

Financial Overview

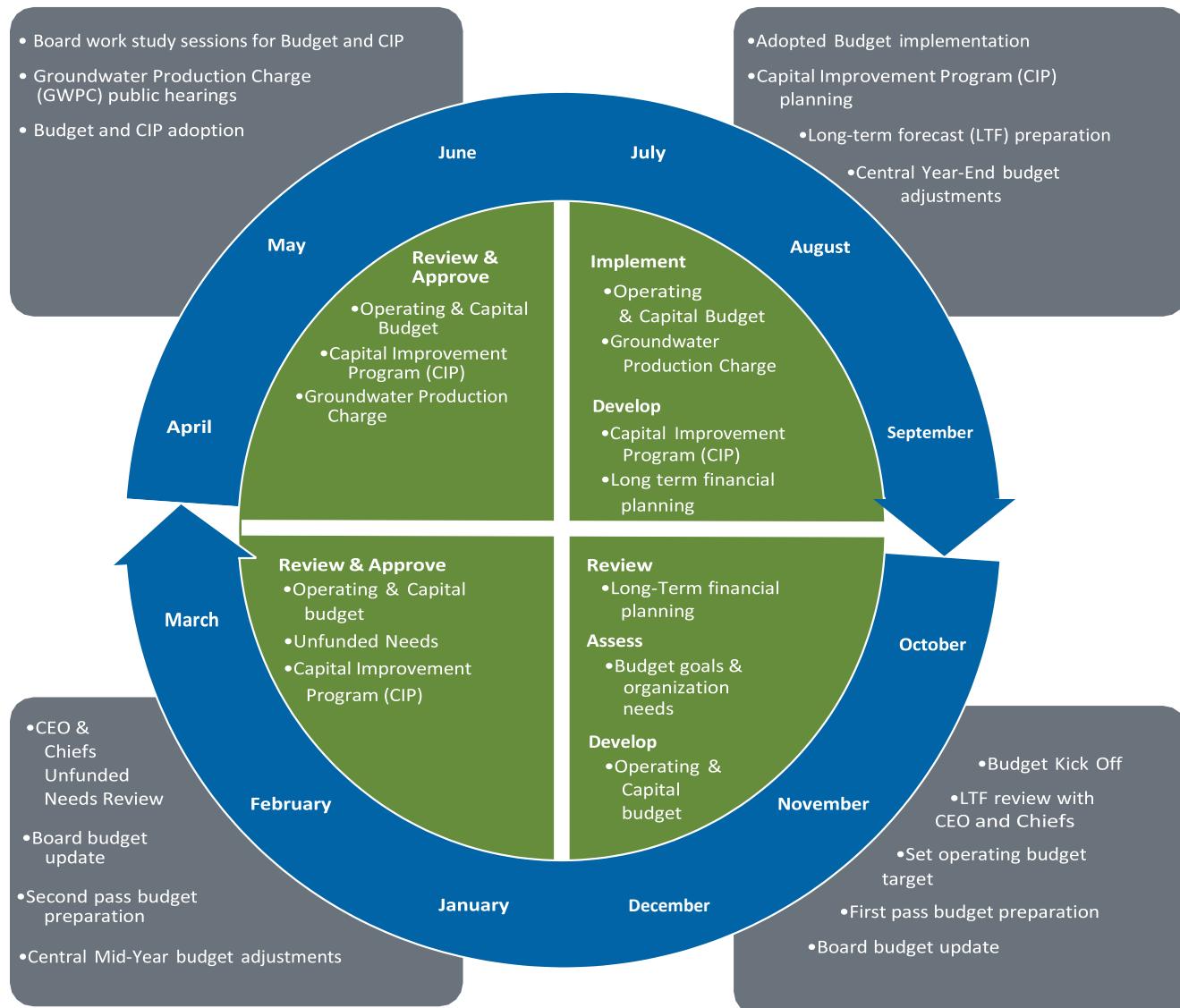
**FY 2024-25 & FY 2025-26
Operating and Capital
Rolling Biennial Budget**



FINANCIAL OVERVIEW

Financial Overview

Budget Process Overview



Financial Overview

Budget Development

In accordance with the District Act and Valley Water Board of Directors' Governance Policies, Valley Water prepares and adopts an Operating and Capital Budget annually. The budget is developed in coordination with and including the Financial Planning and Rate Setting, and Capital Improvement Plan (CIP) processes. The FY 2024-25 & FY 2025-26 Operating and Capital Rolling Biennial Budget includes the FY 2024-25 budget and a subsequent fiscal year plan for FY 2025-26. The second fiscal year serves as a planning tool and will set the framework for the preparation of the FY 2025-26 Operating and Capital Rolling Biennial Budget in the following year.

Financial Planning and Rate Setting

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

Capital Improvement Plan

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

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

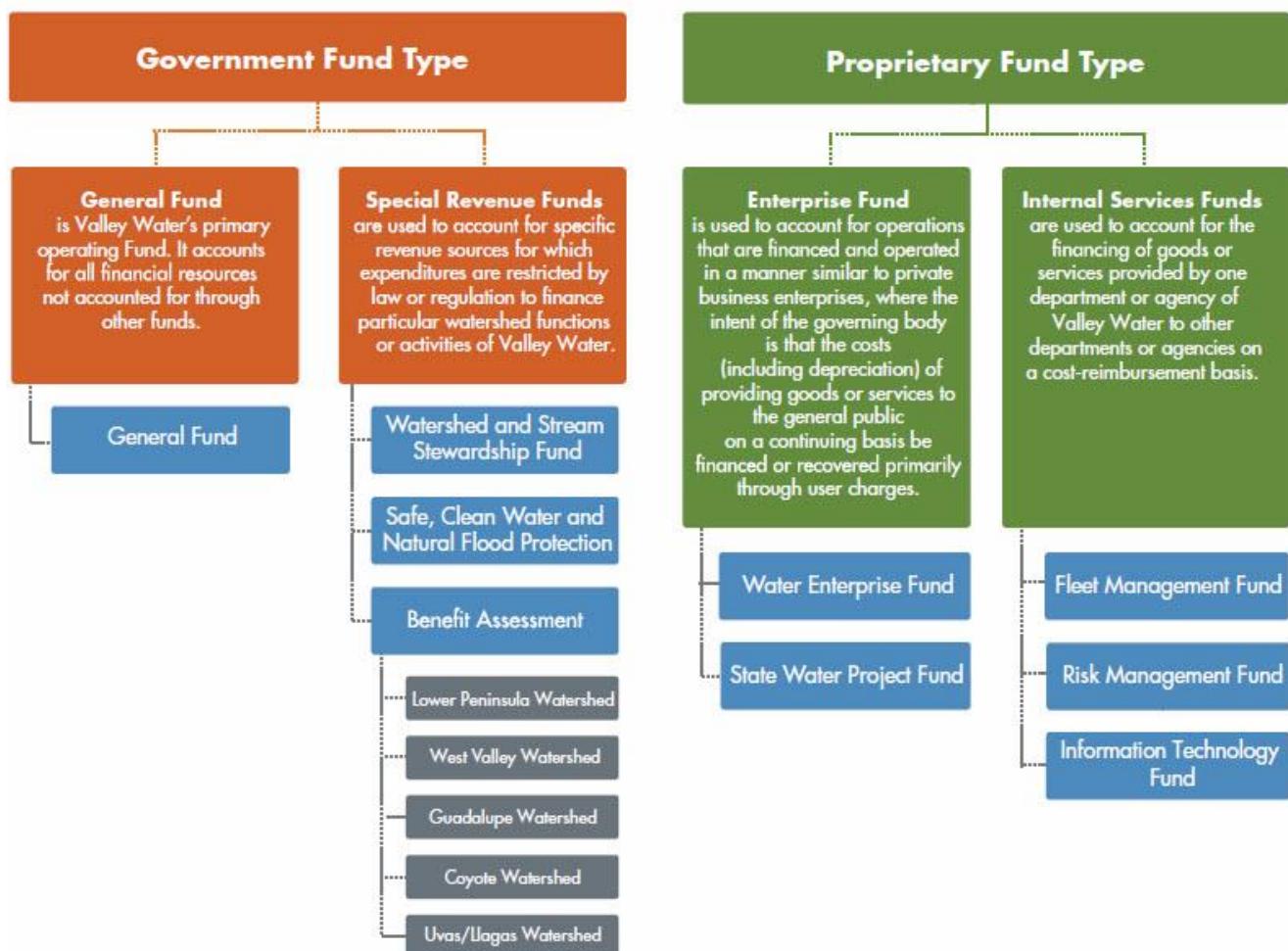
Other Planning Documents

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

- Countywide Water Reuse Master Plan (CoRe Plan)
- One Water Plan
- Protection and Augmentation of Water Supplies Report 2024-25
- Requests of the 118th Congress
- Safe, Clean Water and Natural Flood Protection 5-Year Implementation Plan
- Stream Maintenance Program Manual
- Water Utility Enterprise Five Year Operations and Maintenance Plan
- Water Utility Water Supply Master Plan
- Watersheds Five Year Operations and Maintenance Plan

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Valley Water Fund Structure



Financial Overview

Basis of Budgeting

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

The accounts of Valley Water are organized based on fund types and account groups. Each fund is an independent accounting entity with a self-balancing set of accounts comprised of its assets, liabilities, fund equity, revenue, and expenditures or expenses, as appropriate. Fund accounting allows government resources to be segregated and accounted for per their intended purposes, aiding management in demonstrating compliance with finance-related legal and contractual provisions.

Revenue

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

The FY 2024-25 Budget includes projected revenues of \$695.2 million. These revenues are a net increase of 9.7% from the \$633.7 million included in the FY 2023-24 Adopted Budget. The net \$61.5 million increase is derived from an increase in water charges revenue (\$71.9 million), property taxes (\$11.3 million), interest and other operating and non-operating revenues (\$2.1 million), special parcel tax (\$1.3 million), intergovernmental services (\$0.3 million) and benefit assessment taxes (\$0.2 million), offset by decreases in capital reimbursements (-\$25.5 million).

The FY 2025-26 planned revenue of \$793.5 million reflects a net increase of \$98.3 million over the FY 2024-25 Budget. The 14.1% growth is primarily attributed to an increase in water charges revenue (\$73.5 million), capital reimbursements (\$18.7 million), property taxes (\$3.9 million), special parcel tax (\$1.2 million), intergovernmental services (\$0.7 million), interest and other operating and non-operating revenues (\$0.5 million), offset by a slight reduction in the benefit assessment tax revenue (-\$0.2 million).

The specific categories of revenue include:

Water Revenue

The main source of Valley Water revenue is from water charges which is projected at \$400.5 million for FY 2024-25, an increase of 21.9% over the FY 2023-24 Adopted Budget. The FY 2025-26 water revenue estimate of \$474.0 million is an 18.4% increase over FY 2024-25. Revenues from treated water are the largest source with an estimated amount of \$211.7 million in FY 2024-25 and increasing by \$38.6 million to an estimated \$250.3 million in FY 2025-26. Groundwater production charges are budgeted at \$184.7 million growing to \$219.3 million, and surface/recycled water sales are projected at \$4.0 million in FY 2024-25 and increasing to \$4.4 million for 2025-26. These estimates include rate increases of 12.9% in Zone W-2, 6.6% in Zone W-5, 14.2% in Zone W-7, and 8.0% in Zone W-8 for municipal and industrial groundwater charges in each fiscal year of the biennial budget. Furthermore, staff estimates water usage rebounding 7.7% in FY 2025 and an additional 7.2% in FY 2026 due to residents resuming water usage as drought conditions have passed.

Additional information on groundwater production charges is provided in the Water Utility Enterprise Fund Summary section of this budget and in the FY 2024-25 PAWS Report.

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Property Tax

Property tax revenues are estimated at \$176.4 million for FY 2024-25, an increase of 6.9% from the FY 2023-24 Adopted Budget. The planned FY 2025-26 amount assumes a 2.2% increase totaling \$180.3 million. Valley Water benefits from two types of property taxes: 1% ad valorem and levies for State Water Project (SWP) indebtedness. The 1% ad valorem is estimated at \$148.4 million in FY 2024-25 and \$152.3 million in FY 2025-26. Levies for State Water Project (SWP) indebtedness are budgeted at \$28.0 million in FY 2024-25 and \$28.0 million in FY 2025-26. More information on property tax revenue is included in the Major Sources of Revenue section later in this chapter.

Special Parcel Tax

The Safe, Clean Water and Natural Flood Protection Program special parcel tax was approved in 2000 as the Clean, Safe Creeks and Natural Flood Protection Plan, then again in 2012 as the Safe, Clean Water and Natural Flood Protection Program; most recently, an ongoing Safe, Clean Water and Natural Flood Protection Program was approved by voters in November 2020. The Special Parcel Tax for FY 2024-25 is budgeted at \$53.5 million, and FY 2025-26 projected revenue is \$54.7 million reflecting an increase of CPI, or 2.4%, in the first year and 2.2% in the second year. Further details on the Special Parcel Tax and its uses can be located in the Major Sources of Revenues section, the Safe, Clean Water & Natural Flood Protection Fund summary, and the Safe, Clean Water & Natural Flood Protection Annual Report.

Benefit Assessments

Benefit assessment revenue consists of levies approved by voters in 1986 and 1990 to support financing for flood control capital improvements and are set at 1.25 times the duly authorized annual debt service requirements for assessed parcels in each watershed. Benefit Assessment revenue budget is \$7.1 million for FY 2024-25 and \$6.9 million is planned for FY 2025-26. Benefit Assessment taxes are described further in the Major Sources of Revenue and in the Watershed Management Fund Summary sections.

Capital Reimbursements

Capital reimbursements are from local, state, and federal agencies for specified capital projects that are already completed or would be undertaken during this budget period. District-wide capital reimbursements are budgeted at \$42.4 million for FY 2024-25 and projected at \$61.1 million in FY 2025-26. See the Major Sources of Revenue section for further details.

Interest

Overall interest earnings are estimated at \$10.0 million in FY 2024-25 and \$10.5 million in FY 2025-26. The increase of \$2.8 million in the first year and \$0.5 million in the second year are primarily due to the expectation of a moderately higher interest rate earned by the portfolio.

Intergovernmental Services

Intergovernmental Services revenue are reimbursements from cost sharing agreements with local cities and agencies. The FY 2024-25 totals \$1.7 million in this category and is comprised of reimbursements from local agencies (\$1.1 million) for conservation incentive programs such as the Lawn Rebate Program, Greywater Program, and Home Water Use Reports, and for reimbursements from the San Benito Water District for O&M San Felipe Reach 1 projects (\$0.6 million).

The Planned FY 2025-26 amount of \$2.4 million is comprised of San Felipe Reach 1 projects O&M reimbursements from the San Benito Water District (\$0.6 million), conservation incentive program reimbursements (\$0.8 million) which includes contributions from local agencies and reimbursements from Pacheco project partnerships (\$1.0 million).

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Other Revenue

Other Operating and Non-Operating Revenues comprised of receipts from minor sources such as rental income and the sale of vehicles totals \$3.7 million in FY 2024-25 and FY 2025-26.

Appropriations/Outlays

Total FY 2024-25 operating and capital outlays are budgeted at \$1,092.8 million, which includes intra-district reimbursements of \$129.1 million, and these net to total operating and capital outlays of \$963.6 million. These figures do not include capital carry forward (\$46.4 million) appropriated by the Board in prior years. The \$129.1 million of intra-district charges are comprised of General Fund reimbursements (64%) and Internal Service Funds charges (36%). Of the total FY 2024-25 net outlays, operating outlays (including debt service) accounts for \$533.5 million, reflecting an increase of \$49.7 million compared to the FY 2023-24 Adopted Budget of \$483.9 million. The total net capital outlays make up \$430.1 million compared to the FY 2023-24 Adopted Budget of \$372.7 million, accounting for a \$57.4 million increase.

The planned FY 2025-26 total operating and capital outlays are projected to increase by \$191.5 million over FY 2024-25, reaching \$1,284.3 million. The total net of intra-district reimbursements is \$1,148.4 million, of which \$569.5 million is net operating expenses and \$578.9 million are net capital expenses. These amounts do not include the projected capital projects carryforward of \$18.7 million and is net of an estimated \$135.9 million in intra-district reimbursements comprised of General Fund reimbursements (64%) and Internal Service Funds charges (36%).

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

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

Intra-district Reimbursements

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements. FY 2024-25 budgeted levels are \$129.1 million, and \$135.9 million planned in FY 2025-26. Intra-district charges reimburse the General Fund and Service Funds for functions such as finance, accounting, payroll, human resources, information technology, facilities, organizational leadership, and fleet management. Approximately, 60% of intra-district charges is paid by the Water Utility Enterprise, 40% by Watersheds Funds.

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Capital Outlays

The capital budget represents the projects that have been identified and prioritized in the Five-Year Capital Improvement Program (CIP). FY 2024-25 net capital project outlays total \$430.1 million, an increase of \$57.4 million as compared to the net FY 2023-24 Adopted Budget of \$372.7 million. It is anticipated that \$46.4 million of the FY 2023-24 Adjusted Budget for capital projects will be carried forward to FY 2024-25 as most capital projects require multiple years to complete.

Net Capital Outlays are planned to reach \$578.9 million in FY 2025-26 reflecting a \$148.8 million increase over the prior year budgeted level and assumes \$18.7 million of the prior year's capital funds will carry forward to FY 2025-26.

Other Financing Sources/Uses

Other financing sources and uses include proceeds from debt issuance. Valley Water anticipates issuing bonds or commercial paper for approximately \$345.9 million in FY 2024-25, and \$342.2 million in FY 2025-26, to finance various Water Utility and Safe, Clean Water and Natural Flood Protection capital improvement projects.

Reserves

Overall, budgeted reserves for FY 2024-25 are estimated at \$413.5 million, a decrease of \$60.5 million compared to the FY 2023-24 Adopted Budget level. Projections for FY 2025-26 show reserves decreasing \$31.4 million further for a total of \$382.1 million.

Staffing

The FY 2024-25 Budget includes 921 regular positions (which includes two apprentice positions) and four limited-term positions for a total position count of 925. This staffing level reflects a net increase of one position over the prior year's Adopted Budget. This increase reflects two new positions that were added during FY 2023-24 to increase the level of support for the unsheltered and enhance encampment cleanup operations. This increase is offset by the elimination of one limited term in the CADD Unit which was set to expire in FY 2024-25. For a comprehensive schedule of district-wide salaries and benefits, please refer to the Salaries and Benefits section in this chapter.

Financial Overview

Combined Fund Summary - All Funds

	Budgetary Basis Actual		Adopted Budget		Projected Year End		Adopted Budget		Change from 2023-24 Adopted	
	2022-23		2023-24		2023-24		2024-25		\$ Diff	% Diff
REVENUE										
Groundwater Production Charges	\$ 106,935,552	\$ 150,871,000	\$ 150,881,000	\$ 184,722,000	\$ 33,851,000	22.4%				
Treated Water Charges	\$ 159,215,177	\$ 174,081,000	\$ 174,081,000	\$ 211,703,000	\$ 37,622,000	21.6%				
Surface & Recycled Water Charges	\$ 1,950,130	\$ 3,613,000	\$ 3,613,000	\$ 4,040,000	\$ 427,000	11.8%				
Benefit Assessment	\$ 13,229,442	\$ 6,891,766	\$ 6,822,849	\$ 7,052,737	\$ 160,971	2.3%				
Property Tax	\$ 167,681,678	\$ 165,019,497	\$ 171,218,000	\$ 176,354,500	\$ 11,335,003	6.9%				
Special Parcel Tax	\$ 49,501,115	\$ 52,277,018	\$ 52,277,018	\$ 53,531,667	\$ 1,254,649	2.4%				
Intergovernmental Services	\$ 5,527,955	\$ 1,424,295	\$ 1,548,880	\$ 1,687,880	\$ 263,585	18.5%				
Operating Other	\$ 1,155,481	\$ 782,045	\$ 772,118	\$ 781,137	\$ (909)	-0.1%				
Capital Reimbursements	\$ 35,175,868	\$ 67,836,000	\$ 34,312,000	\$ 42,356,000	\$ (25,480,000)	-37.6%				
Interest Income *	\$ 14,672,127	\$ 7,200,000	\$ 10,000,000	\$ 10,000,000	\$ 2,800,000	38.9%				
Non-Operating Other	\$ 6,379,443	\$ 3,680,056	\$ 2,887,041	\$ 2,943,714	\$ (736,342)	-20.0%				
TOTAL REVENUE	\$ 561,423,969	\$ 633,675,677	\$ 608,412,906	\$ 695,172,635	\$ 61,496,958	9.7%				
OUTLAYS										
Operating Outlays										
Operations **	\$ 417,011,643	\$ 470,385,435	\$ 499,106,662	\$ 518,936,116	\$ 48,550,681	10.3%				
Operating Project	\$ 4,609,233	\$ 6,603,095	\$ 11,502,971	\$ 5,301,661	\$ (1,301,434)	-19.7%				
Debt Service	\$ 65,048,659	\$ 97,434,264	\$ 97,434,264	\$ 103,673,639	\$ 6,239,375	6.4%				
Total Operating Outlays	\$ 486,669,536	\$ 574,422,794	\$ 608,043,897	\$ 627,911,415	\$ 53,488,621	9.3%				
Capital Outlays										
Capital Projects	\$ 414,114,048	\$ 407,071,538	\$ 560,334,913	\$ 464,841,687	\$ 57,770,150	14.2%				
Carry Forward Capital Projects	\$ -	\$ 97,159,534	\$ -	\$ 46,371,112	\$ (50,788,422)	-52.3%				
Total Capital Outlays	\$ 414,114,048	\$ 504,231,072	\$ 560,334,913	\$ 511,212,799	\$ 6,981,728	1.4%				
TOTAL OUTLAYS	\$ 900,783,583	\$ 1,078,653,865	\$ 1,168,378,810	\$ 1,139,124,215	\$ 60,470,349	5.6%				
Less Intra-District Reimb	(107,180,400)	(124,927,947)	(124,927,947)	(129,113,429)	(4,185,482)	3.4%				
NET OUTLAYS	\$ 793,603,183	\$ 953,725,918	\$ 1,043,450,863	\$ 1,010,010,785	\$ 56,284,867	5.9%				
OTHER FINANCING SOURCES/(USES)										
Debt Proceeds	\$ 280,092,624	\$ 268,775,583	\$ 196,725,000	\$ 345,920,030	\$ 77,144,447	28.7%				
Transfers In	\$ 36,645,613	\$ 15,471,947	\$ 15,403,078	\$ 26,501,310	\$ 11,029,363	71.3%				
Transfers Out	\$ (36,645,613)	\$ (10,178,347)	\$ (10,110,480)	\$ (26,501,307)	\$ (16,322,960)	160.4%				
TOTAL OTHER SOURCES/(USES)	\$ 280,092,624	\$ 274,069,183	\$ 202,017,598	\$ 345,920,033	\$ 71,850,850	26.2%				
BALANCE AVAILABLE	\$ 47,913,409	\$ (45,981,058)	\$ (233,020,358)	\$ 31,081,883	\$ 77,062,941	-167.6%				

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Combined Fund Summary - All Funds

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2023-24 Adopted	
	2022-23	2023-24	2023-24	2024-25	\$ Diff	% Diff
YEAR-END RESERVES						
Restricted Reserves						
WUE Rate Stabilization Reserve	\$ 41,066,971	\$ 6,066,971	\$ 6,066,971	\$ 19,996,328	\$ 13,929,357	229.6%
WUE San Felipe Emergency Reserve	3,526,697	3,530,832	3,530,832	3,580,832	50,000	1.4%
WUE State Water Project Tax Reserve	13,860,460	8,816,456	11,535,460	8,973,390	156,934	1.8%
WUE Supplemental Water Supply Reserve	5,277,000	5,277,000	5,277,000	5,277,000	-	0.0%
WUE SVAWPC Reserve	1,298,138	-	-	-	-	0.0%
WUE Guiding Principal #5 (GP5) Reserve	20,545,266	4,718,017	4,718,017	-	(4,718,017)	-100.0%
SCW Rate Stabilization Reserve	25,000,000	25,000,000	25,000,000	25,000,000	-	0.0%
SCW Contingency Reserve	5,000,000	5,000,000	5,000,000	5,000,000	-	0.0%
SCW Currently Authorized Projects Reserve***	116,786,238	37,906,382	37,138,316	25,336,118	(12,570,264)	-33.2%
SCW Operating and Capital Reserve	59,060,206	117,935,002	30,505,025	59,517,635	(58,417,367)	-49.5%
Total Restricted Reserves	\$ 291,420,976	\$ 214,250,660	\$ 128,771,621	\$ 152,681,303	\$ (61,569,357)	-28.7%
Committed Reserves						
Currently Authorized Projects Reserve***	\$ 113,451,091	\$ 11,963,405	\$ 133,570,106	\$ 9,927,136	\$ (2,036,269)	-17.0%
Operating and Capital Reserve	195,598,646	232,838,015	104,495,141	228,275,839	(4,562,176)	-2.0%
Liability/Workers' Comp Self-Insurance	8,337,000	8,337,000	6,430,250	8,337,000	-	0.0%
Excess ERAF Contingency Reserve	-	-	-	6,862,516	6,862,516	0.0%
WUE San Jose Water Purification Reserve	-	1,000,000	1,000,000	-	(1,000,000)	-100.0%
Property Self-Insurance/Catastrophic	6,623,909	5,580,026	8,144,146	7,409,352	1,829,326	32.8%
Total Committed Reserves	\$ 324,010,646	\$ 259,718,446	\$ 253,639,643	\$ 260,811,843	\$ 1,093,397	0.4%
TOTAL YEAR-END RESERVES	\$ 615,431,622	\$ 473,969,106	\$ 382,411,264	\$ 413,493,147	\$ (60,475,959)	-12.8%

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Combined Fund Summary - All Funds

	Budgetary Basis	Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Change from 2023-24 Adopted	
						\$ Diff	% Diff
Outlay Summary by Account type							
OPERATING OUTLAY							
Salaries and Benefits	\$ 164,901,681	\$ 175,496,203	\$ 175,496,204	\$ 190,193,556	\$ 14,697,353	8.4%	
Salary Savings Factor		-	(2,772,242)	(2,772,242)	(2,901,035)	(128,794)	4.6%
Services & Supplies	177,006,306	213,700,765	247,321,868	242,575,325	28,874,560	13.5%	
Intra-District Charges	79,712,889	90,563,804	90,563,803	94,369,931	3,806,127	4.2%	
OPERATING OUTLAY TOTAL	\$ 421,620,876	\$ 476,988,530	\$ 510,609,633	\$ 524,237,776	\$ 47,249,246	9.9%	
DEBT SERVICE							
Services & Supplies	\$ 2,761,198	\$ 4,486,371	\$ 4,486,371	\$ 5,033,001	\$ 546,630	12.2%	
Debt Service	62,287,462	92,947,893	92,947,893	98,640,638	5,692,745	6.1%	
DEBT SERVICE TOTAL	\$ 65,048,659	\$ 97,434,264	\$ 97,434,264	\$ 103,673,639	\$ 6,239,375	6.4%	
CAPITAL PROJECTS							
Salaries and Benefits	\$ 45,786,161	\$ 54,105,281	\$ 53,960,203	\$ 56,126,805	\$ 2,021,524	3.7%	
Salary Savings Factor		-	(877,577)	(877,577)	(890,129)	(12,552)	1.4%
Services & Supplies	340,860,376	319,479,687	472,981,890	374,861,512	55,381,825	17.3%	
Carry Forward Capital Projects	-	97,159,534	-	46,371,112	(50,788,422)	-52.3%	
Intra-District Charges	27,467,511	34,364,146	34,270,397	34,743,499	379,353	1.1%	
CAPITAL PROJECTS TOTAL	\$ 414,114,048	\$ 504,231,072	\$ 560,334,913	\$ 511,212,799	\$ 6,981,728	1.4%	
TOTAL OUTLAYS	\$ 900,783,583	\$ 1,078,653,865	\$ 1,168,378,810	\$ 1,139,124,215	\$ 60,470,349	5.6%	

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

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

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

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Combined Fund Summary - All Funds

	Budgetary Basis Actual		Adopted Budget		Adopted Budget		Proposed Plan		Change from 2024-25 Adopted	
	2022-23		2023-24		2024-25		2025-26		\$ Diff	% Diff
	REVENUE									
Groundwater Production Charges	\$ 106,935,552	\$ 150,871,000	\$ 184,722,000	\$ 219,323,000	\$ 34,601,000	18.7%				
Treated Water Charges	\$ 159,215,177	\$ 174,081,000	\$ 211,703,000	\$ 250,262,000	\$ 38,559,000	18.2%				
Surface & Recycled Water Charges	\$ 1,950,130	\$ 3,613,000	\$ 4,040,000	\$ 4,422,000	\$ 382,000	9.5%				
Benefit Assessment	\$ 13,229,442	\$ 6,891,766	\$ 7,052,737	\$ 6,854,512	\$ (198,225)	-2.8%				
Property Tax	\$ 167,681,678	\$ 165,019,497	\$ 176,354,500	\$ 180,296,441	\$ 3,941,941	2.2%				
Special Parcel Tax	\$ 49,501,115	\$ 52,277,018	\$ 53,531,667	\$ 54,709,363	\$ 1,177,696	2.2%				
Intergovernmental Services	\$ 5,527,955	\$ 1,424,295	\$ 1,687,880	\$ 2,424,295	\$ 736,415	43.6%				
Operating Other	\$ 1,155,481	\$ 782,045	\$ 781,137	\$ 790,426	\$ 9,290	1.2%				
Capital Reimbursements	\$ 35,175,868	\$ 67,836,000	\$ 42,356,000	\$ 61,056,000	\$ 18,700,000	44.1%				
Interest Income *	\$ 14,672,127	\$ 7,200,000	\$ 10,000,000	\$ 10,500,000	\$ 500,000	5.0%				
Non-Operating Other	\$ 6,379,443	\$ 3,680,056	\$ 2,943,714	\$ 2,882,067	\$ (61,647)	-2.1%				
TOTAL REVENUE	\$ 561,423,969	\$ 633,675,677	\$ 695,172,635	\$ 793,520,104	\$ 98,347,469	14.1%				
OUTLAYS										
Operating Outlays										
Operations **	\$ 417,011,643	\$ 470,385,435	\$ 518,936,116	\$ 540,282,545	\$ 21,346,430	4.1%				
Operating Project	\$ 4,609,233	\$ 6,603,095	\$ 5,301,661	\$ 5,192,127	\$ (109,534)	-2.1%				
Debt Service	\$ 65,048,659	\$ 97,434,264	\$ 103,673,639	\$ 124,427,220	\$ 20,753,581	20.0%				
Total Operating Outlays	\$ 486,669,536	\$ 574,422,794	\$ 627,911,415	\$ 669,901,892	\$ 41,990,477	6.7%				
Capital Outlays										
Capital Projects	\$ 414,114,048	\$ 407,071,538	\$ 464,841,687	\$ 614,371,258	\$ 149,529,571	32.2%				
Carry Forward Capital Projects	\$ -	\$ 97,159,534	\$ 46,371,112	\$ 18,711,273	\$ (27,659,839)	-59.6%				
Total Capital Outlays	\$ 414,114,048	\$ 504,231,072	\$ 511,212,799	\$ 633,082,531	\$ 121,869,732	23.8%				
TOTAL OUTLAYS	\$ 900,783,583	\$ 1,078,653,865	\$ 1,139,124,215	\$ 1,302,984,424	\$ 163,860,209	14.4%				
Less Intra-District Reimb	(107,180,400)	(124,927,947)	(129,113,429)	(135,895,650)	(6,782,220)	5.3%				
NET OUTLAYS	\$ 793,603,183	\$ 953,725,918	\$ 1,010,010,785	\$ 1,167,088,774	\$ 157,077,989	15.6%				
OTHER FINANCING SOURCES/(USES)										
Debt Proceeds	\$ 280,092,624	\$ 268,775,583	\$ 345,920,030	\$ 342,159,817	\$ (3,760,213)	-1.1%				
Transfers In	\$ 36,645,613	\$ 15,471,947	\$ 26,501,310	\$ 27,380,096	\$ 878,786	3.3%				
Transfers Out	\$ (36,645,613)	\$ (10,178,347)	\$ (26,501,307)	\$ (27,380,093)	\$ (878,786)	3.3%				
TOTAL OTHER SOURCES/(USES)	\$ 280,092,624	\$ 274,069,183	\$ 345,920,033	\$ 342,159,821	\$ (3,760,213)	-1.1%				
BALANCE AVAILABLE	\$ 47,913,409	\$ (45,981,058)	\$ 31,081,883	\$ (31,408,849)	\$ (62,490,732)	-201.1%				

Financial Overview

Combined Fund Summary - All Funds

	Budgetary		Adopted		Proposed		Change from	
	Basis Actual		Budget		Budget		2024-25 Adopted	
	2022-23	2023-24	2024-25	2025-26			\$ Diff	% Diff
YEAR-END RESERVES								
Restricted Reserves								
WUE Rate Stabilization Reserve	\$ 41,066,971	\$ 6,066,971	\$ 19,996,328	\$ 42,891,864	\$ 22,895,536		114.5%	
WUE San Felipe Emergency Reserve	3,526,697	3,530,832	3,580,832	3,630,832		50,000	1.4%	
WUE State Water Project Tax Reserve	13,860,460	8,816,456	8,973,390	5,070,944	(3,902,446)		-43.5%	
WUE Supplemental Water Supply Reserve	5,277,000	5,277,000	5,277,000	8,677,000		3,400,000	64.4%	
WUE SVAWPC Reserve	1,298,138	-	-	-		-	0.0%	
WUE Drought Reserve	-	-	-	1,000,000		1,000,000	0.0%	
WUE Guiding Principal #5 (GP5) Reserve	20,545,266	4,718,017	-	-		-	0.0%	
SCW Rate Stabilization Reserve	25,000,000	25,000,000	25,000,000	25,000,000		-	0.0%	
SCW Contingency Reserve	5,000,000	5,000,000	5,000,000	5,000,000		-	0.0%	
SCW Currently Authorized Projects Reserve***	116,786,238	37,906,382	25,336,118	12,530,147	(12,805,971)		-50.5%	
SCW Operating and Capital Reserve	59,060,206	117,935,002	59,517,635	40,728,012	(18,789,623)		-31.6%	
Total Restricted Reserves	\$ 291,420,976	\$ 214,250,660	\$ 152,681,303	\$ 144,528,799	\$ (8,152,504)		-5.3%	
Committed Reserves								
Currently Authorized Projects Reserve***	\$ 113,451,091	\$ 11,963,405	\$ 9,927,136	\$ 4,021,834	\$ (5,905,302)		-59.5%	
Operating and Capital Reserve	195,598,646	232,838,015	228,275,839	210,319,125	(17,956,714)		-7.9%	
Liability/Workers' Comp Self-Insurance	8,337,000	8,337,000	8,337,000	8,337,000		-	0.0%	
Excess ERAF Contingency Reserve	-	-	6,862,516	7,134,476		271,960	4.0%	
WUE San Jose Water Purification Reserve	-	1,000,000	-	-		-	0.0%	
Property Self-Insurance/Catastrophic	6,623,909	5,580,026	7,409,352	7,743,063		333,711	4.5%	
Total Committed Reserves	\$ 324,010,646	\$ 259,718,446	\$ 260,811,843	\$ 237,555,498	\$ (23,256,345)		-8.9%	
TOTAL YEAR-END RESERVES	\$ 615,431,622	\$ 473,969,106	\$ 413,493,147	\$ 382,084,297	\$ (31,408,849)		-7.6%	

Financial Overview

Combined Fund Summary - All Funds

	Budgetary Basis	Actual 2022-23	Adopted Budget 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26	Change from 2024-25 \$ Diff	Adopted % Diff
Outlay Summary by Account type							
OPERATING OUTLAY							
Salaries and Benefits	\$ 164,901,681	\$ 175,496,203	\$ 190,193,556	\$ 202,900,755	\$ 12,707,199	6.7%	
Salary Savings Factor		-	(2,772,242)	(2,901,035)	(3,059,477)	(158,442)	5.5%
Services & Supplies	177,006,306	213,700,765	242,575,325	245,223,058	2,647,733	1.1%	
Intra-District Charges	79,712,889	90,563,804	94,369,931	100,410,337	6,040,407	6.4%	
OPERATING OUTLAY TOTAL	\$ 421,620,876	\$ 476,988,530	\$ 524,237,776	\$ 545,474,672	\$ 21,236,896	4.1%	
DEBT SERVICE							
Services & Supplies	\$ 2,761,198	4,486,371	5,033,001	5,173,001	\$ 140,000	2.8%	
Debt Service	62,287,462	\$ 92,947,893	\$ 98,640,638	\$ 119,254,219	20,613,581	20.9%	
DEBT SERVICE TOTAL	\$ 65,048,659	\$ 97,434,264	\$ 103,673,639	\$ 124,427,220	\$ 20,753,581	20.0%	
CAPITAL PROJECTS							
Salaries and Benefits	\$ 45,786,161	\$ 54,105,281	\$ 56,126,805	\$ 57,718,897	\$ 1,592,092	2.8%	
Salary Savings Factor		-	(877,577)	(890,129)	(905,127)	(14,998)	1.7%
Services & Supplies	340,860,376	319,479,687	374,861,512	522,072,176	147,210,663	39.3%	
Carry Forward Capital Projects	-	97,159,534	46,371,112	18,711,273	(27,659,839)	-59.6%	
Intra-District Charges	27,467,511	34,364,146	34,743,499	35,485,313	741,814	2.1%	
CAPITAL PROJECTS TOTAL	\$ 414,114,048	\$ 504,231,072	\$ 511,212,799	\$ 633,082,531	\$ 121,869,732	23.8%	
TOTAL OUTLAYS	\$ 900,783,583	\$ 1,078,653,865	\$ 1,139,124,215	\$ 1,302,984,424	\$ 163,860,209	14.4%	

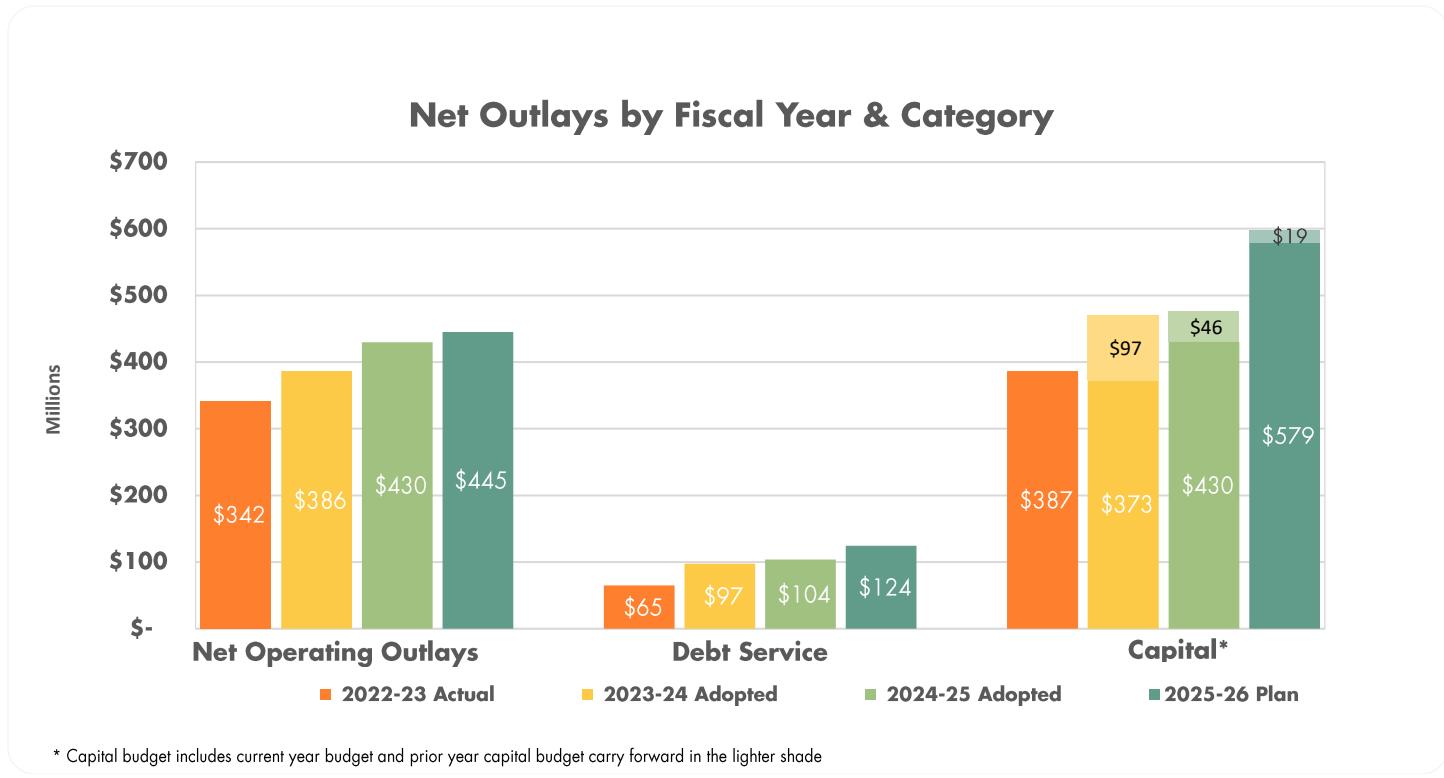
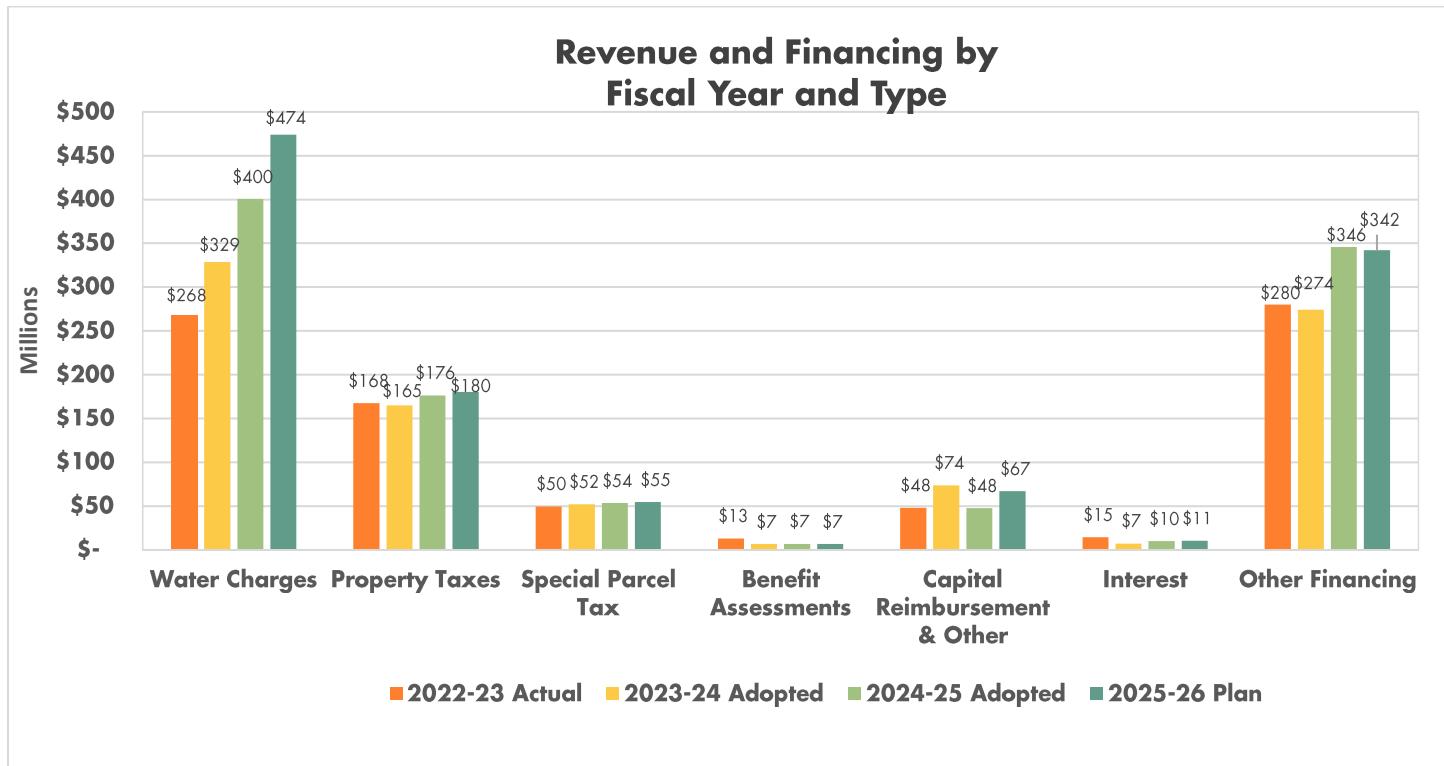
(*) Interest income does not include GASB31 market value adjustment

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

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

Financial Overview

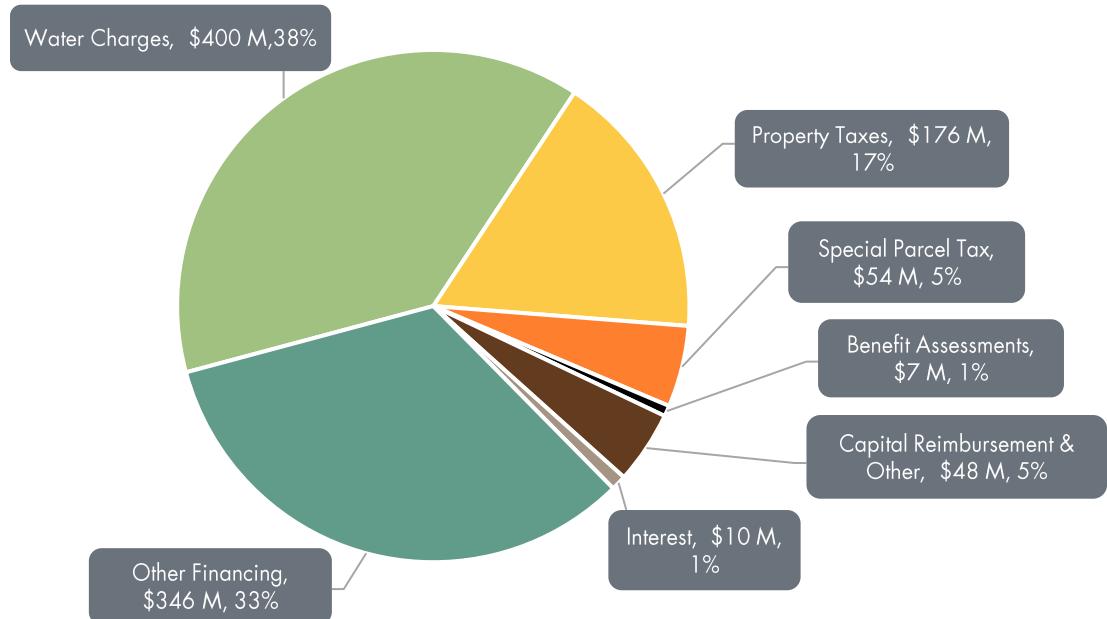
Revenue and Outlays



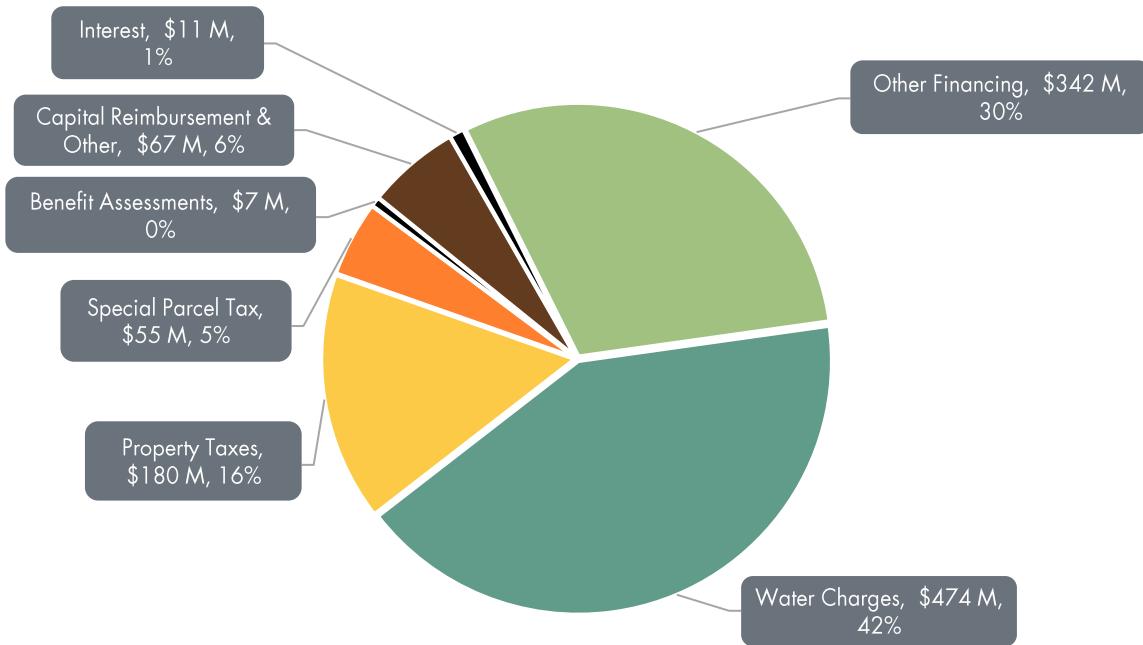
* Capital budget includes current year budget and prior year capital budget carry forward in the lighter shade

Financial Overview

FY 2024-25 Adopted Revenue and Debt Financing, \$1,041 Million

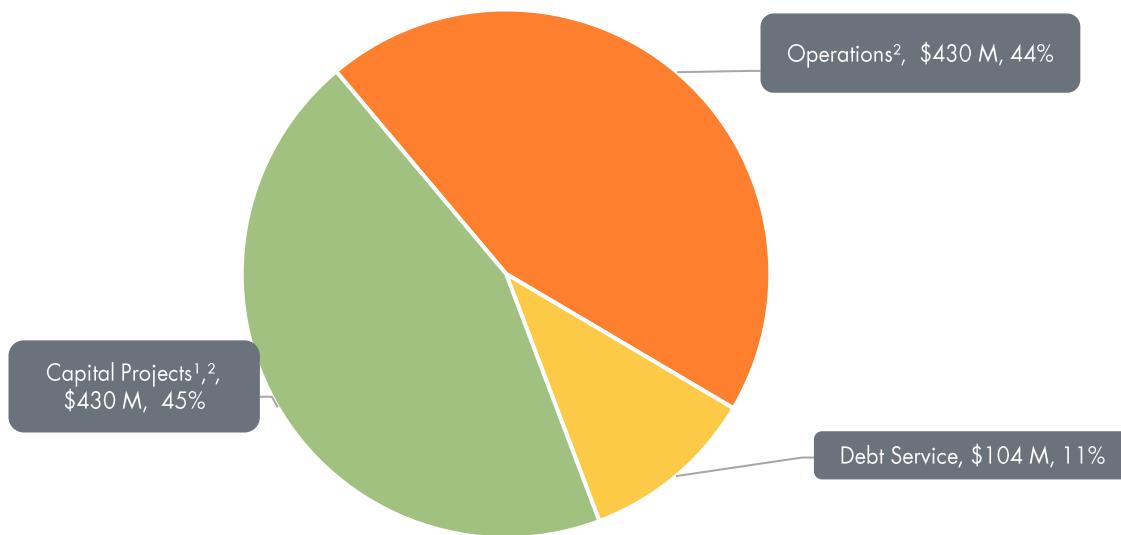


FY 2025-26 Plan Revenue and Debt Financing, \$1,136 Million



Financial Overview

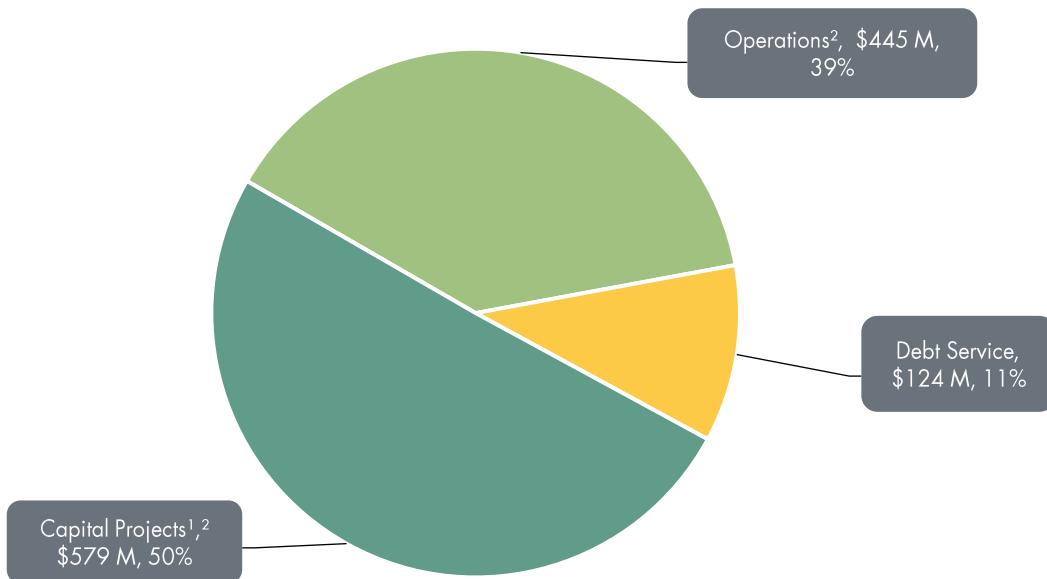
FY 2024-25 Adopted Net Outlays By Category, \$964 Million



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

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

FY 2025-26 Plan Net Outlays By Category, \$1,148 Million



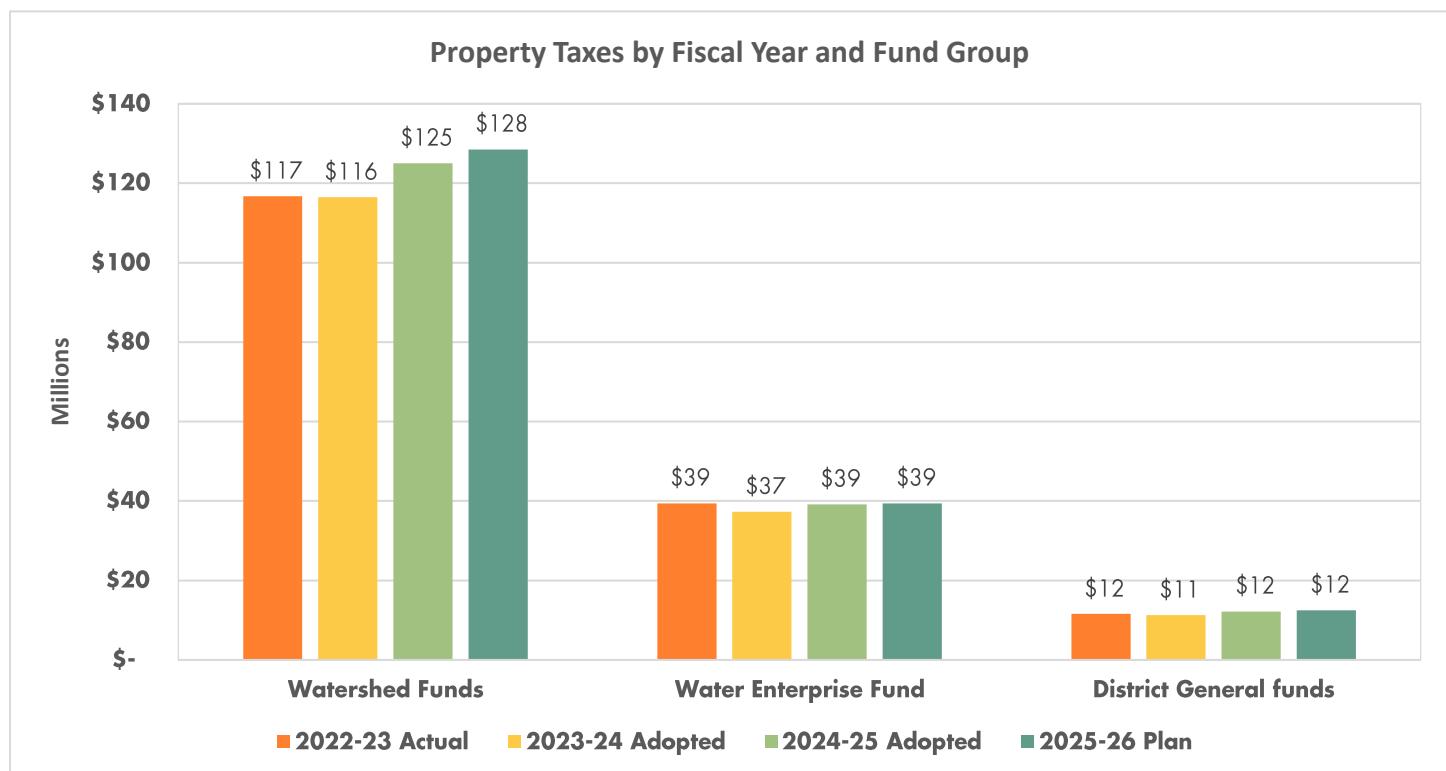
¹Capital Projects Outlay does not include capital budget estimated to be carried forward from prior year

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

MAJOR SOURCES OF REVENUE

Financial Overview

Property Taxes



Financial Overview

Property Taxes

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

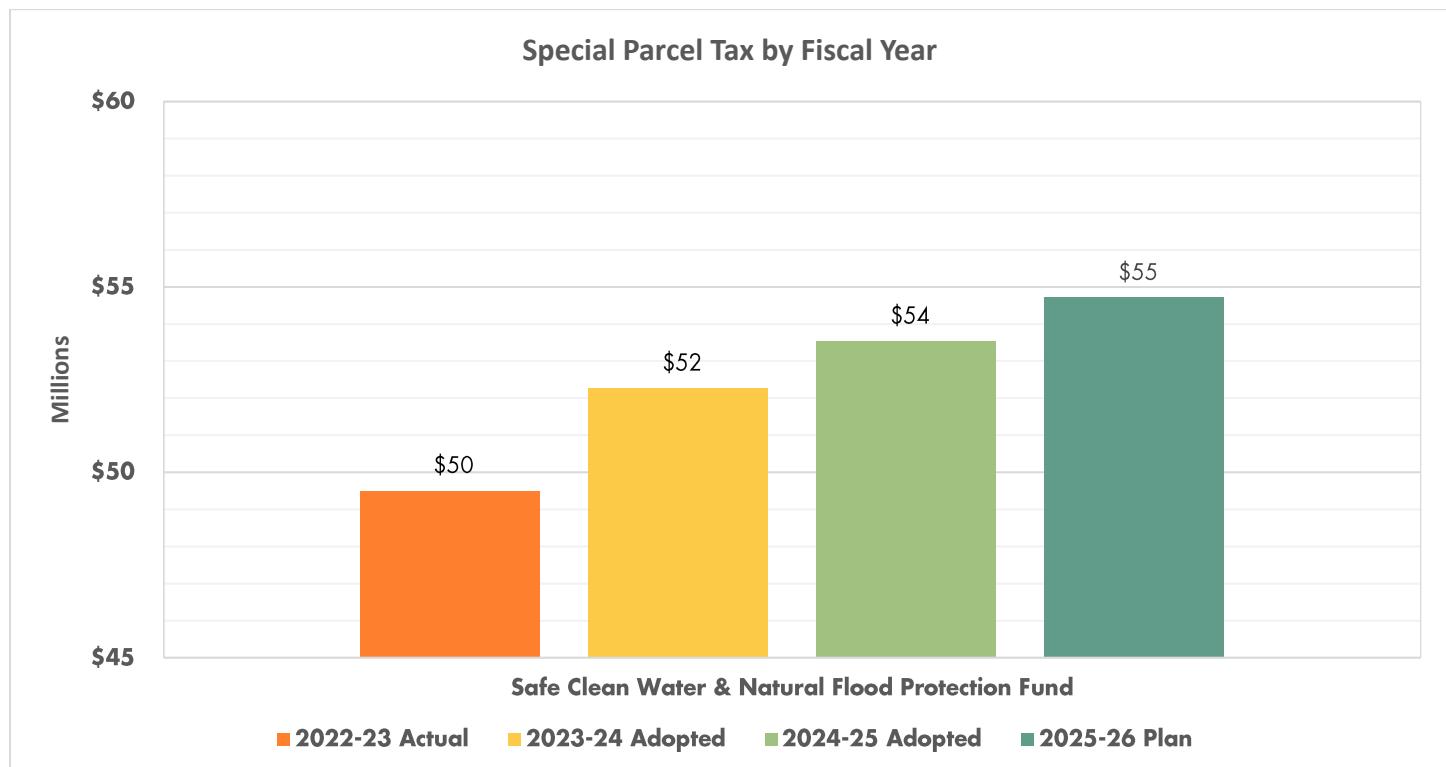
For FY 2024-25, Valley Water is projecting \$148.4 million in 1% Ad Valorem tax revenue, a 7.5% increase over the FY 2023-24 Adopted Budget. The increase reflects the growth in the assessed value of all property in Santa Clara County. For FY 2025-26, 1% Ad Valorem tax is projected to increase 2.7% to \$152.3 million.

Valley Water also levies a State Water Project property tax based on its annual indebtedness to the State pursuant to its water supply contract dated November 20, 1961. This indebtedness is part of Valley Water's SWP water purchase costs and pays for construction, maintenance, and operation of SWP infrastructure and facilities. For FY 2024-25 and FY 2025-26, based on the projected operation costs, SWP taxes are projected at \$28.0 million for each fiscal year.

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Property Tax					
1 % Ad Valorem Property Tax					
Watershed Stream Stewardship Fund	\$ 116,705,972	\$ 116,443,701	\$ 121,528,000	\$ 124,993,000	\$ 128,456,000
Water Enterprise Fund	10,522,021	10,314,710	10,846,000	11,163,000	11,388,946
District General Fund	11,581,449	11,261,086	11,844,000	12,198,500	12,451,495
Total 1% Allocation	\$ 138,809,442	\$ 138,019,497	\$ 144,218,000	\$ 148,354,500	\$ 152,296,441
State Water Project Debt Service	\$ 28,872,237	\$ 27,000,000	\$ 27,000,000	\$ 28,000,000	\$ 28,000,000
Total Property Tax	\$ 167,681,679	\$ 165,019,497	\$ 171,218,000	\$ 176,354,500	\$ 180,296,441

Financial Overview

Special Parcel Tax



Financial Overview

Special Parcel Tax

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

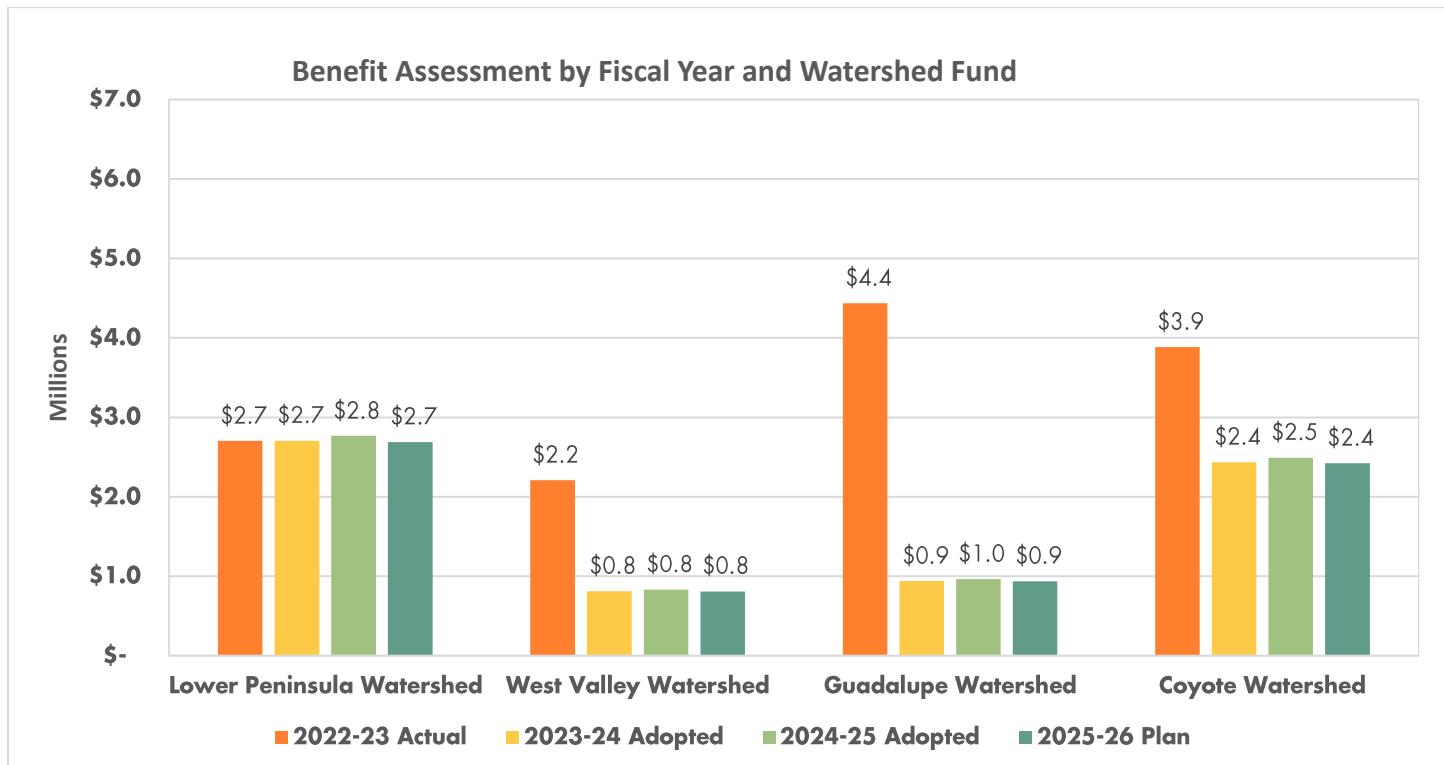
The Bureau of Labor Statistics released a report indicating the change in CPI over the last year (from February 2023 to February 2024) was 2.4%. For FY 2024-25, the Board of directors approved an increase in the special parcel tax revenues to equal the change in CPI of 2.4% over the FY 2023-24 Adopted Budget. As noted previously, the tax levy may be increased by the CPI or 2%, whichever is greater.

The FY 2025-26 Planned amount assumes an increase of 2.2% over the FY 2024-25 Budget, which reflects the Board adopted 2% increase in the special tax rates, and an anticipated increase in eligible parcels based on construction activity in the county. Staff will reevaluate the revenue assumptions during the development of FY 2025-26 & FY 2026-27 Operating and Capital Rolling Biennial Budget.

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Special Parcel Tax					
Safe Clean Water & Natural Flood Protection Fund	\$ 49,501,115	\$ 52,277,018	\$ 52,277,018	\$ 53,531,667	\$ 54,709,363
Total Special Parcel Tax	\$ 49,501,115	\$ 52,277,018	\$ 52,277,018	\$ 53,531,667	\$ 54,709,363

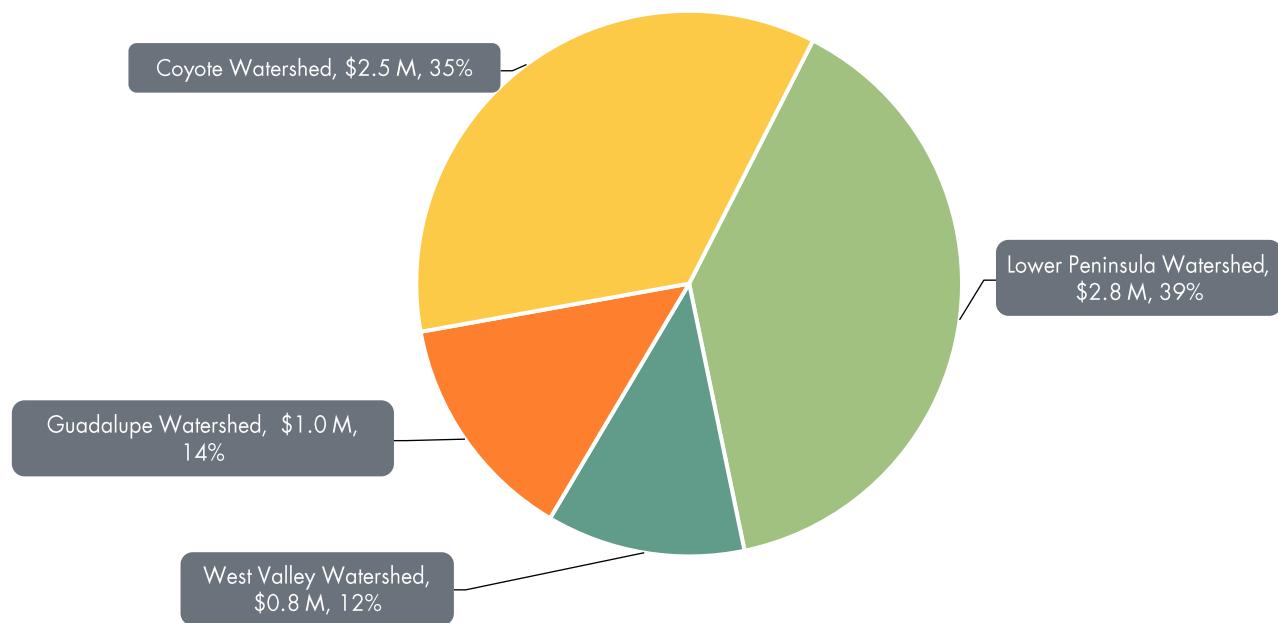
Financial Overview

Benefit Assessment

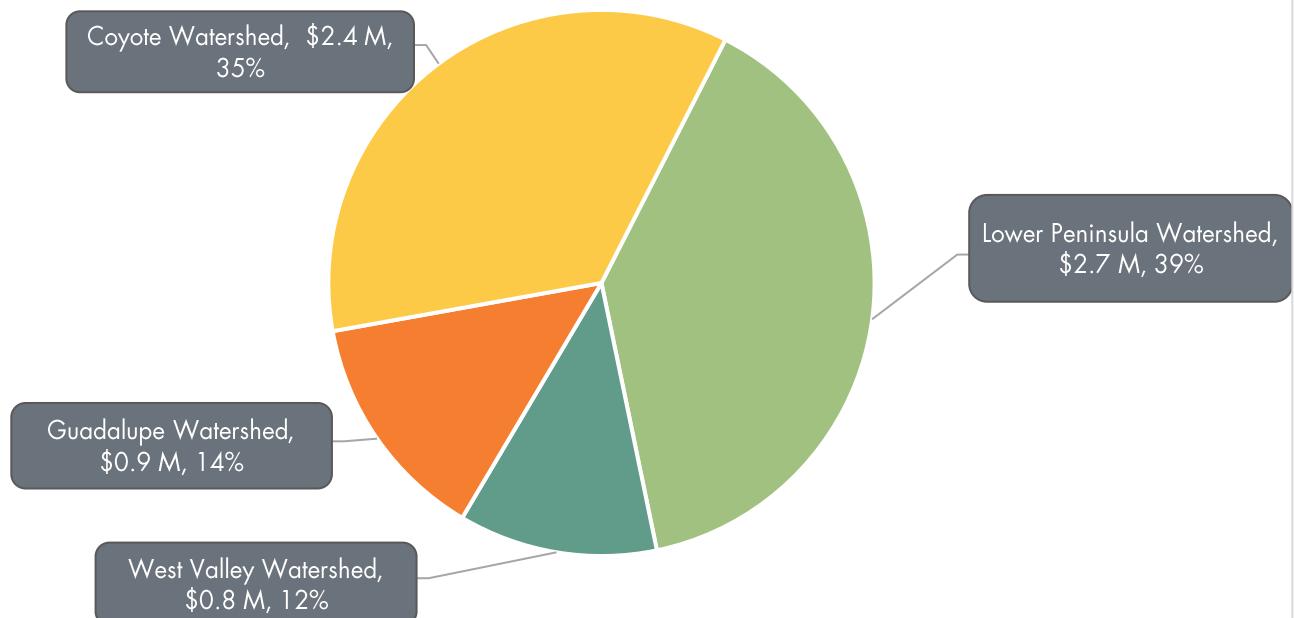


Financial Overview

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



FY 2025-26 Plan Benefit Assessments, \$6.9 Million



Financial Overview

Benefit Assessment

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

FY 2024-25 and FY 2025-26 continue under this debt repayment phase of the Benefit Assessment program with benefit assessments levied at 1.25 times the annual debt service.

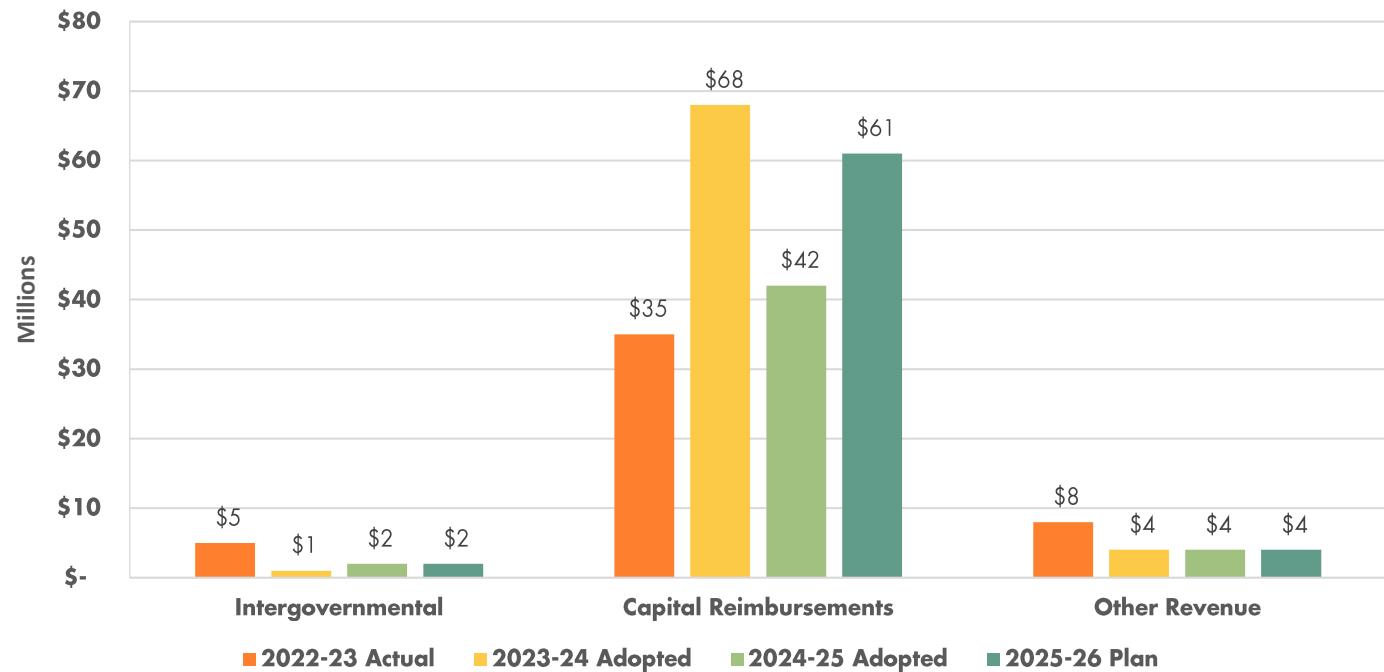
For FY 2024-25 and FY 2025-26, the Benefit Assessment revenue receipts are projected at \$7.1 million and \$6.9 million, respectively. The decrease in revenue collection from previous years is due to some bonds associated with this program being paid in full in FY 2023-24. As Valley Water continues to pay down principal, the amount collected will decrease.

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Benefit Assessment					
Lower Peninsula Watershed	\$ 2,702,589	\$ 2,704,621	\$ 2,677,575	\$ 2,767,793	\$ 2,690,001
West Valley Watershed	2,208,002	811,318	803,205	830,268	806,932
Guadalupe Watershed	4,435,037	941,188	931,776	963,171	936,100
Coyote Watershed	3,883,814	2,434,639	2,410,293	2,491,505	2,421,479
Total Benefit Assessments	\$ 13,229,442	\$ 6,891,766	\$ 6,822,849	\$ 7,052,737	\$ 6,854,512

Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

Intergovernmental, Capital Reimbursements and Other Revenue by Fiscal Year & Type



Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

Intergovernmental Services

Valley Water anticipates receiving intergovernmental services revenue of \$1.7 million in FY 2024-25 and \$2.4 million in FY 2025-26 in the Water Utility Enterprise Fund. These funds are primarily for reimbursement from the San Benito County Water District (SBCWD) for operating maintenance of the San Felipe Division Reach 1, and for conservation activities funded by state grants and local cost sharing agreements.

Capital Reimbursement Revenue

Capital reimbursement revenue are expected at \$42.4 million in FY 2024-25 and \$61.1 million in FY 2025-26.

Water Utility Enterprise receipts in FY 2024-25 are budgeted at \$0.5 million and \$0.6 million in FY 2025-26 from San Benito County Water District for small capital improvements on the San Felipe Division Reach 1.

Watershed and Stream Stewardship Fund capital reimbursement are expected to be \$11.9 million in FY 2024-25, comprised of \$0.5 million in state subvention funds for the Llagas Creek Lower Capacity Restoration project and \$11.4 million Measure AA grant for the San Francisco Bay Shoreline project. In FY 2025-26, reimbursements totaling \$0.5 million state subvention for the Llagas Creek Lower Capacity Restoration project.

Safe, Clean Water Fund reimbursements of \$30.0 million in FY 2024-25, comprised of: \$20.0 million unsecured funding from Natural Resources Conservation Service (NRCS) for Llagas Creek - Phase 2B Construction project; and, \$10.0 million in unsecured grants and partnerships (upstream funding) for the San Francisquito Creek, San Francisco Bay Shoreline to Middlefield Road project. In FY 2025-26, reimbursements total \$60.0 million, comprised of: \$10.0 million in unsecured grants and partnerships (upstream funding) for the San Francisquito Creek; and, \$50.0 million in unsecured funding from NRCS for the Upper Llagas Creek - Phase 2B Construction project.

Other Revenue

The other operating and non-operating revenue total \$3.7 million per fiscal year. Approximately \$1.8 million is budgeted for Watersheds, \$1.8 million for Water Utility and \$0.1 million for the General and Internal Service funds.

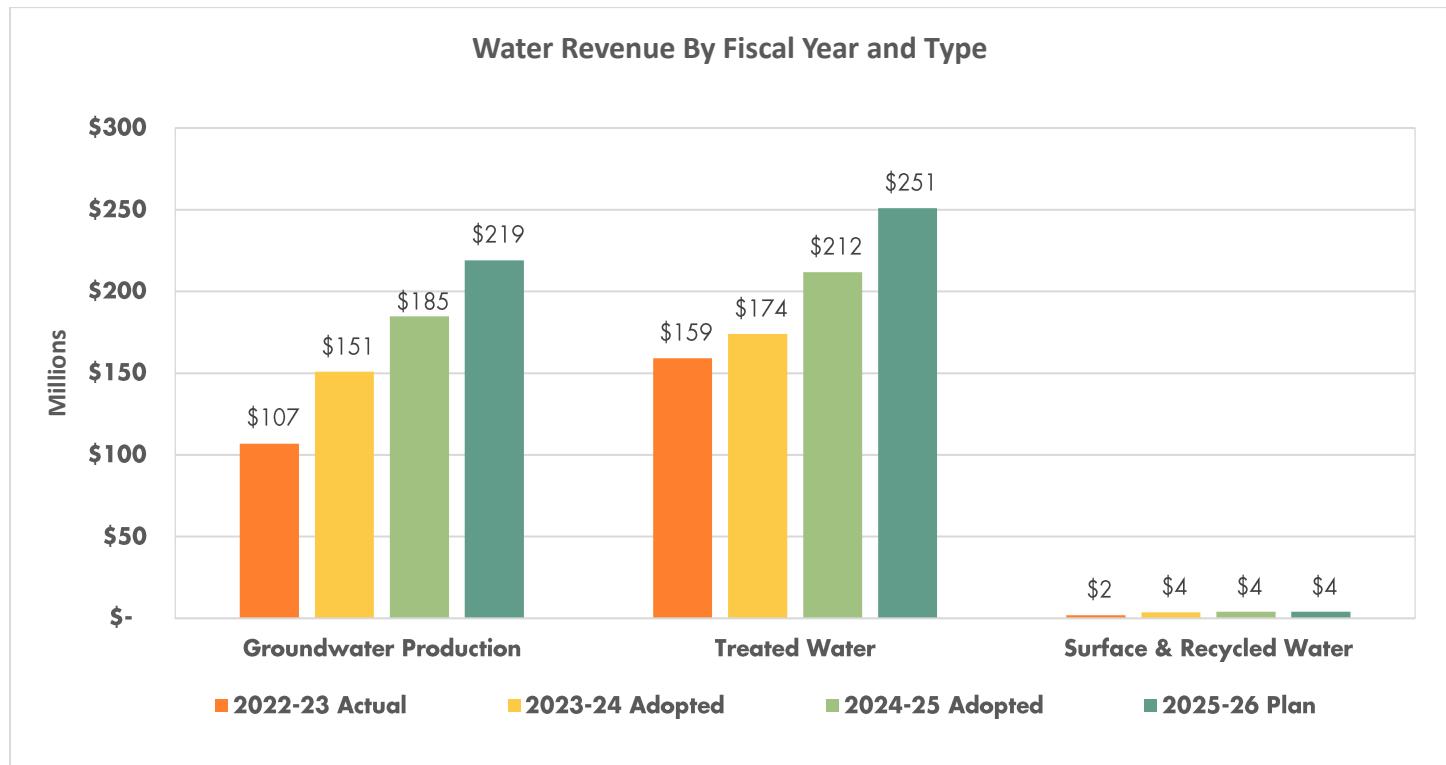
Financial Overview

Intergovernmental, Capital Reimbursements and Other Revenue

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Intergovernmental Services					
Watershed Stream Stewardship Fund	\$ 111,445	\$ —	\$ —	\$ —	\$ —
Safe Clean Water & Natural Flood Protection Fund	40,425	—	—	—	—
Water Enterprise Fund	5,376,085	1,424,295	1,548,880	1,687,880	2,424,295
Total Intergovernmental Services	\$ 5,527,955	\$ 1,424,295	\$ 1,548,880	\$ 1,687,880	\$ 2,424,295
Capital Reimbursements					
Watershed Stream Stewardship Fund	\$ 13,575,736	\$ 34,170,000	\$ 26,285,000	\$ 11,900,000	\$ 500,000
Safe Clean Water & Natural Flood Protection Fund	7,976,000	23,400,000	1,000,000	30,000,000	60,000,000
Water Enterprise Fund	13,624,133	10,266,000	7,027,000	456,000	556,000
Total Capital Reimbursements	\$ 35,175,869	\$ 67,836,000	\$ 34,312,000	\$ 42,356,000	\$ 61,056,000
Other					
Watershed Stream Stewardship Fund	\$ 2,807,985	\$ 1,809,184	\$ 1,809,184	\$ 1,863,459	\$ 1,919,362
Safe Clean Water & Natural Flood Protection Fund	348,401	—	—	—	—
Water Enterprise Fund	769,932	1,602,917	799,975	810,892	701,731
State Water Project Fund	1,260,147	1,000,000	1,000,000	1,000,000	1,000,000
District General Fund	2,105,702	30,000	30,000	30,000	30,600
Internal Service Funds	242,757	20,000	20,000	20,500	20,800
Total Other	\$ 7,534,924	\$ 4,462,101	\$ 3,659,159	\$ 3,724,851	\$ 3,672,493
Total Intergov'l & Other Revenues	\$ 48,238,748	\$ 73,722,396	\$ 39,520,039	\$ 47,768,731	\$ 67,152,788

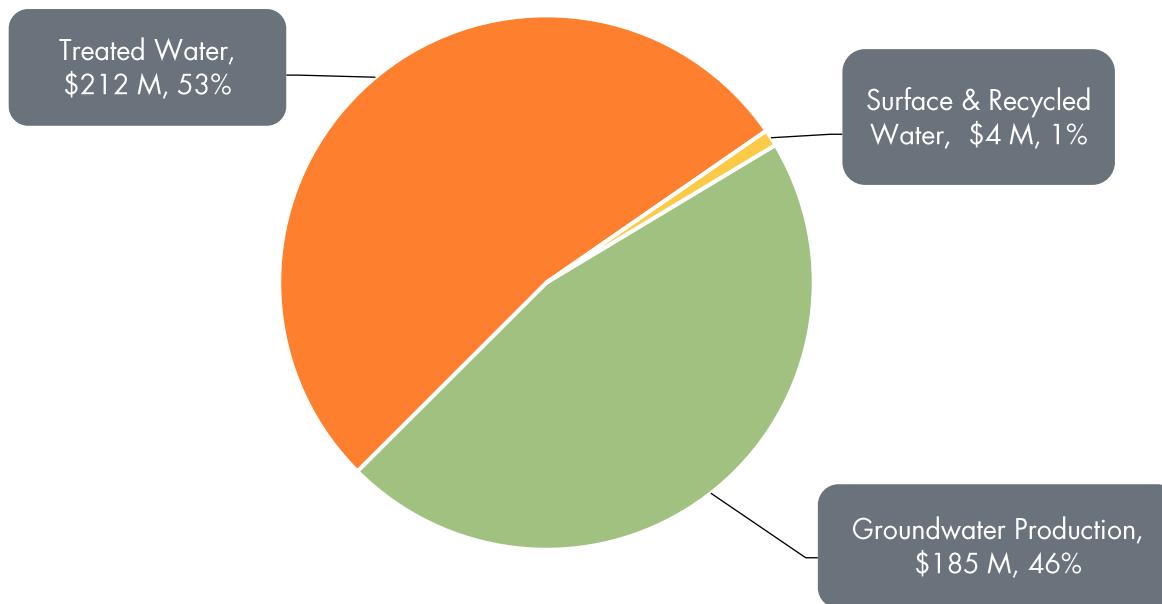
Financial Overview

Water Revenue

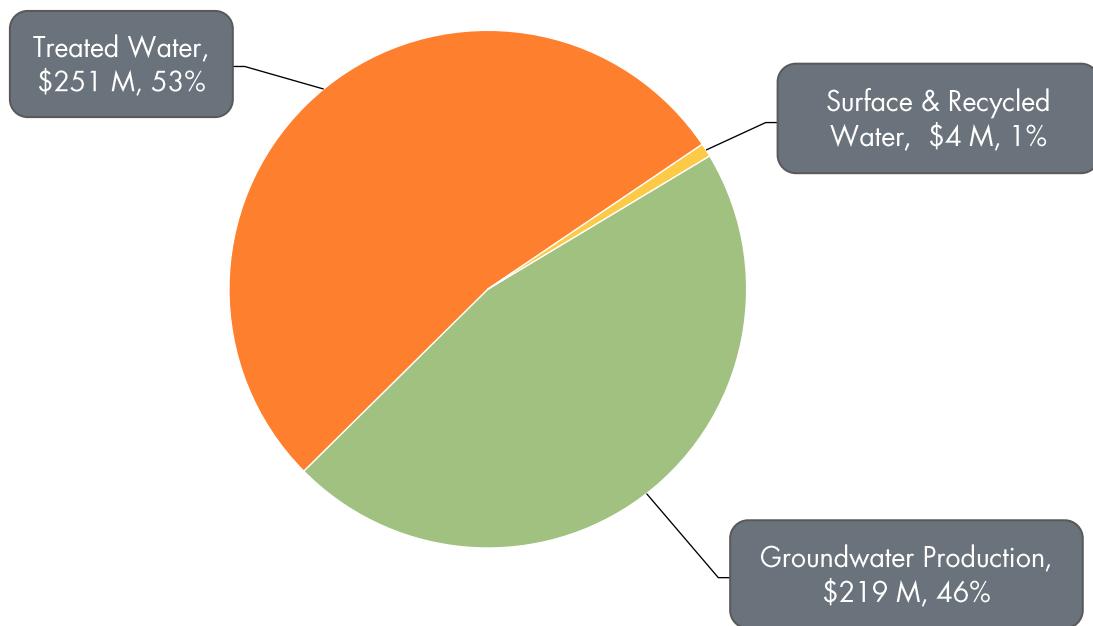


Financial Overview

FY 2024-25 Adopted Water Revenue \$400 Million



FY 2025-26 Plan Water Revenue \$474 Million



Financial Overview

Water Revenue

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

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

Water revenues in FY 2024-25 Budget and FY 2025-26 Plan are based on staff's recommendations to the Board. Water charges are necessary to provide funding for critical infrastructure and operational needs, water imported via California's state and federal water systems, and the development of future supplies and storage. The water charges are shown in the accompanying Water Utility Charge Summary schedule found in the Water Enterprise Fund Summary section of this book.

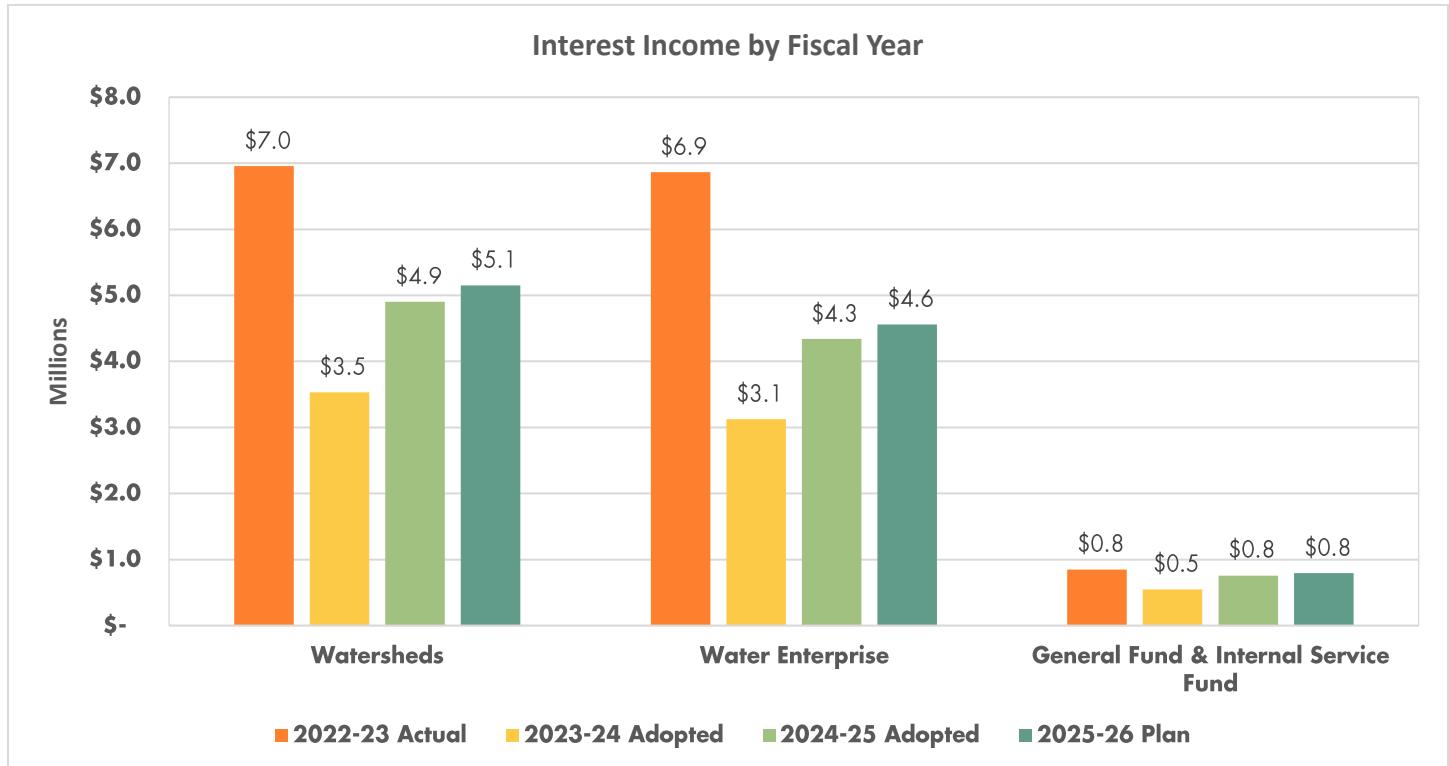
FY 2024-25 revenue estimates reflect an increase of 12.9% in groundwater production charges for the North County (Zone W-2) when compared to FY 2023-24. In the Llagas Subbasin (Zone W-5), revenue estimates reflect an increase of 6.6% in the groundwater production charge when compared to FY 2023-24. In the Coyote Valley (Zone W-7) revenue estimates reflect an increase of 14.2% in the groundwater production charge when compared to FY 2023-24. In the foothills below the Uvas and Chesbro reservoirs (Zone W-8), revenue estimates reflect an increase of 8.0% to the groundwater production charge relative to FY 2023-24. In FY 2025-26, Zone W-2 anticipates a rate increase of 9.9%, while all other zones, project the same annual rate increases as scheduled in FY 2024-25.

The FY 2024-25 water use estimate of 222,000 AF represents a 15,000 AF, or 7.2% increase compared to the FY 2023-24 adopted water budget usage amount of 207,000 AF. In FY 2024-25 water use estimate increases to 238,000 AF, assuming water use rebounds over time back to pre-drought levels. Additionally, other sources such as Hetch Hetchy and local retail water supplies like San Jose Water Company, Stanford, and South Bay Water Recycling provide approximately 70,000 acre-feet of water per year to Santa Clara County. Valley Water does not receive revenue for these sources of supply.

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Water Revenue					
Groundwater Production Charges	\$ 106,935,552	\$ 150,871,000	\$ 150,881,000	\$ 184,722,000	\$ 219,323,000
Treated Water Charges	159,215,177	174,081,000	174,081,000	211,703,000	250,262,000
Surface&Recycled Water Charges	1,950,130	3,613,000	3,613,000	4,040,000	4,422,000
Total Water Revenue	\$ 268,100,859	\$ 328,565,000	\$ 328,575,000	\$ 400,465,000	\$ 474,007,000

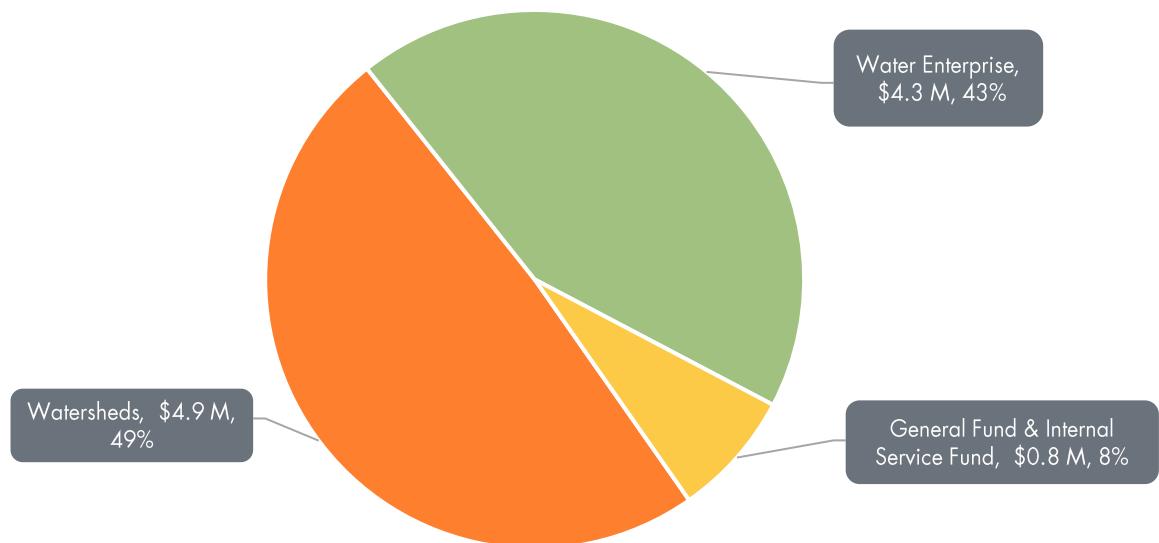
Financial Overview

Interest Income

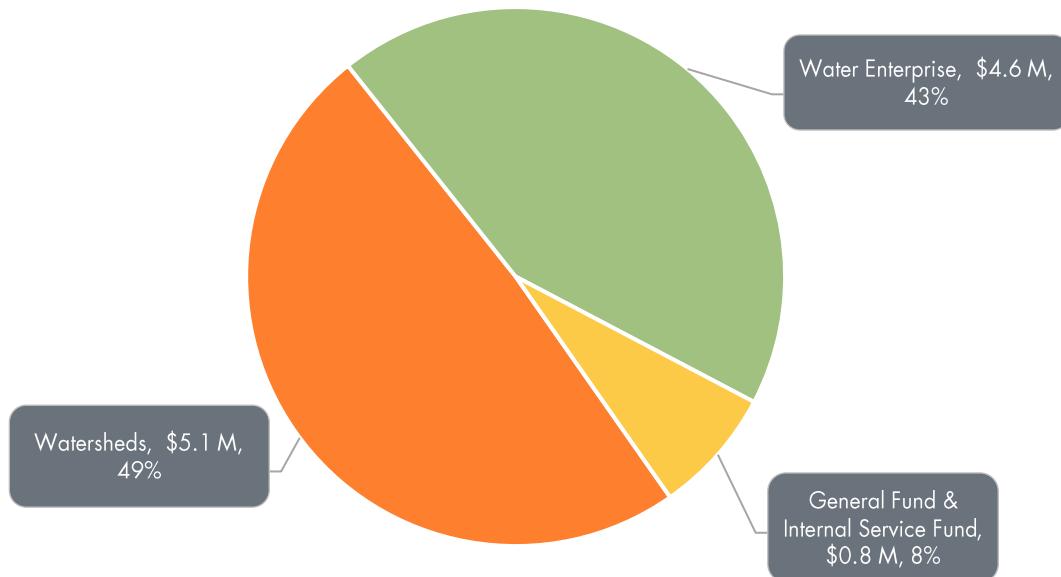


Financial Overview

FY 2024-25 Adopted Interest Earnings, \$10.0 Million



FY 2025-26 Plan Interest Earnings, \$10.5 Million



Financial Overview

Interest Income

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

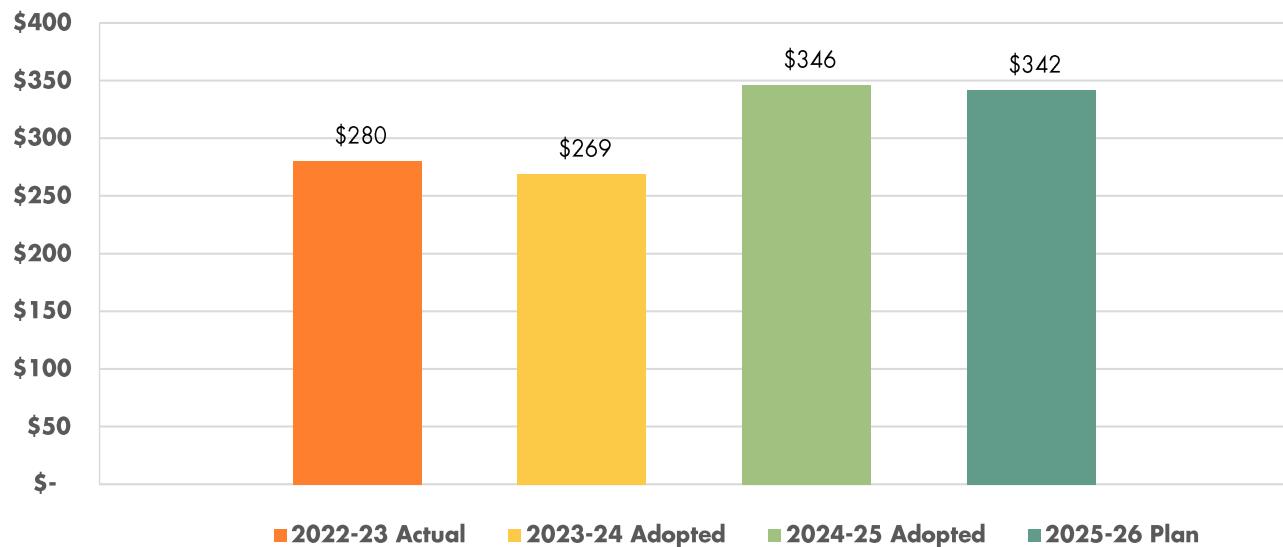
Interest earnings are estimated to be \$10.0 million for FY 2024-25 and \$10.5 million for FY 2025-26. The estimates assume an average portfolio yield of 1.75% for FY 2024-25 and FY 2025-26.

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Interest Income					
Watershed Stream Stewardship Fund	\$ 2,330,225	\$ 1,630,000	\$ 2,264,000	\$ 2,264,000	\$ 2,377,000
Safe Clean Water & Natural Flood Protection Fund	4,625,124	1,900,000	2,639,000	2,639,000	2,771,000
Water Enterprise Fund	6,868,031	3,125,000	4,340,000	4,340,000	4,557,000
General Fund	185,636	105,000	146,000	146,000	153,000
Service Funds	663,112	440,000	611,000	611,000	642,000
Total Interest Income	\$ 14,672,128	\$ 7,200,000	\$ 10,000,000	\$ 10,000,000	\$ 10,500,000

Financial Overview

Other Financing

Other Financing by Fiscal Year



The Other Financing includes Debt instruments such as commercial paper, short-term debt obligations, refunding revenue bonds, and certificates of participation (COPs). These financing instruments may be issued to assist in refunding and financing the costs of acquisition, design, construction, improvement, and installation of certain Water Utility and Safe, Clean Water and Natural Flood Protection Program capital projects.

Valley Water anticipates issuing approximately \$345.9 million in debt proceeds in FY 2024-25, of which \$236.3 million is for Water Utility and \$109.6 million is for the Safe, Clean Water program. In FY 2025-26, planned issuance is approximately \$342.2 million, \$288.1 million for Water Utility and \$54.1 million for Safe, Clean Water program, respectively.

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

	Budgetary Basis Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
OTHER FINANCING					
Debt Proceeds	\$ 280,092,624	\$ 268,775,583	\$ 196,725,000	\$ 345,920,030	\$ 342,159,817
TOTAL OTHER FINANCING	\$ 280,092,624	\$ 268,775,583	\$ 196,725,000	\$ 345,920,030	\$ 342,159,817

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SALARIES AND BENEFITS

Financial Overview

Salaries and Benefits

The FY 2024-25 salary and benefit budget is based on a total of 925 positions, which includes 921 regular positions and four limited term positions. The total salaries and benefits budget is \$242.5 million, an increase of \$16.6 million or 7.3% from the FY 2023-24 Adopted Budget. The increase is primarily due to a 3% cost of living adjustment (COLA), an estimated \$4.0 million increase in CalPERS contribution, and a \$5.2 million increase in health insurance costs.

In FY 2025-26, salaries and benefits are projected at \$256.7 million, a 5.8% increase compared to the FY 2024-25 budget. The increase is primarily attributed to a 3% COLA, and an estimated \$3.2 million increase in CalPERS, and a \$3.3 million increase in health insurance costs.

Financial Overview

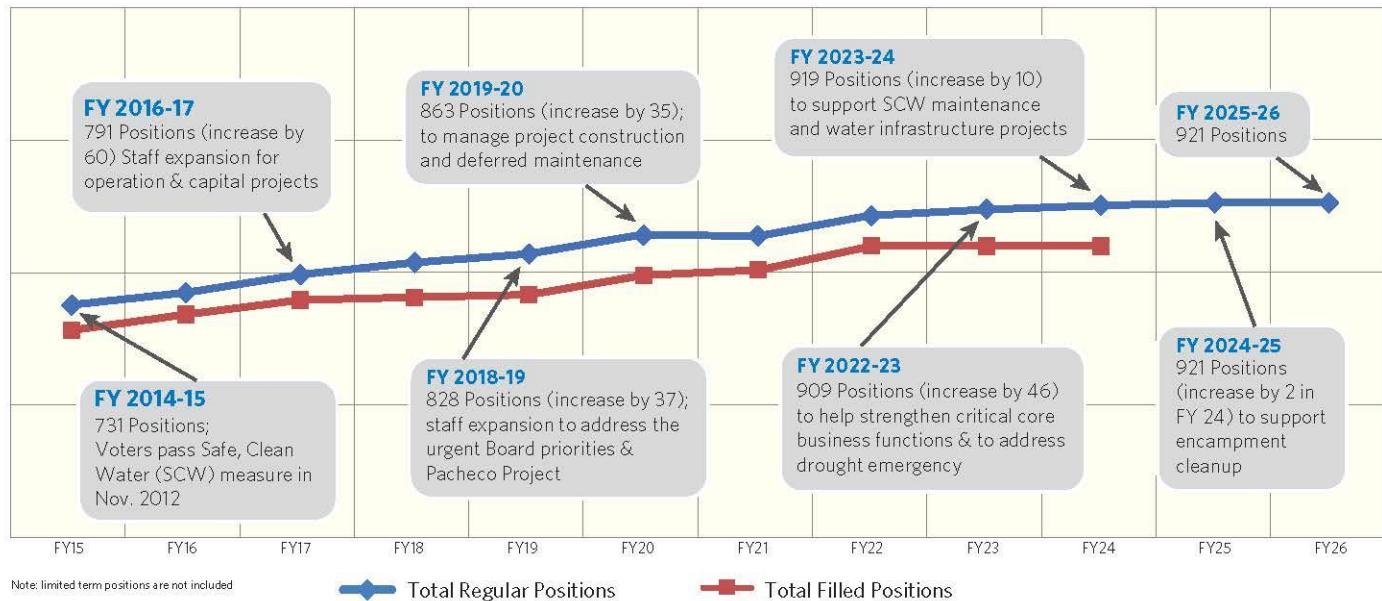
Summary of Positions

	Adopted Budget	Adopted Budget	Adopted Budget	Proposed Plan
	FY 2022-23	FY 2023-24	FY 2024-25 ⁽²⁾	FY 2025-26
Board Appointed Officers ⁽¹⁾	78	79	78	78
Office of Integrated Water Mgmt	56	56	70	70
External Affairs	46	47	46	46
Administrative Services	163	163	166	166
Water Utility	301	305	304	304
Watersheds	265	269	257	257
Total Regular Positions	909	919	921	921
Limited Term Positions	9	5	4	4
Total	918	924	925	925

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

² 2 positions were added during FY 2023-24

Valley Water Regular Position Trends, FY 2015-2026



Financial Overview

Salaries and Benefits

	Budgetary Basis 2022-23	Actual 2022-23	Adopted Budget 2023-24	Projected Year End 2023-24	Adopted Budget 2024-25	Proposed Plan 2025-26
Salaries						
Salaries	\$ 130,457,939	\$ 144,580,251	\$ 144,501,117	\$ 150,627,470	\$ 157,660,243	
Overtime	5,098,368	3,949,781	3,949,781	3,949,212	3,949,212	3,892,908
Special Pays	1,091,823	1,086,500	1,086,500	1,101,549	1,101,549	1,104,899
Salary Savings	–	(3,649,818)	(3,649,818)	(3,791,164)	(3,791,164)	(3,964,604)
Total Salaries	\$ 136,648,130	\$ 145,966,714	\$ 145,887,580	\$ 151,887,067	\$ 158,693,446	
Benefits						
Fed & State Taxes & Benefits	\$ 2,019,373	\$ 2,146,414	\$ 2,146,414	\$ 2,243,098	\$ 2,346,844	
Retirement Contributions	42,152,104	45,036,959	45,036,959	49,040,946	52,217,805	
Group Ins-Active Employees	15,958,032	19,359,278	19,359,278	24,545,317	27,823,546	
Group Ins-Retired Employees	13,910,203	13,442,300	13,442,300	14,812,769	15,573,407	
Total Benefits	\$ 74,039,712	\$ 79,984,951	\$ 79,984,951	\$ 90,642,130	\$ 97,961,602	
Total Salary & Benefits	\$ 210,687,842	\$ 225,951,665	\$ 225,872,531	\$ 242,529,197	\$ 256,655,048	
Labor Hours						
	2022-23	2023-24	2023-24	2024-25	2025-26	
Budget Hours						
Regular Hours	1,666,437	1,621,818	1,621,818	1,615,195	1,613,492	
Overtime	50,874	32,572	32,572	31,861	30,349	
Compensated Absences	285,400	297,776	297,776	306,101	307,514	
Total Hours	2,002,711	1,952,166	1,952,166	1,953,157	1,951,355	

DEBT & INVESTMENTS

Financial Overview

Debt Service Overview

Provisions of the state constitution, laws, and various portions of Sections 14 and 25 of the District Act authorize the Board of Directors (Board) to incur short and long term debt under certain conditions and to issue bonds in a form designated by resolution of the Board, including designation of which participating watersheds are affected by the issuance of new debt. Sections 25.1 and 25.2 of District Act authorize the Board to issue revenue bonds for the Water Enterprise Fund. Valley Water's debt issuance practices are governed under the California Government and Water codes.

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

On September 8, 2023, Governor Newsom signed into state law Assembly Bill 939, which made numerous changes to the District Act, including amending the limit on short-term debt Valley Water could issue without holding an election. Consistent with the California Constitution, Valley Water may issue short term debt (with maturities up to five years) that is payable in any fiscal year in an amount, when added to the interest thereon, not to exceed 85% of the estimated amount of revenues, charges, taxes, and assessments that will be available in that fiscal year for the payment of principal and interest on the debt.

Board Policies - Executive Limitations

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

EL-4.7 states that a Board Appointed Officer (BAO) shall: "Not indebt the organization, except as provided in the District Act, and in an amount greater than can be repaid by certain, otherwise unencumbered revenues within 90 days, or prior to the close of the fiscal year." Furthermore, the BAO shall:

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

Financial Overview

Debt Policy

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

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

Bond Ratings

The bond ratings for Valley Water's outstanding debt reflect high grade investment quality debt. They are based on Valley Water's positive fiscal policy and financial strengths. The bond ratings are either the highest for a water related governmental entity in the State of California or among the highest. Bonds issued at this credit rating result in lower interest rates and corresponding lower debt service payments.

Outstanding Debt

Total debt includes Certificates of Participation (COPs), Commercial Paper, Revolving Line of Credit, and Revenue Bonds of \$1.64 billion as of June 30, 2024. Scheduled annual debt service for FY 2024-25 is approximately \$103.7 million including financing and legal fees. There are no balloon payments in the future years or significant fluctuations in annual debt service.

Currently outstanding for the Watersheds are Series 2017A COPs, with a final maturity of 2030. Debt service for these COPs is paid via benefit assessments, which are collected based on 125% of the annual debt service. Currently outstanding for the Safe Clean Water fund are the Series 2022A Refunding Revenue bonds with a final maturity of 2049 and Series 2022B Revenue COPs with a final maturity of 2026. Currently outstanding for the Water Utility are the Water System Refunding Revenue Bonds 2016A/B with a final maturity of 2046, the Revenue COP 2016C/D with a final maturity of 2029, the Water System Refunding Revenue Bonds 2017A with a final maturity of 2037, the Water System Refunding Revenues Bonds Series Water System Refunding Revenue Bonds 2017A with a final maturity of 2037, the Water System Refunding Revenues Bonds Series 2019A/B with a final maturity of 2049, 2019C with a final maturity of 2036, the Water System Refunding Revenue Bonds 2020A/B with a final maturity of 2050, the Revenue COP 2020C/D with a final maturity of 2041, the Water System Refunding Revenue Bonds 2023A/B with a final maturity of 2052, the Revenue COP 2023C-1 with a final maturity of 2026, 2023C-2 with a final maturity of 2041, 2023D with a final maturity of 2026, as well as the Commercial Paper Certificates which are secured by Tax and Revenue Anticipation Notes that are subject to annual reauthorization by the Valley Water Board. Additionally, the Water System Refunding Revenue Bonds 2024A/B with a final maturity of 2054, and the Revenue COP 2024C/D with a final maturity of 2048 are anticipated to be issued in mid-2024.

Financial Overview

On February 14, 2023, Valley Water executed two Water Infrastructure Finance and Innovation Act (WIFIA) Master Agreements (WMA) with the U.S. Environmental Protection Agency (EPA) to provide up to \$580 million of WIFIA loan capacity to fund the Anderson Dam Seismic Retrofit and Coyote Percolation Dam projects and up to \$147 million of WIFIA loan capacity to fund the Coyote Creek, Sunnyvale East and West Channels, and Upper Penitencia Creek flood protection projects. The initial loan for the Safe Clean Water program was executed on February 14, 2023 for \$41 million at 3.77% interest rate to fund the planning and design costs for the eligible projects as well as construction costs for the Sunnyvale East and West Channels project. The initial loan for the Anderson Dam and Coyote Percolation Dam projects was executed on February 14, 2023 for \$74 million at 3.77% interest rate to fund the planning and design costs.

On October 30, 2023, Valley Water executed a third WIFIA Master Agreement with the EPA to provide up to \$1.45 billion of WIFIA loan capacity to fund the Pacheco Reservoir Expansion Project. The initial loan for the Pacheco project was executed on October 30, 2023, for \$92 million at 5.08% interest rate to fund the planning and design costs.

Valley Water has not drawn on any WIFIA loans as of June 30, 2024.

Planned Issuances

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

- FY 2024-25: 2.02
- FY 2025-26: 2.52
- FY 2026-27: 2.56
- FY 2027-28: 2.63
- FY 2028-29: 2.39

(Source: FY 2024-25 Annual Report on the Protection and Augmentation of Water Supplies)

Investment Portfolio

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

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

Financial Overview

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

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

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

Bond Ratings

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

Financial Overview

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

	Total Amount Sold	Date of Issue	True Interest Cost	Outstanding as of 6/30/24	2024-2025 Debt Service Payments		
					Principal	Interest	Total
<u>Watersheds Indebtedness</u>							
2017A COPs	\$59,390,000	3/7/2017	2.56%	\$29,235,000	\$4,295,000	\$1,461,750	\$5,756,750
2022A Safe, Clean Water Revenue Bonds	75,295,000	12/6/2022	4.13%	74,375,000	1,455,000	3,682,375	5,137,375
2022B Safe, Clean Water COPs	46,445,000	12/6/2022	3.01%	46,445,000	-	-	-
Safe, Clean Water Commercial Paper -TE ⁽²⁾	38,485,580	various	variable	38,485,580	-	3,976,000	3,976,000
Total Watersheds	219,615,580			188,540,580	5,750,000	9,120,125	14,870,125
<u>Water Utility Indebtedness</u>							
2016 Water Utility Refunding Revenue Bonds							
Series A	106,315,000	3/30/2016	3.25%	106,315,000	-	5,315,750	5,315,750
Series B - taxable	<u>75,215,000</u>	3/30/2016	4.32%	<u>75,215,000</u>	-	3,229,621	3,229,621
Subtotal	181,530,000			181,530,000	-	8,545,371	8,545,371
2016 Water Utility Certificates of Participation							
Series C	43,075,000	3/30/2016	2.13%	20,940,000	3,880,000	1,047,000	4,927,000
Series D - taxable	<u>54,970,000</u>	3/30/2016	3.14%	<u>26,255,000</u>	4,870,000	893,808	5,763,808
	98,045,000			47,195,000	8,750,000	1,940,808	10,690,808
2017 Water Utility Refunding Revenue Bonds							
Series A	54,710,000	5/2/2017	3.13%	41,530,000	2,275,000	2,076,500	4,351,500
2019 Water Utility Refunding Revenue Bonds							
Series A	15,225,000	4/25/2019	3.75%	13,955,000	290,000	697,750	987,750
Series B - taxable	80,030,000	4/25/2019	3.81%	71,475,000	1,840,000	2,660,348	4,500,348
Series C - taxable	<u>38,280,000</u>	11/26/2019	2.76%	<u>28,600,000</u>	2,255,000	758,192	3,013,192
Subtotal	133,535,000			114,030,000	4,385,000	4,116,290	8,501,290
2020 Water Utility Refunding Revenue Bonds							
Series A	24,120,000	10/14/2020	3.33%	24,120,000	-	1,206,000	1,206,000
Series B - taxable	<u>68,530,000</u>	10/14/2020	2.98%	<u>68,530,000</u>	-	2,033,285	2,033,285
Subtotal	92,650,000			92,650,000	-	3,239,285	3,239,285
2020 Water Utility Certificates of Participation							
Series C	38,360,000	10/14/2020	2.07%	36,610,000	1,790,000	1,830,500	3,620,500
Series D - taxable	<u>75,020,000</u>	10/14/2020	2.20%	<u>71,650,000</u>	3,435,000	1,453,840	4,888,840
Subtotal	113,380,000			108,260,000	5,225,000	3,284,340	8,509,340

Financial Overview

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

	Total Amount Sold	Date of Issue	True Interest Cost	Outstanding as of 6/30/24	2024-2025 Debt Service Payments	
				Principal	Interest	Total
2023 Water Utility Refunding Revenue Bonds						
Series A	52,090,000	1/19/2023	4.19%	52,090,000	-	2,604,500
Series B - taxable	69,045,000	1/19/2023	5.11%	67,865,000	1,225,000	3,301,754
2023 Water Utility Certificates of Participation						
Series C1	\$117,365,000	1/19/2023	2.35%	\$117,365,000	\$-	\$-
Series C2	42,285,000	1/19/2023	3.22%	40,760,000	1,610,000	2,038,000
Series D- taxable	62,615,000	1/19/2023	4.33%	62,615,000	-	-
Subtotal	343,400,000			340,695,000	2,835,000	7,944,254
2024 Water Utility Refunding Revenue Bonds						
Series A-1	66,205,000	TBD	4.72% ⁽³⁾	66,205,000	-	3,310,250
Series B-1 taxable	81,395,000	TBD	6.40% ⁽³⁾	81,395,000	-	5,175,908
2024 Water Utility Certificates of Participation						
Series C	126,420,000	TBD	4.25% ⁽³⁾	126,420,000	2,950,000	5,321,000
Series D- taxable	97,095,000	TBD	6.31% ⁽³⁾	97,095,000	2,155,000	4,592,506
Subtotal	371,115,000			371,115,000	5,105,000	18,399,664
WU Commercial Paper ⁽²⁾	150,000,000	various	variable	150,000,000	5,649,000	5,649,000
Total Water Utility	1,538,365,000			1,447,005,000	28,575,000	55,195,512
Combined	\$1,757,980,580			\$1,635,545,580	\$34,325,000	\$64,315,637
						\$98,640,637

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

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

(3) Indicative rates, subject to change at time of issuance.

Financial Overview

Debt Service Payment Schedule

	Principal	Interest	Total ⁽¹⁾
Watersheds Certificates of Participation/Safe, Clean Water Revenue Bonds⁽²⁾			
2024/25	\$ 5,750,000	\$ 5,144,125	\$ 10,894,125
2025/26	6,045,000	4,854,750	10,899,750
2026/27	6,345,000	4,550,625	10,895,625
2027/28	6,660,000	5,064,740	11,724,740
2028/29 and thereafter	<u>123,684,116</u>	<u>92,937,468</u>	<u>216,621,583</u>
Total	\$ 148,484,116	\$ 112,551,707	\$ 261,035,823
Water Utility Revenue Bonds / Certificates of Participation⁽²⁾			
2024/25	\$ 28,575,000	\$ 49,546,512	\$ 78,121,512
2025/26	32,555,000	63,137,466	95,692,466
2026/27	33,605,000	60,660,272	94,265,272
2027/28	34,975,000	59,285,442	94,260,442
2028/29 and thereafter	<u>1,403,172,987</u>	<u>1,090,218,549</u>	<u>2,493,391,536</u>
Total	\$ 1,532,882,987	\$ 1,322,848,240	\$ 2,855,731,227
Commercial Paper			
2024/25	\$ -	\$ 9,625,000	\$ 9,625,000
2025/26	-	12,662,000	12,662,000
2026/27	-	10,130,000	10,130,000
2027/28	-	5,886,000	5,886,000
2028/29 and thereafter	<u>-</u>	<u>30,383,000</u>	<u>30,383,000</u>
Total	\$ -	\$ 68,686,000	\$ 68,686,000
Total All Outstanding Debt			
2024/25	\$ 34,325,000	\$ 64,315,637	\$ 98,640,637
2025/26	38,600,000	80,654,216	119,254,216
2026/27	39,950,000	75,340,897	115,290,897
2027/28	41,635,000	70,236,182	111,871,182
2028/29 and thereafter	<u>1,526,857,103</u>	<u>1,213,539,016</u>	<u>2,740,396,119</u>
Total	\$ 1,681,367,103	\$ 1,504,085,948	\$ 3,185,453,050

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

(2) Includes projected principal and interest payments for the anticipated issuances of Water Utility Series 2024 A/B/C/D, 2025A/B, and WIFIA loans for both Safe Clean Water and Water Utility Funds.

Financial Overview

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RESERVE POLICY AND FUND BALANCES

Financial Overview

Valley Water Reserve Policy

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

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

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

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

Definitions

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

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

Financial Overview

Valley Water reserves are comprised of Restricted Fund Balance reserves, Committed Fund Balance reserves and Assigned Fund Balance reserves. Within these categories are budgeted reserves and special purpose reserves which are defined as follows:

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

A. Restricted Reserves

1. Debt Service Reserve

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

2. Debt Proceeds Reserve

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

3. Rate Stabilization Reserve for Bond Covenant – Water Utility Enterprise Fund

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

Financial Overview

A. Restricted Reserves (Continued)

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

In May 2018, Valley Water Board of Directors approved a resolution to establish GP5 – Equity and costs are important to allow certain communities/agencies to receive Valley Water contributions in the form of additional, incremental, dedicated and segregated funds exclusively for water conservation programs, recycled water, purified water, wastewater treatment plant environment updates, automatic meter infrastructure (AMI) updates, or dedicated environmental focused grants from FY 2019 through FY 2024, subject to 20% matching funds from the communities receiving Valley Water contributions. This funding source is limited to communities/agencies that currently pay State Water Project tax but receive an average of 85% of their water supply from non-District managed supplies. Valley Water's contributions shall not exceed the State Water Project taxes paid by these communities/agencies. If an eligible agency has not gained Valley Water approval for a program by June 30, 2024, the dedicated, segregated funds go back to Valley Water by FY 2026. The GP5 reserve was established in FY 2019-20 as a sub-category of the Rate Stabilization Fund to set aside the unspent/unencumbered balances as approved by the Board in FY 2018-19 and subsequent years. Upon Valley Water approval of award for a program within the FY 2019-24 timeframe, the funds shall be reserved for the recipient, including interest earned, to reimburse eligible expenditures through FY 2033.

5. San Felipe Emergency Reserve – Water Utility Enterprise Fund

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

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

6. Silicon Valley Advanced Water Purification Center (SVAWPC) Reserve – Water Utility Enterprise Fund

This special purpose reserve serves as a fund for replacement of micro filtration modules, reverse osmosis elements, and ultraviolet lamps at the Silicon Valley Advanced Water Purification Center (SVAWPC). Per the Recycled Water Facilities and Programs Integration Agreement between the City of San Jose and the Santa Clara Valley Water District dated March 2010, the annual contribution to the reserve may be up to \$810,000 starting in FY 2009-10 and adjusted annually by 3% for inflation, thereafter, until such time that the reserve reaches the reserve cap. The reserve cap was set in FY 2013-14 at \$2.6 million and is to be adjusted by 3% for inflation annually thereafter. The reserve cap is based on a five-year replacement schedule for the micro filtration modules and reverse osmosis elements. The specific level of this reserve is to be set based on reasonably anticipated needs and uses. The reserve will sunset once the funds are fully expended, which is currently anticipated in FY 2025-26.

7. Supplemental Water Supply Reserve – Water Utility Enterprise Fund

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

Financial Overview

A. Restricted Reserves (Continued)

8. Drought Reserve – Water Utility Enterprise Fund

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

9. State Water Project Tax Reserve – Water Utility Enterprise Fund

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

10. Currently Authorized Projects Reserve – Voter Approved Safe, Clean Water Fund

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

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

11. Encumbrance Reserves – Voter Approved Safe, Clean Water Fund and State Water Project Fund

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

12. Operating and Capital Reserve – Voter Approved Safe, Clean Water Fund

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

Financial Overview

A. Restricted Reserves (Continued)

13. Safe, Clean Water (SCW) Rate Stabilization Reserve – Voter Approved Safe, Clean Water Fund

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

14. Contingency Reserve – Voter Approved Safe, Clean Water Fund

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

B. Committed Reserves

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

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

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

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

2. Property Self-Insurance/Catastrophic Reserve – Risk Management Fund

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

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

Financial Overview

B. Committed Reserves (Continued)

3. Excess ERAF Contingency Reserve

The Excess ERAF Contingency Reserve sets aside 22% of Valley Water's Excess Educational Revenue Augmentation Fund (ERAF) receipts from FY 2020-21 to FY 2023-24, and 20% of receipts thereafter, in anticipation of a repayment to the state. This is a result of the State of California Proposed FY 2024-25 Budget which retroactively amends the current calculation of the disbursement of Excess ERAF funds to also include Charter Schools, reducing the amount of funds returned to agencies in five counties (Marin, San Francisco, Santa Clara, San Mateo, and Napa), including Valley Water. Santa Clara County and Marin County have filed lawsuits to attempt to block these changes. If successful, the funds will not have to be repaid, and will remain with Valley Water. If the lawsuits are not successful, and the budget proposal is approved, then Valley Water must refund the reserved funds. This reserve will no longer be necessary after a favorable ruling or the repayment to the state, contingent on the outcome of the pending litigation.

4. Floating Rate Debt Payment Stabilization Reserve – Water Utility Enterprise Fund

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

5. San Jose Water Purification Reserve – Water Utility Enterprise Fund

The purpose of this reserve is to advance a potable reuse capital project at the Silicon Valley Advanced Water Purification Facility, which includes planning for a future capital project and collaborating with City of San Jose and City of Santa Clara staff. Once a new capital project has been developed and approved by the Valley Water Board of Directors as part of the CIP process, this reserve will sunset. A new capital project was established in the FY 2024-25 Budget bringing the balance for this reserve to \$0.

6. Operating & Capital Reserve – except for Safe, Clean Water Fund

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

7. Currently Authorized Projects Reserve – except for Safe, Clean Water Fund

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

Financial Overview

B. Committed Reserves (Continued)

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

C. Assigned Reserves

1. Encumbrance Reserves – except for Safe, Clean Water Fund and State Water Project Fund

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

2. Market Valuation Reserves

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

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

Financial Overview

Reserve Schedule

	Estimated Balances					Adopted Budget 2024-25	Proposed Plan 2025-26		
	Year-End 2022-23	Adopted 2023-24	Projected YE 2023-24	Adopted Budget 2024-25	Adopted Budget 2024-25				
Governmental Funds									
GENERAL FUND									
Committed Reserves									
Excess ERAF Contingency Reserve	\$ -	\$ -	\$ -	\$ 666,631	\$ 693,093				
Operating & Capital Reserve		12,838,190	10,573,015	14,361,953	14,113,584	16,451,194			
Currently Authorized Projects Reserve***		4,034,117	1,394,500	1,394,069	-	-			
Total General Fund Reserves	\$ 16,872,307	\$ 11,967,515	\$ 15,756,022	\$ 14,780,215	\$ 17,144,287				
SPECIAL REVENUE FUNDS (WATERSHEDS)									
Restricted Reserves									
SCW Rate Stabilization Reserve	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000			
SCW Contingency Reserve		5,000,000	5,000,000	5,000,000	5,000,000	5,000,000			
SCW Operating & Capital Reserve		59,060,206	117,935,002	30,505,025	59,517,635	40,728,012			
SCW Currently Authorized Projects Reserve***		116,786,238	37,906,382	37,138,316	25,336,118	12,530,147			
Total Restricted Reserves	\$ 205,846,444	\$ 185,841,384	\$ 97,643,341	\$ 114,853,753	\$ 83,258,159				
Committed Reserves									
Excess ERAF Contingency Reserve	\$ -	\$ -	\$ -	\$ 5,605,897	\$ 5,827,357				
Operating & Capital Reserve		95,903,395	158,599,934	139,896,768	145,010,892	129,858,076			
Currently Authorized Projects***		19,891,171	1,320,710	299,698	33,303	441			
Total Committed Reserves	\$ 115,794,566	\$ 159,920,644	\$ 140,196,466	\$ 150,650,092	\$ 135,685,874				
Total Special Revenue Funds Reserves	\$ 321,641,010	\$ 345,762,028	\$ 237,839,807	\$ 265,503,845	\$ 218,944,033				
Total Governmental Funds	\$ 338,513,317	\$ 357,729,543	\$ 253,595,829	\$ 280,284,060	\$ 236,088,320				
Proprietary Funds									
WATER ENTERPRISE & STATE WATER PROJECT FUNDS									
Restricted Reserves									
WUE Rate Stabilization Reserve	\$ 41,066,971	\$ 6,066,971	\$ 6,066,971	\$ 19,996,328	\$ 42,891,864				
WUE San Felipe Emergency Reserve		3,526,697	3,530,832	3,530,832	3,580,832	3,630,832			
WUE State Water Project Tax Reserve		13,860,460	8,816,456	11,535,460	8,973,390	5,070,944			
WUE Supplemental Water Supply Reserve		5,277,000	5,277,000	5,277,000	5,277,000	8,677,000			
WUE SVAWPC Reserve		1,298,138	-	-	-	-			
WUE Drought Reserve		-	-	-	-	1,000,000			
WUE Guiding Principal #5 (GP5) Reserve		20,545,266	4,718,017	4,718,017	-	-			
Total Restricted Reserves	\$ 85,574,532	\$ 28,409,276	\$ 31,128,280	\$ 37,827,550	\$ 61,270,640				
Committed Reserves									
Excess ERAF Contingency Reserve	\$ -	\$ -	\$ -	\$ 589,988	\$ 614,026				
WUE San Jose Water Purification Reserve		-	1,000,000	1,000,000	-	-			
Operating & Capital Reserve		74,535,165	56,930,697	29,600,454	62,727,361	59,162,245			
Currently Authorized Projects Reserve***		87,993,626	9,248,195	42,826,222	9,770,707	3,898,267			
Total Committed Reserves	\$ 162,528,791	\$ 67,178,892	\$ 73,426,675	\$ 73,088,056	\$ 63,674,538				
Total Water Enterprise Funds Reserves	\$ 248,103,323	\$ 95,588,168	\$ 104,554,955	\$ 110,915,606	\$ 124,945,178				

Financial Overview

Reserve Schedule

	Estimated Balances					Adopted Budget 2024-25	Proposed Plan 2025-26		
	Year-End 2022-23	Adopted 2023-24	Projected YE 2023-24	Adopted Budget 2024-25	Adopted Budget 2024-25				
INTERNAL SERVICE FUNDS									
Committed Reserves									
Operating & Capital Reserve	\$ 12,321,896	\$ 6,734,369	\$ 9,563,156	\$ 6,424,002	\$ 4,847,612				
Currently Authorized Projects***	1,532,177	-	122,927	123,126	123,126				
Liability/Workers' Comp Self-Insurance Reserve	8,337,000	8,337,000	6,430,250	8,337,000	8,337,000				
Property Self-Insurance/Catastrophic Reserve	6,623,909	5,580,026	8,144,146	7,409,352	7,743,063				
Total Committed Reserves	\$ 28,814,982	\$ 20,651,395	\$ 24,260,480	\$ 22,293,480	\$ 21,050,801				
Total Internal Service Funds Reserves	\$ 28,814,982	\$ 20,651,395	\$ 24,260,480	\$ 22,293,480	\$ 21,050,801				
Total Proprietary Funds	\$ 276,918,305	\$ 116,239,563	\$ 128,815,435	\$ 133,209,086	\$ 145,995,979				
TOTAL RESERVE SUMMARIES									
Total Proprietary Funds	\$ 276,918,305	\$ 116,239,563	\$ 128,815,435	\$ 133,209,086	\$ 145,995,979				
Total Governmental Funds	338,513,317	357,729,543	253,595,829	280,284,060	236,088,320				
Total Year-End Reserves by Fund Type	\$ 615,431,623	\$ 473,969,106	\$ 382,411,264	\$ 413,493,147	\$ 382,084,299				
Total Restricted Reserves	\$ 291,420,976	\$ 214,250,660	\$ 128,771,621	\$ 152,681,303	\$ 144,528,799				
Total Committed Reserves	324,010,646	259,718,446	253,639,643	260,811,844	237,555,499				
Total Year-End Reserves By Reserve Type	\$ 615,431,623	\$ 473,969,106	\$ 382,411,264	\$ 413,493,147	\$ 382,084,299				

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