal year.

EXHIBIT 10. ANNUAL ADJUSTED CIP PROJECT BUDGET COMPARED TO ANNUAL ESTIMATED ACTUAL EXPENDITURES, FY 2017-18 THROUGH FY 2021-22 ($ IN MILLIONS)

	FY 2017-18		FY 2018-19		FY 2019-20		FY 2020-21		FY 2021-22	
Program/ Project	**CIP Adjusted Budget**	**Est. Actual Expend.**	**CIP Adjusted Budget**	**Est. Actual Expend.**	**CIP Adjusted Budget**	**Est. Actual Expend.**	**CIP Adjusted Budget**	**Est. Actual Expend.**	**CIP Adjusted Budget**	**Est. Actual Expend.**
Water Supply Program	**$140.2**	**$66.7**	**$103.8**	**$37.2**	**$121.3**	**$11.5**	**$155.5**	**$122.1**	**$217.4**	**$96.5**
Anderson Dam (91864005)	$7.9	$4.3	$10.6	$5.8	$12.9	$6.4	$36.1	$44.4	$127.4	$42.7
Pacheco (91954002)	-	-	$17.3	$4.3	$35.1	0	$27.9	$3.6	($8.5)	$5.7
South County Recycled Water Pipeline (91094009)	$0	$0.7	$0	$0.3	$0	$0.1	$0.2	$0.7	$15.3	$7.2
Flood Protection	**$75.3**	**$58.0**	**$69.0**	**$41.3**	**$101.7**	**$53.2**	**$142.2**	**$82.0**	**$141.9**	**$68.2**
San Francisquito Creek (26284002)	$7.3	$2.2	$5.1	$5	$2.8	$1.0	$0.4	$1.0	$12.8	$1.2
Berryessa Creek (40174005)	$0	$2.8	$17.5	$2.9	$0	$1.9	$10.7	$2.8	$12.8	$15.5
Llagas Creek (26174052)	$0	$1.1	$0	$2.1	$10.2	$23.0	$47.5	$45.7	$58.3	$29.5
San Francisco Bay Shoreline (00044026)	$2.7	$0	$0	$0	$33.4	$0	$48.3	$0	$0	$0
Watersheds Assets Rehab Program (62084001)	$11.0	$4.2	$9.9	$7.3	$11.5	$2.6	$3.5	$5.2	$10.9	$3.2

Source: Valley Water CIP 5-Year Plans FY 2019-23 through FY 2023-27 and expenditure reports provided by the Chief Financial Officer.

While the Capital Budget Division is responsible for gathering information from its project managers to develop the annual capital budget, it historically has not been tasked with capturing related expenditure data to compare or track amounts to related budget items or project delivery milestones. Valley Water recognized a need for actual annual capital expenditures to closely align with planned capital expenditures and in FY 2022-23 implemented a target to spend and encumber 80 percent of budgeted capital dollars each year. To help ensure this target is met, Valley Water included the reporting of this target as part of its Quarterly Capital Project Monitoring Reports, which are reviewed by the capital deputies and executive

leadership, on a quarterly basis, which includes review of actual project expenditures to assess progress towards meeting this goal. This newly established target is generally in-line with industry leading practices and practices implemented by peers; however, peers did not include encumbrances when measuring progress towards spending goals. Specifically, a leading practice is to establish goals or targets for annual capital expenditures to closely align with planned amounts. For instance, EBMUD established a formal target to spend between 90 to 110 percent of the capital budget each year. Similarly, although a formal policy has not been established, Metropolitan Water District targets for actual annual capital expenditures to closely align with budgeted amounts and reported that actual capital expenses are generally 90 percent or more of budgeted amounts.

While the benefits from this new process cannot yet be assessed, establishing budgets and schedules that closely align with available resources and actual project progression and closely monitoring progress at both the project and program level, will help to better ensure projects are delivered as programmed, enable management to assess the effectiveness of both individual project delivery and overall CIP delivery, help build a culture where it is the expectation that projects are delivered on schedule and within budget, and better ensure capital expenditures align with cash flow as well as cash projections for short- and long-term needs.

Capital Projects Consistently Experienced Total Project Cost Increases and Schedule Delays

Although total planned capital spending is overstated year to year, our review of 48 projects included in both the CIP 5-Year Plans FY 2018-22 and FY 2023-27, found that the total project costs (TPC) were often underestimated, requiring either additional funding or modifications to planned scope of work to complete projects, and most projects experienced schedule delays.

Specifically, TPC was increased for 36 of the 48 projects reviewed, or 75 percent, with TPC increases ranging from $23,000 up to nearly $791.6 million. However, Valley Water did not track project baseline budget-to-actuals and did not provide documentation necessary to assess the frequency and magnitude of capital project budget increases in total over the full life of the projects. There are a number of valid reasons why project costs could increase, such as changes to the scope of work and unforeseen conditions. However, routine and persistent project budget increases could be indicative of poor project planning and cost estimating.

Valley Water recognized the need for better project cost estimates and recently procured independent cost estimate services to validate project cost estimates. This change is in line with a leading practice identified in the 2022 California Multi-Agency Statewide CIP Benchmarking Study, which recommends agencies establish criteria for obtaining independent cost estimates which take in consideration both project characteristics and volatility of the market. Having to re-design and re-bid a project on which bids come in over budget can significantly impact project delivery cost. Accurate estimates at the end of each design phase, performed by unbiased, independent, qualified professionals with an understanding of local market conditions will reduce the potential for receiving unexpected bids.

Additionally, while it is common for jurisdictions to make changes to programmed projects and adjust project timelines as priorities and resources change, our review of 48 projects found that Valley Water experienced a significant backlog in delivering projects within the schedules programmed. Specifically, we

found that of the 42 projects[6] with schedules, 40 projects, or 95 percent, experienced delays in project delivery and only two projects, or 5 percent, of the projects were expected to be delivered on-time or early according to the CIP 5-Year Plan 2023-27. Again, this could be indicative of inaccurate and poor project planning, where established project timelines are not aligned with available resources and scheduling assumptions do not align with the current environment, whether it be permitting timelines, required regulatory reviews, procurement and contracting timelines, etc.

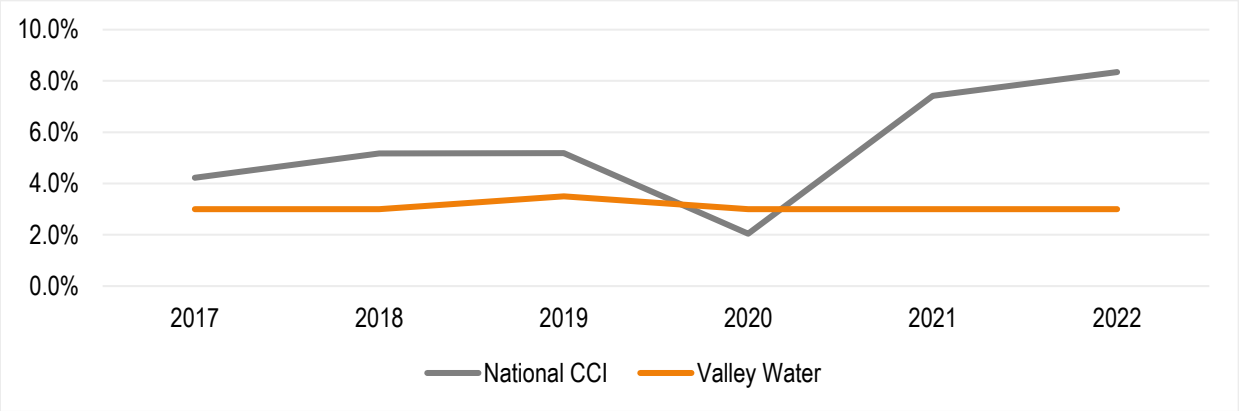
As discussed later in this report, during our review of CMMs for eight projects, we identified schedule delays that were the result of both factors within and outside of Valley Water's control. For instance, some project delays were due to Valley Water contracting and procurement activities taken longer than anticipated and internal staffing attrition, whereas others were related to delays in permitting, coordination with external agencies, and unanticipated CEQA requirements. While it is impossible to mitigate all risks with a project, a leading practice for agencies to help mitigate some risks is to document lessons learned and use this information to help make future project management and delivery more efficient and cost effective. For example, if a project experiences delays obtaining permits, as was a common factor for delays cited in the CMMs reviewed, this should be noted in a lessons learned document, and additional time for permitting factored into timelines when developing project schedules for future similar projects. In the past, Valley Water's Technical Review Committee has been responsible for collecting lessons learned and conducting workshops/presentations to address them. More recently, Valley Water recognized the need for a more consistent approach to documenting and tracking lessons learned and, as discussed previously, implemented a new project management system (ProjectMates) that incorporates a more robust method for tracking factors impacting project changes, process improvements, and lessons learned.

Outdated Cost Estimates and Increased Project Costs Affect Valley Water's Ability to Hit CIP Targets

The estimates used to initially project TPC may become stale and outdated as market conditions change. In FY 2021-22, an analysis conducted by Valley Water found that construction costs were significantly increasing and recommended escalating construction costs by 12 percent in FY 2024-25, then returning to an annual escalation factor of 3 percent for future years beginning in FY 2025-26 through FY 2033-34. Historically since 2010, Valley Water has recommended annual escalation factors ranging from 2 percent to 3.5 percent. In Exhibit 11, we compared the construction cost index recommend by Valley Water to the National Construction Cost Index reported in the Rider Levett Buckhall: North America Quarterly Construction Cost Report. This revealed that the escalation rates recommended by Valley Water each year were generally lower than the national average. This could imply that costs escalations applied by Valley Water were not keeping pace with the market and would result in project cost estimates that were lower than they should be, which may explain some of the project cost increases noted earlier.

[6] Six of the 48 projects did not include project delivery schedules.

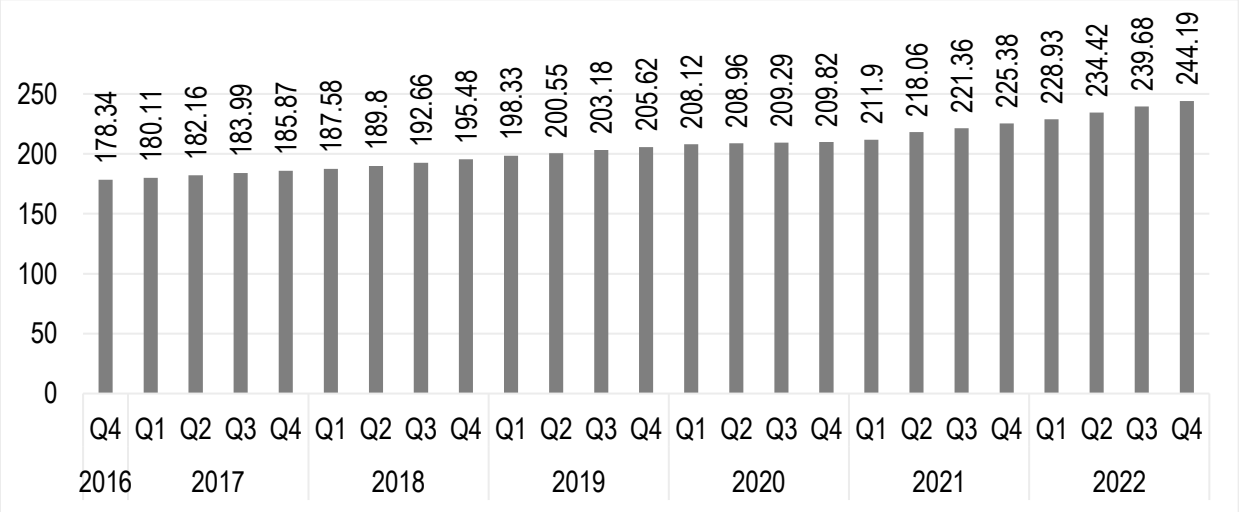
EXHIBIT 11. VALLEY WATER RECOMMENDED COST VS NATIONAL CONSTRUCTION COST ESCALATION RATE



Source: Rider Levett Buckhall: Fourth Quarter North America Quarterly Construction Cost Report 2021 and 2022 and Valley Water CIP 5-Year Plan FY 2024-33 Recommendation for Construction Cost Escalation Factors.

Between the fourth quarter of 2016 and the fourth quarter of 2022, the national construction cost index increased from 178.34 to 244.19, an increase of nearly 37 percent, with annual increases between 2 and 8.3 percent.

EXHIBIT 12. NATIONAL CONSTRUCTION COST INDEX



Source: Rider Levett Buckhall: Fourth Quarter North America Quarterly Construction Cost Report.
Key: Q = Quarter

As a result, allocated funds may not be sufficient to cover the scope of work initially envisioned in the CIP 5-Year Plan. In addition to cost escalations, delays in project delivery could impact the applicability of studies conducted in earlier stages of projects, such as environmental impact and air quality studies; such studies may become outdated over time and may need to be re-evaluated, further increasing project cost and ultimately impacting Valley Water's ability to deliver all programmed projects as promised.

In FY 2021-22, Valley Water utilized an on-call contract with an Independent Cost Estimator (ICE) to validate its construction cost escalation factor analysis. It further made the business decision that, moving forward, it will employ a consultant to determine construction cost escalation factors to ensure that Valley

Water is keeping pace with the market and to better ensure accuracy and reliability in future TPC estimates.

Internal and External Staffing Resources Do Not Appear Sufficient to Meet Project Demands

According to the 2022 California Multi-Agency CIP Benchmarking Survey, a leading practice in CIP planning is to "resource load" all CIP projects for design and construction. This allows the agency to identify the resources required to deliver projects according to the CIP schedule, including staffing resources within the project teams and support units, and it helps ensure a common understanding among all parties with a role to play in the delivery of a project of resources required to deliver the CIP on schedule. As noted previously, the 2021 Risk Assessment raised concerns regarding whether the CIP was right-sized given Valley Water's resources and the availability of key personnel, including sufficient project staff and outsourced service providers as well as various support units (e.g., General Services and Real Estate Services), and that overcommitting limited resources was resulting in project delays. We found this concern to be valid. This audit revealed, however, that while staff indicated that the underlying support for budgets developed in the CIP include staff hours, project managers have historically needed to coordinate with supporting units to verify the availability of resources, and often experienced delays due to the lack of resources.

The trends described above related to actual expenditures on programmed capital projects suggest at least in part that while Valley Water has the fiscal capacity to deliver planned capital projects, it lacks other required resources—specifically, project staff and outsourced service providers. During interviews with the CIP Team and project personnel, staff and management described being spread thin among too many projects, and that this indicates the CIP is over-committing existing Valley Water staff on projects in the hopes that, if additional staff or contractors are needed, Valley Water would have the funding to hire them. While the scope of this audit did not include a staffing analysis, nor did it evaluate staffing resources or project delivery methods on capital project teams, anecdotal evidence lends credibility to the concerns raised by staff during this audit. Not only has Valley Water struggled to deliver projects as programmed, we have observed similar challenges among public works agencies within California—a shortage of professional engineers and project staff both in-house and through professional service firms. This shortage has been persistent since before the pandemic and has reportedly only gotten worse since. As discussed earlier, Valley Water recognized the need for enhanced internal staffing resource management, and in FY 2022-23 implemented a new tool, Vemo, to improve its resource planning.

Impacts of Delayed Project Delivery Could Be Substantial

The CIP 5-Year Plan, including the funding needs identified in the plan, impacts Board decisions relating to water rates. An overly-ambitious plan that contributes to program expenditures that are substantially lower than planned, year after year, could result in rate increases or bond issuances being implemented sooner than necessary. Commitments to deliver, persistent delays in project progress, increasing project costs, and the implementation of rate increases, could lead to the public perception that public investment in necessary infrastructure is not producing the promised outcomes. This could impact ratepayer and stakeholder confidence in Valley Water's ability to deliver projects as promised. This could impact public support for rate increases and future voter-approved measures.

Beyond this, there are a number of organizational implications when management information for capital projects is not shared and assessed across the organization.

- ✓ **Opportunity Cost:** Valley Water exposes itself to opportunity cost and runs the risk of programming and funding projects that cannot be delivered as planned over projects that may better meet Valley Water's goals and objectives and are ready to begin.

- ✓ **Risk of Loss of Funding:** Some funding sources may be tied to project timelines. If projects experience significant delays, Valley Water may be at risk of losing funding. This risk becomes increasingly important as Valley Water expands its efforts to obtain additional grant funding for its capital projects. Some grants may be tied to project delivery timelines. As a result, Valley Water would need to identify alternative funding sources. Further, if capital oversight is deemed inadequate, Valley Water could be at risk of losing current and future funding.

- ✓ **Stale Projects:** Depending on how long projects have been delayed, previously programmed projects may not be in line with Valley Water's current goals and priorities, or may require re-evaluation to ensure project information and potential impacts remain current.

Additional Performance Metrics Would Enhance Ongoing Reporting and Evaluation of Program Outcomes

In addition to establishing objective criteria for prioritizing projects, establishing a performance measurement system facilitates program monitoring, oversight, and reporting—and therefore improves the effectiveness of both capital project delivery and the CIP. As noted previously, the GFOA recommends establishing protocols for monitoring and oversight of the CIP program, including substantive reporting processes. Building on this recommended leading practice, the GFOA notes that sound monitoring, oversight, and reporting protocols provides a basis for accountability and credibility in decision-making. According to the Federal Highway Administration, performance measurement systems offer four key benefits:

- Provide transparency to public and accountability to public officials
- Understand where problems are
- Direct the best mix of investments
- Evaluate how well past investments worked

While Valley Water has established robust reporting of project status to both management and its Board, including certain performance measures and reporting for the "Safe, Clean Water Program," Valley Water has not developed a comprehensive system to report both project delivery and overall CIP performance. Our review of information provided to Valley Water management and its Board related to the CIP, found that while detailed information was reported on the status of each project, reports and presentations lacked a comprehensive discussion of how each projects status impacted the delivery of the program and did not answer questions on the effectiveness of Valley Water's capital planning. For instance, based on reports provided and information presented, management and the Board could not easily assess the effectiveness

of capital project delivery and the overall CIP. Particularly, the following two key performance questions are left unanswered:

- Do capital planning and budgeting practices result in realistic project delivery schedules and cost projections?
- Are capital projects delivered on-time and within budget?

While the newly implemented 80 percent target for annual capital spending is a step in the right direction, there are other metrics that Valley Water should consider tracking to assess project and program performance. In Exhibit 13, we provide additional leading industry metrics that Valley Water should consider tracking and reporting at the project level, program level (e.g., Water Supply Program, Flood Protection Program, etc.), and in-total for all capital projects.

EXHIBIT 13. EXAMPLES OF OTHER INDUSTRY PERFORMANCE INDICATORS FOR CAPITAL CONSTRUCTION PROJECTS

KPI Category	Indicator
Cost	Percent that a project is over or under budget
	Estimated design cost vs. actual design cost
	Initial Budget estimate vs. actual project cost
	Revised estimate vs. actual project cost
	Engineer's estimated contract amount vs. contract award
	Construction cost: revised estimate vs. actual cost
	For a program, percent of all projects that are "on-budget" upon substantial completion
	Number and/or value of change orders compared to initial and revised contract totals
Schedule	Number of weeks from planned substantial completion to actual substantial completion
	Number of adjustments made to the schedule
	Numbers of RFIs and the average duration to review and respond to RFIs
	Planned design time vs. actual design time
	Planned bid opening date vs. actual bid opening date
	Planned notice to proceed date vs. actual notice to proceed date
	Revised estimated construction completion vs. actual construction (Consider incentive/disincentive bidding)
	Planned project start date vs actual start date
	Planned project completion date vs. actual completion date
Safety	Incident rate [A]
	Lost hours
Quality Control	Rework cost
	Number and percent of non-compliance records compared to inspections conducted
	Hours spent to fix defects
Stakeholder Satisfaction	Number of non-emergencies and/or construction-related complaints

Source: Vancouver Regional Construction Association; Project Management Institute (PMI) - Construction Extension, 29th World Congress International Project Management Association; Project Management Software; and Journal of Construction Engineering and Management

These metrics should be tracked at the project level and then aggregated to provide performance of Valley Water's execution of the overall capital improvement program. Such information can be a valuable tool for management and the Board to assess the overall effectiveness of capital planning practices and the performance of the CIP from one year to the next. It can also help to identify trends and help identify areas where practices can be enhanced to produce more accurate budgets and schedules. In Exhibit 14 we provide some examples of information that could help management measure and track the execution of the CIP.

EXHIBIT 14. EXAMPLES OF CIP PERFORMANCE MONITORING AND REPORTING

Cost Performance
• Number of Projects Completed Within Initial Budgeted Amounts   ○ Total Baseline Budget   ○ Total Actual Cost   ○ Variance between Baseline Budget and Actual   ○ Percent of Projects Completed Within Initial Budgeted Amounts
• Number of Projects Completed Within Revised Budgeted Amounts   ○ Total Baseline Budget   ○ Total Actual Cost   ○ Variance between Baseline Budget and Actual   ○ Percent of Projects Completed Within Initial Budgeted Amounts
• Number of Projects with Design Costs Completed Within Baseline Budgeted Amounts   ○ Total Baseline Budgeted for Design   ○ Total Actual Design Cost   ○ Variance Between Budgeted and Actual   ○ Percent of Projects with Design Costs Under Budget
• Number of Projects Where Independent Cost Estimate was within X% of Contract Award   ○ Total Cost Estimate   ○ Total Contract Award   ○ Variance between Cost Estimates and Award   ○ Percent of Projects Where Independent Cost Estimate was within X% of Contract Award
Schedule Performance
• Overall Schedule Adherence   ○ Number of Projects Completed Within Baseline Schedule   ▪ Percent of Projects Completed Within Baseline Schedule   ○ Average # of Days Ahead   ○ Number of Projects Ahead or On Schedule   ○ Number of Projects Behind Schedule   ○ Average # of Days Behind   ○ Percentage of Projects Ahead of or On Schedule   ○ Number of Projects Started Within Baseline Schedule   ▪ Percent of Projects Started Within Baseline Schedule

• Design Schedule Performance: ○ Average # of Days Ahead   ○ Number of Projects Ahead or On Schedule   ○ Number of Projects Behind Schedule   ○ Average # of Days Behind   ○ Percentage of Projects Ahead of or On Schedule
• Construction Schedule Performance: ○ Number of Projects Ahead or On Schedule   ○ Number of Projects Behind Schedule   ○ Average # of Days Ahead   ○ Average # of Days Behind   ○ Percentage of Projects Ahead of or On Schedule
• Bid Opening Date Performance: ○ Number of Projects Ahead or On Schedule   ○ Number of Projects Behind Schedule   ○ Average # of Days Ahead   ○ Average # of Days Behind   ○ Percentage of Projects Ahead of or On Schedule

Source: Auditor generated from industry experience and resources from the PMI and City of San Luis Obispo Capital Improvement Program Process Assessment

In addition to metrics described above, other agencies, such as EBMUD, establish key performance indicators to track progress towards specific agency goals, including goals related to its capital planning and delivery. For example, EBMUD set a goal for the number of water system pipeline breaks per 100 miles of pipe to be less than or equal to 20. Its actual performance over three fiscal years was reported in its Biennial Budget. As discussed later in this report, Valley Water should consider setting tangible targets to measure how well its capital improvement program is helping the agency progress towards its established goals. Lastly, performance measures serve to not only provide a report that can be reviewed for oversight purposes, but also serves as a communication tool to the public of the goals Valley Water is meeting and the challenges that occur.

While Valley Water's CIP Planning Process Adheres to Many Leading Practices, Additional Opportunities for Improvement Exist

In addition to ensuring key CIP targets are reasonable and aligned with available staffing resources, this audit found that opportunities exist to better align the CIP planning process with industry leading and peer practices. This includes establishing more robust project prioritization processes, performance metrics to evaluate program success, and comprehensive capital planning policies and procedures, among others. In the following sections we provide a discussion of several ways Valley Water's CIP planning process could be more closely aligned with leading practices or its peer water agencies.

Leading Practices Provide a Guide for Enhanced Project Prioritization Processes

Establishing a process to prioritize capital projects based on agency goals and capital needs, regulatory requirements, and ensure the best use of limited resources is a leading practice that is recognized by the CSMFO, GFOA, California Multi-Agency Statewide CIP Benchmarking Study, and peers. For instance, GFOA recommends the use of an objective and quantifiable rating system to facilitate decision-making and recommends that, when evaluating capital requests, governments should first prioritize based on:

- Health and Safety – Priority should be given to high-risk safety issues that require a capital project to correct;
- Asset Preservation – Capital assets that require renewal or replacement based on capital asset life cycle; and
- Service/Asset Expansion/Addition – Infrastructure improvements needed to support government's policies, plans, and studies.

Although Valley Water conducts annual calls for projects and requires project proposers to provide a detailed project justification form, Valley Water does not establish formal criteria for selecting and prioritizing projects and does not tie project prioritization to measurable targets and outcomes. Instead, Valley Water indicated that its internal CIP Group, which is comprised of management and representatives from different program areas, meet to discuss proposed projects, review the project justification forms submitted for alignment with Board priorities, and to assess Valley Water's ability to fund projects based on known funding sources. From these discussions, Valley Water develops a proposed CIP 5-Year Plan for the Board's review and approval. However, Valley Water did not provide documentation detailing the discussions held, factors considered, and justification for decisions made to prioritize one project over another. In the fall of 2022, Valley Water incorporated an additional process to provide "funding filters for prioritization" to its Board. While Valley Water provided its Board with a matrix of projects that detailed whether the projects met the following criteria, it did not provide a justification for the selection or advancement of one project over another. These filters included:

- Replace/Repair Existing Infrastructure
- Public Health and Safety
- Shovel Ready (Permits and Lands Rights Secured)
- Multi-benefit Project
- Multi-benefit Project: Environmental Justice Project
- Partially Externally Funded (Grants and Partnerships)
- Description of the project

According to Valley Water management, it had a process to prioritize and rank projects in the past, but the process was found to be unclear and the preference of both management and the Board was to shift away from this approach. Valley Water's current process ensures consensus building—a critical component of the planning process; however, objective criteria for prioritization is also relevant. While eliminating a

process that provided a confusing output is reasonable, it in itself does not eliminate the need for a project prioritization process that provides comprehensible justification for project selection and decisions made. A leading practice identified by the GFOA includes the use of a rating system to facilitate decision-making.

Other government entities have developed and incorporated robust project prioritization processes that help to provide linkage between projects selected and agency goals and priorities. For instance, the Contra Costa Water District assigns each CIP project a priority level according to its prioritization methodology. Their methodology ranks or rates the importance of a project based on various criteria such as protection of health and safety, legal requirements, and rate of return on their investment. The priority levels provide a basis for determining which projects should be done in any given year and how projects should be scheduled over their 10-year CIP span. Contra Costa Water District only includes projects with a priority level 1 or 2 ranking in its Ten-Year Financial Plan and Rate Model. Additionally, Contra Costa Water District conducts studies within its sub-programs, such as Treated Water Facilities Program, to identify and prioritize projects. For instance, in 2018 a study was conducted to identify and prioritize pipelines renewal and replacement projects for the treated water system.

In another example, the City of San Diego adopted a formal CIP prioritization policy "to establish an objective process for ranking CIP projects to allow decision-makers to have a basis for choosing the most compelling projects for funding." The policy includes the following four criteria for ranking and comparing projects:

- Projects within restricted funding categories will compete only with projects within the same funding category.
- Projects will compete only with projects within the same asset type (project type).
- Projects will compete only with projects within the same level of completion or project development phase (planning, design and construction).
- Projects scores will be updated as the condition of the project changes or other information becomes available.

Further, similar to the categories in Valley Water's "Funding Filter for Prioritization", the policy established weights for specific factors, such as health and safety effects, for both non-transportation and transportation projects that it considers and uses to prioritize projects, as shown in Exhibit 15.

EXHIBIT 15. PROJECT PRIORITIZATION FACTORS CONSIDERED BY CITY OF SAN DIEGO

Non-Transportation Projects	Weight	Transportation Projects	Weight
Health and Safety Effects	25%	Health and Safety Effects	25%
Regulatory or Mandated Requirements	25%	Capacity and Service (Mobility)	20%
Implication of Deferring the Project	15%	Project Cost and Grant Funding Opportunity	20%
Annual Recurring Cost or Increased Longevity of the Capital Asset	10%	Revitalization, Community Support and Community Plan Compliance	15%
Community Investment	10%	Multiple Category Benefit	10%
Implementation	5%	Annual Recurring Cost or Increased Longevity of the Capital Asset	5%
Project Cost and Grant Funding Opportunity	5%	Project Readiness	5%
Project Readiness	5%		
Total	100%	Total	100%

Source: City of San Diego Capital Improvements Program Project Prioritization Policy

Valley Water Should Consider Whether a Performance-Based Prioritizing Process Would Be Feasible and Appropriate

If Valley Water chooses to implement a performance-based prioritization process, it would first need to identify qualitative measures for Valley Water's overarching goals, such as the goals identified by its Board. Then it would need to establish targets and quantifiable performance metrics to measure progress towards meeting established goals. Once the goals and performance metrics are identified, Valley Water can establish a prioritization process that links resource allocation and project funding based on projects that will have the greatest impact, or highest performance outcome, to achieve established goals and targets. Factors to be considered when planning projects should also include sources of funding, availability of staff resources, such as project teams and procurement and contracting staff, and time required to achieve necessary permits—all of which impact a projects ability to meet project delivery and spending schedules. As projects are completed, Valley Water would assess actual outcomes against expected results.

We also recommend that Valley Water consider additional financial techniques for evaluating potential projects including comparing estimated total project life cycle costs versus the benefits of the project, calculating payback period on debt to be incurred, and determining projected availability of cash flow over the project period, as appropriate. Funding source also impacts the ability to prioritize projects.

Leading Practices Suggest the Need for More Formal CIP Planning Policies and Procedures

While Valley Water's capital planning processes and practices generally aligned with the leading practices stated in the GFOA Capital Planning Policy, Valley Water has not established a formal capital planning

policy that is comprehensive of the entire capital planning process and inclusive of the key policy elements identified by the GFOA. Instead, as shown in Exhibit 16, our review found that information was disjointed and located in multiple documents, such as the Board policies and directives, staff presentations to the Board, the CIP 5-Year Plan, and internal policies and procedures. The lack of a comprehensive capital planning policy increases the risk of inconsistence processes being applied from one year to the next, and could result in incongruencies between documents when one document is updated without reviewing other related documents.

EXHIBIT 16. KEY PLANNING POLICIES ARE LOCATED IN MULTIPLE LOCATIONS

GFOA Planning Policies	Valley Water Policy Source
• A description of how an organization will approach capital planning, including how stakeholder departments will collaborate. • A clear definition of what constitutes a capital improvement project.	FY 2022-26 CIP
• Establishment of a capital improvement program review committee and identification of members as well as responsibilities of the committee and its members. • Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.	QEMS Policy
• A description of the role of the public and other external stakeholders in the process. • A requirement that the planning process includes an assessment of the government's fiscal capacity.	Executive Limitations/ FY 2022-26 CIP
• Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources	Asset Management Plan / FY 2022-26 CIP / Funding Filter
• A procedure for accumulating necessary capital reserves for both new and replacement purchases. • A requirement that a multi-year capital improvement plan be developed and that it includes long term financing considerations and strategies. • A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.	Executive Limitations
• A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt.	Debt Management Policy
• A requirement that the plan include significant capital maintenance projects.	Ends Policies

Source: Auditor generated from GFOA Capital Planning Policy and review of Valley Water documents.

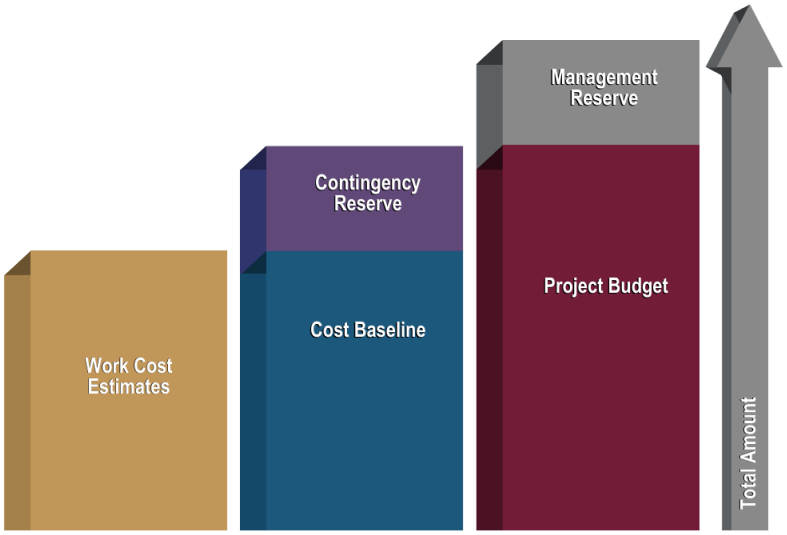
According to the GFOA Capital Planning Policy, government agencies should develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment. The GFOA notes that capital planning policies not only provide an essential framework for managing these tasks and for assuring that capital plans are consistent with overall organizational goals, but also help to assure the sustainability of its infrastructure by establishing a process for addressing maintenance, replacement, and proper fixed asset

accounting over the full life of capital assets. In addition, capital planning policies can strengthen a government's borrowing position by demonstrating sound fiscal management and showing the jurisdiction's commitment to maximizing benefit to the public within its resource constraints. To better ensure the consistency of its capital planning, Valley Water should consider establishing a formal, written Capital Planning Policy that incorporates the key elements identified by the GFOA Capital Planning Policy.

Formal CIP Planning Policies and Procedures Should Include Guidance Regarding Contingencies and Reserves

There are generally two types of contingency reserves, a project level contingency and management contingency. According to the Project Management Body of Knowledge (PMBOK) 7th Edition, the "project budget should include contingency reserve funds to allow for uncertainty." In addition, "Management reserves are set aside for unexpected activities related to in-scope work. Depending on the organization's policies and organization structure, management reserves may be managed by the project, the sponsor, product owner, or the PMO [Project Management Office] at the program or portfolio level." At Valley Water, construction contingency reserves are included in the project budget and management reserves are tracked separately from project budgets at the fund level.

EXHIBIT 17. CONTINGENCY / RESERVE BEST PRACTICE



Source: Project Management Institute PMBOK 7th Edition

The 2018 Construction Management Association of America (CMAA) Cost Management Guidelines states that in absence of a formally established risk management program, a 10 percent contingency fund is typically used. However, organizations ideally should perform risk analyses of projects to calculate the probability of the risk occurring with consideration of the costs and rough order of magnitude as the basis for establishing contingency. In short, there should be a defendable procedure for how project and program contingency is established. This can include having an organization-wide baseline contingency with allowability for variation from this baseline if certain conditions are met and approvals are obtained by decision-makers. Factors such as unique risk or project delivery method should be considered for why a

specified contingency amount is decided upon. Moreover, after contingencies are developed, rules for authorized use should be clearly defined.

Valley Water has a Cost Estimating Manual and Construction Manual that provides some guidance regarding the application of contingencies on capital projects, and this provides guidance for developing, recommending, and using risk-based contingency reserve amounts. However, contingencies are not sufficiently addressed in the various formal CIP policies established by Valley Water, including those noted in Exhibit 16, which require Board input and approval.

In developing a CIP policy, as described above, Valley Water should incorporate a policy that identifies the types of contingency reserves utilized by Valley Water, the purpose of reserves, and how contingency amounts should be determined, including a process to formally memorialize the assumptions and rationale behind project contingency amounts.

Review of the existing contingency guidelines and rules for authorized use have been added to the 2023 CIP Committee Work Plan for discussion, and management noted that the CIP Committee will consider whether any policy level recommendations should be brought to the Board for consideration.

Most Peer Entities Reviewed Update Their CIP Plan Biennially

One of the more distinguishable differences between Valley Water and the peers sampled is that Valley Water updates its CIP 5-Year Plan annually, whereas all four peers reviewed update their short-range CIP biennially. Both peers and Valley Water staff interviewed indicated that the process to update the CIP was labor intensive and required significant coordination amongst multiple program areas within the organization, public and stakeholder outreach, and time to prepare for and present changes to executive management and oversight bodies. The level of primary staffing dedicated to CIP development appeared to be similar across the peers sampled, with most peers reporting three to four fully dedicated staff and assistance from programs responsible for delivering capital projects as well as fiscal staff. Yet, Valley Water had the largest short-term CIP budget, although the number of capital projects included in Valley Water's CIP 5-Year Plan was similar to peers, and updated its plan more frequently. For example, the Metropolitan Water District reported that three full-time staff were primarily responsible for updating their short-range CIP.

While there is no formal industry standard on how frequently an agency should update its short-range CIP, implementing a biennial renewal process would provide additional time for staff to compile the necessary information to update the CIP, could reduce the risks of reporting errors resulting from compressed timelines, allow more time to analyze project changes and prioritize projects, and provide additional time for project teams to focus on project delivery. Switching to a biennial update, would not negate the need for regular capital project updates to be presented to both executive management and the board. In fact, similar to Valley Water, peer agencies also provided periodic capital project updates, such as quarterly and annual updates, to both board Capital Planning Committees and the full Board throughout the fiscal year.

Valley Water indicated that in developing its CIP 5-Year Plan it follows Government Code § 65403, which requires government agencies following the provision to develop a 5-year plan that is updated annually. However, the implementation of this provision is at the discretion of Valley Water's Board and our review of

the Ends Policy and Executive Limitations Policies did not find any reference requiring Valley Water follow Government Code § 65403. Rather, Executive Limitation Policy 4 sections 4.4.1 stated that Valley Water must "Produce an annual Rolling Five-Year Capital Improvement Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan." If Valley Water's Board determines that Valley Water should move from annual to biennial updates, Executive Limitation Policy 4 would need to be revised.

Enhanced Detail in Anticipated Operations and Maintenance Costs Is Warranted

According to leading practices described by the CSMFO, CIPs should include operating budget impacts and/or contain future estimates of annual operating and maintenance costs. Valley Water does include an operational costs impact section for each project in the same fashion as its peers. However, the extent to which Valley Water provides context for their projections is lacking, specifically on projects where Valley Water has determined that there will be an estimated operational impact, but does not provide context or projected details for the consideration of the Board or public. For example, the Calero and Guadalupe Dam Seismic Retrofit explains that there are anticipated to be impacts on future operating costs, but no further details are described in terms of why there will be increased operations costs nor any estimates for what that impact will be, and further states that it will be determined during the design phase. Future operational cost impacts are an integral part of the Board's decision-making process and without context the Board cannot make an informed decision on the long-term impacts of undertaking these projects.

Opportunities Exist to Implement Agency Wide Lessons Learned to Enhance Future Development of Project Schedules and Budgets

Several CMMs attributed permitting delays, scope increases, issues with design, and time required to work with external government agencies as reasons for increases to TPC and schedule delays for capital projects. These stated reasons echo what Valley Water staff attested to be delivery challenges for CIP projects to auditors during interviews and align with some risks flagged in the 2021 Risk Assessment conducted by the Board appointed independent auditor.

For instance, at least three reviewed projects mentioned permitting challenges that led to scope changes, cost increases, and/or schedule delays. A change memo from February 27, 2020, for Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks noted that there was a two-month delay in the environmental phase due to delays in obtaining resource agency permits, as well as a three-month delay in design due to a need to acquire an encroachment permit and right-of-way from the City of Milpitas. The subsequent change memo dated September 25, 2020, cited further delays—nearly one year for the start of construction, attributed to negotiations with the same government bodies. The Almaden Lake project also had delays attributed to permit negotiations—indicating in a September 25, 2020, memo that the start of construction would be delayed a year as a result. Finally, the Almaden Dam project cited a one-year delay in design in its March 5, 2015, change memo due to CA Fish & Wildlife permits that were predicted to be difficult to obtain.

Anecdotally, Valley Water staff stated that on a project or division basis staff are conducting analyses to track historical data of delays and cost increases to estimate future planning and apply lessons learned against some of these known causes to delivery challenges. Additionally, staff stated that the technical

review committee also has presented lessons learned. Yet, there is no evidence that this occurs comprehensively and consistently organization-wide with knowledge shared across project teams and divisions. The 2022 California Multi-Agency Statewide Benchmarking Survey states that as a best practice, agencies should develop formal post project reviews and identify lessons learned. These documents should be made available to staff on projects of a similar scope and nature to make future project management and delivery more efficient and cost effective.

Management noted that it is developing a lessons-learned database as part of ProjectMates in response to a recommendation from the 2019 Contract Change Order Audit. This database could be used as a tool to comprehensively memorialize, share, and track planning and delivery lessons learned rather than rely on ad hoc lessons learned, shared and presented by staff or knowledge siloed within certain teams. Valley Water should begin formally memorializing underlying causal trends for CIP cost increases and schedule delays and share the results of those analyses agency-wide in this new database to strengthen future CIP planning to avoid delivery obstacles where historical data may exist to forecast patterns.

Opportunities Exist to Improve Transparency and Consistency of Information Reported

As a public agency, Valley Water has the inherent obligation to maintain and report clear and accurate information both internally for operational use among staff and externally to the public. This includes ensuring the CIP reports information in a clear and consistent manner, and that data reported is supported by underlying systems, project files, and financial systems. Our review of information detailed in annual CIPs, CMMs, and underlying financial and project planning data showed that there were variances in reported data, differing levels of sufficient justification for cost increases and delays, and inconsistencies between corresponding documents. Overall, we found that opportunities exist to strengthen the reliability and consistency of data used in and by the CIP 5-Year Plan to ensure that Valley Water is more transparent and accountable to the public.

Annual Capital Budget Amounts Were Not Always Consistently Reported in the CIP and Did Not Always Align with Valley Water's Financial System

The first two years of each of Valley Water's annual CIP becomes the capital budget for the current year and plan for the following year. For instance, in the adopted CIP 5-Year Plan FY 2023-27, the capital budgets reported for FY 2022-23 will become the adopted capital budget for that year and the amounts reported for FY 2023-24 will become the plan for that year in Valley Water's rolling biennial budget. To assess the accuracy of annual capital budget information reported in the CIP 5-Year Plan, we assessed the mathematical accuracy and consistency of amounts reported in the plan and compared initial and amended capital budgets reported in the CIP 5-Year Plan to annual capital budgets and expenditures recorded in Valley Water's financial system over a five-year period—FY 2017-18 through FY 2021-22. During our review, we found:

- Information was not always consistently reported in the CIP 5-Year Plan;
- Inconsistencies in the presentation of budget amounts and other minor discrepancies in the CIP 5-Year Plan; and

- Inconsistencies between approved annual budget amounts in the CIP 5-Year Plan and Valley Water's financial system.

While it does not appear that the discrepancies identified were intentional and a variety of factors contributed to the variances noted, these inconsistencies make it challenging to determine the accurate annual project budget and TPC, hindered transparency of information reported, and may cause stakeholders to question the reliability of information reported in the CIP 5-Year Plan.

- ✓ **Information Is Not Always Consistently Reported in the CIP:** Our review of annual capital budget information reported for five fiscal years in six CIP 5-Year Plans,[7] identified inconsistencies with TPC and annual budget information reported on individual capital project summary pages and/or program summary pages for most of the years reviewed. These inconstancies included variances in information reported from one plan to another and inconsistent TPC and annual budget amounts reflected in different tables and graphs. For example, for one project, the Hale Creek Enhancement Pilot Study, the baseline project start date was reported as May 2015 in the CIP 5-Year Plan FY 2018-22, but was changed to July 2014, approximately a year earlier, in the CIP 5-Year Plan FY 2023-27.

  In another example, in the CIP 5-Year Plan FY 2018-22, for a different project (Berryessa Creek, Calaveras Boulevard to Interstate 680), different amounts were reported for the TPC in the schedule and status graph ($57.3 million), expenditure schedule ($57.6 million), and funding schedule ($60.2 million), as shown in Exhibit 18. For other projects, we generally found that the total amount reflected in the schedule and status graph aligned with the total uninflated project costs reflected in the expenditure schedule. This was consistent with how information was reflected for the same project in the CIP 5-Year Plan FY 2023-27. However, we noted some cases where the total in the funding schedule aligned with the total inflated costs in the expenditure schedule and other cases it did not when the allocated funding exceeds planned expenditures—as was the case for the Berryessa Creek, Lower Penitencia Creek to Calaveras Boulevard project $209.4 million versus $212.6 million. Valley Water appropriately included a note to explain the variance for this project. Nevertheless, it is recommended practice to consistently report information from one project to the next and throughout related graphs and tables.

[7] CIP 5-Year Plans FY 2018-22 through FY 2023-27

EXHIBIT 18. BERRYESSA CREEK, CALAVERAS BOULEVARD TO INTERSTATE 680 PROJECT PAGE INCONSISTENCIES

CIP 5-Year Plan, FY 2018-22

SCHEDULE & STATUS
January 2000 to June 2020

Phase	Cost
Plan	8,232
Design	560
Design	10,438
Construct	38,063
Closeout	50
	57,343

EXPENDITURE SCHEDULE
(in thousands $)

	Actuals Thru	Planned Expenditures							Total
Project	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Future	
26174041-Berryessa Creek, Corps Coordination	22,016	12,997	2,832	200	200	0	0	0	38,245
with inflation	22,016	12,997	2,832	215	225	0	0	0	38,285
26174042-Berryessa Creek, LERRDs	19,325	0	0	0	0	0	0	0	19,325
with inflation	19,325	0	0	0	0	0	0	0	19,325
TOTAL	41,341	12,997	2,832	200	200	0	0	0	57,570
with inflation	41,341	12,997	2,832	215	225	0	0	0	57,610

Actuals include project expenditures, and encumbrances.

FUNDING SCHEDULE
(in thousands $)

	Budget Thru	Adj. Budget	Est. Unspent	Planned Funding Requests						Total
Project	FY16	FY17		FY18	FY19	FY20	FY21	FY22	Future	
26174041-Berryessa Creek, Corps Coordination	24,729	14,747	4,463	0	0	0	0	0	0	39,476
26174042-Berryessa Creek, LERRDs	20,674	0	1,349	0	0	0	0	0	0	20,674
TOTAL	45,403	14,747	5,812	0	0	0	0	0	0	60,150

Adjusted Budget includes adopted budget plus approved budget adjustments. Allocated funding exceeds planned expenditures by approximately $2,540,000. Excess funds will be returned to Fund Reserves at the end of the project.

CIP 5-Year Plan, FY 2023-27

SCHEDULE & STATUS
January 2000 to June 2024

Phase	Cost
Plan	8,323
Permits	1,831
Design	11,961
Construct	27,022
Closeout	253
	53,274

Total project cost may include expenditures not yet allocated to a specific phase.

EXPENDITURE SCHEDULE
(in thousands $)

	Actuals Thru	Planned Expenditures							Total
Project	FY21	FY22	FY23	FY24	FY25	FY26	FY27	Future	
26174041-Berryessa Creek, USACE Coordination	23,393	531	398	11,286	0	0	0	0	35,608
with inflation	23,393	531	398	12,041	0	0	0	0	36,363
26174042-Berryessa Creek, LERRDs	17,666	0	0	0	0	0	0	0	17,666
with inflation	17,666	0	0	0	0	0	0	0	17,666
TOTAL	41,059	531	398	11,286	0	0	0	0	53,274
with inflation	41,059	531	398	12,041	0	0	0	0	54,029

Actuals include project expenditures, and encumbrances.

FUNDING SCHEDULE
(in thousands $)

	Budget Thru	Adj. Budget	Est. Unspent	Planned Funding Requests						Total
Project	FY21	FY22		FY23	FY24	FY25	FY26	FY27	Future	
26174041-Berryessa Creek, USACE Coordination	35,594	0	11,670	0	769	0	0	0	0	36,363
26174042-Berryessa Creek, LERRDs	17,666	0	0	0	0	0	0	0	0	17,666
TOTAL	53,260	0	11,670	0	769	0	0	0	0	54,029

Adjusted Budget includes adopted budget plus approved budget adjustments.

Source: Valley Water CIP 5-Year Plans FY 2018-22 and FY 2023-27

Lastly, we identified instances where the total project budget in individual project pages did not align with the budget reported for the same project in the program summary. While some of the inconsistencies noted were immaterial and likely due to rounding, others were not. For example, we found that the FY 2020-21 adjusted budget for the Llagas Creek–Upper, Buena Vista Avenue to Llagas Road project was inconsistently reported between the project page and program summary page in the FY 2022-26 CIP, as shown in Exhibit 19. Specifically, in the Flood Protection summary page, the budget was reflected as $47.5 million; however, the project page reflected a budget of $53.7 million—$6.2 million more than the project budget in the summary page. Additionally, the "Budget Thru" FY 2019-20 reported on the project page was $142.8 million; whereas the summary page indicated it was $125.3, a difference of $17.5 million. The variances noted appear to be related to one sub-project, 50C40335, that is included in the project page, but excluded in the summary page.

In another example, although the FY 2020-21 adjusted budget for the Calero and Guadalupe Dams Seismic Retrofits was reported as $2.9 million in the Water Supply summary page, the project page reflected a budget of $2.0 million—$900,000 less than the summary page. According to Valley Water, some of the differences noted were the result of fund transfers that were included in the amounts shown on project page, but were not included in the program summary page. To ensure information reported throughout the CIP aligns, Valley Water should ensure a consistent approach is used when reporting budget transfers.

EXHIBIT 19. EXAMPLE OF BUDGET INCONSISTENCIES BETWEEN PROGRAM SUMMARY PAGE AND PROJECT PAGE

Flood Protection Capital Improvements Summary Page

Project Number	PROJECT NAME	Through FY20	FY21	FY21 Unspent
	LOWER PENINSULA WATERSHED			
10394001	Palo Alto Flood Basin Tide Gate Structure Improvements	4,392	83	552
10244001s	Permanente Creek, SF Bay to Foothill Expressway	108,572	7,645	178
10284007s	San Francisquito Creek, SF Bay thru Searsville Dam (E5)	62,751	370	1
	WEST VALEY WATERSHED			
26074002	Sunnyvale East and West Channels (E2)	35,438	2,033	17,302
	GUADALUPE WATERSHED			
30154019	Guadalupe River Tasman Dr - I-880	1,080	1,838	(1)
26154001s	Guadalupe River–Upper, I-280 to Blossom Hill Road (E8)	134,642	-	23,964
26154001	Guadalupe Rv–Upper, Fish Passage Mods	2,651	-	-
	COYOTE WATERSHED			
26174041	Berryessa Ck, Calaveras-I-680 - Corps	35,566	29	-
40174004	Berryessa Ck, Lower Penitencia Ck to Calaveras Blvd Phs 1	50,191	-	3,339
26174043	Coyote Creek, Montague Expressway to Tully Road (E1)	15,036	2,199	2,528
40264011	Cunningham Flood Detention Certification	11,806	4	3
40334005	Lower Penitencia Ck Improvements, Berryessa to Coyote Cks.	11,287	7,745	7,503
40264007s	Lower Silver Creek, I-680 to Cunningham (Reach 4-6)	102,288	167	784
40324003s	Upper Penitencia Creek, Coyote Creek to Dorel Drive	19,016	3,898	5,038
	UVAS LLAGAS WATERSHED			
50284010	Llagas Creek–Lower, Capacity Restoration, Buena Vista Road to Pajaro River	6,947	-	2,763
26174051s	Llagas Creek–Upper, Buena Vista Avenue to Llagas Road (E6)	125,315	47,476	4,555
	MULTIPLE WATERSHEDS			
00044026s	San Francisco Bay Shoreline (E7)	71,469	48,316	1
62084001	Watersheds Asset Rehabilitation Program	35,831	3,531	7,809
	TOTAL	912,689	136,052	76,319

Llagas Creek–Upper, Buena Vista Avenue to Llagas Road (26174051s) Project Page

FUNDING SCHEDULE

(in thousands $)

	Budget Thru	Adj. Budget	Est. Unspent
Project	FY20	FY21	
26174051-Llagas Ck—Upper, LERRDs	45,040	0	82
26174052-Llagas Ck—Upper, USACE Coordination	50,636	47,476	0
26174053-Llagas Ck—Upper, Technical Studies	1,446	0	0
26174054-Llagas Ck—Upper, Design	28,193	0	4,473
50C40335-Llagas Ck—Upper, Construction Rch 5, 6, & 7b	17,510	6,180	0
TOTAL	142,825	53,656	4,555

Adjusted Budget includes adopted budget plus approved budget adjustments.

Source: Valley Water CIP 5-Year Plan FY 2022-26

- ✓ **Inconsistencies Existed Between Summary and Detailed Capital Project Budget Pages:** Our review of summary pages for the five capital programs, identified nine instances where the total annual project budgets for all projects was inconsistently reported. For example, in the CIP 5-Year Plan FY 2021-25, the total FY 2019-20 adjusted budget for the Flood Protection Program was reported as $84.2 million; however, the sum of all the individual project budgets listed in the summary page totaled $101.7 million, a difference of $17.5 million. In another example, in the CIP 5-Year Plan FY 2020-24 the Water Supply program total adjusted budget for FY 2018-19 was reported as $104.7 million; however, the sum of individual project budgets was $103.8 million, a difference of $900,000. In some cases, such discrepancies may have been intentional (e.g., when future budget adjustments were planned but not yet incorporated into the CIP), but the CIP plan document lacked explanatory footnotes or other information clearing up the discrepancies.

- ✓ **Inconsistencies Between Annual Capital Project Budget Amounts Reported in the CIP and Valley Water's Financial System:** Our comparison of the annual adjusted capital project budgets reported in the CIP to the annual capital project budgets recorded in Valley Water's financial system identified between 19 and 57 variances between the two each year for the five fiscal years reviewed, FY 2017-18 through FY 2021-22. In some cases, the budget reflected in the financial system aligned with the initial project budget and in other instances it did not align with either the initial or adjusted annual project budget. For example, the FY 2020-21 adjusted project budget for one project, Permanente Ck, Bay to Foothill Expwy – Clean, Safe Creeks Fund, was reported as $7.6 million in the CIP 5-Year Plan FY 2021-25 and $3.9 million in the financial system, a difference of $3.7 million. According to Valley Water, the difference is due to a planned budget adjustment that was included in the CIP 5-Year Plan; however, the plan indicated that the amount reported was the approved budget and approved budget adjustments. In another example, for the Calero Dam Seismic Retrofit-Design and Construct project, the FY 2020-21 initial and adjusted project budget was $0 in both the CIP 5-year Plans FY 2021-25 and FY 2022-26; however, the financial system reflected a budget $865,000. According to Valley Water, the difference is due to a combination of carry forward project reserves and a mid-year budget adjustment that is reflected in the financial system, but not in the CIP 5-Year Plan. In a third example, for another project, Coyote Warehouse, the CIP 5-Year Plan FY 2022-26 reflected a FY 2020-21 adjusted budget of $284,000; however, the budget recorded in the financial system for this project was $285,000. According to Valley Water, the $1,000 difference was due to rounding.

  Based on analysis conducted by Valley Water, the following factors caused the variances identified, including:

  - Timing differences, such as budget adjustments from mid-year CMMs that are reflected in the financial system, but were not reflected in the CIP 5-Year Plan;
  - Rounding differences between systems;
  - Prior year budget carry forwards and project reserves reflected in the budget posted in the financial system;
  - Planned budget adjustments reflected in some adjusted budgets in the CIP 5-year plan; and
  - Budgets for small capital improvement projects "do not have capital offset applied to correct the over-request being updated" and indicated these differences are corrected in the following CIP cycle.

  The explanations provided by Valley Water appear reasonable. However, to ensure information reflected in the CIP is clear and transparent, when Valley Water includes planned budget adjustments in the adjusted budget, it should include a footnote to the table describing that the amount reported includes the approved budget, approved budget adjustments, and the amount of the planned budget adjustment.

Not All CMMs Had Sufficient and Consistent Justification for Cost Increases and Schedule Delays

Consistent with leading practices, Valley Water created procedures requiring CMMs to ensure that all project changes are fully vetted by deputies and serve as one depository record for all substantive changes, such as schedule changes or budget increases. As is described in Exhibit 8 of this report, CMMs had been in use within the agency prior to 2019. However, in November 2019, management implemented an agency-wide CMM process to formally document and approve all capital project changes related to scope of work, cost, and schedule—effectively requiring CMMs to be used for all capital projects undertaken by Valley Water. This process was memorialized in a formal, written procedure in September 2020. Generally, this policy required project managers to complete a CMM form that details the proposed change(s) and provides justification for the change(s); such changes require management approval. In June 2022, management indicated that it updated its procedure and related forms to expand the amount and type of information required to be included in CMMs, including memorializing budget adjustments to projects that do not require management approval.

To identify the reasons for project cost increases and delays identified, we selected a sample of eight projects from the 48 projects discussed earlier to review documentation maintained by Valley Water to determine the causes for the schedule and budget changes identified. Because the CMM process, more than most within the CIP, has evolved substantially since 2019, this analysis provides a snapshot illustrating how CMMs were used during the five-year period included in the scope of this audit and recognizes that the results of changes made to the CMM process in June 2022 will not be evident in this analysis. Nevertheless, past practice illustrates opportunities for improvement and the need to reinforce consistent recordkeeping on projects.

This analysis revealed that each of the eight projects reviewed had at least one CMM and all experienced delays and cost increases over the five-year period reviewed, with schedule delays ranging from 11 months to eight years and cost increases ranging from $593,000 to $52.9 million. In Exhibit 20, we show the changes to the schedule and total project budget from the CIP 5-Year Plans FY 2018-22 to FY 2023-27.

EXHIBIT 20. CHANGES TO PROJECT SCHEDULE AND BUDGET FOR SAMPLED PROJECTS ($ IN THOUSANDS)

			CIP 5-Year Plan FY 2018-22		CIP 5-Year Plan FY 2023-27		Schedule Change	Budget Change
	Project Name & Number	Program Area	Project Start & End Date	Budget	Project Start & End Date	Budget		
1	Almaden Dam Improvements - 91854001	Water Supply	Start: Jul. 1995 End: Jun. 2024	$53,021	Start: Jul. 1995 End: Jun. 2031	$53,615	+7 years	+$594
2	Coyote Pumping Plant ASD Replacement - 91234002	Water Supply	Start: Jul. 2017 End: Jun. 2021	$14,730	Start: Jul. 2017 End: Nov.2025	$26,432	+4 years	+$11,702
3	Permanente Creek, SF Bay to Foothill Expressway - 10244001s	Flood Protection	Start: Jul. 2001 End: Jun. 2019	$92,352	Start: Jul. 2001 End: Jun. 2024	$113,084	+5 years	+20,732

			CIP 5-Year Plan FY 2018-22		CIP 5-Year Plan FY 2023-27		Schedule Change	Budget Change
	Project Name & Number	Program Area	Project Start & End Date	Budget	Project Start & End Date	Budget		
4	Lower Penitencia Ck Improvements, Berryessa to Coyote Creeks - 40334005	Flood Protection	Start: Oct. 2010 End: Jan.2025	$27,081	Start: Oct. 2010 End: Dec. 2025	$35,093	+11 months	+$8,012
5	Cunningham Flood Detention Certification - 40264011	Flood Protection	Start: Aug. 1999 End: Jun. 2020	$10,654	Start: Aug. 1999 End: Jun. 2022	$11,840	+2 years	+$1,186
6	Hale Creek Enhancement Pilot Study (D6) - 26164001	Water Resources	Start: May 2015 End: Jun. 2019	$4,753	Start: Jul. 2014 End: Jun. 2026	$8,959	+7 years	+$4,206
7	Almaden Lake Improvements (D4.1a) - 26044001	Water Resources	Start: Jul. 2011 End: Jun. 2019	$4,636	Start: Jul. 2011 End: Dec. 2027	$57,528	+8 years	+$52,892
8	ERP System Implementation - 73274002	IT	Start: Jul. 2013 End: Jun. 2019	$18,227	Start: Jul. 2013 End: Mar. 2023	$18,820	+4 years	+$593

Source: Valley Water CIP 5-Year Plans FY 2018-22 and FY 2023-27

Our review of CMMs for eight projects identified three areas where additional oversight and improvement are necessary. Specifically, we found that changes in memos did not always have sufficient detail to determine why the change occurred; were not always completed for all project changes to budget, scope of work, and schedule, as required; and we noted some common trends across projects where Valley Water could benefit from lessons learned and use information to better develop schedules and costs for future projects.

- ✓ **CMMs Did Not Always Include Sufficient Detail**: While some of the CMMs reviewed included sufficient detail to determine why the change had occurred, our review found that for four of the eight projects, one or more of the CMMs did not have adequate explanations of why cost or schedule increases occurred as shown in Exhibit 21.

EXHIBIT 21. SAMPLE PROJECTS WITH CMMS LACKING SUFFICIENT EXPLANATIONS

Project (Project Number)	CMM Date	Change	Explanation Provided
Hale Creek Enhancement Pilot Study (26164001)	September 29, 2022	Cost increase of $3.4 million	Contract award amount being higher than the Engineer's Estimate
Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks (40334005)	October 7, 2021	Cost increase of $7 million	Increase in design and construction cost
Cunningham Flood Detention Certification (40264011)	December 23, 2019	Cost increase of $320,000	Increase in construction phase
Almaden Dam Improvements (91854001)	October 18, 2021	Schedule delay of 2 years	To progress environmental review

Source: Project CMMs provided by Valley Water.

While these sample memos flagged a cost increase or schedule delay, they did not sufficiently explain why such changes occurred. In some other change memos, staff did provide fuller explanations. For instance, change memo dated July 9, 2020, for Permanente Creek, San Francisco to Foothill Expressway, noted that there was a cost increase of $3.2 million and a two-year schedule delay for that project. This memo attributed the changes to an unexpected discovery of archaeological resources during excavation of the detention basin at Rancho San Antonio which required more resources and time. The following change memo for that project dated October 30, 2020 increased the project an additional $6.2 million because of challenges with soil acceptance at the quarry related to this excavation. The details provided in these memos allows for anyone reviewing the memo to understand why changes occurred, whereas the examples in Exhibit 21 lack adequate detail to justify delays and budget changes.

The Change Management Procedure W-751-125 provides examples of the level of detail that staff should include when completing a memo, as shown in Exhibit 22. While the examples are good, staff have not consistently followed that level of sufficient detail for all memos.

EXHIBIT 22. INSTRUCTIONS FOR SAMPLE LANGUAGE TO DOCUMENT CHANGES

For Project Cost: Changes to the planned expenditure were made per the CMM signed on March 14, 2020 (Attachment #), to increase the total project cost by $375,000, due to refined cost estimates for design.

For Project Cost and Schedule: Changes to the planned expenditure and schedule were made per the CMM signed on March 14, 2020 (Attachment #), to 1) increase the total project cost by $150,000; and 2) extend the project completion date by 3 months, due to unexpected delays in obtaining right of way. Delays were caused by additional review time required by property owners and request by owner for additional time.

For Project Cost, Schedule and Cost: Changes to planned expenditure, schedule, and scope were made per the CMM signed on March 14, 2020 (Attachment #), to add the stairwell upgrade to project scope, resulting in 1) increase to the total project cost by $75,000; and 2) extension of the schedule by 4 months.

Source: CMM Procedure W-751-125

To ensure that reasons for changes are justified and transparently communicated, Valley Water should provide specificity to each CMM detailing the underlying cause for any such change as

whether the reason was unforeseen or what the basis for the specific dollar amount increase or schedule delay time length was.

- ✓ **Staff Did Not Document All Changes in CMMs, Including Administrative Adjustments**: Through CMM procedure W-751-125, Valley Water recognized the importance of documenting and securing formal approval for changes to the scope of work, cost, and schedule for capital projects, as it helps to memorialize the rationale and justification behind key project decisions and provides evidentiary support of management approvals. According to the CMM procedure, CMMs help to "ensure that project staff analyze and clearly communicate project changes and implications of the changes, as such changes become public record in the CIP." A key purpose of the CMM is to document changes to scope, budget, or schedule, and for securing management approval for such changes.

  This analysis revealed that not all changes were recorded in CMMs. Some were substantive modifications to the projects' scope, cost, or schedule, and some were the result of administrative adjustments, such as budget reconciliations and the application of inflation factors. For six of the eight sample projects reviewed, cost and schedule data did not align in sequential CMMs, as shown in Exhibit 23. In part, this is because administrative adjustments to project costs have historically not been reflected or noted in CMMs.

  The CMM procedure requires changes to be reflected in CMMs but is silent on administrative updates (such as the application of global inflationary rates and the budget reconciliation and rollover processes). This led to cost and schedule data not aligning in sequential CMMs because changes occurred outside the CMM process that were not reflected. According to Valley Water staff, administrative updates to project costs occur independent of the project management team, and therefore are not reflected in the CMMs. Specifically, inflationary rates are prepared by an independent cost estimator and approved by the ACEO and the budget is approved by the Board. Administrative updates are not documented in CMMs, but according to management are reflected in the capital project pages included in Vena.

EXHIBIT 23. CMMS WITH UNDOCUMENTED VARIANCES

Project Name (Project Number)	Number of CMMs Reviewed	Number of Instances Where Change Occurred without a CMM
Almaden Dam Improvements (91854001)	12	5 cost 2 schedule **7 total**
Almaden Lake Improvements (26044001)	3	1 cost 1 schedule **2 total**
Coyote Pumping Plant ASD Replacement (91234002)	3	**1 cost**

Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks (40334005)	3	1 cost 1 schedule **2 total**
Hale Creek Enhancement Pilot Study (26164001)	3	**2 cost**
Enterprise Resource Planning System Implementation (73274002)	3	2 cost 1 schedule **3 total**

Source: Auditor generated from project CMMs provided by Valley Water.
Note: Project changes that occurred to non-Water Utility projects before Fall 2019 did not require a CMM, but were instead documented in project plans Change History in Vena (as of 2016) and preceding Vena in the Capital Dashboard system. Following Fall 2019, CMMs were required for all capital project changes to scope, schedule and cost.

In one example, the CMM from December 21, 2020 for Almaden Lake Improvements had a TPC of $56.2 million. The next subsequent CMM provided by Valley Water was dated September 27, 2022—which reported that the last approved TPC was $57.5 million, which leaves an unexplained discrepancy of $1.3 million between the two memos. Valley Water noted that the delta was due to inflation adjustments, an administrative update to the project cost that was not documented or explained in the September 27, 2022, CMM.

Similarly, the Hale Creek Enhancement Pilot Study Project had a CMM from December 20, 2019, with a proposed TPC of $8.6 million. The subsequent change memo was on October 12, 2021, and reported that the last approved TPC was $8.8 million—an unexplained variance of approximately $200,000. Like the Almaden Lake example, no notation was included to justify why there was a cost difference though staff noted that this project underwent inflation changes, budget reconciliation, and budget rollover during this time that could have impacted the difference.

However, review of underlying project data provided by staff from Vena and the CIP 5-Year Plan back up supporting documents showed that non-inflated costs were not listed such that reviewers could tie the values in the change memos to underlying support readily. Moreover, inflated project costs that corresponded to those memos still did not agree with inflated costs in corresponding CIP 5-Year Plans for the same period, as shown in Exhibit 24.

EXHIBIT 24. SAMPLE INCONSISTENT COST DATA ($ IN THOUSANDS)

		Total Project Costs		Expenditure Schedule		Total Project Costs	
Project Name	CMM Date	CMM		CIP Expenditure Schedule		Vena Change History	CIP Page Back Up Change History
		Non-inflated	Inflated	Non-inflated	Inflated	Inflated	Inflated
Almaden Lake Improvements (26044001)	December 21, 2020	$56,157	-	$56,467 (CIP 5-Year Plan FY 2022-26)	$58,198 (CIP 5-Year Plan FY 2022-26)	$57,958	$57,958
Hale Creek Enhancement Pilot Study (26164001)	December 20, 2019	$8,617	-	$8,717 (CIP 5-Year Plan FY 2021-25)	$8,992 (CIP 5-Year Plan FY 2021-25)	$8,991	$8,991

Source: Auditor generated based on project, CMMs, CIP 5-Year Plans FY 2022-26 and FY 2021-25, and project files provided by staff
Note: Changes reflected on CMMs would be reflected on the CIP with the closest date following the CMM date. For instance, CMM dated December 21, 2020 should be reflected on the CIP 5-Year Plan FY 2022-26 because that plan has data through June 2021, and the prior CIP 5-Year Plan FY 2021-25 would only capture data through June 2020—before the CMM change took place.

The project level examples do not show significant variances, but small variances existing across many capital projects could be material and should be documented or noted.

Ultimately, this shows that while improvements were ongoing during the scope of this audit, gaps and inconsistencies persisted, and it highlights the importance of ensuring all project changes to scope, budget, and schedule comply with established process going forward. As the process, dating back to 2019, is silent on administrative updates, Valley Water needs to ensure that the CMM Procedure is updated to require that CMMs include notations regarding administrative updates, refer the reader to supporting documentation where warranted, and provide explanations where values in sequential CMMs may differ.

Revenue Forecasts Were Reasonably Close to Revenue Actuals

While Valley Water has several different revenue sources to fund its CIP, the majority of its CIP revenue is impacted by factors outside of Valley Water's full control. Forecasted estimates have not always aligned with actual revenues coming in, but variances were reasonable—approximately within a ten percent margin.

A comparison of Valley Water's revenue forecasting from FY 2017-18 through FY 2021-22 to actual revenue received showed that while revenue forecasts agency-wide (including both CIP and operational revenue) were generally between three to ten percent of actual amounts received, Valley Water generally underestimated revenue receipts in its forecasts—though in FY 2021-22 Valley Water modestly overestimated revenues by 1.4 percent.[8]

[8] Auditors used data from organization-wide budgets to do this revenue forecast analysis because forecasts and actuals for solely the CIP were not readily available. But given that the CIP encompasses so much of the overall organization budget, using the overall budget reasonably represents results for the CIP.

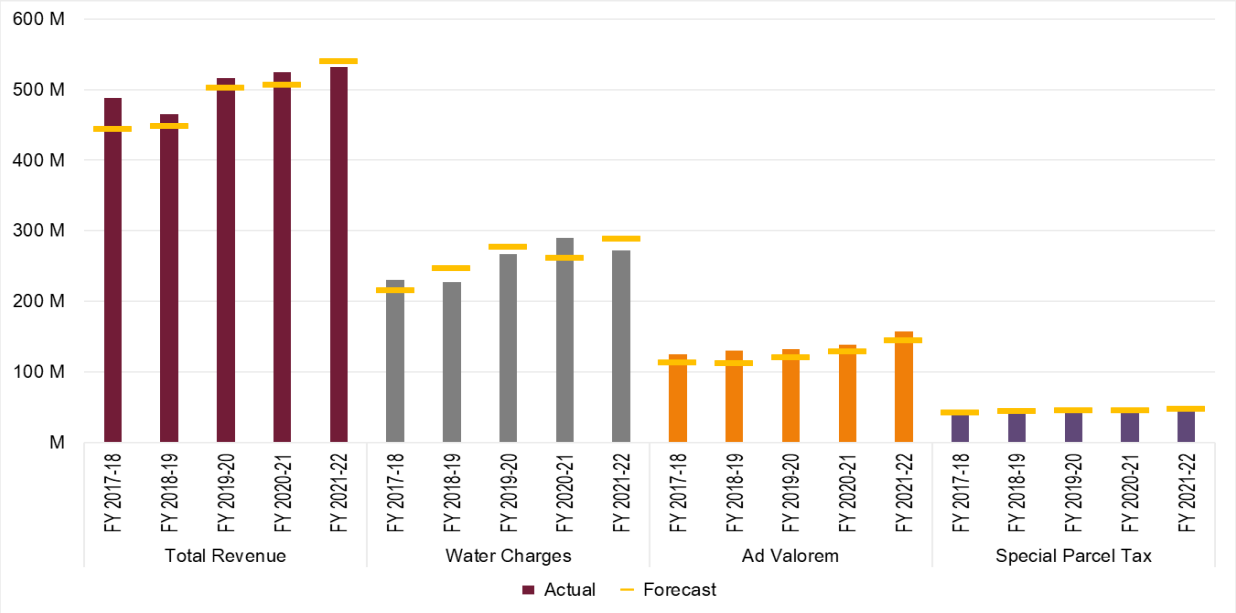
Two key revenue sources, water rate charges and ad valorem property taxes, which account for 80 percent of CIP funding, are impacted by factors outside of Valley Water's direct control and revenues received vary from one year to the next. Revenue from water charges can fluctuate greatly depending on a variety of factors such as the cost of the rate, usage by customers, and external events such as drought, state conservation orders, and emergencies. Water rate charges for this period were generally within that 10 percent variance range, though each year was not consistently under or overestimated.[9] Some of the reasons cited for these fluctuations included unexpected weather conditions such as drought, statewide water usage restrictions, and the Covid-19 pandemic—all of which were outside Valley Water's control. As the largest revenue source of the CIP, these fluctuations present delivery risks for the CIP if needed revenue does not actualize for planned work. Other comparable entities have similar funding sources, with heavy reliance on water rate charges. For example, EBMUD also depends primarily on water rate charges and bond funding to fund its CIP.

The second largest revenue source, ad valorem property taxes, can also vary depending on the changing values of properties assessed each year based on market conditions—though in recent years property values have generally gone up in value. However, values may decline in the event of a recession or other market changes, which is a consideration that Valley Water monitors. Between FY 2017-18 through FY 2020-21, Valley Water consistently underestimated revenues and received more monies than expected for the property tax, ranging from 8 percent to 16 percent.

Lastly, the third largest revenue source of CIP funding is the special parcel tax, which over the same period had a variance at 1 percent or less annually. Exhibit 25 shows the comparisons of forecasted revenues to actuals for these three key revenue sources as well as total revenue organization-wide each fiscal year from FY 2017-18 through FY 2020-21.

[9] These fluctuations mirrored water charge revenue results across a 20-year period that showed that from FY 2002-03 to FY 2021-22, there were eight years, or 40 percent of the 20 years, where actual revenue received was higher than expected and twelve years, or 60 percent, where actual revenue received was lower than expected.

EXHIBIT 25. CIP KEY REVENUE SOURCES, FORECASTED REVENUES VS. ACTUALS, FY 2017-18 TO FY 2021-22



Source: Auditor-generated based on adopted budgets for FY 2017-18 to FY 2021-22

While there is no industry standard of an acceptable variance threshold, any variance from the forecast presents some risk. If Valley Water overestimates its revenue, it will not have enough revenue to fund its planned CIP projects. If Valley Water underestimates how much revenue it will receive, there is a possible opportunity loss of additional capital improvements it could have planned for but otherwise did not.

But Valley Water endeavored to demonstrate its due diligence in trying to forecast using reliable methodologies, as will be described in the subsequent section, and have a plan in place for adverse circumstances. While Valley Water has not established a formal dedicated plan in the event that revenue forecasts significantly vary from actuals, it has reasonable protocols in place for how it would address significant variances between revenue forecasts and actual revenue receipts. If more revenue than anticipated arrives, Valley Water can park funds into its treasury to be invested per its investment policy or moved into reserves.[10] If there is a revenue shortfall or if CIP project expenditures are higher than anticipated, then Valley Water staff work together to transfer funds between projects or use special purpose funds or reserves. Valley Water also is able to borrow debt or make mid-year water charge adjustments when warranted. Finally, Valley Water has recently developed a new Grants Action team in early 2022 that will work to identify additional funds to help supplement regular revenue streams.

Forecasting Methodologies Align with Industry Leading Practices

Uncertainty and factors outside of Valley Water's control will always exist that may impact outcomes of revenue forecasting. Best practices emphasize that while no forecast will be perfect, entities should strive to have robust forecasting methodologies that evolve as new risks emerge.

[10] Valley Water requires that its reserve balances are maintained at 15 percent of its operating and capital outlays.

A high-level review of Valley Water's models and forecasting methodologies showed that many best practices were implemented—similar to what peer entities employed. Exhibit 26 shows a list of several best practices in revenue forecasting identified from the GFOA in 2014 and the University of North Carolina School of Government in 2015.

EXHIBIT 26. REVENUE FORECASTING BEST PRACTICES

	Best Practice	Valley Water
1	Forecast all major revenues and expenditures	✓
2	Extend several years into the future	✓
3	Forecast, assumptions, and methodology be made available to stakeholders	✓
4	Forecast should be monitored and periodically updated	✓
5	Use expertise inside and outside organization	✓
6	Use historical data and current economic conditions	✓
7	Use of range of possible scenarios	✓
8	Have a transparent process	✓
9	Revenue manual with key information on each revenue source	✓

Source: Best Practices: Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association, 2014 and Revenue Forecasting in Local Government, University of North Carolina School of Government, 2015.

Employing these best practices in its revenue forecasting methodologies strengthen Valley Water's efforts in more accurately predicting its revenue streams. The impact of these efforts is evident given that forecasted revenues were reasonably close to actuals as discussed in the previous section.

However, current events and environmental conditions in the world in the last few years exemplify the risk of major unforeseen external events. Valley Water is demonstrating its due diligence by applying these forecasting best practices alongside best available historical data—but it needs to stay cognizant and alert to fast-changing conditions, threats, and be prepared to shift strategies in the event of unanticipated forces including but not limited to population change, market volatility, impacts of climate change, and socio-political events that may impact the agency.

As Valley Water moves forward, it should continue its existing practices to monitor on a regular basis outside factors that may impact its revenue forecasts, and stay current to new industry methodologies and practices to prepare against uncertain risks.

Debt Management Policy and Board-Vetted CIP Financing Approaches Are in Place to Ensure Funds are Available

To help ensure that there is a plan to pay for CIP expenditures when money is needed, Valley Water has established debt management policies that are vetted and approved by the Board—including reasonable financing mechanisms to smooth the ebb and flow of outlays. These practices generally align with how peer entities approach CIP financing.

Valley Water's debt management policy sets the objectives, parameters, and provides policy guidelines to staff for how it approaches debt management across the organization. It centers on minimizing debt service and issuance costs, achieving high credit ratings, maintaining access to cost-effective borrowing, and making full and timely repayment of debt. The policy allows for Valley Water to utilize designated debt instruments such as bonds, certificates, and more to finance organizational needs.

To finance the CIP, Valley Water's Board and policy-approved strategy has been to finance annual CIP expenditures on a "just-in-time" basis through the issuance of short-term debt, and subsequent sale of more permanent long-term debt to refund the short-term debt. The short-term debt capacity consists of a total of $320 million, a combination of commercial paper ($150 million) and a line of credit ($170 million).[11]

The just-in-time refinancing draws down on short-term debt only when expenses are in hand and are processed like reimbursements. In a January 2022 report to the Board, Valley Water staff explained that they aim to time long-term debt issuance for when capital expenditures reach at least $100 million for each issuance, which is considered the optimal amount to market bonds to achieve low financing costs and economies of scale for issuance.[12] By this way, interest expenses are not incurred until actual capital expenditures occur. This appears to align with what some other comparable entities do. For instance, Metropolitan Water stated that they also use pay-as-you-go financing and bond issuance for debt financing needs.

While there is no one way to approach capital debt financing, this strategy appears reasonable to ensure CIP expenditures can be paid for while balancing the costs of debt. This approach is vetted and approved by the Board, adding transparency to the process to ensure that leadership is informed of key debt management information.

[11] In October 2020, Valley Water obtained a revolving $170 million line of credit to finance capital projects. According to the Treasury Debt Officer, this decision was due to the Board wanting to diversify access to more liquid funds with the uncertainty of the Covid-19 pandemic.

[12] This report focused on Water Utility System and Safe, Clean Water, and Natural Flood Protection capital projects, which comprise the majority of where CIP funding is used.

Recommendations

This audit found that Valley Water has established a CIP planning process that was consistent with many leading practices found in the public sector, and that Valley Water management was and is engaged in a continuous improvement process that has led to the implementation of additional leading practices prior to and during the scope of this audit. Building upon this foundation, this audit identified further opportunities to improve the CIP planning process. Therefore, in order to improve the CIP planning process, and build upon already ongoing efforts to implement leading practices as identified in this report, we recommend that Valley Water management:

1) Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by:
    a. Ensuring cost estimates are up-to-date and reflect reasonable rates of inflation.
    b. Identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource.
    c. Conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide.
2) Develop a performance measurement system that effectively demonstrates Valley Water's performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans. This includes:
    a. Monitoring and reporting overall CIP performance and using this information to identify areas where improvements can be made to both capital project delivery and delivery of the capital improvement program.
    b. Establishing tangible targets to measure the effectiveness of the CIP in meeting established agency goals.
    c. Incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.
3) Formalize objective project prioritization techniques and criteria, and consider whether a performance-based prioritizing process would be feasible and appropriate.
4) Formalize and consolidate CIP planning policies and procedures in a manner that reflects best practices recommended by the GFOA, including establishing a formal, written policy for establishing project contingencies.
5) Evaluate whether it would benefit Valley Water to modify CIP planning processes to require biennial CIP updates rather than annual updates.
6) Incorporate additional detail within the CIP related to anticipated operations and maintenance costs associated with programmed capital projects. Specifically, when operations and maintenance costs associated with programmed capital projects are unknown, include additional detail within the CIP

5-Year Plan regarding why the costs are unknown, what factors may impact the costs, and when they will be determined.

7) Implement quality control protocols to ensure data reported within the CIP are reported consistently throughout the document, include a note if planned budget adjustments are included in annual capital budgets, and are supported by underlying project and financial systems and other project documentation.

8) Improve compliance with Change Management Procedure W-751-125, and ensure cost and schedule data aligning throughout sequential CMMs, by consistently requiring:

    a. Descriptions of reasons for changes are sufficiently detailed to point to the exact cause.

    b. All data in CMMs to accurately reflect underlying project data and corresponding documents with clear notations of any variances including but not limited to inflation adjustments, timing issues, or other justification for why numbers may not tie.

    c. References or notations exist to specific underlying documents, change orders, or other support where rationale is too voluminous to describe in the memo itself.

    d. Update the CMM Procedure to require that CMMs include notations regarding administrative updates, refer the reader to supporting documentation where warranted, and provide explanations where values in sequential CMMs may differ.

Appendix A – Valley Water's Implementation of CSMFO Leading Practices

It is important to identify industry best practices for capital improvement projects and for Valley Water to decide whether implementation of certain leading practices identified by CSMFO would be appropriate, practical, and cost-effective at Valley Water and whether they would be in-line with their policies, mission, and goals.

EXHIBIT 27. CSMFO BUDGET AWARDS PROGRAM CRITERIA CHECKLIST

CRITERIA FOR MERITORIOUS AND EXCELLENCE AWARD FOR CAPITAL BUDGETS	INCLUDED IN VALLEY WATER'S FY 2022-26 CIP 5-YEAR PLAN
Is there a table of contents? Are the budget document's pages numbered?	✓
Does the transmittal letter and/or budget message highlight major capital project priorities and their funding sources?	✓
Is the basis for key capital revenue estimates described?	✓
Is the jurisdiction's capital budgeting process explained?	✓
Is there a summary schedule of capital revenue sources, by fund?	✓
Is there a summary schedule of capital expenditures, by fund?	✓
Is there a summary schedule of capital expenditures, by major type of improvement?	✓
Are specific projects identified in the budget document?	✓
Does each project have specific revenue sources identified?	✓
Are prior year appropriations or expenditures shown, where applicable, for each capital project?	✓
Does each capital project reflect appropriations or estimated expenditures for at least the budget year?	✓
Does each capital project reflect appropriations or estimated expenditures in the future through its proposed completion?	✓
For multi-year projects, is total cost for the project identified?	✓
Have overall operating cost impacts been discussed?	PARTIALLY
Does the execution of the document appear consistent with the audience and purpose to which it is directed?	✓
Is the budget clearly enough organized and presented as a document?	✓

CRITERIA FOR MERITORIOUS AND EXCELLENCE AWARD FOR CAPITAL BUDGETS	INCLUDED IN VALLEY WATER'S FY 2022-26 CIP 5-YEAR PLAN
Do the budget numbers and format appear to be accurate and consistent throughout the document?	PARTIALLY
Is there an in-depth description of how capital project scheduling meets jurisdiction's goals and/or financial and budget policies?	✓
Does budget process include a rating or ranking process to prioritize projects?	PARTIALLY
Are individual capital projects appropriately described?	✓
Does each project include a location map, where applicable?	✓
Does each project include a narrative discussing project status and/or timeline for project completion?	✓
Does each project identify the person or department acting as project manager?	✓
Does each project identify, where applicable, operating budget impacts and/or contains estimates of future annual operating & maintenance costs?	PARTIALLY
Are individual project costs/appropriations broken down by major objects or types?	✓
Have alternative funding sources been explored for individual projects?	✓
Are project costs identified based on current year dollars and are future appropriations increased by inflationary index?	✓
Is there a summary of individual projects by funding source?	✓
Is there a summary of individual projects by major type of improvement?	✓
Is debt issuance supporting the capital program clearly identified by project or by summary?	✓
Have additional future years of forecasted revenues and project expenditures been included?	✓
Does the document include a glossary of terms?	✓
Is document generally readable and attractive in format and presentation?	✓
Is there good use of graphics, artwork, maps and charts?	✓
Does the document demonstrate the use of current computer technology in document development and/or production?	✓

Source: Auditor-generated comparing best practices identified by The CSMFO Budget Awards Program Overview & Explanation of Criteria and audit observations of Valley Water's CIP

Key: A check mark means that the Valley Water's 2022-26 CIP 5-Year Plan fully met the criterion. Partially means that the 2022-26 CIP 5-Year Plan partially meet this criterion. No check mark means that the information was not clearly present in the 2022-26 CIP 5-Year Plan. Not Applicable means that it is not a relevant criterion due to the 5-Year Plan being separate from the budget.

Appendix B – Summary of Recommendations and Corrective Action Plan

	Recommendation	Responsible Party	Priority	Management's Corrective Action Plan
1	**Problem:** Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.	Business Planning and Analysis Unit	High	☒ Agree ☐ Disagree
	Recommendation: Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by: a. Ensuring cost estimates are up-to-date and reflect reasonable rates of inflation. b. Identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource. c. Conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide.			**1.a.** Management agrees and believes this recommendation has been addressed. Project plans are updated annually to reflect the latest cost information. Placeholder projects and projects listed on the unfunded list will be "re-validated" as indicated in the Capital QEMS Processes and reassessed annually through the CIP Evaluation Team. As of FY23, inflation rates are updated by an Independent Cost Estimator on-call consultant, through development of the Construction Cost Escalation Factors and Market Rate Factors. This is acknowledged on p.23 of the Final Draft Report, "In FY 2021-22, Valley Water utilized an on-call contract with an Independent Cost Estimator (ICE) to validate its construction cost escalation factor analysis. It further made the business decision that, moving forward, it will employ a consultant to determine construction cost escalation factors to ensure that Valley Water is keeping pace with the market and to better ensure accuracy and reliable in future TPC estimates." **1.b.** Management agrees and believes this recommendation will be addressed through the implementation of our new resource planning/staff forecasting tool VEMO. **1.c.** Management agrees and will implement this recommendation through ProjectMates.
				Implementation Date: 1.a. – Complete as of Q4, FY23. 1.b. – Implementation underway. Estimated to be fully implemented by Q4, FY26. 1.c. – Implementation underway. Estimated to be fully implemented by Q4, FY26.

2	**Problem:** Valley Water's performance in delivering capital projects is obscured by the lack of a robust performance measurement system. **Recommendation:** Develop a performance measurement system that effectively demonstrates Valley Water's performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans. This includes: a. Monitoring and reporting overall CIP performance and using this information to identify areas where improvements can be made to both capital project delivery and delivery of the capital improvement program. b. Establishing tangible targets to measure the effectiveness of the CIP in meeting established agency goals. c. Incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.	Business Planning and Analysis Unit	Medium	☒ Agree ☐ Disagree **2.a-b.** Management agrees and is in the process of improving current reporting and developing new reporting methods at the project and program level. New PowerBI quarterly reporting tool under development to track project level and program level metrics, with data to be provided via Vena, Infor, ProjectMates, and using CIP historic data. **2.c.** Management agrees. Management is proposing a two-year implementation period for ProjectMates, with a follow-up audit to validate success (e.g. follow-up audit to be initiated in FY 26 to allow time for implementation of ProjectMates and Vemo). Implementation Date: 2.a. – Implementation underway. Estimated to be fully implemented by Q4, FY26. 2.b. – Implementation underway. Estimated to be fully implemented by Q4, FY26. 2.c. – Implementation underway. Estimated to be fully implemented by Q4, FY26.
3	**Problem:** While Valley Water does employ a deliberative project prioritization process in developing its CIP 5-Year Plan, the process lacks consistent and objective criteria. **Recommendation:** Formalize objective project prioritization techniques and criteria, and consider whether a performance-based prioritizing process would be feasible and appropriate.	Business Planning and Analysis Unit	High	☒ Agree ☐ Disagree **3.** Management agrees and believes that by implementing a Priority Level system, Valley Water can further enhance the Funding Filters for Prioritization, improving the consistency, objectivity, and transparency of the process. The Priority Level system was cited as an example of a successful prioritization system utilized by the Contra Costa Water District in the Draft Audit Report (see p. 30). After implementation of a Priority Level System, Management will explore whether a performance-based prioritizing process would be feasible and appropriate. The majority of VW projects repair and replace existing infrastructure, which is our obligation and prioritization is then only necessitated by the availability of resources (financial or staff resources). Based on this, a performance-based prioritization process may not make sense, as we are required to maintain our existing infrastructure, requiring the delivery of specific projects. Staff will analyze this approach further and report back. Implementation Date: Implementation underway. Estimated to be fully implemented by Q4, FY24.

4	**Problem:** Policies and procedures are generally consistent with leading practices, but are disbursed among a variety of authoritative sources and informal guidance. **Recommendation:** Formalize and consolidate CIP planning practices and procedures in a manner that reflects best practices recommended by the GFOA, including establishing a formal, written process for establishing project contingencies.	Business Planning and Analysis Unit	Medium	☒ Agree ☐ Disagree **4.** Management agrees and will create an over-arching CIP Development Manual to serve as an umbrella for capital QEMS procedures to document all existing CIP procedures and practices in compliance with GFOA. Management's approach to establishing project contingencies is currently documented in the Cost Engineering Guidelines. These guidelines will be included in the over-arching CIP Development Manual (referenced above). The existing procedure requires a Risk-Analysis-Based Process for Contingency Estimation. Staff believes this process is consistent with the Best Practices identified in the CIP Performance Audit Draft Report. The procedure will be updated to clarify the types of Contingency Reserves utilized, as Valley Water uses both Project Level Contingency, which is included at the Project Budget level, and a Management Contingency, which is at the Fund Reserve level. Additionally, management has identified a staff level process improvement, which will update the Capital Project Delivery Process to include reassessment of risk at time of Board's Acceptance of Work as Complete to determine whether remaining contingency funds could be released to project or fund reserves. Implementation Date: Implementation underway. Estimated to be fully implemented by Q4, FY24.
5	**Problem:** One of the more distinguishable differences between Valley Water and the peers sampled is that Valley Water updates its CIP 5-Year Plan annually, whereas all four peers reviewed update their short-range CIP biennially. **Recommendation:** Evaluate whether it would benefit Valley Water to modify CIP planning processes to require biennial CIP updates rather than annual updates.	Business Planning and Analysis Unit	High	☒ Agree ☐ Disagree **5.** Management agrees to evaluate whether updating the CIP 5-Year Plan on a biennial basis would be feasible and beneficial to Valley Water. Implementation Date: Evaluation is underway and estimated to be fully implemented by Q4, FY24.

6	**Problem:** While the CIP 5-Year Plan includes information regarding anticipated operations and maintenance (O&M) costs, additional information regarding the factors contributing to potential O&M costs, particularly when costs have not yet been fully determined, is essential. **Recommendation:** When operations and maintenance costs associated with programmed capital projects are unknown, include additional detail within the CIP 5-Year Plan regarding why the costs are unknown, what factors may impact the costs, and when they will be determined.	Business Planning and Analysis Unit	High	☒ Agree ☐ Disagree **6.** Management agrees and will incorporate additional detail for projects with unknown O&M costs, including why they are unknown, what factors may impact them, and when staff anticipates they will be determined. The O&M costs are reflected in the CIP 5-Year Plan when information is available and included both on the project pages and in the Financial Planning and Summary Chapter. The information is then utilized by O&M managers and forecasted in the related operating projects through the Long-Term Forecast**.** Implementation Date: Evaluation is in progress. Estimated to be fully completed by Q4, FY24.
7	**Problem:** Financial information contained in the CIP was not always consistent or aligned with Valley Water's financial system. **Recommendation:** Implement quality control protocols to ensure data reported within the CIP are reported consistently throughout the document, include a note if planned budget adjustments are included in annual capital budgets, and are supported by underlying project and financial systems and other project documentation.	Business Planning and Analysis Unit	Medium	☒ Agree ☐ Disagree **7.** Management agrees. This recommendation has been addressed with the finalization of the FY 2024-28 Five-Year Plan through inclusion of footnotes indicating planned budget adjustments that differ from the adopted budget. Also, QA/QC protocols have been enhanced to ensure consistency in reporting. Implementation Date: Implementation complete as of Q4, FY23.

8	**Problem:** Change Management Memos did not always include sufficient information describing cost increases and schedule delays.	Business Planning and Analysis Unit	Medium	☒ Agree ☐ Disagree
	Recommendation: Improve compliance with Change Management Procedure W-751-125, and ensure cost and schedule data aligning throughout sequential CMMs, by consistently requiring: a. Descriptions of reasons for changes are sufficiently detailed to point to the exact cause. b. All data in CMMs to accurately reflect underlying project data and corresponding documents with clear notations of any variances including but not limited to inflation adjustments, timing issues, or other justification for why numbers may not tie. c. References or notations exist to specific underlying documents, change orders, or other support where rationale is too voluminous to describe in the memo itself. d. Update the CMM Procedure to require that CMMs include notations regarding administrative updates, refer the reader to supporting documentation where warranted, and provide explanations where values in sequential CMMs may differ.			**8.a.** Management agrees and will assign CIP team to work with project managers to include sufficient details regarding the cause of the documented changes. **8.b-d.** Management agrees and believes this recommendation has been addressed. The CMM work instruction and template were updated on 05/23/23. In addition, staff is seeking to further enhance reporting on schedule and cost impacts (as referenced in Recommendation 1.c. and will be making further updates to align with the process improvements). Implementation Date: 8.a. Implementation underway. Estimated to be fully implemented by Q4, FY24. 8.b. Implementation complete as of Q4, FY23. 8.c. Implementation complete as of Q4, FY23. 8.d. Implementation complete as of Q4, FY23.

***Urgent**: The recommendation pertains to a high priority conclusion or finding. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.*

***High Priority**: The recommendation pertains to a high priority conclusion or finding. While the matter is not urgent and does not require immediate corrective action, the seriousness of the matter warrants timely management attention and appropriate corrective action is warranted within six months.*

***Medium Priority**: The recommendation pertains to a moderately significant conclusion or observation. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than one year.*

***Low Priority**: The recommendation pertains to a conclusion or observation of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.*

Santa Clara Valley Water District

File No.: 25-0753

Agenda Date: 9/17/2025
Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Receive the Fiscal Year 2024-2025 Fourth Quarter Financial Status Update as of June 30, 2025.

RECOMMENDATION:
Receive the Fiscal Year 2024-2025 fourth quarter financial status update as of June 30, 2025.

SUMMARY:
Valley Water's Fiscal Year 2024-25 Fourth Quarter closed on June 30, 2025. The fourth quarter financial status update presentation (Attachment 1) summarizes cash and investment balances, the debt portfolio and includes a detailed comparison, and analysis, of the budget to actual status of revenues and expenditures for all funds as of June 30, 2025.

These financial statements have been prepared by Valley Water for informational purposes only and have not been audited by the external auditor. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency, nor are they authorized to post these financial statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <<https://emma.msrb.org/>>.

ENVIRONMENTAL JUSTICE IMPACT:
There are no environmental justice impacts associated with this item.

ATTACHMENTS:
Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Q4 FY2024-25 Financial Status Update

Board Audit Committee, September 17, 2025

The FY 2024-25 unaudited financial statements contained herein have been prepared by Valley Water for information only and have not been audited by the external auditor. These financial statements remain subject to change by Valley Water and remain subject to review by external auditor. Changes made by the external auditor, including changes in response to the outsider auditor's review, could be material. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency nor post these statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale Valley Water bonds, notes or other obligations and investors and potential investors should rely on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at https://emma.msrb.org/.

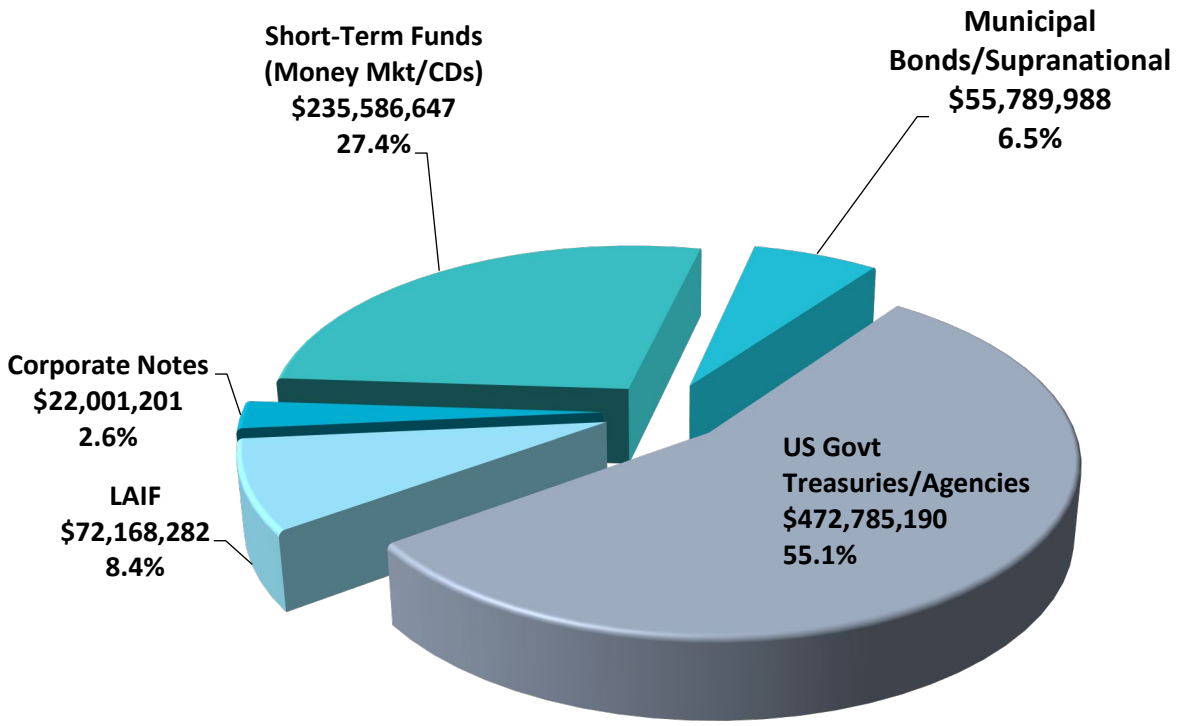
Agenda

- Financial Status
  - Cash and Investments
  - Debt Portfolio
- FY25 Financial Status Update
  - Revenue
  - Operating and Capital Expenditures
  - Reserves

Financial Status Update – Cash & Investments

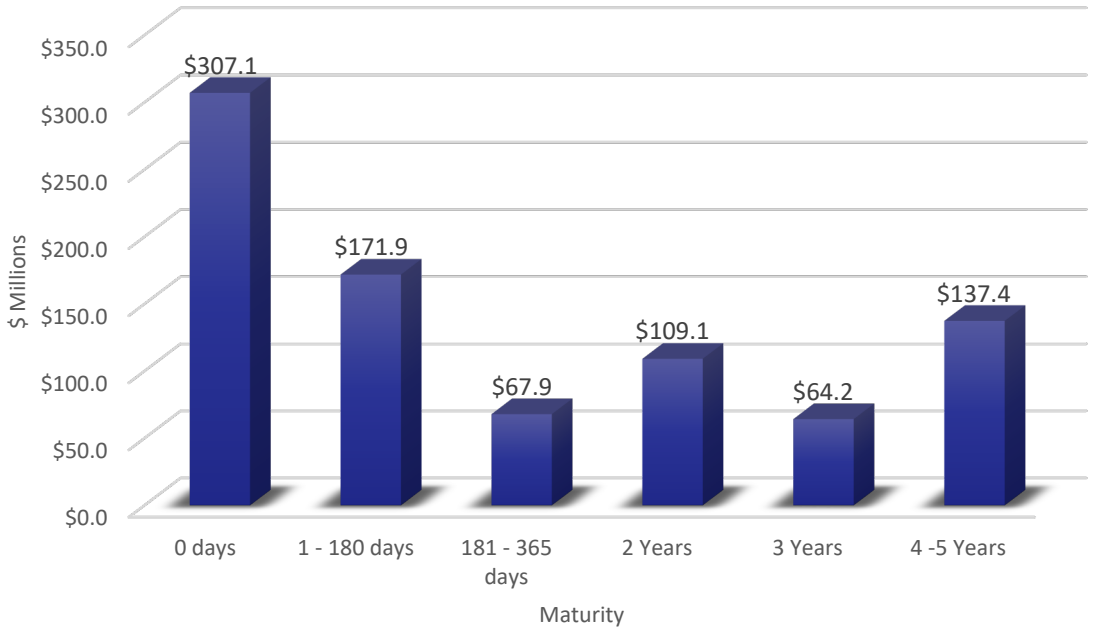
$307 million or 36% of portfolio very liquid (LAIF & Short-Term deposits)
Total FY 2025 interest earnings: $21M, 3.52%

SCVWD Investment Portfolio Composition



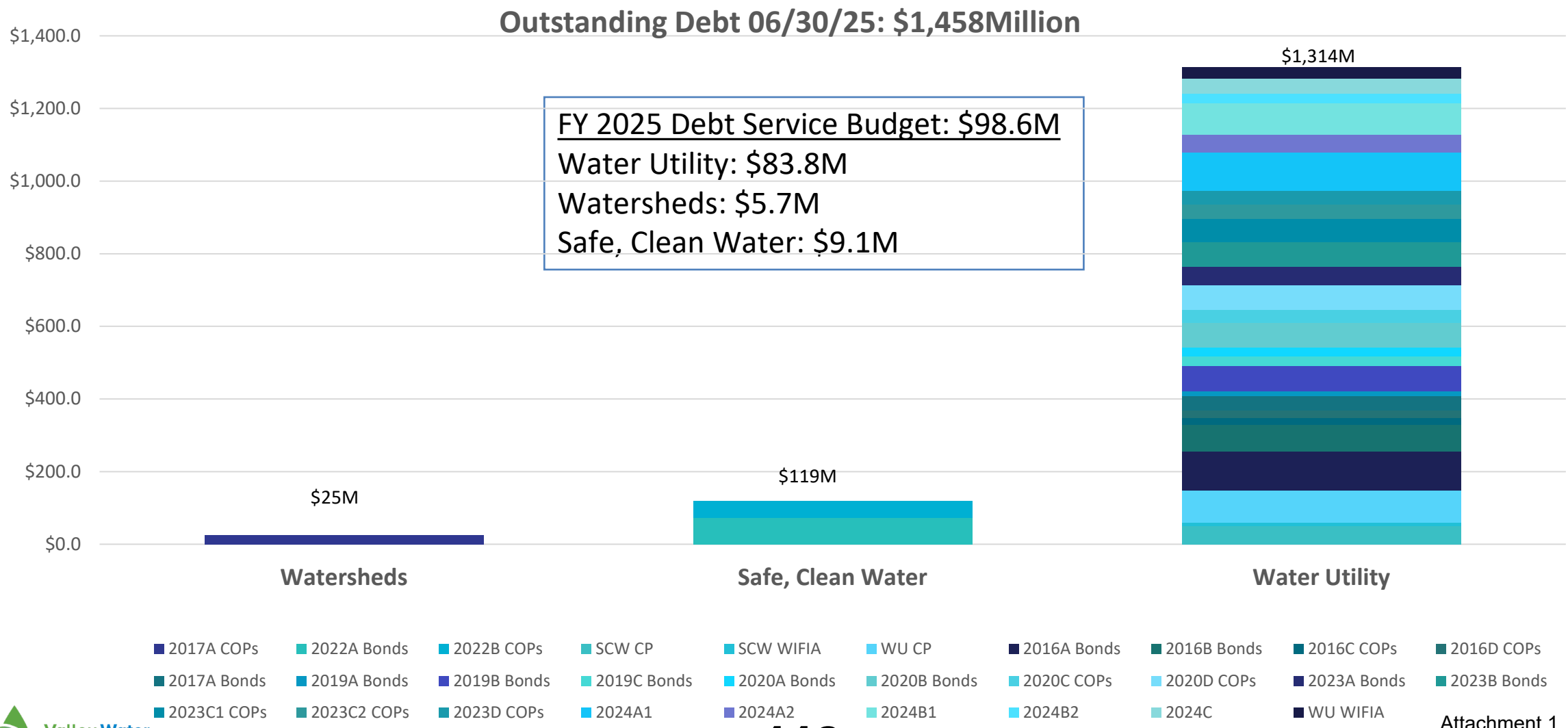
SCVWD Portfolio Book Value as of June 30, 2025: $858,331,307

Valley Water Portfolio Aging Report
June 30, 2025
Portfolio Book Value: $858 Million



valleywater.org

Financial Status Update – Outstanding Debt



Financial Status Update – Debt Portfolio

Ample access to cash at low interest rates

$400M Short-term credit facilities

- $150M Bank Line of Credit with U.S. Bank
- $250M CP Program

FY 2026 Financing Plan

- Board approval of $1 billion CWIFP loan package for Dam Safety Program on September 9, 2025
  - Provide long-term financing for Almaden, Calero, Coyote, and Guadalupe Dam Seismic Retrofit projects
- WIFIA Master Agreements: $146.7M SCW ($7M disbursed); $579M Anderson ($27M disbursed);
  - $1.4B Pacheco to be terminated per August 26, 2025, Board direction to suspend the project development
  - Application submitted to EPA to increase the Anderson Dam Seismic Retrofit Project WIFIA Loan by $639M, from $579M to $1.2B, pending FERC NEPA Review in early 2026
- FY 2026 debt issuance plans:
  - WU $220M
  - SCW $45M
  - Refundings:
    - 2025A/B: $200M, priced 8/26/2025, TIC 4.5%, $14M debt service savings, close 9/10/2025
    - 2026A/B: $216M WU Refunding Bonds: 2023C1 ($64M), 2023D ($37M), 2024A2 ($51M), 2024B2 ($25M), and 2017A (39M) for economic savings
    - Board authorization ~May 2026; issuance~ August/September 2026

FY25 Unaudited Close - Revenues by Category and Fund

Water charges revenue below budget offset by Property Tax and Interest Income

($ in millions)	FY25 Adj Budget	FY25 Actuals	FY25 % Rec'd	FY24 Actuals	FY24 % Rec'd*
Groundwater Production Charges	$ 184.7	$ 177.1	96%	$ 148.7	99%
Treated Water Revenue	211.7	202.9	96%	169.6	97%
Surface/Recycled Water Revenue	4.0	2.6	64%	2.3	63%
1% Ad-valorem Property Tax	148.4	154.4	104%	146.1	106%
Safe Clean Water Special Parcel Tax	53.5	53.5	100%	52.2	100%
Benefit Assessment	7.1	7.1	100%	6.9	100%
State Water Project Tax	28.0	29.6	106%	28.0	104%
Capital Reimbursements	42.4	13.6	32%	10.0	15%
Interest Income & Other	15.4	58.1	377%	47.2	361%
Total Revenue	**$ 695.2**	**$ 698.9**	**101%**	**$ 611.0**	**96%**

*FY25 % received based on FY25 Actuals divided by FY25 Adjusted Budget

($ in millions)	FY25 Adj Budget	FY25 Actuals	FY25 % Rec'd	FY24 Actuals	FY24 % Rec'd*
General Fund	$ 12.4	$ 14.7	119%	$ 12.9	113%
Watershed Stream Stewardship Fund	141.0	147.3	104%	134.5	87%
Safe Clean Water Fund	86.2	64.5	75%	63.8	82%
Water Utility Enterprise Fund	447.9	463.5	103%	391.2	102%
Service Funds	0.6	2.0	322%	1.7	374%
Benefit Assessment Funds	7.1	6.8	97%	6.9	100%
Total Revenue	**$ 695.2**	**$ 698.9**	**101%**	**$ 611.0**	**96%**

*FY25 % received based on FY25 Actuals divided by FY25 Adjusted Budget

Observations

- FY25 revenue was $698.9M or 101% of FY25 Budget
- Groundwater production charges of $177.1M or 96% of Budget
- Treated water revenue of $202.9M or 96% of Budget due to lower water volume use
- Capital reimbursements of $13.6M, which varies year-over-year depending on progress of grant-funded projects
  - Timing of NRCS reimbursement of $17.5M and Shoreline subventions of $4.4M moved to FY26
  - San Francisquito Creek ($10M)
- Interest Income and Other $58.1M or 377% of budget due to investment income on bond proceeds ($30.6M), settlement payment for RWTP ($4.6M), Advanced Water Treatment Facility payment ($4.3M), and water sales from the State Water Project ($7.2M)

FY25 Unaudited Close - Operating and Capital Expenditures

Capital and operating expenditures end FY below budgeted levels

($ in millions)	FY25 Adj Budget	FY25 Actuals	FY25 % Spent	FY24 Actuals	FY24 % Spent
General Fund	$ 90.6	$ 75.9	84%	$ 77.8	90%
Watershed Stream Stewardship Fund	94.3	81.0	86%	75.4	96%
Safe Clean Water Fund	38.2	28.7	75%	30.9	78%
Water Utility Enterprise Fund	391.8	328.6	84%	271.6	88%
Service Funds	48.9	44.2	90%	41.4	92%
Benefit Assessment Funds	5.8	5.8	100%	11.1	99%
Total Operating Expenditures	**$ 669.6**	**$ 564.2**	**84%**	**$ 508.2**	**89%**

Note 1: Operating Adjusted Budget includes Adopted Budget and current year budget adjustments
Note 2: Budgetary Basis Actuals includes actuals and encumbrances as of 6/30/25
Note 3: % Spent is FY25 Actuals divided by Adjusted Budget

($ in millions)	FY25 Adj Budget	FY25 Actuals	FY25 % Spent	FY24 Actuals	FY24 % Spent
General Fund	$ 16.8	$ 9.8	58%	$ 2.6	49%
Watershed Stream Stewardship Fund	38.8	14.9	38%	26.3	65%
Safe Clean Water Fund	156.9	79.9	51%	45.8	37%
Water Utility Enterprise Fund	352.0	267.7	76%	307.5	78%
Service Funds	10.6	9.5	90%	7.5	87%
Total Capital Expenditures	**$ 575.0**	**$ 381.8**	**66%**	**$ 389.7**	**68%**

Note 1: Capital Project Adjusted Budget includes Adopted Budget and prior year capital carryforward budget
Note 2: Budgetary Basis Actuals includes actuals and encumbrances as of 6/30/25
Note 3: % Spent is FY25 Actuals divided by Adjusted Budget

Observations

- FY25 Operating Expenditures of $564.2M or 84% spent
- WSS Fund below target due to Encampment Management Program
- SCW Fund below target due to F9 Grants Partnership project and lower debt related expense (commercial paper)
- WUE Fund below target due to debt expense and San Felipe Division Deliveries project
- Service Funds below target due to lower than anticipated claims, insurance, legal, and software costs

- FY25 Capital Expenditures of $381.8M or 66% spent
- General Fund 58% spent due to timing of the HQ Building and Security Upgrades & Enhancements projects
- SCW Fund 51% spent primarily due to timing associated with San Francisquito, and Berryessa Calaveras Creek projects
- WSS Fund 38% spent primarily due to the timing of the Watersheds Asset Rehab, Lower Guadalupe River Restoration and SF Bay Shoreline projects
- WU Fund 76% spent primarily due to timing associated with the Anderson Dam, PWTP Residuals Management and Coyote Creek Flood Management Measures projects

Reserve Balances

- FY25 Projected Year-end reserve balances higher than FY25 Adopted Budget due to unexpended operating and capital project funds

($ in millions)	FY25 Adopted Budget	FY25 Projected Year-end	FY25 Projected vs Adopted
Restricted Reserves			
Safe Clean Water Fund	$ 114.9	$ 200.2	$ 85.3
Water Utility Enterprise Fund	37.8	44.7	6.9
Restricted Reserves Subtotal	**152.7**	**244.9**	**92.2**
Committed Reserves			
General Fund	14.8	24.3	9.5
Watershed & Stream Stewardship Fund	150.7	154.1	3.4
Water Utility Enterprise Fund	73.1	166.3	93.2
Service Funds	22.3	25.3	3.0
Committed Reserves Subtotal	**260.9**	**369.9**	**109.1**
Total Reserves	**$ 413.6**	**$ 614.8**	**$ 201.2**

Santa Clara Valley Water District

File No.: 25-0757

Agenda Date: 9/17/2025
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2024.

RECOMMENDATION:
Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2024.

SUMMARY:
In 2006, Valley Water began conducting an annual Water Utility Fund Audit to assess the reasonableness of the direct and indirect cost allocations between the North County and South County groundwater benefit zones. The audit was initiated to respond to water retailers' and constituents' inquiries on groundwater production charges.

As part of Valley Water's core water supply function, four groundwater benefit zones form the basis for establishing Valley Water's water charges. Water charges are set separately for each zone, reflecting Valley Water activities carried out in each.

In the North County, Zone W-2 encompasses the Santa Clara Valley groundwater basin north of Metcalf Road. It includes those groundwater producing facilities that benefit from recharge with local and imported water. In the South County, Zone W-5 overlays most of the Llagas Subbasin, Zone W-7 encompasses the Coyote Valley, and Zone W-8 encompasses areas in the foothills southeast of Uvas and Chesbro Reservoirs.

The report entitled "Water Utility Enterprise Funds of the Santa Clara Valley Water District - Annual Financial Report for the Fiscal Year Ended June 30, 2024," which encompasses the Water Utility Fund financial statements and independent auditor's opinion, is provided as Attachment 1.

The report is presented in the format prescribed under Generally Accepted Accounting Principles.

The report and accompanying audit opinion indicate that there were no findings. In addition, Attachment 1 includes a Schedule of Revenues and Expenses by Zone, which, according to the report, is also fairly stated in all material respects in relation to the financial statements as a whole.

ENVIRONMENTAL JUSTICE IMPACT:
There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:
Attachment 1: Audit Report, FY Ending 2024 WUE Funds

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Water Utility Enterprise Funds of the Santa Clara Valley Water District

Annual Financial Report

Fiscal Year Ended June 30, 2024

VASQUEZ + COMPANY LLP

Water Utility Enterprise Funds of the
Santa Clara Valley Water District
Annual Financial Report
Fiscal Year Ended June 30, 2024

	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Basic Financial Statements	14
Supplementary Information	
Schedule of Revenues, Expenses, and Changes in Net Position by Zone - Budgetary Basis Reconciliation to GAAP Basis	50
Schedule of Revenues, Expenses, and Changes in Net Position by Zone - Budgetary Basis Discussion	51
2024 Water Service Rate Schedule by Zone	53

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Independent Auditor's Report

Board of Directors
Santa Clara Valley Water District
San Jose, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Water Utility Enterprise Funds (the Funds) of the Santa Clara Valley Water District (District or Valley Water), which comprise the statement of net position as of June 30, 2024, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds as of June 30, 2024, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Santa Clara Valley Water District as of June 30, 2024, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified concerning this matter.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary schedules on pages 50 through 53 as listed in the accompanying table contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vasquez & Company LLP

Glendale, California
August 5, 2025

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2024. This information is presented in conjunction with the audited financial statements that follow this section.

The Funds account for the management and supply of wholesale treated water, groundwater, recycled water, and surface water for the residents of Santa Clara County. The Funds are comprised of two separate enterprise funds that were established to account for the water utility transactions of Valley Water. The Funds are comprised of two funds – Water Enterprise Fund and State Water Project Fund. The Water Enterprise Fund is used to record ongoing water utility operations, with revenues comprised primarily of charges to Valley Water's groundwater and treated water customers. The State Water Project Fund is used to account for state water project tax revenue and state water project contractual costs.

Because service needs are different in the northern and southern portions of the county, operations and expenditures are tracked separately based on the relative benefits to the North County and South County zones. Likewise, the Funds' water charges between the zones are set independently.

In fiscal year 2021, the Valley Water Board modified the existing groundwater benefit zones W-2 and W-5 and created two new zones: zone W-7, which overlays the Coyote Valley, and zone W-8, which includes areas below Uvas and Chesbro Reservoirs. The modified and new zone boundaries ensure that rate payers are grouped in a way that reflects the most recent and relevant data regarding services and benefits received by well users. The "North County zone" consists of benefit zone W-2, while the "South County zone" is comprised of benefit zones W-5, W-7 and W-8.

Overview of the Financial Statements

The accounting policies of the Funds of Valley Water conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements of the Funds, as presented here, are for Valley Water's Water Utility Enterprise Funds activities only and do not reflect the financial position of Valley Water as a whole. Because the Funds are business-type activities of Valley Water, the Funds are accounted for as proprietary-type funds, where the cost of providing goods and services to the general public are financed and recovered primarily through user charges. The Funds record the financial transactions in a manner similar to a private business enterprise. Operations are recorded on the accrual basis of accounting. The Funds are intended to be entirely or predominantly self-supported by user charges.

The Funds' financial statements are comprised of the following:

- The Statement of Net Position presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating.

- The Statement of Revenues, Expenses and Changes in Net Position provides information about the Funds' revenues and expenses on an accrual basis.

- The Statement of Cash Flows provides relevant information on the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

- The Notes to Basic Financial Statements provide additional information that is essential to a better understanding of the data provided in the Funds' financial statements.

Financial Highlights

	June 30		Change	
	2024	2023	Dollar	Percent
Cash and investments	**$ 505,388**	$ 532,995	(27,607)	-5.2%
Other assets	**215,038**	177,538	37,500	21.1%
Capital assets	**1,891,587**	1,667,984	223,603	13.4%
Total assets	**2,612,013**	2,378,517	233,496	9.8%
Deferred outflow of resources				
Deferred amount on refunding	**176**	207	(31)	-15.0%
Pension and OPEB related	**78,766**	98,858	(20,092)	-20.3%
Total deferred outflows of resources	**78,942**	99,065	(20,123)	-20.3%
Current liabilities	**378,423**	115,443	262,980	227.8%
Long- term liabilities	**1,089,512**	1,159,774	(70,262)	-6.1%
Total liabilities	**1,467,935**	1,275,217	192,718	15.1%
Deferred inflow of resources				
Pension and OPEB related	**2,901**	4,763	(1,862)	-39.1%
Capital leases	**69**	152	(83)	-54.6%
Total deferred inflows of resources	**2,970**	4,915	(1,945)	-39.6%
Net position:				
Net investment in capital assets	**822,531**	603,803	218,728	36.2%
Restricted	**74,334**	149,595	(75,261)	-50.3%
Unrestricted	**323,185**	444,052	(120,867)	-27.2%
Total net position	**$ 1,220,050**	$ 1,197,450	22,600	1.9%

Net investment in capital assets increased by $218.7 million from the previous fiscal year. Capital assets, net of depreciation, increased by $223.6 million, reflecting the increase in work in progress for the following main projects: Anderson Dam Tunnel ($60.6 million), Coyote Creek Flood Management Measures ($43.0 million), RWTP Reliability Improvement ($37.0 million), 10-year Pipeline Inspection and Rehab ($32.4 million), Pacheco Reservoir Expansion Project ($20.2 million), Anderson Dam Seismic Retrofit ($19.3 million), Coyote Percolation Dam Replacement ($11.3 million), Coyote Creek Chillers ($8.4 million), Indirect Potable Reuse – Plan C ($6.0 million) and South County Recycled Water Pipeline 1B ($5.2 million). Noncurrent liabilities, which include related debt outstanding, increased by $7.0 million due mainly to increases in net pension and other post-employment benefit liabilities. Whereas, Valley Water's total restricted net position decreased by $75.3 million.

Unrestricted net position may be used to meet Valley Water's ongoing obligations to citizens, customers, and creditors. For the current fiscal year, Valley Water's total unrestricted net position of $323.2 million decreased by $120.9 million.

	June 30		Change	
	2024	2023	Dollar	Percent
Revenues:				
Program revenues:				
Water charges	**$ 320,638**	$ 268,101	52,537	19.6%
Operating grants and contributions	**5,184**	5,376	(192)	-3.6%
Capital grants and contributions	**3,544**	13,624	(10,080)	-74.0%
General revenues:				
Property Taxes	**39,058**	39,394	(336)	-0.9%
Investment earnings	**20,230**	7,582	12,648	166.8%
Miscellaneous	**7,692**	2,049	5,643	275.4%
Total Operating revenues	**396,346**	336,126	60,220	17.9%
Expenses:				
Water enterprise	**370,913**	264,709	106,204	40.1%
Total Expenses	**370,913**	264,709	106,204	40.1%
Change in net position before transfers	**25,433**	71,417	(45,984)	-64.4%
Transfers	**(2,833)**	22,212	(25,045)	-112.8%
Change in net position	**22,600**	93,629	(71,029)	-75.9%
Net position, beginning	**1,197,450**	1,103,821	93,629	8.5%
Net Position, ending	**$ 1,220,050**	$ 1,197,450	22,600	1.9%

Net position of $1.2 billion increased by $22.6 million during the current fiscal year. Total revenues and expenses were $396.3 million and $370.9 million, respectively. Net revenues before transfers were $25.4 million. Net transfers out during the current fiscal year were $2.8 million.

Compared to the prior fiscal year, total revenues increased by $60.2 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water revenue of $320.6 million was $52.5 million (19.6%) higher from the prior fiscal year. The increase was mainly from groundwater and treated water revenues of $41.8 million and $10.4 million, respectively.

- Capital grants and contributions decreased by $10.1 million compared to last fiscal year due mainly to lesser cost reimbursements received from the State of California, Department of Water Resources ($6.1 million) for the Pacheco Reservoir Expansion Project under the Water Storage Investment Program, and the US Bureau of Reclamation ($3.1 million) for the South Santa Clara County Recycled Water Project.

- Investment earnings for the current fiscal year was $20.2 million or $12.7 million higher than the $7.6 million investment gain posted in the prior fiscal year. Investment earnings include an unrealized gain of $5.9 million due to the increase in the portfolio's fair value compared to the prior year. This unrealized gain is temporary and should not materialize due to Valley Water's investment policy of holding all securities to their maturity under normal operating conditions.

Capital Assets

Valley Water's capital assets, net of accumulated depreciation, amounted to $1.9 billion as of June 30, 2024. Capital asset components include intangible rights and software, land, buildings, structures and improvements (which include the flood control improvement), and equipment. During fiscal year 2024, the net increase in Valley Water's capital assets was $223.6 million or 13.4%.

The Funds' capital assets are comprised of the following as of June 30, 2024 and 2023:

Water Utility Enterprise Funds Capital Assets
(Net of Accumulated Depreciation)
(Dollars in Thousands)

	June 30		Change	
	2024	2023	Dollar	Percent
Land	**$ 20,001**	$ 19,989	12	0.1%
Easements	**32,777**	24,238	8,539	35.2%
Contracted water rights	**28,796**	31,218	(2,422)	-7.8%
Buildings	**86,036**	78,552	7,484	9.5%
Structures and improvements	**635,227**	615,274	19,953	3.2%
Equipment	**2,283**	2,559	(276)	-10.8%
Lease assets	**2,441**	2,712	(271)	-10.0%
Intangible - software	**-**	11	(11)	-100.0%
Construction in progress	**1,084,026**	893,431	190,595	21.3%
Total	**$ 1,891,587**	$ 1,667,984	223,603	13.4%

Additional information on the Funds' capital assets activity for the current fiscal year is shown in Note 6 of this report.

Debt Administration

The Funds' total long-term liabilities at June 30, 2024 amounted to $1.2 billion. A comparative breakdown of long-term obligations is shown below:

	June 30		Change	
	2024	2023	Dollar	Percent
Certificates of Participation	**$ 404,795**	$ 422,055	(17,260)	-4.1%
Revenue bonds	**521,095**	526,540	(5,445)	-1.0%
Premium on debt issuances	**61,597**	66,163	(4,566)	-6.9%
Total long-term debt	**987,487**	1,014,758	(27,271)	-2.7%
Compensated absences	**8,599**	8,605	(6)	-0.1%
Semitropic water banking liability	**13,859**	11,919	1,940	16.3%
Net pension liability	**140,099**	129,765	10,334	8.0%
Other post-employment benefits liability	**45,259**	21,144	24,115	114.1%
Lease liability	**2,690**	2,974	(284)	-9.5%
Total	**$ 1,197,993**	$ 1,189,165	8,828	0.7%

Total long-term liabilities increased by $8.8 million during the current fiscal year primarily due to the following:

- Increase in net pension liability of $10.3 million as reflected in Valley Water's actuarial study under GASB 68.

- Increase in other post-employment benefits liability of $24.1 million as reflected in Valley Water's actuarial study under GASB 75.

Additional information on the Funds' long-term liabilities can be found in Note 7(b) of this report.

Next Year's Budgets

Valley Water's net operating and capital budget for the fiscal year 2025 is at $963.6 million[1]. This budget was developed to meet the objectives and challenges facing Valley Water that include the following:

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

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of Valley Water's finances, and to demonstrate Valley Water's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the General Accounting Unit as noted below.

Mail - 5750 Almaden Expressway, San Jose, CA 95118
Phone - (408) 265-2600
Email - omanaloto@valleywater.org

[1] Valley Water FY2024-25 Operating and Capital Budget, chapter 3, page 7

BASIC FINANCIAL STATEMENTS

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position
June 30, 2024
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Assets			
Current assets:			
Cash and investments (Note 3)	$ 329,552	$ 22,900	$ 352,452
Receivables:			
Accounts	53,541	17	53,558
Interest	570	-	570
Taxes	31	84	115
Leases	55	-	55
Inventory - water (Note 2e)	154,920	-	154,920
Deposits and other assets	5,820	-	5,820
Total current assets	544,489	23,001	567,490
Non current assets:			
Restricted cash and investments (Note 3)	152,936	-	152,936
Capital assets: (Note 6)			
Contract water rights, net	17,463	11,333	28,796
Depreciable, net	723,546	-	723,546
Lease assets, net	2,441	-	2,441
Nondepreciable	1,136,804	-	1,136,804
Total non current assets	2,033,190	11,333	2,044,523
Total assets	2,577,679	34,334	2,612,013
Deferred outflows of resources			
Deferred amount on refunding	176	-	176
Deferred outflows of resources - pension activities (Note 10)	50,553	-	50,553
Deferred outflows of resources - OPEB (Note 11)	28,213	-	28,213
Total deferred outflows of resources	78,942	-	78,942
Liabilities			
Current liabilities:			
Accounts payable	23,558	194	23,752
Accrued liabilities	32,547	356	32,903
Commercial paper debt (Note 7)	208,600	-	208,600
Deposits payable	4,687	-	4,687
Bonds payable - current (Note 7)	106,336	-	106,336
Compensated absence (Note 7)	1,859	-	1,859
Lease liability (Note 7)	286	-	286
Total current liabilities	377,873	550	378,423
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	881,151	-	881,151
Compensated absence (Note 7)	6,740	-	6,740
Net pension liability (Note 10)	140,099	-	140,099
Other post employment benefits liability (Note 11)	45,259	-	45,259
Lease liability (Note 7)	2,404	-	2,404
Other debt	13,859	-	13,859
Total non current liabilities	1,089,512	-	1,089,512
Total liabilities	1,467,385	550	1,467,935

(Continued)

See accompanying notes to basic financial statements.

(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Deferred inflows of resources			
Deferred inflows of resources - OPEB (Note 11)	2,901	-	2,901
Deferred inflows of resources - leases (Note 2d)	69	-	69
Total deferred inflows of resources	2,970	-	2,970
Net position (Note 9)			
Net investment in capital assets	811,198	11,333	822,531
Restricted			
Debt service	9,782	-	9,782
San Felipe operations	3,651	-	3,651
GP5 reserve	25,813	-	25,813
Rate stabilization	6,067	-	6,067
State water project	-	22,451	22,451
Advanced water purification center	1,293	-	1,293
Supplemental water supply	5,277	-	5,277
Unrestricted	323,185	-	323,185
Total net position	$ 1,186,266	$ 33,784	$ 1,220,050
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds			(16,565)
Net position of business-type activies			1,203,485

See accompanying notes to basic financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2024
(Dollars in Thousands)

	Water Enterprise Fund	State Water Fund	Total Enterprise Funds
Operating revenues:			
Ground water production charges	$ 148,744	$ -	$ 148,744
Treated water charges	169,633	-	169,633
Surface and recycled water revenue	2,261	-	2,261
Charges for services	-	-	-
Other	444	3,250	3,694
Total operating revenues	321,082	3,250	324,332
Operating expenses:			
Sources of supply	104,626	30,070	134,696
Water treatment	53,858	-	53,858
Transmission and distribution:			
Raw water	20,988	-	20,988
Treated water	2,792	-	2,792
Administration and general	97,775	-	97,775
Equipment maintenance	-	-	-
Depreciation and amortization	21,572	944	22,516
Total operating expenses	301,611	31,014	332,625
Operating income (loss)	19,471	(27,764)	(8,293)
Nonoperating revenues (expenses):			
Property taxes (Note 8)	11,045	28,013	39,058
Investment income (Note 5)	20,230	-	20,230
Operating grants	5,184	-	5,184
Rental income	90	-	90
Lease revenue	83	-	83
Other	930	2,895	3,825
Interest and fiscal agent fees	(38,288)	-	(38,288)
Net nonoperating revenues (expenses)	(726)	30,908	30,182
Income/(loss) before capital contributions and transfers	18,745	3,144	21,889
Capital contributions (Note 4)	3,544	-	3,544
Transfers in (Note 13)	1,093	-	1,093
Transfers out (Note 13)	(3,926)	-	(3,926)
Change in net position	19,456	3,144	22,600
Net position, beginning of year	1,166,810	30,640	1,197,450
Net position, end of year	$ 1,186,266	$ 33,784	1,220,050
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund.			(16,565)
Net position of business-type activities			$ 1,203,485

Reconciliation of the Statement of Revenues, Expenses and Change in Net Position to the Statement of Activities:
Amounts reported as business-type activities in the statement of activities are different because:

Net change in net position - enterprise funds	$ 22,600
Adjustment to the net effect of the current year activity between the internal service funds and the enterprise funds	(7,581)
Change in net position of business-type activities	$ 15,019

See accompanying notes to basic financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows
For the Year Ended June 30, 2024
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	$ 287,166	$ 3,233	$ 290,399
Payments to suppliers	(75,526)	(29,557)	(105,083)
Payments to employees	(132,066)	-	(132,066)
Other receipts	1,065	2,895	3,960
Net cash provided by (used for) operating activities	80,639	(23,429)	57,210
Cash flows from noncapital financing activities:			
Property taxes received	11,052	28,042	39,094
Operating grant	5,184	-	5,184
Transfers in from other funds	1,093	-	1,093
Net cash provided by noncapital financing activities	17,329	28,042	45,371
Cash flows from capital and related financing activities:			
COP/ revenue bonds issuance/(payment)	(27,240)	-	(27,240)
Commercial paper issuance/(payment)	173,600	-	173,600
Capital grants	3,544	-	3,544
Interest and fiscal agent fees paid	(38,288)	-	(38,288)
Payments for contract water rights	(11,511)	-	(11,511)
Acquisition and construction of capital assets	(246,117)	-	(246,117)
Transfers out to other funds	(3,926)	-	(3,926)
Net cash used for capital and related financing activities	(149,938)	-	(149,938)
Cash flows from investing activities:			
Sale of investments	59,930	-	59,930
Rental income received	90	-	90
Interest received on cash and investments	19,660	-	19,660
Cash provided by investing activities	79,680	-	79,680
Net increase in cash and cash equivalents	27,710	4,613	32,323
	301,842	18,287	320,129
Cash and cash equivalents, end of year	$ 329,552	$ 22,900	$ 352,452
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	$ 329,552	$ 22,900	$ 352,452
Cash and cash equivalents, end of year	$ 329,552	$ 22,900	$ 352,452

(Continued)

See accompanying notes to basic financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2024
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 19,471	$ (27,764)	$ (8,293)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Other receipts/(payments)	1,065	2,895	3,960
Depreciation and amortization	33,082	944	34,026
(Increase) decrease in:			
Increase (decrease) in: Deposits and other assets	(3,085)	-	(3,085)
Increase (decrease) in: Accounts receivable	(12,627)	(17)	(12,644)
Increase (decrease) in: Water inventory	(21,289)	-	(21,289)
Increase (decrease) in: Accounts payable	728	194	922
Increase (decrease) in: Accrued liabilities	6,313	319	6,632
Increase (decrease) in: Lease payable	(283)	-	(283)
Increase (decrease) in: Compensated absences	(6)	-	(6)
Increase (decrease) in: Deposits payable	2,736	-	2,736
Increase (decrease) in: Payable to Semitropic	1,940	-	1,940
Increase (decrease) in: Pension liability	10,334	-	10,334
Increase (decrease) in: Other post employment benefits liability	24,114	-	24,114
Increase (decrease) in: Deferred inflows/ outflows of resources	18,146	-	18,146
Net cash provided by (used) for operating activities	$ 80,639	$ (23,429)	$ 57,210

See accompanying notes to basic financial statements.

NOTE 1 THE FINANCIAL REPORTING ENTITY

The Water Utility Enterprise Funds (the "Funds") of the Santa Clara Valley Water District (Valley Water or the District) were established to account for the water utility related transactions of Valley Water. The Funds supply wholesale treated water, ground water, recycled water, and surface water for the residents of Santa Clara County. The Funds are comprised of two separate enterprise funds – the Water Enterprise Fund and the State Water Project Fund. The Water Enterprise Fund accounts for ongoing water utility operations, with revenues comprised primarily of charges to Valley Water's groundwater and treated water customers. The State Water Project Fund accounts for the state water project tax revenue and state water project contractual costs.

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County. Valley Water is governed by a seven-member Board of Directors (Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the Board to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. On May 14, 2010, the Board adopted a resolution that officially set the boundaries of the seven electoral districts. As required by state law, Valley Water redrew its boundaries to reflect 2010 Census results, and on October 11, 2011, the Board adopted Resolution No.11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The Funds have two groundwater charge zones as follows:

- North County Zone, which is comprised of benefit zone W-2; and
- South County Zone, which is comprised of benefit zones W-5, W-7, and W-8.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Funds' Financial Statements
The Funds' financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The financial statements of the Funds do not purport to represent the financial position and changes in the financial position of Valley Water as a whole.

The Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting

The Funds' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Funds give (or receive) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Funds' principal ongoing operations. The principal operating revenue of the Funds is the sale of water to outside customers. Operating expenses for the Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the Funds. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

(c) Cash and Investments

While maintaining safety and liquidity, Valley Water maximizes its investment return by pooling its available cash from all funds for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

Valley Water records investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

Investment income, which includes changes in fair value, is allocated to all funds on the basis of average monthly cash and investment balances. The Funds' cash and investments pooled with Valley Water are carried at fair value based on the value of each participating dollar.

For purposes of the Statement of Cash Flows, the Funds consider all highly liquid investments with a maturity of three months or less when purchased, and their equity in the cash and investment pool to be cash equivalents.

(d) Lease Receivable

Lease receivable is measured at the present value of lease payments expected to be received during the lease term.

Valley Water has entered into property leases with telecommunication companies and other parties for antennae and pipeline sites for a term of 5 years and 10 years, respectively. The discount rate used is equivalent to Valley Water's average annual investment earnings rate of 1.1%.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Lease Receivable (Continued)
Deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. Deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

(e) Inventory
Inventory consists of materials and supplies held for consumption and stored water inventory. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes, chemical inventories are presented under deposits and other assets.

Water inventory is valued based on the rolling average of imported water purchase cost. The components of water inventory as of June 30, 2024 are shown below.

	Acre Feet		
Type	Volume	Average Unit Cost	Total (in thousands)
Semitropic storage	300,694	$ 433	$ 130,201
Local reservoir storage	57,088	433	24,719
Total			$ 154,920

(f) Lease or Right to Use Assets
The Funds have recorded lease or right to use leased assets as a result of implementing GASB 87, Leases, and GASB 96, Subscription-based Information Technology Arrangements. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The lease assets are amortized on straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

(g) Capital Assets
Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The Funds define capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets, including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Capital Assets (Continued)
The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years
Intangible - software	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(h) Amortization of Contract Water Rights
Valley Water has contracted with the State of California for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represents reimbursement of capital costs for transportation facilities (the capital cost component). The Fund capitalize the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

(i) Amortization of Water Banking Rights
Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Funds have capitalized the cost of the program and amortized the cost over the 40-year entitlement period using the straight-line method. See Note 14c for more information on Valley Water's participation in the Semitropic water banking and exchange program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from the California Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The San Felipe Division transports water from San Luis Reservoir to the Santa Clara – San Benito service area through the Pacheco Tunnel and other project features, which include 48.5 miles of closed conduits, two pumping plants and one small reservoir. The Funds capitalize the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

(k) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. At the end of the fiscal year, a review of outstanding receivables results in an updated estimate of the bad debt allowance at year-end, whereby delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance. At June 30, 2024, the bad debt allowance was $0.9 million.

(l) Compensated Absences - Accrued Vacation and Sick Leave Pay

It is the policy of Valley Water to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(m) Bond Premiums, Discounts and Issuance Costs

The Funds' bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premiums or discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

Premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable is reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts is reported as prepaid expenses.

(n) Net Position

The Funds' net position is classified based primarily on the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, Valley Water expends the restricted funds and then the unrestricted funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Valley Water's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(q) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Valley Water's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(r) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow or resources (revenues) until such time.

(s) New Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Funds' financial reporting process. Current and future new standards which may impact the Funds include the following:

GASB Statement No. 104 – In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement also requires additional disclosures for capital assets held for sale. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

GASB Statement No. 103 – In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the financial statements.

SB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting Changes and Errors Corrections – an amendment of GASB Statement No. 62.* The objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections, the required disclosure in the notes to the financial statements, and how information that is affected by a change in accounting principle or error correction should be presented in the required supplementary information (RSI) and supplementary information (SI). The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The implementation of this standard does not have an impact on Valley Water's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

GASB Statement No. 99 – In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The implementation of this standard does not have an impact on Valley Water's financial statements.

NOTE 3 CASH AND INVESTMENTS

Valley Water maintains a cash and investments pool, which includes the cash balances of all Valley Water funds, and are invested by the Treasurer to enhance interest earnings. The pooled interest earned, net of administrative fees, is allocated to each fund based on their respective average daily balances.

The Funds' cash and investments at June 30, 2024 are as follows:

Cash and investments	$	352,452
Restricted cash and investments		152,936
Total cash and investments pool	$	505,388

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits and Investments

At June 30, 2024, Valley Water's cash and investments pool consists of the following (in thousands):

U.S. Government Agencies	$	237,905
U.S. Treasury Obligations		145,269
Medium Term Notes		12,550
State of California Investment Pool - Local Agency Investment Fund (LAIF)		72,518
Mutual Funds		181,758
Supranational Obligations		11,454
Municipal Bonds		42,083
Negotiable Certificates of Deposit		233
Time Certificates of Deposit		204,802
Money Market Funds		45,608
Total Investments		954,180
Deposits		2,222
Total Deposits and Investments	$	956,402

As of June 30, 2024, the fair value of Valley Water's investment in the State of California investment pool (LAIF) was $72.5 million. The Local Investment Advisory Board (LIA Board) has oversight responsibility for LAIF. The LIA Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

Authorized Investments by Valley Water
Valley Water's Investment Policy and the California Government Code allow Valley Water to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to Valley Water. The following items also identify certain provisions of Valley Water and the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address Valley Water's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of Valley Water, rather than the general provisions of the California Government Code or Valley Water's investment policy, when more restrictive.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Valley Water (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues (A)	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit (B)	5 years	Satisfactory CRA	5%	$250,000 and FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
LAIF (C)	N/A	N/A	(C)	(C)
Mutual Funds	N/A	AAA	10%	- -
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) Valley Water Board of Directors approved investments in California based local banks with a threshold of a minimum of 4% invested in banks with up to $10 billion in assets and 1% in banks with up to $2 billion in assets for a limit of 5 years in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any legally allowable deposits.

(C) LAIF will accept no more than $75 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Restricted Cash and Investments for Bond Interest and Redemption
Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, 2017A, 2019C, 2020C, 2020D, 2022B, 2023C, 2023C-1, 2023C-2 and 2023D Certificates of Participations (COPs) and Water Utility Revenue Bonds 2016A, 2016B, 2017A, 2019A, 2019B, 2020A and 2020B, 2022A, 2023A and 2023B, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2024, the Funds' cash and investments held by fiscal agents within Valley Water's cash and investment pool was $15.3 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects
On June 30, 2024, Valley Water had $181.7 million of cash deposited with the fiscal agent that is restricted for capital-related projects.

Authorized Investments by Debt Agreements
Valley Water must maintain the required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Valley Water fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, Valley Water ordinances, policies, and bond indentures. The following table identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U. S. Treasury Obligations(A)	N/A	N/A
U. S. Agency Securities(B)	N/A	N/A
State Obligations(C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit(D)	N/A	N/A
Money Market Funds	N/A	AAA
Collateralized Repurchase Agreements(E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer	N/A	N/A
LAIF	N/A	N/A
Supranational Obligations	N/A	AA

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation (“FHLMCs”); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (“GNMAs”); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, “A” or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3.0 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or"A3" or better by Moody's and “A-1” or “A-” or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50.0 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

(F) Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note representing the unconditional obligations of entities or agencies with unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

Interest Rate Risk

Interest Rate Risk is related to changes in market interest rates that adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Valley Water generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of Valley Water's pooled investments to market interest rate fluctuations, summarized by the following table, shows the distribution of Valley Water's investments by maturity or earliest call date (in thousands).

		Maturity		
	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	$ 139,787	$ 66,038	$ 59,492	$ 14,256
U.S. Government Agencies - Callable	98,118	32,950	37,572	27,596
U.S. Treasury Obligations	145,269	88,502	40,907	15,860
Medium Term Notes - Callable	12,550	2,948	6,776	2,826
Local Agency Investment Fund	72,518	72,518	-	-
Mutual Funds	181,758	181,758	-	-
Supranational Obligations	11,454	4,861	6,593	-
Municipal Bonds	42,083	13,136	16,645	12,302
Negotiable Certificates of Deposit	233	233	-	-
Time Certificates of Deposit	204,802	204,802	-	-
Money Market Funds	45,608	45,608	-	-
Total Investments	$ 954,180	$ 713,354	$ 167,985	$ 72,840

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The following table shows the minimum rating required by the` California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2024 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Rating as of Year-end: Exempt from Disclosure	AAA	AA+	AA	AA-	Not Rated
U. S. Government Agencies	$ 237,905	AA-	$ -	$ -	$ 180,303	$ -	$ -	$ 57,602
U. S. Treasury Obligations	145,269	AA-	145,269	-	-	-	-	-
Medium Term Notes	12,550	AA-	-	-	12,550	-	-	-
Local Agency Investment Fund	72,518	N/A	-	-	-	-	-	72,518
Mutual Funds	181,758	AAA	-	-	-	-	-	181,758
Supranational Obligations	11,454	AA	-	9,569	-	-	-	1,885
Municipal Bonds	42,083	AA-	-	13,661	12,470	11,033	3,335	1,584
Negotiable Certificates of Deposit	233	AA-	-	-	-	-	-	233
Time Certificates of Deposit	204,802	N/A	-	-	-	-	-	204,802
Money Market Funds	45,608	N/A	-	-	-	-	-	45,608
Total Investments	$ 954,180		$ 145,269	$ 23,230	$ 205,323	$ 11,033	$ 3,335	$ 565,990

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2024, such investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
Government- wide		
Federal Home Loan Bank	U. S. Government Agency	$ 79,004
Federal National Mortgage Association	U. S. Government Agency	$ 58,097

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Valley Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions but not in Valley Water's name.

Fair Value Measurement and Application
Government Accounting Standards Board Statement No. 72*, Fair Value Measurement and Application*, (GASB 72) provides the framework for measuring fair value and the fair value hierarchy. Valley Water measures and records its investments using fair value measurement guidelines in accordance with GASB 72. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities' relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to Valley Water).

The following table summarizes by level, within the fair value hierarchy, Valley Water's investments at fair value at June 30, 2024 (in thousands):

	June 30, 2024	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	$ 237,905	$ -	$ 237,905	$ -
U.S. Treasury Obligations	145,269	145,269	-	-
Medium Term Notes	12,550	-	12,550	-
Mutual Funds	181,758	-	181,758	-
Supranational Obligations	11,454	-	11,454	-
Municipal Bonds	42,083	-	42,083	-
Negotiable Certificates of Deposit	233	-	233	-
Time Certificates of Deposit	204,802	-	204,802	-
Subtotal - Leveled Investments	836,054	145,269	690,785	-
Local Agency Investment Fund	72,518	-	-	72,518
Money Market Funds	45,608	-	-	45,608
Subtotal - Uncategorized	118,126	-	-	118,126
Total Investments	$ 954,180	$ 145,269	$ 690,785	$ 118,126

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement and Application (Continued)
Deposits and withdrawals in LAIF are made on the basis of $1 and are recorded on an amortized cost basis. Accordingly, LAIF is uncategorized.

NOTE 4 CAPITAL CONTRIBUTIONS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table shows a summary of such capital contributions during fiscal year 2024 (in thousands):

	Amount
Local Agencies:	
San Benito County Water Agency	$ 57
State Agencies:	
Department of Water Resources	3,287
Federal Agencies:	
U.S. Bureau of Reclamation	200
Total reimbursement of capital costs	$ 3,544

NOTE 5 INVESTMENT INCOME (LOSS)

The following table represents the components of the Funds' investment income for the year ended June 30, 2024 (in thousands):

Unrealized Gain	Interest Income	Investment Earnings, Net
$ 5,140	$ 15,090	$ 20,230

NOTE 6 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2024 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Nondepreciable capital assets:					
Land	$ 19,989	$ 12	$ -	$ -	$ 20,001
Intangible - Easement	24,238	8,539	-	-	32,777
Construction in progress	893,431	237,185	(46,590)	-	1,084,026
Total nondepreciable capital assets	937,658	245,736	(46,590)	-	1,136,804
Depreciable capital assets:					
Contracted water and storage rights	258,896	11,512	-	-	270,408
Buildings	97,751	-	9,883	-	107,634
Structures and improvements	979,939	-	36,707	-	1,016,646
Equipment	30,378	381	-	-	30,759
Intangible - software	113	-	-	-	113
Lease assets	3,254	-	-	-	3,254
Total depreciable capital assets	1,370,331	11,893	46,590	-	1,428,814
Less: accumulated depreciation and amortization					
Contracted water rights	(227,678)	(13,934)	-	-	(241,612)
Buildings	(19,199)	(2,399)	-	-	(21,598)
Structures and improvements	(364,665)	(16,754)	-	-	(381,419)
Equipment	(27,819)	(657)	-	-	(28,476)
Intangible - software	(102)	(11)	-	-	(113)
Lease assets	(542)	(271)	-	-	(813)
Total accumulated depreciation and amortization	(640,005)	(34,026)	-	-	(674,031)
Net depreciable capital assets	730,326	(22,133)	46,590	-	754,783
Total capital assets, net	$ 1,667,984	$ 223,603	$ -	$ -	$ 1,891,587

During the fiscal year 2024, new construction-in-progress amounted to $237.2 million. There were 34 in-progress and completed projects during the fiscal year, with major projects listed below (in millions):

- $60.6 – Anderson Dam Tunnel Project
- $43.0 – Coyote Creek Flood Management Measures
- $37.0 – Rinconada Water Treatment Plant
- $32.4 – 10-year Pipeline
- $20.2 – Pacheco Reservoir Expansion Project
- $19.3 – Anderson Dam Seismic Retrofit
- $11.3 – Coyote Percolation Dam Replacement
- $8.4 – Coyote Creek Chillers
- $6.0 – Indirect Potable Reuse
- $5.2 – South County Recycled Water Pipeline

NOTE 6 CAPITAL ASSETS (CONTINUED)

Right to Use Assets
The Funds have recorded right to use assets for leased land and equipment. The related lease liabilities are discussed in Note 7. The right to use assets are amortized on a straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

Right to use leased asset activity included in capital assets for the year ended June 30, 2024 are as follows (in thousands):

	Balance as of June 30, 2023	Additions	Deletions	Balance as of June 30, 2024
Lease assets:				
Land	$ 3,254	$ -	$ -	$ 3,254
Total	3,254	-	-	3,254
Less: accumulated amortization				
Land	(542)	(271)	-	(813)
Total accumulated amortization	(542)	(271)	-	(813)
Total lease assets, net	$ 2,712	$ (271)	$ -	$ 2,441

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt
On December 17, 2002, the Board authorized a commercial paper program, through the Public Facilities Financing Corporation (PFFC.) The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short-term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On January 13, 2015, the Board authorized an increase in commercial paper program to $150.0 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 28, 2020, the Board authorized a $170.0 million Revolving Line of Credit program (“Revolver”), through the PFFC, to provide additional short-term financing for Valley Water. The proceeds of the Revolver may be used for any Valley Water purpose, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(a) Short-term debt (Continued)

The Funds' short-term debt as of June 30, 2024 consisted of the following (in thousands):

Type of indebtedness	Maturity Date	Interest Rate	June 30, 2024
Commercial paper:			
Tax exempt	9/5/2024	3.65%	$ 118,640
Taxable	9/3/2024	5.51%	31,360
Total commercial paper			150,000
Revolving line of credit	9/24/2024	5.70%	58,600
Total short-term liabilities			$ 208,600

The following is the summary of changes in short-term debt for the year ended June 30, 2024 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 35,000	$ 147,975	$ (32,975)	$ 150,000
Revolving line of credit	-	58,600	-	58,600
Total short-term liabilities	$ 35,000	$ 206,575	$ (32,975)	$ 208,600

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities

The Funds' long-term liabilities as of June 30, 2024 consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rate*	Authorized and Issued	June 30, 2024	Due Within One Year
2016A Water revenue bond	2046	3.25%	$ 106,315	$ 106,315	$ -
2016B Water revenue bond	2046	4.32%	75,215	75,215	-
2016C Water revenue COP	2029	2.13%	43,075	20,940	3,880
2016D Water revenue COP	2029	3.14%	54,970	26,255	4,870
2017A Water revenue bond	2037	3.13%	54,710	41,530	2,275
2019A Water revenue bond	2049	3.75%	15,225	13,955	290
2019B Water revenue bond	2049	3.81%	80,030	71,475	1,840
2019C Water revenue COP	2036	2.76%	38,280	28,600	2,255
2020A Water revenue bond	2050	3.33%	24,120	24,120	-
2020B Water revenue bond	2050	2.98%	68,530	68,530	-
2020C Water revenue COP	2041	2.07%	41,765	36,610	1,790
2020D Water revenue COP	2041	2.20%	81,560	71,650	3,435
2023A Water revenue bond	2052	4.19%	52,090	52,090	-
2023B Water revenue bond	2052	5.11%	69,045	67,865	1,225
2023C-1 Water revenue COP	2026	2.35%	117,365	117,365	53,180
2023C-2 Water revenue COP	2041	3.22%	42,285	40,760	1,610
2023D Water revenue COP	2026	4.33%	62,615	62,615	25,120
Bond discount				(821)	(29)
Bond premium				62,418	4,595
Total long-term debt				987,487	106,336
Compensated absences				8,599	1,859
Net pension liability (See Note 10)				140,099	-
Other post employment benefits liability (See Note 11)				45,259	-
Semitropic water banking liability	2035		46,900	13,859	-
Lease liability				2,690	286
Total enterprise funds debt				$ 1,197,993	$ 108,481

*Interest rate represents the total cost of a bond financing, taking into account any accrued interest, original issue premium or discount and costs of issuance.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

The following is a summary of changes in long-term liabilities as of and for the year ended June 30, 2024 (in thousands):

	Balance 7/1/2023	Additions	Reductions	Balance 6/30/2024	Due Within One Year	Long-term
2016A revenue bonds	$ 106,315	$ -	$ -	$ 106,315	$ -	$ 106,315
2016B revenue bonds	75,215	-	-	75,215	-	75,215
2016C COPS	24,625	-	(3,685)	20,940	3,880	17,060
2016D COPS	30,995	-	(4,740)	26,255	4,870	21,385
2017A revenue bonds	43,720	-	(2,190)	41,530	2,275	39,255
2019A revenue bonds	14,235	-	(280)	13,955	290	13,665
2019B revenue bonds	73,270	-	(1,795)	71,475	1,840	69,635
2019C COPS	30,790	-	(2,190)	28,600	2,255	26,345
2020A revenue bonds	24,120	-	-	24,120	-	24,120
2020B revenue bonds	68,530	-	-	68,530	-	68,530
2020C COPS	38,360	-	(1,750)	36,610	1,790	34,820
2020D COPS	75,020	-	(3,370)	71,650	3,435	68,215
2023A revenue bonds	52,090	-	-	52,090	-	52,090
2023B revenue bonds	69,045	-	(1,180)	67,865	1,225	66,640
2023C-1 COPS	117,365	-	-	117,365	53,180	64,185
2023C-2 COPS	42,285	-	(1,525)	40,760	1,610	39,150
2023D COPS	62,615	-	-	62,615	25,120	37,495
Bond discount	(851)	-	30	(821)	(29)	(792)
Bond premium	67,014	-	(4,596)	62,418	4,595	57,823
Total long-term debt	1,014,758	-	(27,271)	987,487	106,336	881,151
Compensated absences	8,605	6,247	(6,253)	8,599	1,859	6,740
Net pension liability (See Note 10)	129,765	10,334	-	140,099	-	140,099
Other post employment benefits liability (See Note 11)	21,144	24,115	-	45,259	-	45,259
Semitropic water banking liability	11,919	1,940	-	13,859	-	13,859
Lease and subscription liability	2,974	-	(284)	2,690	286	2,404
Total business- type activity long- term liabilities	$ 1,189,165	$ 42,636	$ (33,808)	$ 1,197,993	$ 108,481	$ 1,089,512

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)
The aggregate maturities of bonds payable are as follows (in thousands):

	Year Ending June 30	Principal	Interest
Bonds payable	2025	$ 101,770	$ 36,880
	2026	125,935	34,459
	2027	25,110	29,426
	2028	26,025	28,503
	2029	27,000	27,522
	2030-2034	114,125	106,444
	2035-2039	143,765	94,518
	2040-2044	147,505	64,464
	2045-2049	152,485	29,894
	Thereafter	62,170	4,439
Total bonds payable requirements		$ 925,890	$ 456,549

Leases
Valley Water has entered into agreements to lease certain land, building office spaces and equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of July 1, 2021, the implementation date of GASB 87. There are no variable payment components of the leases.

The lease liabilities are measured at the discount rate of 1.6%, Valley Water's average interest rate. As a result of the leases, Valley Water recorded right to use assets with a net book value of $2.8 million at June 30, 2024. The right to use assets are included in Note 6.

The future minimum lease payments as of June 30, 2024 are as follows (in thousands):

Year Ending June 30	Principal	Interest
2025	$ 286	$ 29
2026	290	25
2027	1,494	81
2028	620	10
	$ 2,690	$ 145

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Leases (Continued)

The following provides a brief description of the Funds' long-term debt outstanding as of June 30, 2024:

2016A/B Water Systems Refunding Revenue Bonds
In March 2016, Valley Water issued $181.5 million of Water Systems Refunding Revenue Bonds comprised of Series 2016A for $106.3 million and Taxable Series B for $75.2 million, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay $73.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay $75.0 million of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay the principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System revenues and is payable from the Net Water Utility System revenues.

2016C/D Water Utility Revenue Certificates of Participation
In March 2016, Valley Water issued $98.0 million of Water Utility Revenue Certification of Participation, comprised of Series 2016C for $43.4 million and Taxable Series 2016D for $55.0 million, which were executed and delivered through the PFFC. Proceeds of the 2016C and 2016D COPs, along with the original issue premium were used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2016C and 2016D COPs are payable from 2016 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2017A Water System Refunding Revenue Bonds
In May 2017, Valley Water issued $54.7 million of Water Systems Refunding Revenue Bonds to refund the $64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water Systems Refunding Revenue Bonds
In April 2019, Valley Water issued $95.2 million of Water System Refunding Revenue Bonds consisting of Series 2019A for $15.2 and Series 2019 B for $80.0 million to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Leases (Continued)

2019C Water Utility Refunding Revenue Bonds
In November 2019, Valley Water issued $38.3 million of Water Utility Revenue Certificates of Participation Series 2019C to refinance all the outstanding Water Utility Revenue Certifications of Participation Taxable Series 2007B and fund costs of issuance. The obligation of Valley Water to pay the principal and interest on the 2019C Bonds is secured by a pledge of and lien on Water Utility System Revenues and is payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2020A/B Water Systems Refunding Revenue Bonds
In September 2020, Valley Water issued $92.6 million of Water System Refunding Revenue Bonds comprised of Series 2020A for $24.1 million and Taxable Series 2020B for $68.5 million. Proceeds of the 2020A Revenue Bonds, along with the original issue premium, were used to repay $31.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2020B Revenue Bonds were used to repay $68.3 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2020A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2020C/D Water Utility Revenue Certificates of Participation
In September 2020, Valley Water issued $123.4 million of Water Utility Revenue Certificates of Participation, comprised of Series 2020C for $41.8 million and Taxable Series 2020D for $81.6 million, executed and delivered through the PFFC. Proceeds of the 2020C and 2020D COPs, along with the original issue premium, are being used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2020C and 2020D COPs are payable from 2020 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2023A/B Water Systems Revenue Bonds
In January 2023, Valley Water issued $121.1 million of Water System Revenue Bonds comprised of Series 2023A for $52.1 million and Taxable Series 2023B for $69.0 million. Proceeds of the 2023A Revenue Bonds, along with the original issue premium, were used to repay $58.6 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2023B Revenue Bonds were used to repay $67.7 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2023A/B Water Systems Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(b) Long-term liabilities (Continued)

Leases (Continued)

2023C/D Water Utility Revenue Certificates of Participation
In January 2023, Valley Water issued $222.3 million of Water Utility Revenue Certificates of Participation, comprised of Series 2023C-1 for $117.4 million, 2023C-2 for $42.3 million, and Taxable series 2023D for $62.6 million, executed and delivered through the PFFC. Proceeds of the COPs, along with the original issue premium, are being used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The COPs are payable from 2022 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

Semitropic Water Banking Liability
In December 1995, Valley Water entered into a water banking and exchange program with the Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. As of June 30, 2024, the Funds have an outstanding liability of $13.9 million related to water storage and banking rights.

(c) Other Debt Related Information
Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein. Certain of these master resolutions, bonds, notes and other obligations and reimbursement agreements and other financial contracts contain provisions concerning the application of applicable Valley Water revenues if certain of the following conditions occur: default on debt service payments; the failure of Valley Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreements and other financial contracts contain acceleration provisions that allow a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

Resolutions and other financing agreements associated with Valley Water's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. Valley Water believes it is in compliance with all significant covenants, limitations, and restrictions.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(c) Other Debt Related Information (Continued)

Financial obligations incurred under the commercial paper program, issued through the PFFC, currently include the obligations to reimburse the bank issuing direct pay letter of credit supporting the commercial paper program and to pay letter of credit fees to the bank. Valley Water's failure to comply with certain such obligations could result in an event of default. If an event of default occurs, the bank may exercise one or more rights and remedies. In addition to rights and remedies provided for under the law, the bank can declare all financial obligations with respect to such letter of credit to be immediately due and payable, cause the issuance of commercial paper to be temporarily ceased, or terminate the letter of credit which would cause the issuance of commercial paper to be permanently ceased. Commercial paper certificates are not subject to acceleration.

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay $925.9 million in long-term debt outstanding as of June 30, 2024, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2052. The total principal outstanding and interest costs remaining to be paid on the combined debt is $1.4 billion.

NOTE 8 PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Funds derive certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter-approved levy to repay capital and operating costs related to imported water from the State Water Project.

Property tax revenues for the year ended June 30, 2024, are as follows (in thousands):

		Amount
Property taxes:		
1% tax allocation	$	11,045
Voter approved indebtedness:		
State Water Project Fund		28,013
Total property tax revenues	$	39,058

Valley Water has elected to participate in the "Teeter Plan" offered by the County whereby Valley Water receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

NOTE 9 NET POSITION

The Funds' financial statements utilize a net position presentation. Net position is categorized as follows: (1) net investment in capital assets, (2) restricted and (3) unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of Valley Water, not restricted for any project or other purpose.

The following table shows the detailed schedule of the Funds' net position at June 30, 2024 (in thousands):

		Total Water Utility Enterprise Funds
Net investment in capital assets	$	822,531
Restricted Net Position		
Debt Service		9,782
San Felipe Emergency Reserve		3,651
GP5 reserve		25,813
Rate Stabilization		6,067
Advance Water Purification Center		1,293
Supplemental Water Supply Reserve		5,277
State Water Project		22,451
Total restricted net position		74,334
Unrestricted Net Position		
Operating & Capital Contingencies		32,026
Water inventory		154,920
Purchase Commitments		244,906
Net Pension Liability		(76,513)
Net Other Post Employment Benefit Liability		(32,154)
Total unrestricted net position		323,185
Net Position		1,220,050
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds		(16,565)
Net Position of Business-type Activies	$	1,203,485

NOTE 10 EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees of Valley Water are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Valley Water's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

The cost of living adjustments for each plan is applied as specified by the California Public Employees' Retirement Law. The benefit provisions and all other requirements are established by State statutes and may be amended by Valley Water's governing board.

The Plan's provisions and benefits in effect for fiscal year June 30, 2024, are summarized as follows:

Hire date	Prior to 3/19/2012	3/19/2012 to 12/31/2012	On or after 1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefiting vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%*	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.07%	6.75%
Required employer contribution rates	10.17% plus $3.0 million prepayment for prior unfunded service cost		

* Member's additional contribution towards Valley Water's CalPERS cost per negotiated agreement with the bargaining units.

NOTE 10 EMPLOYEES RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)
Valley Water allocated approximately 44.3% of the District's net pension liability, deferred outflows and inflows of resources and pension expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2024. As a result, the Funds recorded a net pension liability of $140.1 million and deferred outflows of resources of $50.6 million as of June 30, 2024. The Funds recorded pension expense of $46.2 million for the year ended June 30, 2024.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2024 for additional information about the District's pension plan and required note disclosures in accordance with GASB Statement No. 68.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description
Valley Water provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. Valley Water must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Classified Employee Association (AFSCME Local 101) Engineers Society (IFPTE Local 21) Professional Managers Association (IFPTE - Local 21)	Retired prior to July 1, 1988	-	Fixed amount of $165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 or later and hired prior to December 31, 2006	10 years 15 years	100% medical premium for retiree 100% medical premium for retiree plus one eligible dependent
	Retired from July 1, 1990 or later and hired between December 31, 2006 and March 1, 2017	10 years 15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

(Continued)

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified At Will	Retired prior to July 1, 1988	-	Fixed amount of $165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 through June 18, 1995	10 years 15 years	100% medical premium for retiree 100% medical premium for retiree plus one eligible dependent
	Retired from June 19, 1995 through October 21, 1996	10 years 15 years 25 years	100 % medical premium for retirees 100% medical premium for retiree plus one eligible dependent 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents
	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years 15 years 25 years	100 % medical premium for retirees 100% medical, dental, and vision coverages for the retiree plus one eligible dependent 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents
	Hired on or after December 30, 2006 and prior to March 1, 2007	10 years 15 years 25 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.

(Continued)

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified		15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
At Will	Hired on or after March 1, 2007	20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare-eligible dependents who are enrolled in Valley Water's health plan must also enroll in Medicare upon their eligibility date. Valley Water reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents who are enrolled in Valley Water's medical plan. As of July 1, 2009, all Medicare-eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to retirees/dependents due to late enrollment.

Valley Water provides the unclassified group of retirees $50,000 life insurance upon retirement with a five-year phase-out in declining increments of $10,000 per year after retirement.

Valley Water allocated approximately 44.3% of the District's net OPEB liability, deferred outflows and inflows of resources and OPEB expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2024. As a result, the Funds recorded a net OPEB liability of $45.3 million, deferred outflows of resources of $28.2 million and deferred inflows of resources of $2.9 million as of June 30, 2024. The Funds recorded OPEB expense of $6.5 million for the year ended June 30, 2024.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2024 for more information about the District's OPEB plan and required note disclosures in accordance with GASB Statement No. 75.

NOTE 12 RISK MANAGEMENT

The Funds are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Valley Water reports all of its management activities in its Risk Management Internal Service Fund.

Valley Water is self-insured for various types of coverage. The self-insured retention (SIR) and maximum coverage are as follows (in thousands):

Coverage Descriptions	Commercial Insurance SIR	Coverage
General liability	$ 3,000	$ 50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000
Cyber liability	50	10,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expenses. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. This liability is Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2024, for more information about Valley Water's claims payable.

NOTE 13 TRANSFERS IN FROM (OUT TO) DISTRICT

Transfers made during fiscal year 2024 are shown below (in thousands):

Fund Receiving Transfers	Fund Making Transfers	Amount	Description
Water Enterprise Fund	Safe, Clean Water & Natural Flood Protection		
		$ 1,093	Water Conservation Program
Transfers in from District		$ 1,093	
General Fund	Water Enterprise Fund	$ (187)	Security upgrade & enhancement
Information Technology Fund	Water Enterprise Fund	(3,739)	IT capital project
Transfers out to District		$ (3,926)	

NOTE 14 COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2024, the Funds have open purchase commitments of approximately $262.9 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

In 2007, Valley Water entered into a contract with the United States of America Bureau of Reclamation for water deliveries from the Central Valley Project (CVP). The contract requires the District to operate Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities.

On May 11, 2020, there was an amendment to this contract. The amended contract provided for compliance with the Water Infrastructure Improvements for the Nation Act (WIIN Act) and converted it from a water service to a repayment contract. This conversion required that Valley Water repay by lump sum its remaining share of capital costs for the CVP except for those capital costs associated with the San Felipe Division facilities. In accordance with the original contract, Valley Water's share of capital costs for the San Felipe Division facilities are repaid through semi-annual payments according to a payment schedule. To become fully enforceable, the repayment contract requires that Valley Water secure a final judgment from a court of competent jurisdiction that the contract is valid. This court proceeding has been initiated and is awaiting judgment.

The conversion of Valley Water's contract, as well as the contracts for all CVP contractors that elected to convert their contract pursuant to the WIIN Act, is subject to legal challenge by several environmental groups, which alleged violations of the National Environmental Policy Act and the federal Endangered Species Act.

Under the contract, the total commitment for repayment, including applicable interest, was $432.7 million. The remaining commitment as of June 30, 2024 was $156.2 million.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with the Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is $46.9 million based on a 35 percent participation level in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The participation rights of $46.9 million are recorded as a component of Capital assets and are amortized using the straight-line method over the life of the agreement. Amortization of $33.4 million has been recorded through fiscal year 2024. This agreement terminates in December 2035.

Under the terms of the program, upon withdrawal by Valley Water of all 148,749 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs.

The 2024 rate to retrieve Tier 1 water is $93.17 per acre-feet. During the first 10 years of the program, Valley Water had a reservation to participate in 35% of the original banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program. As a result, Valley Water has a current storage allocation of 350,000 acre-feet. As of June 30, 2024, Valley Water has 300,694 acre-feet of water in storage.

NOTE 14 COMMITMENTS (CONTINUED)

(c) Participation Rights in Storage Facilities (Continued)

Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloro propane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies. Because the semitropic water bank is located in Kern County, downstream of Valley Water, banked water must be returned by exchange with State Water Project water from the Delta. In critically dry years or in the event of a Delta disruption, there may be insufficient State Water Project supplies to facilitate the withdrawal of supplies from the bank.

(d) Partnership Agreement Between Valley Water, the City of Palo Alto, and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County

On December 10, 2019, the Board approved an agreement between Valley Water and its local partners, the City of Palo Alto and Mountain View, to further develop water supplies and infrastructure to meet the County's water supply needs. The three main parts of the agreement include: (1) funding a local salt removal facility, owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers, (2) an effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and (3) a water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

Under this partnership agreement, the financial impact to Valley Water includes funding the local salt removal facility in the amount of $16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay $0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay $1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and will be paid for water charge related revenues. The timing of such payments is still to be determined. In February 2024, the Valley Water Board of Directors placed the project to build a regional purification facility on hold due to affordability issues. This decision will be reviewed in two years.

NOTE 15 CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, codefendant, or cross-defendant in court cases in which money damages are sought. A number of claims and suits are pending against Valley Water for alleged damages arising out of matters usually incident to its operations. Although the aggregate amount asserted for such lawsuits and claims is significant, in the opinion of Valley Water management, Valley Water has reasonable defenses against such claims, thus the ultimate loss, if any, relating to these claims and suits not covered by insurance or reflected on the Funds' financial statements, will not materially affect the financial position of the Funds.

NOTE 15 CONTINGENCIES (CONTINUED)

(a) Litigation (Continued)
For a discussion of all pending litigations that Valley Water is aware of which are significant and may have a potential impact on Valley Water's financial statements, refer to Note 16 of the Santa Clara Valley Water Districts Annual Comprehensive Financial Reports (ACFR) as of and for the year ended June 30, 2024.

NOTE 16 SUBSEQUENT EVENTS

Events have been evaluated subsequent to the balance sheet date through August 5, 2025, the date the financial statements were available to be issued. Based upon this evaluation, no events have occurred that require adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Reconciliation to GAAP Basis
Year ended June 30, 2024 (Dollars in Thousands)

	North County	South County	Total
Operating Revenues:			
Ground Water Charges	$ 130,765	$ 17,982	$ 148,747
Treated Water Charges	169,633	-	169,633
Surface and recycled water charges	1,500	761	2,261
Operating Grants	5,139	45	5,184
Other	3,694	-	3,694
Total Operating revenues	310,731	18,788	329,519
Operating Expenses			
Sources of Supply	92,438	11,241	103,679
Water Treatment	51,415	623	52,038
Transmission and distribution:			-
Raw Water	16,238	4,598	20,836
Treated Water	2,920	-	2,920
Administration and general	25,511	8,489	34,000
Capital Cost Recovery	(6,116)	6,116	-
Total Operating Expenses	182,406	31,067	213,473
Operating income (loss)	128,325	(12,279)	116,046
Nonoperating revenues (expenses):			
Property Taxes	35,010	4,048	39,058
Investment Income	20,230	-	20,230
Rental Income	119	54	173
Other	3,602	223	3,825
Interest and fiscal agent fees	(38,288)	-	(38,288)
Open Space Credit Transfer	(7,595)	7,595	-
Interest earned credit	(125)	125	-
Net Operating revenues	12,953	12,045	24,998
Change in Net Position	$ 141,278	$ (234)	$ 141,044

Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:	
Income (Loss)	141,044
Depreciation and amortization expenses not budgeted	(22,516)
Capital contributions	3,544
Interfund transfers	(2,834)
Reconcile GAAP to budgetary basis for operating expenses	(96,638)
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds	(16,565)
Change in net position per Statement of Revenues, Expenses and Change in Net Position	$ 6,035

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone - Budgetary Basis Discussion
Year ended June 30, 2024 and 2023 (Dollars in Thousands)

	North County		South County		Total	
	2024	2023	**2024**	2023	**2024**	2023
Operating revenues:						
Ground water charges	$ **130,765**	$ 91,281	$ **17,982**	$ 15,655	$ **148,747**	$ 106,936
Treated water charges	**169,633**	159,215	**-**	-	**169,633**	159,215
Surfaced and recycled					**-**	-
water charges	**1,500**	1,310	**761**	640	**2,261**	1,950
Total water charges	**301,898**	251,806	**18,743**	16,295	**320,641**	268,101
Other	**3,694**	5,409	**-**	18	**3,694**	5,427
Total operating revenues	**305,592**	257,215	**18,743**	16,313	**324,335**	273,528
Operating expenses:						
Source of supply	**92,438**	110,838	**11,241**	11,925	**103,679**	122,763
Water treatment	**51,415**	49,369	**623**	701	**52,038**	50,070
Transmission and distribution:					**-**	-
Raw water	**16,238**	14,813	**4,598**	3,869	**20,836**	18,682
Treated water	**2,920**	2,126	**-**	-	**2,920**	2,126
Cost of goods sold	**163,011**	177,146	**16,462**	16,495	**179,473**	193,641
Administration and general	**25,511**	22,685	**8,489**	7,656	**34,000**	30,341
Capital cost recovery	**(6,116)**	(6,107)	**6,116**	6,107	**-**	-
Total operating expenses	**182,406**	193,724	**31,067**	30,258	**213,473**	223,982
Operating income (loss)	**123,186**	63,491	**(12,324)**	(13,945)	**110,862**	49,546
Non-operating income (expenses) :						
Property taxes	**35,010**	35,335	**4,048**	4,059	**39,058**	39,394
Investment income	**20,230**	7,582	**-**	-	**20,230**	7,582
Operating grants	**5,139**	-	**45**	-	**5,184**	-
Rental income	**119**	101	**54**	42	**173**	143
Other	**3,602**	1,703	**223**	152	**3,825**	1,855
Interest/fiscal agent fees	**(38,288)**	(32,568)	**-**	-	**(38,288)**	(32,568)
Open space credit transfer	**(7,595)**	(3,881)	**7,595**	3,881	**-**	-
Interest earned credit	**(125)**	(137)	**125**	137	**-**	-
Net non-operating income	**18,092**	8,135	**12,090**	8,271	**30,182**	16,406
Net income (loss)	$ **141,278**	$ 71,626	$ **(234)**	$ (5,674)	$ **141,044**	$ 65,952

Budgetary basis discussion:

- The Funds' total operating revenues were $324.3 million for the current fiscal year. 94.2 percent of those revenues, or $305.6 million were related to the North County, while the remaining 5.8 percent or $18.7 million were related to the South County.

- Operating expenses for North County include $163.0 million in cost of goods sold, or 53.3 percent of its total operating revenues. For the South County, the cost of goods sold is $16.5 million.

- Administration and general expenses were $25.5 million or 8.3 percent of total operating revenues for the North County and $8.5 million or 45.2 percent of total operating revenues for the South County.

- Total operating revenues of $324.3 million, less total operating expenses of $213.5 million, netted $110.9 million of income from operations for the current year. The North County recorded a net operating income of $123.2 million, while the South County incurred a net operating loss of $12.3 million.

Total income from operations was supplemented with property tax, operating grants, investment income (loss) and other income totaling $68.5 million.

- Property taxes collected in North County amounted to $35.0 million, while $4.0 million were collected in South County for a total of $39.0 million. These are comprised of the voter-approved obligations for the State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.

- Investment earnings for the current fiscal year were $14.3 million. $5.9 million unrealized gain in the portfolio's fair market value were recognized due to the increase in the portfolio's market value at the end of the current fiscal year, resulting in a total investment income of $20.2 million.

Water Utility Enterprise Funds Rate Summary

		Rate
Groundwater		
Zone W- 2 North County - Agricultural	$	36.85
Zone W- 2 North County - Non- Agricultural		1,974.00
Zone W- 5 South County - Agricultural		36.85
Zone W- 5 South County - Non- Agricultural		543.50
Zone W- 7 South County - Agricultural		36.85
Zone W- 7 South County - Non- Agricultural		657.50
Zone W- 8 South County - Agricultural		36.85
Zone W- 8 South County - Non- Agricultural		398.00
Treated Water		
Contract (Scheduled) (2)		2,089.00
Non- Contract (3)		2,174.00
Surface Water (Basic User Charge)		
Zone W- 2 North County - Agricultural		90.85
Zone W- 2 North County - Non- Agricultural		2,028.00
Zone W- 5 South County - Agricultural		90.85
Zone W- 5 South County - Non- Agricultural		597.50
Zone W- 7 South County - Agricultural		90.85
Zone W- 7 South County - Non- Agricultural		711.50
Zone W- 8 South County - Agricultural		90.85
Zone W- 8 South County - Non- Agricultural		452.00
Water Master (1)		54.00
Reclaimed Water		
Gilroy Reclamation Facility – Agricultural		67.20
Gilroy Reclamation Facility – Non- Agricultural		523.50

(1) The surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge.

(2) The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge.

(3) The total treated water non-contract charge is the sum of the basic user charge (which equals the

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Santa Clara Valley Water District

File No.: 25-0755

Agenda Date: 9/17/2025
Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Discuss Potential Audit Topics for 2026 Annual Audit Plan, and Provide Further Guidance as Needed.

RECOMMENDATION:
Discuss potential audit topics for 2026 Annual Audit Plan, and provide further guidance as needed.

SUMMARY:
The purpose of this agenda item is to discuss the potential audit topics to be proposed for the 2026 Annual Audit Plan, any new related information as appropriate, and provide any guidance the BAC deems appropriate.

The BAC Charter, Article I, Paragraph 4 states, "The Committee shall assist the Board, consistent with direction from the full Board, by identifying potential areas for audit and audit priorities, and to review, update, plan and coordinate execution of Board audits." To that end, the Board's Chief Audit Executive (CAE) conducted a risk assessment in FY 2023 to identify key areas of risk that could be considered for auditing.

The 2023 Risk Assessment Final Report dated November 2023 (Attachment 1) is attached for reference. The Risk Assessment includes heat maps of Valley Water's operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment included input from Valley Water's Board of Directors (the Board), executives, and management and was used to help develop the proposed 2024-2026 Audit Plan, included as Appendix B of Attachment 1.

At the January 23, 2024 Board meeting the Board approved three (3) of the proposed topics to proceed as the 2024 Annual Audit Plan, which included Information Technology, Human Resources, and Board Policies.

At the January 28, 2025 Board meeting the Board approved four (4) of the proposed topics to proceed as the 2025 Annual Audit Plan, which included Capital Project Delivery, Contracting

Practices, Water Conservation Strategies, and Water Usage and Demand Forecasting.

The BAC Audit Charter (Article III, Paragraph 7.2) requires that, by November 30 of each year, the BAC shall submit its recommended Annual Audit Plan to the full Board for consideration and direction.

During the August 20, 2025, BAC meeting, several potential audit topics were discussed. These include:

- Conducting a district-wide risk assessment, pursuant to the BAC Charter requirements.
    - As part of this risk assessment, identify all projects/programs potentially funded by federal dollars.
- Reviewing Board governance models and evaluating opportunities for improvement.
- Evaluating the roles Board members should fulfill in providing oversight of JPA agreements.
- Conducting a performance audit of District-wide asset management practices.

In addition to these potential audit topics, the CAE will discuss additional potential audit topics.

The purpose of this meeting is to begin discussion of potential audit topics and the schedule for completing the proposed Annual Audit Plan for the full Board's consideration.

ENVIRONMENTAL JUSTICE IMPACT:
The Annual Audit Plan is not subject to environmental justice analysis. The Annual Audit Plan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:
Attachment 1: 2023 Risk Assessment Final Report.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District
Independent Board Auditor

Districtwide Risk Assessment – 2023

November 2023

SJOBERG EVASHENK CONSULTING, INC

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Table of Contents

Introduction 2

Background 2

Risk Assessment Approach 4

Department Risk Profiles 7

Office of the Chief Executive Officer 7

Office of the Clerk of the Board 9

Office of District Counsel 13

Administrative Services 17

External Affairs 29

Office of Financial Planning and Management Services 35

Office of Integrated Water Management 43

Risk Assessment Results 68

Appendix A. Proposed Three-Year Audit Plan 70

Appendix B. Prioritized Audit Topics for the Board's Consideration 75

Introduction

The Santa Clara Valley Water District (Valley Water or District) asked Sjoberg Evashenk Consulting to conduct a districtwide risk assessment as part of a long-term internal audit planning process. A fundamental component of a successful internal audit function requires determining which departments, programs, or activities to audit—and allocating scarce audit resources in a way that adds the greatest value to the District. As such, the purpose of this project was to identify key organizational units, programs, or operations of Valley Water and to assess each in terms of the potential risk factors that could impede the effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. As the relative magnitude and prevalence of potential risk factors associated with key programs increase, so too does the potential value a performance audit of the program will be to Valley Water.

Background

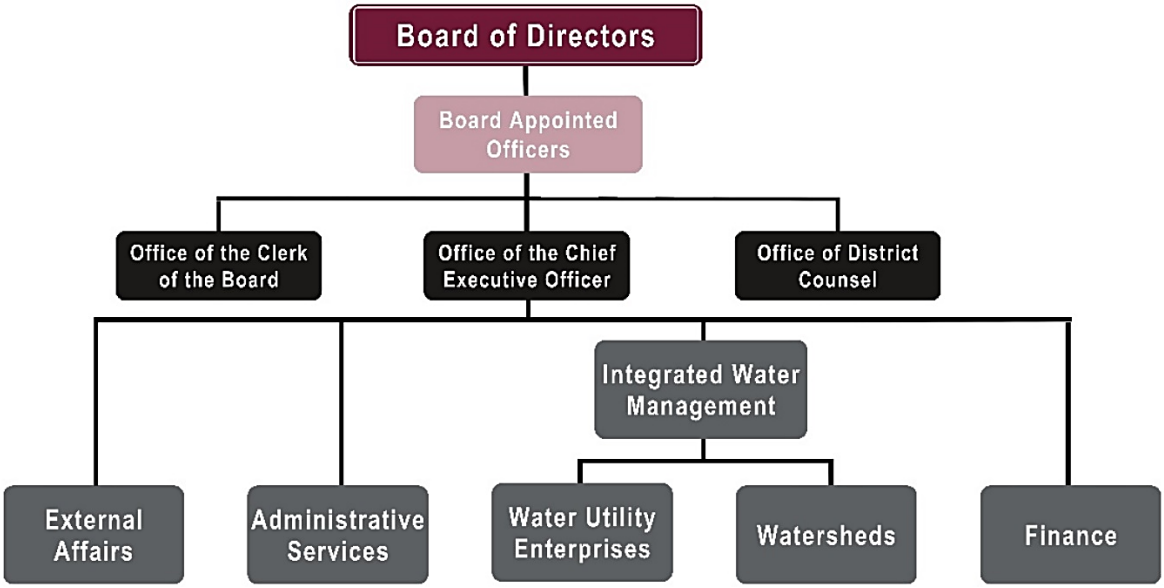
The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood control channels, and overseeing water rate setting and conservation efforts. The mission of Valley Water is to provide safe, clean water for a healthy life, environment, and economy.

Valley Water is led by a seven-member Board of Directors (Board), with each Board director representing one of seven equally-divided districts in the Silicon Valley. The Board is responsible for establishing policy, adopting resolutions, and establishing the directives, goals, and objectives that guide all the work of Valley Water employees—including the overall vision for the District. These are documented in three formal types of policies:

- Board Governance Policies—policies which guide the practices of the Board itself.
- Executive Limitations Policies—policies which establish the responsibilities of the Chief Executive Officer and delegations of authority.
- Ends Policies—policies that establish the goals and objectives that the Board has for the District, and the ends toward which the Chief Executive Officer is charged to achieve.

Three District officers are appointed by and report directly to the Board: The Chief Executive Officer (CEO), District Counsel, and the Clerk of the Board. The Office of District Counsel serves as legal counsel to the Board and advises the Board and Valley Water management regarding all legal matters. The Clerk of the Board staffs all Board and committee meetings and serves as the District's election official and the custodian of official records of the District. The CEO oversees all executive operations of Valley Water, including Integrated Water, which is managed by the Assistant Chief Executive Officer an includes the Water Utility and Watershed business areas, as well as several units that collectively support Valley Water's capital infrastructure plan. In addition to Integrated Water. The CEO also oversees three critical departments: the Financial Planning and Management Services Department, Office of Administrative Services, and the Office of External Affairs. Valley Water's organizational chart is depicted in Exhibit 1.

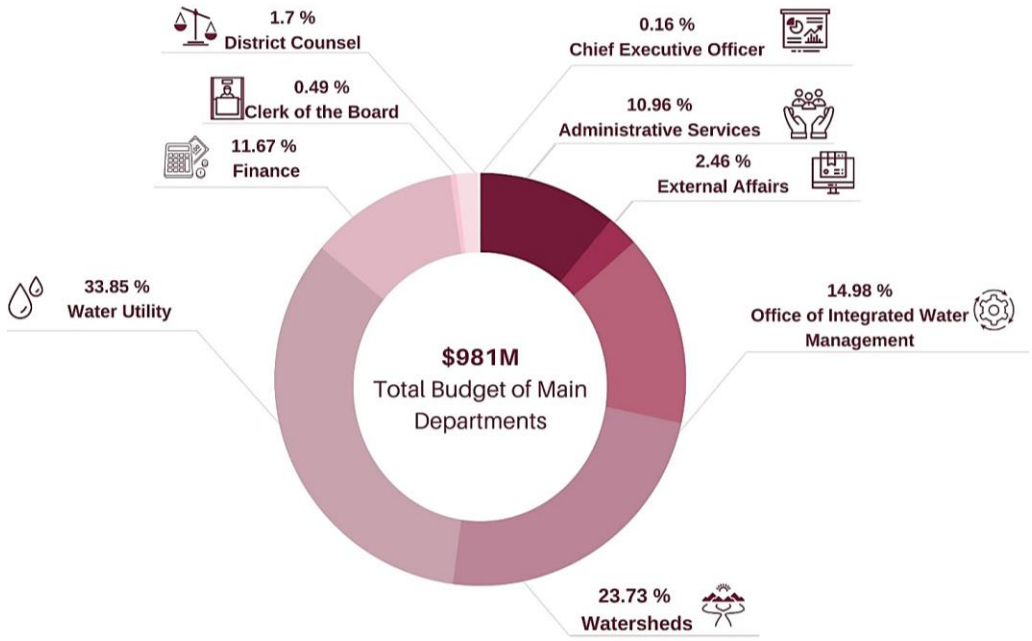
EXHIBIT 1. VALLEY WATER ORGANIZATION CHART



Source: Official Valley Water Organization Charts

As illustrated below, Valley Water's Fiscal Year 2023-24 budgeted operating expenses totaled approximately $857 million,[1] of which Integrated Water, Watershed, and Water Utility Enterprise business areas comprise roughly 80 percent of all District expenditures.

EXHIBIT 2. ALLOCATED BUDGETED EXPENDITURES BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

[1] Elsewhere in this report, we refer to approximately $981 million in budget appropriations. The difference between Valley Water's total $857 million budget and individual department appropriations of $981 million, which includes intra-district reimbursements of $124.9 million, and these net to total operating and capital outlays of $856.6 million.

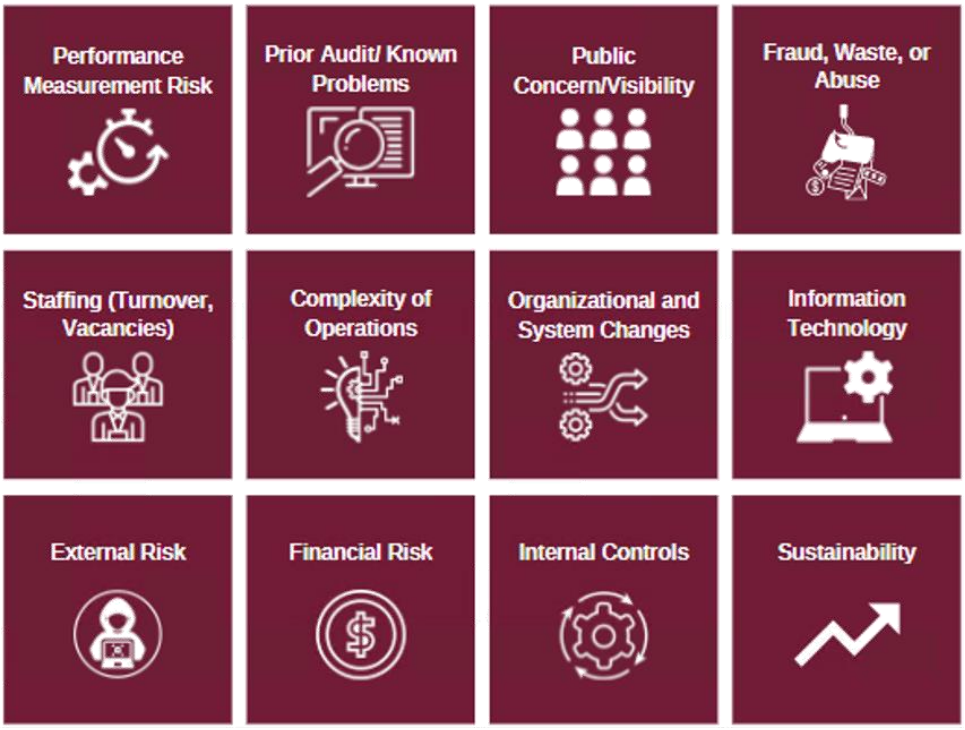
Risk Assessment Approach

The Charter of the Board Audit Committee (BAC) states that the BAC shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually, and that the full Board shall approve an annual audit plan. Audit standards issued by the Institute of Internal Auditors require that the chief audit executive establish a risk-based plan to determine the priorities of the management audit activity, and that the plan be consistent with the organization's goals. The purpose of a risk assessment is to help ensure that limited audit resources are deployed in a manner that fulfills the purpose of Valley Water by identifying inherent risks to the successful execution of district operations, programs, and services; and differentiating between all the potential risks and areas of interest and prioritizing them based on the potential value that the audit may provide to Valley Water. This process is intended to facilitate a deliberative approach to directing limited audit resources and to inform management of potential areas of risk for which it may wish to take action; it is not intended to provide specific conclusions regarding an organization's operations or programs, or to present specific recommendations for improvement.

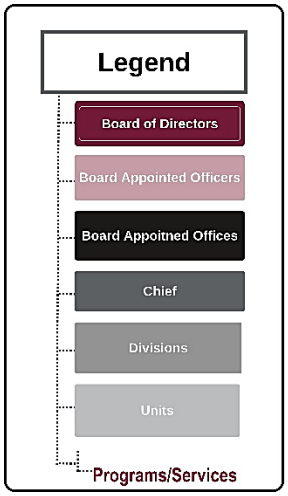
To fulfill the strategic purpose of a districtwide risk assessment, our team interviewed nearly 30 District officers and managers to gather information about Valley Water operations, programs, and functions; to identify potential and inherent risks to the achievement of the missions, objectives, and goals of each; and to discuss current initiatives and activities of the departments. We also obtained and evaluated current and historical background information for each office, department, and program, including information available through Valley Water's website, program descriptions, budget documentation, strategic plans and annual reports, policies and procedures, and other relevant documentation, etc. In doing so, we identified the audit universe and auditable units, including District departments and the defined programs, services, and functions carried out by each department, and identified the sources and types of risks associated with the missions, objectives, and goals of each.

Some information was obtained directly from objective reporting of past and current performance. This includes the relative size of one department's budget or workforce in relation to other departments, one department's financial exposure resulting from claims filed as compared to other departments, the number of contracts or capital projects managed by one department as compared to others, as well as key performance indicators and departmental performance reports. Other information was obtained through subjective analyses of current issues and trends affecting each department. This includes understanding and assessing public concern related to certain programs, services, or functions of District government; determining the extent to which certain problems are already known, such as through the press or previously completed audits or studies; or the extent to which previously manual activities have been automated. Both subjective and objective risk categories drive the ultimate calculated risk score for each department and program area, and the relative risk associated with each when compared to other Valley Water departments or program areas. Exhibit 3 illustrates the types of risk factors considered as part of this risk assessment.

EXHIBIT 3. RISK SOURCES & TYPES RELATED TO THE ADMINISTRATION OF DISTRICT DEPARTMENTS AND PROGRAMS



Based on information provided and auditor judgement, we assessed each organizational unit and program in terms of the potential risks that could impede effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. In doing so, we prepared "risk profiles" for each department, which include an organizational chart for each department that reflects the functional responsibilities of each department, division, unit, and program. The structure of the appropriate department will be displayed in an organizational chart reflecting the legend on the right. The risk profiles also include general indicators of the size of the division, a description of the core functions of the division and inherent risks and general concerns associated with the division's operations. In short, inherent risks are factors that may impede the ability of the division to achieve, in an effective or efficient manner, its core functions.

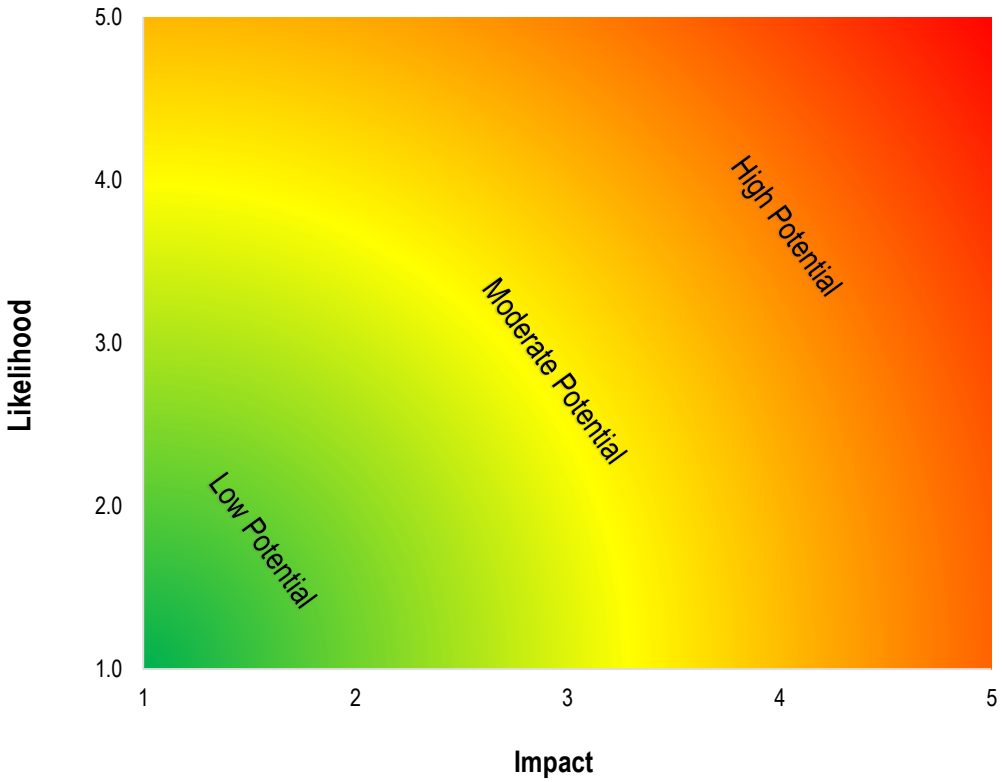


While this report presents risk ratings for key departments, divisions, and programs, it is important to note that a high-risk score is not indicative of poor performance, lacking internal controls, or bad business practices. Rather, risk scores indicate the extent to which key programmatic or operational areas within District departments present sufficient inherent risks to warrant audit resources, and the extent to which we believe a performance audit of that area will yield value to Valley Water.

To illustrate our assessment of risk associated with the auditable units within each department as compared to each other and to other divisions throughout Valley Water, we include in each department profile a heat map similar to that shown in Exhibit 4. This is meant to illustrate the extent to which, or

likelihood that, inherent risks associated with core District functions warrant audit resources and the potential impact that such an audit could have in assisting Valley Water to address current and emerging challenges—that is, the relative value of spending audit resources in one business area of the District versus another area.

EXHIBIT 4. SAMPLE HEAT MAP



Based on our assessment of risk, we present numerous audit topics related to each division and/or program. A larger audit could include each of these as a specific audit objective; smaller audits could address just one or two of the topics listed in each profile.

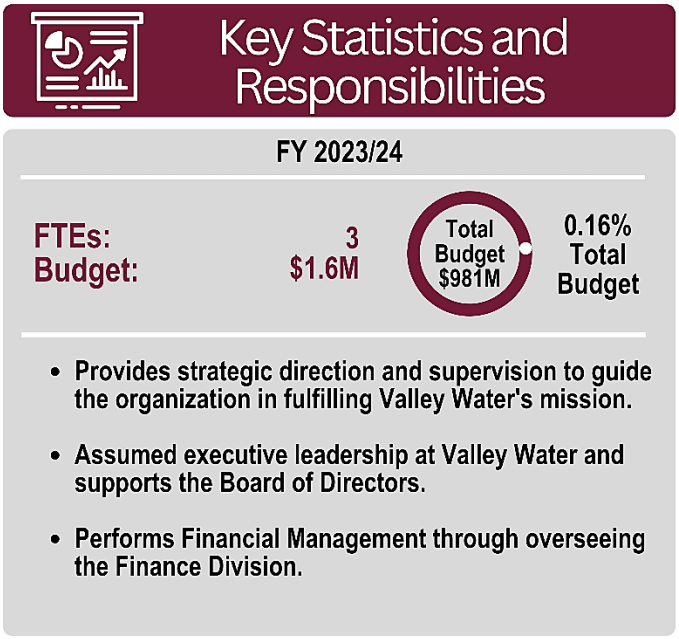
This approach is designed to provide Valley Water with information necessary to develop an audit plan that focuses on those areas within District government that are most likely to benefit from a performance audit. It is also designed to present the rationale behind our risk ratings to the BAC, and to facilitate an open and deliberative forum to discuss audit priorities and to determine the focus of limited audit resources.

Department Risk Profiles

This section presents background information and risk profiles for each of Valley Water's key departments, including offices reporting directly to the Board of Directors—the Chief Executive Officer, District Counsel, and Clerk of the Board—as well as the departments reporting directly to the Chief Executive Officer: Administrative Services, External Affairs, Financial Planning and Management Services, and Integrated Water. Each profile includes a discussion of a Valley Water department; background information, core functions, key statistics and characteristics, inherent risks, and challenges associated with each; and potential audit topics designed to address those areas where internal audit resources could prove most valuable.

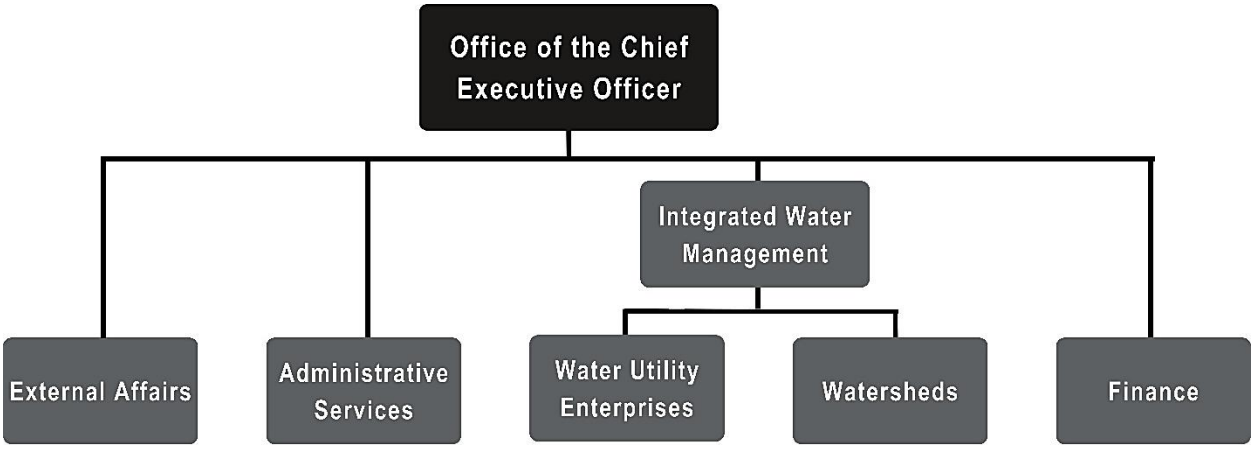
Office of the Chief Executive Officer

With a Fiscal Year 2023-24 budget of approximately $1.5 million and a staff of 3 FTE positions, the Office of the CEO represents less than one (1) percent of the District's overall budget. The Office of the CEO is responsible for all operations of the District, carrying out policies and direction of the Board, making recommendations to the Board on a variety of issues, appointing and supervising subordinate officers of the District, ensuring compliance with Board policies, being responsive and available to the community, and achieving Valley Water's objectives, goals, and mission. The Assistant Chief Executive Officer, Chief Financial Officer, Chief Operating Officer of External affairs, and Chief Operating Officer of Administration all report directly to the CEO.



The Office of the CEO provides strategic direction and supervision to guide the organization in fulfilling Valley Water's mission, achieve the Board's Ends Policies, support the Board of Directors, and comply with the Board's Executive Limitations Policies. During Fiscal Year 2023, the Office of the CEO reported achieving several notable accomplishments, including continuing to lead the Valley Water throughout the ongoing drought and the COVID-19 pandemic; prioritizing investments in critical infrastructure and the safety of Valley Water staff; and delivering safe, clean, and reliable water to Santa Clara County. Exhibit 5 illustrates the distribution of the CEO's direct reports.

EXHIBIT 5. OFFICE OF THE CHIEF EXECUTIVE OFFICER ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the CEO, on its own, has a relatively low budget and FTE allocation when compared to other organizational units. However, its role in implementing Board policy and strategic initiatives, developing budgets, monitoring resource allocation, and framing and messaging District priorities and communications place the Office in a position of strategic importance and high public visibility. The CEO's role is multifaceted, as they must balance the District's Ends Policies to serve the needs of Santa Clara County while adhering to executive limitations that set specific boundaries on the Office's authority. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Executive Officer	
The CEO is responsible for the success of Valley Water. This includes successfully providing safe, clean water for a healthy life, environment, and economy. It also includes doing so in a manner that is responsible, sustainable, and alignment with Board policies. The CEO employs experts to directly manage distinct business areas within the District, including Finance, Administration, External Affairs, and the core operations of the District: Integrated Water Management, including Water Utility Enterprises and Watersheds. This encompasses supply management, flood protection, environmental stewardship, and more, all aimed at serving Santa Clara County's 1.9 million residents as well as a significant and diverse business community. The CEO coordinates the flow of information between management, the Board, and various committees, and provides administrative and logistical support to the Board.	**Budget:** $1,579,221 **FTE:** 3 **Inherent Risks:** As the leader of Valley Water, the greatest risk facing the CEO relates to the successful delivery of safe, clean water, consistent with the mission of Valley Water. From the perspective of the Board, however, the question is not limited to whether the CEO achieves this mission, but it is also essential that the CEO so in a manner compliant with established policies—both Ends Policies and Executive Limitations. This requires transparency in management reporting, goal-driven performance measurement and evaluation, and assurances of compliance with Executive Limitations Policies.

Risk Summary

The operational responsibilities of the Office of the CEO are typically addressed by performance auditors by focusing on specific programs under the purview of the CEO, such as programs administered by

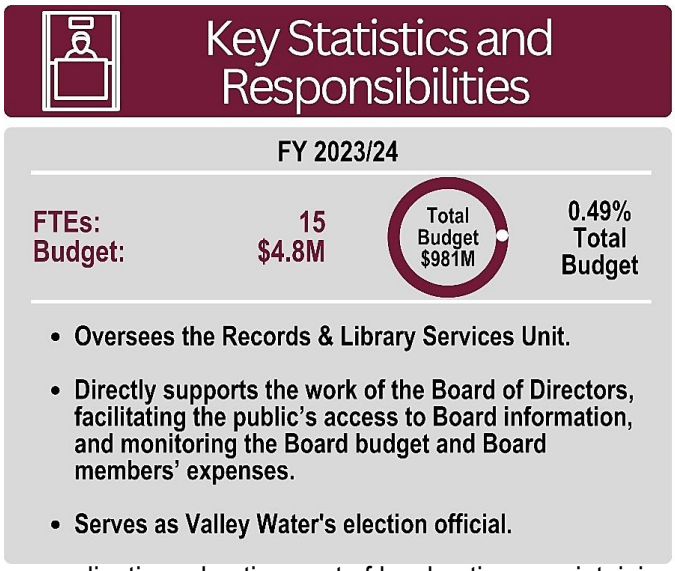
Finance, Administration, External Affairs, Integrated Water Management, Water Utility, or Watersheds. The Officers overseeing each major program area would address potential audit findings, recommendations, and corrective action.

There are certain performance audits, however, that go beyond the purview of any particular departmental officer or manager, and those pertain primarily to matters of governance: reporting to the Board of Directors; establishing policies and procedures; establishing a sound tone-at-the-top that focuses on the importance of achieving goals and the organizational mission while also emphasizing the importance of internal control, transparency, and accountability; establishing and monitoring systems of performance measurement and evaluation; and ensuring compliance with Board policies and other legal or regulatory requirements.

Based on this assessment, there are two audit topics that ranked the highest and warrant consideration for future audit planning. These include:

1) The District's overall approach to performance measurement, the purpose of which would be to identify ways to build upon exiting performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
2) The Districts overall compliance with Board policies, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board



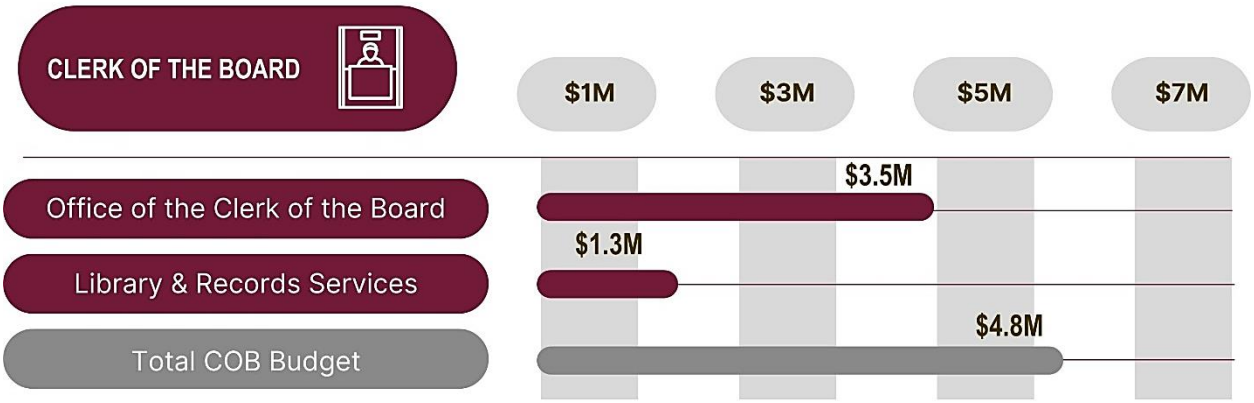
With an approximate Fiscal Year 2023-24 budget of $5.6 million—representing 0.6 percent of the District's overall budget—and 15 FTE positions, the Office of the Clerk of the Board supports the Board of Directors and serves the public by providing records maintenance and management services, staffing Board and committee meetings, serving as Valley Water's election official, and overseeing the Records & Library Services Unit. These services include directly supporting the work of the Valley Water Board of Directors; preparation, posting and maintenance of agendas, minutes, ordinances, resolutions and contracts of the Board of Directors; coordinating advertisement of legal notices; maintaining and updating Board resolutions and policies (including Board Governance Policies, Ends Policies, and Executive Limitations Policies); managing and publishing Board and committee agendas and minutes in accordance with the Brown Act; receiving official records; responding to public records requests in a timely manner, and ensuring compliance with the Public Records Act; coordinating with the County of Santa Clara

on all matters related to elections; and monitoring the Board budget and Board members' expenses in accordance with District Ordinance 02-01, Resolution 11-73, Board Governance Policy GP-10.

In Fiscal Year 2023, the Office of the Clerk of the Board cites various accomplishments, including having successfully managed over 33 Regular Board Meetings and over 100 Board Committee Meetings in accordance with the District Act, Board Policies, and the Brown Act; successfully scheduled over 1,000 meetings for individual Directors; and tracked, monitored, and reported on the registration of external lobbyists in accordance with Ordinance 10-01.

The Office of the Clerk of the Board is organized into two units: the Clerk of the Board and the Records & Library Services. Exhibit 6 below is a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

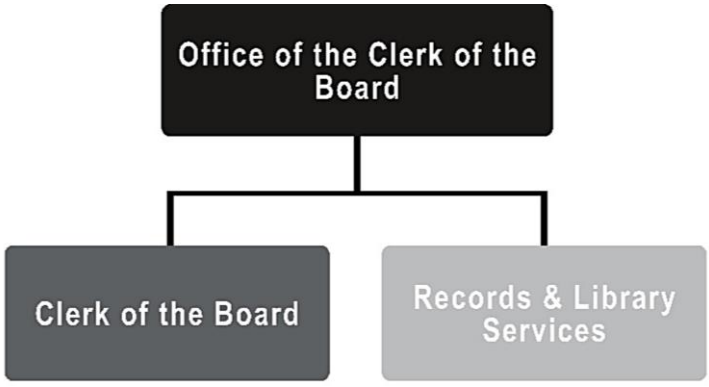
EXHIBIT 6. BUDGET BREAKDOWN BY DEPARTMENT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The Office of the Clerk of the Board allocates functional responsibilities to each of the two units as depicted in Exhibit 7 below.

EXHIBIT 7. OFFICE OF THE CLERK OF THE BOARD DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the Clerk of the Board plays a pivotal role in Valley Water's governance, but it faces inherent risks that require careful management. Chief among these risks is the potential for improper documentation and minute-taking during Board meetings, which could compromise transparency and governance procedures. The evolving landscape of governance procedures necessitates continuous compliance efforts. Efficient management of a large volume of documents, including publicly recorded ones, is essential to prevent delays and resource misallocation.

Moreover, tracking lobbying activities demands vigilance to ensure compliance and accurate reporting. Lastly, the office must balance its involvement in policy reviews and maintain a high-level perspective to mitigate risks related to inefficiency or insufficient support of core operations. To successfully navigate these challenges, the Clerk of the Board should maintain meticulous record-keeping, stay current with governance procedures, and continually evaluate and optimize their operations while upholding the transparency and integrity of Valley Water's governance processes. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF THE CLERK OF THE BOARD

The Office of the Clerk of the Board oversees the Records & Library Services Unit as well as completing work regarding coordinating information between the Board Committees and the Board, and Committee Oversight Manager; providing administrative and logistical support to the Board committees; managing Board committee membership; ensuring agenda and meetings are in compliance with the Brown Act; coordinating, posting and distributing Board committee and Board agenda items; supporting and assisting Board committee chairs during meetings; managing Board committee work plans; tracking and managing Board committee attendance; managing historical records of Board committees; keeping accurate records of the proceedings of the Board and all committees; keeping a record of all Board resolutions and actions of the Board of Directors in such manner that the information contained therein will be readily accessible to the public; and managing Board committee web pages.	**Budget:** $ 3,517,767 **FTE:** 10 **Inherent Risks:** Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations. Further, Board Governance Policies have not been fully reviewed or updated in six or more years.

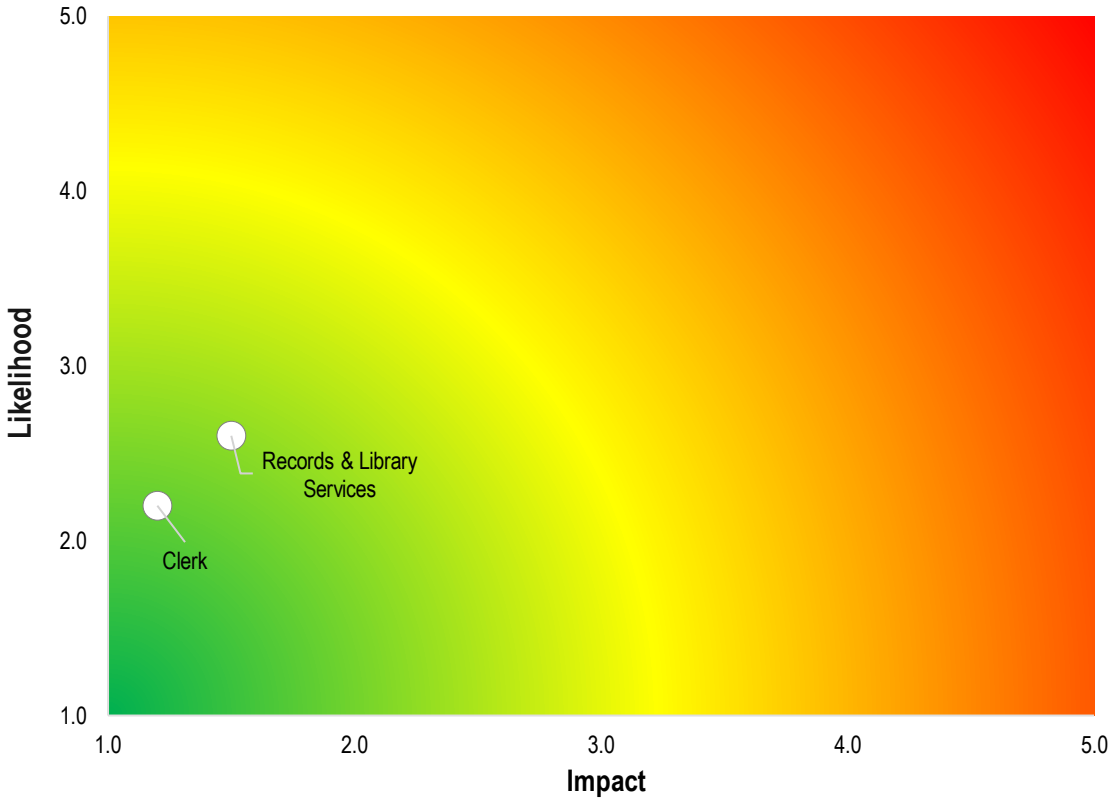
RECORDS & LIBRARY SERVICES

The Records & Library Services is responsible for the administration of the Records Management Center and the Valley Water Library, administration of the Valley Water Records Management Program; and the provision of Valley Water's responses to legal demands for records.	**Budget:** $ 1,316,042 **FTE:** 5 **Inherent Risks:** Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations.

Risk Summary

The Office of Clerk of the Board has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, the Clerk of the Board serves an essential function facilitating the work of the Board and ensuring transparency into Board and District activities. Because of this, the potential benefits of a performance audit of the Clerk of the Board are likely to be in assessing the overall efficiency and effectiveness of the Office's day-to-day operations. With this in mind, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 8. PROGRAM RISK RATINGS

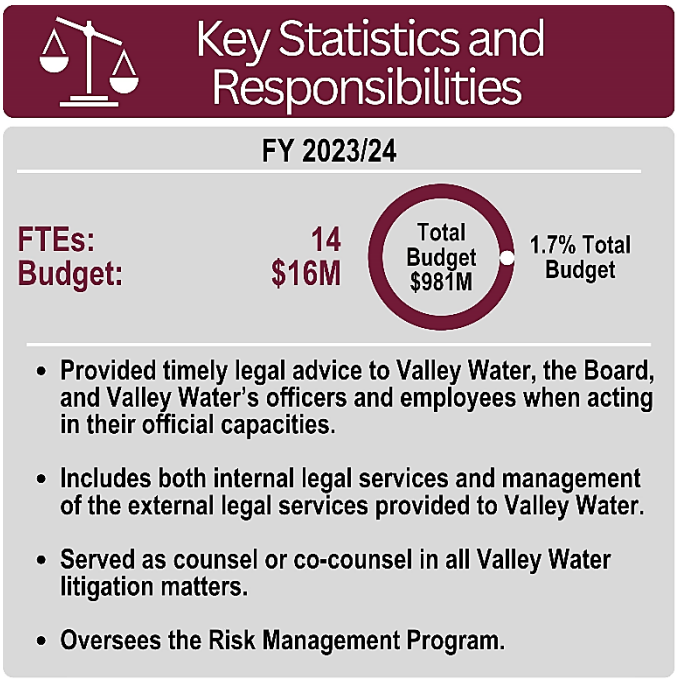


This risk assessment revealed the following potential audit objective:

1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

With an approximate Fiscal Year 2023-24 budget of $15 million—representing less than one (1) percent of the District's overall budget—and fourteen (14) FTE positions, the Office of District Counsel is managed by the Discrict Counsel, a Board-appointed officer of Valley Water. The Office is responsible for general legal advice and services, personnel, litigation, and specialty advice including but not limited to land use, the environment, eminent domain, and real estate, among others. The Office advises the Board of Directors on all legal matters, and manages Valley Water's Risk Management Unit.

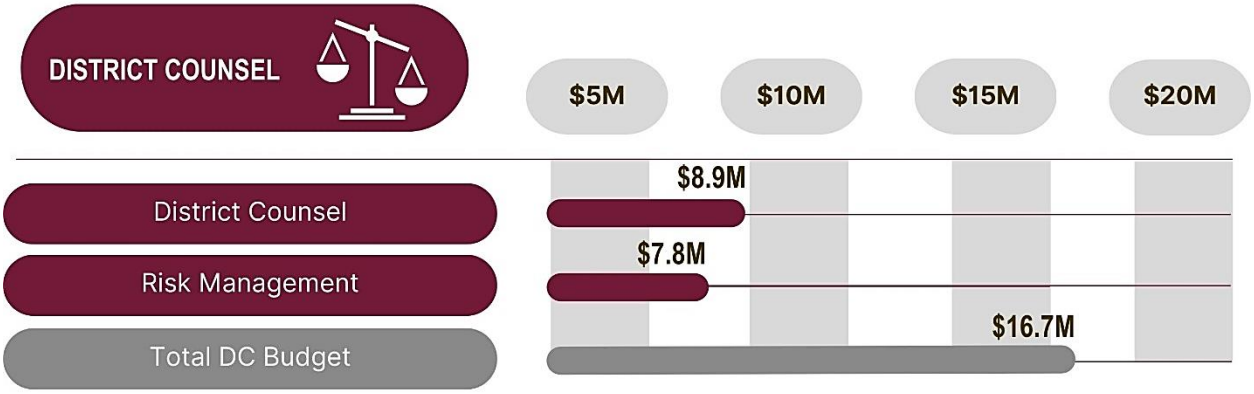


The Office of District Counsel at Valley Water is a critical component with eight attorneys specializing in labor and employment, California Environmental Quality Act (CEQA), and water law. They handle in-house legal matters such as public works contracting, municipal law, water law, and real estate while engaging external counsel for large projects. Notably, they address the complex issue related to Santa Clara Valley's unhoused population, a challenge with potential legal and environmental risks. The absence of an electronic calendaring system is a notable efficiency concern, with plans to introduce document management and automated calendaring tools. However, inherent risks include legal challenges, non-compliance with governance procedures, and document management challenges. The influx of new managers and a risk-averse culture also challenge organizational cohesion. The Office handles all items going to the Board, albeit with constraints due to a risk-averse culture that leads to extensive reviews.

In Fiscal Year 2023, the Office cites various accomplishments, including having provided timely legal advice to Valley Water, the Board, and Valley Water's officers and employees when acting in their official capacities; provided representation to Valley Water relating to annual groundwater production charges and to the update of Valley Water's groundwater charge zones; and served as counsel or co-counsel in all Valley Water litigation matters.

The Office of District Counsel is organized into two units: The Office of District Counsel and the Risk Management Unit. Exhibit 9 provides a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

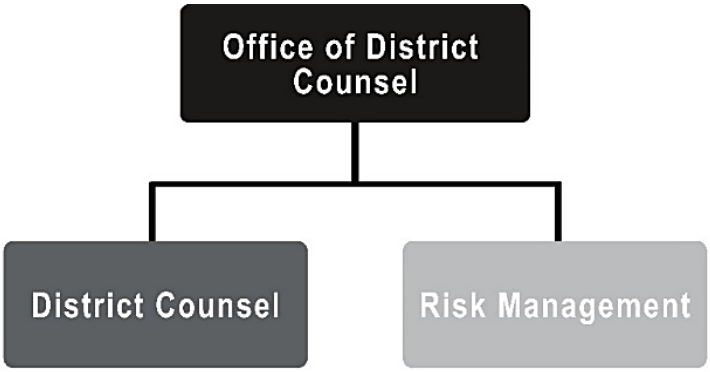
EXHIBIT 9. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

The Office of District Counsel allocates functional responsibilities to each of the two units as depicted in Exhibit 10 below.

EXHIBIT 10. DISTRICT COUNSEL ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & 2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of District Counsel is integral to the organization's legal affairs yet confronts various inherent risks. The foremost concern lies in the efficiency of legal services provided, given the substantial and diverse operational and administrative responsibilities of Valley Water. The Office has a relatively low level of funding and FTE allocation when compared to other departments, as well as relatively low level of cash or other high-risk assets. Inherent risks associated with the District Counsel remain relatively low, but include continued adherence to professional standards, the efficient use of professional service contracts for outsourced legal services, balancing differing perspectives on risk mitigation, and the implementation of business processes and controls to mitigate risk and prevent the loss of District assets. Following is an

evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF DISTRICT COUNSEL

The Office of District Counsel provides professional, timely, and strategic legal advice to and representation of Valley Water and its Board of Directors, officers, and employees. It includes both internal legal services and management of the external legal services provided to Valley Water.	**Budget:** $ 8,885,440 **FTE:** 11 **Inherent Risks:** Efficiency in delivering professional services considering the significant budget allocation, the effective and efficient management of third-party contracts, records management, and the ability to provide timely review and advice regarding a wide range of topics to District employees and the Board, along with reviewing items presented to the Board, are critical areas of focus.

RISK MANAGEMENT UNIT

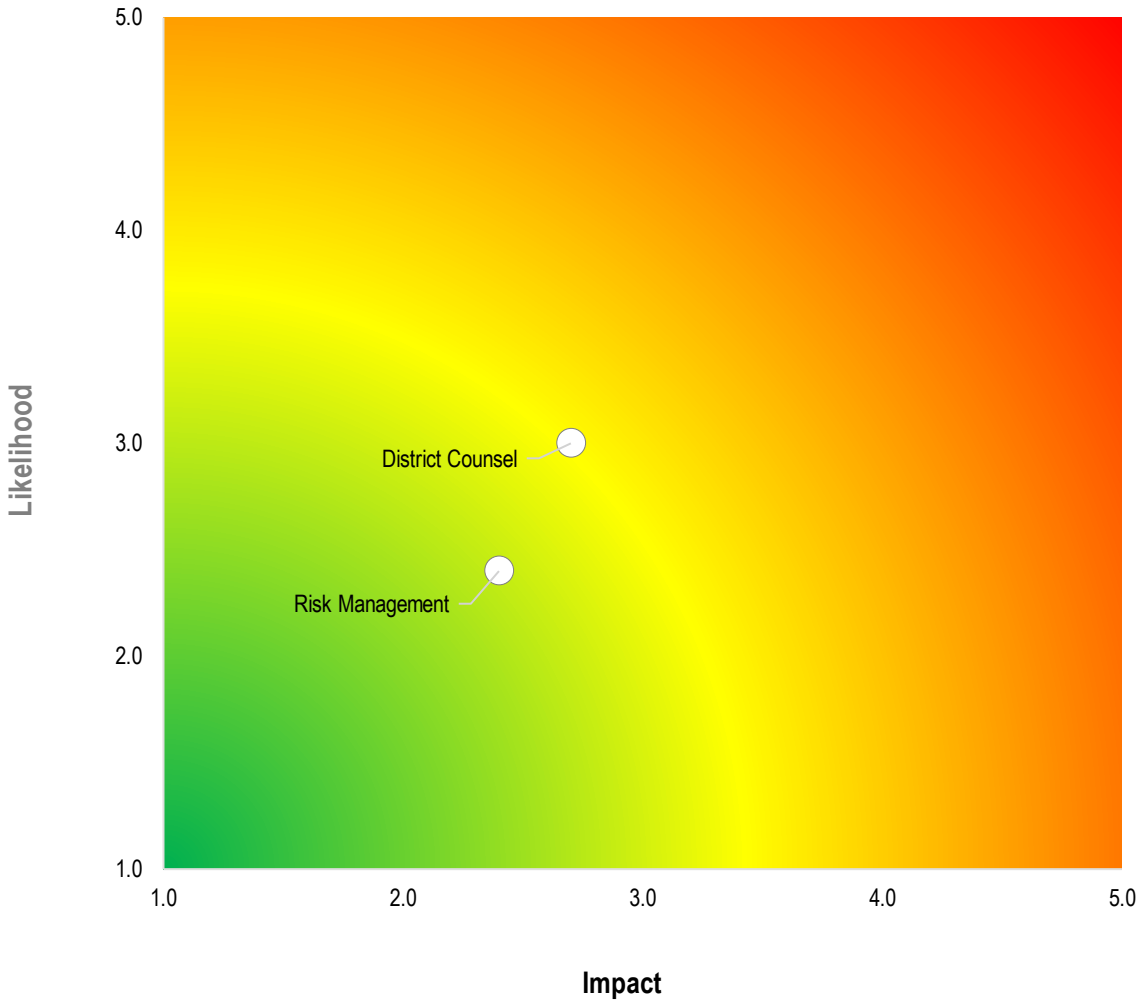
The Risk Management Unit at Valley Water is primarily tasked with identifying and evaluating loss exposures to protect the organization's assets. This involves overseeing the Workers' Compensation program and implementing risk retention (self-insurance) and risk transfer (insurance) programs to maximize cost-effective coverage and ensure compliance with Board Governance policies. Additionally, the division is vital in maintaining a proactive stance toward risk management within the organizational structure to mitigate inherent risks effectively.	**Budget**: $ 7,783,334 **FTE**: 3 **Inherent Risks**: Health and safety risks for employees and the public due to inadequate safety protocols; security risks, such as unauthorized access to facilities or sensitive information; adequacy of risk identification and assessment processes; the necessity for heightened compliance awareness, and the effectiveness of risk mitigation strategies; and the effectiveness of risk mitigation strategies.

Notably, a performance audit of the Office of the District Counsel was recently performed in 2020. It identified issues related to the frequency of communication, timeliness of services, and nonuniformity in service delivery; and it recommended implementing an updated operating model, enhancing policy and procedure development, utilizing tools like workflow management, service level agreements, performance management systems, and gathering multi-source feedback assessments to increase satisfaction.

Risk Summary

Overall, the Office of the District Counsel represents relatively low risk in terms of audit priority when compared to other Valley Water departments and programs, as illustrated in the risk ranking in Exhibit 11.

EXHIBIT 11. PROGRAM RISK RATING



Performance audit topics of the Office generally would not focus on the exercise of professional judgment or legal counsel, but would rather focus on the efficiency with which the Office manages resources. This could include internal business processes related to broader District responsibilities (such as risk management, contract review and processing, record retention and public records requests, etc.) and the Office's administration of legal services contracts.

The Office of District Counsel has recently undergone a performance audit, which examined the Office's operations, including Risk Management, suggesting it may be prudent to hold off on another audit of the Office for the immediate future. Nevertheless, this risk assessment revealed the following potential audit objectives:

1) Evaluate the Office's business processes and information systems to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.

2) Evaluate risk management practices, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace

health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

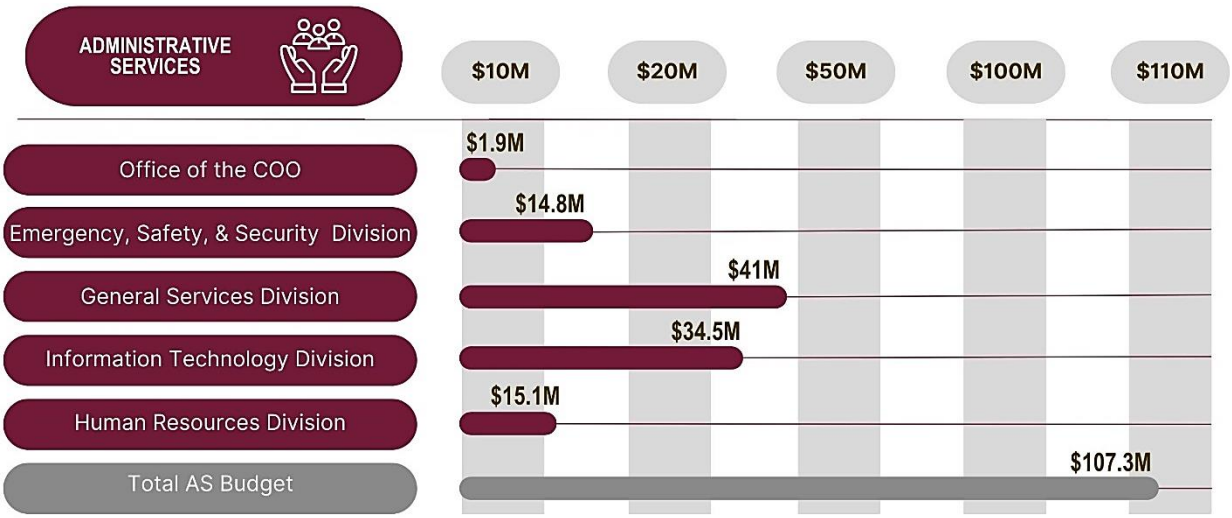
Administrative Services

With an approximate Fiscal Year 2023-24 budget of $107 million—representing approximately 10.96 percent of the District's overall budget—and 165 FTE positions, the Office of Administrative Services oversees the Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division. The primary roles of the Office of Administrative Services include supporting the mission of Valley Water—to provide Silicon Valley safe, clean water for a healthy life, environment, and economy—by providing essential business services for Valley Water.

In FY 2023, the Office of Administrative Services cites various accomplishments, including Labor Relations having completed Performance Improvement training for all Managers; the Office of Emergency Services having conducted the Annual Winter Preparedness Workshop with external stakeholders; the Environmental, Health & Safety Services continued and completed multiple facility fall protection engineering projects from the previous fiscal year; the Security Office developed a Security Drone Program; the Construction Contracts and Support Unit from the General Services Division completed the advertisement, bidding, and award of nine capital projects; the IT Division completed the 2019 IT Strategic Plan; and the HR Division updated recruitment and selection processes to incorporate new trends and tools to ensure that it has the ability to recruit a highly qualified and diverse workforce which provided management support for the operational work of the departments.

Directed by a Chief Operating Officer, the Office of Administrative Services is organized into four divisions: Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division—each of which includes distinct functional units that carry out the work of the division. Exhibit 12 provides a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

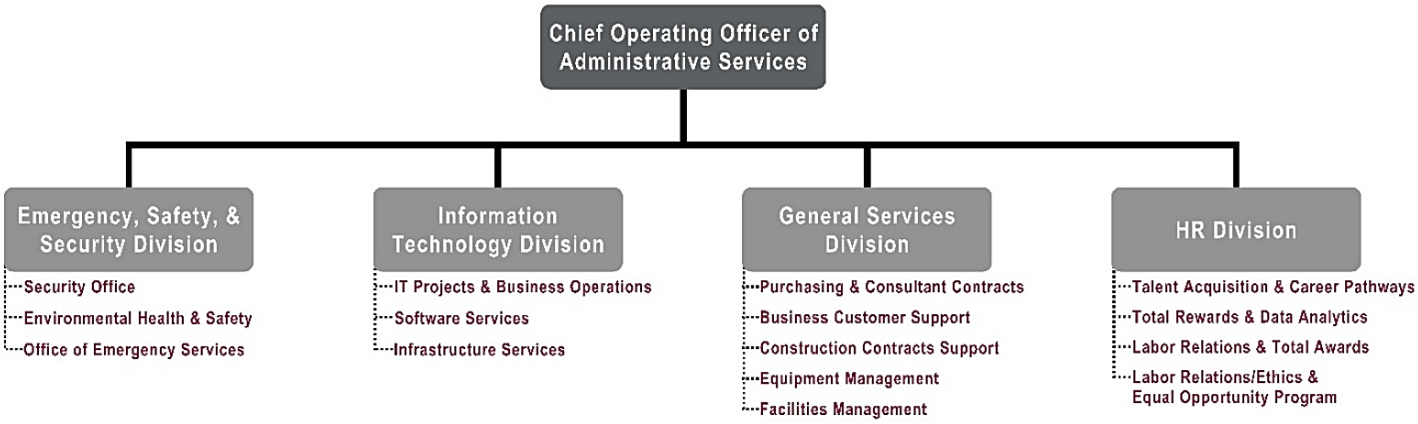
EXHIBIT 12. BUDGET BREAKDOWN BY DIVISION



Source: Fiscal Year 2023-24 & FY 2024-25 Operating and Capital Rolling Biennial Budget

The Office of Administrative Services allocates functional responsibilities to each of the five areas as depicted in Exhibit 13.

EXHIBIT 13. ADMINISTRATIVE SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of Administrative Services plays a crucial role in supporting the mission of Valley Water, which is to provide safe, clean water for a healthy life, environment, and economy throughout Silicon Valley. This office is responsible for delivering essential business services to ensure the efficient functioning of the organization. The office oversees multiple units and divisions, including the Emergency, Safety, & Security Division, the General Services Division, the Information Technology Division, and the Human Resources Division. These highly specialized and distinct functions under the umbrella of Administrative Services demonstrates the office's importance and impact on Valley Water's operations and capital programs.

Inherent risks associated with the Office of Administrative Services include the complexity of the responsibilities and functions within the Office; operational risks associated with the efficient execution of critical support functions which could impact the core operations of the District; impacts on employee satisfaction, morale, and productivity; health and safety risks related to safety programs; information technology and cybersecurity risks; and procurement and vendor management risks. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF THE CHIEF OPERATING OFFICER OF ADMINISTRATIVE SERVICES

The Office of the Chief Operating Officer (COO) of Administrative Services oversees the General Services division, Human Resources division, Information Technology division, Emergency, Safety & Security division, and Labor Relations department. The COO leads and manages the AS to achieve the Board's Ends Goals and Objectives. This includes providing Administrative Services to leadership, staff, and funding to fulfill the essential functions and responsibilities of the Office. In general, the Office provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting District-wide and special events/efforts that benefit the whole organization.	**Budget:** $1,860,646 **FTE:** 3 **Inherent Risks:** Complexity of the Office's diverse administrative responsibilities, the general operational efficiency of managing a broad and diverse span of control, and strategic risks related to the implementation of organizational goals and objectives.

EMERGENCY, SAFETY, & SECURITY DIVISION

The Emergency, Safety and Security Division includes the Office of Emergency Services (OES), Environmental Health and Safety Unit (EH&S), and the Security Office (SO). The Division provides a safe and secure environment for Valley Water infrastructure, staff, and facilities, while maintaining a level of preparedness to respond to unplanned incidents and events.	**Budget:** $ 14,840,573 **FTE:** 19 **Inherent Risks:** Health and safety risks for employees and the public; security risks, such as unauthorized access to facilities or other physical assets.

Security Office

The Security Office was allocated a Fiscal Year 2023-24 budget of $ 7,238,321 for a total of five (5) FTE. This office provides risk-based security capabilities through a preparedness cycle encompassing analysis, development, planning, and verification. Its role involves safeguarding critical infrastructure and personnel against various threats, including terrorism and vandalism, using a guard force, patrols, remote monitoring, and a Security Operations Center. However, it's important to note that the Security Staff and Guard Force do not possess law enforcement powers and are not equipped with firearms, which limits their ability to respond to potential high-order threats effectively. Despite facing challenges relating to the sufficiency of the security office's infrastructure, such as an outdated CCTV and access control system and dealing with

issues related to the unhoused population, the SO serves as a crucial liaison between Valley Water and law enforcement agencies.

Environmental Health & Safety

The Environmental Health & Safety Unit performs a wide range of activities including:

- Workplace Health and Safety, including environmental, health and safety written program development and maintenance, technical and behavioral safety training, incident investigation services, ergonomic evaluations and corrective measures, contractor safety program evaluation, safety inspection and audit services and support, hazard analysis and risk prevention services, fall protection surveys and fall hazard mitigation, OSHA compliance oversight and monitoring, Department of Transportation driver safety program, alcohol and drug abuse prevention and testing services, and industrial hygiene services.

- Hazardous materials management, including storage and disposal management; electronic waste and recycling compliance and annual report submittal; underground and above ground storage tank inspections and permitting; Hazardous Materials Business Plans development and submittal; environmental regulatory facilities permit management; 24/7 hazardous materials emergency response capabilities; Spill Prevention, Control, and Countermeasure Program, which is designed to help prevent the discharge of oil into the water supply; and the California Accidental Release Program, which aims to prevent the accidental release of hazardous substances that could harm the public; among other programs.

- Additionally, the Environmental, Health and Safety Unit responds to requests from customers for specific health and safety services consultation and program assistance to ensure that Valley Water's health and safety programs are functional and sustainable. It also acts as Valley Water's liaison with applicable regulatory agencies when required.

Key inherent risks associated with these roles and responsibilities relate to the health and safety of the public and Valley Water employees, ensuring regulatory compliance regarding the management and control of hazardous substances as well as potential discharge affecting ground and surface water, and managing costs associated with regulatory permit fees, hazardous waste disposal fees, regulatory training costs, and supplies and equipment.

Office of Emergency Services

The Office of Emergency Services Unit is responsible for ensuring comprehensive, integrated, risk-based, emergency management for the personnel and critical infrastructure of Valley Water. Emergency Services manages the Valley Water Emergency Operations Plan, the Business Continuity Program, the FEMA-approved Local Hazard Mitigation Plan, and the development of Stream/Flood Emergency Action Plans. The program is also responsible for maintaining inter-agency relationships, Multi-Agency Coordination systems, Mutual Aid and Emergency Assistance Agreements, managing a Training and Exercise Plan that meets Standardized Emergency Management System (SEMS) and National Incident Management System

(NIMS) requirements, managing a dedicated Emergency Operations Center, and promoting California Office of Emergency Services (CalOES) professional credentialing.

Ultimately, risks associated with the effectiveness of emergency response units are dependent on the extent to which they adhere to best and leading practices in preparing for, responding to, and mitigating the effects of emergencies. This includes mitigating delays in emergency response coordination and communication, adequacy of emergency response plans for water supply interruptions, and ensuring compliance with state and federal emergency management regulations. It also includes seeking accreditation through the Emergency Management Accreditation Program and ensuring adequate emergency and temporary staffing levels to avoid delays and cost overruns.

Information Technology Division	
Provides management oversight, leadership and strategic support for Information Technology Infrastructure, Information Security Services, and Software Services, to ensure operational effectiveness and fiscal accountability. The Information Technology Division serves the technology needs of Valley Water. The division delivers and maintains key information technology services that meet current and future needs of Valley Water. The division also provides oversight of effectiveness, efficiency, and implementation of major Information Technology initiatives.	**Budget:** $ 34,798,353 **FTE:** 39 **Inherent Risks:** Maintaining cost-efficiency and compliance; improper use of data; the internet of things (IoT) vulnerability; system failures; cybersecurity; reliability and functionality of systems and applications; ensuring proper controls over sensitive assets and data; effective disaster recovery; risks, including data breaches and cyber-attacks; ensuring infrastructure is designed to meet current and future needs of employees, customers, and the public. Staffing challenges arise from both limited human resources and a significant burden of technical debt, primarily driven by the necessity to support legacy, outdated, and redundant applications. These challenges are further compounded by the extensive overlap among various projects, highlighting the critical requirement for centralized IT governance and project approval processes.

Information Technology Projects & Business Operations

The Information Technology Projects and Business Operations Unit is responsible for project management, strategic planning and alignment, complex analysis, program development, compliance, policy development, budget, and reporting and financial planning. It ensures innovative technologies are effectively utilized across the organization; prioritizes and sequences technology projects; and leads, plans, oversees and participates in the more complex and difficult work of staff responsible for providing administrative, human resources, financial, and compliance support to the Information Technology division.

With these roles and responsibilities, the inherent risks include risks associated with Information Technology project management, including scope creep and budget overruns; data breaches or cyberattacks that could compromise sensitive customer and operational data; business continuity planning and disaster recovery for IT systems.

Software Services

The Software Services Unit develops (where appropriate), supports, and maintains Valley Water's business applications. These include Valley Water's Enterprise Resources Planning (ERP) system (Infor), work and asset management system (Maximo), project management system (ProjectMates), resource management system (Vemo), geographic information system (GIS), in-house applications, and the Valley Water's internet and intranet, among many other enterprise-wide or limited use systems.

With these roles and responsibilities, the inherent risks include risks related to software development and customization for critical water management systems; software vulnerabilities and patch management; and ensuring software compliance with regulatory standards.

Infrastructure Services

The Infrastructure Services Unit is responsible for implementing and maintaining the network and data-center infrastructure, cybersecurity posture, telephone systems, communications systems, tablets, workstations, and connectivity (e.g., servers, networks, WIFI, etc.). This unit maintains a help desk and serves as the first point of contact for staff to report issues; troubleshoots, resolves issues, and escalates more significant concerns; and supports Audio/Visual needs enterprise-wide, including the Board Room.

With these roles and responsibilities, the inherent risks include cybersecurity, both with respect to Valley Water's own infrastructure and the many independent cloud-based solutions currently employed by the District. It also includes risks related to the maintenance and security of critical IT infrastructure; system downtime and its impact on water supply and customer service; and infrastructure scalability to accommodate growth and changing technology needs.

General Services Division	
The General Services Division is responsible for purchasing of goods and consultant services, construction contract award and compliance, facility and fleet management, business support, and warehouse services in support of Valley Water's mission and operational needs.	**Budget:** $ 40,994,675 **FTE:** 71 **Inherent Risks:** Procurement and vendor management risks, including procurement fraud and conflicts of interest.; inventory and asset management risks, including misplacement or loss of assets; ensuring competitive and transparent bidding processes; vendor performance and contract compliance; delays and cost overruns in construction projects; quality control and safety risks in construction; compliance with safety standards for equipment operation; maintenance and safety risks related to district facilities; and energy management and sustainability initiatives.

Purchasing & Consulting Contracts Services Unit

The Purchasing & Consulting Contracts Services Unit provides strategic and technical sourcing for the purchase and acquisition of all goods, services, consulting services and contracts; manages the competitive solicitations for all procurements, including goods and general services, as well as professional

services; and provides guidance related to contract administration and support. As part of this responsibility, General Services also manages Valley Water's Small and Local Business Enterprise Program, which conducts outreach for consultant contracts to tap into the community for small and local business opportunities.

With these roles and responsibilities, the inherent risks include ensuring the availability of efficient and effective procurement and contracting vehicles to meet the needs of Valley Water programs; ensuring the most competitive price for high-quality goods or services, transparency in purchasing decisions, and compliance with relevant laws and regulations; ensuring proper segregation of duties between purchasing and accounts payable functions; ensuring compliance with requirements related to supplier diversity while promoting opportunities for small and local businesses; and avoiding potential conflicts of interest and other forms of fraud, waste, or abuse.

Construction Contracts Support Unit

The Construction Contracts Support Unit is responsible for the development and solicitation of Valley Water's construction contracts, which are typically structured as design-bid-build contracts; providing analytical support for both Water Utility Enterprise and Watershed capital projects; assisting with status reporting related to the contracts; and ensuring labor compliance of construction contractors during construction. With these roles and responsibilities, the inherent risks include potential inefficiencies or delays in contracting that could lead to project delays, the potential that contract language could fail to provide a sound basis for controlling costs or otherwise protecting the interests of the District, and the potential the contract vehicles available to the District are not sufficient to meet Valley Water's needs.

Notably, a Contract Change Order Audit was recently performed in 2019. It identified change order management and administration activities for extremely large capital construction projects as areas of risk and recommended various improvements, including requiring Independent Cost Estimates, establishing a separate advisory body for change order approval, enhancing constructability reviews, centralizing procurement activities, and developing a Resource Services Office (RSO) to support project and construction managers and promote uniform implementation of change order management across all capital projects.

Equipment Management Unit

The Equipment Management Unit is responsible for procuring, maintaining, and managing a fleet of passenger and utility vehicles for use by Valley Water employees; maintaining an inventory of Class IV equipment (construction materials such as fortification and barrier materials), handheld equipment, and other non-information technology tools and assets used by the Water Utility and Watershed operations. Inherent risks include maintaining adequate internal controls over vehicle and maintenance assets; ensuring competitive procurement for all assets; and ensuring an effective preventive maintenance program; and controlling all assets in a manner that prevents theft or misuse.

Facilities Management Unit

The Facilities Management Unit seeks to provide a safe and well-maintained work environment in all facilities owned by Valley Water, apart from water utility facilities. This includes providing customer service

and core maintenance functions such as building repairs, heating, ventilation, air conditioning, plumbing, electrical, life safety, elevator services, and janitorial services. Inherent risks associated with this responsibility include maintaining facilities in a responsive, timely, and cost-effective manner; controlling high-risk assets (tools, equipment, etc.); energy management and sustainability initiatives; workforce safety; managing cost increases stemming from emergency repairs, as well as controlling costs to ensure allowability and avoid cost over-runs; and maintaining an asset inventory system that is up-to-date and reflects reasonably accurate condition assessments of facilities sufficient to enable an effective preventive maintenance program. Like many facilities maintenance programs, deferred maintenance remains a concern.

Business Customer Support & Warehouse Unit

The Business Customer Support & Warehouse Unit provides operational support including staffing the public counter and managing cashiering operations, the switchboard, mail delivery, reprographic, word processing and forms, and inventory control services. It also serves as the central receiving and distribution point for the organization and manages the central stores / warehouse operation as well as distributed storage locations. With these roles and responsibilities, the inherent risks include risks related to customer service; inventory management and control, including the prevention of theft or misuse of Valley Water assets; and timely and accurate fulfillment of customer requests.

Human Resources Division

The Human Resources Division is responsible for planning, managing, directing, and coordinating the staff and operations to provide Valley Water assistance in the areas of human resources. The Division includes four (4) functional units and eight (8) distinct programs. Human Resources is responsible for strategic planning; identifying workforce requirements needed to achieve goals; analyzing trends with data analytics; ensuring compliance with local, state, and federal regulation; administrative responsibilities (e.g., employee benefits, employee records); employee development; creating an inclusive work culture that thrives on a diverse workforce; succession planning; and maintaining and updating Human Resource policies that comply with the law and meet organizational goals.	**Budget:** $ 15,038,569 **FTE:** 31 **Inherent Risks:** Effectively recruiting, developing, and retaining a talented workforce that meets Valley Water's needs today and in the future; promoting a culture that fosters a work environment conducive to Valley Water's mission and a safe and healthy work environment; and ensuring compliance with employment laws and regulations.

HR Business Services Unit

The HR Business Services Unit is responsible for updating Human Resource policies, procedures and quality assurance/quality control documents that are currently outdated and will provide dedicated recruitment sourcing services through targeted outreach, developing outreach lists for each classification, and utilizing software solutions to expand recruitment efforts. With these roles and responsibilities, the inherent risks include risks related to HR administration and record-keeping; compliance with labor laws and regulations; and data security and privacy of HR information.

Labor Relations / Ethics & Equal Opportunity Program

The Labor Relations / Ethics & Equal Opportunity Program (EEO) Unit promotes a proactive and positive labor relations program, in compliance with legal mandates, negotiated agreements, and constructive

management principles. Labor Relations represents Valley Water management in all matters involving matters covered under collective bargaining agreements and employee relations involving represented employees. Labor Relations negotiates, interprets, applies, and enforces contracts and regulations, and acts as a resource in the areas of administrative policies and procedures. This program also interprets memoranda of understanding (MOU's) and bargain with labor representatives; conducts EEO investigations; and ensures alignment with ethics. With these roles and responsibilities, the inherent risks include labor relations risks, including labor dissatisfaction, disputes or strikes; ethical concerns and conflicts of interest; ensuring equal opportunity; and compliance risks concerning adherence to labor laws and regulations.

Total Rewards & Data Analytics Unit

The Total Rewards & Data Analytics Unit provides recommendations utilizing multiple data types, business knowledge, and strategic assumptions in addition to data-generated resources to produce decision-making. With these roles and responsibilities, the inherent risks include risks related to employee compensation and benefits; data security and privacy in compensation data; and compliance with reporting requirements.

Benefits & Wellness Program

The Benefits & Wellness Program is responsible for the administration of employee and retiree benefit plans, conducting new hire orientations and separations, processing payroll and HR transactions, and administration of the award-winning Wellness Program (includes fitness reimbursement, ongoing employee education on overall various health initiatives, annual wellbeing fair, lunch and learns, employee rewards, etc.). With these roles and responsibilities, the inherent risks include risks related to employee health and wellness initiatives; benefits administration and compliance with healthcare regulations; and program effectiveness in promoting employee well-being.

HRIS Administration & Data Analytics Program

The HRIS Administration & Data Analytics Program utilizes a Human Resources Information System to record, store, and manage employee data such as payroll, benefits, performance reviews, and training records. With these roles and responsibilities, the inherent risks include risks related to HR information systems, including data security; data analytics accuracy and compliance with privacy regulations; availability and reliability of HR data for decision-making.

Classification & Compensation Program

The Classification & Compensation Program conducts classification reviews, pay practices, salary surveys, annual equity reviews, and the development of incentive programs. With these roles and responsibilities, the inherent risks include risks related to job classification and compensation structures; compliance with wage and hour laws; and ensuring equitable compensation practices.

Talent Acquisition

Within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for recruiting and developing Valley Water's workforce. This includes administering all recruitment and examination activities for Valley Water positions; facilitating the selection and hiring processes designed to fill vacant positions;

leading and directing internship programs designed to introduce individuals to the work of Valley Water, which may lead to future employees; administering the temporary staffing program; and partnering with community organizations and colleges for workforce planning.

Inherent risks associated with this responsibility is the potential for unsuccessful talent acquisition and management resulting in a District workforce that does not meet the needs of Valley Water, its customers, or the public; unfair interviewing, selection, or hiring practices or favoritism, diminishing District goals related to diversity, equity, and inclusion; diversity in hiring and promotion; compensation levels that are insufficient to attract, retain, and motivate a talented and qualified workforce; a classification system that fails to facilitate the hiring of entry-level positions and the development of the District's future leaders; and the potential that background check practices fail to indicate problematic histories of candidates.

Workforce Development Program

Also, within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for facilitating the development of Valley Water's future workforce. Its Workforce Development Program helps to guide employees' into the future by administering workforce development and succession planning, developing long-term recruitment strategies within the community, providing technical and non-technical training programs, assessing the needs of Valley Water employees and career goals, identifying current and future business needs, promoting professional development, administering the District's performance evaluation program, and administering wellness activities and events. This Unit is also responsible for developing and administering the NextGen Program, which seeks to develop the next generation of water professionals, the Career and Technical Education (CTE) program, and a roadmap to connect high school and college students to future career goals.

With these responsibilities, inherent risks include consistency in training among divisions; coordination of work-specific or technical training provided by divisions and general workplace training (e.g., supervision, leadership development, skills enhancement, and mandatory training programs) provided by Human Resources to ensure an effective holistic workforce development program; resistance to change; and the potential for misalignment between workforce development and succession plans and Valley Water's strategic goals and objectives.

Risk Summary

Based on this assessment, we find that all key programs and divisions within Administrative Services represent moderate- to high-risk. Districtwide, management expressed general satisfaction with the District's information systems and other business areas within Administrative Services, but also noted opportunities for improvement. Program areas throughout Valley Water depend on Administrative Services in nearly everything they do—recruiting staff to perform critical work, procuring goods and services needed to perform critical tasks, managing the physical assets needed to maintain Valley Water's infrastructure, providing the information systems needed to facilitate and support staff's work, etc. The transactional nature of much of Administrative Services' work, its control of significant physical assets, and its role in procuring goods and services (and expending District monies), all contribute to risk rating that warrant performance audit resources. In Exhibit 14, we illustrate the relative risk ratings of Administrative Service's operating divisions.

EXHIBIT 14. PROGRAM RISK RATINGS

This risk assessment revealed the following potential audits and objectives:

1) Information technology is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
    a. Cybersecurity and network hygiene;
    b. Data management protocols;
    c. Customer service efficiency;
    d. Disaster recovery planning;
    e. Cost-effectiveness of operations, including contracting and purchasing; and
    f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.
2) Determine whether the District's human resources management activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should

include key elements of human resources management, such as policies and procedures related to and its administration of the following:

a. Hiring and recruiting;

b. Classification and compensation;

c. Employee recordkeeping;

d. Human Resources Information System functionality and system controls;

e. Employee relations and performance management;

f. Benefits administration;

g. Workplace investigations;

h. Professional and workforce development, training, and succession planning;

i. State and federal compliance.

3) The administration of compensation practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.

4) Cashiering processes, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.

5) Valley Water's facilities maintenance program, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.

6) Valley Water's equipment management program, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.

7) The overall efficiency of the Emergency, Safety, & Security Division, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements.

8) Warehouse operations, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.

9) The practices of the Business Customer Support program, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.

10) Procurement activities, including General Services' practices relating to the following:

   a. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

   b. Proper segregation of duties with accounts payable functions and operational activities;

   c. Consistency with best practices;

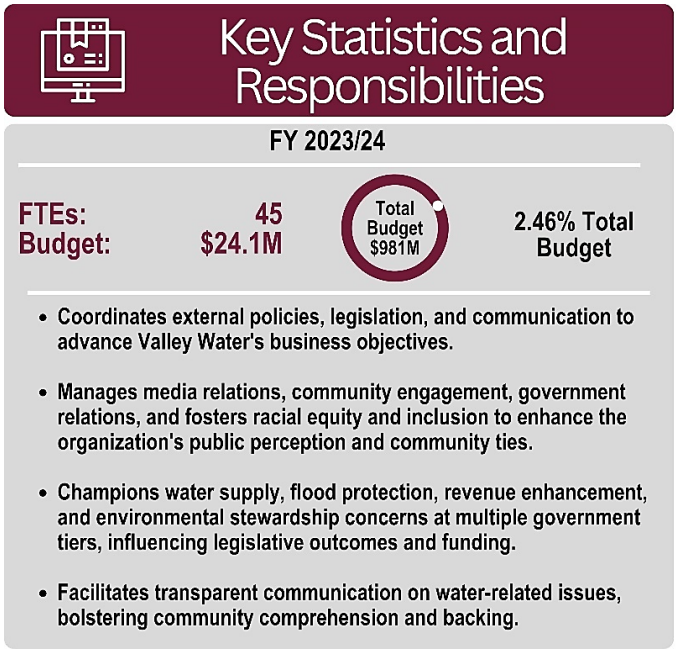
   d. Efficiency in executing procurements in a manner that meets districtwide needs;

   e. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

   f. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

   g. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs



With an approximate budget for the Fiscal Year 2023-24 year of $ 24.1 million—representing 2.46 percent of the District's overall budget—and 45 FTE positions, External Affairs is managed by a Chief Operating Officer who reports directly to the Chief Executive Officer. External Affairs is responsible for overseeing and coordinating strategic external affairs initiatives, encompassing the Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion.

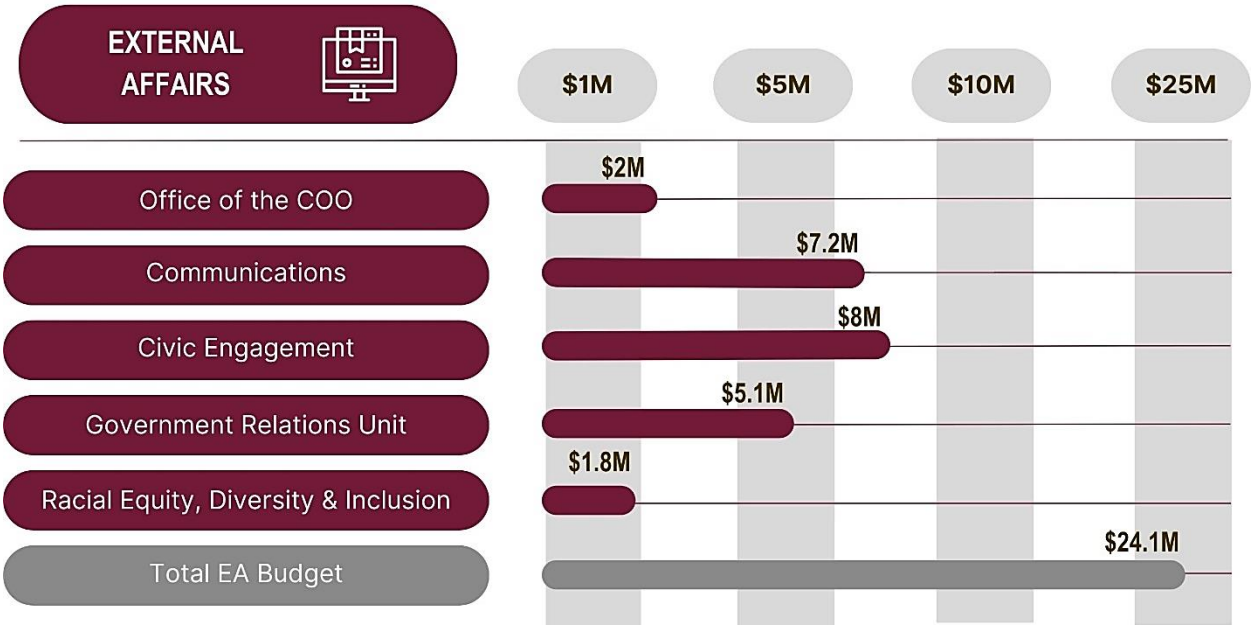
The primary roles of External Affairs include actively planning, integrating, and executing external policies, legislation, and communication efforts to address Valley Water's business interests, encompassing media relations, community engagement, government relations, and the promotion of racial equity and inclusion.

In Fiscal Year 2023, External Affairs cites various accomplishments, including welcoming employees' return to in-person work through over 25 employee resource group-led events, including lectures, cultural celebrations, volunteering, and networking events. Employees enjoyed these opportunities to reconnect with peers after COVID-19. Over 1,100 participants attended these events through Q3; launched two new pilot DEI capacity-building trainings: Conscious Conversations and Uncovering Racism; and adopted first-

time resolutions acknowledging: Filipino American History Month (October), German American Heritage Month (October), Italian American Heritage Month (October), Polish American Heritage Month (October), International Holocaust Remembrance Day (January), Lunar New Year (February) and Genocide Remembrance Day (April).

External Affairs is organized into five units: The Office of the Chief Operating Officer of External Affairs, Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion. Exhibit 15 provides a breakdown of each unit's budgeted expenses for Fiscal Year 2023-24.

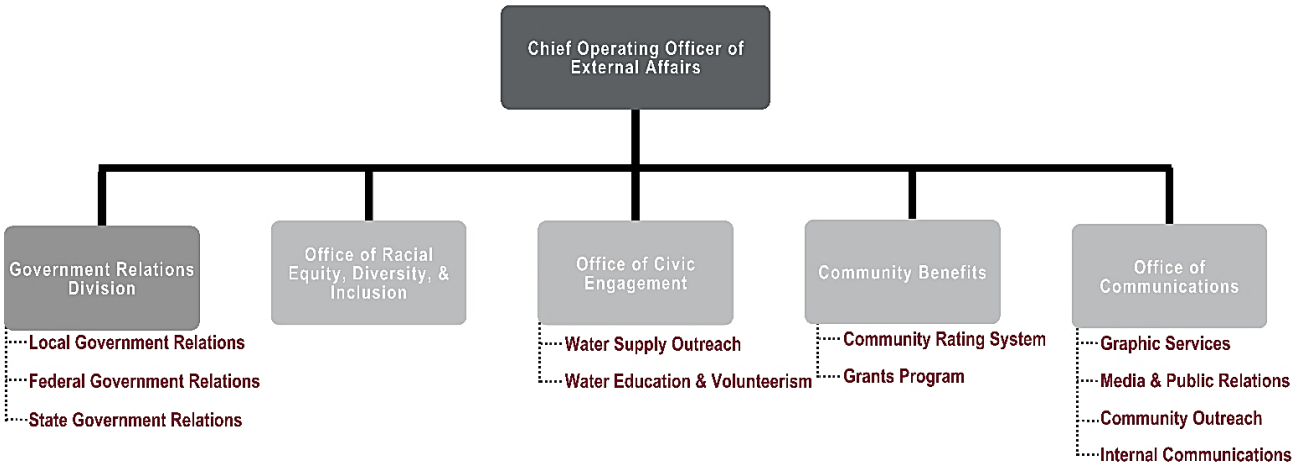
EXHIBIT 15. BUDGET BREAKDOWN BY UNIT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

External Affairs allocates functional responsibilities to each of the five areas as depicted in Exhibit 16.

EXHIBIT 16. OFFICE OF EXTERNAL AFFAIRS ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of External Affairs is vital to Valley Water's strategic operations, overseeing and coordinating various external affairs initiatives. External Affairs comprises units such as Communication, Civic Engagement, and Racial Equity, Diversity, and Inclusion, as well as the division of Government Relations. Its primary role involves strategic planning and integration of external policies, legislation, and communication efforts to address Valley Water's business interests, including media relations, community engagement, government relations, and promoting equity and inclusion.

Integrating diverse units, such as Communication, Civic Engagement, Government Relations, and Racial Equity, Diversity, and Inclusion, reflects the District's commitment to fostering inclusivity, promoting equity, and addressing community needs. However, the wide range of functions within External Affairs may also pose challenges regarding coordination and resource allocation. Ensuring effective communication and collaboration among units can be complex, potentially leading to inefficiencies or overlapping efforts. Additionally, the Office of Racial Equity, Diversity, and Inclusion's success in promoting a diverse workforce and addressing environmental justice relies on the commitment and involvement of all stakeholders across the organization. Failure to prioritize equity initiatives could hinder progress and impact the District's reputation and social standing.

Inherent risks associated with the External Affairs include strategic risks related to the development and implementation of external affairs plans and initiatives; regulatory and compliance risks due to the changes in legislation and government policies, risks associated with insufficient progress in promoting diversity and inclusion within the District's operations; the effectiveness of civic engagement strategies in connecting with the community; and communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Operating Officer of External Affairs

External Affairs is responsible for programs that increase employee and community awareness and engagement on Valley Water programs, projects, and challenges. External Affairs provides the strategic planning and integration of external policies and legislation as it relates to the business interests of Valley Water and is responsible for managing Valley Water's relationships with the community, government officials, the media, and other key stakeholders. External Affairs is also responsible for managing racial equity, diversity, and inclusion efforts.	**Budget:** $ 1,993,349 **FTE:** 5 **Inherent Risks:** Strategic risks related to the development and implementation of external affairs plans and initiatives. Reputational risks arising from external affairs decisions that may be controversial or negatively perceived by stakeholders.

Office of Civic Engagement Unit

Through collaborations, educational initiatives, community service options, and grant programs, the Office of Civic Engagement (OCE) actively fosters connections with the community. Its primary aim is to establish a solid foundation of trust and support for Valley Water's objectives and mission. OCE is responsible for managing several key programs, including the Safe, Clean Water Grants & Partnerships Program, Public Art initiatives, Education Outreach efforts, the Water 101 Academy/Ambassadors Program, Creek Stewardship projects, Water Supply Outreach activities, and the Community Rating System. Additionally, OCE provides programmatic oversight and coordination for the Board Advisory Youth Commission and the Low-income Residential Water Rate Assistance Program.	**Budget:** $ 7,959,139 **FTE: 13** **Inherent Risks:** Strategic risks related to the effectiveness of civic engagement strategies, ensuring these strategies genuinely resonate with diverse community members, are crucial to maintaining public trust and credibility. Additionally, community engagement can be challenging, given the need to navigate potential conflicts and competing interests within local communities. OCE also faces risks associated with flood insurance ratings; failure to meet rating criteria could result in reduced discounts for flood insurance, affecting the community. Lastly, budget constraints may limit OCE's outreach and engagement efforts, necessitating effective resource management to fulfill its mission despite potential financial limitations.

Water Supply Outreach Program

The Water Supply Outreach Program focuses on raising public awareness about water supply issues, engaging with the community through events and programs, and building relationships with local governments. Challenges include effectively communicating complex water supply topics to diverse audiences and addressing potential resistance or misunderstandings.

Water Education & Volunteerism Program

The Water Education & Volunteerism Program is responsible for educational outreach programs and fostering community engagement through volunteer opportunities. Challenges involve maintaining sustained interest and participation in educational initiatives and coordinating volunteers effectively for various water-related projects.

Community Benefits Program

The Community Benefits Program works on initiatives to benefit local communities through projects, partnerships, and outreach efforts. Challenges may include balancing the diverse needs and expectations of different communities and ensuring equitable distribution of benefits.

Community Rating System Program

The Community Rating System Program manages efforts to raise community awareness about flood risks and encourages participation in the Community Rating System for potential flood insurance discounts. Challenges include maintaining effective communication channels among key stakeholders and the public, as well as promoting active participation.

Office of Government Relations Unit

The Office of Government Relations advocates at the local, regional, state, and federal levels to promote and advance the water supply, flood protection, revenue enhancement, and environmental stewardship interests of Valley Water and the residents of Santa Clara County, in alignment with the Board's legislative priorities. Government Relations serves as the internal and external connection for legislation, development of strategic support and opposition, and supplemental funding opportunities for Valley Water.	**Budget:** $ 5,118,321 **FTE:** 10 **Inherent Risks:** Regulatory and compliance risks due to changes in legislation and government policies. Advocacy risks associated with the representation of the District's interests to government entities.

Local Government Relations Program

The Local Government Relations Program focuses on fostering positive relationships with local government bodies to advocate for water-related projects and initiatives. Challenges may involve navigating competing interests and aligning district goals with local priorities.

Federal Government Relations Program

The Federal Government Relations Program advocates for federal funding and support for district projects, managing relationships with federal agencies and legislators. Challenges include coordinating efforts at the federal level and addressing regulatory hurdles.

State Governmental Relations Unit

The State Governmental Relations Unit is responsible for advocating for district interests at the state level, securing funding and permissions for projects. Challenges include managing relationships with state officials and navigating the complexities of legislative processes.

Racial Equity, Diversity, and Inclusion Unit

The Office of REDI serves to strengthen and expand Valley Water's ability to deliver innovative services through the development, implementation, and oversight of policies to advance equity, diversity, and inclusion (DEI) efforts. Through collaborations with internal stakeholders, REDI works to help attract, retain, and promote a diverse and talented workforce. REDI also helps to promote environmental justice externally to all the communities Valley Water serves, and fosters engagement with local tribal communities. REDI initiates DEI training efforts and hosts cultural speaker engagements to increase staff awareness of underserved communities. REDI also serves to guide and support the work of Valley Water's Employee Resource Groups, of which memberships to a chartered Valley Water ERG is free and open to all employees	**Budget:** $ 1,757,075 **FTE:** 4 **Inherent Risks:** Risks associated with insufficient progress in promoting diversity and inclusion within the District's operations. Reputational risks if the unit's efforts are perceived as insincere or inadequate by stakeholders.

The Racial Equity, Diversity, and Inclusion Unit was established in Fiscal Year 2020-21 to provide expertise and leadership in the areas of employee relations, employee engagement, diversity and inclusion, and

workplace culture—and to do so from a perspective dominated by the principles of diversity, equity, and inclusion. Since it was established, the role of the Unit has evolved from an internal focus on DEI initiatives to a more externally focused equity assurance effort, guided by the Strategic Master Plan and Equity Action Plans. Key challenges include continuing to refine the unit's role respective to the District as a whole.

Office of Communications Unit	
The Office of Communications informs, engages, and educates the community, including Valley Water employees, on water conservation, water supply and quality, flood protection and environmental stream stewardship efforts. Communications provides timely responses to media inquiries on relevant topics. Through social media platforms, marketing campaigns and public relations efforts, Communications highlights the work of Valley Water and its Board of Directors.	**Budget:** $ 7,274,122 **FTE:** 15 **Inherent Risks:** Communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Crisis communication risks if the District faces reputational challenges or public incidents.

Graphic Services

The Graphic Services Program handles visual design and collateral creation for various departments, ensuring consistent branding and effective communication. Challenges may involve managing design requests from different teams and delivering high-quality materials within tight deadlines.

Media & Public Relations

The Media & Public Relations Program is responsible for managing the District's media presence, responding to press inquiries, and promoting district initiatives. Challenges include maintaining a positive public image and effectively addressing media inquiries during crisis situations.

Community Outreach

The Community Outreach Program engages with the community through various programs and initiatives to raise awareness about water-related issues and encourage participation. Challenges include sustaining community interest and involvement over time.

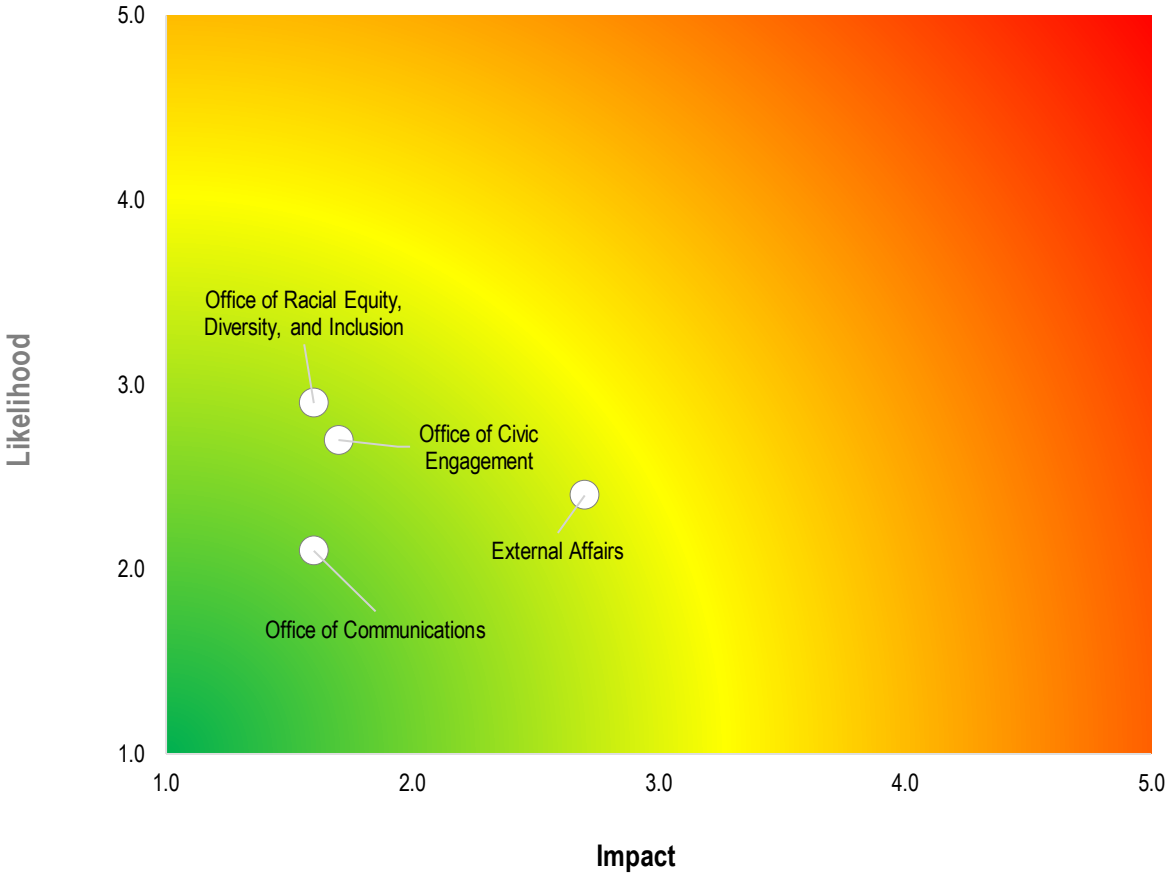
Internal Communications

The Internal Communications Program is responsible for communication within the organization, including employee engagement, events, and surveys. Challenges involve ensuring transparent and effective communication across different departments and addressing employee concerns and feedback.

Risk Summary

The Office of External Affairs has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, External Affairs is in many ways the public face of Valley Water. Because of this, the potential benefits of a performance audit of External Affairs are likely to be in assessing the overall efficiency and effectiveness of the Office's day-to-day operations. In Exhibit 17, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 17. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audit objective:

1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of Financial Planning and Management Services

With an approximate Fiscal Year 2023-24 budget of $98.5 million—representing 9.6 percent of the District's overall budget—and 47 FTE positions, the Office of Financial Planning and Management Services (Finance) is managed by Valley Water's Chief Financial Officer. Finance executes, records, and/or reconciles all financial transactions of the District (including the collection, receipt, disbursement and accounting of all monies received in accordance with Generally Accepted Accounting Principles), provides analyses and recommendations on decisions brought forth by operations, prepares and develops financial statements and other financial programs, manages and invests cash assets of the District, issues and manages debt instruments, prepares and manages the District's budget, conducts financial analysis and forecasting, coordinates all external and internal audits, establishes controls that minimize financial risks, and drives organizational change through a robust continuous improvement program. Finance staff also

serve as the primary advisors to the Chief Executive Officer and the Board of Directors in financial planning and advice.

In Fiscal Year 2023, Finance cites various accomplishments, including having delivered the PERS/OPEB update to the Board on March 14, 2023; presented 30-year forecast to the Board on March 28, 2023, per Board request; and established a repository for Board and management directed audits conducted in the past 10 years. Prior audit work has also noted generally sound revenue forecasting models, which serve as a basis for determining resources available for planned operating and capital expenditures.

Key Statistics and Responsibilities

FY 2023/24

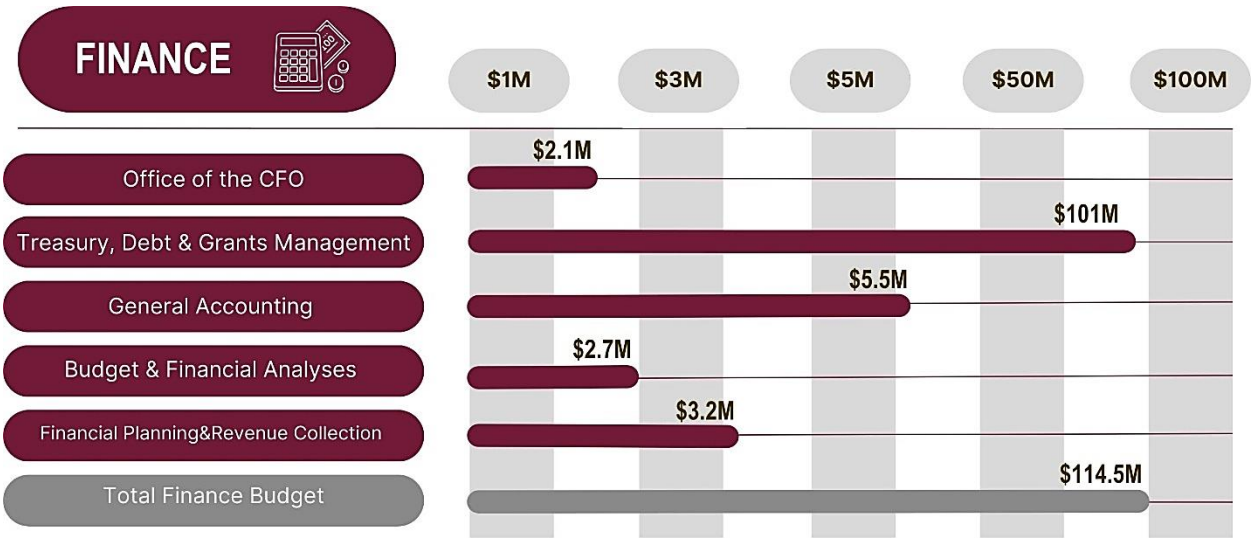
FTEs: 47
Budget: $114.5M

11.67% Total Budget

- **Manages financial transactions, accounting, cash assets, debt, and budgeting while advising executive leadership.**
- **Oversees treasury, debt, and grants, ensuring compliance and efficient financial operations.**
- **Prepares long-term financial plans, collects revenue, and forecasts for financial sustainability.**

Finance is organized into five units: the Office of the Chief Financial Officer; Treasury, Debt, & Grants Management Unit; General Accounting Unit; Budget & Financial Analyses Unit; and the Financial Planning and Revenue Collection Unit. Exhibit 18 below is a breakdown of each divisions budgeted expenses for Fiscal Year 2023-24.

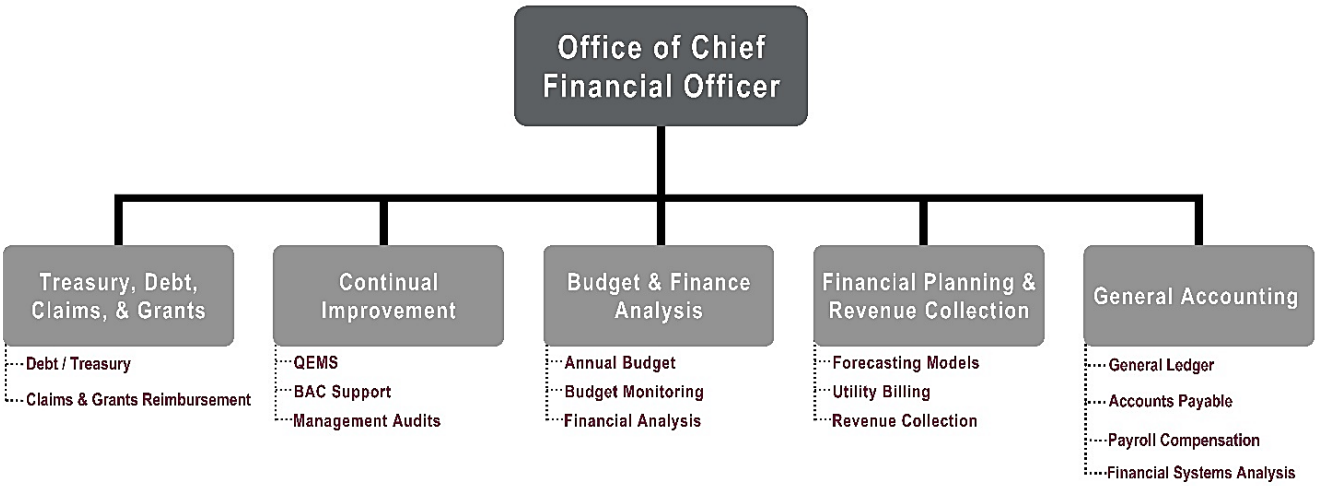
EXHIBIT 18. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Finance allocates functional responsibilities to each of the five units as depicted in Exhibit 19 below.

EXHIBIT 19. FINANCIAL PLANNING & MANAGEMENT SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Further, recent legislation AB 939 impacts the District's financing options, particularly concerning the use of ad valorem taxes or assessments to pay for bonds, altering the method for paying the principal, interest, and premiums for bonds. It also removes the previous $8,000,000 limit on borrowing and extends a provision related to director compensation.

Risk Analysis

Finance has a relatively low level of funding and FTEs as compared to other departments, but is responsible for a significantly high level of cash or other high-risk assets such as revenue collection from various sources, significant cash and debt management responsibilities, and federal and state grant management. Most of the divisions within Finance perform functions that are common subjects of internal and external audit activities: grant management, accounting, cash receipts and disbursements and reconciliations, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. As is typical in many local governments, Finance is subject to annual external audits, which focus on accounting functions and general financial-related internal controls and has been historically subject to a variety of internal audits over the years.

Inherent risks associated with Finance include ensuring investment policies are fiscally sound and in line with best practices for ensuring compliance with debt and investment policies and asset allocation; engaging in effective cash management practices; complying with grants and increasing grant footprint; preventing and detecting theft; and considering the impact of cashiering operations on general accounting functions. Below, we present the key divisions/programs administered by Finance, the core responsibilities of each, and key factors contributing to the programs' risk rating.

Office of the Chief Financial Officer

Serves as a partner to assist other departments in achieving their objectives. Facilitates necessary financial transactions, provides analyses and recommendations on decisions brought forth by operations, establishes controls that minimize financial risks, and drives change or improvements in business processes or practices in order to improve productivity.	**Budget:** $ 2,097,214 **FTE:** 4 **Inherent Risks:** Financial sustainability of Valley Water; regulatory compliance; the ability to prevent and detect potential fraud, waste, and abuse, or other misuses of Valley Water assets; and effectively providing reliable and transparent financial analyses to management, the Board, and the public.

Treasury, Debt, Claims, & Grants Unit

Oversees Districtwide treasury operations, debt financing, and grants programs. This involves managing an $82 million annual debt service budget, and producing required reports for bond covenants and regulatory compliance. Comprising three sections—Treasury, Debt, and Grants—the unit supervises bank accounts, investments, supports small banks, manages short-term and long-term debt, and streamlines compliance and claims processes for improved efficiency.	**Budget:** $ 101,057,917 **FTE:** 9 **Inherent Risks:** Liquidity risk in managing debt obligations; credit risk associated with debt issuers; compliance risks in managing claims and grants disbursements; potential that investment practices could exceed the bounds of Board-established investment policies; potential for fraud or misuse of grant funds; delays in reimbursement from external grantors.

Debt/Treasury

The Treasury Unit Handles short-term and long-term debt management, including commercial paper programs and revenue-supported long-term projects. It also oversees treasury tasks such as bank account management, investments, cash management, and supporting small banks through Certificate of Deposit purchases. Inherent risks of the Debt/Treasury Services include interest rate, liquidity, credit, and other risks similar to other public sector treasury functions—and compliance with Board-adopted investment policies.

Claims & Grants Reimbursement

The Claims & Grants Unit is responsible for ensuring compliance and efficient processing of claims and grant reimbursements. This includes managing the coordination of claims, overseeing follow-ups, and streamlining the grant application and reimbursement processes. Inherent risks include ensuring compliance with grant requirements relating to timely grant disbursements, allowable uses grant funds, and potential delays in reimbursement from external grantors. To mitigate these risks, Finance is establishing a new division specializing in grant management to better coordinate and streamline the grant application, reporting, and receipting process.

General Accounting Unit

General Accounting includes the responsibility to manage the general ledger, accounts payable, payroll, and Valley Water's enterprise financial system, Infor. General ledger responsibilities generally include all accounting and financial reporting requirements, in accordance with professional standards, and the reconciliation of all accounts. Accounts payable is charged with processing payments to Valley Water's contractors, consultants, vendors, and staff expense claims, as well as administering petty cash and filing payment documents. Payroll processes the bi-weekly payroll for all Valley Water employees, employee benefits accounting, payroll tax withholdings, and submission of Federal and State reporting requirements. Financial Systems provide for the maintenance and security of payroll, benefits, human resources, and financial applications.	**Budget:** $5,487,444 **FTE:** 19 **Inherent Risks:** High magnitude of financial exposure, including compliance with financial reporting requirements; the ability to provide efficient or effective support of financial support functions; compliance with grants and increasing grant footprint; integrity and effectiveness of internal controls related to fiscal transactions of all types; inefficient or inaccurate payroll processes resulting from reported system limitations of Infor; the potential for fraud, waste, and abuse; and integration issues with other financial systems.

General Ledger

The General Ledger Unit administers all accounting responsibilities for Valley Water, the recording and reconciling of financial transactions; processing payroll, accounts payable, and journal entries; preparing financial statements; coordinating Valley Water's annual financial audit; and managing the Infor system. Inherent risks primarily relate to the potential for inaccuracies in financial records and the potential for fraud, waste, and abuse.

Accounts Payable

The Accounts Payable Unit handles check runs, reviews all expenditures for proper authorization and prior approval, processes incoming requests for payments, manages payment schedules, and maintains accurate financial records while ensuring compliance with approval processes. Inherent risks in accounts payable activities include ensuring the integrity of internal controls over the use and expenditure of District financial resources to prevent and/or detect any potential inappropriate or unauthorized expenditure. This could include the potential for inadvertent or intentional duplicate or erroneous payments, vendor fraud and invoice manipulation, inadequate documentation for expenditures, or the potential for fraud, waste, or abuse.

Payroll Compensation

The Payroll Compensation Unit is responsible for payroll processing, including W-2s and other tax filings. The unit works closely with Human Resources to ensure accurate and timely compensation for employees. Inherent risks include payroll processing errors resulting from erroneous employee timekeeping, erroneous recordkeeping by Human Resources, inappropriate application of compensation rules as set forth in collective bargaining agreements or Valley Water policies (e.g., policies related to overtime or differential pay), or Infor system limitations. Most recently, concerns have been raised regarding the functionality of Infor in processing payroll, which has led to substantial manual processes by this Unit to ensure accurate and timely payroll. As a general rule, the infusion of substantial manual processes into what is normally a highly reliable and automated function introduces the potential for human error and increases the risk of payroll inaccuracies as well as fraud, waste, and abuse.

Financial Systems Analysis

The Financial Systems Analysis Unit works behind the scenes to manage and optimize the financial system, Infor, to ensure data accuracy, perform analyses, generate standard and ad hoc financial reports, and to address system-related challenges. Inherent risks associated with this function relate to maintaining effective segregation of duties (including system access and restrictive user profiles), ensuring the optimal efficiency of the system to enable financial staff to carry out their duties in an effective and efficient manner, and the potential for system failures or data integration problems.

Continual Improvement Unit

Through Valley Water's Quality and Environmental Management System, the Continual Improvement team plays a crucial role in strengthening the CEO's leadership and offering vital support to the Board. This involves conducting audits as directed by the CEO and providing the Board with regular updates on the status of its continual improvement efforts.	**Budget:** $782,804 **FTE**: 3 **Inherent Risks:** In general, there are not substantial risks associated with continuous improvement programs, at least as they relate to an organization's core operations, because such programs tend to be independent of such programs. However, several factors can impede continuous improvement efforts within organizations, including a lack of independence or objectivity in facilitating improvement efforts, the need to balance potential improvement initiatives with the costs of such initiatives, the potential for continuous improvement processes to become rigid and burdensome, and the potential for change fatigue.

Budget and Finance Analysis Unit

This Unit manages the preparation of the annual operating budget, including Districtwide collaboration on funding strategies, developing, and executing the Annual Budget publication, assisting with the development of the five-year Capital Improvement Plan, maintaining multi-year financial models, forecasting and monitoring revenues and expenditures throughout the fiscal year, and coordinating with program and project managers throughout the year to provide budget and finance analyses on an ongoing basis.	**Budget:** $ 2,700,568 **FTE:** 8 **Inherent Risks:** Projected growth in operating and capital expenditures, related debt, and overall sustainability; reliability of financial models and forecasts; reasonably accurate budget-to-actual monitoring and reporting; effectiveness of the Valley Water budget as a planning tool and as a basis for performance measurement; and efficiency of the biannual budgetary process.

Financial Planning & Revenue Collection Unit

Financial Planning prepares and manages long term financial plans and forecasts and drives the groundwater production charge setting process. This Unit is responsible for preparing detailed financial plans and forecasting models that both management and the Board rely upon to make long-term planning decisions regarding Valley Water's infrastructure.

Revenue Collection collects water revenue, property tax revenue, and benefit assessments for Valley Water. Water revenue is comprised of charges for groundwater, recycled, surface, and treated water usage. This includes billing and collection processes for various entities, including treated and groundwater retailers, water utility customers, loan owners, and surface water users. Property taxes and benefit assessments collected are the voter-approved Safe Clean Water Special Tax, Flood Control Benefit Assessment, State Water Project levy, and the allocated share of countywide 1% ad valorem property tax receipts.

Budget: $ 3,177,720 **FTE:** 7

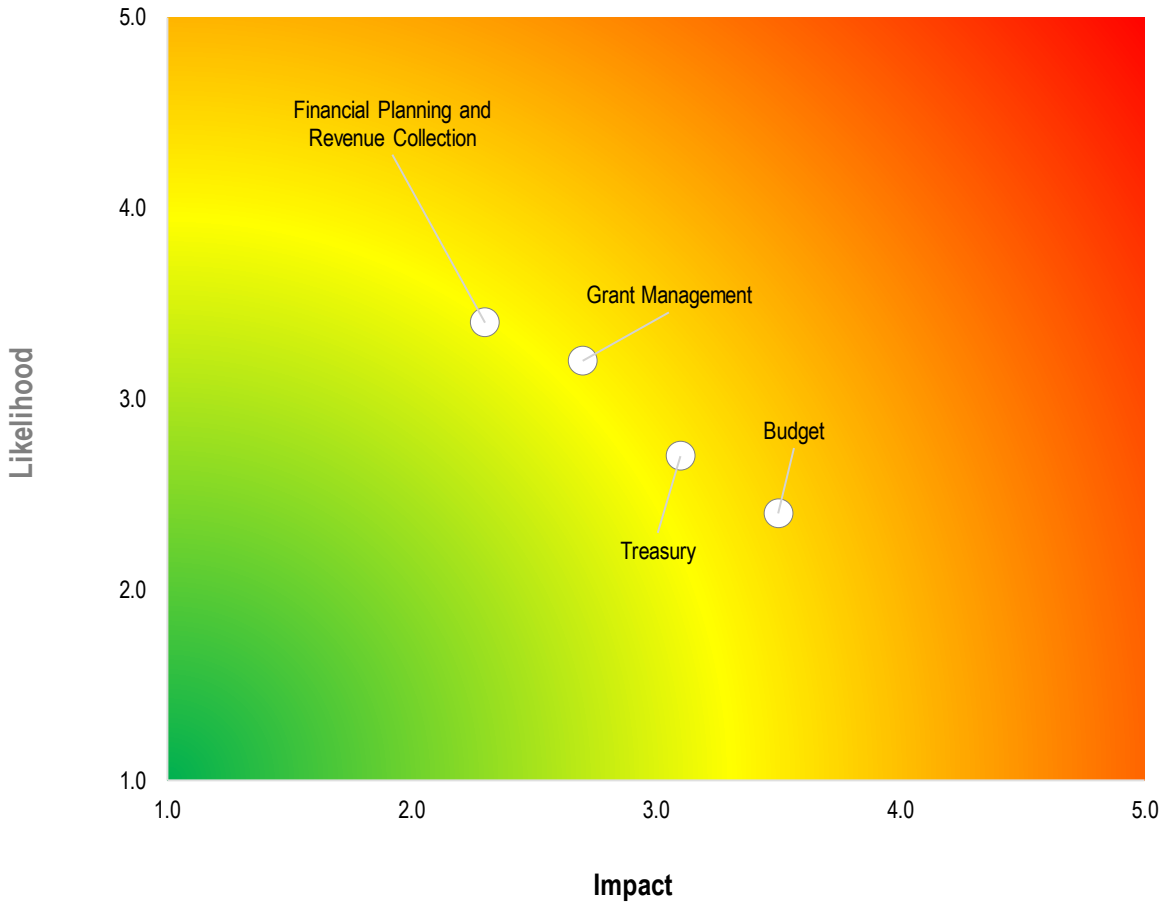
Inherent Risks: The potential, in an environment affected by the Covid pandemic and climate change, that revenue forecasting will become increasing complex and challenging; changes in water demand affecting revenue projections; sustainability given the potential for substantial increases in capital project costs, and limitations on certain revenue streams; and balancing the need for rate adjustments with community and board expectations.

Risks also include the potential that primarily manual and self-reported customer billing processes could lead to errors or otherwise under-collected fees; revenue leakage due to inaccurate metering or billing; collection difficulties for overdue accounts; risk of non-payment or late payment by customers; and the potential for fraud, waste, and abuse.

Risk Summary

Most of the divisions in Finance perform functions that are common subjects of internal and external audit activities: financial analysis, revenue forecasting, accounts payable, accounts receivable, cash management, account reconciliations and accounting practices, grant management, cash investments, cash handling, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. Nevertheless, given the transactional nature of Finance and the significant responsibility of Finance in managing Valley Water's fiscal assets, much of the operational activities of Finance remains at the moderate-risk level. With these key factors in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

Exhibit 20. Program Risk Ratings



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

1) Grant management activities, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.
2) Treasury operations, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.
3) Budget processes, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.
4) The efficiency and effectiveness of system integration between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

5) The Completeness of policies and procedures, including how they are maintained, updated, made available and communicated to all relevant parties.

6) Accounts receivable, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.

7) Financial analysis and forecasting practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

8) Payroll and compensation practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

Office of Integrated Water Management

With an approximate Fiscal Year 2023-24 budget of $783 million—representing 75.8 percent of the District's overall budget—and 619 FTE positions with Operations, the Office of Integrated Water Management (Integrated Water) is managed by the Office of the Assistant Chief Executive Officer (ACEO). The ACEO directly oversees Valley Water's Watersheds and Water Utility Enterprise business areas, which are primarily responsible for achieving Valley Water's primary goals—that is, to:

1) To achieve a reliable water supply;
2) Improve flood protection; and
3) Ensure healthy and resilient ecosystems.

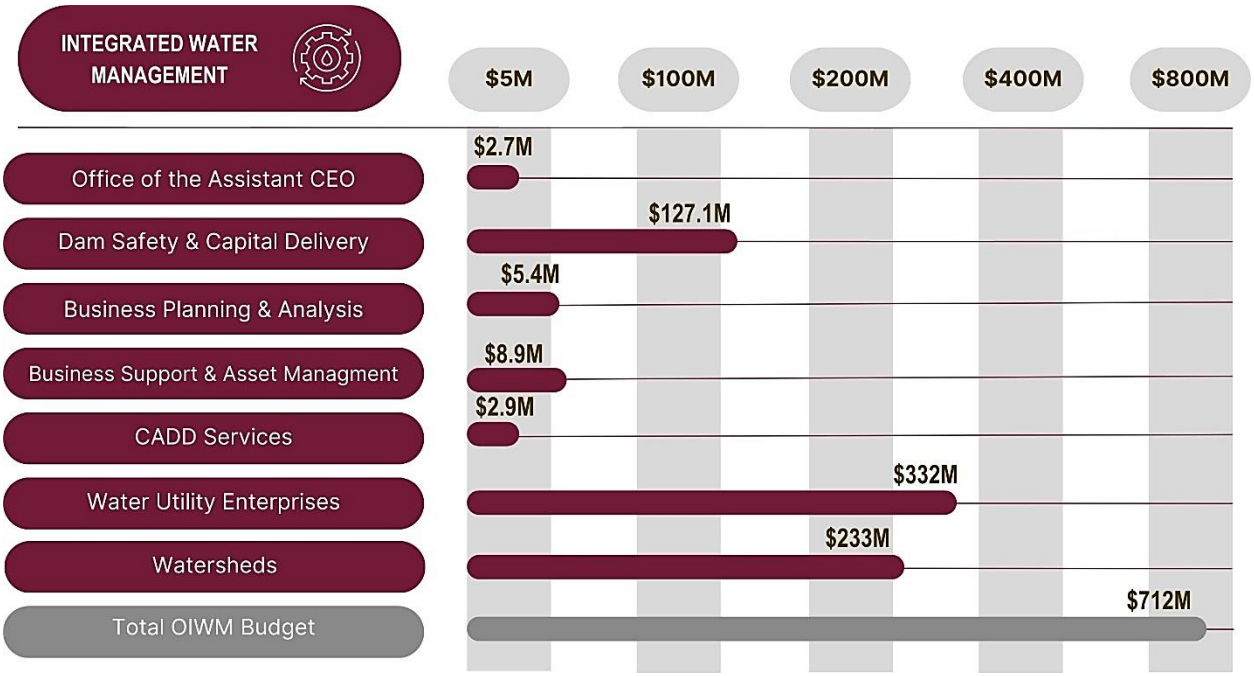
The Office of Integrated Water Management provides focused leadership to ensure a cohesive working relationship between its two major business areas—Watersheds and Water Utility Enterprises—and several cross-functional units, all with the aim of achieving the Board's Ends Policies and goals.

In Fiscal Year 2023-24, Integrated Water reported numerous accomplishments across various business areas. This includes developing the Funding Filters for Prioritization, a tool that aided the Board in making decisions regarding capital project funding; analyzing and prioritizing over 15 creeks for the Safe, Clean Water Project; completing 295 Computer-Aided Design (CADD) requests, nearly 50 percent more than was completed in Fiscal Year 2022-23; maintaining 64.85 acres of mitigation sites; implementing a new project

management software solution for use by the Capital Improvement Program (CIP) and capital project delivery teams; initiating numerous process improvements in conjunction with the recent completion of a performance audit of the CIP process; and, most importantly, meeting or exceeding drinking water standards, ensuring that all treated water delivered to customers surpassed all applicable primary drinking water requirements.

Integrated Water is organized into two primary business areas and several smaller units that support these two business areas. Specifically, Integrated Water includes Valley Water's Watersheds and Water Utility Enterprise business areas, as well as several units that support Valley Water's capital infrastructure development: the Business Planning & Analysis Unit, CADD Unit, Business Support & Asset Management Unit, and the Dam Safety & Capital Delivery Division. Exhibit 21 below is a breakdown of the budget appropriations to each program area for Fiscal Year 2023-24.

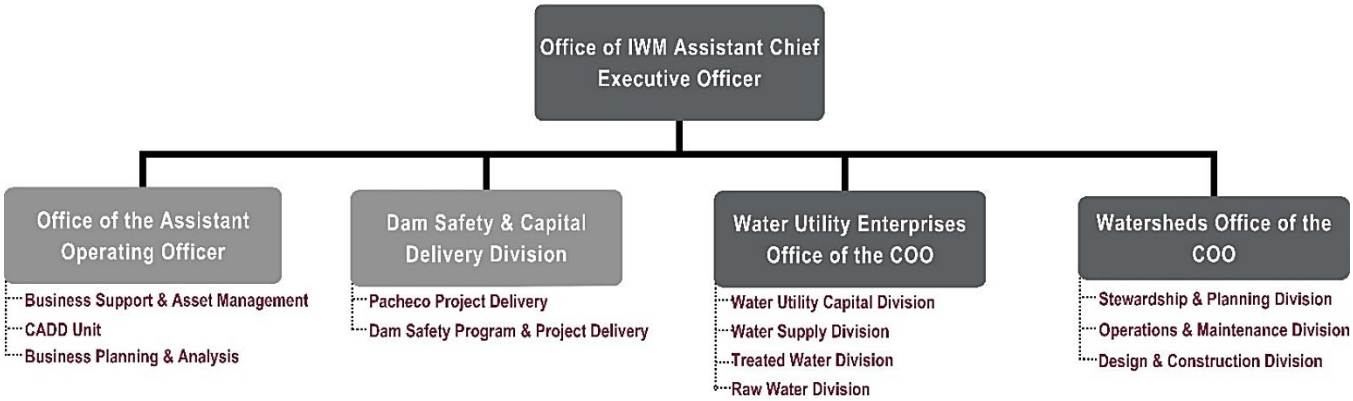
EXHIBIT 21. BUDGET BREAKDOWN BY BUSINESS AREA / UNIT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The organizational structure of Integrated Water is depicted in Exhibit 22.

EXHIBIT 22. OFFICE OF INTEGRATED WATER MANAGEMENT DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

Integrated Water plays a pivotal role in managing, safeguarding, and enhancing the region's water resources and infrastructure. It encompasses a wide range of divisions, units, and programs, each with its unique roles and responsibilities. However, this diversity also brings about a complex web of inherent risks that demand careful assessment and mitigation strategies to ensure Valley Water's continued success in its mission. Below, we present the key business areas, divisions, and units administered by Integrated Water, the core responsibilities of each, and key factors contributing to its programs' risk rating.

OFFICE OF ASSISTANT CHIEF EXECUTIVE OFFICER	
The Office of the Assistant Chief Executive Officer leads and manages the Office of Integrated Water Management and facilitates coordination between the Watersheds and Water Utility business areas to achieve the Board's Ends Policies and goals. This Office provides managerial support to ensure Valley Water's projects and programs are achieved in an efficient and effective manner.	**Budget:** $ 2,704,478 **FTE:** 4 **Inherent Risks:** Challenges related to financial planning and program implementation, the planning and execution of capital projects, the maintenance of existing infrastructure assets, compliance with regulatory requirements, and the efficient operation of both Watersheds and Water Utility programs.

BUSINESS SUPPORT & ASSET MANAGEMENT UNIT

The Business Support and Asset Management Unit implements and continually improves asset management standards and information systems based on industry best practices. The unit manages Valley Water's water utility, watershed, and administration asset management programs, and supports the users of Valley Water's Computerized Maintenance Management System (CMMS), Maximo. In addition, the unit manages three Water Utility infrastructure master planning projects: The Water Treatment Plant, SCADA System, and Distribution System Master Plan Implementation Projects. The unit also manages a Safe, Clean Water project, F-8: Sustainable Creek Infrastructure for Continued Public Safety.

Budget: $ 8,924,059 **FTE:** 11

Inherent Risks: Facilitating efficient and effective asset management by ensuring accurate and reliable records of all District infrastructure assets, the condition of all assets, and a reliable plan to maintain all assets to optimize useful life.

CADD UNIT

The CADD Services unit is responsible for producing engineering drafting and design work, plan production standards, and managing computer-aided design (CAD) software in support of Valley Water's water resources facilities, flood management, pipeline infrastructure, and watershed management facilities. The unit develops in-house project design drawings for construction. Services include creating 2D and 3D designs that combine information from different departments such as Survey, GIS, Right-of-Way, and Engineering. Additionally, the unit maintains current CADD Standards for Contractors and Engineers, assists in the quality control of all project drawings for construction, and verifies that CADD Record As-built drawings are completed per Valley Water standards for future project work.

Budget: $ 2,891,420 **FTE:** 9

Inherent Risks: If the CADD Services unit fails to produce plans or review the CADD work produced by consultants and contractors in a manner consistent with Valley Water's plan production standards, it could affect the delivery and accuracy of construction and future maintenance efforts, and unnecessarily increase the cost of future capital projects, specifically during the planning phases.

BUSINESS PLANNING & ANALYSIS UNIT

The Business Planning and Analysis unit manages, plans, and oversees four major Valley Water-wide programs. This unit is responsible for Valley Water's implementation of the Five-Year planning process for the Capital Improvement Program (CIP); Capital Project Management and Project Controls (CPMPC) Program; the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program); and the District Lands Management Program, which was designed to establish and maintain a centralized framework to integrate the management of maintenance obligations on Valley Water-owned lands and easements, as well as those made through contractual commitments.

Budget: $ 5,459,489 **FTE:** 12

Inherent Risks: The cost-effective planning, analysis, and reporting related to a wide range of District capital projects; the ability to coordinate with a large number of divisions and units within Integrated Water, Finance, and Administrative Services to ensure accurate reporting and analysis; and the ability to ensure adequate administration of special funded programs to demonstrate that funds were expended in a manner compliant with program requirements.

Capital Improvement Program

The Capital Improvement Program (CIP) serves as the steward of Valley Water's capital funding requirements for projects spanning Fiscal Year 2023/24 through Fiscal Year 2027/28. It plays a crucial role in documenting planned initiatives and aligning Valley Water's planning with the community. This program oversees various infrastructure projects totaling $9.52 billion, with an estimated $1.3 billion in external funding through partnerships and reimbursements. Additionally, the CIP requires the accurate management of financial records. Inherent risks associated with CIP programs include financial uncertainty due to reliance on external funding, potential project delays, the reliability of resources to meet project demands, the availability of project financing, and ensuring CIP plans are achievable—all of which could result in capital project costs that exceed District plans, raising sustainability questions.

Safe, Clean Water and Natural Flood Protection Program

The Safe, Clean Water and Natural Flood Protection Program, approved through Measure S in 2020, allocates $47 million annually for six core priorities: ensuring a safe water supply, reducing waterway toxins, protecting against natural disasters, restoring habitats, providing flood protection, and supporting public health. It operates with oversight from an Independent Monitoring Committee and mandatory audits to assess cost-efficient outcomes.

Notably, a Safe, Clean Water Program Grant Management Audit was recently performed in 2020 that identified delays in grant agreement execution, reimbursement processing, and extensive reporting requirements, along with staffing challenges, prompting recommendations for tailored guidelines, mandatory orientation, streamlined reporting, customized grant requirements, integrity checks, feedback solicitation, goal setting, an operations manual, and potential job assignment reconfiguration to enhance the District's grants management program. Beyond the risks identified by the recent audit, inherent risks include substantially increasing capital project costs, effective project management and delivery protocols, and compliance with Program requirements.

District Lands Management

The District Lands Management Program handles Santa Clara Valley Water District property matters. This includes acquiring properties needed for current and future district projects and programs, establishing clear lands rights and obligations associated with all District real estate, establishing wildfire resiliency plans and policies, and establishing policies and plans for the long-term use of Valley Water properties.

Before projects commence, the program ensures that some properties are leased at fair market rates to external parties. When District purposes require the use of a leased property, the program provides appropriate termination notices as mandated by law to make the property available for District use. Additionally, the program may oversee public auctions to sell District properties. To prevent conflicts of interest, it strictly prohibits leasing District real property to District employees, Board members, or immediate family members. Individuals can contact designated personnel for inquiries about the property leasing program or surplus properties.

Further, recent legislation AB 1469 impacted the District Lands Management Program, which grants the district the authority to take actions in consultation with local entities to assist unsheltered people living within the District's jurisdiction and establishes specific rules for surplus land disposal in such cases.

Inherent risks associated with the District Lands Management Program encompass strategic planning as it relates to the Program's activities, and compliance with conflict-of-interest policies, and potential legal and regulatory obstacles in managing property acquisitions, leases, and sales, which may lead to delays or complications. The program also faces public scrutiny regarding property disposition decisions and must consider the financial implications of property transactions, including revenues from leases or sales. Managing land rights, obligations, and properties, particularly concerning wildfire resilience planning and policy development, is an ongoing risk, and the associated risk assessments can have implications for communities and real estate transactions. Effectively mitigating these risks requires strict adherence to legal requirements, transparent decision-making processes, and proactive measures to address disputes and ensure compliance in the responsible management of District lands.

Capital Project Management & Project Controls Program

Capital Project Management & Project Controls Program is responsible for facilitating integration and configurations of ProjectMates with other systems—Okta, Vena, and Infor—or with a customized training of ProjectMates for project teams and management. The Program is also responsible for delivering the biennial training of workflows related to the Capital Improvement Program (CIP) and Quality and Environmental Management System (QEMS) policies and procedures, as well as maintaining transparent communication through circulating a Quarterly Office of Integrated Water Management Newsletter. Inherent risks include risks associated with the planning and execution of capital projects, including budget control and adherence to project timelines, and the need to strike a balance between internal controls (as defined in QEMS) and efficient project management.

DAM SAFETY & CAPITAL DELIVERY DIVISION

The Dam Safety and Capital Delivery Division is responsible for planning, implementation, and management of the portion of Valley Water's 5-year Capital Improvement Program (CIP) associated with dam construction and maintenance. This Division consists of two units—the Pacheco Project Delivery Unit and the Dam Safety Program Project Delivery Unit—which are responsible for capital project delivery and maintenance of Valley Water's dams. The Division was moved under the Office of Integrated Water Management in Fiscal Year 2020-21 from the Water Utility Enterprise business area, but Water Utility continues to operate and control the assets.	**Budget:** $ 127,068,630 **FTE:** 21 **Inherent Risks:** Cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; significant deferred maintenance and workorder backlogs; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards, and operational risks related to project execution; and completing projects on-time and within budget.

Pacheco Project Delivery

The Pacheco Project Delivery Unit is responsible for managing the Pacheco Reservoir Expansion Project. This includes overseeing the expansion of Pacheco Reservoir to increase emergency water supplies, improve water quality, and provide ecosystem benefits to the region and the Sacramento-San Joaquin Delta. The unit collaborates with project partners, including San Benito County Water District and Pacheco Pass Water District, to secure funding and ensure successful project delivery. Their role involves project planning, environmental assessments, permitting, and coordination with state and federal regulators. The Pacheco Project is part of Valley Water's efforts to increase overall water supply but faces numerous challenges, including environmental, legal, and financial challenges, as well as project delays. One such challenge relates to compliance with the California Environmental Quality Act (CEQA), which has led to project delays. To be viable, Valley Water must secure sufficient funding, address legal concerns, and navigate regulatory requirements before construction and overall project delivery can be considered.

Dam Safety Program & Project Delivery

The Dam Safety Program & Project Delivery Unit focuses on ensuring the safety and reliability of the water District's 10 major dams. The Unit conducts periodic special engineering studies, surveillance and monitoring, dam inspections and maintenance, and emergency response and preparedness to safeguard the public from potential dam failures. This unit works closely with regulatory authorities and emergency response partners to meet dam safety goals. Inherent risks include the potential for dam safety issues, such as unexpected dam failures or structural problems, which can have catastrophic consequences. Environmental factors, including climate change and seismic activity, can also pose risks to dam safety. Ensuring a cost-effective maintenance program is essential, including assessing the condition of each asset, ensuring all preventative maintenance, and avoiding the deferral of required maintenance.

WATER UTILITY ENTERPRISES BUSINESS AREA

The Water Utility Enterprise (Water Utility) is primarily responsible for carrying out the core services related to the Board's Ends Policy 2; that is, to provide a reliable, safe, and affordable water supply for current and future generations in all communities served. Directed by a Chief Operating Officer (COO), Water Utility is comprised of four divisions, each of which includes functional units that carry out the work of the division and the enterprise.

The Office of the Chief Operating Officer, Water Utility, oversees the Water Utility Capital, Water Supply, Raw Water, and Treated Water divisions. The Office of the COO was allocated a budget of $2,208,942 for a total of three (3) FTE. The COO provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting district-wide and special events/efforts that benefit the whole organization.

Budget: $ 332,304,101 **FTE:** 308

Inherent Risks: Inherent risks include the potential that Valley Water's infrastructure could fail, impacting the quantity or quality of water available for Valley Water customers.

While providing high-quality drinking water to Valley Water customers is regulated by county and state agencies, the delivery and maintenance of the capital infrastructure required to do so is not. Because of this, risks include cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; the potential for deferred maintenance and workorder backlogs; managing consultants and contractors control costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards; and completing projects on-time and within budget.

WATER UTILITY CAPITAL DIVISION

The Water Utility Capital Division oversees the planning, management, and execution of crucial capital projects related to water infrastructure. This Division's responsibilities include project management and design, construction oversight, asset management, financial planning, environmental compliance, and community engagement. It is responsible for ensuring the efficient operation of water treatment plants, pipelines, and pumping stations, playing a vital role in delivering safe and clean water to the community. This includes managing and designing capital projects, providing districtwide construction management and inspection services, and implementing asset management programs to optimize asset performance and minimize maintenance costs. Additionally, the Division is tasked with navigating complex environmental regulations, obtaining permits, and engaging with the community to address concerns and obtain necessary approvals.	**Budget:** $ 86,604,273 **FTE:** 68 **Inherent Risks:** Capital project delivery responsibilities are carried out by several divisions within Valley Water—Dam Safety, Watersheds, and Water Utility. The inherent risks remain the same for each: cost-effective contract, construction, and project management; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks; and operational risks related to project execution and the ability to complete projects on-time and within budget. Further, the Division provides construction management and inspection services to all capital project delivery units, creating the potential that interdepartmental silos could create an impediment to efficient project delivery.

Construction Services Unit

Construction Services Unit is responsible for managing and overseeing the physical execution of capital projects related to water infrastructure, coordinating and supervising the construction activities, and ensuring all construction activities properly align with approved designs and project plans. The role of this Unit involves managing contracts with construction companies; overseeing contractors' work; and ensuring that projects are executed on time, within budget, and according to the required quality standards. This includes scheduling, cost control, safety compliance, and ensuring construction projects meet all regulatory and environmental requirements. Construction Services are essential in translating the designs and plans into tangible, functional water infrastructure, ensuring Valley Water's water supply remains reliable and resilient.

Inherent risks include construction delays due to unforeseen issues, such as weather events or unexpected site conditions, which can impact project timelines and budgets; concerns related to contractor performance, quality control, and safety compliance; ensuring construction activities align with complex environmental regulations and permitting requirements; and establishing robust protocols to monitor contractor activity, review costs for compliance with contract provisions, and ensure contractor accountability.

Construction Inspection Services

The Construction Inspection Services Unit ensures the quality, safety, and compliance of construction activities related to water infrastructure projects. This Unit is critical in conducting inspections, verifying that contractors adhere to project specifications, and addressing any deviations or issues that may arise during construction. Inspectors are tasked with monitoring work progress, conducting tests and quality checks,

and verifying that the construction process aligns with environmental regulations and permits. They serve as a bridge between the district, contractors, and regulatory bodies, providing real-time oversight to safeguard project integrity and ensure that construction work meets the required standards.

Inherent risks include those associated with the dynamic nature of construction projects and the need for ongoing and thorough. The potential for disputes with contractors, schedule delays, and cost overruns due to unforeseen issues or changes in project scope is a significant concern. Environmental and safety compliance issues could lead to regulatory penalties or legal challenges, emphasizing the importance of thorough inspections and documentation. Staff turnover, staffing shortages, or fluctuations in workload can impact the division's ability to maintain consistent oversight across projects; this is true as it relates to Valley Water's in-house personnel as well as contracted professional services firm.

Treatment Plants Project Delivery

This program is responsible for planning, designing, and implementing projects to improve, expand, or maintain Valley Water's water treatment facilities. This includes potable water treatment plants, purification centers, and recycling facilities. The program manages the entire project life cycle, from initial feasibility studies and design phases to the construction and commissioning of treatment plants. Their role involves coordinating with various internal and external stakeholders, including engineers, contractors, environmental planners, and regulatory agencies to ensure treatment facilities meet water quality standards, environmental regulations, and safety requirements. Additionally, the program is responsible for optimizing treatment processes, responding to changing water quality conditions, and addressing challenges related to droughts, climate change, and evolving water quality regulations.

In addition to the inherent risks associated with capital project delivery, risks also include challenges associated with the water treatment infrastructure's complexity and critical nature. Delays in project timelines due to permitting issues, design changes, or unexpected challenges can impact the District's capacity to provide clean and safe drinking water. Compliance with evolving water quality regulations and adapting treatment processes to changing environmental conditions pose ongoing challenges.

Pipelines Project Delivery

This program focuses on the planning, design, and execution of projects related to water conveyance through pipelines, and oversees the development of new pipelines, rehabilitating existing pipelines, and constructing pumping stations to ensure efficient water distribution throughout the District's service area. Responsibilities include conducting feasibility studies, hydraulic modeling, design and engineering, and project management. The program collaborates with multiple internal and external partners, including engineers, construction contractors, and environmental planners, to meet water supply demands, improve infrastructure resilience, and address the impacts of droughts and climate change.

In addition to the inherent risks associated with capital project delivery associated with Valley Water's critical water conveyance infrastructure, there is the potential for pipeline failures, which can lead to water supply disruptions, property damage, and costly repairs; aging pipelines, which can impact effectiveness, safety, and water quality; permitting delays and environmental concerns; and challenges related to multijurisdictional coordination.

WATER SUPPLY DIVISION

The Water Supply Division is responsible for overseeing various aspects of water supply, including sourcing, treating, and distributing water to meet the demands of the region, as well as identifying future water supply needs, managing imported water supplies, and implementing water conservation and recycled water programs. It manages a diverse portfolio of water resources, including surface water from reservoirs, groundwater, and imported water supplies. The division collaborates with other internal departments and external agencies to ensure a sustainable water supply for the future, especially in the face of challenges like droughts and climate change. Responsibilities also encompass water quality monitoring, water rights compliance, and the development of policies and programs aimed at promoting water conservation and efficient use.

Budget: $ 123,879,047 **FTE:** 36

Inherent Risks: Ensuring water availability and quality and mitigating the potential for contamination; prolonged droughts that lead to reduced water availability from local sources like reservoirs and groundwater basins; potential supply interruptions and increased costs relating to the District's reliance on imported water; inaccurate water supply forecasting; unforeseen economic consequences resulting from revenue shortfalls caused by inaccurate water supply forecasts and the need for expensive emergency water purchases.

Imported Water

The Imported Water Unit protects, manages, and develops Valley Water's imported water assets. Imported Water meets the operational needs for imported supplies by securing reliable contracts with water agencies, overseeing the conveyance and treatment of imported water, and coordinating the allocation and distribution of imported water to the region's water treatment facilities. The Santa Clara Valley Water District relies on imported water sources, such as the State Water Project and the Central Valley Project, to meet a portion of the region's water demands. Imported Water also involves compliance with regulatory requirements, monitoring water quality, and addressing potential risks associated with delivery interruptions, water quality issues, and changes in state and federal water policies.

Inherent risks include supply reliability, regulatory compliance, potential disruptions caused by drought conditions, competing demands from other regions, and environmental restrictions that can limit water deliveries. Moreover, imported water contracts and agreements are subject to changes in state and federal policies, which can impact the availability and cost of imported water supplies.

Recycled & Purified Water Program

The Recycled & Purified Water Program develops and expands recycled and purified water program as well as leads planning and research studies. This program is responsible for managing and promoting the use of recycled and purified water resources within the District's service area. This program plays a role in diversifying the water supply portfolio and reducing reliance on traditional water sources. The Program is responsible for overseeing the treatment and distribution of recycled and purified water, managing infrastructure needs, ensuring compliance with water quality standards, and engaging in ongoing planning and research studies. The program works to expand the use of recycled water for various non-potable purposes, such as landscape irrigation, industrial processes, and groundwater recharge. Additionally, the Program actively engages with the community and stakeholders to promote water conservation practices

and raise awareness about the benefits of recycled water. Inherent risks include public perception, infrastructure management, and ensuring the safety and quality of recycled and purified water.

Water Supply Planning & Conservation

The Water Supply Planning & Conservation Unit is responsible for long-term water supply planning, demand forecasting, and implementing conservation initiatives. Their responsibilities include assessing current and future water demands, evaluating available water resources, and developing comprehensive water supply plans to meet the region's needs. Additionally, the Unit actively promotes water conservation efforts to reduce water consumption, protect water quality, and minimize the environmental impact of water use. Inherent risks include uncertainty in water availability due to factors like droughts and climate change, inaccurate demand forecasts, or the failure to consider potential supply constraints, leading to water shortages. The success of conservation initiatives depends on public participation and behavioral changes, which can be challenging to achieve. Additionally, external factors, such as regulatory changes and funding limitations, can impact the implementation of conservation programs.

RAW WATER DIVISION

The Raw Water Division maintains the Water Utility infrastructure, operates the Raw Water System, and ensures continued groundwater sustainability. The Division maintains Valley Water's three potable water treatment plants, Advanced Water Purification Center, Campbell Well Field, recycled water pipelines in South County, and over 40 miles of large diameter treated water transmission pipelines. The Division provides civil engineering and corrosion control services in support of maintenance of these facilities, prepares the Annual Water Supply Operations Plan for the water supply of the County, performs planning and analysis for the operations of the Raw Water System, manages Valley Water's groundwater basins and local water rights, and submits the regulatory reports needed for operation of the Raw Water System and Sustainable Groundwater Management Act (SGMA) compliance.	**Budget:** $62,789,879 **FTE:** 105 **Inherent Risks:** Maintaining the system in a cost-effective manner; managing consultants and contractors and controlling operating costs; aging infrastructure; the potential for deferred maintenance and workorder backlogs; and ensuring sufficient staffing resources. The Division's responsibilities, such as permitting private and municipal wells, can be affected by uncertainties in water usage, and the need for expanded metering creates logistical challenges.

Raw Water & Pipeline Maintenance Engineering

The Raw Water & Pipeline Maintenance Engineering team is responsible for ensuring the reliability and integrity of the water distribution system by providing engineering and support services for raw water and pipeline maintenance projects and programs. This team supports the overall maintenance efforts by monitoring ongoing corrosion control services, employing acoustic fiber optics for pipe integrity assessments, and leveraging technical expertise. It is also responsible for assessing the condition of critical assets, implementing predictive and preventative maintenance strategies, and responding promptly to any issues that could compromise the pipeline infrastructure's functionality. Inherent risks include challenges related to the aging infrastructure, the ability to accurately assess the condition of the District's pipeline

infrastructure, and plan maintenance activities to ensure cost-effective and timely maintenance of District assets and the continued functionality and structural integrity of its pipelines.

Raw Water Operations

The Raw Water Operations Unit ensures the effective conveyance and management of water from various sources. This team operates 24/7, monitoring water levels, making real-time decisions on water allocation, and responding to changing conditions by operating the reservoirs, pump stations, and transmission pipelines to effectively manage water supplies. Their work is guided by forecasting and modeling, allowing for efficient water supply management and allocation. Additionally, the Unit is responsible for reporting on water rights to county and state authorities to maintain regulatory compliance and safeguard water resources for the region.

Inherent risks include those primarily related to the region's climate variability and the potential for extreme weather events such as prolonged droughts or severe storms. These weather patterns can significantly impact water availability and necessitate rapid decision-making to meet supply demands while adhering to regulatory obligations. The reliance on imported water sources and surface water introduces challenges associated with supply interruptions and balancing water supply purchases with demand, especially during periods of high-water usage.

Ground Water Management

The Ground Water Management team is responsible for the oversight, protection, and sustainable management of groundwater resources within the region to provide accurate and timely information on current and forecasted groundwater conditions. Through monitoring and regulating groundwater usage, the Unit is responsible for ensuring compliance with state and local regulations, and managing the critical groundwater basins. This Unit is tasked with implementing the Sustainable Groundwater Management Act (SGMA) and developing Groundwater Sustainability Plans (GSPs) to maintain the long-term health and sustainability of groundwater resources. In doing so, the Unit collaborates with other Valley Water divisions and external agencies to address groundwater quality issues and mitigate the risks associated with over-extraction, land subsidence, and declining water tables.

Inherent risks include those associated with water resource sustainability. Over-extraction of groundwater can lead to adverse consequences such as land subsidence, saltwater intrusion, and reduced water quality. Managing groundwater basins to achieve sustainability under SGMA regulations can be challenging, especially during extended drought periods when demand for groundwater increases.

Wells & Water Measurement

The Wells and Water Measurement Unit oversees the regulatory aspects of wells within the region, and is responsible for permitting and inspecting domestic, municipal, and large organization wells to ensure compliance with regulations. This Unit also manages the metering of wells, which is essential for monitoring water usage and maintaining accurate records; oversee the installation and maintenance of meters, ensuring that water users report their usage accurately, particularly for larger users; and manages the notification process for new well drilling and conducts inspections to verify that wells are used as permitted.

This unit also incorporates the responsibility of ensuring that wells/deep excavations do not harm the ground water resources and provides accurate measurements of water production.

Inherent risks include the accurate measurement and reporting of water usage by various stakeholders. Ensuring that wells are metered correctly and that water users comply with reporting requirements can be challenging, particularly for domestic and small-scale users where the District is reliant on self-reported water usage data.

Field Operations & Pipeline Maintenance

The Field Operations & Pipeline Maintenance Unit is responsible for the reliable conveyance of raw water from various sources to treatment plants and other destinations. This division operates 24/7, overseeing the daily pumping and discharge of water, monitoring reservoir levels, reporting on water rights to regulatory authorities and ensuring compliance, and ensuring that water is efficiently moved to recharge basins, treatment plants, and reservoirs. Its work is guided by real-time data, forecasts, and modeling of storm events. Additionally, this division is involved in maintenance activities related to the water supply infrastructure that includes completing all mechanical, electrical, and control system maintenance of the distribution system infrastructure. Inherent risks are generally associated with the availability of reliable and accurate data to inform timely decision making, particularly when faced with extreme weather events that can impact the availability and quality of raw water.

Treatment Plan Maintenance

The Treatment Plan Maintenance Unit is responsible for the upkeep and efficient operation of treatment plants and treated water turnout facilities. This involves ensuring that treatment plants, which aid in the purification of raw water, are well-maintained to deliver high-quality treated water to customers. Maintenance activities include inspecting, repairing, and servicing various components of treatment plants, such as pumps, filters, chemical dosing systems, and control systems. Additionally, the unit monitors plant performance, conducts preventive maintenance to prevent breakdowns, and responds swiftly to address any operational issues. Inherent risks include the potential for equipment failures or malfunctions, which could disrupt the treatment process and impact the quality of treated water, as well as cause cost overruns. Such failures may result in service interruptions or compromised water quality, leading to public health concerns and regulatory violations.

TREATED WATER DIVISION

The Treated Water Division is responsible for ensuring the high-quality treatment and distribution of potable water to the community. This division oversees the operation and maintenance of three potable water treatment plants and one purification center, as well as the Campbell Well Field to provide emergency backup supply to the treated water system. These facilities treat and purify surface water from reservoirs, ensuring it meets strict water quality standards. The Division works continuously to optimize water treatment processes, maintain equipment, and monitor water quality parameters to provide safe and reliable drinking water to the region. The Division provides technical expertise and leadership for all commissioning-related work to improve overall safety, quality, and reliability upon capital construction handover to Operations and Maintenance (O&M). In addition, the Division communicates regularly with water retailers, and maintains communication and conducts annual check-ins for ongoing and annual updates of drinking and recycled water regulations with the State Water Resources Control Board.

Budget: $56,821,960 **FTE:** 93

Inherent Risks: Ensuring the quality and reliability of the drinking water supply, compliance with stringent and evolving water quality standards; and ensuring the resilience of the water treatment facilities.

Plant Maintenance Engineering & Commissioning

Plant Maintenance Engineering and Commissioning is responsible for overseeing the commissioning of new facilities and equipment, ensuring they meet design specifications and function correctly. The Unit also provides ongoing engineering support for maintenance activities, helping to plan and execute maintenance projects to keep treatment plants in optimal condition. Inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable.

Water Quality

The Water Quality Unit is responsible for ensuring that treated water meets or exceeds stringent water quality standards and regulations set by state and federal agencies. This Unit conducts in-depth water quality analyses, monitors critical parameters, oversees the disinfection and chemical treatment processes at treatment plants, and provides recommendations and tracks drinking water-related regulatory development. Similar to the Plant Maintenance Engineering and Commissioning Unit, inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable. Any deviation from these standards, whether due to source water changes, equipment malfunctions, or human error, can have serious public health consequences and regulatory implications.

Laboratory Services

The Laboratory Services Unit conducts extensive water quality testing and analysis to monitor various parameters, assess the effectiveness of treatment processes, and detect any contaminants or anomalies. It

provides valuable data and insights through analytical and sampling services that inform treatment plant operations and support compliance with regulatory requirements, and manages the laboratory that tests water from the treatment plants, Silicon Valley Advance Water Purification Center, surface water reservoirs, and groundwater basins.

Inherent risks relate to factors that could diminish the accuracy or reliability of reported results, such as failure to follow established protocols or laboratory contamination. Any errors or inconsistencies in the testing process can lead to incorrect assessments of water quality, potentially compromising public health. The unit must also keep pace with evolving water quality standards, emerging contaminants, and advances in analytical methods. Additionally, resource constraints can impact the capacity to conduct extensive testing and analysis, particularly during periods of increased demand or emergencies.

Utility Electrical & Control Systems Engineering

The Utility Electrical & Control Systems Engineering Unit is responsible for managing the electrical and control systems that govern the operation of treatment plants and water distribution facilities within the Santa Clara Valley Water District. This unit ensures the reliable and efficient functioning of critical infrastructure by overseeing electrical systems, instrumentation, and control systems, and plays a key role in optimizing energy usage, enhancing system automation, and ensuring that water treatment and distribution processes run smoothly. Inherent risks include risks associated with the reliable operation of electrical and control systems. Failures or disruptions in these systems can lead to operational inefficiencies, downtime, and potential impacts on water quality and supply.

North and South Water Treatment Operations

The North Water Treatment Operations and South Water Treatment Operations Units are responsible for the day-to-day operation and maintenance of water treatment facilities located in the northern region of the Santa Clara Valley Water District, including Penitencia Water Treatment Plant, Silicon Valley Advanced Water Purification Center, San Fransisco Public Utilities Commission-Valley Water Intertie facility, Santa Teresa Water Treatment Plant, Rinconada Water Treatment Plant, Campbell Well Field, the West and Snell/East Pipeline turnouts, and the East/Milpitas Pipeline turnouts. These facilities are essential for treating raw water from various sources and ensuring its quality before distribution to consumers. Both units operate around the clock to provide a consistent and reliable supply of treated water to the community.

Inherent risks include risks associated with the consistent delivery of treated water to a dynamic and growing region. Variations in raw water quality, natural disasters, or equipment failures can disrupt the treatment process and impact water quality and supply. Ensuring that the treatment process consistently meets stringent water quality standards is essential, as any lapses can pose public health risks. The units must also manage the challenges of maintaining aging treatment infrastructure and adapting to changing regulatory requirements. Balancing the need for operational efficiency with emergency preparedness is crucial.

WATERSHEDS BUSINESS AREA

The Watersheds Business Area is responsible for the stewardship and management of the region's watersheds and associated natural resources. The responsibilities include watershed protection, environmental conservation, flood risk reduction, and ecosystem restoration. Watersheds actively manages and maintains the region's creeks, rivers, and reservoirs to mitigate flood risks, promote water conservation, and preserve the ecological health of the area. This division also plays a role in ensuring water quality and availability for the community by managing source watersheds and undertaking projects that enhance the sustainability and resilience of the local ecosystem.

The Office of the Chief Operating Officer leads and manages Watersheds to achieve the Board's Ends, Goals, and Objectives. This includes providing Watersheds the leadership, staff, and funding to conduct the administrative aspects of Watersheds functions. In general, this provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting Valley Water-wide special events/efforts that benefit the whole organization.

Budget: $ 1,365,782 **FTE:** 2

Inherent Risks: The management and conservation of natural resources and the mitigation of flood risks. Climate change, including the increasing frequency and intensity of extreme weather events, presents a significant challenge in terms of flood control and watershed management. Balancing the ecological health of watersheds with flood risk reduction efforts can be complex, as it requires careful planning to minimize adverse environmental impacts. Additionally, competing demands for water resources, land use changes, and habitat degradation pose ongoing challenges. Ensuring the long-term sustainability of water sources, maintaining infrastructure, and addressing water quality concerns within watersheds are essential tasks.

OFFICE OF WATERSHEDS STEWARDSHIP & PLANNING DIVISION

The Office of Watersheds Stewardship & Planning Division is responsible for maintaining and preserving the ecological health of watersheds, ensuring flood risk reduction, and facilitating sustainable water resource management. It collaborates with various teams to conduct comprehensive environmental analyses, assess hydrological and hydraulic factors, and implement mitigation measures. Additionally, the division is responsible for reviewing community projects to ensure compliance with environmental regulations and the conservation of natural resources.

The Division provides project and long-range planning for flood protection and stewardship; develops and oversees the integration of biological, hydrological, water quality, and geomorphological data into the planning, design, and construction of capital projects and operational programs; provides environmental planning, permitting, and monitoring services; ensures Valley Water's compliance with the regional stormwater quality permit; protects Valley Water's streams and other assets through implementation of the Water Resources Protection Ordinance, and collaborates with municipalities in the County to ensure development projects minimize impacts to Valley Water's mission. In addition, the Division co-leads the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE) and the Climate Change Action Plan, and ensures timely completion of Key Performance Indicators for the Safe, Clean Water and Natural Flood Protection Program's surface water quality, environmental monitoring, and habitat enhancement and restoration priorities.

Budget: $ 47,484,824 **FTE:** 82

Inherent Risks: The management of environmentally sensitive areas, flood risk reduction, and the conservation of natural resources. Environmental planning and mitigation require navigating complex regulatory frameworks, including the California Environmental Quality Act (CEQA), ensuring compliance with various state and federal environmental regulations, and managing and mitigating the impact of climate change, extreme weather events, and natural disasters on watersheds.

In addition to the environmentally-focused work of the Division, the Division is also responsible for the Community Projects program, which requires the evaluation of land use permit applications. The Program must review permits in a manner that safeguards environmental integrity, which can lead to potential conflicts with stakeholders and regulatory authorities.

The changing dynamics of climate patterns and increasing environmental pressures further amplify the risks associated with watershed management. Additionally, resource allocation and budget constraints may impact the ability to implement comprehensive watershed management plans and projects.

Environmental Planning

The Environmental Planning Unit is responsible for conducting environmental impact assessments, environmental reviews (including Environmental Impact Reports or EIRs), and managing the permitting process for various projects. Environmental planners are tasked with ensuring that all activities within the jurisdiction of the Santa Clara Valley Water District comply with environmental regulations, particularly CEQA. They work closely with regulatory agencies, stakeholders, and project proponents to evaluate the potential impacts of projects, develop mitigation measures, and provide recommendations to minimize adverse environmental effects.

Inherent risks relate to the complexity of environmental regulations and the potential for disputes and legal challenges. Projects in environmentally sensitive areas or those with the potential to impact natural resources can face scrutiny and opposition from concerned communities or environmental organizations. Ensuring the accuracy and thoroughness of EIRs is essential to avoid legal complications and regulatory

setbacks which can result in increased costs, and further construction delays. In light of recent events of the failure to adequately perform and assess the need for an environmental review, there is a risk of delayed construction, increased project costs, and the possibility of undue damage to the environment, contrasting the District's mission "to provide Silicon Valley safe, clean water for a healthy life, environment, and economy."

Hydrology, Hydraulics, & Geomorphology

The Hydrology, Hydraulics, & Geomorphology Unit specializes in the scientific assessment of water inflow and outflow patterns within watersheds. It is responsible for conducting hydrological and hydraulic analyses to predict and manage flooding events, support the water utility's functions, and calculate water capacity in reservoirs. Furthermore, this unit plays a significant role in studying geomorphological features, such as river channels and landforms, to understand their evolution and impact on water flow. By employing data-driven methods and models, it contributes to informed decision-making and long-term planning to ensure the efficient management of water resources and the protection of communities from flooding.

Inherent risks include risks related to the accuracy of predictions, the unpredictability of weather events, and evolving regulatory requirements. Incorrect predictions or incomplete assessments can lead to inadequate flood protection measures, potentially putting communities at risk during extreme weather events, which can increase costs associated with unplanned mitigation efforts. Additionally, climate change introduces uncertainties in precipitation patterns and water flow, which can challenge existing models and flood management strategies.

Environmental Mitigation & Monitoring

The Environmental Mitigation & Monitoring Unit consists of biologists and specialists responsible for overseeing and implementing mitigation efforts to offset the environmental impacts of various projects undertaken by the Santa Clara Valley Water District. It conducts comprehensive surveys, monitor mitigation efforts, and report their findings to regulatory agencies and other stakeholders. Inherent risks relate to ensuring the effectiveness of mitigation measures, meeting regulatory obligations, and addressing unexpected ecological changes. If mitigation measures are not adequately planned or executed, there is a risk of not achieving the desired ecological outcomes. The unit must also navigate a complex web of environmental regulations, and non-compliance can lead to regulatory sanctions, increased costs, and project delays.

Community Projects Review

The Community Projects Review Unit is responsible for evaluating and processing requests from various entities to work on properties within the jurisdiction of the Santa Clara Valley Water District. These requests often involve land use changes, permits for working on district-owned properties, or projects that may impact watersheds and water resources. The unit assesses the proposed projects to ensure they align with environmental regulations, land management policies, and the District's conservation objectives. They also engage in discussions with project proponents, regulatory agencies, and stakeholders to address potential issues and ensure that projects adhere to established guidelines. Notably, an Opportunities to Improve Permit Processing Audit was recently performed in 2021 that identified challenges in the Community

Projects Review Unit's permit processing and recommended several measures to streamline related services, enhance customer communication, and optimize workflow processes.

Inherent risks include risks related to balancing land use needs, environmental protection, and regulatory compliance. Conflicting interests among project proponents, environmental advocates, and regulatory authorities can create challenges in reaching consensus and obtaining necessary approvals. Moreover, processing a large volume of project requests may strain available resources and potentially lead to delays in project reviews and increased project costs. The team must also remain vigilant in evaluating the potential ecological impacts of proposed projects and ensuring that mitigation measures are implemented effectively.

WATERSHEDS OPERATIONS & MAINTENANCE DIVISION

The Watersheds Operations &Maintenance Division provides field maintenance, engineering support, vegetation management, and environmental services management for Water Utility Facilities and the Stream Maintenance Program (SMP) in the Lower Peninsula, West Valley, Guadalupe, Coyote, and Uvas/Llagas watersheds. The Office of Watersheds Operations and Maintenance provides administrative leadership and support for the four units that comprise the Division. The Division objective is to ensure that maintenance work is performed in accordance with regulatory permits and maintenance guidelines and is coordinated and consistent throughout the Division.	**Budget:** $ 64,544,832 **FTE:** 120 **Inherent Risks:** Infrastructure risks associated with the maintenance and upkeep of watershed facilities, such as dams, reservoirs, and flood control structures; safety risks due to potential hazards during operations and maintenance activities.

Watersheds Field Operations

The Watersheds Field Operations Unit is responsible for a wide range of outdoor tasks, including clearing small debris, adding vegetation, and performing other essential activities to preserve the health and integrity of the watershed environment. By ensuring that the watersheds are well-maintained, this unit contributes to the protection of water quality, flood control, and overall ecosystem health. They often work on-site, directly interacting with the natural landscape to keep it in optimal condition.

With these roles and responsibilities, inherent risks involve exposure to environmental elements, physical hazards, and potential weather-related challenges. Employees working outdoors may encounter wildlife, unpredictable weather conditions, and rugged terrain, posing risks to their safety. Ensuring that workers have the necessary training and safety equipment is crucial to mitigate these risks. Moreover, the team must be attentive to potential environmental impacts of their activities, such as unintentional disturbances to sensitive habitats. Careful planning, adherence to best practices, and ongoing environmental monitoring are essential for minimizing these impacts.

Operations & Maintenance Environmental Support

The Operations & Maintenance Environmental Support Unit assists the field operations staff in ensuring that maintenance activities within Watersheds align with environmental regulations and standards. This unit

conducts surveys, gathers data, and offers support in assessing the environmental impact of maintenance projects. They also collaborate with regulatory agencies, monitor mitigation efforts, and help maintain the ecological balance of watershed areas, making sure that maintenance activities are carried out responsibly and sustainably.

With these roles and responsibilities, inherent risks involve navigating complex regulatory frameworks, assessing potential environmental impacts, and ensuring compliance with ecological guidelines. Failing to adhere to environmental regulations or properly assessing the environmental consequences of maintenance activities can lead to regulatory violations and potential harm to the environment, as well as increased costs due to unplanned delays. Therefore, the team faces the inherent risk of regulatory non-compliance and environmental damage.

Operations & Maintenance Engineering Support

The Operations & Maintenance Engineering Support Unit plays a critical role in providing engineering assistance and guidance to the operations and maintenance staff within the watershed areas. They help plan and execute maintenance projects, ensuring that they are carried out efficiently and effectively. By leveraging engineering expertise, this unit contributes to the long-term sustainability of watershed assets and infrastructure.

With these roles and responsibilities, inherent risks include those primarily related to the successful execution of maintenance projects. These risks include project delays, cost overruns, and potential disruptions to watershed operations. Inaccurate project planning or engineering assessments can lead to unforeseen issues during project implementation, which may affect both the environment and operational efficiency.

Vegetation Field Operations

The Vegetation Field Operations Unit specializes in managing vegetation within watershed areas to reduce the risk of wildfires and ensure the overall health of the ecosystem. Their responsibilities include clearing and managing vegetation, particularly in high-risk areas where wildfires could pose a threat to water resources and infrastructure. By implementing effective vegetation management strategies, this team helps safeguard the watershed environment and minimize the risk of wildfire events that could impact water quality and availability.

With these roles and responsibilities, inherent risks include risks related to the use of equipment like chainsaws, herbicides, and prescribed burns. There is a risk of physical injury to personnel during field operations, as well as potential environmental risks if herbicides are not used properly or if prescribed burns are not carefully controlled. Additionally, the team must consider the ecological impacts of vegetation management and ensure that it aligns with conservation objectives. To mitigate these risks, the team must follow strict safety protocols, conduct regular training, and employ environmentally responsible practices to manage vegetation effectively while safeguarding both personnel and the environment.

WATERSHEDS DESIGN & CONSTRUCTION DIVISION

The Design & Construction Division within the Office of Watersheds is responsible for planning, designing, and overseeing construction projects aimed at enhancing and maintaining the Santa Clara Valley Water District's watershed infrastructure. This includes delivery of projects in Valley Water's rolling 5-year Capital Improvement Program (CIP) and Safe, Clean Water and Natural Flood Protection Program. This division manages various units that focus on different geographic regions and aspects of design and construction. Their responsibilities encompass project planning, design development, cost estimation, contractor management, and project execution. They work closely with multiple stakeholders to ensure that watershed projects meet environmental, regulatory, and operational requirements. The objectives of the Watersheds Design and Construction Division are to provide natural flood protection for residents, businesses, and visitors; and to protect and restore creek, bay, and other aquatic ecosystems. This Division also provides organization-wide support services for Surveying and Real Estate needs.

Budget: $ 119,509,222 **FTE:** 65

Inherent Risks: Include those related to project delays, cost overruns, environmental compliance, and regulatory approvals. The division must effectively manage complex construction projects that may involve various contractors, designs, and environmental considerations. Delays in project completion or unexpected issues during construction can result in increased costs and potential regulatory non-compliance. There is the possibility of environmental risks related to mitigating potential impacts on natural ecosystems during construction. Additionally, the division must navigate regulatory agencies and meet stringent environmental standards to ensure that projects do not harm sensitive ecosystems within the watershed areas.

Design & Construction Unit

The Design & Construction Unit is divided into six distinct units, each responsible for specific geographic regions and aspects of watershed design and construction. These units handle a wide range of projects, from infrastructure improvements to environmental enhancements, within their designated areas. They manage the entire project lifecycle, from initial planning and design to construction oversight and project completion. Each unit collaborates with local communities, regulatory agencies, and other stakeholders to ensure that projects are executed effectively and in compliance with relevant standards.

With these roles and responsibilities, inherent risks for all Design & Construction Units include risks related to project complexity, resource allocation, and compliance with environmental regulations. Managing a diverse portfolio of projects across different geographic regions requires effective resource allocation and coordination. Delays, budget overruns, or issues with project execution can pose risks to project success. Moreover, ensuring that projects align with environmental standards and community expectations is a constant challenge. Failure to meet these requirements can result in regulatory penalties, environmental harm, and reputational damage.

Notably, a performance audit of the Lower Silver Creek Flood Protection Project Consultant Agreement with RMC (A3277G) and its related amendments was recently performed in 2018. This audit addressed issues related to conflicts of interest, financial review, fund reallocation, sole sourcing, and performance; and it included recommendations for improvements in disclosure and management of conflicts of interest, enhancing financial and fund reallocation procedures, formalizing and documenting review processes,

strengthening project document controls and change management practices, and adopting best practices for firewall and background checks.

Land Surveying & Mapping

The Land Surveying & Mapping Unit provides essential support for accurate surveying, mapping, and geospatial data management. This unit is responsible for ensuring that project designs are based on precise spatial information and that construction activities are executed with accuracy. They are also responsible for maintaining up-to-date land records, property boundaries, and geospatial data, which are essential for project planning and execution.

With these roles and responsibilities, inherent risks primarily include the accuracy and integrity of spatial data. Errors or inconsistencies in surveying and mapping can lead to costly design modifications, construction issues, and disputes over property boundaries. Moreover, keeping geospatial data up to date is a continuous challenge, as environmental changes and new developments can impact the accuracy of existing records.

Real Estate Services

Real Estate Services Unit is responsible for managing land acquisition, easements, property rights, and other real estate-related matters for watershed projects. This unit is responsible for acquiring the necessary land and property rights to carry out construction and environmental initiatives within the watershed areas. They work closely with property owners, negotiate agreements, conduct appraisals, and oversee land transactions to ensure that projects have the required access and rights to carry out work. Notably, a Real Estate Audit was recently performed in 2020 that identified challenges in property acquisition timelines, fiscal sustainability assessment, and operational efficiency and recommended enhancing transparency, accountability, and property management practices, providing more training on real estate acquisition processes, improving performance measurement, risk assessment, and financial analysis, facilitating communication with property owners, and expanding public information about real estate services.

With these roles and responsibilities, inherent risks include those that primarily relate to property negotiations, legal complexities, and budget considerations. Acquiring land and property rights can be a time-consuming process, and negotiations may encounter resistance from property owners or regulatory hurdles. Budget overruns can occur if property values are higher than anticipated or if negotiations stall. Additionally, legal challenges related to eminent domain or property disputes can pose significant risks.

Risk Summary

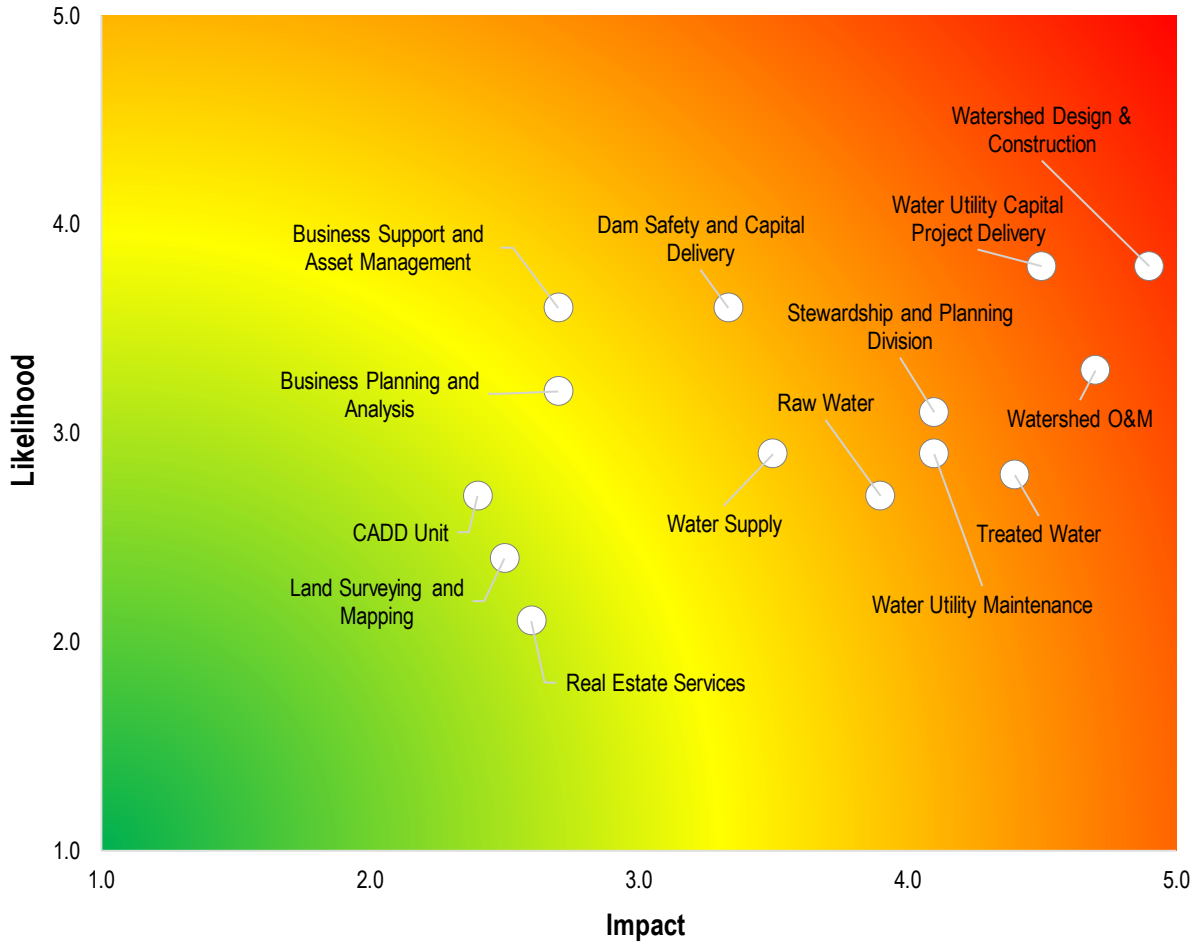
Most of the divisions and programs within Integrated Water perform functions that are central to the mission and purpose of Valley Water, and would be characterized as moderate- to high-risk. Ultimately, this risk assessment identified a small number of audit topics that would cover the bulk of Integrated Water's operations. Integrated Water consumes 80 percent of Valley Water's budget, with substantial resources dedicated to the District's capital infrastructure, including capital project delivery and maintenance. Specifically, capital project delivery encompasses six distinct organizational units within Integrated Water and maintenance operations encompass three organizational units. Decentralization can prove problematic in a variety of ways: project management practices could be inconsistent; parties fulfilling different roles,

such as construction managers and project managers, may not be on the same page in working with contractors; communication could falter; and it could constrain flexibility in assigning personnel across functional lines.

Further, with substantial resources dedicated to capital project delivery, a 2023 performance audit of the Capital Improvement Program raised concerns regarding the availability of staffing resources to carry out the capital projects planned for the District. Hiring substantial project delivery personnel will require additional support and administrative personnel (Human Resources, Facilities, Information Technology), and even if Valley Water outsources project delivery activities, additional in-house staffing resources may be required to manage and oversee the consultants to ensure cost and quality control.

Finally, Integrated Water is responsible for achieving Valley Water's core mission and goals. The Office of Integrated Water Management faces a range of interconnected risks that stem from the complexity of its responsibilities, regulatory compliance demands, and financial considerations. Addressing these risks requires a holistic approach that emphasizes effective communication, robust project management, environmental stewardship, and sound financial planning. Because of this, we find it prudent to prioritize performance audits related to the operations of Integrated Water. With this in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

EXHIBIT 24. PROGRAM RISK RATINGS



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

1) Valley Water's captial project delivery activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

2) Valley Water's infrastructure maintenance programs, including assessing Valley Water's methods for developing and maintaining asset inventories; determining the condition of existing assets; scheduling predictive and preventative maintenance; monitoring maintenance backlogs; work order scheduling; the extent to which Valley Water relies on outsourced service providers to augment in-house resources; how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies; the use of asset management software or systems to extend the lifespan

of critical infrastructure while minimizing operational costs; and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

3) The Community Projects Unit's processes for receiving applications for permits, processing and issuing permits, and measuring performance in meeting established goals.

4) Valley Water's real estate management activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.

5) Valley Water's Watershed management practices, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover evaluating the impact of environmental conservation efforts, flood risk reduction measures, and ecological restoration initiatives.

6) Valley Water's flood control infrastructure, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

7) Valley Water's environmental compliance may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.

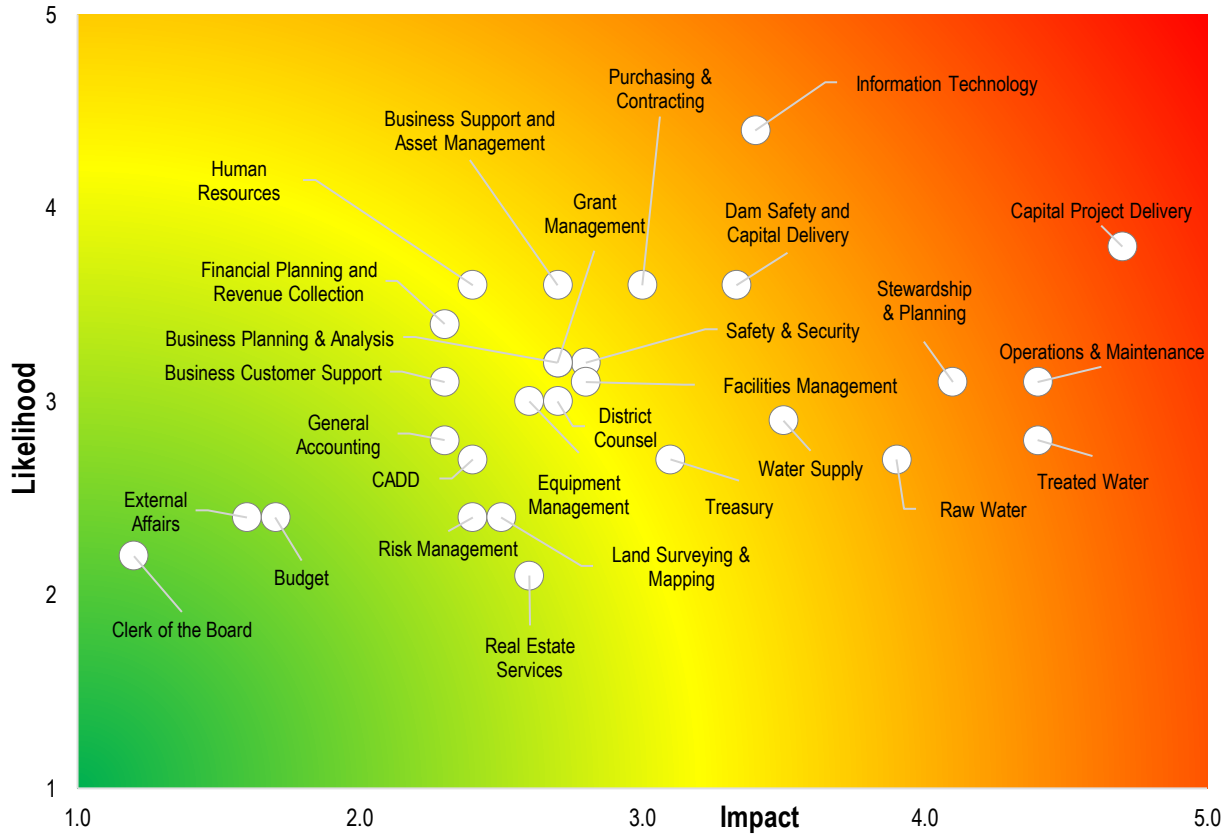
8) Valley Water's emergency response and preparedness, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.

Risk Assessment Results

A Risk Assessment for audit planning purposes is intended to identify ways to optimize the value of limited audit resources. This includes identifying "high-risk" programs or operations—e.g., those involving the most resources, impacting the most residents, experiencing the greatest challenges, etc.—but it is not limited to identifying "high-risk" programs or operations. In addition to identifying Valley Water programs that are considered to be high- or moderate-risk for inclusion in the audit plan, consideration must also be given to ensuring broad coverage over a defined period of time. Below, we provide recommendations for the consideration of the Valley Water Board of Directors in the development of the Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan.

In considering the departmental profiles described in the prior section, we shift to a broader view of our assessment of risk throughout the District. In Exhibit 25 we provide a districtwide heat map, differentiating our assessment of risk among each of Valley Water's key programs and operations. In the lower left corner, we have several units or programs that present relatively low risk, including certain departmental administrative operations, the Office of the Clerk of the Board, the Office of the District Counsel, and other lower-risk operations. In the upper right corner, where the yellow meets the red, we find several divisions or programs for which we find reason to prioritize a performance audit. These include those programs or operations involving the most resources and having a substantial impact on Valley Water. The District's internal service programs tend to fall within the moderate-risk category.

EXHIBIT 25. DISTRICTWIDE PROGRAM RISK RATINGS



It is important to recognize, however, that effective audit plans do not solely focus on program areas that fall into the high-risk category. If this were the case, the same programs would be audited year after year. Rather, an effective audit plan ensures adequate coverage throughout the Valley Water's departments and programs. To achieve this, we recommend establishing an auditing cycle that ensures that the performance, programs, and/or activities of every department or office are audited, at least in part, on a periodic basis—such as on a three- to five-year cycle.

This risk assessment identified a total of 33 potential audit topics, which are presented in **Appendix A** of this report, which we present as the complete Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan. This list of audit engagements addresses every department within Valley Water, and provides a balance between internal service programs and those departments that fulfill Valley Water's core responsibilities—the Integrated Water, Watershed, and Water Utility business areas.

This, of course, is more than what can be achieved by Valley Water during any three-year period, both in terms of available audit resources and scheduling logistics. While the budget for Independent Board Audit Services will ultimately determine the number and scope of audits that can be completed in a given year, we understand that existing resources exist to perform up to three or four performance audits in a given year. With this in mind, we prioritize 12 audit engagements that we recommend for the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26, as shown in Appendix B of this report. The ability to perform all 12, however, will be dependent on available resources and logistical considerations. Should the Board Audit Committee determine that it is not feasible to complete all 12 under current conditions, options available include reducing the number of priority audits, increasing budget resources, or extending the period to conduct the audits from three years to up to four or five years.

These audit topics are proposed as audit priorities for the Board Audit Committee's consideration. It is recognized, however, that prior to establishing each annual audit plan, the Independent Board Auditor will seek input from the Board Audit Committee and members of the Board to obtain input before determining the specific audits to be included in each annual audit plan. This allows for continued input and routine updating to the Three Year Audit Plan as a way to ensure it addresses current and emerging challenges faced by Valley Water.

Appendix A. Proposed Three-Year Audit Plan

This risk assessment resulted in the identification of 33 potential audits for consideration of the Valley Water Board of Directors. The Independent Board Auditor recommends the inclusion of these audit topics in the 2024-2026 Three-Year Audit Plan.

Office of the Chief Executive Officer

1) The District's **overall approach to performance measurement**, the purpose of which would be to identify ways to build upon exiting performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
2) The District's **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board

3) Evaluate the Office's **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

4) Evaluate the Office's **business processes and information systems** to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.
5) Evaluate **risk management practices**, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

Administrative Services

6) **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
    a. Cybersecurity and network hygiene;
    b. Data management protocols;
    c. Customer service efficiency;
    d. Disaster recovery planning;
    e. Cost-effectiveness of operations, including contracting and purchasing; and
    f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

7) Determine whether the District's **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:

    a. Hiring and recruiting;

    b. Classification and compensation;

    c. Employee recordkeeping;

    d. Human Resources Information System functionality and system controls;

    e. Employee relations and performance management;

    f. Benefits administration;

    g. Workplace investigations;

    h. Professional and workforce development, training, and succession planning;

    i. State and federal compliance.

8) The **administration of compensation** practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.

9) **Cashiering processes**, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.

10) Valley Water's **facilities maintenance program**, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.

11) Valley Water's **equipment management program**, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.

12) The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

13) **Warehouse operations**, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.

14) The **practices of the Business Customer Support program**, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.

15) **Procurement** activities, including General Services' practices relating to the following:

    a. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

    b. Proper segregation of duties with accounts payable functions and operational activities;

    c. Consistency with best practices;

    d. Efficiency in executing procurements in a manner that meets districtwide needs;

    e. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

    f. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

    g. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs

16) Evaluate **the Office's business processes, information systems, and workload management practices** to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Finance

17) **Grant management activities**, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.

18) **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.

19) **Budget processes**, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.

20) The efficiency and effectiveness of **system integration** between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

21) The **Completeness of policies and procedures**, including how they are maintained, updated, made available and communicated to all relevant parties.

22) **Accounts receivable**, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.

23) **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

24) **Payroll and compensation** practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

Integrated Water Management

25) Valley Water's **captial project delivery** activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

26) Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

27) The **Community Projects Unit's** processes for receiving applications for **permits**, processing and issuing permits, and measuring performance in meeting established goals.

28) Valley Water's **real estate management** activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.

29) Valley Water's **Watershed management practices**, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover

evaluating the impact of environmental conservation efforts, stewardship efforts, flood risk reduction measures, and ecological restoration initiatives.

30) Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

31) Valley Water's **environmental compliance** may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.

32) Valley Water's **emergency response and preparedness**, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.

33) Valley Water's operations of the **Raw and Treated Water Divisions**, including evaluating both Division's practices and strategies to maintain and ensure long-term sustainability, assessing the efficiency and effectiveness of core business operations, and adhering to leading industry practices.

Appendix B. Prioritized Audit Topics for the Board's Consideration

We recognize that the actual audit plan will be determined, in part, by the budgetary resources available for the Independent Board Auditor, which currently allow for a maximum of four audits per year. Nevertheless, for the Board's consideration, we present the following 12 audit engagements that we believe can be completed during the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26.

1) Capital Project Delivery
    a. Valley Water's **captial project delivery** activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.
2) Board Policies
    a. The District's **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.
3) Clerk of the Board
    a. Evaluate the Office's **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.
4) Human Resources
    a. Determine whether the District's **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:
        i. Hiring and recruiting;
        ii. Classification and compensation;
        iii. Employee recordkeeping;
        iv. Human Resources Information System functionality and system controls;
        v. Employee relations and performance management;
        vi. Benefits administration;
        vii. Workplace investigations;
        viii. Professional and workforce development, training, and succession planning;

ix. State and federal compliance.

5) Operations & Maintenance and Asset Management

   a. Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

6) Information Technology

   a. **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:

      i. Cybersecurity and network hygiene;

      ii. Data management protocols;

      iii. Customer service efficiency;

      iv. Disaster recovery planning;

      v. Cost-effectiveness of operations, including contracting and purchasing; and

      vi. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

7) Purchasing and Contracting

   a. **Procurement** activities, including General Services' practices relating to the following:

      i. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;

      ii. Proper segregation of duties with accounts payable functions and operational activities;

      iii. Consistency with best practices;

      iv. Efficiency in executing procurements in a manner that meets districtwide needs;

      v. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;

      vi. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies,

professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

vii. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

8) Safety & Security

   a. The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

9) Raw and Treated Water

   a. Assessing the infrastructure maintenance and sustainability within Valley Water's **Raw and Treated Water Divisions** would include a thorough evaluation of both Division's practices and strategies to maintain and ensure long-term sustainability of its critical infrastructures. This would assess the performance of the two Divisions in managing the aging infrastructure, assessing the risks associated with deferred maintenance, as well as the focus on optimizing the allocation of resources.

10) Stewardship and Planning

   a. Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

11) Treasury

   a. **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.

12) Water Supply

   a. **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.

Santa Clara Valley Water District

File No.: 25-0754

Agenda Date: 9/17/2025
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Discuss 2025 Annual Audit Plan (Capital Project Delivery; Contracting Practices; Conservation Strategies; Water Usage/Demand Forecasting), and Provide Feedback as Needed.

RECOMMENDATION:
A. Discuss 2025 Annual Audit Plan; and
B. Provide feedback as needed.

SUMMARY:
On November 20, 2024, the Chief Audit Executive (CAE) presented the proposed topics for the 2025 Annual Audit Plan to the Board Audit Committee (BAC) based on his individual interviews with each of the Board members. The BAC discussed and ultimately agreed to recommend the following topics to the full Board:

1) Capital project delivery activities, including Valley Water's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

2) Centralized and decentralized contracting processes, including:
   a. Determining consistency with Santa Clara Valley Water District (Valley Water) policies, procedures, best practices, and other relevant guidance;
   b. Assessing timeliness of contracting and procurement practices, including the identification of potential bottlenecks;
   c. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and
   d. Benchmarking research, including the extent to which Valley Water's procurement

practices compare with other public sector agencies.

3) Water conservation strategies, including evaluating Valley Water's relationships with other water agencies, evaluating best practices among water districts, assessing how monies dedicated to conservation activities are being spent, and identifying opportunities to enhance Valley Water's conservation goals.

4) Water usage and demand forecasting, including identifying best practices employed by benchmark agencies, and how forecasting models are used to inform the Water Supply Master Plan.

At its meeting on January 28, 2025, the Board approved the audit assignments and respective target start dates for each audit:

1) Capital Project Delivery
   - assign to Sjoberg Evashenk with possible start in late Q2 2025 and conclude in Q1 of 2026

2) Centralized and Decentralized Contracting Practices
   - assign to Sjoberg Evashenk with possible start in Q2 2025 and conclude in Q4 of 2025

3) Water Conservation Strategies
   - assign to Moss Adams with possible start in Q1 2025 and conclude in Q3 of 2025

4) Water Usage and Demand Forecasting
   - assign to Moss Adams with possible start in Q3 2025 and conclude in Q1 of 2026

Current Status of Audit Projects

1) Capital Project Delivery
   - Project commenced August 14, 2025, and the project remains in the planning phase. This project did not commence in Q2 2025 but rather started in Q3 2025 due to the need to amend Valley Water's contract with Sjoberg Evashenk Consulting. Therefore, the project is now expected to conclude in Q2 2026.

2) Centralized and Decentralized Contracting Practices
   - Project commenced May 29, 2025, and the project is now in the fieldwork phase. Some delays have occurred and the project is now expected to conclude in Q1 of 2026.

3) Water Conservation Strategies
   - Project commenced on April 3, 2025, and the audit is currently in the reporting phase.

4) Water Usage and Demand Forecasting
   - Task Order signed on September 3, 2025, and Kick-off is anticipated to occur by the end of September 2025.

The purpose of this agenda item is to discuss the 2025 Annual Audit Plan, any new related information as appropriate, and receive any feedback the BAC deems appropriate.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The Annual Audit Workplan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:
None.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Santa Clara Valley Water District

File No.: 25-0756

Agenda Date: 9/17/2025
Item No.: 4.6.

COMMITTEE AGENDA MEMORANDUM
Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:
Review and Discuss 2025 Board Audit Committee (BAC) Work Plan.

RECOMMENDATION:
Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2025 BAC Work Plan.

SUMMARY:
Per the BAC's Charter, Article III, Paragraph 6.2, "The Committee shall, in coordination with Valley Water's Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee."

Under the direction of the Clerk, Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change.

Since the August 20, 2025, BAC meeting, there have not been any adjustments to the BAC Work Plan.

Looking forward, the topics of discussion identified for the October 15, 2025, BAC Meeting can be summarized as follows:

1. Discuss Draft 2026 Annual Audit Plan
2. Receive Audit Analysis Report from the CAE
3. Discuss 2025 BAC Work Plan
4. Discuss 2025 Annual Audit Plan

Upon review, the BAC may make changes to be incorporated into the work plan.

ENVIRONMENTAL JUSTICE IMPACT:
The BAC Work Plan is not subject to environmental justice analysis. The BAC Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:
Attachment 1: 2025 BAC Work Plan

UNCLASSIFIED MANAGER:
Candice Kwok-Smith, 408-630-3193

BOARD AUDIT COMMITTEE 2025 WORKPLAN

January 1, 2025 to December 31, 2025

	DATE:	Jan-15	Feb-19	Mar-19	Apr-16 Cancelled	May-21 Cancelled	Jun-17	7/16/2025 Calcelled	Aug-20	Sep-17	Oct-15	Nov-19	Dec-17
	No. of Topics:	5	6	8	2	2	8	2	5	6	4	5	3
#	Board Audit Committee Management												
1	Conduct Annual Self-Evaluation	•		•									
2	Receive and Discuss CAE Activity Report to Evaluate Performance	•		•									
3	Election of BAC Chair and Vice Chair		•										
4	Discuss Board Audit Committee Audit Charter			•									
5	Discuss Scope of Annual Audit Training			•									
6	Receive Annual Audit Training												
7	Review and Update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
8	Provide Draft BAC Work Plan for Upcoming Year												•
	Board Audit Committee Special Requests												
9	Review of Joint Powers Authority (JPA) audits								•				
10	Discuss Board's CAE Contract (expires 11/22/25)						•						
11	Discuss the purpose of Board directed audits	•											
	Board-directed Audits												
12	2020 SCW Program Grants Management		•									•	
13	2021 Permitting Best Practices						•						
14	2023 CIP Performance									•			
15	2024 Human Resources Audit			•									
16	2024 Information Technology Audit						•						
17	2024 Board Policies and Compliance Audit												
18	2025 Audit - TBD												
	CAE Standing Topics												
19	Review and Update Annual Audit Plan	•	•	•	•	•	•	•	•	•	•	•	•
20	Discuss next Annual Audit Plan								•	•			
21	Discuss Draft 2026 Annual Audit Plan										•		
22	Discuss Proposed 2026 Annual Audit Plan, Assign Audit Firms, and Recommend Proposed 2026 Annual Audit Plan with assignments for Board Approval											•	
	Miscellaneous 3rd-Party Financial Audits												
23	Financial Status - Periodic Updates		•				•			•			
24	Audit Report of the Water Utility Enterprise Funds									•			
25	Audited Financial Statements						•					•	
26	Single Audit Report		•										
27	Subventions Audit Report						•						
	Staff Standing Topics												
28	Audit Recommendations Implementation Status			•					•				
29	Receive Audit Analysis Report from CAE										•		
	Committee Clerk Action Items (not included in count shown in Row 3 above)												
30	Provide BAC Summary Report to full Board	•	•	•	•	•	•	•	•	•	•	•	•

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