



## Santa Clara Valley Water District Board Audit Committee Meeting

Headquarters Building Boardroom  
5700 Almaden Expressway, San Jose, CA 95118

Join Zoom Meeting:  
<https://valleywater.zoom.us/j/91608079873>

### REGULAR MEETING AGENDA

**Wednesday, September 18, 2024**  
**1:00 PM**

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

**BOARD AUDIT COMMITTEE**

Barbara F. Keegan, Chairperson - District 2  
Jim Beall, Vice Chairperson - District 4  
John L. Varela - District 1

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  
[nmerritt@valleywater.org](mailto:nmerritt@valleywater.org)  
[www.valleywater.org](http://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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5700 Almaden Expressway,  
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## **\*\*\*IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS\*\*\***

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as a “hybrid” meetings, conducted in-person as well as by telecommunication, and is compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while still maintaining transparency and public access, members of the public have an option to participate by teleconference/video conference or attend in-person. To observe and participate in the meeting by teleconference/video conference, please see the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at <https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf>

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item 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 in order to speak, at the time the item is called. Speakers will be acknowledged by the Board Chair in the order requests are received and granted speaking access to address the Board.

- Members of the Public may test their connection to Zoom Meetings at: <https://zoom.us/test>
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: <https://www.youtube.com/watch?v=TojJpYCxXm0>

Valley Water, in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Board of Directors/Board Committee meetings to please contact the Clerk of the Board’s office at (408) 630-2711, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of

California, including but not limited to, Government Code Sections 54950 et. seq. and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's 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 and Valley Water's Investor Relations website, maintained on the World Wide Web at <http://emmas.msrb.org/> and <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

**Join Zoom Meeting:**

**<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 21, 2024 Board Audit Committee Minutes. [24-0848](#)

Recommendation: Approve the minutes.

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

Attachments: [Attachment 1: 082124 BAC Minutes](#)

### 4. REGULAR AGENDA:

- 4.1. Receive the Fiscal Year 2023-2024 Fourth Quarter Financial Status Update. [24-0823](#)

Recommendation: Receive the Fiscal Year 2023-2024 fourth quarter financial status update as of June 30, 2024.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: PowerPoint](#)

- 4.2. Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2023. [24-0707](#)

Recommendation: Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2023.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Audit Report, FY Ending 2023 WUE Funds](#)

- 4.3. Discuss Potential Audit Topics for 2025 Annual Audit Plan, and Provide Further Guidance as Needed. [24-0822](#)

Recommendation: Discuss potential audit topics for 2025 Annual Audit Plan, and provide further guidance as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2023 Risk Assessment Final Report](#)

- 4.4. Discuss 2024 Annual Audit Plan (Including Information Technology, Human Resources and Board Policies Audits), and Provide Feedback as Needed. [24-0821](#)

Recommendation: A. Discuss 2024 Annual Audit Plan; and  
B. Provide feedback as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2024 Annual Audit Plan Schedules](#)

- 4.5. Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan.

[24-0820](#)

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 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 to Regular Meeting at 1:00p.m., on October 16, 2024.

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# Santa Clara Valley Water District

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**File No.:** 24-0848

**Agenda Date:** 9/18/2024  
**Item No.:** 3.1.

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## COMMITTEE AGENDA MEMORANDUM Board Audit Committee

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

### SUBJECT:

Approval of August 21, 2024 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 AND EQUITY IMPACT:

The approval of minutes is not subject to environmental justice analysis.

### ATTACHMENTS:

Attachment 1: 082124 BAC Minutes

### UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

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BOARD AUDIT COMMITTEE MEETING  
**DRAFT MINUTES**

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**REGULAR MEETING SESSION**  
**WEDNESDAY, AUGUST 21, 2024**  
**1:00 PM**

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(Paragraph numbers coincide with agenda item numbers)

**1. CALL TO ORDER:**

A regular 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 1 Director John L. Varela joined the meeting via teleconference, District 4 Director Jim Beall, Vice Chairperson, and District 2 Director Barbara F. Keegan, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were: Emmanuel Aryee, Lisa Bankosh, Sarah Berning, Todd Bridgen, Kevin Brown, Rick Callender, Rita Chan, Theresa Chinte, Jessica Collins, Amy Fonseca, Alicia Fraumeni, Rachael Gibson, Vincent Gin, Walter Gonzalez, Alexander Gordon, Christopher Hakes, Brian Hopper, Diahann Hudson, Brian Hopper, Michele King, Candice Kwok-Smith, Cecil Lawson, Sadie Lum, Becky Manchester, Jennifer Martin, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Tony Ndah, My Nguyen, Luz Penilla, Alison Phagan, Don Rocha, Manpreet Sra, Kirsten Struve, Darin Taylor, Odilia Teixeira, Cheryl Togami, Kristen Yasukawa, and Tina Yoke.

Public in attendance were: Shiloh Ballard, Emer Jayson Fabro, Jason Tagasa, and Jay Toledo (Vasquez and Company LLP.), Katja Irvin (Sierra Club), Samsung SM-F936U1, and George Skiles (Sjoberg Evashenk Consulting).

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

Chairperson Keegan 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 August 6, 2024 Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the August 6, 2024 Committee meeting.

Public Comments:  
None.

It was moved by Vice Chairperson Beall and seconded by Chairperson Keegan and was carried by unanimous vote that the minutes be approved by roll call vote.

Yeas: J. Beall, B. Keegan, J. Varela.  
Nays: None.  
Abstains: None.  
Recuses: None.  
Absent: None.  
Summary: 3 Yeas; 0 Nays; 0 Abstains; 0 Absent.

**4. REGULAR AGENDA:**

Chairperson Keegan moved the agenda to Item 4.4.

4.4. Discuss Potential Audit Topics for 2025 Annual Audit Plan and Provide Further Guidance as Needed.

Recommendation: Discuss potential audit topics 2025 Annual Audit Plan, and provide further guidance as needed.

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

George Skiles was available to answer questions.

Public Comments:  
None.

The Committee received the information, and noted the following:

- The Committee noted support for the previously deferred Capital Project Delivery audit to be next in the audit cycle, the potential of high-risk internal audits completed on a regular basis of possibly 3-5 years and soliciting Board feedback to include their constituents' concerns.
- The Committee noted the Chief Audit Executive (CAE's) process and goal to have a final proposed 2025 audit plan in November 2024.

Chairperson Keegan returned the agenda to Item 4.1.

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

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

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

Luz Penilla, George Skiles, Jessica Collins, Patrice McElroy, Rachael Gibson Brian Hopper, Darin Taylor, and Emmanuel Aryee were available to answer questions.

Public Comments:  
None.

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

- The Committee noted the CAE's support of staff's ongoing efforts for automation of information to ensure accuracy, and consistency, and to implement reasonable measures in line with the intent of the recommendations which may take some time per the 2026 full implementation timeline.
- Director Varela expressed concern over the amount of staff time and costs that go into such a large presentation report and noted staff's confirmation of the automation process/tools being put in place to enhance efficiencies and decrease staff's preparation time.
- Vice Chairperson Beall expressed interest in confirming disclosure details for lobbying within the project priority process, and the Committee noted Legal staff will work with the External Affairs staff to follow up on the lobbyist ordinance and its enforcement, and the Committee noted that the CIP project priority process has a separate method outside of lobbying that integrates the review of disadvantaged communities with final approval by the Board.
- The Committee confirmed that an independent cost estimator for the Llagas estimate was not utilized due to the project cost being under 100 million dollars and noted support for the determination process to include the duration of the project.
- The Committee confirmed the workforce planning and reporting software will be true resource loading allowing for verification of staffing resources needed throughout the years for projects.
- The Committee noted support of awareness of Operation & Maintenance(O&M) costs making a small or big impact earlier in the phase of projects to assist with Board consideration, noted benefits of review of past budget/schedule to identify trends and root cause of issues, and interest in utilizing the stakeholder requested section noted on Page 12 of 35 of Attachment 1 to indicate if the stakeholder used the proper request process.
- Vice Chairperson Beall noted support for staff continuing to look at a potential grant tracking system to assist with streamlining the

matching of projects to federal/state grants and noted CIP's grant rating tool.

- The Committee noted support for tracking delays within the planning/design phase and confirmed that Projectmates will assist with refining the contractor payment schedule.
- The Committee noted support for staff's work and for the inclusion of the BAC's feedback with the recommendations.

4.2. Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations.

Recommendation: Receive progress report on implementing the Grants Management Performance Audit recommendations.

Kristen Yasukawa reviewed the information on this item, per the attached Committee Agenda Memo, and per information contained in Attachments 1 and 2.

Kristen Yasukawa was available to answer questions.

Public Comments:  
None.

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

- The Committee noted positive results of the 2024 grants survey and confirmed that interns are working on a capstone project to identify grants by location.
- The Committee confirmed that the grants screening criteria incorporates Diversity, Equity, & Inclusion (DEI) principles to reduce barriers for communities in need and noted planned trainings/workshops for outreach for past grantees.
- Vice Chairperson Beall expressed support for a collective statistic grant report reflecting how many are involved in projects who are volunteers or student interns; and the Committee noted that a final individual project fact sheet is submitted at the end of a project that can include those statistics depending on the project scope and past pushback was received regarding obtaining grantee demographics.
- The Committee noted support for the Grants Unit remaining fully staffed to meet the needs of the community.

4.3. 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 the next update.

Anthony Mendiola reviewed the information on this item, per the attached

Committee Agenda Memo, and per information contained in Attachments 1 and 2.

Anthony Mendiola was available to answer questions.

Public Comments:  
None.

The Committee received and noted the next update is scheduled for February 2025, and took no formal action.

Chairperson Keegan moved the agenda to Item 4.5

- 4.5. Discuss 2024 Annual Audit Plan (Including Information Technology (IT), Human Resources (HR), and Board Policies Audits) and Provide Further Guidance as Needed.

Recommendation: A. Discuss 2024 Annual Audit Plan;  
B. Provide further guidance as needed;  
C. Receive information regarding initiation of Information Technology.

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

Darin Taylor and Patrice McElroy were available to answer questions.

Public Comments:  
None.

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

- The Committee noted the IT, HR, and Board Policies Audits will be underway by the end of August 2024; and confirmed that the IT audit was delayed per security protocols.
- Vice Chairperson Beall confirmed the scope of the HR audit will be comprehensive including all the HR processes/procedures and connections/collaborations with other departments like payroll and IT.

- 4.6. Review and Discuss the 2024 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 2024 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 and noted the information and took no formal action.

**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.*

None.

**6. CLOSED SESSION:**

6.1. CLOSED SESSION  
THREAT TO PUBLIC SERVICES OR FACILITIES  
Pursuant to Government Code Section 54957(a)  
Consultation with Mary Harvey, Acting Assistant Officer

6.2. District Counsel Report on Closed Session.

Brian Hopper reported that in regard to Item 6.1., the Committee met in Closed Session with all members participating with Director Varela via teleconference and took no reportable action.

**6. ADJOURN:**

6.1. Adjourn to Regular Meeting at 1:00 p.m. on September 18, 2024.

Chairperson Keegan adjourned the meeting at 3:34 p.m., to the regular meeting at 1:00 p.m. on September 18, 2024.

Nicole Merritt, Assistant Deputy Clerk II

Date approved:



# Santa Clara Valley Water District

**File No.:** 24-0823

**Agenda Date:** 9/18/2024

**Item No.:** 4.1.

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## 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 2023-2024 Fourth Quarter Financial Status Update.

### RECOMMENDATION:

Receive the Fiscal Year 2023-2024 fourth quarter financial status update as of June 30, 2024.

### SUMMARY:

Valley Water's Fiscal Year 2023-24 Fourth Quarter closed on June 30, 2024. 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, 2024.

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/≥](https://emma.msrb.org/).

### ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

There are no environmental justice and equity impacts associated with this item.

### ATTACHMENTS:

Attachment 1: PowerPoint

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**File No.:** 24-0823

**Agenda Date:** 9/18/2024  
**Item No.:** 4.1.

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**UNCLASSIFIED MANAGER:**  
Darin Taylor, 408-630-3068



# Q4 FY2023-24 Financial Status Update

Board Audit Committee, September 18, 2024

The FY 2023-24 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

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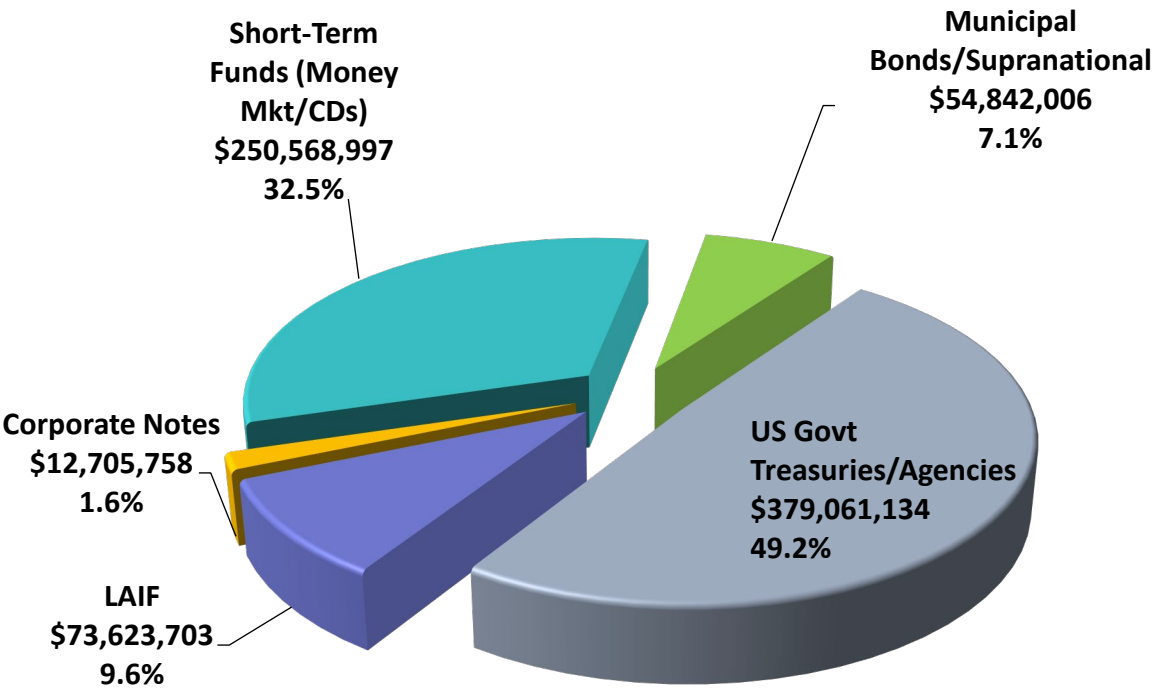
- **Financial Status**
  - **Cash and Investments**
  - **Debt Portfolio**
- **FY24 Financial Status Update**
  - **Revenue**
  - **Operating and Capital Expenditures**
  - **Reserves**

# Financial Status Update – Cash & Investments

*\$528M or 69% of portfolio very liquid (<=1-year maturity)*

3

## SCVWD Investment Portfolio Composition

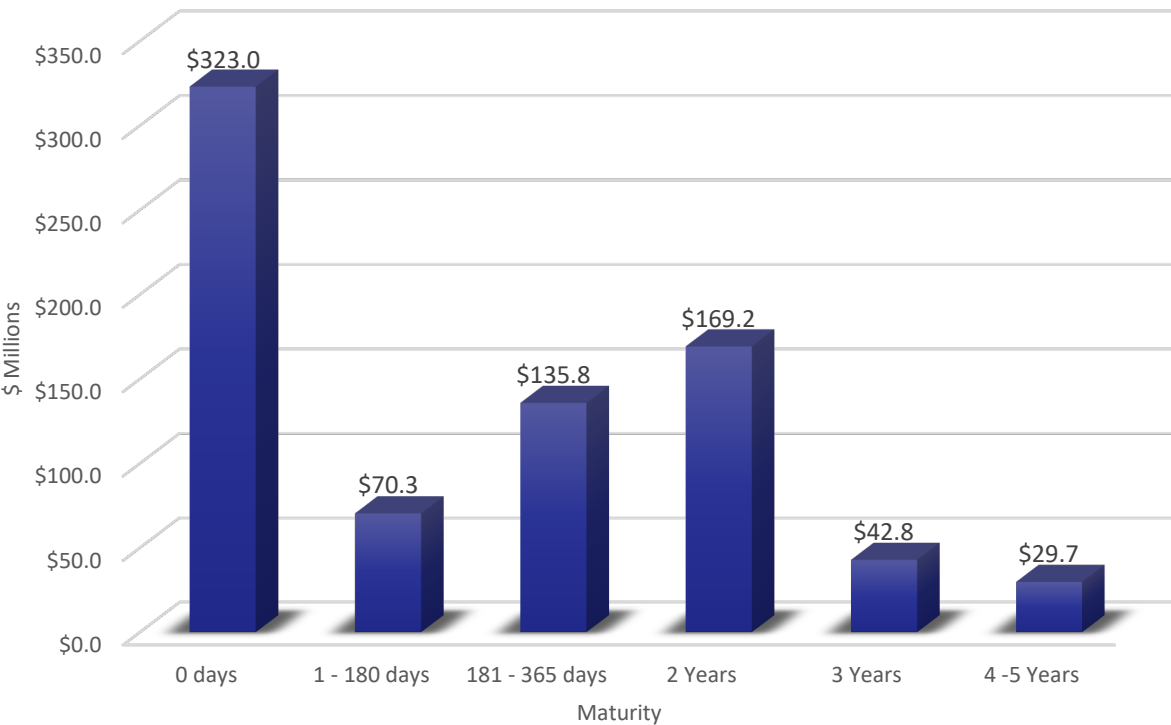


SCVWD Portfolio Book Value as of June 30, 2024: \$770.8 Million

## Valley Water Portfolio Aging Report

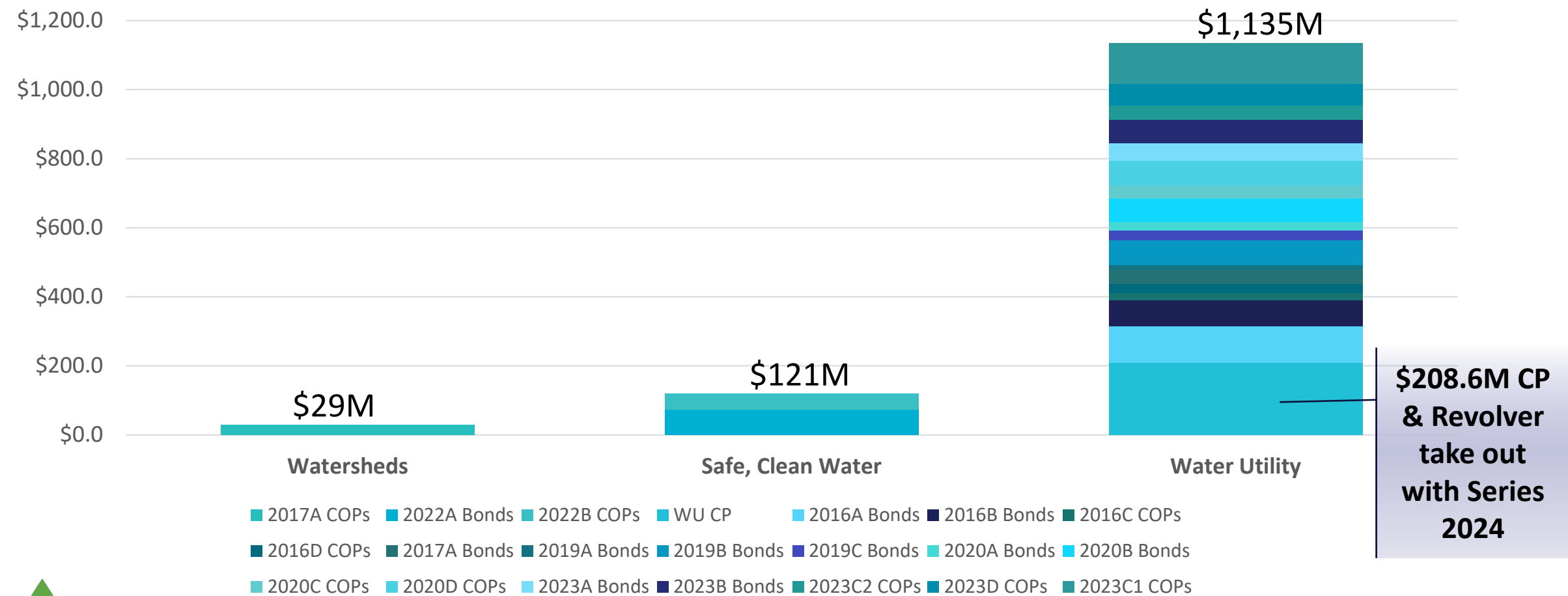
June 30, 2024

Portfolio Book Value: \$770.8 Million



valleywater.org

# Financial Status Update – FY 24 Outstanding Debt \$1.3B



# Financial Status Update – Debt Portfolio

*Ample access to cash at low interest rates*

## **\$320M short-term credit facilities**

- \$150M Commercial Paper (LOC expires 12/10/2024) & \$170M Bank Line of Credit
  - US Bank Lead (\$150M), Community Bank of the Bay (\$5M), Bank of SF (\$7M), and First Foundation Bank (\$8M)
- Board approval for replacement Letter of Credit (LOC) on 10/22/2024, recommend increase to \$250M

## **2025 Financing Plan**

- Issuance of ~\$317M Water Utility Refunding Bonds and Notes, and Revenue Bonds
  - Board approved 2024 WU Financing Plan on January 23, 2024 to issue up to \$450M in refunding and new money debt, and the Preliminary Official Statement received Board approval on 8/13/2024
  - Pricing on 9/10/2024; closing on 9/24/2024; received strong credit ratings of AA+/Aa1 from Fitch/Moody's
- \$345.9M in debt planned for FY 2025: Safe Clean Water \$109.6M, and Water Utility \$236.3M
- CWIFP Preliminary Applications for Anderson and Dam Safety Program submitted December 2023
  - CWIFP loan requests: Anderson \$1.3B, Dam Safety \$787M
- WIFIA Program: Construction loans for Anderson Dam Seismic Retrofit and Coyote Creek Flood Protection Project

# FY24 Unaudited Close – Revenue by Category and Fund

*Revenues, except Capital Reimbursements, ended year at or above budgeted estimates*

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(\$ in millions)	FY24 Adj Budget	FY24 Actuals	FY24 % Rec'd	FY23 Actuals	FY23 Rec'd*
Groundwater Production Charges	\$ 150.9	\$ 150.5	100%	\$ 110.1	90%
Treated Water Revenue	174.1	169.6	97%	159.2	114%
Surface/Recycled Water Revenue	3.6	3.7	103%	2.8	88%
1% Ad-valorem Property Tax	138.0	146.1	106%	138.8	110%
Safe Clean Water Special Parcel Tax	52.3	52.2	100%	49.5	100%
Benefit Assessment	6.9	6.9	100%	13.2	99%
State Water Project Tax	27.0	28.0	104%	28.9	107%
Capital Reimbursements	67.8	9.2	14%	35.2	95%
Interest Income & Other	13.1	45.7	349%	27.1	208%
<b>Total Revenue</b>	<b>\$ 633.7</b>	<b>\$ 611.9</b>	<b>97%</b>	<b>\$ 564.8</b>	<b>106%</b>

\*FY24 % received based FY24 Actuals divided by FY24 Adjusted Budget

(\$ in millions)	FY24 Adj Budget	FY24 Actuals	FY24 % Rec'd	FY23 Actuals	FY23 % Rec'd*
General Fund	11.4	\$ 12.9	113%	\$ 13.8	131%
Watershed Stream Stewardship Fund	154.1	133.8	87%	135.4	99%
Safe Clean Water Fund	77.6	63.5	82%	62.3	118%
Water Utility Enterprise Fund	383.2	393.1	103%	339.2	107%
Service Funds	0.5	1.7	340%	0.9	225%
Benefit Assessment Funds	6.9	6.9	100%	13.2	99%
<b>Total Revenue</b>	<b>\$ 633.7</b>	<b>\$ 611.9</b>	<b>97%</b>	<b>\$ 564.8</b>	<b>106%</b>

\*FY24 % received based FY24 Actuals divided by FY24 Adjusted Budget

## Observations

- FY24 revenue was \$611.9M or 97% of FY24 Budget
- Groundwater production charges \$150.5M or ~100% of Budget
- Treated water revenue \$169.6M or 97% of Budget due to slightly lower water volume use
- Capital reimbursements of \$9.2M, which varies year-over-year depending on progress of grant-funded projects
  - Shoreline subventions forecast reduced impacting FY24
  - NRCS reimbursement of \$22.4M has been moved to FY25
- Interest Income and Other \$45.7M or 349% of budget due to investment income on bond proceeds (\$27.8M) and FY24 contract supply sales (\$5.1M) due to full project allocations resulting in excess imported supply after in-county use and available storage options

# FY24 Unaudited Close - Operating and Capital Expenditures

*Capital expenditures estimated to end FY below budgeted levels*

(\$ in millions)	FY24 Adj Budget	FY24 Actuals	Remaining Budget	FY24 % Spent	FY23 Actuals	FY23 % Spent
General Fund	\$ 86.9	\$ 77.6	\$ 9.3	89%	\$ 74.8	91%
Watershed Stream Stewardship Fund	78.2	74.5	3.7	95%	68.6	90%
Safe Clean Water Fund	39.5	30.9	8.6	78%	22.1	64%
Water Utility Enterprise Fund	310.0	273.2	36.8	88%	274.2	87%
Service Funds	45.1	42.2	2.9	94%	34.1	87%
Benefit Assessment Funds	11.2	11.1	0.1	99%	10.9	97%
<b>Total Operating Expenditures</b>	<b>\$570.9</b>	<b>\$509.5</b>	<b>\$ 61.4</b>	<b>89%</b>	<b>\$484.7</b>	<b>87%</b>

Note 1: Operating Adjusted Budget includes Adopted Budget and current year budget adjustments

Note 2: Budgetary Basis Actuals includes actuals and encumbrances as of 6/30/24

Note 3: % Spent is FY24 Actuals divided by Adjusted Budget

(\$ in millions)	FY24 Adj Budget	FY24 Actuals	Remaining Budget	FY24 % Spent	FY23 Actuals	FY23 % Spent
General Fund	\$ 5.3	\$ 2.7	\$ 2.6	51%	\$ 4.3	70%
Watershed Stream Stewardship Fund	40.2	26.4	13.8	66%	44.5	74%
Safe Clean Water Fund	122.7	46.8	75.9	38%	46.9	60%
Water Utility Enterprise Fund	394.2	319.0	75.2	81%	313.1	83%
Service Funds	8.6	7.6	1.0	88%	7.0	79%
<b>Total Capital Expenditures</b>	<b>\$571.0</b>	<b>\$402.5</b>	<b>\$ 168.5</b>	<b>70%</b>	<b>\$415.8</b>	<b>79%</b>

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 6/30/24

Note 3: % Spent is FY24 Actuals divided by Adjusted Budget

## Observations

- FY24 Operating Expenditures of \$509.5M or 89% of FY24 Adjusted Budget
- SCW Fund below target, 78% vs budget, primarily due to debt related savings (\$4.2M)
- WUE Fund below target, at 88% vs budget, primarily due to debt related savings (\$18.2M) and savings in various projects

- FY24 Capital Expenditures of \$402.5M or 70% of Adjusted Budget; on a percentage basis lower than last fiscal year
- General Fund 50% spent due to timing of the Headquarters Operations Building project
- WSS Fund 66% spent primarily due to the timing of the Pond A4, Lower Guadalupe River Restoration and SF Bay Shoreline projects
- SCW Fund 38% spent primarily due to timing of the Sunnyvale E/W, Berryessa Creek, Llagas Creek Phase 2B, and San Francisquito projects and close of SF Bay Shoreline EIAs 1-4 project

# Reserve Balances

- FY24 Year-end reserve balances higher than FY24 Adopted Budget primarily due to lower operating expenses and unexpended capital project funds

(\$ in millions)	FY24 Adopted Budget	FY24 Projected Year-end	FY24 Projected vs Adopted
<b>Restricted Reserves</b>			
Safe Clean Water Fund	\$ 185.8	\$ 190.4	\$ 4.6
Water Utility Enterprise Fund	28.4	37.3	8.9
<b>Restricted Reserves Subtotal</b>	<b>214.2</b>	<b>227.7</b>	<b>13.5</b>
<b>Committed Reserves</b>			
General Fund	12.0	25.6	13.6
Watershed & Stream Stewardship Fund	159.9	149.6	(10.3)
Water Utility Enterprise Fund	67.2	179.3	112.1
Service Funds	20.7	33.3	12.6
<b>Committed Reserves Subtotal</b>	<b>259.8</b>	<b>387.8</b>	<b>128.0</b>
<b>Total Reserves</b>	<b>\$ 474.0</b>	<b>\$ 615.5</b>	<b>\$ 141.5</b>



# FY24 Financial Update Summary

9

- Revenues results on target except for Capital Reimbursements
- Operating expenditures 89% of budget
- Capital expenditures 70% of budget, spending rate lower than prior year

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# Santa Clara Valley Water District

**File No.:** 24-0707

**Agenda Date:** 9/18/2024

**Item No.:** 4.2.

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## 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, 2023.

### RECOMMENDATION:

Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2023.

### 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, 2023," 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 AND EQUITY IMPACT:**

There are no Environmental Justice impacts associated with this item.

**ATTACHMENTS:**

Attachment 1: Audit Report, FY Ending 2023 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, 2023***

**Water Utility Enterprise Funds of the  
Santa Clara Valley Water District  
Annual Financial Report  
*Fiscal Year Ended June 30, 2023***

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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), which comprise the statement of net position as of June 30, 2023, the related statement 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, 2023, 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. 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, 2023, 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 with respect to 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 55 through 58 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 22, 2024, 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.

Glendale, California  
August 22, 2024

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water's) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2023. 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 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.

**Santa Clara Valley Water District**  
**Water Utility Enterprise Funds**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2023**

**Financial Highlights**

**Water Utility Enterprise Funds Net Position**  
**(Dollars in Thousands)**

	<b>June 30</b>		<b>Change</b>	
	<b>2023</b>	<b>2022</b>	<b>Dollar</b>	<b>Percent</b>
Current and other assets	<b>\$ 710,533</b>	<b>\$ 588,598</b>	<b>\$ 121,935</b>	<b>20.7%</b>
Capital assets	<b>1,667,984</b>	<b>1,468,088</b>	<b>199,896</b>	<b>13.6%</b>
Total assets	<b>2,378,517</b>	<b>2,056,686</b>	<b>321,831</b>	<b>15.6%</b>
Deferred outflow of resources				
Deferred amount on refunding	<b>207</b>	<b>238</b>	<b>(31)</b>	<b>-13.0%</b>
Pension activities	<b>86,408</b>	<b>37,604</b>	<b>48,804</b>	<b>129.8%</b>
OPEB activities	<b>12,450</b>	<b>5,724</b>	<b>6,726</b>	<b>117.5%</b>
Total deferred outflows of resources	<b>99,065</b>	<b>43,566</b>	<b>55,499</b>	<b>127.4%</b>
Current liabilities	<b>115,443</b>	<b>171,534</b>	<b>(56,091)</b>	<b>-32.7%</b>
Long- term liabilities	<b>1,159,774</b>	<b>780,511</b>	<b>379,263</b>	<b>48.6%</b>
Total liabilities	<b>1,275,217</b>	<b>952,045</b>	<b>323,172</b>	<b>33.9%</b>
Deferred inflow of resources				
Pension activities	<b>-</b>	<b>32,770</b>	<b>(32,770)</b>	<b>-100.0%</b>
OPEB activities	<b>4,763</b>	<b>11,371</b>	<b>(6,608)</b>	<b>-58.1%</b>
Leases	<b>152</b>	<b>245</b>	<b>(93)</b>	<b>-38.0%</b>
Total deferred inflows of resources	<b>4,915</b>	<b>44,386</b>	<b>(39,471)</b>	<b>-88.9%</b>
Net position:				
Net investment in capital assets	<b>603,803</b>	<b>642,319</b>	<b>(38,516)</b>	<b>-6.0%</b>
Restricted	<b>149,595</b>	<b>104,048</b>	<b>45,547</b>	<b>43.8%</b>
Unrestricted	<b>444,052</b>	<b>357,454</b>	<b>86,598</b>	<b>24.2%</b>
Total net position	<b>\$ 1,197,450</b>	<b>\$ 1,103,821</b>	<b>\$ 93,629</b>	<b>8.5%</b>

The total net position of the Funds amounted to \$1.2 billion at June 30, 2023. The largest portion of the Funds' net position (50.4% or \$603.8 million) reflects net investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since, in general, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, decreased by \$38.5 million or 6.0% from the previous fiscal year. Capital assets, net of depreciation and amortization, increased by \$199.9 million, reflecting the increase in work in progress primarily for the following five projects: Anderson Dam Tunnel (\$55.5 million), 10-year Pipeline Inspection and Rehabilitation (\$27.3 million), Anderson Dam Seismic Retrofit (\$21.9 million), Rinconada Water Treatment Plant Residuals Remediation (\$16.7 million), and South County Recycled Water Pipeline (\$16.3 million). Long term liabilities, which include related debt outstanding, increased by \$379.3 million mainly due to the issuance of new bonds amounting to \$361.3 million and an increase in net pension and other post-employment benefit liabilities.

The Funds' new construction in progress amounted to \$201.8 million. There were 30 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$55.5 – Anderson Dam Tunnel
- \$27.3 – 10-year Pipeline Inspection and Rehabilitation
- \$21.9 – Anderson Dam Seismic Retrofit
- \$16.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$16.3 – South County Recycled Water Fund Short-Term 1B
- \$12.8 – Pacheco Reservoir Expansion
- \$ 8.8 – Coyote Creek Flood Management Measures
- \$ 8.2 – Cross Valley Pipeline Extension
- \$ 6.8 – Indirect Potable Reuse
- \$ 5.4 – Rinconada Water Treatment Plant Reliability Improvement

Net position categorized as "unrestricted" may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position of \$444.1 million represents an increase of \$86.6 million or 24.2% when compared to the prior fiscal year.

The \$86.6 million increase in unrestricted net position in fiscal year 2023 was mainly from increases in reserve amounts for purchase commitments, increases in designated amounts for currently authorized projects and increases in operating and capital by \$60.8 million, \$10.5 million and \$8.9 million, respectively.

**Santa Clara Valley Water District**  
**Water Utility Enterprise Funds**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2023**

**Water Utility Enterprise Funds Change in Net Position**  
**(Dollars in Thousands)**

	<b>June 30</b>		<b>Change</b>	
	<b>2023</b>	<b>2022</b>	<b>Dollar</b>	<b>Percent</b>
<b>Revenues:</b>				
Ground Water Charges	\$ 106,936	\$ 125,029	\$ (18,093)	-14.5%
Treated Water Charges	159,215	145,365	13,850	9.5%
Surface and recycled water charges	1,950	2,003	(53)	-2.6%
Operating Grants	5,376	5,340	36	0.7%
Capital grants and contributions	13,624	5,609	8,015	142.9%
Property Taxes	39,394	39,715	(321)	-0.8%
Investment Income	7,582	(8,328)	15,910	-191.0%
Miscellaneous	2,049	3,389	(1,340)	-39.5%
Total Operating revenues	<u>336,126</u>	<u>318,122</u>	<u>18,004</u>	<u>5.7%</u>
<b>Expenses:</b>				
Operating Expenses	232,141	277,692	(45,551)	-16.4%
Nonoperating and other expenses	32,568	26,995	5,573	20.6%
Total Expenses	<u>264,709</u>	<u>304,687</u>	<u>(39,978)</u>	<u>-13.1%</u>
Change in net position before transfers	71,417	13,435	57,982	431.6%
Transfers, net	22,212	65,964	(43,752)	-66.3%
Change in net position	93,629	79,399	14,230	17.9%
Net position, beginning	1,103,821	1,024,422	79,399	7.8%
Net Position, ending	<u>\$ 1,197,450</u>	<u>\$ 1,103,821</u>	<u>\$ 93,629</u>	<u>8.5%</u>

Net position of the Funds of \$1.2 billion increased by \$93.6 million when compared to the prior fiscal year. Total revenues and expenses of \$336.1 million and \$264.7 million, respectively, plus net transfers in from the District of \$22.2 million, added \$93.6 million to the net position.

Compared to the prior fiscal year, the Funds' total revenues increased by \$18.0 million and total expenses decreased by \$40.0 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water charges revenues, at 79.8% of total revenue source, were \$4.3 million or 1.6% lower than last fiscal year. Groundwater water revenues were down \$18.1 million and treated water revenues were up \$13.8 million. The net decrease was consistent with Valley Water's water conservation efforts aimed at mitigating the effects of the drought to the community.

**Santa Clara Valley Water District**  
**Water Utility Enterprise Funds**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2023**

- Capital grants and contributions increased by \$8.0 million compared to the prior year due mainly to the higher cost reimbursements received from the State of California, Department of Water Resources (\$4.5 million) and the US Bureau of Reclamation (\$2.8 million) for the Pacheco Reservoir Expansion Project under the Water Storage Investment Program.
- Investment earnings for the current fiscal year were \$7.6 million or \$15.9 million higher than the \$8.3 million investment loss posted in the prior fiscal year. Investment earnings include unrealized gain of \$0.7 million due to the increase in the portfolio's fair value. 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.
- Total expenses decreased by \$40.0 million or 13.1% over the prior fiscal year primarily due to lesser emergency supplemental water purchases for the drought and savings realized in almost all areas of operation.

### Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, amounts to \$1.7 billion at June 30, 2023. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, leased assets, intangible – software, and construction in progress. Capital assets for the current fiscal year went up \$199.9 million or 13.6%.

The Funds' capital assets are comprised of the following as of June 30, 2023 and 2022:

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

	<b>June 30</b>		<b>Change</b>	
	<b>2023</b>	<b>2022</b>	<b>Dollar</b>	<b>Percent</b>
Land	\$ 19,989	\$ 19,984	\$ 5	0.0%
Easements	24,238	3,837	20,401	531.7%
Contracted Water and storage rights	31,218	33,642	(2,424)	-7.2%
Buildings	78,552	80,852	(2,300)	-2.8%
Structures and improvements	615,274	623,504	(8,230)	-1.3%
Equipment	2,559	3,097	(538)	-17.4%
Leased assets	2,712	3,358	(646)	-19.2%
Intangible - software	11	34	(23)	-67.6%
Construction in progress	893,431	699,780	193,651	27.7%
Total	<u>\$ 1,667,984</u>	<u>\$ 1,468,088</u>	<u>\$ 199,896</u>	<u>13.6%</u>

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



**Santa Clara Valley Water District**  
**Water Utility Enterprise Funds**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2023**

**Debt Administration**

The Funds' total long-term liabilities at June 30, 2023 amount to \$1.19 billion. A comparative breakdown of long-term obligations is shown below:

**Water Utility Enterprise Funds Outstanding Debt Obligations**  
**(Dollars in Thousands)**

	<b>June 30</b>		<b>Change</b>	
	<b>2023</b>	<b>2022</b>	<b>Dollar</b>	<b>Percent</b>
Bonds payable	\$ 948,595	\$ 624,610	\$ 323,985	51.9%
Bond discount	(851)	-	(851)	100.0%
Bond premium	67,014	51,643	15,371	29.8%
Total long-term debt	\$ 1,014,758	\$ 676,253	\$ 338,505	50.1%
Compensated absences	8,605	8,210	395	4.8%
Net pension liability	129,765	68,090	61,675	90.6%
Semitropic water banking	11,919	12,200	(281)	-2.3%
Other post employment benefits	21,144	12,126	9,018	74.4%
Lease and subscription liability	2,974	3,632	(658)	-18.1%
Total	\$ 1,189,165	\$ 780,511	\$ 408,654	52.4%

Total long-term liabilities increased by \$408.7 million during the current fiscal year primarily due to the following:

- Bonds payable, inclusive of premium and discounts, increased by \$338.5 million due to the issuance of bonds amounting to \$361.3 million, principal payment of \$19.4 million and amortization of bond premium of \$3.4 million.
- Pension and other post-employment benefits (OPEB) liabilities increased by \$61.7 million and \$9.0 million, respectively, mainly due to net loss on investment on pension and OPEB plan assets.

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 2024 is at \$856.6 million<sup>1</sup>. This budget was developed to meet the objectives and challenges facing Valley Water that includes 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 of the North and South counties with a general overview of the Funds' finances and to demonstrate accountability for the money that the Funds receive. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.

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<sup>1</sup> Valley Water FY2023-24 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, 2023**  
**(Dollars in Thousands)**

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 301,842	\$ 18,287	\$ 320,129
Receivables:			
Accounts	40,914	-	40,914
Taxes	39	113	152
Leases	107	-	107
Inventory - water (Note 2e)	133,630	-	133,630
Deposits and other assets	2,735	-	2,735
Total current assets	<u>479,267</u>	<u>18,400</u>	<u>497,667</u>
Non current assets:			
Restricted cash and investments (Note 3)	212,866	-	212,866
Capital assets: (Note 6)			
Depreciable, net	718,049	12,277	730,326
Nondepreciable	937,658	-	937,658
Total non current assets	<u>1,868,573</u>	<u>12,277</u>	<u>1,880,850</u>
Total assets	<u>2,347,840</u>	<u>30,677</u>	<u>2,378,517</u>
<b>Deferred outflows of resources</b>			
Deferred amount on refunding	207	-	207
Deferred outflows of resources - pension activities (Note 10)	86,408	-	86,408
Deferred outflows of resources - OPEB (Note 11)	12,450	-	12,450
Total deferred outflows of resources	<u>99,065</u>	<u>-</u>	<u>99,065</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	22,830	-	22,830
Accrued liabilities	26,234	37	26,271
Commercial paper (Note 7)	35,000	-	35,000
Deposits payable	1,951	-	1,951
Bonds payable - current (Note 7)	27,272	-	27,272
Compensated absence (Note 7)	1,837	-	1,837
Lease liability (Note 7)	283	-	283
Total current liabilities	<u>115,407</u>	<u>37</u>	<u>115,444</u>
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	987,486	-	987,486
Compensated absence (Note 7)	6,768	-	6,768
Net pension liability (Note 10)	129,765	-	129,765
Other post employment benefits liability (Note 11)	21,144	-	21,144
Lease liability (Note 7)	2,691	-	2,691
Other debt	11,919	-	11,919
Total non current liabilities	<u>1,159,773</u>	<u>-</u>	<u>1,159,773</u>
Total liabilities	<u>1,275,180</u>	<u>37</u>	<u>1,275,217</u>

(Continued)

*See accompanying notes to basic financial statements*

**Santa Clara Valley Water District**  
**Water Utility Enterprise Funds**  
**Statement of Net Position (Continued)**  
**June 30, 2023**  
**(Dollars in Thousands)**

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
<b>Deferred inflows of resources</b>			
Deferred inflows of resources - OPEB (Note 11)	4,763	-	4,763
Deferred inflows of resources - leases (Note 2d)	152	-	152
Total deferred inflows of resources	<u>4,915</u>	<u>-</u>	<u>4,915</u>
<b>Net position (Note 9)</b>			
Net investment in capital assets	591,526	12,277	603,803
Restricted			
Debt service	16,545	-	16,545
Construction	42,973	-	42,973
San Felipe operations	3,527	-	3,527
GP5 reserve	20,545	-	20,545
State water project	-	18,363	18,363
Rate stabilization	41,067	-	41,067
Advanced water purification center	1,298	-	1,298
Supplemental water supply	5,277	-	5,277
Unrestricted	<u>444,052</u>	<u>-</u>	<u>444,052</u>
Total net position	<u>\$ 1,166,810</u>	<u>\$ 30,640</u>	<u>\$ 1,197,450</u>

*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, 2023**  
**(Dollars in Thousands)**

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
<b>Operating revenues:</b>			
Ground water production charges	\$ 106,936	\$ -	\$ 106,936
Treated water charges	159,215	-	159,215
Surface and recycled water revenue	1,950	-	1,950
Other	51	-	51
Total operating revenues	<u>268,152</u>	<u>-</u>	<u>268,152</u>
<b>Operating expenses:</b>			
Sources of supply	88,844	23,168	112,012
Water treatment	52,341	-	52,341
Transmission and distribution:			
Raw water	19,226	-	19,226
Treated water	2,509	-	2,509
Administration and general	12,271	-	12,271
Depreciation and amortization	32,838	944	33,782
Total operating expenses	<u>208,029</u>	<u>24,112</u>	<u>232,141</u>
Operating income (loss)	<u>60,123</u>	<u>(24,112)</u>	<u>36,011</u>
<b>Nonoperating revenues (expenses):</b>			
Property taxes (Note 8)	10,522	28,872	39,394
Investment income (Note 5)	7,582	-	7,582
Operating grants	5,376	-	5,376
Rental income	49	-	49
Lease revenue	94	-	94
Other	595	1,260	1,855
Interest and fiscal agent fees	(32,568)	-	(32,568)
Net nonoperating revenues (expenses)	<u>(8,350)</u>	<u>30,132</u>	<u>21,782</u>
Income before capital contributions and transfers	51,773	6,020	57,793
Capital contributions (Note 4)	13,624	-	13,624
Transfers in from District (Note 13)	26,085	-	26,085
Transfers out to District (Note 13)	(3,873)	-	(3,873)
Change in net position	<u>87,609</u>	<u>6,020</u>	<u>93,629</u>
Net position, beginning of year	1,079,201	24,620	1,103,821
Net position, end of year	<u>\$ 1,166,810</u>	<u>\$ 30,640</u>	<u>\$ 1,197,450</u>

*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, 2023**  
**(Dollars in Thousands)**

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 260,806	\$ -	\$ 260,806
Payments to suppliers	(64,468)	(23,717)	(88,185)
Payments to employees	(123,273)	-	(123,273)
Other receipts	689	1,260	1,949
Net cash provided by (used for) operating activities	<u>73,754</u>	<u>(22,457)</u>	<u>51,297</u>
<b>Cash flows from noncapital financing activities:</b>			
Property taxes received	10,540	28,935	39,475
Operating grant	5,376	-	5,376
Transfers in from other funds	26,085	-	26,085
Net cash provided by noncapital financing activities	<u>42,001</u>	<u>28,935</u>	<u>70,936</u>
<b>Cash flows from capital and related financing activities:</b>			
COP/ revenue bonds issuance/(payment)	338,537	-	338,537
Commercial paper issuance/(payment)	(99,195)	-	(99,195)
Capital grants	13,624	-	13,624
Interest and fiscal agent fees paid	(32,568)	-	(32,568)
Payments for contract water rights	(11,120)	-	(11,120)
Acquisition and construction of capital assets	(222,560)	-	(222,560)
Transfers out to other funds	(3,873)	-	(3,873)
Net cash used by capital and related financing activities	<u>(17,155)</u>	<u>-</u>	<u>(17,155)</u>
<b>Cash flows from investing activities:</b>			
Sale/(purchase) of investments	(212,856)	-	(212,856)
Rental income received	143	-	143
Interest received on cash and investments	7,582	-	7,582
Net cash provided by investing activities	<u>(205,131)</u>	<u>-</u>	<u>(205,131)</u>
Net (Increase)/(decrease) in cash and cash equivalents	(106,531)	6,478	(100,053)
Cash and cash equivalents, beginning of year	408,373	11,809	420,182
Cash and cash equivalents, end of year	<u>\$ 301,842</u>	<u>\$ 18,287</u>	<u>\$ 320,129</u>
<b>Cash and cash equivalents are reported on the Statement of Net Position:</b>			
Cash and investments	\$ 301,842	\$ 18,287	\$ 320,129
Cash and cash equivalents, end of year	<u>\$ 301,842</u>	<u>\$ 18,287</u>	<u>\$ 320,129</u>

(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, 2023**  
**(Dollars in Thousands)**

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
<b>Reconciliation of operating income ( loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 60,123	\$ (24,112)	\$ 36,011
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>			
Other receipts/(payments)	689	1,260	1,949
Depreciation and amortization	32,838	944	33,782
<b>Change in operating assets and liabilities:</b>			
(Increase)/decrease in deposits and other assets	(1,960)	-	(1,960)
(Increase)/decrease in accounts receivable	(1,003)	-	(1,003)
(Increase)/decrease in water inventory	(6,343)	-	(6,343)
Increase/(decrease) in accounts payable	8,252	1	8,253
Increase/(decrease) in accrued liabilities	4,204	(550)	3,654
Increase/(decrease) in lease payable	(658)	-	(658)
Increase/(decrease) in compensated absences	395	-	395
Increase/(decrease) in deposits payable	1,806	-	1,806
Increase/(decrease) in other post employment benefits liability	9,018	-	9,018
Increase/(decrease) in deferred inflows/ outflows of resources	(95,002)	-	(95,002)
Increase/(decrease) in pension liability	61,676	-	61,676
Increase/(decrease) in payable to Semitropic	(281)	-	(281)
Net cash provided (used) by operating activities	<u>\$ 73,754</u>	<u>\$ (22,457)</u>	<u>\$ 51,297</u>
<b>Noncash investing, capital, and financing activity:</b>			
Acquisition/(disposition) of capital assets	\$ (1)	\$ -	\$ (1)

*See accompanying notes to basic financial statements*



**NOTE 1        THE 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 daily 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 1.6% starting fiscal year 2022.

**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, 2023 are shown below.

<u>Type</u>	<u>Acre Feet</u>		<u>Total</u> <u>(in thousands)</u>
	<u>Volume</u>	<u>Average Unit Cost</u>	
Semitropic	261,387	417	\$ 108,998
Local Reservoir Storage	59,069	417	24,362
Total			\$ <u>133,360</u>

**(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.

**(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.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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, 2023, 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.

**(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.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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. 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 Funds' financial statements.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) New Pronouncements (Continued)**

GASB 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. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 98 – In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98). This statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The requirements of this statement are effective for fiscal years ending after December 15, 2021. Valley Water has implemented GASB 98 as of and for the year ended June 30, 2022.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines an SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Valley Water has implemented GASB 96 as of and for the year ended June 30, 2023.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The implementation of this standard does not have an impact to the Funds' 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, 2023 are as follows:

Cash and investments	\$ 320,129
Restricted cash and investments	212,866
Cash and investments pooled with Valley Water	<u>\$ 532,995</u>

At June 30, 2023, Valley Water's cash and investments pool consists of the following (in thousands):

U.S. Government Agencies	\$ 284,234
U.S. Treasury Obligations	239,918
Medium Term Notes	1,827
Local Agency Investment Fund	63,188
Mutual Funds	124,340
Supranational Obligations	13,895
Municipal Bonds	37,167
Negotiable Certificates of Deposit	223
Time Certificates of Deposit	162,765
Money Market Funds	43,489
Total Investments	<u>\$ 971,046</u>
 Carrying amount of cash	 3,050
 Total Cash and Investments	 <u>\$ 974,096</u>

As of June 30, 2023, the fair value of Valley Water's investment in the State of California investment pool (LAIF) was \$63.2 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.



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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality (Exempt from disclosure)	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	(B)	(B)
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, 2023, the Funds' cash and investments held by fiscal agents within Valley Water's cash and investment pool was \$5.4 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, 2023, Valley Water had \$196.3 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).

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	\$ 163,444	\$ 65,763	\$ 49,767	\$ 47,914
U.S. Government Agencies - Callable	120,790	9,963	45,920	64,907
U.S. Treasury Obligations	239,918	155,441	63,416	21,061
Medium Term Notes	1,827	-	-	1,827
LAIF	63,188	63,188	-	-
Mutual Funds	124,340	124,340	-	-
Supranational Obligations	9,494	2,983	4,696	1,815
Supranational Obligations - Callable	4,401	-	-	4,401
Municipal Bonds	37,167	9,459	11,247	16,461
Negotiable Certificates of Deposit	223	-	223	-
Time Certificates of Deposit	162,765	162,765	-	-
Money Market Funds	43,489	43,489	-	-
Total Investments	<u>\$ 971,046</u>	<u>\$ 637,391</u>	<u>\$ 175,269</u>	<u>\$ 158,386</u>

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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**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.

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, 2023 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end					Not Rated
				AAA	AA+	AA	AA-		
U. S. Government Agencies	\$ 284,234	AA-	\$ -	\$ -	\$ 228,986	\$ -	\$ -	\$ 55,248	
U. S. Treasury Obligations	239,918	AA-	239,918	-	-	-	-	-	
Medium Term Notes	1,827	AA-	-	-	1,827	-	-	-	
LAIF	63,188	N/A	-	-	-	-	-	63,188	
Mutual Funds	124,340	AAA	-	124,340	-	-	-	-	
Supranational Obligations	13,895	AA	-	13,895	-	-	-	-	
Municipal Bonds	37,167	AA-	-	6,282	15,942	12,304	1,126	1,513	
Negotiable Certificates of Deposit	223	AA-	-	-	-	-	-	223	
Time Certificates of Deposit	162,765	N/A	-	-	-	-	-	162,765	
Money Market Funds	43,489	N/A	-	-	-	-	-	43,489	
Total Investments	<u>\$ 971,046</u>		<u>\$ 239,918</u>	<u>\$ 144,517</u>	<u>\$ 246,755</u>	<u>\$ 12,304</u>	<u>\$ 1,126</u>	<u>\$ 326,426</u>	

**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, 2023, such investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
Government- wide		
Federal Farm Credit Bank	U. S. Government Agency	\$ 82,371
Federal Home Loan Bank	U. S. Government Agency	88,986
Federal National Mortgage Association	U. S. Government Agency	51,716

**NOTE 3      CASH AND INVESTMENTS (CONTINUED)**

**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.

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 Depositary 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).

**Santa Clara Valley Water District**  
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**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

The following table summarizes by level, within the fair value hierarchy, Valley Water's investments at fair value at June 30, 2023 (in thousands):

	<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Uncategorized</u>
Investments by Fair Value Level				
U.S. Government Agencies	\$ 284,234	\$ 284,234	\$ -	\$ -
U.S. Treasury Obligations	239,918	239,918	-	-
Medium Term Notes	1,827	-	1,827	-
Mutual Funds	124,340	-	124,340	-
Supranational Obligations	13,895	-	13,895	-
Municipal Bonds	37,167	-	37,167	-
Negotiable Certificates of Deposit	223	-	223	-
Time Certificates of Deposit	162,765	-	162,765	-
Subtotal - Leveled Investments	<u>864,369</u>	<u>524,152</u>	<u>340,217</u>	<u>-</u>
LAIF	63,188	-	-	63,188
Money Market Funds	43,489	-	-	43,489
Subtotal - Uncategorized	<u>106,677</u>	<u>-</u>	<u>-</u>	<u>106,677</u>
Total Investments	\$ <u>971,046</u>	\$ <u>524,152</u>	\$ <u>340,217</u>	\$ <u>106,677</u>

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 2023 (in thousands):

	<u>Amount</u>
Local Agencies:	
San Benito County Water Agency	\$ 239
East Bay Municipal Utility District	638
State Agencies:	
Department of Water Resources	9,432
Federal Agencies:	
U.S. Bureau of Reclamation	3,315
Total	\$ <u>13,624</u>

**Santa Clara Valley Water District**  
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**NOTE 5 INVESTMENT INCOME (LOSS)**

The following table represents the components of the Funds' investment income for the year ended June 30, 2023 (in thousands):

Unrealized Gain	Interest Income	Investment Earnings, Net
\$ 714	\$ 6,868	\$ 7,582

**NOTE 6 CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2023 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Nondepreciable capital assets:					
Land	\$ 19,984	\$ 5	\$ -	\$ -	\$ 19,989
Intangible - Easement	3,837	20,401	-	-	24,238
Construction in progress	699,780	201,816	(8,165)	-	893,431
Total nondepreciable capital assets	723,601	222,222	(8,165)	-	937,658
Depreciable capital assets:					
Contracted water and storage rights	247,777	11,119	-	-	258,896
Buildings	97,751	-	-	-	97,751
Structures and improvements	971,774	-	8,165	-	979,939
Equipment	30,059	337	-	(18)	30,378
Intangible - software	113	-	-	-	113
Lease assets	4,005	-	-	(751)	3,254
Total depreciable capital assets	1,351,479	11,456	8,165	(769)	1,370,331
Less: accumulated depreciation and amortization					
Contracted water rights	(214,135)	(13,543)	-	-	(227,678)
Buildings	(16,899)	(2,300)	-	-	(19,199)
Structures and improvements	(348,271)	(16,394)	-	-	(364,665)
Equipment	(26,962)	(875)	-	18	(27,819)
Intangible - software	(79)	(23)	-	-	(102)
Lease assets	(647)	(646)	-	751	(542)
Total accumulated depreciation and amortization	(606,993)	(33,781)	-	769	(640,005)
Net depreciable capital assets	744,486	(22,325)	8,165	-	730,326
Total capital assets, net	\$ 1,468,087	\$ 199,897	\$ -	\$ -	\$ 1,667,984



**NOTE 6 CAPITAL ASSETS (CONTINUED)**

During the fiscal year 2023, new construction-in-progress amounted to \$201.8 million. There were 30 in-progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$55.5 – Anderson Dam Tunnel
- \$27.3 – 10-year Pipeline Inspection and Rehabilitation
- \$21.9 – Anderson Dam Seismic Retrofit
- \$16.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$16.3 – South County Recycled Water Fund Short-Term 1B
- \$12.8 – Pacheco Reservoir Expansion
- \$8.8 – Coyote Creek Flood Management Measures
- \$8.2 – Cross Valley Pipeline Extension
- \$6.8 – Indirect Potable Reuse
- \$5.4 – Rinconada Water Treatment Plant Reliability Improvement

**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, 2023 are as follows (in thousands):

	Balance as of June 30, 2022	Additions	Deletions	Balance as of June 30, 2023
Lease assets:				
Land	\$ 3,254	\$ -	\$ -	\$ 3,254
Equipment	751	-	(751)	-
Total	4,005	-	(751)	3,254
Less: accumulated amortization				
Land	(271)	(271)	-	(542)
Equipment	(376)	(375)	751	-
Total accumulated amortization	(647)	(646)	751	(542)
Total lease assets, net \$	\$ 3,358	\$ (646)	\$ -	\$ 2,712

**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.

The Funds' short-term debt as of June 30, 2023 consisted of the following (in thousands):

	Maturity Date	Interest Rate	June 30, 2023
Commercial paper:			
80169BAL8 Taxable	10/17/2023	5.50%	\$ 35,000
Total short-term liabilities			<u>\$ 35,000</u>

The following is the summary of changes in short-term debt for the year ended June 30, 2023 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	\$ 94,770	\$ 35,000	\$ (94,770)	\$ 35,000
Revolving line of credit	39,425	-	(39,425)	-
Total short-term liabilities	<u>\$ 134,195</u>	<u>\$ 35,000</u>	<u>\$ (134,195)</u>	<u>\$ 35,000</u>

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

**(b) Long-term liabilities**

The Funds' long-term liabilities as of June 30, 2023 consisted of the following (in thousands):

Type of indebtedness	Maturity	Interest Rate*	Authorized and Issued	June 30, 2023	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	24,625	3,685
2016D Water revenue COP	2029	3.14%	54,970	30,995	4,740
2017A Water revenue bond	2037	3.13%	54,710	43,720	2,190
2019A Water revenue bond	2049	3.75%	15,225	14,235	280
2019B Water revenue bond	2049	3.81%	80,030	73,270	1,795
2019C Water revenue bond	2036	2.76%	38,280	30,790	2,190
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	38,360	1,750
2020D Water revenue COP	2041	2.20%	81,560	75,020	3,370
2023A Water revenue bond	2052	4.19%	52,090	52,090	-
2023B Water revenue bond	2052	5.11%	69,045	69,045	1,180
2023C-1 Water revenue COP	2026	2.35%	117,365	117,365	-
2023C-2 Water revenue COP	2041	3.22%	42,285	42,285	1,525
2023D Water revenue COP	2026	4.33%	62,615	62,615	-
Bond discount				(851)	(29)
Bond premium				67,014	4,596
Total long-term debt				1,014,758	27,272
Compensated absences				8,605	1,837
Net pension liability (See Note 10)				129,765	-
Other post employment benefits liability (See Note 11)				21,144	-
Semitropic water banking liability	2035		46,900	11,919	-
Lease liability				2,974	283
Total enterprise funds debt				\$ 1,189,165	\$ 29,392

\*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.

**Santa Clara Valley Water District**  
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**NOTE 7      SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)**

**(b) Long-term liabilities (continued)**

The following is the summary of changes in long-term liabilities for the year ended June 30, 2023 (in thousands):

	Balance 7/1/2022	Additions	Reductions	Balance 6/30/2023	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	28,160	-	(3,535)	24,625	3,685	20,940
2016D COPS	35,590	-	(4,595)	30,995	4,740	26,255
2017A revenue bonds	45,770	-	(2,050)	43,720	2,190	41,530
2019A revenue bonds	14,500	-	(265)	14,235	280	13,955
2019B revenue bonds	75,020	-	(1,750)	73,270	1,795	71,475
2019C COPS	32,990	-	(2,200)	30,790	2,190	28,600
2020A revenue bonds	24,120	-	-	24,120	-	24,120
2020B revenue bonds	68,530	-	-	68,530	-	68,530
2020C COPS	40,080	-	(1,720)	38,360	1,750	36,610
2020D COPS	78,320	-	(3,300)	75,020	3,370	71,650
2023A revenue bonds	-	52,090	-	52,090	-	52,090
2023B revenue bonds	-	69,045	-	69,045	1,180	67,865
2023C-1 COPS	-	117,365	-	117,365	-	117,365
2023C-2 COPS	-	42,285	-	42,285	1,525	40,760
2023D COPS	-	62,615	-	62,615	-	62,615
Bond discount	-	(864)	13	(851)	(29)	(822)
Bond premium	51,643	18,793	(3,422)	67,014	4,596	62,418
Total long-term debt	676,253	361,329	(22,824)	1,014,758	27,272	987,486
Compensated absences	8,210	6,128	(5,733)	8,605	1,837	6,768
Net pension liability (See Note 10)	68,090	61,676	(1)	129,765	-	129,765
Other post employment benefits liability (See Note 11)	12,126	9,018	-	21,144	-	21,144
Semitropic water banking liability	12,200	-	(281)	11,919	-	11,919
Lease and subscription liability	3,632	-	(658)	2,974	283	2,691
Total business- type activity long- term liabilities	\$ 780,511	\$ 438,151	\$ (29,497)	\$ 1,189,165	\$ 29,392	\$ 1,159,773

**Santa Clara Valley Water District**  
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**For the Year Ended June 30, 2023**

**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	2024	\$ 22,705	\$ 39,248
	2025	101,770	36,880
	2026	125,935	34,459
	2027	25,110	29,426
	2028	26,025	28,503
	2029-2033	139,325	126,351
	2034-2038	143,280	96,491
	2039-2043	146,870	66,338
	2044-2048	151,680	32,205
	Thereafter	65,895	5,897
Total bonds payable requirements		<u>\$ 948,595</u>	<u>\$ 495,798</u>

**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 \$2.7 million at June 30, 2023. The right to use assets are included in Note 6.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2023 are as follows (in thousands):

Year Ending June 30	Principal	Interest
2024	\$ 283	\$ 32
2025	287	28
2026	290	25
2027	1,494	81
2028	620	10
	<u>\$ 2,974</u>	<u>\$ 176</u>

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

**(b) Long-term liabilities (continued)**

The following provides a brief description of the Funds' long-term debt as of June 30, 2023:

**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)**

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)**

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, 2023, the Funds have an outstanding liability of \$11.9 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 \$948.6 million in long-term debt outstanding as of June 30, 2023, 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 2050. The total principal outstanding and interest costs remaining to be paid on the combined debt is \$1.68 million.

**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, 2023, are as follows (in thousands):

	<u>Amount</u>
Property taxes:	
1% tax allocation	\$      10,522
Voter approved indebtedness:	
State Water Project Fund	28,872
Total property taxes	<u>\$      39,394</u>

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.

**Santa Clara Valley Water District  
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**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, 2023 (in thousands):

	Total Water Utility Enterprise Funds
<b>Net investment in capital assets</b>	\$ 603,803
<b>Restricted Net Position</b>	
Debt Service	16,545
Construction	42,973
San Felipe Emergency Reserve	3,527
GP5 reserve	20,545
Rate Stabilization	41,067
Advance Water Purification Center	1,298
Supplemental Water Supply Reserve	5,277
State Water Project	18,363
Total restricted net position	149,595
<b>Unrestricted Net Position</b>	
Operating & Capital Contingencies	74,535
Water inventory	133,630
Currently Authorized Projects	87,994
Purchase Commitments	256,560
Net Pension Liability	(76,513)
Net Other Post Employment Benefit Liability	(32,154)
Total unrestricted net position	444,052
<b>Net Position</b>	\$ 1,197,450

**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 at June 30, 2023, 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, 2023. As a result, the Funds recorded a net pension liability of \$129.8 million and deferred outflows of resources of \$86.4 million as of June 30, 2023. The Funds recorded pension expense of \$19.9 million for the year ended June 30, 2023.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2023 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.

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

**Benefits Provided**

	<b>Hire/Retirement Date</b>	<b>Eligibility Rule (Years of Continuous Service)</b>	<b>District's Required Contribution</b>
<p style="text-align: center;"><b><u>Classified</u></b></p> <p>Employee Association (AFSCME Local 101)</p> <p>Engineers Society (IFPTE Local 21)</p> <p>Professional Managers Association (IFPTE - Local 21)</p>	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	100% medical premium for retiree
		15 years	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	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.
		15 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.
	Hired on or after March 1, 2007	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.
		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.

(Continued)

**Santa Clara Valley Water District  
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**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**Benefits Provided (Continued)**

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<p style="text-align: center;"><b><u>Unclassified</u></b>  At Will</p>	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	100% medical premium for retiree
		15 years	100% medical premium for retiree plus one eligible dependent
	Retired from June 19, 1995 through October 21, 1996	10 years	100 % medical premium for retirees
		15 years	100% medical premium for retiree plus one eligible dependent
		25 years	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	100 % medical premium for retirees
		15 years	100% medical, dental, and vision coverages for the retiree plus one eligible dependent
		25 years	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	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.
		15 years	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.
		25 years	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)

**Santa Clara Valley Water District  
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**NOTE 11      OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**Benefits Provided (Continued)**

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<b><u>Unclassified</u></b>  At Will	Hired on or after March 1, 2007	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.
		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, 2023. As a result, the Funds recorded a net OPEB liability of \$21.1 million, deferred outflows of resources of \$12.5 million and deferred inflows of resources of \$4.8 million as of June 30, 2023. The Funds recorded OPEB expense of \$4.3 million for the year ended June 30, 2023.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2023 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, 2023, for more information about Valley Water's claims payable.



**Santa Clara Valley Water District  
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**NOTE 13      TRANSFERS IN FROM (OUT TO) DISTRICT**

Transfers made during fiscal year 2023 are shown below (in thousands):

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>	<u>Description</u>
Water Enterprise Fund	Watershed and Stream Stewardship	\$ 25,000	Interfund Transfer
Water Enterprise Fund	Safe, Clean Water & Natural Flood Protection	1,061	Water Conservation Program
Water Enterprise Fund	COP Construction	24	2020C Debt Service
Transfers in from District		<u>\$ 26,085</u>	
General Fund	Water Enterprise Fund	\$ (1,248)	HQ Oprns Bldg Project
General Fund	Water Enterprise Fund	(188)	Security Upgrades Project
Information Technology Fund	Water Enterprise Fund	(2,437)	Security Upgrades Project
Transfers out to District		<u>\$ (3,873)</u>	

**NOTE 14      COMMITMENTS**

**(a) Contract and Purchase Commitments**

As of June 30, 2023, the Funds have open purchase commitments of approximately \$272.4 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.

**NOTE 14      COMMITMENTS (CONTINUED)**

**(b) San Felipe Project Water Deliveries (Continued)**

Under the contract, the total commitment for repayment, including applicable interest, was \$432.7 million. The remaining commitment as of June 30, 2023 was \$167.1 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 \$32.2 million has been recorded through fiscal year 2023. This agreement terminates in December 2035.

Under the terms of the program, upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs.

The 2023 rate to retrieve Tier 1 water is \$83.44 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, 2023, Valley Water has 261,387 acre-feet of water in storage.

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.

**NOTE 14      COMMITMENTS (CONTINUED)**

**(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.

**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.

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, 2023.

**NOTE 16      SUBSEQUENT EVENTS**

Events have been evaluated subsequent to the balance sheet date through August 22, 2024, 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, 2023**

(Budgetary Basis)  
For Year Ended June 30, 2023  
(Dollars in Thousands)

	<u>North County</u>	<u>South County</u>	<u>Total</u>
Operating Revenues:			
Ground Water Charges	\$ 91,281	\$ 15,655	\$ 106,936
Treated Water Charges	159,215	-	159,215
Surface and recycled water charges	1,310	640	1,950
Operating Grants	5,358	18	5,376
Other	51	-	51
Total Operating revenues	<u>257,215</u>	<u>16,313</u>	<u>273,528</u>
Operating Expenses			
Sources of Supply	110,838	11,925	122,763
Water Treatment	49,369	701	50,070
Transmission and distribution:			-
Raw Water	14,813	3,869	18,682
Treated Water	2,126	-	2,126
Administration and general	22,685	7,656	30,341
Capital Cost Recovery	(6,107)	6,107	-
Total Operating Expenses	<u>193,724</u>	<u>30,258</u>	<u>223,982</u>
Operating income (loss)	<u>63,491</u>	<u>(13,945)</u>	<u>49,546</u>
Nonoperating revenues (expenses):			
Property Taxes	35,335	4,059	39,394
Investment Income	7,582	-	7,582
Rental Income	101	42	143
Other	1,703	152	1,855
Interest and fiscal agent fees	(32,568)	-	(32,568)
Open Space Credit Transfer	(3,881)	3,881	-
Interest earned credit	(137)	137	-
Net Operating revenues	<u>8,135</u>	<u>8,271</u>	<u>16,406</u>
Change in Net Position	<u>\$ 71,626</u>	<u>\$ (5,674)</u>	<u>\$ 65,952</u>

**Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:**

Income	65,952
Depreciation and amortization expenses not budgeted	(33,782)
Capital contributions	13,624
Interfund transfers	22,212
Reconcile GAAP to budgetary basis for operating expenses	<u>25,623</u>
Change in net position per Statement of Revenues, Expenses and Change in Net Position	<u>\$ 93,629</u>

**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, 2023 and 2022**

Water Utility Enterprise Funds Change in Net Position  
(Budgetary Basis)  
(Dollars In Thousands)

	North County		South County		Total	
	2023	2022	2023	2022	2023	2022
Operating revenues:						
Ground water charges	\$ 91,281	\$ 111,826	\$ 15,655	\$ 13,204	\$ 106,936	\$ 125,030
Treated water charges	159,215	145,365	-	-	159,215	145,365
Surfaced and recycled water charges	1,310	1,342	640	661	1,950	2,003
Total water charges	251,806	258,533	16,295	13,865	268,101	272,398
Other	5,409	5,450	18	50	5,427	5,500
Total operating revenues	257,215	263,983	16,313	13,915	273,528	277,898
Operating expenses:						
Source of supply	110,838	128,983	11,925	11,389	122,763	140,372
Water treatment	49,369	45,590	701	483	50,070	46,073
Transmission and distribution:						
Raw water	14,813	13,623	3,869	3,893	18,682	17,516
Treated water	2,126	2,462	-	-	2,126	2,462
Cost of goods sold	177,146	190,658	16,495	15,765	193,641	206,423
Administration and general	22,685	21,890	7,656	6,941	30,341	28,831
Capital cost recovery	(6,107)	(5,669)	6,107	5,669	-	-
Total operating expenses	193,724	206,879	30,258	28,375	223,982	235,254
Operating income ( loss)	63,491	57,104	(13,945)	(14,460)	49,546	42,644
Non- operating income (expenses) :						
Property taxes	35,335	35,931	4,059	3,869	39,394	39,800
Investment income ( loss)	7,582	(8,300)	-	-	7,582	(8,300)
Operating grants	-	-	-	-	-	-
Rental income	101	57	42	43	143	100
Other	1,703	2,084	152	916	1,855	3,000
Interest/ fiscal agent fees	(32,568)	(27,000)	-	-	(32,568)	(27,000)
Open space credit transfer	(3,881)	(6,699)	3,881	6,699	-	-
Interest earned credit	(137)	(205)	137	205	-	-
Net non- operating income	8,135	(4,132)	8,271	11,732	16,406	7,600
Net income ( loss)	\$ 71,626	\$ 52,972	\$ (5,674)	\$ (2,728)	\$ 65,952	\$ 50,244

**Santa Clara Water District  
Water Utility Enterprises Funds  
Schedule of Revenues, Expenses and Changes in Net Position by Zone -  
Budgetary Basis Discussion (Continued)  
Year ended June 30, 2023 and 2022**

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Budgetary basis discussion:

- The Funds' total operating revenues were \$273.5 million for the current fiscal year. 94.0 percent of those revenues, or \$257.2 million were related to the North County, while the remaining 6.0 percent or \$16.3 million were related to the South County.
- Operating expenses for North County include \$177.1 million in cost of goods sold, or 68.9 percent of its total operating revenues. For the South County, the cost of goods sold is \$16.5 million.
- Administration and general expenses were \$22.7 million or 8.8 percent of total operating revenues for the North County and \$7.7 million or 46.9 percent of total operating revenues for the South County.
- Total operating revenues of \$273.5 million, less total operating expenses of \$224.0 million, netted \$49.5 million of income from operations for the current year. The North County recorded a net operating income of \$63.5 million, while the South County incurred a net operating loss of \$13.9 million.

Total income from operations was supplemented with property tax, operating grants, investment income (loss) and other income totaling \$49.0 million.

- Property taxes collected in North County amounted to \$35.3 million, while \$4.1 million were collected in South County for a total of \$39.4 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 \$6.9 million. 0.7 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 \$7.6 million.

**Santa Clara Water District  
Water Utility Enterprises Funds  
2023 Water Service Rate Schedule by Zone**

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Water Utility Enterprise Funds Rate Summary

	<b>Rate</b>
<u>Groundwater</u>	
Zone W- 2 North County - Agricultural	\$ 36.85
Zone W- 2 North County - Non- Agricultural	1,724.00
Zone W- 5 South County - Agricultural	36.85
Zone W- 5 South County - Non- Agricultural	513.00
Zone W- 7 South County - Agricultural	36.85
Zone W- 7 South County - Non- Agricultural	582.50
Zone W- 8 South County - Agricultural	36.85
Zone W- 8 South County - Non- Agricultural	368.50
<u>Treated Water</u>	
Contract ( Scheduled ) ( 2 )	1,839.00
Non- Contract ( 3 )	1,924.00
Surface Water ( Basic User Charge)	
Zone W- 2 North County - Agricultural	83.95
Zone W- 2 North County - Non- Agricultural	1,771.10
Zone W- 5 South County - Agricultural	83.95
Zone W- 5 South County - Non- Agricultural	560.10
Zone W- 7 South County - Agricultural	83.95
Zone W- 7 South County - Non- Agricultural	629.60
Zone W- 8 South County - Agricultural	83.95
Zone W- 8 South County - Non- Agricultural	415.60
Water Master ( 1 )	47.10
<u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	64.25
Gilroy Reclamation Facility – Non- Agricultural	493.00

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(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 groundwater production charge) plus the non-contract surcharge.





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# Santa Clara Valley Water District

**File No.:** 24-0822

**Agenda Date:** 9/18/2024

**Item No.:** 4.3.

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## 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 2025 Annual Audit Plan, and Provide Further Guidance as Needed.

### RECOMMENDATION:

Discuss potential audit topics for 2025 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 as the 2025 Annual Audit Plan, discuss any new related information as appropriate, and provide any guidance the BAC deems appropriate.

According to the BAC Charter, Article I, Paragraph 4 which 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.

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.

At the August 21, 2024, BAC meeting, the CAE began discussion of potential audit topics and the process and schedule for completing the proposed Annual Audit Plan for the full Board's consideration.

The purpose of this meeting is to continue this discussion and to identify specific audits for potential inclusion into the 2025 Annual Audit Plan.

**ENVIRONMENTAL JUSTICE AND EQUITY 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**

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## **Districtwide Risk Assessment – 2023**

**November 2023**



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## Introduction

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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

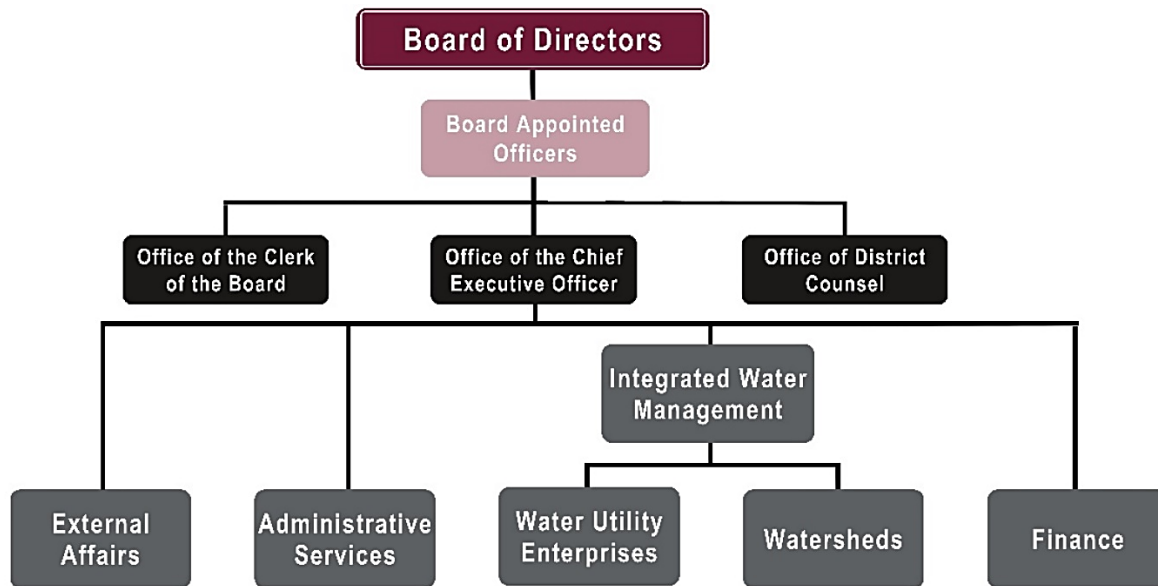
The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood 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 and 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.

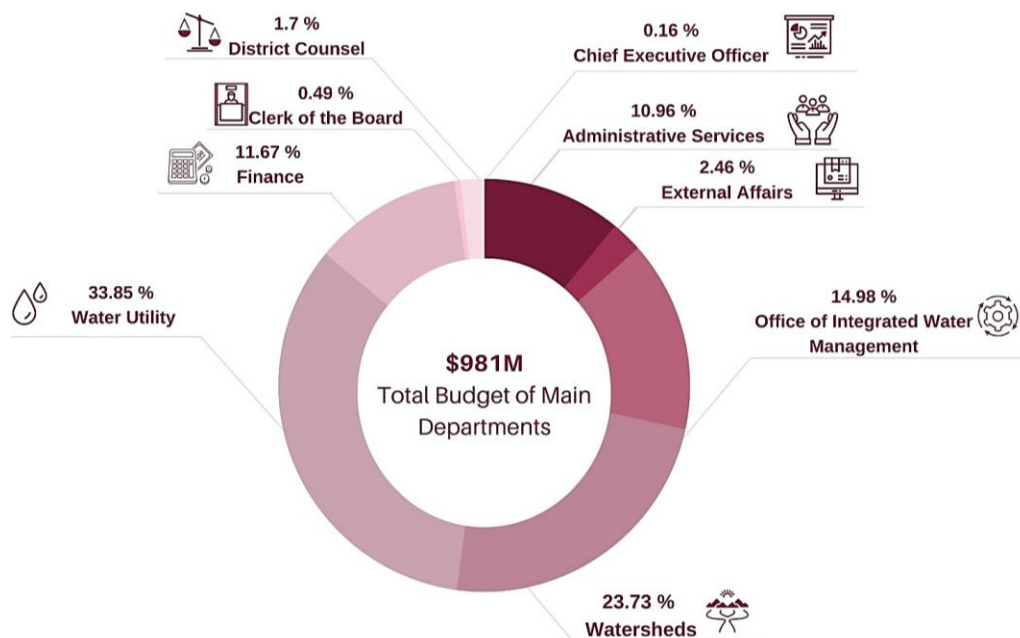
## EXHIBIT 1. VALLEY WATER ORGANIZATION CHART



Source: Official Valley Water Organization Charts

As illustrated below, Valley Water's Fiscal Year 2023-24 budgeted operating expenses totaled approximately \$857 million,<sup>1</sup> 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

<sup>1</sup> 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.

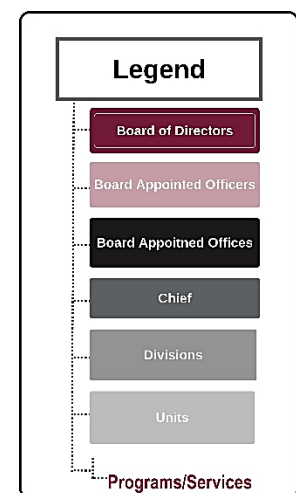
### EXHIBIT 3. RISK SOURCES & TYPES RELATED TO THE ADMINISTRATION OF DISTRICT DEPARTMENTS AND PROGRAMS



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.

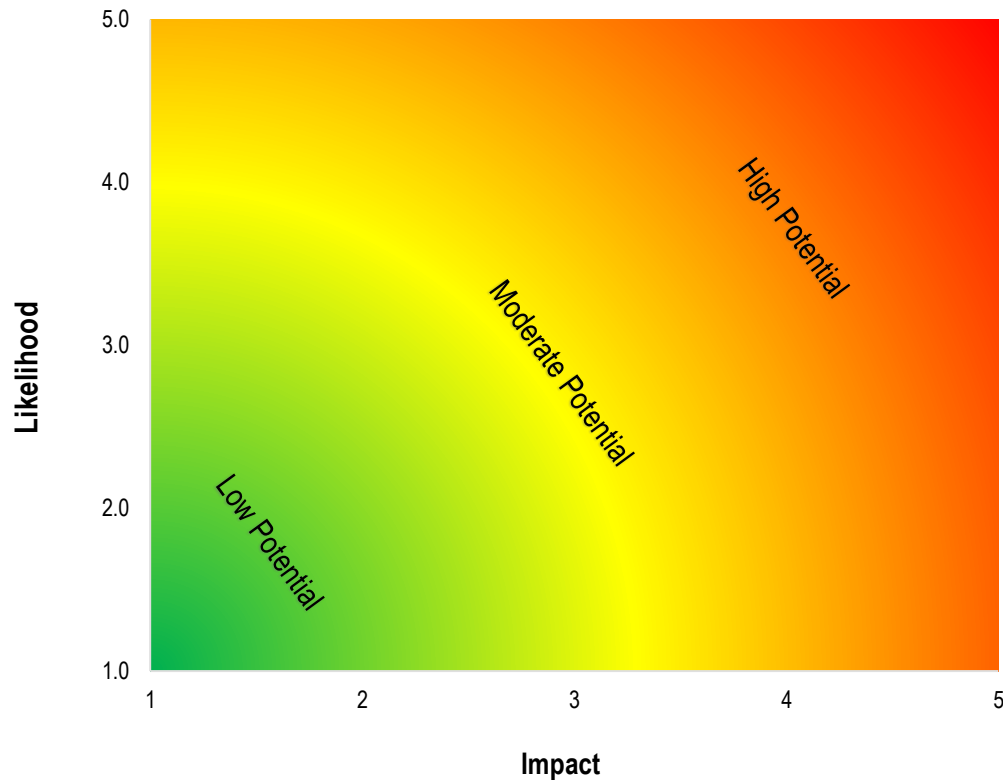
While this report presents risk ratings for key departments, divisions, and programs, it is important to note that a high-risk score is not indicative of poor performance, lacking internal controls, or bad business practices. Rather, risk scores indicate the extent to which key programmatic or operational 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.



### Key Statistics and Responsibilities

FY 2023/24

**FTEs:**  
**Budget:**

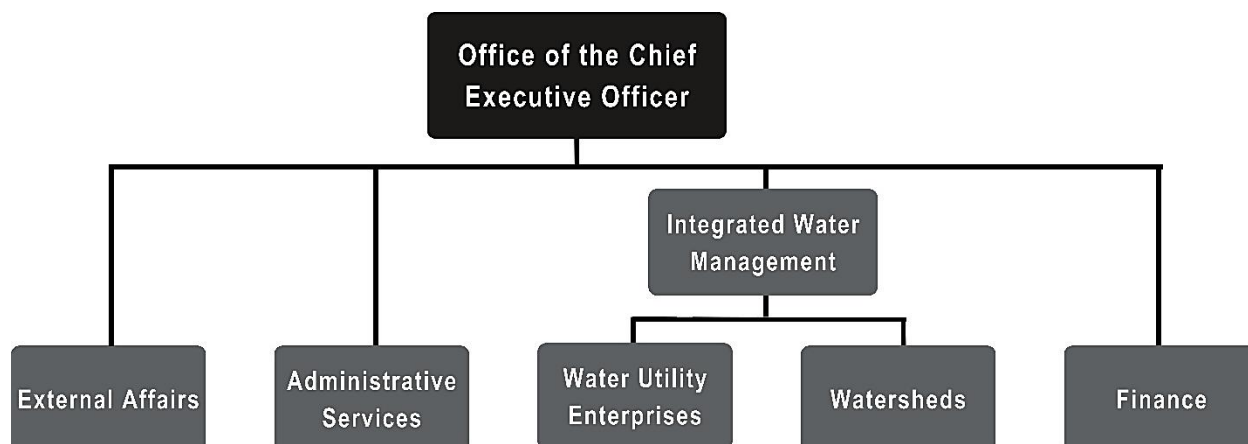
**3**  
**\$1.6M**



**0.16%**  
**Total Budget**

- Provides strategic direction and supervision to guide the organization in fulfilling Valley Water's mission.
- Assumed executive leadership at Valley Water and supports the Board of Directors.
- Performs Financial Management through overseeing the Finance Division.

## 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		
<p>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.</p>	<b>Budget:</b> \$1,579,221	
	<b>FTE:</b> 3	
	<p><b>Inherent Risks:</b> 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.</p>	

### 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



### Key Statistics and Responsibilities

**FY 2023/24**

<b>FTEs:</b>	<b>15</b>				
<b>Budget:</b>	<b>\$4.8M</b>		<b>0.49%</b>	<b>Total</b>	<b>Total</b>
		<b>Budget</b>		<b>Budget</b>	

- Oversees the Records & Library Services Unit.
- Directly supports the work of the Board of Directors, facilitating the public's access to Board information, and monitoring the Board budget and Board members' expenses.
- Serves as Valley Water's election official.

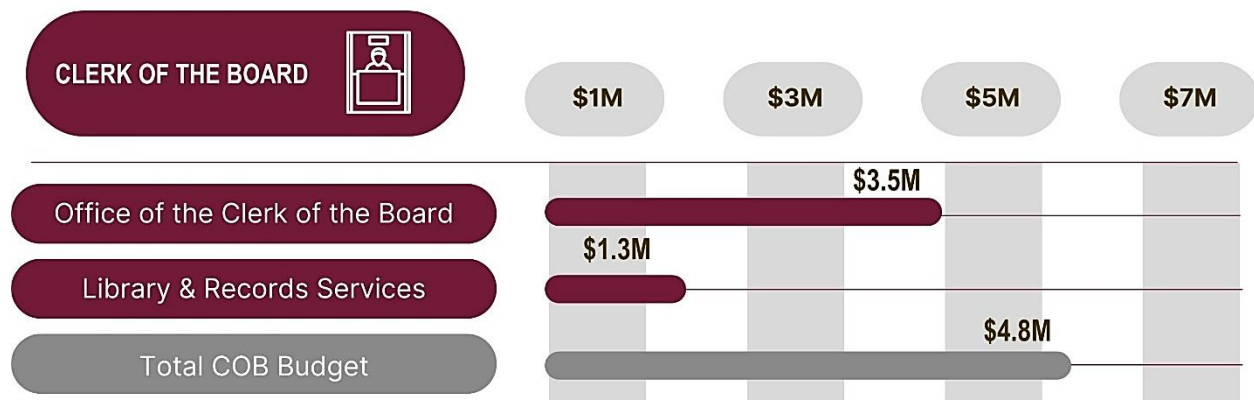


on all matters related to elections; and monitoring the Board budget and Board members' expenses in accordance with District Ordinance 02-01, Resolution 11-73, Board Governance Policy GP-10.

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.

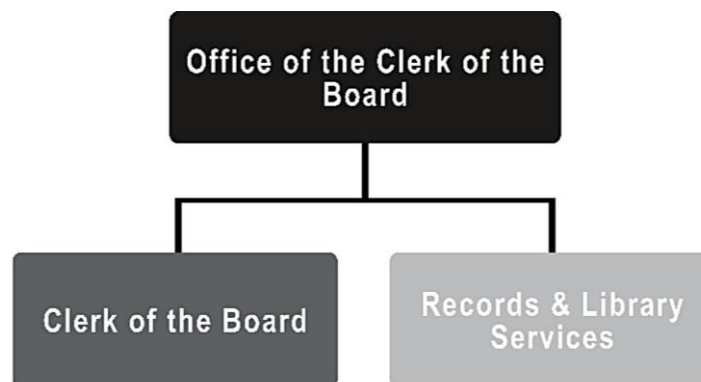
#### EXHIBIT 6. BUDGET BREAKDOWN BY DEPARTMENT



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.	<b>Budget:</b> \$ 3,517,767 <b>FTE:</b> 10  <b>Inherent Risks:</b> 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

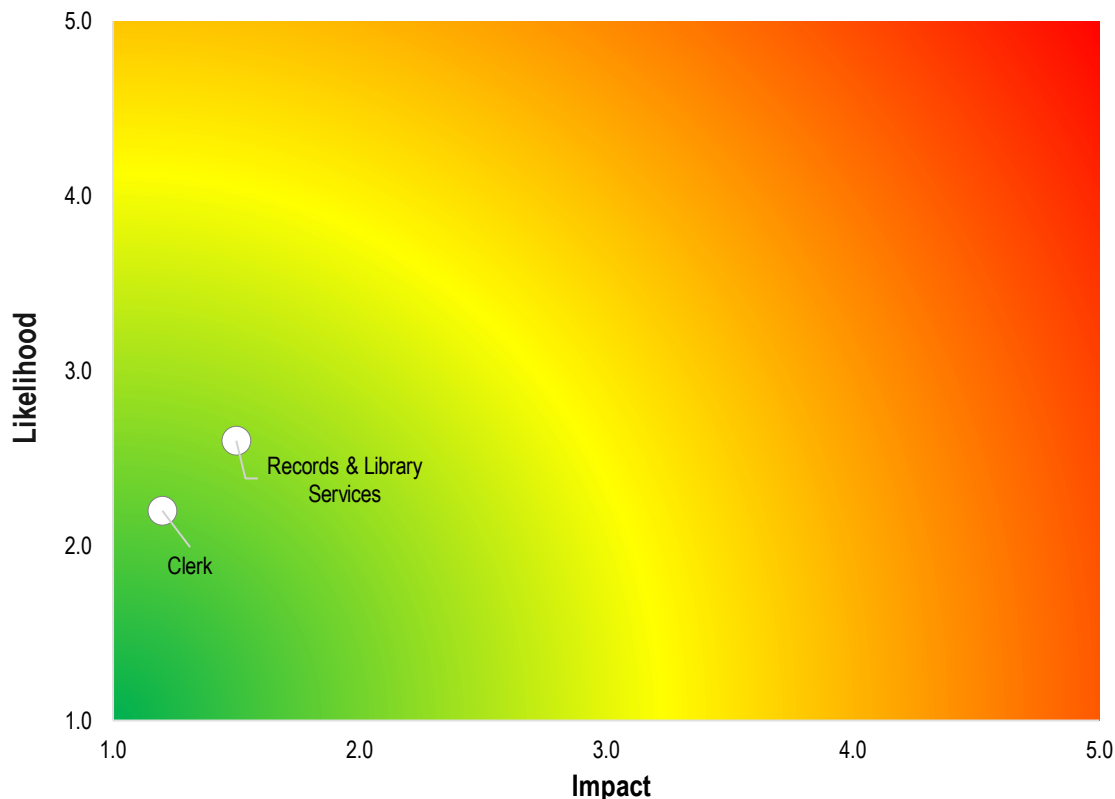
**FTE:** 5

**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 District 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.



## Key Statistics and Responsibilities

FY 2023/24

**FTEs:**  
**Budget:**

**14**  
**\$16M**

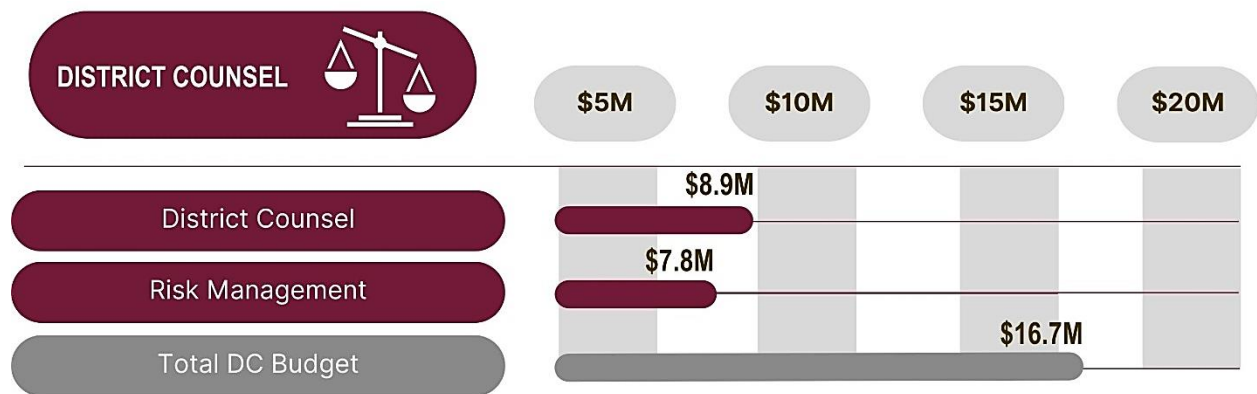


**1.7% Total  
Budget**

- Provided timely legal advice to Valley Water, the Board, and Valley Water's officers and employees when acting in their official capacities.
- Includes both internal legal services and management of the external legal services provided to Valley Water.
- Served as counsel or co-counsel in all Valley Water litigation matters.
- Oversees the Risk Management Program.

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.

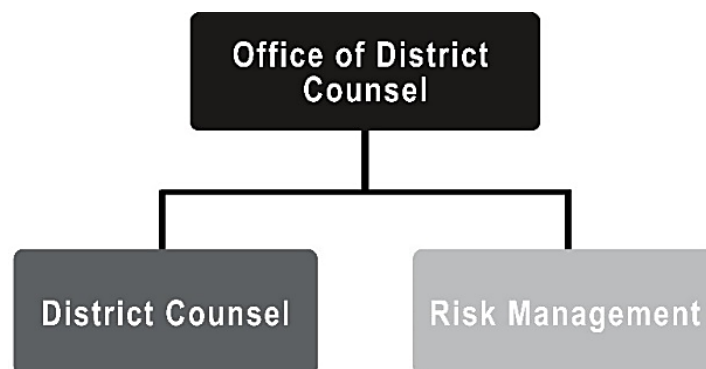
#### EXHIBIT 9. BUDGET BREAKDOWN BY DEPARTMENT



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.	<b>Budget:</b> \$ 8,885,440 <b>FTE:</b> 11  <b>Inherent Risks:</b> 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.

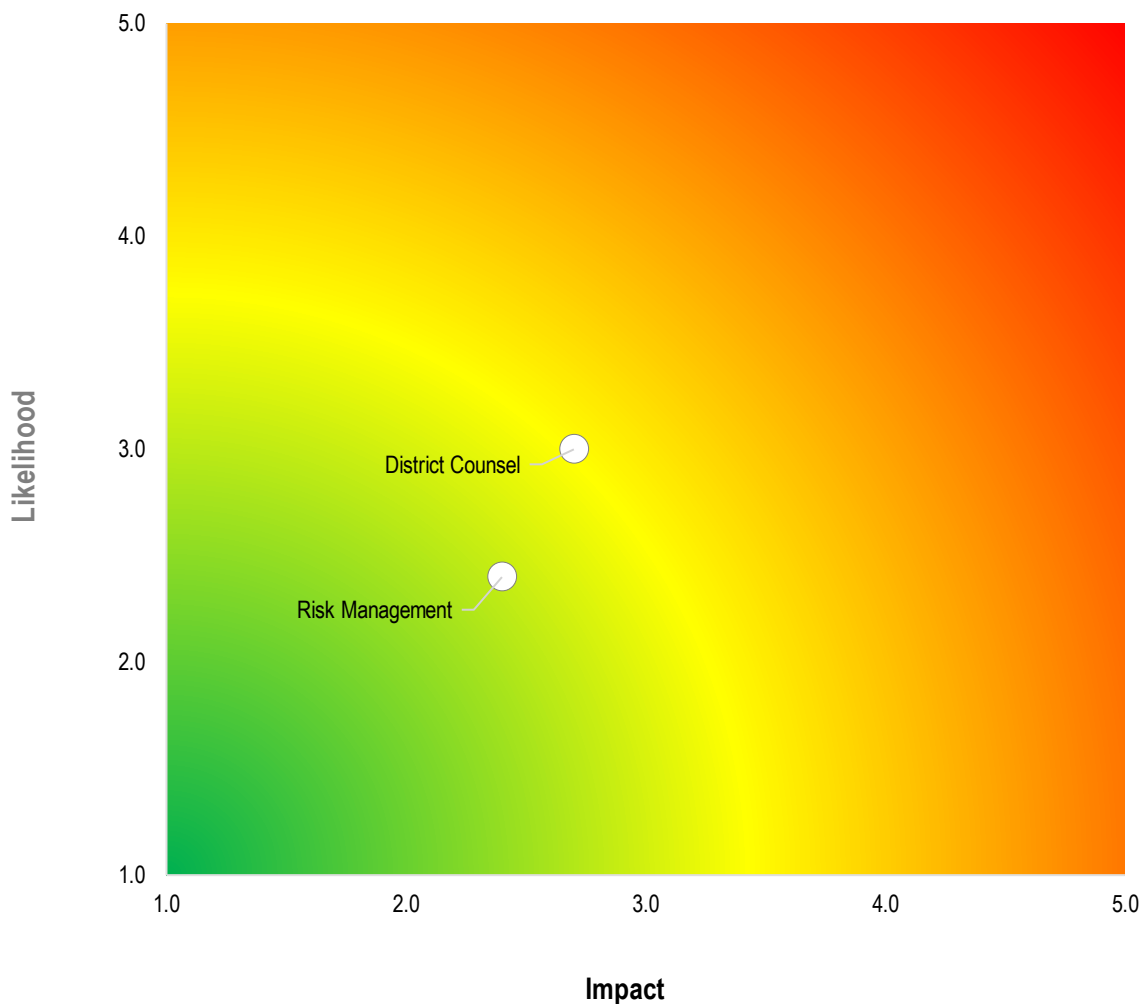
RISK MANAGEMENT UNIT	
The Risk Management Unit at Valley Water is primarily tasked with identifying and evaluating loss exposures to protect the organization's assets. This involves overseeing the Workers' Compensation program and implementing risk retention (self-insurance) and risk transfer (insurance) 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.	<b>Budget:</b> \$ 7,783,334 <b>FTE:</b> 3  <b>Inherent Risks:</b> 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.

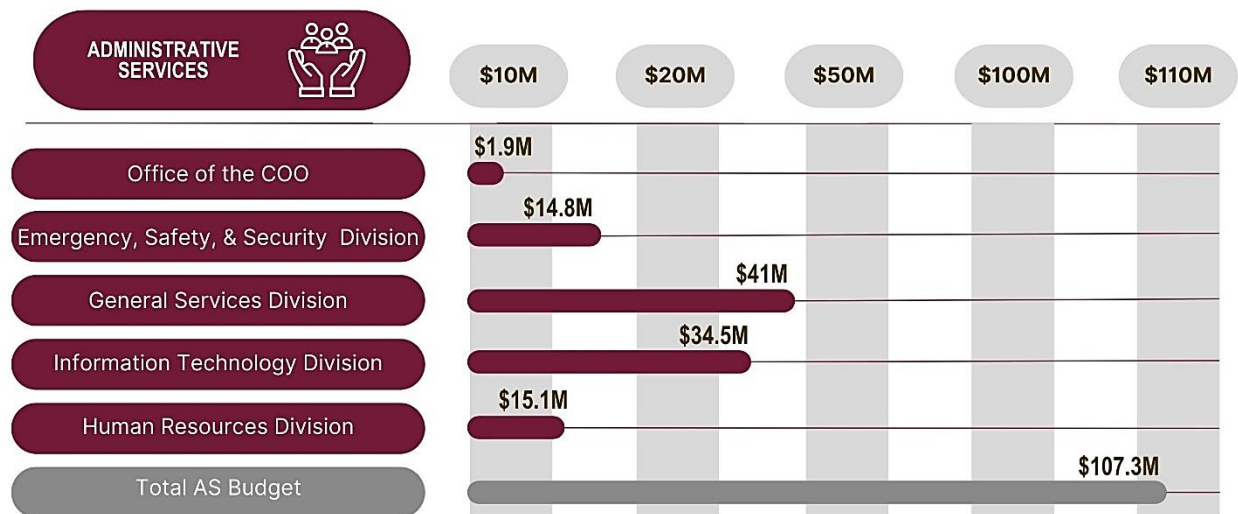
In FY 2023, the Office of Administrative Services cites various accomplishments, including Labor Relations having completed Performance Improvement training for all Managers; the Office of Emergency Services having conducted the Annual Winter Preparedness Workshop with external stakeholders; the Environmental, 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.





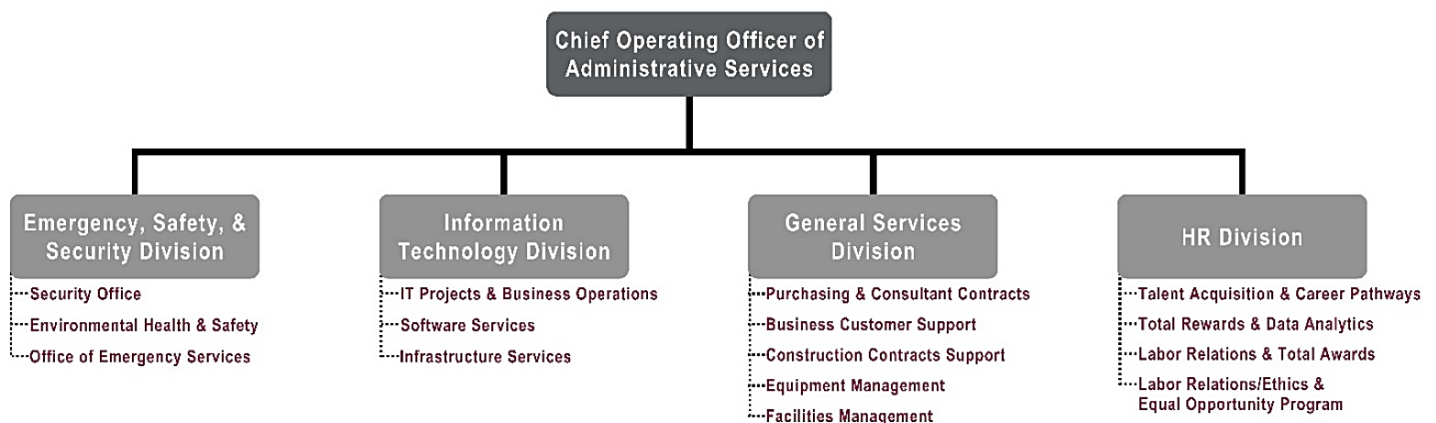
## EXHIBIT 12. BUDGET BREAKDOWN BY DIVISION



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.	<b>Budget:</b> \$1,860,646	<b>FTE:</b> 3
	<b>Inherent Risks:</b> 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.	<b>Budget:</b> \$ 14,840,573	<b>FTE:</b> 19
	<b>Inherent Risks:</b> 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.	<b>Budget:</b> \$ 34,798,353 <b>FTE:</b> 39 <b>Inherent Risks:</b> 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.	<b>Budget:</b> \$ 40,994,675 <b>FTE:</b> 71 <b>Inherent Risks:</b> 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	
<p>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.</p>	<p><b>Budget:</b> \$ 15,038,569      <b>FTE:</b> 31</p> <p><b>Inherent Risks:</b> 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.</p>

#### *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:
- Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;
  - Proper segregation of duties with accounts payable functions and operational activities;
  - Consistency with best practices;
  - Efficiency in executing procurements in a manner that meets districtwide needs;
  - Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;
  - 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
  - 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.

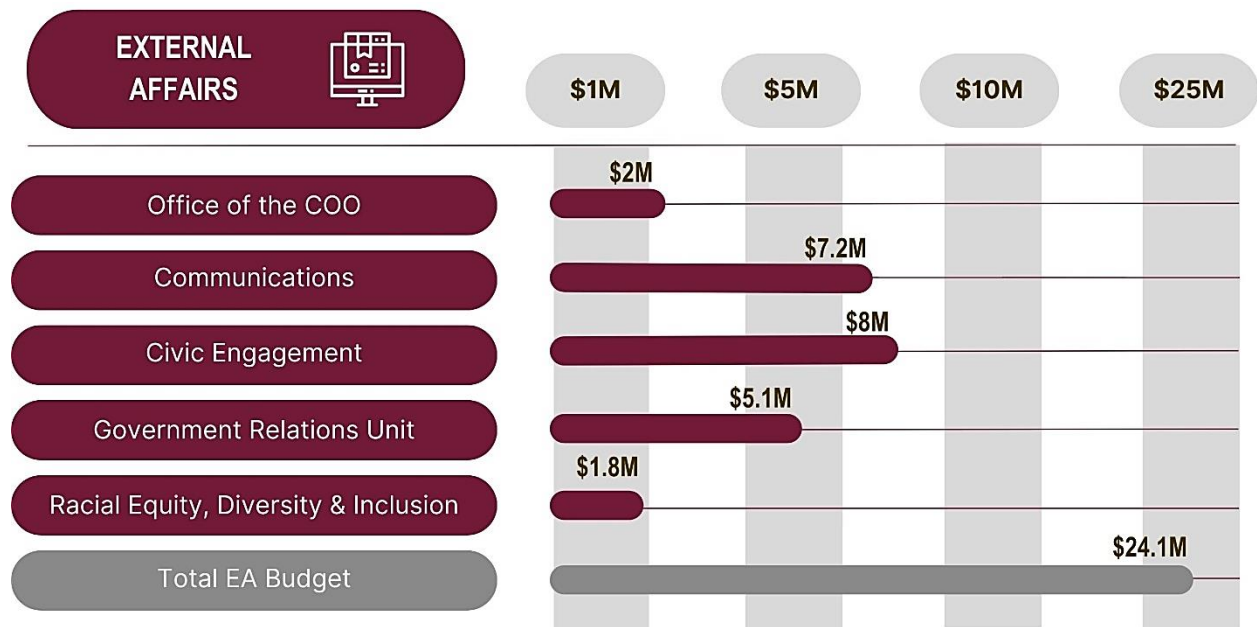
In Fiscal Year 2023, External Affairs cites various accomplishments, including welcoming employees' return to in-person work through over 25 employee resource group-led events, including lectures, cultural celebrations, volunteering, and networking events. Employees enjoyed these opportunities to reconnect 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.

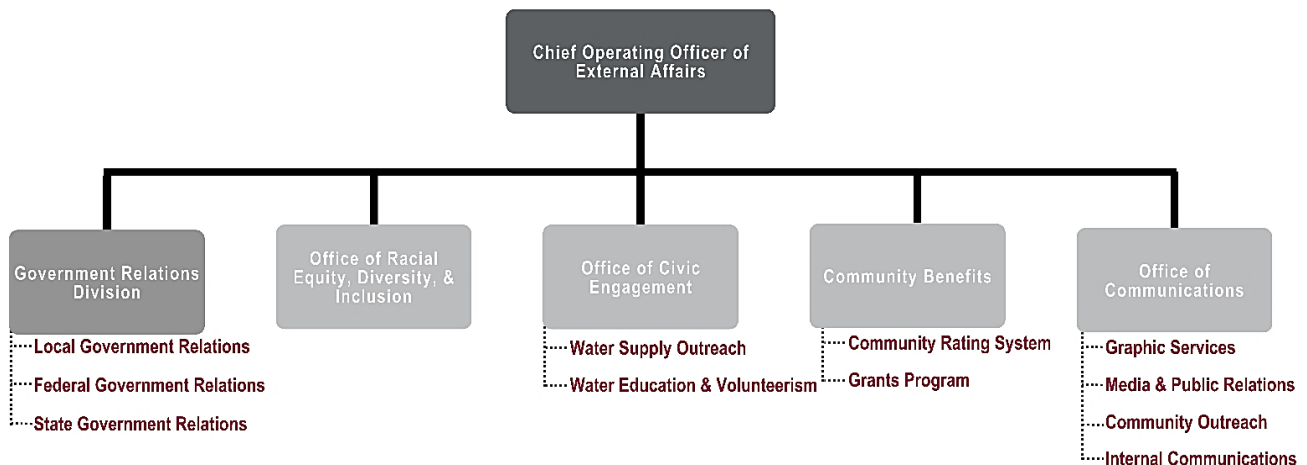
**EXHIBIT 15. BUDGET BREAKDOWN BY UNIT**



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.	<b>Budget:</b> \$ 1,993,349 <b>FTE:</b> 5 <b>Inherent Risks:</b> 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.	<b>Budget:</b> \$ 7,274,122 <b>FTE:</b> 15 <b>Inherent Risks:</b> 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.

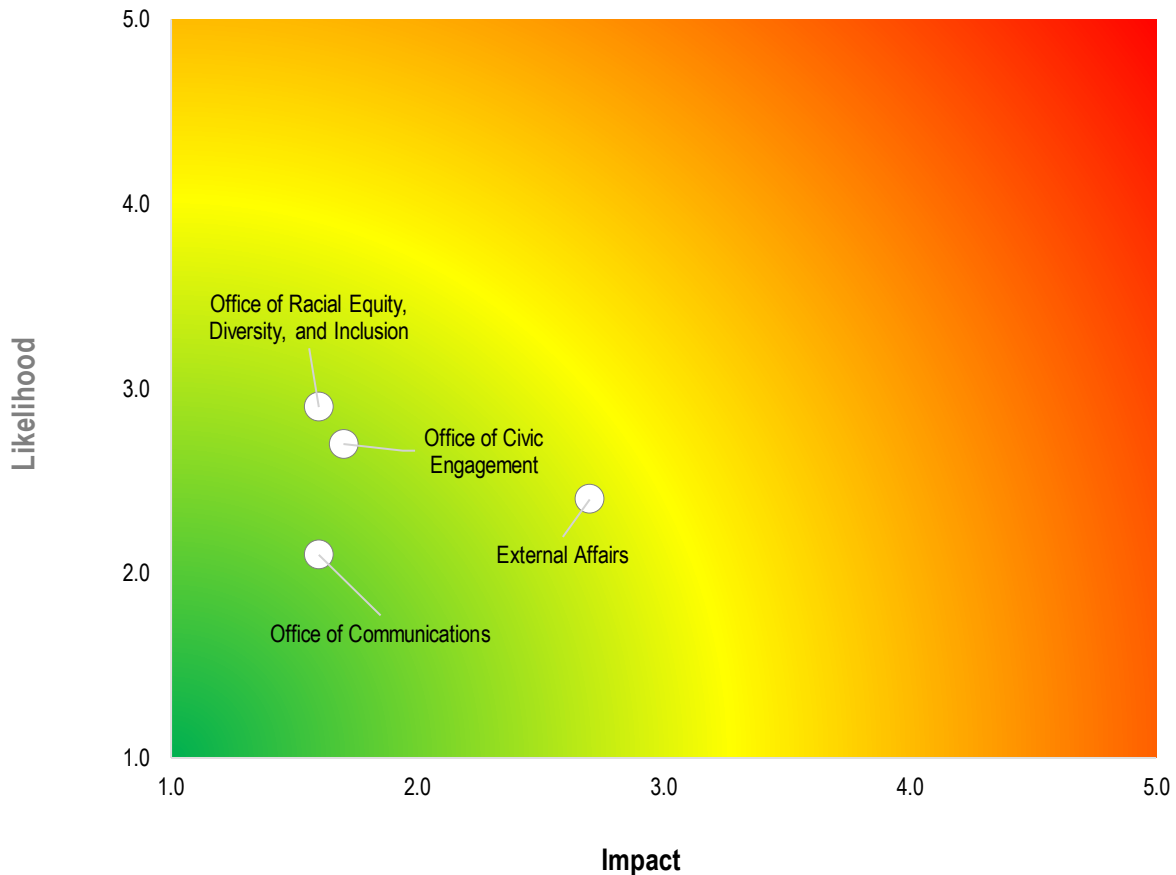
### *Internal Communications*

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

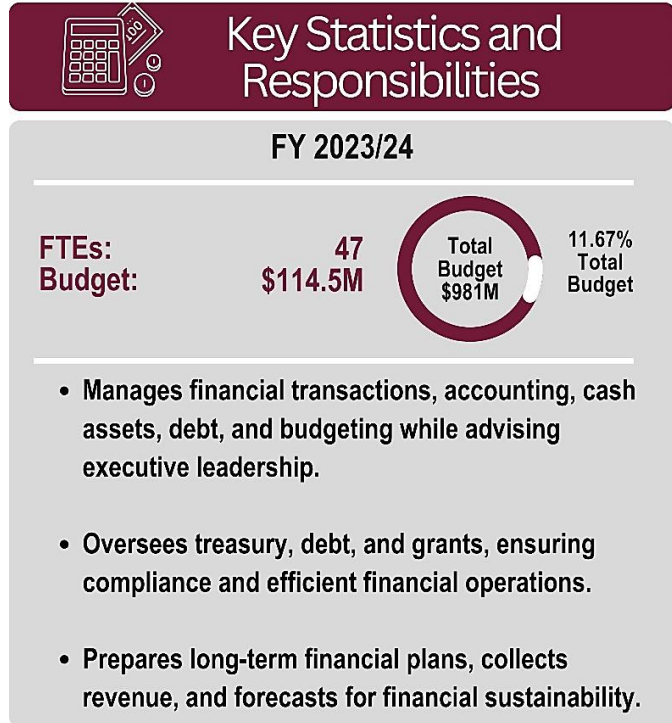
With an approximate Fiscal Year 2023-24 budget of \$98.5 million—representing 9.6 percent of the District's overall budget—and 47 FTE positions, the Office of Financial Planning and Management Services (Finance) is managed by Valley Water's Chief Financial Officer. Finance executes, records, and/or reconciles 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



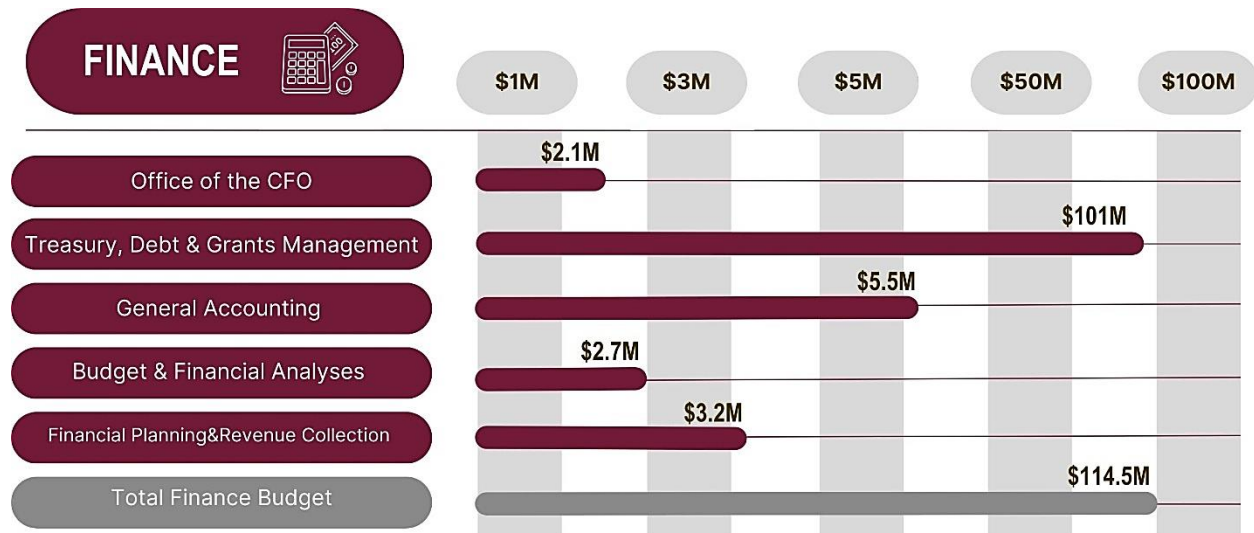
serve as the primary advisors to the Chief Executive Officer and the Board of Directors in financial planning and advice.

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.

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.



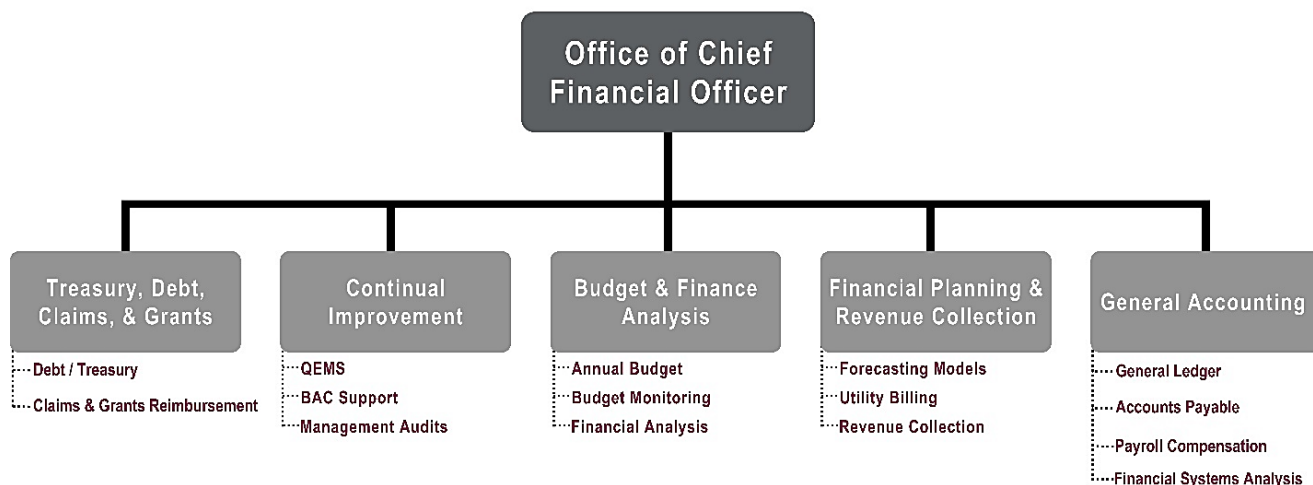
**EXHIBIT 18. BUDGET BREAKDOWN BY DEPARTMENT**



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.

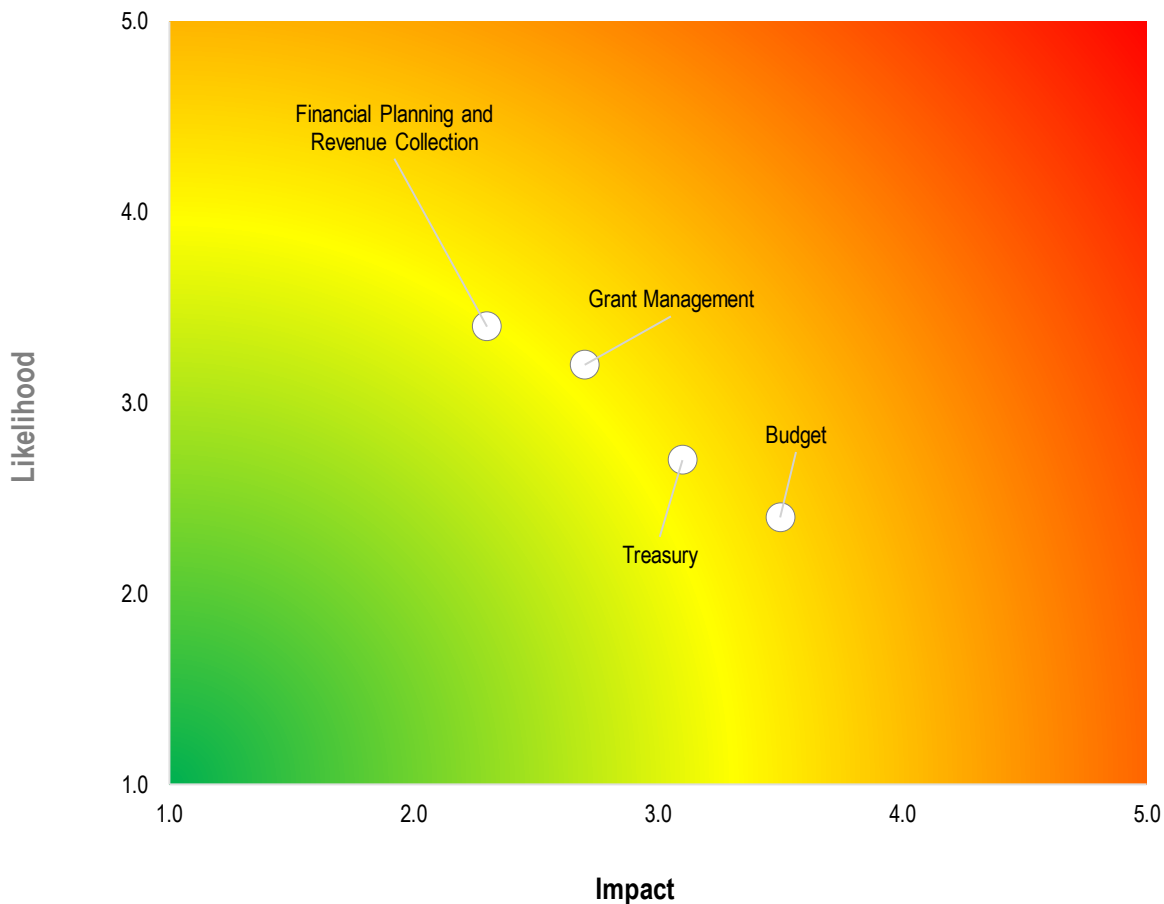
Risks also include the potential that primarily manual and self-reported customer billing processes could lead to errors or otherwise under-collected fees; revenue leakage due to inaccurate metering or billing; collection difficulties for overdue accounts; risk of non-payment or late payment by customers; 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.

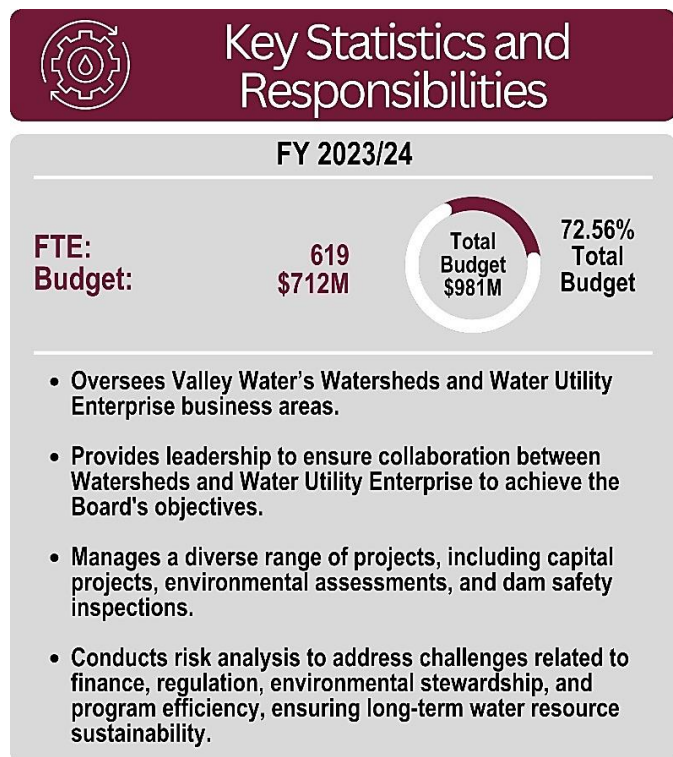
## Office of Integrated Water Management

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

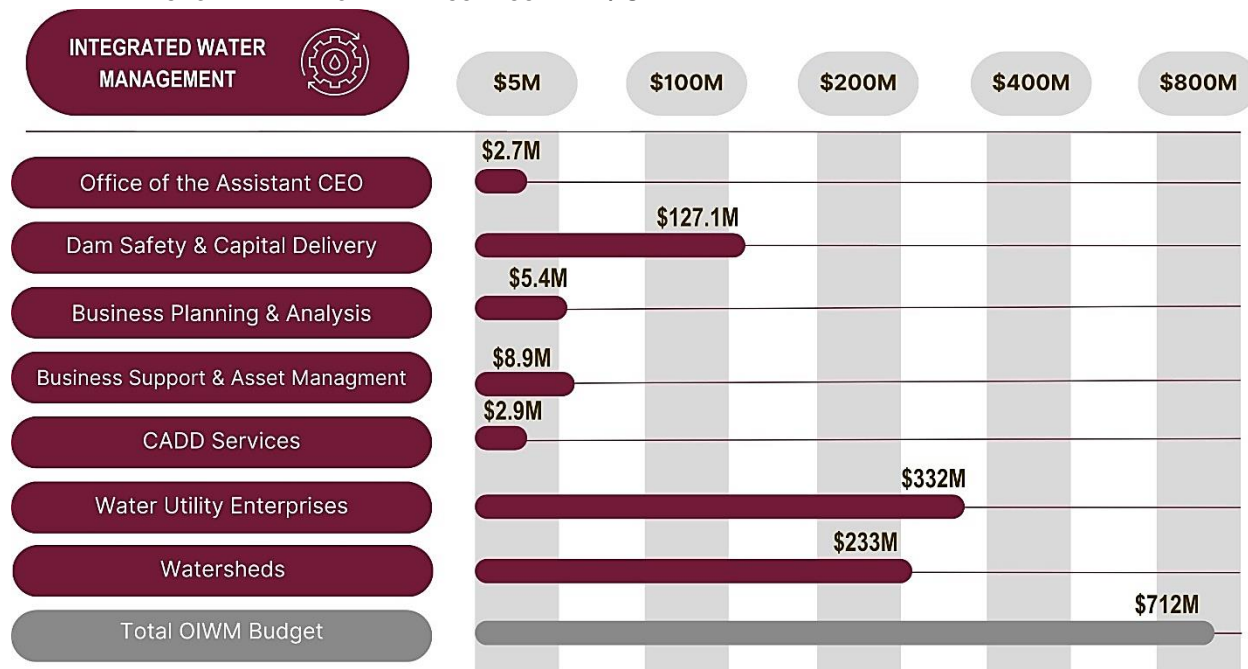




management software solution for use by the Capital Improvement Program (CIP) and capital project delivery teams; initiating numerous process improvements in conjunction with the recent completion of a performance audit of the CIP process; and, most importantly, meeting or exceeding drinking water standards, 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.

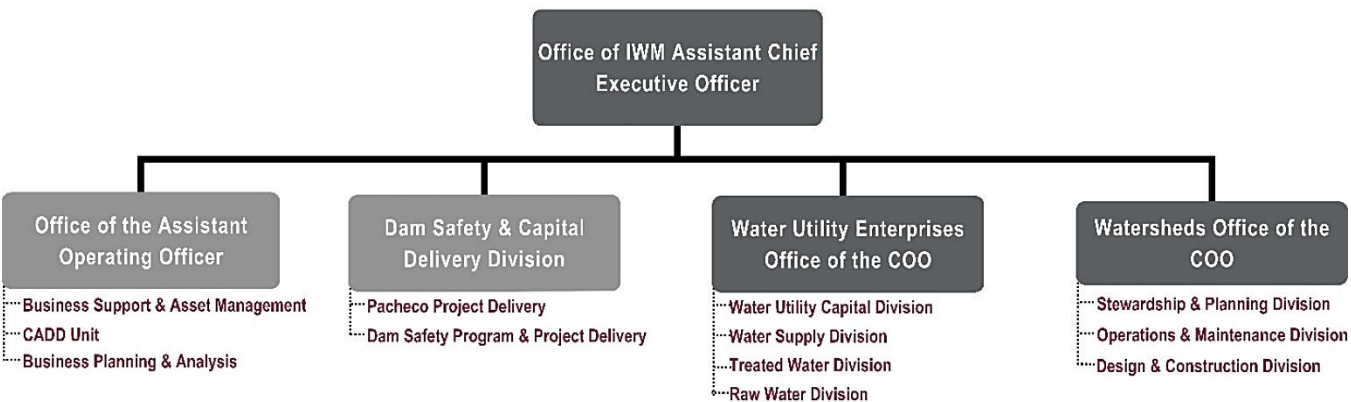
#### EXHIBIT 21. BUDGET BREAKDOWN BY BUSINESS AREA / UNIT



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.	<b>Budget:</b> \$ 2,704,478 <b>FTE:</b> 4 <b>Inherent Risks:</b> 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.

<b>DAM SAFETY &amp; CAPITAL DELIVERY DIVISION</b>	
<p>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.</p>	<p><b>Budget:</b> \$ 127,068,630      <b>FTE:</b> 21</p> <p><b>Inherent Risks:</b> 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.</p>

### *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	
<p>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.</p>	<p><b>Budget:</b> \$62,789,879      <b>FTE:</b> 105</p> <p><b>Inherent Risks:</b> 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.</p> <p>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.</p>

### *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 Plant Maintenance*

The Treatment Plant 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 Francisco 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.	<b>Budget:</b> \$ 64,544,832 <b>FTE:</b> 120  <b>Inherent Risks:</b> 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**

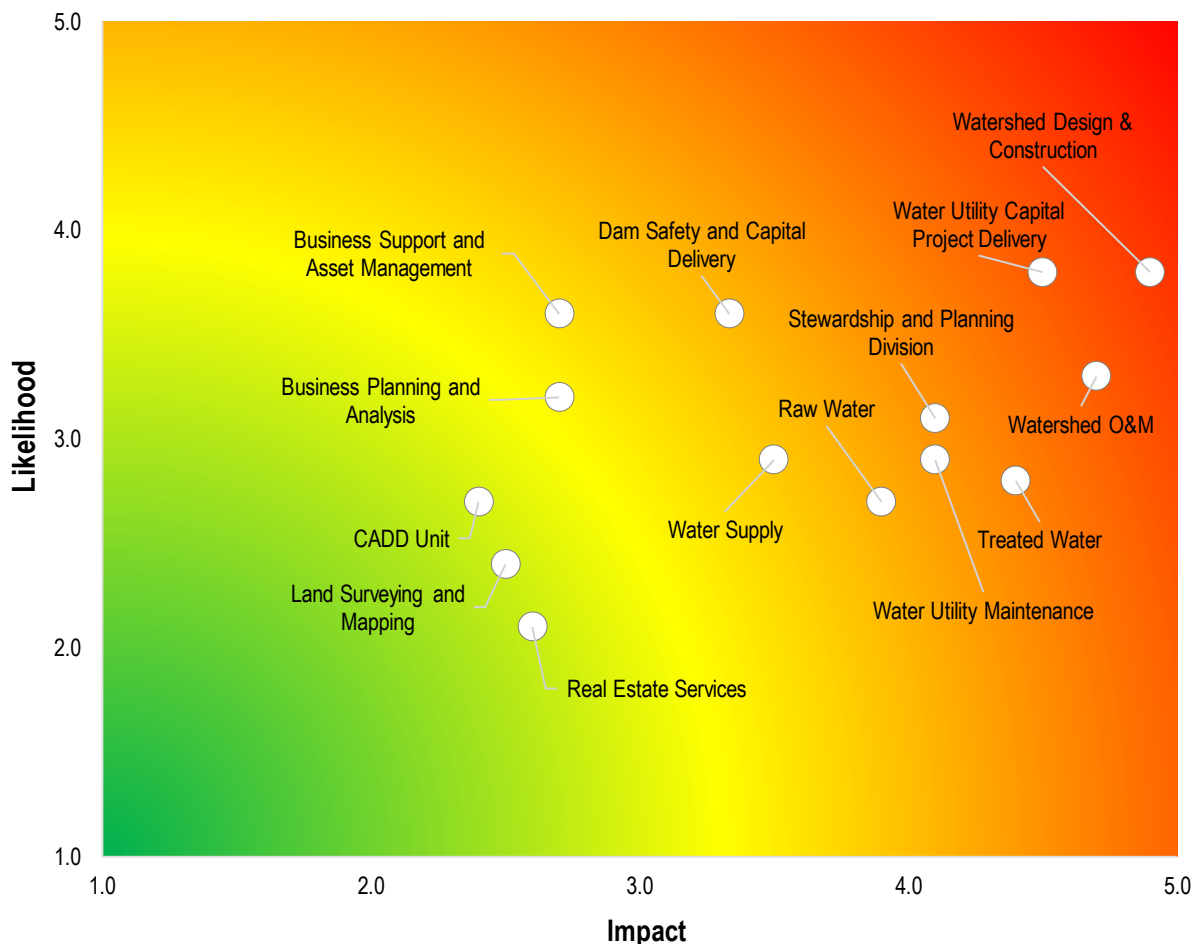
Most of the divisions and programs within Integrated Water perform functions that are central to the mission and purpose of Valley Water, and would be characterized as moderate- to high-risk. Ultimately, this risk assessment identified a small number of audit topics that would cover the bulk of Integrated 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 capital 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.

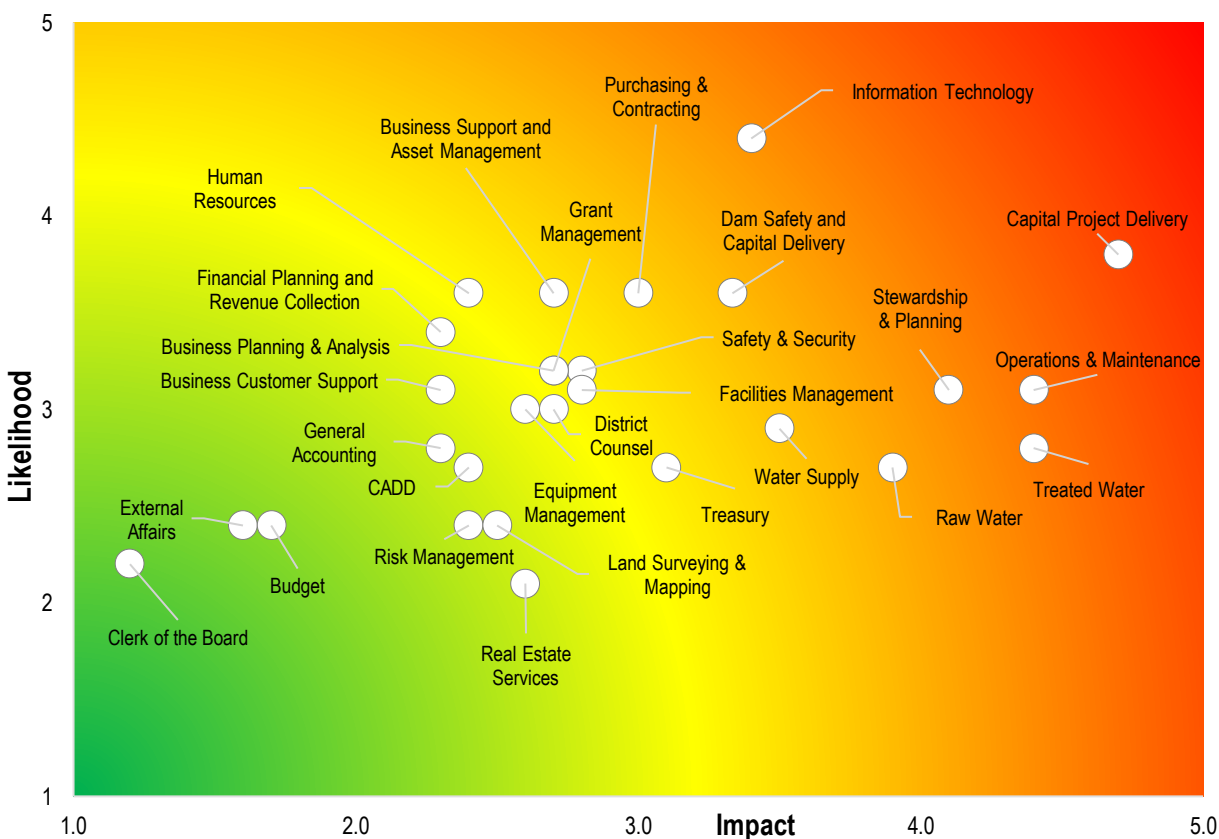


## Risk Assessment Results

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

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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 existing 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 **capital 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

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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 **capital 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.:** 24-0821

**Agenda Date:** 9/18/2024

**Item No.:** 4.4.

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## COMMITTEE AGENDA MEMORANDUM Board Audit Committee

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

### SUBJECT:

Discuss 2024 Annual Audit Plan (Including Information Technology, Human Resources and Board Policies Audits), and Provide Feedback as Needed.

### RECOMMENDATION:

- A. Discuss 2024 Annual Audit Plan; and
- B. Provide feedback as needed.

### SUMMARY:

The purpose of this agenda item is to discuss the 2024 Annual Audit Plan, discuss any new related information as appropriate, provide any feedback the BAC deems appropriate, and receive information regarding the Information Technology audit.

#### 2024 Annual Audit Plan Background

On November 15, 2023, the Chief Audit Executive (CAE) presented the 2023 Risk Assessment Final Report to the Board Audit Committee (BAC) assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment analysis helped to develop heat maps of Valley Water 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 Annual Audit Plan. The CAE identified and discussed with the BAC the 12 audit topics identified as the highest priority in the Risk Assessment. The BAC then instructed the CAE to present the same information to the full Board for discussion and feedback.

On December 12, 2023, the 2023 Risk Assessment Final Report was presented to the Board for discussion. The CAE received feedback from the Board and discussed that feedback at the December 20, 2023, BAC meeting. The BAC members agreed on four (4) audit topics as the proposed 2024 Annual Audit Plan. The proposal was recommended to the full Board for approval at their January 23, 2024, meeting.

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During the December 20, 2023, BAC meeting, the CAE recommended staggering the start dates for the audits and assigning a portion of the audit engagements to the pool of firms available to the BAC. Furthermore, the CAE proposed that Sjoberg Evashenk Consulting conduct two of the audits (Capital Project Delivery and Board Policies), and the other two firms available to the BAC perform the remaining two audits (Human Resources (HR) and Information Technology (IT)). The BAC received the information but gave no guidance at that time.

At the January 23<sup>rd</sup>, 2024, Board meeting the Board approved three (3) of the proposed topics to proceed as the 2024 Annual Audit Plan, and instructed staff to delay one of the topics to Calendar Year 2025 (CY 25). The three (3) audit topics identified to proceed in CY 24 are as follows:

- 1) Compliance with and Progress Toward Meeting Board Policies
- 2) Human Resources
- 3) Information Technology

The Capital Project Delivery audit topic was delayed to CY 25 to allow staff time to fully implement recommendations from prior audits.

At its February 23<sup>rd</sup>, 2024, BAC Meeting the CAE proposed a schedule intended to achieve the completion of each performance audit by December 2024, with the potential that one audit, the performance audit of Valley Water's compliance with and progress toward meeting board policies, may extend into early 2025 (see Table #1 in Attachment 1).

The CAE also proposed that each of three audit firms in the Board's auditor pool be assigned one of the audits. Specifically, the CAE recommended assigning IT to Plante Moran, HR to Moss Adams, and Board Policies to Sjoberg Evashenk Consulting. The BAC voted to present the information to the full Board during one of its regular public meetings in March.

At its March 26<sup>th</sup>, 2024, Board meeting, the Board agreed with the BAC's recommendations and approved the 2024 Annual Audit Plan.

### 2024 Annual Audit Plan Status

The status of the three performance audits is presented below:

- Human Resources. A kickoff meeting was held on June 17, 2024, requested documentation has been provided, and interviews/fieldwork is underway.
- Information Technology. A kickoff meeting was held on August 16, 2024, staff is reviewing and compiling the list of requested documentation, a separate meeting with Security took place on September 4, 2024, and the fieldwork is underway.
- Board Policies. At its June 18<sup>th</sup>, 2024, BAC meeting, the CAE acknowledged the delays of the IT and HR audits and noted that those delays would likely result in a modest delay to the Board Policies audit in order to ensure Valley Water staff were not inundated with too many audits all at once. Instead of a July start date, scoping efforts for this audit began in August 2024 with interviews of Board members and it is expected that the task order will

be executed in September 2024.

Considering the recent activities, a revised 2024 Annual Audit Plan Schedule has been developed (see Table #2 in Attachment 1).

For this item, the BAC is asked to consider the audit plan and provide any proposed modifications for staff to present to the full Board for consideration.

**ENVIRONMENTAL JUSTICE AND EQUITY 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: 2024 Annual Audit Plan Schedules.

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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**Table #1**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Information Technology												
Human Resoureces												
Board Policies												

**Table #2**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Information Technology												
Human Resoureces												
Board Policies												

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# Santa Clara Valley Water District

**File No.:** 24-0820

**Agenda Date:** 9/18/2024

**Item No.:** 4.5.

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## COMMITTEE AGENDA MEMORANDUM Board Audit Committee

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

### SUBJECT:

Review and Discuss the 2024 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 2024 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 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.

The following changes were made to the work plan since the previous report provided on August 21st, 2024. Staff added three (3) topics of discussion to the September BAC agenda. The first topic, regarding the audit report of the Water Utility Enterprise Fund (WUEF), was delayed from the August 21st meeting because staff was still waiting to receive the final report from the auditor. The second topic is a continuation of the discussion with the Chief Audit Executive (CAE) regarding the 2025 Annual Audit Plan. The third topic is a discussion regarding Board-directed audits where staff have implemented all recommendations and recommend audit close-out.

Looking forward, the topics of discussion identified for the October 16, 2024, BAC Meeting can be summarized as follows:

1. 2024 BAC Work Plan
2. 2024 Annual Audit Plan

Upon review, the BAC may make changes to be incorporated into the work plan.

**ENVIRONMENTAL JUSTICE AND EQUITY 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: 2024 BAC Work Plan

**UNCLASSIFIED MANAGER:**

Candice Kwok-Smith, 408-630-3193

# BOARD AUDIT COMMITTEE 2024 WORKPLAN

January 1, 2024 to December 31, 2024

		DATE:											
		No. of Topics:											
		Jan-17	Feb-23	Mar-20	Apr-12	May-15	Jun-18	Aug-06	Aug-21	Sep-18	Oct-16	Nov-20	Dec-18
#	Board Audit Committee Management	5	6	7	4	5	6	5	6	6	2	4	2
1	<a href="#">Conduct Annual Self-Evaluation</a>	•		•									
2	<a href="#">Receive and Discuss CAE Activity Report to Evaluate Performance</a>	•		•									
3	<a href="#">Election of BAC Chair and Vice Chair</a>		•		•								
4	<a href="#">Discuss Board Audit Committee Audit Charter</a>			•									
5	<a href="#">Discuss Scope of Annual Audit Training</a>			•									
6	<a href="#">Receive Annual Audit Training</a>					•							
7	<a href="#">Review and Update BAC Work Plan</a>	•	•	•	•	•	•	•	•	•	•	•	•
Board Audit Committee Special Requests													
8	<a href="#">Review of Joint Powers Authority (JPA) audits</a>			•	•	•	•						
9	<a href="#">Discuss Board's CAE Contract (expires 11/22/24)</a>						•	•					
Board-directed Audits													
10	<a href="#">2020 SCW Program Grants Management</a>	•						•					
11	<a href="#">2021 Permitting Best Practices</a>				•								
12	<a href="#">2023 CIP Performance</a>							•					
13	<a href="#">2024 Audit - TBD</a>												
14	<a href="#">2024 Audit - TBD</a>												
15	<a href="#">2024 Audit - TBD</a>												
16	<a href="#">2024 Audit - TBD</a>												
CAE Standing Topics													
17	<a href="#">Review and Update Annual Audit Plan</a>	•	•		•	•	•	•	•	•	•	•	•
18	<a href="#">Discuss next Annual Audit Plan</a>							•	•				
19	<a href="#">Discuss the draft Annual Audit Plan, and Recommend Proposed Audit Topics for Board Approval</a>										•		
Management-directed, Program-required, & 3rd-Party Audits													
20	<a href="#">2022 QEMS Improvements Implementation</a>						•						
21	<a href="#">2012 SCW Program Performance Close-out Audit</a>			•									
22	<a href="#">2023 IT Surplus Equipment Audit</a>		•										
Miscellaneous 3rd-Party Financial Audits													
23	<a href="#">Financial Status - Periodic Updates</a>		•		•				•				
24	<a href="#">Audit Report of the Water Utility Enterprise Funds</a>								•				
25	<a href="#">Audited Financial Statements</a>					•					•		
26	<a href="#">Single Audit Report</a>						•						
Staff Standing Topics													
27	<a href="#">Audit Recommendations Implementation Status</a>		•					•					
28	<a href="#">Receive Audit Analysis Report from CAE</a>								•				
Committee Clerk Action Items (not included in count shown in Row 3 above)													
29	<a href="#">Provide BAC Summary Report to full Board</a>	•	•	•	•	•	•	•	•	•	•	•	•

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