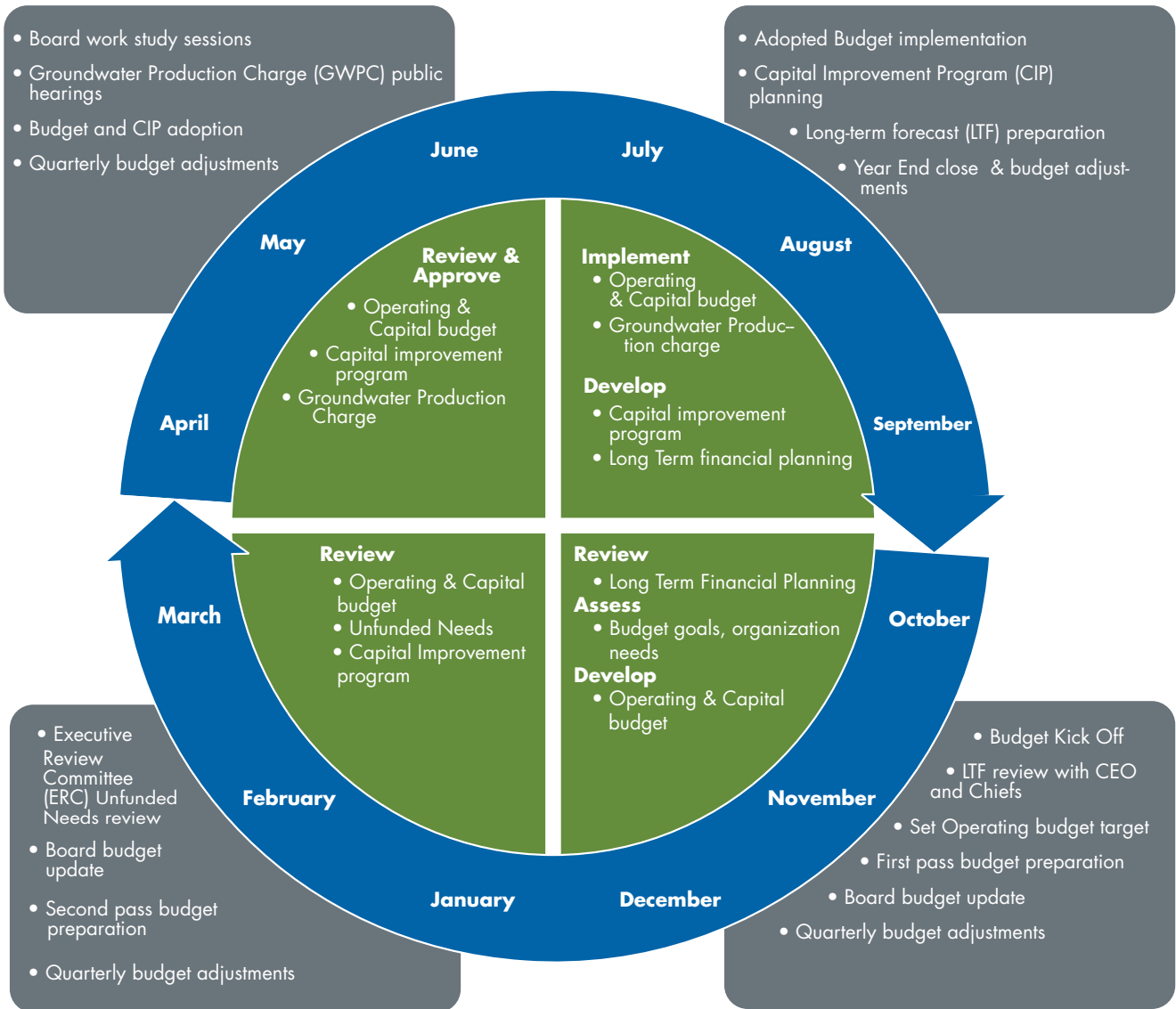


FINANCIAL OVERVIEW

Financial Overview

Budget Process Overview



Financial Overview

Financial Planning and Rate Setting

Every year staff prepare 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 period 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 5-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 on capital work.

For detail capital expenditure and impact of capital investments on operating budget, please visit: <http://aqua.gov/business-mgt-policies/capital-improvement-program>.

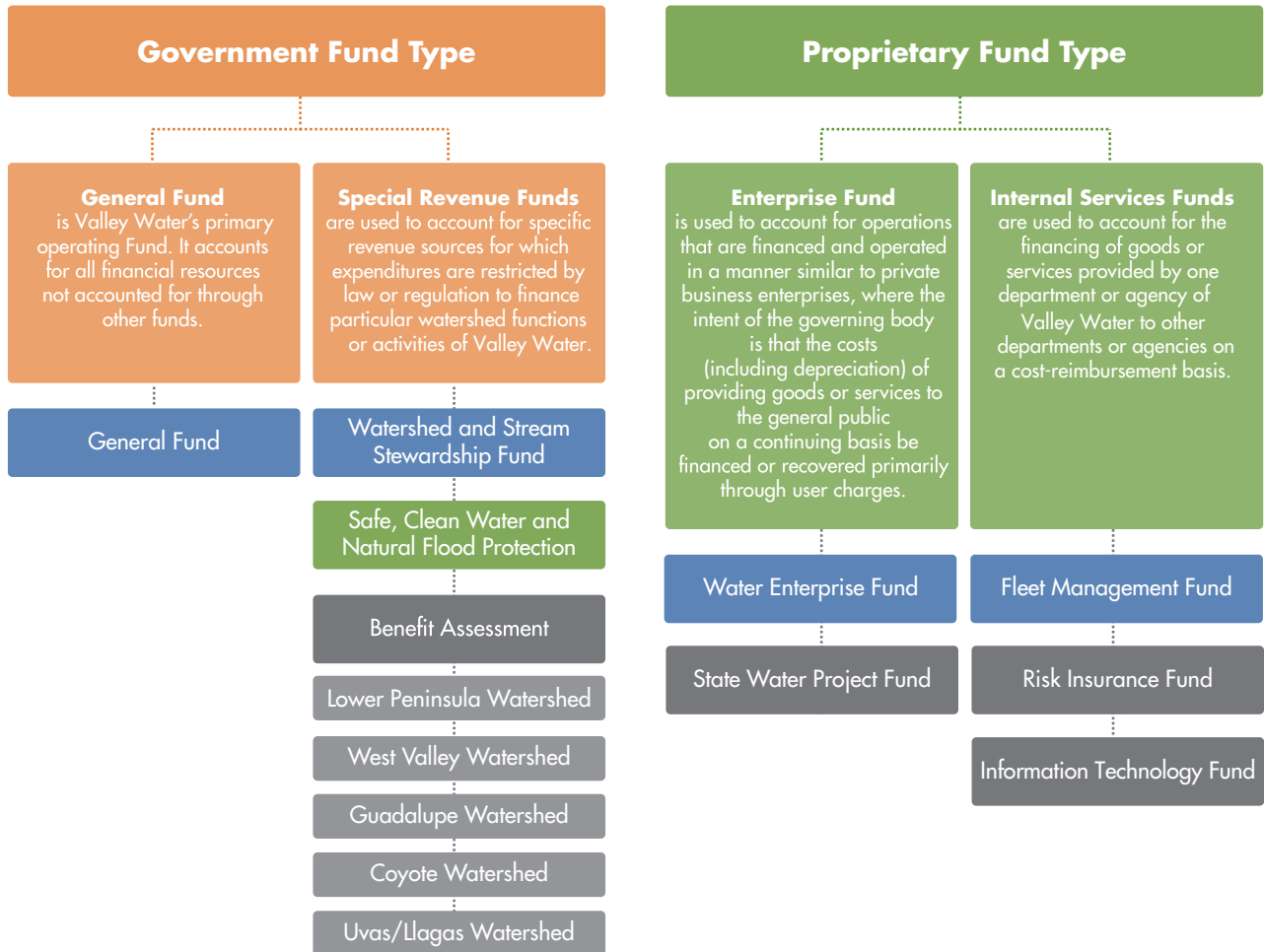
Other Planning Documents

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

- Protection and Augmentation of Water Supplies Report 2019-2020
- Water Utility Enterprise Planning Documents
- Water Utility Enterprise Maintenance Work Plan 2019-2023
- Water Supply Master Plan
- Stream Maintenance Program Manual
- Safe, Clean Water and Natural Flood Protection 5-Year Implementation Plan
- Requests of the 116th Congress
- 2019 Environment Stewardship Update
- Engaging Our Diversity: 2015-2019

Financial Overview

Valley Water Fund Structure



Financial Overview

Basis of Budgeting

The annual 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 a commitment is made through an encumbered purchase order.

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

Revenue

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

The FY 2019-20 budget includes projected revenues of approximately \$501.8 million. These revenues are a net increase of 12% from the \$448.0 million included in the FY 2018-19 adopted budget. The net \$53.9 million increase is primarily derived from higher water revenue (\$31.2 million), 1% ad valorem property taxes (\$8.1 million), and special parcel tax (\$1.5 million), capital reimbursement revenue (\$9.7 million), and interest and other operating and non-operating revenues (\$4.7 million), offset by a decrease of Benefit Assessment revenues (-\$1.3 million). The specific

categories of revenue include:

Water Revenue

The main source of Valley Water revenue is from water charges projected at \$277.4 million for FY 2019-20. Revenues from treated water continue to be the largest source with an estimated amount of \$169.5 million. Groundwater production charges are budgeted at \$105.0 million, and surface/recycled water sales are projected at \$2.8 million. Staff is recommending a 6.6% increase in municipal & industrial groundwater charges for Zone W-2 and a 6.9% increase for Zone W-5 in the FY 2019-20 budget.

Property Tax

Property tax revenues are estimated at \$120.0 million for FY 2019-20, an increase of 7.2% from the FY 2018-19 adopted budget. Valley Water benefits from two types of property taxes - 1% ad valorem (\$102.0 million) and levies for State Water Project (SWP) indebtedness (\$18.0 million). More information is included in the Major Sources of Revenue section later in this chapter.

Special Parcel Tax

The Safe, Clean Water Program special parcel tax was approved by the voters in November 2012. The Special Parcel Tax estimated for FY 2019-20 is \$45.5 million, an increase of 3.5% over FY 2018-19 adopted budget.

Benefit Assessments

Benefit assessment revenue consists of levies approved by voters in 1986 and 1990 to support financing for flood control capital improvements, and are set at 1.25 times the duly authorized annual debt service requirements for assessed parcels in each watershed. Benefit assessment revenue budget is \$13.4 million for FY 2019-20.

Financial Overview

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 \$32.6 million for FY 2019-20. More information is included in the Major Sources of Revenue section.

Interest

Interest earnings are estimated to be \$7.9 million in FY 2019-20, an increase of \$3.9 million compared to FY 2018-19 adopted budget.

Other Revenue

Other Operating and Non-Operating Revenues comprised of receipts from minor sources such as rental income and the sale of vehicles totals \$3.6 million.

Appropriations/Outlays

Net total operating and capital outlays for the FY 2019-20 budget is \$528.9 million. This figure does not include capital carry forward appropriated by the Board in prior years and is net of General Fund intra-district reimbursements and Internal Service Funds charges.

FY 2019-20 net operating outlays are \$346.7 million, an increase of approximately \$15.5 million compared to the FY 2018-19 adopted budget of \$331.1 million.

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

- Infrastructure maintenance and construction needs (ensuring dam safety, managing infrastructure for reliability, care of Valley Water facilities and assets)
- Funding for capital projects (shortage of federal funding, coordinated planning of permitting efforts, environmental stewardship efforts)

- Advancing Valley Water's interests in countywide storm water resource planning
- Active participation in decisions regarding the California WaterFix
- Advancing Anderson Dam Seismic Retrofit project
- Leading the recycled and purified water efforts with the cities of San Jose and Santa Clara
- Finalizing the Fisheries and the Aquatic Habitat Collaborative Effort (FAHCE)
- Pursuing efforts to increase water storage opportunities
- Attaining net positive impact on the environment when completing projects
- Advancing diversity and inclusion efforts

Valley Water is responding to these challenges in several ways, including expanding efforts with the help of 18 new positions, as discussed in the Fund Summaries chapter.

Intra-district Reimbursements

The primary funding sources for the General Fund and Service Funds are intra-district reimbursements. For FY 2019-20, the total is \$80.8 million. 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.

Capital Outlays

FY 2019-20 capital project appropriations total \$204.5 million, a decrease of \$0.6 million compared to the FY 2018-19 adopted budget. It is anticipated that \$71.2 million of the FY 2018-19 adjusted budget for capital projects will be carried forward to FY 2019-20 as most capital projects require multiple years to complete. The capital budget represents the projects that have been identified and prioritized in the Five-Year Capital Improvement Program (CIP).

Financial Overview

Other Financing Sources/Uses

Other financing sources and uses include proceeds from debt issuance. For FY 2019-20, Valley Water will issue bonds or commercial papers for approximately \$59.6 million to finance various Water Utility capital improvement projects.

Reserves

Overall, budgeted reserves for FY 2019-20 are estimated at \$342.9 million, an increase of \$8.9 million compared to the FY 2018-19 budget. The increase is primarily due to increase in the currently authorized projects reserves (\$25.7 million), the Water Utility public-private partnership reserves (\$4.0 million), the Water Utility drought reserve (\$3.0 million), Water Utility rate stabilization and other reserves (\$1.6 million), Risk Management reserves (\$2.1 million), and offset by decreases in operating and capital reserves (-\$27.5 million).

Staffing

The FY 2019-20 budget includes 842 authorized positions and 4 management fellows, an increase of 18 new positions from the prior year. The new positions costs total approximately \$3.2 million. The new positions support Valley Water's In-house construction management program, support Water Utility field and facility maintenance activities, augment resources for various State and Federal compliance and reporting requirements, and provide staffing resources for various Water Utility and Watershed operations/operating projects. For a comprehensive schedule of district-wide salaries and benefits, please refer to the salaries & benefits section in this chapter.

Financial Overview

Combined Fund Summary - All Funds

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2018-19 Adopted	
	2017-18	2018-19	2018-19	2019-20	\$ Diff	% Diff
REVENUE						
GroundWater	\$ 97,482,517	\$ 90,696,000	\$ 90,696,000	\$ 105,036,000	\$ 14,340,000	15.8%
Treated Water	132,476,810	152,787,000	152,787,000	169,519,000	16,732,000	11.0%
Surface/Recycled	1,040,878	2,653,000	2,653,000	2,821,000	168,000	6.3%
Benefit Assessment	14,773,481	14,778,000	14,778,000	13,444,678	(1,333,322)	(9.0)%
Property Tax	124,818,671	111,866,326	118,141,976	119,951,653	8,085,327	7.2%
Parcel Tax	42,487,520	43,998,000	43,998,000	45,537,000	1,539,000	3.5%
Intergovernmental Services	5,756,050	625,000	735,000	1,237,000	612,000	97.9%
Operating Other	4,835,700	975,000	865,000	872,000	(103,000)	(10.6)%
Capital Reimbursements	50,766,277	22,924,000	26,479,000	32,618,000	9,694,000	42.3%
Interest Income *	6,877,922	4,000,000	7,800,000	7,850,000	3,850,000	96.3%
Non-Operating Other	6,922,598	2,626,000	2,626,000	2,958,000	332,000	12.6%
TOTAL REVENUE	\$ 488,238,424	\$ 447,928,326	\$ 461,558,976	\$ 501,844,331	\$ 53,916,005	12.0%
OUTLAYS						
Operating Outlays						
Operations **	\$ 296,168,832	\$ 323,517,389	\$ 325,126,707	\$ 340,279,200	\$ 16,761,811	5.2%
Operating Project	7,693,560	7,621,255	8,101,255	6,406,323	(1,214,932)	(15.9)%
Debt Service	38,739,932	59,189,136	55,701,736	58,607,155	(581,981)	(1.0)%
Total Operating Outlays	\$ 342,602,324	\$ 390,327,780	\$ 388,929,698	\$ 405,292,678	\$ 14,964,898	3.8%
Capital Outlays						
Capital Projects	\$ 242,220,973	\$ 205,072,688	\$ 270,920,930	\$ 204,451,304	\$ (621,384)	(0.3)%
Carry Forward Capital Projects	—	90,305,126	—	71,151,000	(19,154,126)	(21.2)%
Total Capital Outlays	\$ 242,220,973	\$ 295,377,814	\$ 270,920,930	\$ 275,602,304	\$ (19,775,510)	(6.7)%
TOTAL OUTLAYS****	\$ 584,823,297	\$ 685,705,594	\$ 659,850,628	\$ 680,894,982	\$ (4,810,612)	(0.7)%
Less Intra-District Reimb	(75,226,613)	(85,543,321)	(71,930,034)	(80,846,963)	4,696,358	(5.5)%
NET OUTLAYS	\$ 509,596,684	\$ 600,162,273	\$ 587,920,594	\$ 600,048,019	\$ (114,254)	(0.0)%
OTHER FINANCING SOURCES/(USES)						
Bond Proceeds	\$ —	\$ 64,193,000	\$ 64,193,000	\$ 59,559,000	\$ (4,634,000)	(7.2)%
Commercial Paper Proceeds	81,570,000	110,000,000	30,000,000	—	(110,000,000)	(100.0)%
Certificates of Participation	3,457,481	—	5,434,000	—	—	—
Transfers In	18,380,757	12,629,471	12,543,616	26,941,830	14,312,359	113.3%
Transfers Out	(18,380,757)	(12,629,471)	(12,543,616)	(26,941,830)	(14,312,359)	113.3%
Total Other Financing Sources (Uses)	\$ 85,027,481	\$ 174,193,000	\$ 99,627,000	\$ 59,559,000	\$ (114,634,000)	(65.8)%
BALANCE AVAILABLE	\$ 63,669,221	\$ 21,959,053	\$ (26,734,618)	\$ (38,644,688)	\$ (60,603,741)	(276.0)%

Financial Overview

Combined Fund Summary - All Funds (Continued)

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2018-19 Adopted	
	2017-18	2018-19	2018-19	2019-20	\$ Diff	% Diff
YEAR-END RESERVES						
Restricted Reserves						
WUE Rate Stabilization	\$ 21,066,011	\$ 22,477,551	\$ 22,477,551	\$ 23,467,000	\$ 989,449	4.4%
WUE San Felipe Emergency	3,039,874	3,053,130	3,053,130	3,103,000	49,870	1.6%
WUE State Water Project Tax Reserve	12,777,981	4,725,400	10,883,272	4,815,690	90,290	1.9%
WUE Public-Private Partnership (P3) Reserve	—	4,000,000	4,000,000	8,000,000	4,000,000	100.0%
WUE Water Supply	14,677,141	14,677,000	14,677,000	15,077,000	400,000	2.7%
WUE SVAWPC	1,906,000	986,000	1,066,000	1,066,000	80,000	8.1%
WUE Drought Reserve	5,000,000	7,000,000	7,000,000	10,000,000	3,000,000	42.9%
SCW Currently Authorized Projects	105,500,737	16,134,748	61,384,000	25,418,000	9,283,252	57.5%
SCW Operating and Capital Reserve	31,111,599	123,269,436	65,045,956	90,654,986	(32,614,450)	(26.5)%
Total Restricted Reserves	\$ 195,079,343	\$ 196,323,265	\$ 189,586,909	\$ 181,601,676	\$ (14,721,589)	(7.5)%
Committed Reserves						
Currently Authorized Projects ***	\$ 92,955,587	\$ 13,398,137	\$ 64,992,000	\$ 29,807,000	\$ 16,408,863	122.5%
Operating and Capital Reserve	105,028,055	113,259,259	113,911,202	118,325,138	5,065,879	4.5%
Workers Compensation Liability	6,465,000	6,000,000	7,034,000	7,034,000	1,034,000	17.2%
Catastrophy - Property Self-Insurance	8,733,047	5,014,194	6,002,303	6,113,912	1,099,718	21.9%
Total Committed Reserves	\$ 213,181,689	\$ 137,671,590	\$ 191,939,505	\$ 161,280,050	\$ 23,608,460	17.1%
TOTAL YEAR-END RESERVES	\$ 408,261,032	\$ 333,994,855	\$ 381,526,414	\$ 342,881,726	\$ 8,886,871	2.7%
Uncommitted Funds						

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

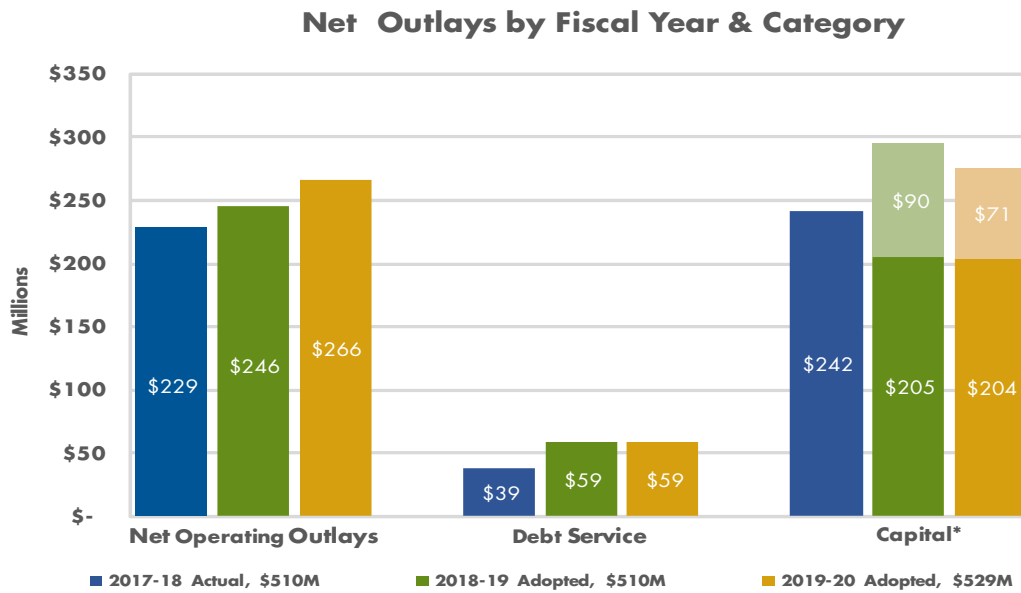
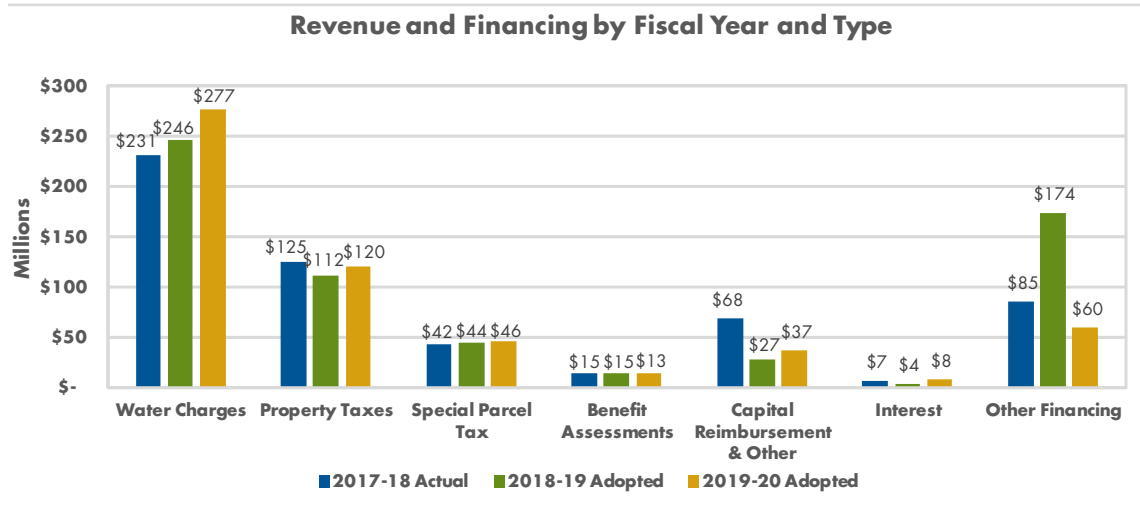
(**) Operations outlay does not include OPEB Expense-unfunded liability

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

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

Financial Overview

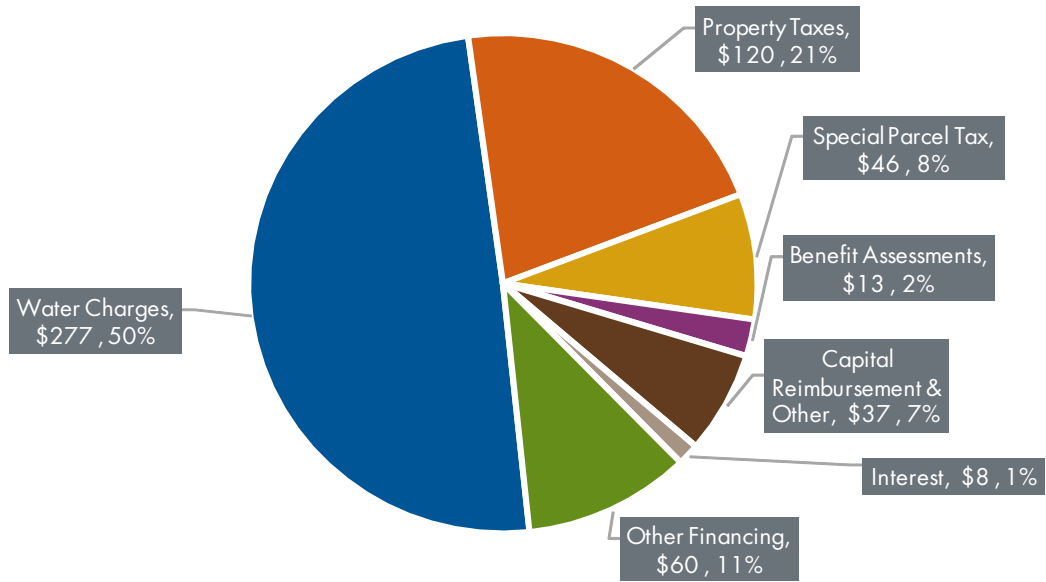
Revenue and Outlays



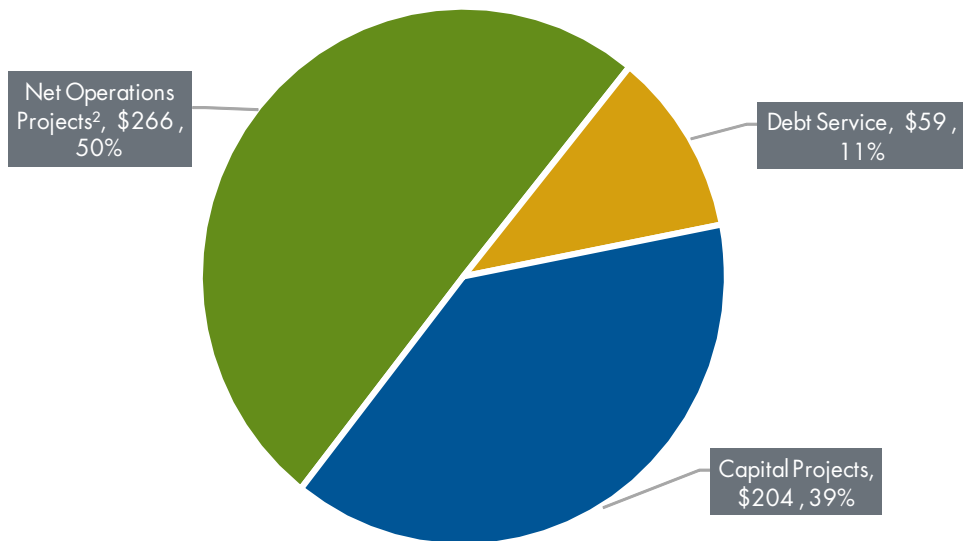
* Capital budget includes current year budget and prior year capital budget carry forward in the lighter shade

Financial Overview

FY 2019-20 Adopted Revenue and Debt Financing, \$561 Million



FY 2019-20 Adopted Net Outlays By Category, \$529 Million



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

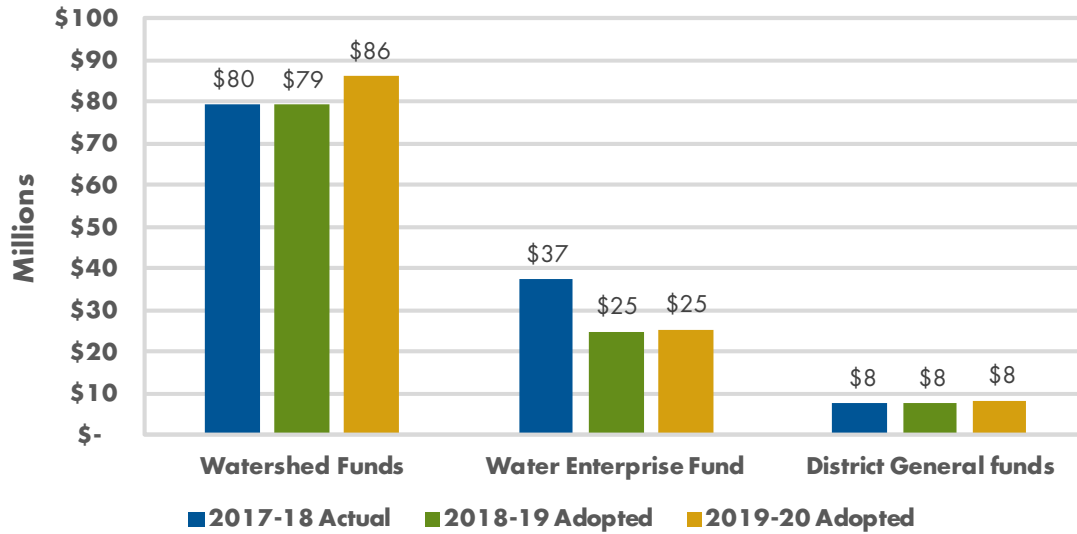
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MAJOR SOURCES OF REVENUES

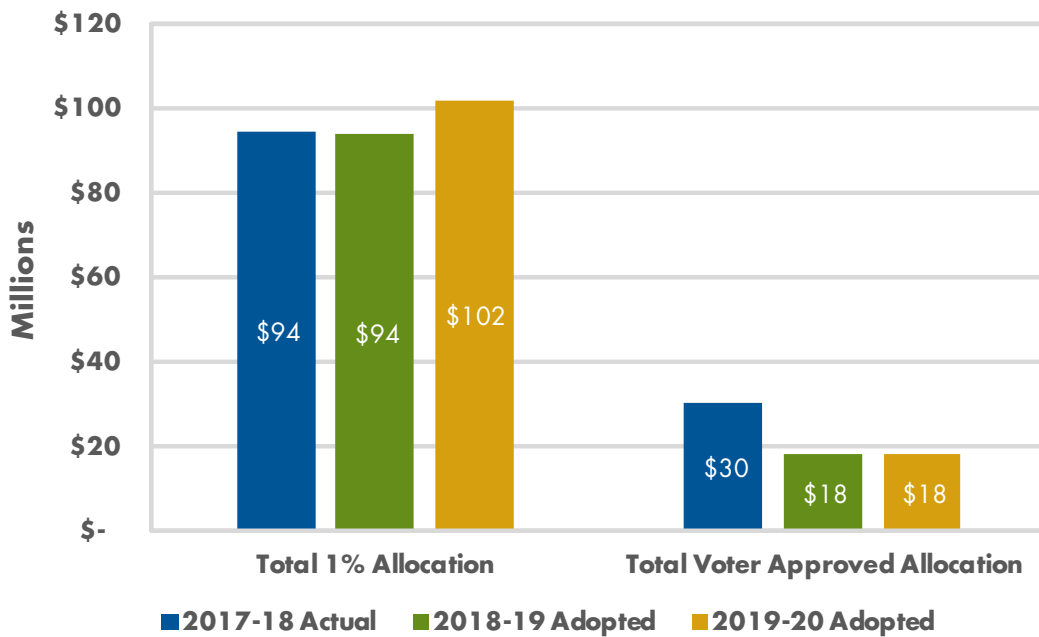
Financial Overview

Property Taxes

Property Taxes by Fiscal Year and Fund Group



Property Taxes by Fiscal Year and Taxing Authority Type



Financial Overview

Property Taxes

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

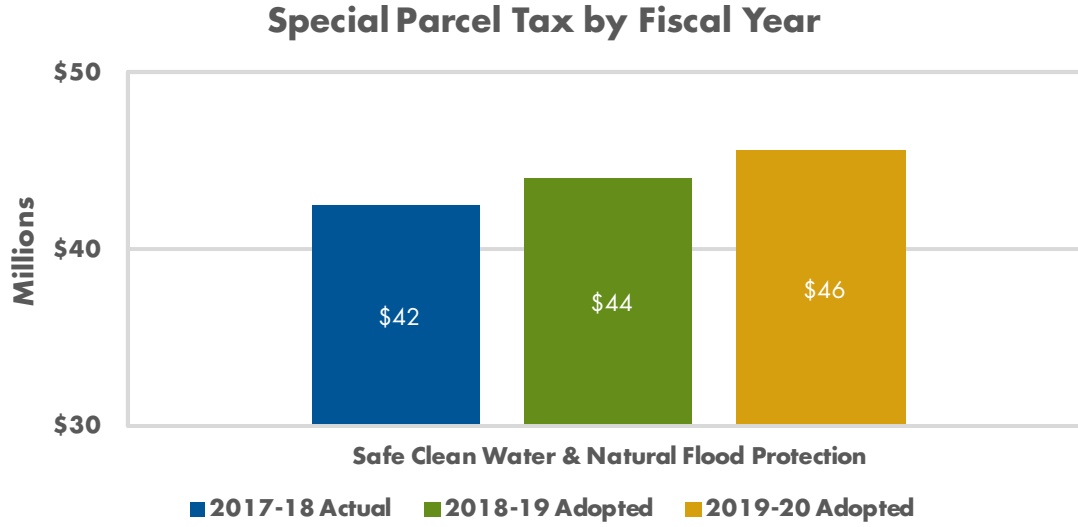
For FY 2019-20, Valley Water is projecting \$102.0 million in 1% Ad Valorem tax revenues, a 8.6% increase over the FY 2018-19 adopted budget. The increase is based on the assessed valuation updates from the Santa Clara County staff and is tied to the increase in the assessed value of all property in Santa

Clara County. Property sales and new construction were principal contributors to assessment roll growth.

Valley Water also levies a property tax (State Water Projects Tax) based on its annual indebtedness to the State pursuant to its water supply contract dated November 20, 1961. This indebtedness is part of Valley Water’s SWP water purchase costs and pays for construction, maintenance and operation of SWP infrastructure and facilities. In FY 2019-20, total Valley Water expects to collect \$18.0 million, the same amount as prior fiscal year.

	Budgetary Basis Actual 2017-18	Adopted Budget 2018-19	Projected Year End 2018-19	Adopted Budget 2019-20	Change from 2018-19 Adopted	
					\$ Diff	% Diff
Property Tax						
1 % Ad Valorem Property Tax						
Watershed Funds	\$ 79,538,023	\$ 79,160,985	\$ 84,605,179	\$ 86,087,955	\$ 6,926,970	8.8%
Water Enterprise Fund	7,087,504	6,962,471	7,314,212	7,451,232	488,761	7.0%
District General Fund	7,864,536	7,742,870	8,222,585	8,412,466	669,596	8.6%
Total 1% Allocation	\$ 94,490,063	\$ 93,866,326	\$ 100,141,976	\$ 101,951,653	\$ 8,085,327	8.6%
State Water Project Debt Service	\$ 30,328,609	\$ 18,000,000	\$ 18,000,000	\$ 18,000,000	\$ —	—
Total Property Tax	\$ 124,818,672	\$ 111,866,326	\$ 118,141,976	\$ 119,951,653	\$ 8,085,327	7.2%

Special Parcel Tax



Financial Overview

Special Parcel Tax

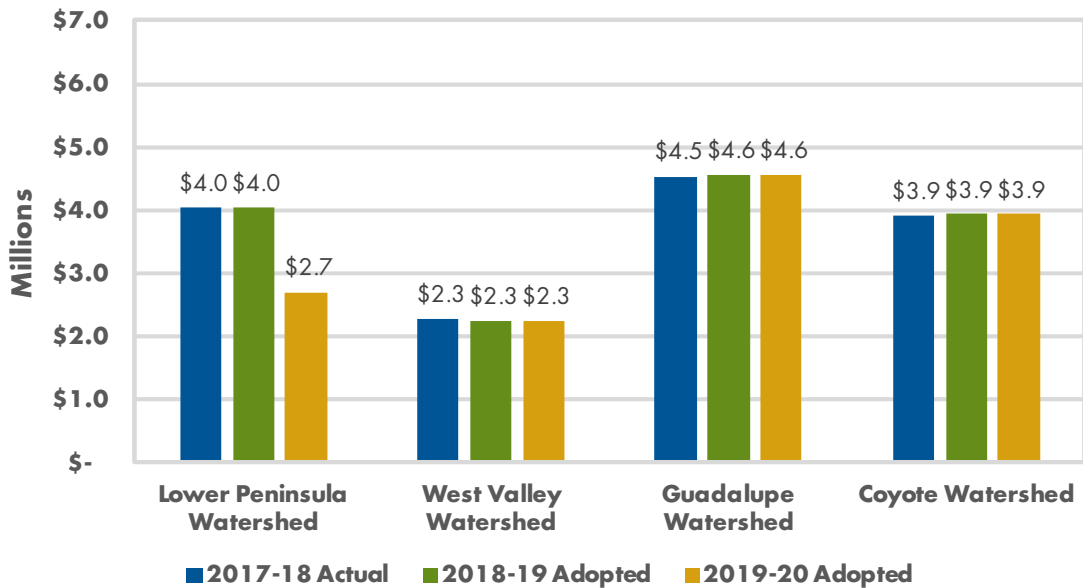
In November 2000, over two-thirds of Santa Clara County voters approved the original 15-year special parcel tax to fund the Valley Water's countywide Clean, Safe Creeks and Natural Flood Protection Program (Clean, Safe Creeks). In November 2012, two-thirds of the voters approved the Safe, Clean Water and Natural Flood Protection program that builds upon the success of its predecessor Clean, Safe Creeks program and extends the special parcel tax another 15 years. The special parcel tax levy is based on the proportionate

distribution of storm water runoff per parcel, and may be increased annually by either the prior year's San Francisco-Oakland-San Jose Consumer Price Index for all Urban Consumers (CPI) or 3%, whichever is greater. For FY 2019-20, special parcel tax revenues are expected to increase by \$1.5 million or 3.5% over the FY 2018-19 adopted budget. The increase is mainly due to the increase in the special tax rates, and partially due to an anticipated increase in eligible parcels based on the construction activity in the county.

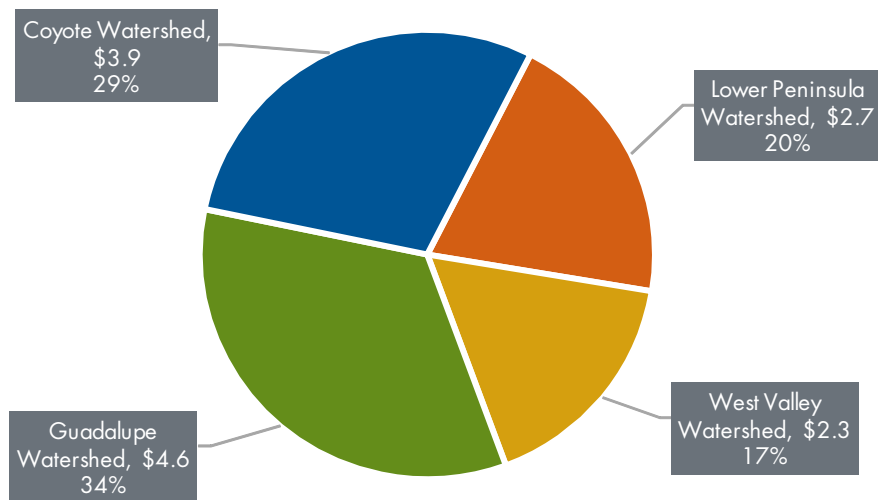
	Budgetary Basis Actual 2017-18	Adopted Budget 2018-19	Projected Year End 2018-19	Adopted Budget 2019-20	Change from 2018-19 Adopted	
					\$ Diff	% Diff
Special Parcel Tax						
Safe Clean Water & Natural Flood Protection	\$ 42,487,520	\$ 43,998,000	\$ 43,998,000	\$ 45,537,000	\$ 1,539,000	3.5%
Total Special Parcel Tax	\$ 42,487,520	\$ 43,998,000	\$ 43,998,000	\$ 45,537,000	\$ 1,539,000	3.5%

Benefit Assessment

Benefit Assessment by Fiscal Year and Watershed Fund



FY 2019-20 Benefit Assessments, \$13.5 Million



Financial Overview

Benefit Assessment

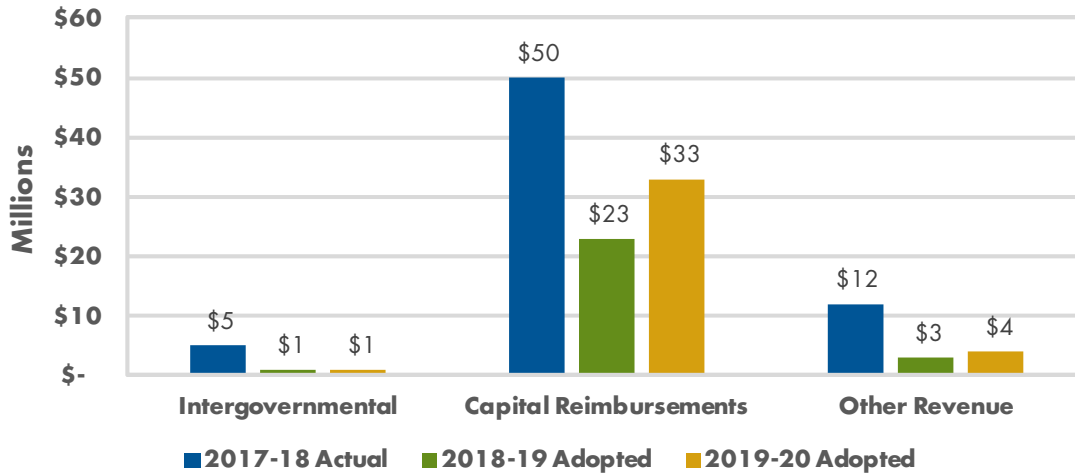
The Flood Control Benefit Assessment was first authorized by the Valley Water Board of Directors in 1981, and later by the ballot measures in 1982, 1986, and 1990. The program had a sunset date of 2000 but the assessment will continue until 2030, when the Valley Water would pay-off the bonds associated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

FY 2019-20 continues under this debt repayment phase of the benefit assessment program with benefit assessments levied at 1.25 times the annual debt service. For FY 2019-20, the Benefit Assessment revenue receipts are anticipated to come in at \$13.4 million. As Valley Water pays down principal, the amount collected would decrease.

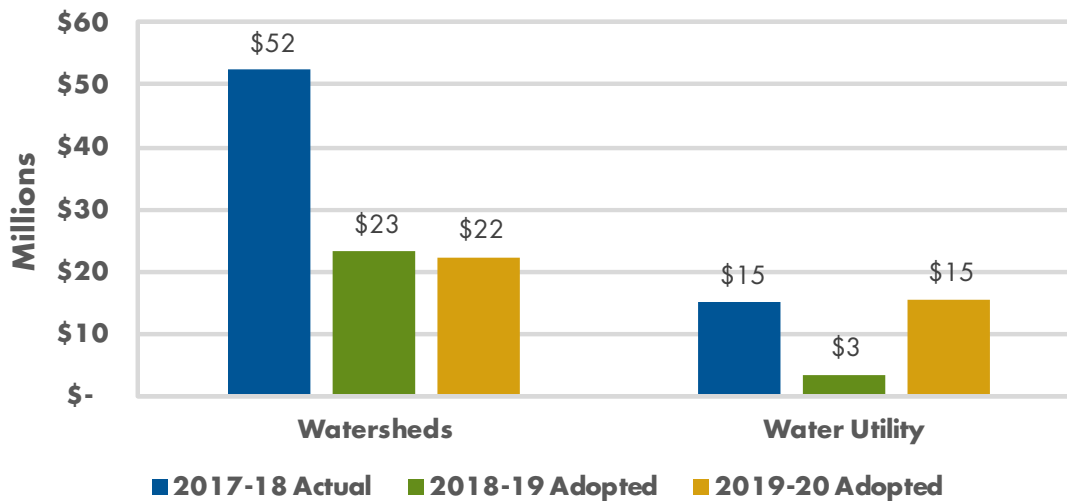
	Budgetary Basis Actual 2017-18	Adopted Budget 2018-19	Projected Year End 2018-19	Adopted Budget 2019-20	Change from 2018-19 Adopted		
					\$ Diff	% Diff	
Benefit Assessment							
Lower Peninsula Watershed	\$ 4,032,339	\$ 4,039,000	\$ 4,039,000	\$ 2,704,524	\$ (1,334,476)	(33.0)%	
West Valley Watershed	2,287,124	2,255,000	2,255,000	2,254,819	(181)	(0.0)%	
Guadalupe Watershed	4,539,598	4,552,000	4,552,000	4,552,774	774	0.0%	
Coyote Watershed	3,914,420	3,932,000	3,932,000	3,932,561	561	0.0%	
Total Benefit Assessments	\$ 14,773,481	\$ 14,778,000	\$ 14,778,000	\$ 13,444,678	\$ (1,333,322)	(9.0)%	

Intergovernmental, Capital Reimbursements and Other Revenue

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



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



Financial Overview

Intergovernmental Services

Valley Water anticipates receiving intergovernmental services revenue of \$1.2 million for the Water Utility.

Capital Reimbursement Revenue

Valley Water anticipates capital reimbursement revenue of \$32.6 million.

Water Utility Enterprise receipts are budgeted at \$11.9 million comprised of \$1.3 million from San Benito County Water District (SBCWD) for small capital improvements on the San Felipe pipeline, \$8.6 million from the California Water Commission for the Pacheco Reservoir Expansion project, \$2.0 million of USBR Title 16 funding for the recycled water pipeline efforts in South County.

Total Watersheds capital reimbursements are budgeted at \$20.8 million. Of this, \$7.3 million is budgeted in the Watershed and Stream Stewardship Fund and \$13.5 million is budgeted in the Safe, Clean Water

Fund.

Watershed and Stream Stewardship reimbursements are comprised of \$5.0 million for Berryessa Creek, Lower Penitencia Creek to Calaveras Blvd. and \$2.3 million for San Francisco Bay Shoreline.

Safe, Clean Water reimbursements are comprised of \$9.9 million from State Subventions for , Berryessa Creek, Calaveras Blvd. to I-680 (\$4.9 million), and Llagas Creek - Upper, Buena Vista Rd. to Wright Ave. (\$5.0 million), and another \$3.6 million for Guadalupe River - Upper, I-280 to Blossom Hill Rd.

Other Revenue

The Other Operating and Non-Operating Revenue category totals \$3.8 million for FY 2019-20.

Approximately \$1.6 million is budgeted for the Watersheds, \$2.0 million for Water Utility and \$0.2 million for the Internal Service Funds.

	Budgetary Basis Actual 2017-18	Adopted Budget 2018-19	Projected Year End 2018-19	Adopted Budget 2019-20	Change from 2018-19 Adopted	
					\$ Diff	% Diff
Intergovernmental Services						
Watershed Funds	\$ 1,222,018	\$ —	\$ —	\$ —	\$ —	—
Safe Clean Water & Natural Flood Protection	92,567	—	—	—	—	—
Water Enterprise Fund	4,396,464	625,000	735,000	1,237,000	612,000	97.9%
Internal Service Funds	45,000	—	—	—	—	—
Total Intergovernmental Services	\$ 5,756,049	\$ 625,000	\$ 735,000	\$ 1,237,000	\$ 612,000	97.9%
Capital Reimbursements						
Watershed Funds	\$ 34,159,156	\$ 12,443,000	\$ 7,381,000	\$ 7,286,000	\$ (5,157,000)	(41.4)%
Safe Clean Water & Natural Flood Protection	12,257,050	9,126,000	13,618,000	13,476,000	4,350,000	47.7%
Water Enterprise Fund	4,350,071	1,355,000	5,480,000	11,856,000	10,501,000	775.0%
Total Capital Reimbursements	\$ 50,766,277	\$ 22,924,000	\$ 26,479,000	\$ 32,618,000	\$ 9,694,000	42.3%

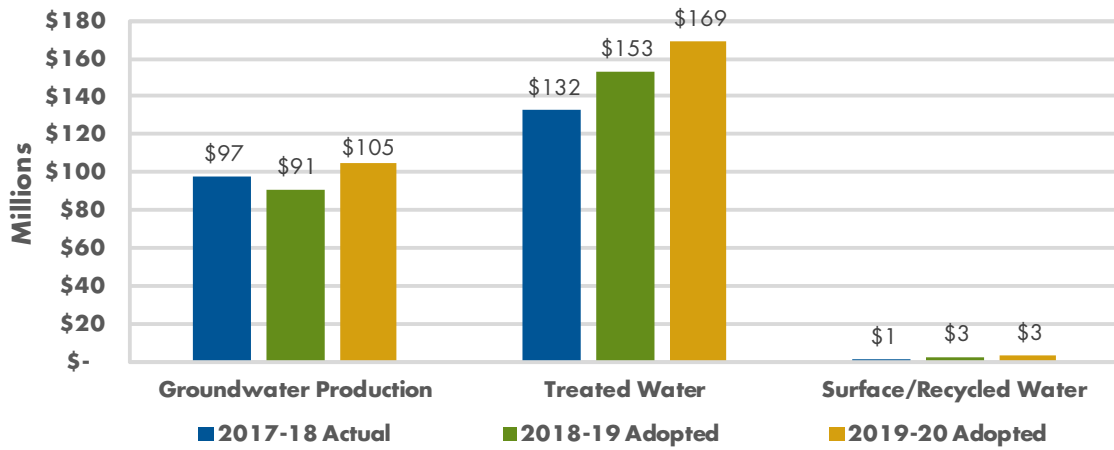
Financial Overview

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2018-19 Adopted	
	2017-18	2018-19	2018-19	2019-20	\$ Diff	% Diff
Other						
Watershed Funds	\$ 4,385,881	\$ 1,616,000	\$ 1,616,000	\$ 1,613,000	\$ (3,000)	(0.2)%
Safe Clean Water & Natural Flood Protection	324,276	—	—	—	—	—
Water Enterprise Fund	5,218,296	935,000	825,000	1,017,000	82,000	8.8%
State Water Project Fund	1,213,428	1,000,000	1,000,000	1,000,000	—	—
Internal Service Funds	393,374	50,000	—	200,000	150,000	300.0%
Total Other	\$ 11,758,298	\$ 3,601,000	\$ 3,441,000	\$ 3,830,000	\$ 229,000	6.4%
Total Intergov'l & Other Revenues	\$ 68,280,624	\$ 27,150,000	\$ 30,655,000	\$ 37,685,000	\$ 10,535,000	38.8%

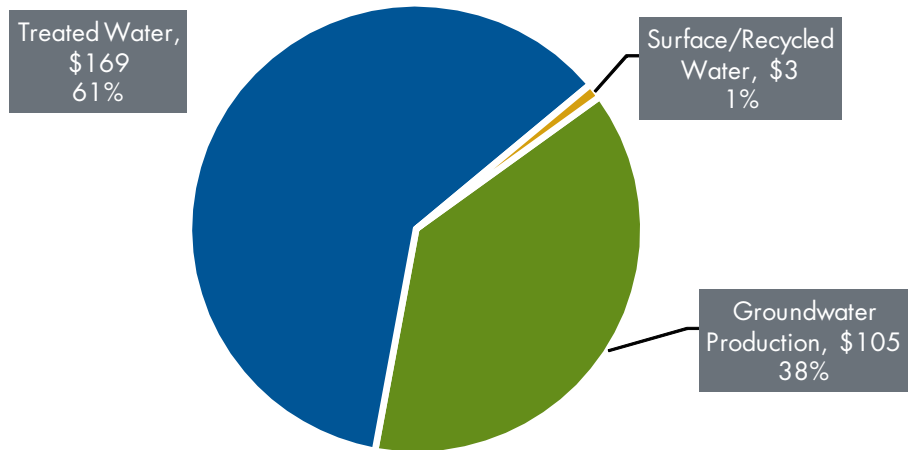
Financial Overview

Water Revenue

Water Revenue By Fiscal Year and Type



FY 2019-20 Water Revenue \$277 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 budgeted for FY 2019-20 are based on staff’s recommendation to the Valley Water’s Board of Directors for water charges in the North County and South County zones. Revenue estimates reflect a 6.6% and 6.9% increase in groundwater production charges for the North County (Zone W-2) and South County (Zone W-5) respectively, relative to FY 2018-19. These increases in water charges are necessary to pay for

critical investments in water supply infrastructure rehabilitation and upgrades, and the development of future drought-proof supplies, most notably purified water. The water charges are shown in the accompanying Water Enterprise Fund schedules.

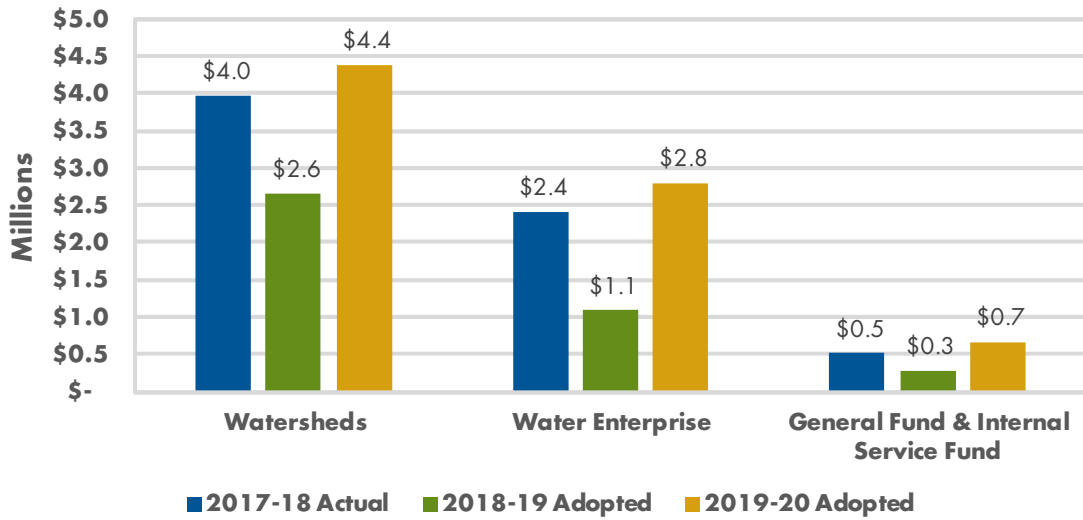
The FY 2019-20 revenue projection assumes water usage of roughly 239,000 acre-feet; Treated water demand comprises 48%, groundwater comprises 50%, and surface water and District-delivered recycled water comprise approximately 2% of the assumed water use. Compared to the historical Valley Water managed water usage of 286,000 acre-feet in calendar year 2013, this projection equates to a 16% reduction. In addition, other sources, such as Hetch Hetchy and local retail water suppliers like San Jose Water Company, Stanford, and South Bay Water Recycling provide approximately 70,000 acre-feet of water to the Santa Clara County. Valley Water does not receive revenue for these sources of supply.

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2018-19 Adopted	
	2017-18	2018-19	2018-19	2019-20	\$ Diff	% Diff
Water Revenue						
Groundwater Production	\$ 97,482,517	\$ 90,696,000	\$ 90,696,000	\$ 105,036,000	\$ 14,340,000	15.8%
Treated Water	132,476,810	152,787,000	152,787,000	169,519,000	16,732,000	11.0%
Surface/Recycled Water	1,040,878	2,653,000	2,653,000	2,821,000	168,000	6.3%
Total Water Revenue	\$ 231,000,205	\$ 246,136,000	\$ 246,136,000	\$ 277,376,000	\$ 31,240,000	12.7%

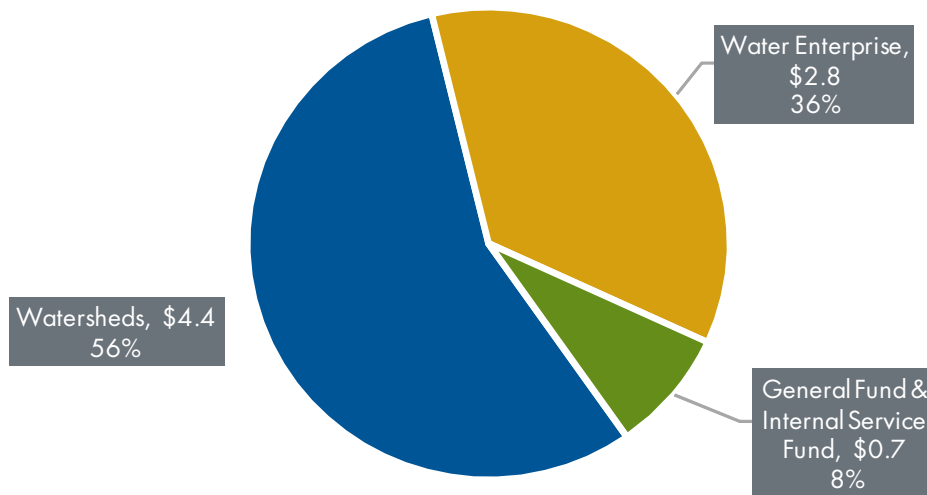
Financial Overview

Interest Income

Interest Income by Fiscal Year



FY 2019-20 Interest Earnings, \$7.9 Million



Financial Overview

Interest Income

Valley Water invests funds not immediately required for daily operations in various securities as authorized by California Government Code 53600 et.al. Valley Water's investment policy limits portfolio holdings to obligations of the U.S. Treasury, U.S. federal agencies, the state of California's Local Agency Investment Fund, bankers acceptances, negotiable and time certificates of deposit, commercial paper, corporate notes and bonds, repurchase agreements, municipal obligations, mutual funds, and supranational obligations. Prohibited investments include securities not listed above, as well as fossil fuel companies, inverse floaters, range notes, interest-only strips derived from a pool of mortgages and any security that could result in zero interest

accrual if held to maturity, as specified in Section 53601.6 of the California Government Code. For additional information regarding the Valley Water's investment policy, please visit: <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>

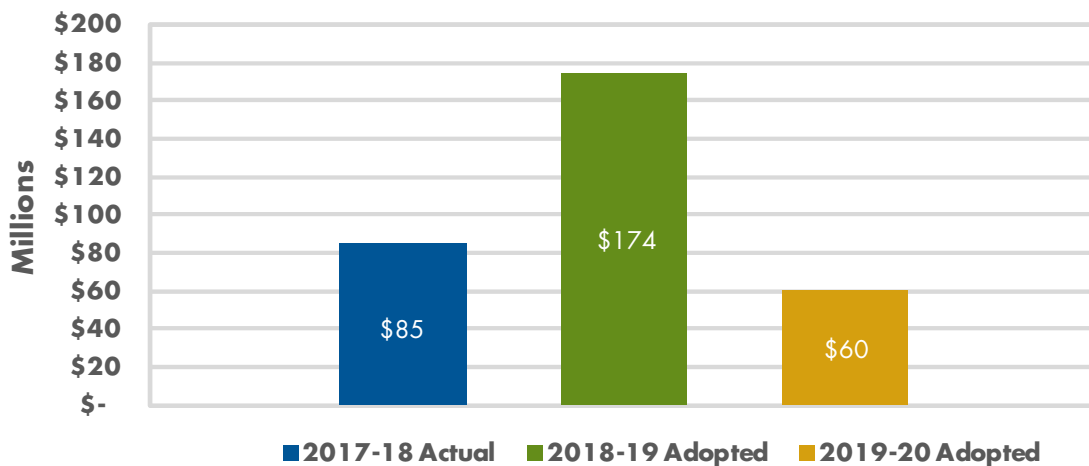
The FY 2019-20 interest earnings revenues are estimated to be \$7.9 million. The estimates are using an average portfolio yield of 2.0% which is a reflection of the overall market environment. The market, coupled with expected short-term liquidity needs for the 5-year Capital Improvement Plan will result in \$3.9 million increase in projected earnings compared to prior year.

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	\$ Diff	% Diff
	2017-18	2018-19	2018-19	2019-20		
Interest Income						
Watershed Funds	\$ 1,551,231	\$ 978,000	\$ 2,100,000	\$ 1,990,000	\$ 1,012,000	103.5%
Safe Clean Water & Natural Flood Protection	2,412,093	1,670,000	2,500,000	2,400,000	730,000	43.7%
Water Enterprise Fund	2,406,091	1,084,000	2,640,000	2,800,000	1,716,000	158.3%
General Fund	72,699	85,000	100,000	150,000	65,000	76.5%
Service Funds	435,808	183,000	460,000	510,000	327,000	178.7%
Total Interest Income	\$ 6,877,922	\$ 4,000,000	\$ 7,800,000	\$ 7,850,000	\$ 3,850,000	96.3%

Financial Overview

Other Financing

Other Financing by Fiscal Year



The Other Financing Sources and Uses category typically includes one-time or ongoing non-revenue financial transactions. Debt financing instruments in this category include commercial paper, 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 flood control facilities, Safe, Clean Water projects and Water Utility projects.

Valley Water anticipates issuing approximately \$59.6 million in debt proceeds from the bonds or commercial paper in FY 2019-20 for the Water Utility Enterprise fund.

All planned debt financing is factored in the 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 2017-18	Adopted Budget 2018-19	Projected Year End 2018-19	Adopted Budget 2019-20	Change from 2018-19 Adopted	
					\$ Diff	% Diff
Other Financing						
Bond Proceeds	\$ —	\$ 64,193,000	\$ 64,193,000	\$ 59,559,000	\$ (4,634,000)	(7.2)%
Commercial Paper Proceeds	81,570,000	110,000,000	30,000,000	—	(110,000,000)	(100.0)%
Certificates of Participation	3,457,481	—	5,434,000	—	—	—
Total Other Financing	\$ 85,027,481	\$ 174,193,000	\$ 99,627,000	\$ 59,559,000	\$ (114,634,000)	(65.8)%

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SALARIES AND BENEFITS

Financial Overview

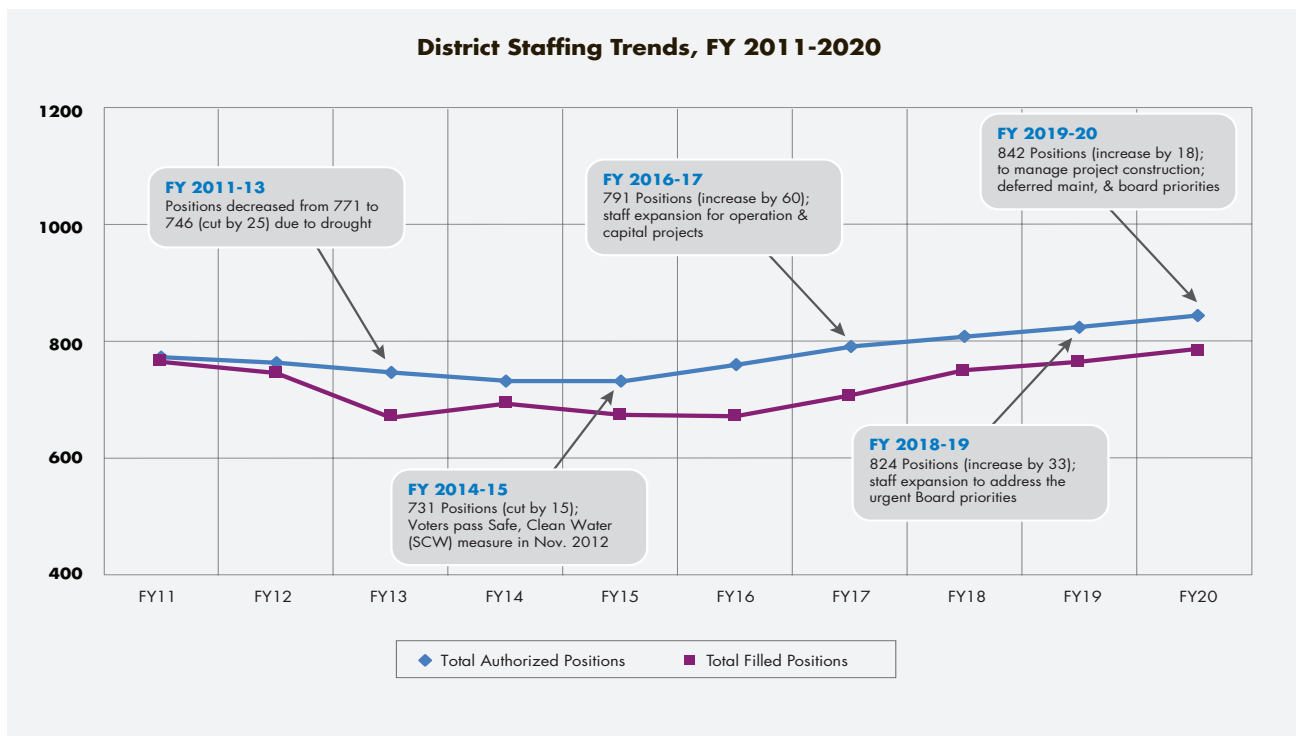
Salaries and Benefits

The FY 2019-20 salaries and benefits budget is based on 842 authorized positions and 4 management fellows. The total salaries budgeted for these positions are \$111.5 million, an increase of \$8.4 million from the FY 2018-19 adopted budget. The increase is primarily due to a 4% cost of living adjustment, and the funding for 11 new positions added during FY 2018-19, and another 18 new positions requested in FY 2019-20. Total salaries for FY 2019-20 include \$112.2 million in regular salaries less \$4.7 million salary savings, and \$3.9 million in overtime and

special pay.

Total benefits are budgeted at \$58.5 million, a 6% increase over the FY 2018-19 adopted budget, which includes a \$1.2 million increase in CalPERS contributions, a \$1.9 million increase in medical costs for active and retired employees, and \$0.2 million decrease in payroll taxes and other benefits.

A comprehensive organizational chart and detail information by division is included in the Division Summaries chapter.



Financial Overview

Salaries and Benefits

	Budgetary	Adopted	Projected	Adopted	Change from	
	Basis Actual	Budget	Year End	Budget	2018-19 Adopted	
	2017-18	2018-19	2018-19	2019-20	\$ Diff	% Diff
SALARIES						
Salaries-Regular Employee	\$ 90,454,665	\$ 103,536,995	\$ 104,930,402	\$ 112,214,278	\$ 8,677,283	8.4%
Overtime	1,954,122	2,969,864	2,969,864	3,105,012	135,148	4.6%
Special Pays	665,406	932,651	932,051	889,231	(43,420)	(4.7)%
Salary Savings	—	(4,371,912)	(4,371,912)	(4,740,108)	(368,196)	8.4%
Total Salaries	\$ 93,074,193	\$ 103,067,598	\$ 104,460,405	\$ 111,468,413	\$ 8,400,815	8.2%
BENEFITS						
Fed & State Taxes & Benefits	\$ 1,363,006	\$ 1,308,855	\$ 1,308,855	\$ 1,416,633	\$ 107,778	8.2%
Retirement Contributions	20,804,755	28,120,304	28,120,304	29,344,421	1,224,117	4.4%
Group Ins-Active Employees	13,523,269	15,436,161	15,436,161	16,413,092	976,931	6.3%
Group Ins-Retired Employees	9,546,137	10,383,712	10,383,712	11,358,000	974,288	9.4%
Other Post Employment Benefits (OPEB)	3,000,000	—	—	—	—	—
Total Benefits	\$ 48,237,167	\$ 55,249,032	\$ 55,249,032	\$ 58,532,146	\$ 3,283,114	5.9%
Net Total Salary & Benefits	\$ 141,311,360	\$ 158,316,630	\$ 159,709,437	\$ 170,000,559	\$ 11,683,929	7.4%
Total 1% Allocation					\$ —	

Budget Hours

	Labor Hours	Labor Hours	Labor Hours	Labor Hours	Change from	
	2017-2018	2018-19	2018-19	2019-20	# Diff	% Diff
Salaries-Regular Employee	1,289,010	1,432,456	1,454,069	1,483,340	50,884	3.6%
Overtime	22,621	30,724	30,724	28,837	-1,887	(6.1)%
Compensated Absences	233,606	260,371	262,029	268,664	8,293	3.2%
Total Salaries	1,545,238	1,723,551	1,746,822	1,780,841	57,290	3.3%

Summary of Positions

	Adopted Budget	Adopted Budget	Adjusted Budget	Adopted Budget	Position Change
	FY 2017-2018	FY 2018-19	FY 2018-19**	FY 2019-20	
Board Appointed Officers*	35	77	103	104	1
External Affairs	28	32	35	36	1
IT & Administrative Services	195	149	122	122	—
Water Utility	332	334	341	341	—
Watersheds	219	221	223	239	16
Total Authorized Positions	809	813	824	842	18
Fellowships***	4	4	4	4	—
Total	813	817	828	846	18

(*) Board Appointed Officers Include: Chief Executive Officer, District Counsel and Clerk of the Board

(**) In FY 18-19, Human Resources Division was transferred from IT & Administrative Services to the Office of the CEO; Board approved additional 11 new positions for Pacheco Reservoir Expansion Project

(***) The Fellowship program is a pilot program, for FY2019-20, total authorized positions are 842 plus 4 fellowships

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DEBT SERVICE

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 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 the District Act authorize the Board to issue revenue bonds for the Water Enterprise Fund. The District's debt issuance practices are governed under the California Government and Water codes. The District Act authorizes short-term debt (maturity of less than five years) of up to a limit of \$8 million. Other provisions of state law authorize the issuance of short-term debt up to a specified percentage of revenue anticipated within a period of time.

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

Board Policies - Executive Limitations

In addition to statutory requirements, the Board has adopted policies (Executive Limitations) related to debt: EL-4.7 states that a Board Appointed Officer (BAO) shall:

"Not indebt the organization, except as provided in the District Act, and in an amount greater than can be

repaid by certain, otherwise unencumbered revenues within 90 days, or prior to the close of the fiscal year." Furthermore, the BAO shall:

- 4.7.1. Not issue debt (long or short-term obligations that are sold within the financial marketplace) that conflicts with the District Act or the legal authority of the District, 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 District Debt Policies that are consistent with Board policies and provide guidance to District staff in regards to administering the debt programs and agreements, including consideration for the appropriate level of debt for the District to carry and structuring debt repayment to address intergenerational benefits;
- 4.7.5. Be consistent with the District's Debt Policies and any addendums when issuing debt;
- 4.7.6. Maintain strong credit ratings and good investor relations.

Debt Policy

The Santa Clara Valley Water District 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, the District 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 Certificates of Participation and Revenue Bonds are encompassed within the criteria of Senior Master Resolutions adopted on June 23, 1994 (as amended

Financial Overview

from time to time), and the Parity Master Resolution adopted on February 23, 2016 (as amended from time to time). Coverage ratios required for debt service are set at 1.25 times the annual debt service for senior and parity lien debt. The District is in compliance with all coverage ratio requirements for all outstanding debt. For additional information regarding the District's debt policy, please visit: <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>.

Bond Ratings

The bond ratings for the District's outstanding debt reflect high grade investment quality debt. They are based on the District'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 and Revenue Bonds of \$752.4 million as of June 30, 2019. Scheduled annual debt service for FY 2019-20 is approximately \$58.6 million including fees. There are no balloon payments in the future years or significant fluctuations in annual debt service.

Currently outstanding for the Watersheds are Series 2017A COPs, with a final maturity of 2030 and the 2012A COPs, with a final maturity of 2024. Debt service for these COPs is paid via benefit assessments, which are collected based on 125% of the annual debt service. Currently outstanding for the Water Utility are 2006B Water Revenue Refunding Bonds with a final maturity of 2035, the 2007B Revenue Certificates of Participation with a final maturity of 2037, the Water System Refunding Revenue Bonds 2016A/B with a final maturity of 2046, the Revenue Certificates of

Participation 2016C/D with a final maturity of 2029, the Water System Refunding Revenue Bonds 2017A with a final maturity of 2037, the Water System Refunding Revenues Bonds Series 2019A/B with a final maturity of 2049, and the Commercial Paper Certificates which are secured by Tax and Revenue Anticipation Notes that are subject to annual reauthorization by the District Board.

Planned Issuances

The District 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 approved by Santa Clara County voters in the November 6, 2012 election. Debt service for the Water Utility Enterprise is paid from water revenues. Bond covenants stipulate that the District must maintain a minimum 1.25 debt service coverage ratio on all senior and parity bonds. Based on the financial models from the Water Utility Enterprise Finance organization, the projected debt service coverage ratios are as follows:

- FY 2019-20: 3.37
- FY 2020-21: 3.31
- FY 2021-22: 2.99
- FY 2022-23: 2.54
- FY 2022-23: 2.47

(Source: FY 2019-20 Annual Report on the Protection and Augmentation of Water Supplies)

Financial Overview

Investment Portfolio

The District’s investment portfolio is invested with the following three priorities in mind: safety, liquidity and yield. Safeguarding taxpayers’ money and ensuring that the District has funds available when needed to meet expenditures are the two most important goals. Once those goals are satisfied, the District strives to earn a market rate of return on its investments. About 80% of the portfolio is invested in government securities, such as federal agency notes and US treasury notes. The remainder of the portfolio is invested in instruments of the highest credit quality and in highly liquid instruments such as the Local Agency Investment Fund and money market mutual funds.

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

the portfolio performance.

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

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

- Not invest or hold funds of the District 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 the District should, to the extent reasonably possible, be prudently invested or deposited to produce revenue for the District consistent with the Board Investment Policy and applicable law.
- 4.9.2. The Treasurer or his or her designee shall submit quarterly investment reports to the Board as specified under Government Code Section 53646.4.9.3. No investments will be made in fossil fuel companies with significant carbon emissions potential.

Bond Rating

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

Financial Overview

Debt Service Payments Schedule

	Principal	Interest	Total ¹
Watersheds Certificates of Participation			
2019/20	\$ 8,075,000	\$ 3,486,200	\$ 11,561,200
2020/21	8,485,000	3,082,450	11,567,450
2021/22	8,860,000	2,703,500	11,563,500
2022/23	9,250,000	2,307,600	11,557,600
2023/24 and thereafter	38,900,000	7,218,100	46,118,100
Total	\$ 73,570,000	\$ 18,797,850	\$ 92,367,850
Water Utility Revenue Bonds / Certificates of Participation ²			
2019/20	\$ 14,040,000	\$ 23,615,515	\$ 37,655,515
2020/21	15,150,000	26,844,137	41,994,137
2021/22	15,780,000	26,463,490	42,243,490
2022/23	16,455,000	25,781,573	42,236,573
2023/24 and thereafter	513,180,000	333,315,455	846,495,455
Total	\$ 574,605,000²	\$ 436,020,170	\$ 1,010,625,170
Commercial Paper			
2019/20	\$ —	\$ 4,996,000	\$ 4,996,000
2020/21	—	5,076,000	5,076,000
2021/22	—	8,046,000	8,046,000
2022/23	—	7,731,000	7,731,000
2023/24 and thereafter	90,000,000	33,300,000	123,300,000
Total	\$ 90,000,000	\$ 59,149,000	\$ 149,149,000
Total All Outstanding Debt			
2019/20	\$ 22,115,000	\$ 32,097,715	\$ 54,212,715
2020/21	23,635,000	35,002,587	58,637,587
2021/22	24,640,000	37,212,990	61,852,990
2022/23	25,705,000	35,820,173	61,525,173
2023/24 and thereafter	642,080,000	373,833,555	1,015,913,555
Total	\$ 738,175,000	\$ 513,967,020	\$ 1,252,142,020

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

(2) Water Utility projected principal and interest payments include the anticipated issuances of Series 2020A and 2020B

Financial Overview

Status of Bonded Indebtedness, Certificates of Participation, and Commercial Paper¹

	Total Amount Sold	Date of Issue	True Interest Rate	Outstanding as of 6/30/19	2019-2020 Debt Service Payments		
					Principal	Interest	Total
Watersheds Indebtedness							
2017A COPs ⁽²⁾	\$ 59,390,000	3/7/2017	2.555%	\$ 50,030,000	\$ 3,765,000	\$ 2,501,500	\$ 6,266,500
2012A COPs	52,955,000	11/20/2012	1.409%	23,540,000	4,310,000	984,700	5,294,700
Safe, Clean Water Commercial Paper ⁽³⁾		various	3.800%	60,000,000	—	2,316,000	2,316,000
Total Watersheds	\$ 112,345,000			\$ 133,570,000	\$ 8,075,000	\$ 5,802,200	\$ 13,877,200
Water Utility Indebtedness							
2006 Water Utility Refunding Revenue Bonds							
Series B - taxable	\$ 25,570,000	12/21/2006	5.356%	\$ 18,155,000	\$ 815,000	\$ 963,106	\$ 1,778,106
Total	\$ 25,570,000			\$ 18,155,000	\$ 815,000	\$ 963,106	\$ 1,778,106
2007 Water Utility Revenue Certificates of Participation							
Series B - taxable/floating ⁽³⁾	\$ 53,730,000	10/1/2007	4.600%	\$ 37,980,000	\$ 1,470,000	\$ 1,775,000	\$ 3,245,000
Total	\$ 53,730,000			\$ 37,980,000	\$ 1,470,000	\$ 1,775,000	\$ 3,245,000
2016 Water Utility Refunding Revenue Bonds							
Series A	\$ 106,315,000	3/30/2016	3.252%	\$ 106,315,000	\$ —	\$ 5,315,750	\$ 5,315,750
Series B - taxable	75,215,000	3/30/2016	4.319%	75,215,000	—	3,229,621	3,229,621
Total	\$ 181,530,000			\$ 181,530,000	\$ —	\$ 8,545,371	\$ 8,545,371
2016 Water Utility Revenue Certificates of Participation							
Series C	\$ 43,075,000	3/30/2016	2.128%	\$ 38,045,000	\$ 3,185,000	\$ 1,902,250	\$ 5,087,250
Series D - taxable	54,970,000	3/30/2016	3.136%	48,425,000	4,130,000	1,464,741	5,594,741
Total	\$ 98,045,000			\$ 86,470,000	\$ 7,315,000	\$ 3,366,991	\$ 10,681,991
2017 Water Utility Revenue Bonds							
Series A	\$ 54,710,000	5/2/2017	3.126%	\$ 51,410,000	\$ 1,780,000	\$ 2,570,500	\$ 4,350,500
2019 Water Utility Refunding Revenue Bonds							
Series A	\$ 17,870,000	4/25/2019	3.770%	\$ 17,870,000	\$ 270,000	\$ 890,800	\$ 1,160,800
Series B - taxable	90,565,000	4/25/2019	5.280%	90,565,000	1,565,000	4,329,024	5,894,024
Total	\$ 108,435,000			\$ 108,435,000	\$ 1,835,000	\$ 5,219,824	\$ 7,054,824
2020 Water Utility Refunding Revenue Bonds							
Series A	\$ 31,720,000	12/1/2019	4.600%	\$ 31,720,000	\$ 290,000	\$ 364,780	\$ 654,780
Series B - taxable	58,905,000	12/1/2019	5.500%	58,905,000	535,000	809,944	1,344,944
Total	\$ 90,625,000			\$ 90,625,000	\$ 825,000	\$ 1,174,724	\$ 1,999,724
Water Utility Commercial Paper ⁽³⁾		— various	4.800%	44,193,000	—	2,680,000	2,680,000
Total Water Utility	\$ 612,645,000			\$ 618,798,000	\$ 14,040,000	\$ 26,295,516	\$ 40,335,516
Combined Total	\$ 724,990,000			\$ 752,368,000	\$ 22,115,000	\$ 32,097,716	\$ 54,212,716

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

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

(3) The interest rates shown for the 2007B Water Utility COPs and Commercial Paper reflect the planning rates for variable rate bonds for budgeting purposes. The actual rates are subject to change pending actual market conditions throughout the fiscal year.

RESERVE POLICY AND FUND BALANCES

District Reserve Policy

The District 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 the District'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, the District, 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, Information Technology and Risk).

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, the District 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 the District to fund costs consistent with the Capital Improvement Program, Integrated Water Resources Plan, and long range financial plans while avoiding significant water charge fluctuations due to changes in cash flow requirements. The District will also maintain a cash reserve position that may be utilized to fund unexpected fluctuations in revenues and operating/capital expenditures.

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

Definitions

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

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

District 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:

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- Budgeted Reserves - Budgeted reserves may vary from those of the Comprehensive Annual Financial Report (CAFR) where it is appropriate to recognize actual cash transactions that are recorded in the CAFR 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 CAFR.
- 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 District revenues to meet debt service coverage requirements. Special purpose reserves are restricted per debt financing agreements which are in accordance with bond covenants.

Restricted Reserves

Debt Service Reserve

These reserves were established for various bond issues. The funds are not available for general needs of the District and must be maintained as dictated in the bond covenants of the various issues. 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 the District not be able to make debt service payments due to cash shortfalls), Arbitrage Rebate (to accumulate funds to offset the potential liability from excess earnings) and Debt Service Payment Fund (a pass-through reserve for initiating debt service payments).

Debt Proceeds Reserve

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

Rate Stabilization Reserve for Bond Covenant - Water Utility Enterprise Fund

The Parity Master Resolution for the Water Utility Enterprise requires the provision of a Rate Stabilization Reserve to offset expenses and revenue shortfalls, and to supplement District 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.

San Felipe Emergency Reserve - Water Utility Enterprise Fund

This special purpose reserve is required by District 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.

Silicon Valley Advanced Water Purification Center Reserve - Water Utility Enterprise Fund

This special purpose reserve serves as a fund for replacement of micro-filtration modules, reverse osmosis elements, and ultraviolet lamps at the Silicon Valley Advanced Water Purification Center (SVAWPC). Per the Recycled Water Facilities and Programs Integration Agreement between the City of San Jose and the Santa Clara Valley Water District dated March, 2010, the annual contribution to the reserve may be up to \$810,000 starting in FY 2009-10 and adjusted

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annually by 3% for inflation, thereafter, until such time that the reserve reaches the reserve cap. The reserve cap is set in FY 2013-14 at \$2.6 million and is to be adjusted by 3% for inflation annually thereafter. The reserve cap is based on a five-year replacement schedule for the micro-filtration modules and reverse osmosis elements. The specific level of this reserve is to be set based on reasonably anticipated needs and uses.

Supplemental Water Supply Reserve - Water Utility Enterprise Fund

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

Drought Reserve - Water Utility Enterprise Fund

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

spurred by the drought. The maximum funding level is set at 10% of adopted budget operating outlays.

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

This special purpose reserve provides a funding source for costs associated with the District's Public-Private Partnership (P3) to design, build, finance, operate and maintain the Expedited Purified Water Program. The minimum funding level for this reserve is \$4 million, and the maximum is \$20 million. The specific level is to be financially prudent and based on reasonably anticipated needs.

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

In May 2018, the District Board approved a resolution to establish GP5 – Equity and costs are important, to allow certain communities/agencies to receive District 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 District 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. The District's contributions shall not exceed the State Water Project taxes paid by these communities/agencies. Any unspent funds shall be returned to the District by FY 2026. The GP5 reserve would be established in FY 2019-20 to set aside the unspent/unencumbered balances approved by the Board in FY 2018-19. The minimum funding level for this reserve is \$0.

State Water Project Tax Reserve - Water Utility Enterprise Fund

The purpose of the State Water Project Tax Reserve is to

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accumulate unspent funds for voter-approved State Water Project contract obligations. Funds accumulated in this reserve will be available to fund State Water Project contract obligations in subsequent years.

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

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

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

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

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

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

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

Committed Reserves

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

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

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

Property Self-Insurance/Catastrophic Reserve - Risk Fund

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

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

Floating Rate Debt Payment Stabilization Reserve - Water Utility Enterprise Fund

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

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

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

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

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

A portion of these reserves are automatically re-budgeted 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.

Assigned Reserves

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

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

A portion of these reserves are automatically re-budgeted 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.

Market Valuation Reserves

The reserves for market valuation represent the increase/gain (only) in the market value of the District'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 the District 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.

Because of this requirement, investment income must be adjusted to reflect the fair value change from one fiscal year to the next fiscal year. However, the District's

investment policy dictates a buy-and-hold strategy in which, with very few exceptions, the District holds all securities to their maturity, thereby not incurring 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.

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Reserves Schedule

	Estimated Balances				Change from 2018-19 Adopted	
	Year-End 2017-18	Adopted 2018-19	Projected YE 2018-19	Adopted Budget 2019-20	\$ Diff	% Diff
GENERAL FUND						
Committed Reserves						
Operating & Capital Reserve	\$ 3,433,612	\$ 4,565,381	\$ 2,766,893	\$ 4,318,026	\$ (247,355)	(5.4)%
Currently Authorized Projects	500,000	—	—	—	—	—
Total General Fund Reserves	\$ 3,933,612	\$ 4,565,381	\$ 2,766,893	\$ 4,318,026	\$ (247,355)	(5.4)%
SPECIAL REVENUE FUNDS (WATERSHEDS)						
Restricted Reserves						
Operating & Capital Reserve	\$ 31,111,599	\$ 123,269,436	\$ 65,045,956	\$ 90,654,986	\$ (32,614,450)	(26.5)%
Currently Authorized Projects	105,500,737	16,134,748	61,384,000	25,418,000	9,283,252	57.5%
Total Restricted Reserves	\$ 136,612,336	\$ 139,404,184	\$ 126,429,956	\$ 116,072,986	\$ (23,331,198)	(16.7)%
Committed Reserves						
Operating & Capital Reserve	\$ 74,688,993	\$ 70,230,488	\$ 79,516,618	\$ 70,522,113	\$ 291,625	0.4%
Currently Authorized Projects	38,984,165	6,357,396	19,703,000	11,673,000	5,315,604	83.6%
Total Committed Reserves	\$ 113,673,158	\$ 76,587,884	\$ 99,219,618	\$ 82,195,113	\$ 5,607,229	7.3%
Total Special Revenue Funds Reserves	\$ 250,285,494	\$ 215,992,068	\$ 225,649,574	\$ 198,268,099	\$ (17,723,969)	(8.2)%
Total Governmental Funds	\$ 254,219,106	\$ 220,557,449	\$ 228,416,467	\$ 202,586,125	\$ (17,971,324)	(8.1)%
WATER ENTERPRISE & STATE WATER PROJECT FUNDS						
Restricted Reserves						
WUE- Rate Stabilization Reserve	\$ 21,066,011	\$ 22,477,551	\$ 22,477,551	\$ 23,467,000	\$ 989,449	4.4%
San Felipe Emergency Reserve	3,039,874	3,053,130	3,053,130	3,103,000	49,870	1.6%
State Water Project Tax Reserve	12,777,981	4,725,400	10,883,272	4,815,690	90,290	1.9%
WUE Public-Private Partnership (P3) Reserve	—	4,000,000	4,000,000	8,000,000	4,000,000	100.0%
WUE- Supplemental Water Supply	14,677,141	14,677,000	14,677,000	15,077,000	400,000	2.7%
SV Advanced Water Purification Center	1,906,000	986,000	1,066,000	1,066,000	80,000	8.1%
Drought Reserve	5,000,000	7,000,000	7,000,000	10,000,000	3,000,000	42.9%
Total Restricted Reserves	\$ 58,467,007	\$ 56,919,081	\$ 63,156,953	\$ 65,528,690	\$ 8,609,609	15.1%
Committed Reserves						
Operating & Capital Reserve	\$ 20,485,996	\$ 37,278,868	\$ 27,182,770	\$ 41,436,874	\$ 4,158,006	11.2%
Currently Authorized Projects	42,010,193	6,599,468	35,069,000	15,830,000	9,230,532	139.9%
Total Committed Reserves	\$ 62,496,189	\$ 43,878,336	\$ 62,251,770	\$ 57,266,874	\$ 13,388,538	30.5%
Total Water Enterprise Funds Reserves	\$ 120,963,196	\$ 100,797,417	\$ 125,408,723	\$ 122,795,564	\$ 21,998,147	21.8%

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Reserves Schedule (Continued)

	Estimated Balances				Change from 2018-19 Adopted	
	Year-End 2017-18	Adopted 2018-19	Projected YE 2018-19	Adopted Budget 2019-20	\$ Diff	% Diff
INTERNAL SERVICE FUNDS:						
Committed Reserves						
Operating & Capital Reserve	\$ 6,419,453	\$ 1,184,522	\$ 4,444,921	\$ 2,048,125	\$ 863,603	72.9%
Currently Authorized Projects	11,461,229	441,273	10,220,000	2,304,000	1,862,727	422.1%
Liability/Workers' Comp Self Insurance	6,465,000	6,000,000	7,034,000	7,034,000	1,034,000	17.2%
Property Self Insurance/Catastrophic	8,733,047	5,014,194	6,002,303	6,113,912	1,099,718	21.9%
Total Committed Reserves	\$ 33,078,729	\$ 12,639,989	\$ 27,701,224	\$ 17,500,037	\$ 4,860,048	38.5%
Total Internal Service Funds Reserves	\$ 33,078,729	\$ 12,639,989	\$ 27,701,224	\$ 17,500,037	\$ 4,860,048	38.5%
Total Proprietary Funds	\$ 154,041,925	\$ 113,437,406	\$ 153,109,947	\$ 140,295,601	\$ 26,858,195	23.7%
TOTAL RESERVE SUMMARIES						
Total Proprietary Funds	\$ 154,041,925	\$ 113,437,406	\$ 153,109,947	\$ 140,295,601	\$ 26,858,195	23.7%
Total Governmental Funds	254,219,106	220,557,449	228,416,467	202,586,125	(17,971,324)	(8.1)%
Total Year-End Reserves	\$ 408,261,031	\$ 333,994,855	\$ 381,526,414	\$ 342,881,726	\$ 8,886,871	2.7%
Total Restricted Reserves	195,079,343	196,323,265	189,586,909	181,601,676	(14,721,589)	(7.5)%
Total Committed Reserves	213,181,688	137,671,590	191,939,505	161,280,050	23,608,460	17.1%
Total Year-End Reserves	\$ 408,261,031	\$ 333,994,855	\$ 381,526,414	\$ 342,881,726	\$ 8,886,871	2.7%

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