



Santa Clara Valley Water District Board Audit Committee Meeting

Via Zoom Teleconference

2:00 PM REGULAR MEETING AND 3:00 PM CLOSED SESSION AGENDA

Wednesday, September 15, 2021
2:00 PM

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

BOARD AUDIT COMMITTEE
Barbara Keegan, Chair - District 2
Gary Kremen, Vice Chair - District 7
Richard P. Santos - District 3

During the COVID-19 restrictions, all public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

MAX OVERLAND
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-2749
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www.valleywater.org

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

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**Santa Clara Valley Water District
Board Audit Committee
2:00 PM REGULAR MEETING AND
3:00 PM CLOSED SESSION AGENDA**

Wednesday, September 15, 2021

2:00 PM

Via Zoom Teleconference

IMPORTANT NOTICES

This meeting is being held in accordance with the Brown Act as currently in effect under the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-08-21 issued on June 11, 2021, that allows attendance by members of the Committee, staff, and the public to participate and conduct the meeting by teleconference, videoconference, or both.

Members of the public wishing to address the Committee during a video conferenced meeting on an item not listed on the agenda, or any item listed on the agenda, should use the "Raise Hand" tool located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in the order requests are received and granted speaking access to address the Committee.

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

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

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

Join Zoom Meeting:

<https://valleywater.zoom.us/j/91608079873>

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

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

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

3. APPROVAL OF MINUTES:

3.1. Approval of Minutes.

[21-0982](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 081821 BAC Minutes](#)

4. ACTION ITEMS:

4.1. Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2020.

[21-0738](#)

Recommendation: Receive and discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2020.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2020 WUE Audit](#)

- 4.2. Progress Report on Implementing the Grants Management Performance Audit Recommendations. [21-0969](#)
Recommendation: Receive information on the progress of implementing the recommendations from the Grants Management Performance Audit.
Manager: Marta Lugo, 408-630-2237
Attachments: [Attachment 1: PowerPoint](#)
[Attachment 2: Grantee Survey Results](#)
- 4.3. Discuss Process to Follow-up on Completed Audits. [21-0956](#)
Recommendation: A) Discuss process to follow-up on completed audits; and
B) Approve the recommended process for follow-up on completed audits.
Manager: Darin Taylor, 408-630-3068
- 4.4. Review and Discuss the 2021 Board Audit Committee Work Plan. [21-0951](#)
Recommendation: Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2021 BAC Work Plan](#)
- 4.5. Discuss and Approve any Updates to the Annual Audit Work Plan. [21-0952](#)
Recommendation: Discuss and approve any updates to recommend to the Board, if necessary.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Annual Audit Work Plan](#)

5. INFORMATION ITEMS:

- 5.1. Receive an Update on the 2021 Risk Assessment. [21-0954](#)
Recommendation: Receive an update on the 2021 Risk Assessment.
Manager: Darin Taylor, 408-630-3068
- 5.2. Fiscal Year 2020-21 Fourth Quarter Financial Status Update. [21-0955](#)
Recommendation: Receive the Fiscal Year 2020-21 fourth quarter financial status update as of June 30, 2021.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: PowerPoint](#)

6. CLOSED SESSION:

3:00 PM

Notice to the Public: The Board Audit Committee meets in Closed Session in accordance with the Ralph M. Brown Act. Following the conclusion of Closed Session discussion, the Committee will return for the remaining items on the regular meeting agenda.

- 6.1. CLOSED SESSION [21-1005](#)
CONFERENCE WITH LEGAL COUNSEL
INITIATION OF LITIGATION Government Code Section 54956.9(d)(4)
One Potential Case

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

- 6.2. District Counsel Report on Closed Session.

7. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

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

8. ADJOURN:

- 8.1. Adjourn to Regular Meeting at 2:00 p.m., on October 20, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-08-21.



Santa Clara Valley Water District

File No.: 21-0982

Agenda Date: 9/15/2021
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Approval of Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

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

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

ATTACHMENTS:

Attachment 1: 081821 BAC Minutes

UNCLASSIFIED MANAGER:

Michele King, 408-630-2711

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BOARD AUDIT COMMITTEE MEETING

MINUTES

**REGULAR MEETING
WEDNESDAY, AUGUST 18, 2021
2:00 PM**

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A Regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee), conducted by Zoom teleconference, was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 2:00 p.m.

1.1 Roll Call.

Committee members in attendance were District 3 Director Richard P. Santos, and District 2 Director Barbara Keegan, Chairperson presiding, with District 7 Director Gary Kremen participating by teleconference, constituting a quorum of the Committee.

District 1 Director John Varela, and District 4 Director Linda LeZotte attended via teleconference.

Staff in attendance were M. Overland. Staff members participating by teleconference were R. Chan, A. Fonseca, A. Gschwind, H. McMahon, A. Mendiola, C. Orellana, D. Taylor, D. Wickman, and K. Wong.

Also, in attendance by teleconference were Mr. John Mahoney, and Mr. Mike Brown, Tanner Pacific; and Ms. Denise Callahan, and Ms. Kate Kousser, TAP International, Inc. (TAP).

2. PUBLIC COMMENT:

2.1 Time Open for Public Comment on any Item not on the Agenda.

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

3. APPROVAL OF MINUTES:

3.1 Approval of Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the June 16, 2021, Regular Committee meeting.

Move to Approve: R. Santos
Second: G. Kremen
Yeas: G. Kremen, R. Santos, B. Keegan
Nays: None
Abstains: None
Recuses: None
Absent: None
Summary: 3 Yeas; 0 Nays; 0 Abstains; 0 Absent.

4. ACTION ITEMS:

4.1 Receive an Update Regarding the Quality and Environmental Management System (QEMS) Benchmarking Analysis.

Recommendation: Receive an update regarding the Quality and Environment Management System (QEMS) Benchmarking Analysis.

Mr. John Mahoney, and Mr. Mike Brown, Tanner Pacific, reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

The Committee received the information without formal action, and noted the following:

- Valley Water is a leader in the community by incorporating Environmental Justice into its policies and practices;
- QEMS is an effective tool for Valley Water in its efforts to maintaining best industry practices; and
- Staff to return periodically to update the Committee.

4.2 Discuss Process to Follow-up on Completed Audits.

Recommendation: Discuss process to follow-up on completed audits.

Mr. Darin Taylor, Chief Financial Officer, reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

4.3 Review the Board Audit Committee's 2020 Self-Evaluation and Discuss Progress Toward Improvement Areas.

- Recommendation: A. Review the results of the 2020 Self-Evaluation; and
B. Discuss progress toward improvement areas.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

4.4 Review and Discuss the 2021 Board Audit Committee Work Plan.

- Recommendation: Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

4.5 Discuss and Approve any Updates to the Annual Audit Work Plan.

- Recommendation: Discuss and approve any updates to recommend to the full Board, if necessary.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

5. INFORMATION ITEMS:

5.1 Receive an Update on the Status of the Pacheco Reservoir Expansion Fact-Finding Investigation.

- Recommendation: Receive an update on the status of the Pacheco Reservoir Expansion fact-finding investigation.

Mr. Carlos Orellana, District Counsel, reviewed the information on this item, per the attached Board Agenda Memo.

The Committee noted the information without formal action.

5.2 Status Update on Recommendations from the Contract Change Order Audit Conducted by TAP International, Inc.

- Recommendation: A. Receive and discuss a status update on recommendations from the Contract Change Order Audit conducted by TAP International, Inc.; and
- B. Continue adoption of Contract Change Order Audit recommendations with implementation goal of Q4 2021.

Mr. Ken Wong, Deputy of General Services, reviewed the information on this item, per the attached Board Agenda Memo, and per the information contained in Attachment 1.

Motion: Approve Recommendation B.

Move to Approve: R. Santos
Second: G. Kremen
Yeas: G. Kremen, R. Santos, B. Keegan
Nays: None
Abstains: None
Recuses: None
Absent: None
Summary: 3 Yeas; 0 Nays; 0 Abstains; 0 Absent.

5.3 Updates to the Quality and Environmental Management System (QEMS) internal Audit Program.

Recommendation: Receive updates to the QEMS Internal Audit Program.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action, and staff made the following comment:

- The Internal Audit program was placed on hold due to the COVID-19 pandemic and a delay of the Benchmarking Analysis that is used to inform the Internal Audit Work Plan. With the latest Benchmarking Analysis complete, the program will be restated pending the implementation of Phase 1 improvements.

5.4 Receive an Update on the 2021 Risk Assessment.

Recommendation: Receive an update on the 2021 Risk Assessment.

Ms. Denise Callahan, TAP International, Inc., reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:

6.1 Clerk Review and Clarification of Committee Requests.

Mr. Max Overland, Assistant Deputy Clerk, read the new Committee Member Requests into the record.

7. ADJOURN:

7.1 Adjourn to Regular Meeting at 2:00 p.m., on August 18, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Chairperson Keegan adjourned the meeting at 3:00 p.m., to the 2:00 p.m. Regular Meeting on August 18, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Max Overland
Assistant Deputy Clerk II

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Santa Clara Valley Water District

File No.: 21-0738

Agenda Date: 9/15/2021
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2020.

RECOMMENDATION:

Receive and discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2020.

SUMMARY:

In 2006, Valley Water began conducting an annual Water Utility Fund Audit to assess the reasonableness of the direct and indirect cost allocations between the North County (Zone W-2) and South County (Zone W-5) zones. The audit was initiated to respond to water retailers' and constituents' inquiries on groundwater production charges.

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

Zone W-2 encompasses the Santa Clara Valley groundwater basin north of Metcalf Road. It includes those groundwater producing facilities that benefit from recharge with local and imported water. Zone W-5 comprises the entire Llagas groundwater basin from Metcalf Road south to the Pajaro River.

On April 28, 2020 the Board adopted changes to the boundaries of the existing Zones of Benefit that took effect on July 1, 2020. The 2021 WUE audit will reflect the new Zones of Benefit.

The report entitled "Water Utility Enterprise Funds of the Santa Clara Valley Water District - Annual Financial Report for the Fiscal Year Ended June 30, 2020," which encompasses the Water Utility Fund financial statements and independent auditor's opinion, is provided as Attachment 1. The report is presented in the format prescribed under Generally Accepted Accounting Principles. The report and accompanying audit opinion indicate that there were no findings. In addition, Attachment 1 includes a Schedule of Revenues and Expenses by Zone, which is also fairly stated in all material respects, in relation to the basic financial statements as a whole according to the report.

ATTACHMENTS:

Attachment 1: 2020 WUE Audit

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

**WATER UTILITY ENTERPRISE FUNDS
OF THE
Santa Clara Valley Water District
San Jose, California**

Annual Financial Report
For the Fiscal Year Ended June 30, 2020

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Annual Financial Report
For the Year Ended June 30, 2020**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Enterprise Fund and State Water Projects Fund (Funds) of the Santa Clara Valley Water District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Funds basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14, the District restated the net position of the Water Enterprise Fund related to the accounting for water inventory. The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements as a whole. The Schedule of Revenue and Expenses by Zone, as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Schedule of Revenue and Expenses by Zone is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenue and Expenses by Zone is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2021, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Pleasant Hill, California
August 16, 2021

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WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Valley Water's Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds financial activities for the fiscal year ended June 30, 2020. This information is presented in conjunction with the audited financial statements that follow this section.

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

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

The District engaged Maze and Associates to conduct the audit of the District's Funds for the fiscal year ended June 30, 2020. The purpose of the audit was to analyze the reasonableness of the allocations of cost and revenue between the two groundwater charge zones within the Funds, the North County zone, and the South County zone.

Overview of the Financial Statements

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

The financial statements of the Funds, as presented here, are for the District's Water Enterprise Funds activities only and do not reflect the financial position of the Valley Water as a whole. The Funds are accounted for as proprietary-type funds, where the cost of providing goods and services to the general public are financed and recovered primarily through user charges.

The following items comprise the statements of the Funds:

- *The Statement of Net Position* presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating.
- *The Statement of Revenues, Expenses and Changes in Net Position* provides information about the Funds' revenues and expenses on an accrual basis.

Management Discussion and Analysis (continued)

- *The Statement of Cash Flows* provides relevant information on the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.
- *The Notes to Basic Financial Statements* provide additional information that is essential to a better understanding of the data provided in the Funds' financial statements.

The Funds record the financial transactions in a manner similar to a private business enterprise. Operations are recorded at full accrual and accounted for to show net income or loss. The Funds are intended to be entirely or predominantly self-supported by user charges.

Financial Highlights

Water Utility Enterprise Funds Net Position (Dollars in Millions)

	2020	2019
Current and other assets	\$ 468.3	\$ 300.3
Capital assets	1,266.3	1,163.9
Other non current assets	0.1	0.3
Total assets	1,734.7	1,464.5
Deferred outflow of resources		
Deferred amount on refunding	0.6	0.4
Pension activities	20.8	20.9
OPEB activities	4.6	4.4
Total deferred outflow of resources	26.0	25.7
Current liabilities	130.3	74.4
Long-term liabilities outstanding	620.5	635.1
Total liabilities	750.8	709.5
Deferred inflow of resources		
Pension activities	4.0	4.4
OPEB activities	5.0	1.0
Total deferred inflow of resources	9.0	5.4
Net position:		
Net investment in capital assets	689.2	625.3
Restricted	84.7	71.5
Unrestricted	227.0	78.5
Total net position	\$ 1,000.9	\$ 775.3

The total net position of the Funds amounted to \$1,000.9 million at June 30, 2020. The largest portion of the Funds' net position (68.9% or \$689.2 million) reflects investment in

Management Discussion and Analysis (continued)

capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since, in general, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, increased by \$63.9 million or 10.2% from the previous fiscal year. Capital assets, net of depreciation and amortization, increased by \$102.4 million. Long term liabilities, which include related debt outstanding, went down by \$14.6 million.

New construction in progress amounted to \$122.2 million for the Funds. There were 50 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- \$59.6 - Rinconada Water Treatment Plant Reliability Improvement
- \$19.0 - 10-year Pipeline and Rehabilitation
- \$17.3 - Pacheco Reservoir Expansion Project
- \$11.6 - Anderson Dam Seismic Retrofit
- \$6.3 - Coyote Pumping Plant Warehouse
- \$3.1 - Rinconada Water Treatment Plant Residuals Remediation
- \$1.0 - Dam Safety Seismic Stability

Net position categorized as "unrestricted" may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position of \$227.0 million represents an increase of \$148.5 million or 189.2% when compared to the prior fiscal year.

Starting fiscal year 2020, the Valley Water's Board of Directors decided to record stored water as inventory. The \$148.5 million increase in unrestricted net position in fiscal year 2020 was mainly from the \$134.4 million of water inventory recognized at fiscal year-end.

Management Discussion and Analysis (continued)

Water Utility Enterprise Funds Change in Net Position (Dollars in Millions)

	2020	2019
Revenues:		
Ground water charges	\$ 112.6	\$ 81.9
Treated water charges	152.6	144.0
Surface and recycled water charges	1.7	1.8
Operating grants	3.7	2.7
Capital grants and contributions	4.3	1.1
Property taxes	30.2	30.5
Investment income	8.8	8.1
Miscellaneous	2.7	1.9
Total revenues	316.6	272.0
Expenses:		
Operating expenses	203.3	198.0
Nonoperating and other expenses	19.4	18.6
Total expenses	222.7	216.6
Change in net position before transfers	93.9	55.4
Transfers	(1.5)	(2.7)
Change in net position	92.4	52.7
Net position, beginning	775.3	722.6
Prior period adjustment - beg. water inventory	133.2	-
Net position, ending	\$ 1,000.9	\$ 775.3

Net position of the Funds of \$1,000.9 million increased by \$225.6 million when compared to the prior fiscal year. Total revenues and expenses of \$316.6 million and \$222.7 million, respectively, less net transfers out of \$1.5 million, added \$92.4 million to net position. A prior period adjustment to recognize water inventory starting fiscal year 2020 added \$133.2 million to the final net position balance.

Compared to the prior fiscal year, total revenues and expenses increased by \$44.6 million and \$6.1 million, respectively. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water charge revenues were \$39.2 million or 17.2% higher than last fiscal year. Groundwater and treated water revenues were up \$30.7 million and \$8.6 million, respectively. Groundwater volume was up versus prior year, and both revenue sources experienced higher water rates.
- Operating grants and contributions increased \$1.0 million over the prior fiscal year as more reimbursements were received from the City of San Jose for its cost share payment of the Advanced Water Treatment Facility Integration agreement.
- Capital grants and contributions increased \$3.2 million compared to the last fiscal year as more capital costs reimbursements from the Department of Water Resources and the California Water Commission were received for flood management programs.

Management Discussion and Analysis (continued)

- Water enterprise expenses increased by \$5.3 million or 2.7% over the prior fiscal year due to increased costs for purchased water, equipment repair and replacement, utilities, and other technical services.

Water Utility Enterprise Funds Schedule of Revenues and Expenses (Budgetary Basis) (Dollars in Millions)

	North County		South County		Total	
	2020	2019	2020	2019	2020	2019
Operating revenues:						
Ground water charges	97.4	69.2	15.2	12.7	112.6	81.9
Treated water charges	152.6	144.0	-	-	152.6	144.0
Surfaced and recycled water charges	1.1	1.1	0.7	0.7	1.8	1.8
Total water charges	251.1	214.3	15.9	13.4	267.0	227.7
Other	0.2	-	-	-	0.2	-
Total operating revenues	251.3	214.3	15.9	13.4	267.2	227.7
Operating expenses:						
Source of supply	77.4	73.9	10.7	9.2	88.1	83.1
Water treatment	37.4	37.6	0.3	0.4	37.7	38.0
Transmission and distribution:						
Raw water	9.8	12.7	3.3	4.4	13.1	17.1
Treated water	1.7	1.5	-	-	1.7	1.5
Cost of goods sold	126.3	125.7	14.3	14.0	140.6	139.7
Administration and general	20.5	20.8	4.2	4.2	24.7	25.0
Capital cost recovery	(5.6)	(5.5)	5.6	5.5	-	-
Total operating expenses	141.2	141.0	24.1	23.7	165.3	164.7
Operating income (loss)	110.1	73.3	(8.2)	(10.3)	101.9	63.0
Non-operating income (expenses):						
Property taxes	27.1	27.4	3.1	3.0	30.2	30.4
Investment income	8.8	8.1	-	-	8.8	8.1
Operating grants	3.7	2.8	-	-	3.7	2.8
Rental income	0.1	-	-	-	0.1	-
Other	2.2	1.6	0.2	0.2	2.4	1.8
Interest/fiscal agent fees	(19.4)	(18.6)	-	-	(19.4)	(18.6)
Open space credit transfer	(7.0)	(7.4)	7.0	7.4	-	-
Interest earned credit	(0.3)	(0.3)	0.3	0.3	-	-
Net non-operating income	15.2	13.6	10.6	10.9	25.8	24.5
Net income (loss)	125.3	86.9	2.4	0.6	127.7	87.5

Management Discussion and Analysis (continued)

Budgetary basis discussion:

- The Funds' total operating revenues were \$267.2 million during the current fiscal year. 94.0 percent of those revenues, or \$251.3 million were related to the North County, while the remaining 6.0 percent or \$15.9 million were related to the South County.
- Operating expenses for the North County include \$126.3 million in cost of goods sold, or 50.3 percent of its total operating revenues. For the South County, cost of goods sold is \$14.3 million or 89.9 percent of its total operating revenues.
- Administration and general expenses were \$20.5 million or 8.2 percent of total operating revenues for the North County and \$4.2 million or 26.4 percent of total operating revenues for the South County.
- Total operating revenues of \$267.2 million, less total operating expenses of \$165.3 million, netted \$101.9 million of income from operations. The North County registered a net operating gain of \$110.1 million, while the South County incurred a loss of \$8.2 million.

Income from operations was supplemented with property tax, operating grants, and investment earnings totaling \$42.7 million.

- Property taxes collected in the North County amounted to \$27.1 million, while \$3.1 million were collected in South County for a total of \$30.2 million. These are comprised of the voter approved obligations for State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.
- Operating grants applied for and received amounted to \$3.7 million, all coming from the North County. These grants helped to fund water conservation, landscape water efficiency, raw water field maintenance and operations, and recycled/reclaimed water programs.
- Current fiscal year investment earnings of \$8.8 million were up by \$0.7 million when compared to the \$8.1 million earned during the previous fiscal year.

Management Discussion and Analysis (continued)

The following table shows the rates for water services for fiscal year 2020

Water Utility Enterprise Funds Rate Summary

	Rate
<u>Groundwater</u>	
North County – Agricultural	\$ 28.86
North County – Non-Agricultural	1,374.00
South County – Agricultural	28.86
South County – Non-Agricultural	481.00
 <u>Treated Water</u>	
Contract (Scheduled) ⁽²⁾	1,474.00
Non-Contract ⁽³⁾	1,574.00
 <u>Surface Water (Basic User Charge)</u>	
North County – Agricultural	28.86
North County – Non-Agricultural	1,374.00
South County – Agricultural	28.86
South County – Non-Agricultural	481.00
Water Master ⁽¹⁾	37.50
 <u>Minimum Surface Water Charge</u>	
North County – Non-Agricultural	1,030.50
South County – Non-Agricultural	360.75
North County – Agricultural	21.65
South County – Agricultural	21.65
 <u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	56.25
Gilroy Reclamation Facility – Non-Agricultural	461.00

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

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

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

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, amounts to \$1.26 billion at June 30, 2020. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, and construction in progress. Capital assets for the current fiscal year went up \$102.4 million or 8.8%.

Management Discussion and Analysis (continued)

A fiscal year comparative breakdown of the categories of capital assets for the Funds is shown below.

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

	2020	2019
Land	\$ 20.0	\$ 19.2
Easements	0.2	0.2
Contract water and storage rights	38.5	40.9
Buildings	84.9	80.8
Structures and improvements	623.8	618.4
Equipment	5.0	4.7
Intangible software	0.1	0.1
Construction in progress	493.8	399.6
Total	\$ 1,266.3	\$ 1,163.9

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

Debt Administration

The Funds' total long-term debts at June 30, 2020 amount to \$637.6 million. A comparative breakdown of its long-term debts is shown below:

Water Utility Enterprise Funds Outstanding Debt Obligations
(Dollars in Millions)

	2020	2019
Bonds payable	\$ 458.0	\$ 470.8
Compensated absences	6.3	5.3
Net pension liability	100.6	94.5
Semitropic water banking	10.0	10.0
Other post employment benefits	25.7	32.0
Bond discount	-	(0.1)
Premium on bond issue	37.0	38.6
Total	\$ 637.6	\$ 651.1

Total long-term debts decreased by \$13.5 million during the current fiscal year. Bonds payable, inclusive of premium and discounts, went down \$14.3 million with the refunding of the 2007B certificate of participation bonds. Liabilities related to compensated absences went up by \$1.0.

Management Discussion and Analysis (continued)

The increase in pension liability of \$6.1 million was offset by the decrease in other post-employment (OPEB) liabilities of \$6.3 million.

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

Next Year's Budgets

Valley Water's \$609.5 million budget for fiscal year 2021 will focus on the following work plan strategies:

- Actively pursue new water storage opportunities
- Actively participate in decisions regarding the California Delta Conveyance
- Lead Recycled and Purified Water Efforts with committed partners
- Engage and educate the community, elected officials and staff on future water supply strategies in Santa Clara County
- Advance Anderson Dam Seismic Retrofit Project
- Protect and maintain existing assets and infrastructure
- Pursue opportunities to improve internal capacity to acquire regulatory permits
- Attain net positive impact on the environment when implementing flood protection and water supply projects
- Promote the protection of creeks, bay, and other aquatic ecosystems from threats of pollution and degradation
- Continue the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Address future impacts of climate change to Valley Water's mission and operations
- Advance diversity and inclusion
- Maintain appropriate staffing levels and expertise
- Provide affordable and cost-effective level of services

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors of the North and South Counties with a general overview of the Funds' finances and to demonstrate accountability for the money that the Funds receive. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.

Basic Financial Statements

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Statement of Net Position
June 30, 2020
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments (Note 3)	\$ 271.2	\$ 17.0	\$ 288.2
Receivables:			
Accounts	38.6	-	38.6
Taxes	-	0.1	0.1
Inventory - water (Note 1(d))	134.4	-	134.4
Deposits and other assets	7.0	-	7.0
Total current assets	<u>451.2</u>	<u>17.1</u>	<u>468.3</u>
Non current assets:			
Restricted cash and investments (Note 3)	0.1	-	0.1
Capital assets: (Note 6)			
Contract water rights, net	23.4	15.1	38.5
Depreciable, net	713.8	-	713.8
Nondepreciable	514.0	-	514.0
Total non current assets	<u>1,251.3</u>	<u>15.1</u>	<u>1,266.4</u>
Total assets	<u>1,702.5</u>	<u>32.2</u>	<u>1,734.7</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	0.6	-	0.6
Deferred outflows of resources - pension activities (Note 10)	20.8	-	20.8
Deferred outflows of resources - OPEB (Note 11)	4.6	-	4.6
Total deferred outflows of resources	<u>26.0</u>	<u>-</u>	<u>26.0</u>
LIABILITIES			
Current liabilities:			
Accounts payable	31.7	0.3	32.0
Accrued liabilities	1.8	-	1.8
Commercial paper (Note 7)	72.7	-	72.7
Deposits payable	6.7	-	6.7
Bonds payable - current (Note 7)	15.7	-	15.7
Compensated absence	1.4	-	1.4
Total current liabilities	<u>130.0</u>	<u>0.3</u>	<u>130.3</u>
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	479.4	-	479.4
Compensated absence	4.9	-	4.9
Net pension liability (Note 10)	100.6	-	100.6
Other post employment benefits liability (Note 11)	25.6	-	25.6
Other Debt	10.0	-	10.0
Total non current liabilities	<u>620.5</u>	<u>-</u>	<u>620.5</u>
Total liabilities	<u>750.5</u>	<u>0.3</u>	<u>750.8</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 10)	4.0	-	4.0
Deferred inflows of resources - OPEB (Note 11)	5.0	-	5.0
Total deferred inflows of resources	<u>9.0</u>	<u>-</u>	<u>9.0</u>
NET POSITION (Note 9)			
Net investment in capital assets	674.1	15.1	689.2
Restricted			
Cash with fiscal agents	0.1	-	0.1
San Felipe operations	3.3	-	3.3
GP5 reserve	6.6	-	6.6
State water projects	-	16.8	16.8
Rate stabilization	23.5	-	23.5
Public-private partnership	8.0	-	8.0
Advance water purification	1.3	-	1.3
Supplemental water supply	15.1	-	15.1
Drought reserve	10.0	-	10.0
Unrestricted	<u>227.0</u>	<u>-</u>	<u>227.0</u>
Total net position	<u>\$ 969.0</u>	<u>\$ 31.9</u>	<u>\$ 1,000.9</u>

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total
Operating revenues:			
Ground water production charges	\$ 112.6	\$ -	\$ 112.6
Treated water charges	152.6	-	152.6
Surface and recycled water revenue	1.7	-	1.7
Other	0.2	-	0.2
Total operating revenues	<u>267.1</u>	<u>-</u>	<u>267.1</u>
Operating expenses:			
Sources of supply	64.1	21.8	85.9
Water treatment	38.5	-	38.5
Transmission and distribution:			
Raw water	14.0	-	14.0
Treated water	1.7	-	1.7
Administration and general	32.0	-	32.0
Depreciation and amortization	30.3	0.9	31.2
Total operating expenses	<u>180.6</u>	<u>22.7</u>	<u>203.3</u>
Operating income (loss)	<u>86.5</u>	<u>(22.7)</u>	<u>63.8</u>
Nonoperating revenues (expenses):			
Property taxes (Note 8)	8.4	21.8	30.2
Investment income (Note 5)	8.8	-	8.8
Operating grants	3.7	-	3.7
Rental income	0.1	-	0.1
Other	1.0	1.4	2.4
Interest and fiscal agent fees	(19.4)	-	(19.4)
Net nonoperating revenues	<u>2.6</u>	<u>23.2</u>	<u>25.8</u>
Income before capital contributions and transfers	89.1	0.5	89.6
Capital contributions (Note 4)	4.3	-	4.3
Transfers in from District (Note 13)	1.1	-	1.1
Transfers out to District (Note 13)	(2.6)	-	(2.6)
Change in net position	<u>91.9</u>	<u>0.5</u>	<u>92.4</u>
Net position, beginning of year	743.9	31.4	775.3
Prior period adjustment			
Inventory, beginning of the year	133.2	-	133.2
Net position, beginning of year, as restated (Note 14)	<u>877.1</u>	<u>31.4</u>	<u>908.5</u>
Net position, end of year	<u>\$ 969.0</u>	<u>\$ 31.9</u>	<u>\$ 1,000.9</u>

See accompanying notes to basic financial statements.

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT**

Statement of Cash Flows
For the Year Ended June 30, 2020
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 252.9	\$ -	\$ 252.9
Payments to suppliers	(48.2)	(26.3)	(74.5)
Payments to employees	(88.3)	-	(88.3)
Net cash provided by (used for) operating activities	<u>116.4</u>	<u>(26.3)</u>	<u>90.1</u>
Cash flows from noncapital financing activities:			
Property taxes received	8.7	22.4	31.1
Operating grants	3.7	-	3.7
Other receipts	1.0	1.4	2.4
Transfers in from other funds	1.1	-	1.1
Net cash provided by noncapital financing activities	<u>14.5</u>	<u>23.8</u>	<u>38.3</u>
Cash flows from capital and related financing activities:			
Issuances/(payments) of COP/revenue bonds	(14.4)	-	(14.4)
Issuances/(payments) of commercial papers	52.7	-	52.7
Capital grants	4.3	-	4.3
Interest and fiscal agent fees paid	(19.4)	-	(19.4)
Payment for contract water rights	(10.0)	-	(10.0)
Acquisition and construction of capital assets	(123.6)	-	(123.6)
Transfers out - capital project reimbursements	(2.6)	-	(2.6)
Net cash used by capital and related financing activities	<u>(113.0)</u>	<u>-</u>	<u>(113.0)</u>
Cash flows from investing activities:			
Proceeds from sale/(purchase) of investments	0.1	-	0.1
Rental income received	0.1	-	0.1
Interest received on cash and investments	8.8	-	8.8
Net cash provided by investing activities	<u>9.0</u>	<u>-</u>	<u>9.0</u>
Net increase/(decrease) in cash and cash equivalents	<u>26.9</u>	<u>(2.5)</u>	<u>24.4</u>
Cash and cash equivalents, beginning of year	244.3	19.5	263.8
Cash and cash equivalents, end of year	<u>\$ 271.2</u>	<u>\$ 17.0</u>	<u>\$ 288.2</u>
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	\$ 271.2	\$ 17.0	\$ 288.2
Restricted cash and investments	0.1	-	0.1
Less cash and investments not meeting the definition of cash equivalents	(0.1)	-	(0.1)
Cash and cash equivalents, end of year	<u>\$ 271.2</u>	<u>\$ 17.0</u>	<u>\$ 288.2</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 86.5	\$ (22.7)	\$ 63.8
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, amortization and asset deletion	30.3	0.9	31.2
Change in operating assets and liabilities:			
(Increase)/decrease in deposits and other assets	2.8	-	2.8
(Increase)/decrease in inventory - water	(1.2)	-	(1.2)
(Increase)/decrease in accounts receivable	(13.0)	-	(13.0)
Increase/(decrease) in accounts payable	14.7	(4.5)	10.2
Increase/(decrease) in accrued liabilities	(3.7)	-	(3.7)
Increase/(decrease) in deferred revenues	(1.2)	-	(1.2)
Increase/(decrease) in compensated absences	0.9	-	0.9
Increase/(decrease) in deposits payable	(2.8)	-	(2.8)
Increase/(decrease) in other post employment benefits payable	(6.3)	-	(6.3)
Increase/(decrease) in deferred outflow/inflow of resources	3.4	-	3.4
Increase/(decrease) in pension liabilities	6.0	-	6.0
Net cash provided (used) by operating activities	<u>\$ 116.4</u>	<u>\$ (26.3)</u>	<u>\$ 90.1</u>

See accompanying notes to basic financial statements.

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County.

Valley Water is governed by a seven-member Board of Directors (District Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the board of Valley Water by requiring the board to transition to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. The board also would be required to adopt a resolution establishing boundaries of the seven electoral districts. On May 14, 2010, the Board of Directors adopted a resolution that officially set the boundaries of the seven electoral districts. In November 2010, two directors were elected to represent the new electoral districts constituting a new board of seven members. As required by state law, Valley Water must redraw its boundaries to reflect 2010 Census results. On October 11, 2011, the Board of Directors adopted Resolution No. 11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

Valley Water has broad powers relating to all aspects of flood control and storm waters within Valley Water, whether or not such waters have their sources within Valley Water. It is also authorized to store and distribute water for use within its jurisdictional boundaries and authorized to provide sufficient water for present or future beneficial use of the lands and inhabitants of Valley Water. Valley Water acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. Valley Water also directly supports the caring for the environment and the community through careful stewardship.

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

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Fund Financial Statements

The Water Enterprise Fund and the State Water Project Fund (the Funds) financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The Funds are included as part of Valley Water's Comprehensive Annual Financial Report. Therefore, the financial statements of the Funds do not purport to represent the financial position and changes in financial position of Valley Water as a whole.

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

(b) Basis of Accounting

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

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

(c) Cash and Investments

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

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

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

(d) Inventory

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

Starting fiscal year 2020, the Valley Water's Board of Directors decided to record stored water as inventory. Water inventory is listed as a separate line item on the financial statements.

The component of water inventory as of the end of the current fiscal year is shown below. Water inventory is valued based on the rolling average of imported water purchase cost.

<u>Type</u>	<u>Acre Feet</u>		<u>Total (in millions)</u>
	<u>Unit Cost</u>	<u>Volume</u>	
Semitropic ground water bank reserves	\$331	344,662	\$ 114.1
Local reservoir storage	331	61,462	20.3
Total			\$ 134.4

(e) Capital Assets

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

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The estimated useful lives are as follows:

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

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

(f) Amortization of Contract Water Rights

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

(g) Amortization of Water Banking Rights

Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Funds have capitalized the cost of the program and amortizes the cost over the 40-year entitlement period using the straight-line method.

(h) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The Funds capitalized the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

(i) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. For the current fiscal year, the allowance balance was \$5.9 million. At the end of every fiscal year, a review of outstanding receivables results in the recalculation of the bad debt allowance where delinquent balances greater than 3 years are assigned a weight of

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance.

(j) Accrued Vacation and Sick Leave Pay

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

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

(k) Bond Premiums, Discounts and Issuance Costs

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

On the statement of net position and the statement of revenues, expenses, and changes in net position, premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt obligation. Debt payable are reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

Valley Water employs encumbrance accounting as a significant aspect of budgetary control. Under encumbrance accounting, purchase orders, contracts and other expenditure commitments are recorded as assignment of net position since they are not treated as current expenditures or outstanding liabilities at year end for GAAP financial reporting.

(m) Net Position

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

(n) Estimates

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

(o) Pensions

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019

(p) Other Post Employment Benefits (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019

(q) Fair Value Measurement

Valley Water has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. Valley Water categorizes

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are observable inputs (other than quoted marked prices) using matrix pricing based on the securities relationship to benchmark quoted prices; and Level 3 inputs are significant unobservable inputs.

(r) Deferred Outflows and Inflows of Resources

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

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

(s) New Pronouncements

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

Current Accounting Pronouncement:

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objective of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. This pronouncement is not applicable to Valley Water.

Future Accounting Pronouncements:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or fiscal year 2020. Valley Water has implemented this GASB standard.

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or fiscal year 2021. Valley Water has not determined the impact of this pronouncement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or fiscal year 2022. Valley Water has not determined the impact of this pronouncement on the financial statements.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS

The Funds pool their cash and investments with Valley Water. The pool balance at June 30, 2020 is as follows (in millions):

Statement of Net Position:	
Cash and investments	\$ 716.0
Restricted cash and investments	5.6
Statement of Fiduciary Net Position:	
Cash and investments	0.2
	<u>\$ 721.8</u>

Investments

At June 30, 2020, cash and investments based on fair market value consist of the following (in millions):

U.S. Government Agencies	\$ 300.7
U.S. Treasury Obligations	25.9
Medium Term Notes	18.6
Local Agency Investment Fund	75.0
Mutual Funds	0.1
Supranational Obligations	10.3
Municipal Bonds	65.5
Negotiable Certificates of Deposit	1.2
Time Certificates of Deposit	172.5
Money Market Funds	47.7
Total Investments	<u>\$ 717.5</u>
Carrying amount of cash	4.3
Total Cash and Investments	<u>\$ 721.8</u>

As of June 30, 2020, the fair value of Valley Water's investment in the State investment pool (LAIF) was \$75.0 million in non-restricted cash. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Authorized Investments by Valley Water

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

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

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

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

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

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B and 2019C, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

As of June 30, 2020, the amount invested in assets held by fiscal agent amounted to \$5.4 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2020, the total balance of the taxable and the tax-exempt commercial paper certificate accounts held by fiscal agent is \$0.1 million. Both account balances were cash transfers from Valley Water to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Authorized Investments by Debt Agreements

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

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

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

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

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

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

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

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

(G) Any investment approved in writing by the Certificate Insurer.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Interest Rate Risk

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

Information about the sensitivity of the fair value of Valley Water's investments to market interest rate fluctuations is provided by the following table that shows the distribution to Valley Water's investments by maturity or earliest call date (in millions).

	<u>Total</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
U.S. Government Agencies	\$ 238.9	\$ 65.1	\$ 57.9	\$ 115.9
U.S. Government Agencies - Callable	61.8	-	-	61.8
U.S. Treasury Obligations	25.9	8.1	9.3	8.5
Medium Term Notes	6.1	3.0	-	3.1
Medium Term Notes - Callable	12.4	2.0	3.1	7.3
Local Agency Investment Fund	75.0	75.0	-	-
Mutual Funds	0.1	0.1	-	-
Supranational Obligations	10.4	7.1	-	3.3
Municipal Bonds	64.1	9.2	7.8	47.1
Municipal Bonds - Callable	1.5	-	-	1.5
Negotiable Certificates of Deposit	1.2	0.7	-	0.5
Time Certificate of Deposit	172.4	172.4	-	-
Money Market Funds	47.7	47.7	-	-
Total Investments	<u>\$ 717.5</u>	<u>\$ 390.4</u>	<u>\$ 78.1</u>	<u>\$ 249.0</u>

Credit Risk

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

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The following table shows the minimum rating required by the California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2020 for each investment type as provided by Standard and Poor's (in millions):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end				Not Rated
				AAA	AA+	AA	AA-	
U.S. Government Agencies	\$ 300.7	AA-	\$ 300.7	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Obligations	25.9	AA-	25.9	-	-	-	-	-
Medium Term Notes	18.6	AA-	-	10.3	5.2	-	-	3.1
Local Agency Investment Fund	75.0	N/A	-	-	-	-	-	75.0
Mutual Funds	0.1	AAA	-	0.1	-	-	-	-
Supranational Obligations	10.4	AA	-	10.4	-	-	-	-
Municipal Bonds	65.5	AA-	-	9.2	22.0	31.1	3.2	-
Negotiable Certificates of Deposit	1.2	AA-	-	-	-	-	-	1.2
Time Certificates of Deposit	172.4	N/A	-	-	-	-	-	172.4
Money Market Funds	47.7	N/A	-	-	-	-	-	47.7
Total Investments	\$ 717.5		\$ 326.6	\$30.0	\$ 27.2	\$ 31.1	\$ 3.2	\$ 299.4

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2020, those investments consisted of the following (in millions):

Issuer	Investment Type	Reported Amount
Government-wide		
Federal Home Loan Bank	U.S. Government Agency	\$ 105.6
Federal Farm Credit Bank	U.S. Government Agency	107.9
Federal Home Loan Mortgage Corp.	U.S. Government Agency	40.9
Federal National Mortgage Association	U.S. Government Agency	42.3

Custodial Credit Risk

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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

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

Fair Market Value Measurement and Application

Valley Water measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as shown below:

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

Shown below is a summary of the fair value hierarchy of Valley Water's investment at fair value on June 30, 2020 (in millions):

	6/30/2020	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	\$ 300.7	\$ 300.7	\$ -	\$ -
U.S. Treasury Obligations	25.9	25.9	-	-
Medium Term Notes	18.6	-	18.6	-
Mutual Funds	0.1	-	0.1	-
Supranational Obligations	10.4	-	10.4	-
Municipal Bonds	65.5	-	65.5	-
Negotiable Certificates of Deposit	1.2	-	1.2	-
Time Certificates of Deposit	172.4	-	172.4	-
Subtotal - Leveled Investments	<u>594.8</u>	<u>326.6</u>	<u>268.2</u>	<u>-</u>
Local Agency Investment Fund	75.0	-	-	75.0
Money Market Funds	47.7	-	-	47.7
Subtotal - Uncategorized	<u>122.7</u>	<u>-</u>	<u>-</u>	<u>122.7</u>
Total Investments	<u>\$ 717.5</u>	<u>\$ 326.6</u>	<u>\$ 268.2</u>	<u>\$ 122.7</u>

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Deposits and withdrawals in the State Investment Pool are made on the basis of \$1 and are not using fair value. Accordingly, Valley Water’s investments of \$75.0 million in LAIF at June 30, 2020 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

NOTE 4 - REIMBURSEMENT OF CAPITAL COSTS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table is a summary of the reimbursements made during fiscal year 2020 (in millions):

Local Agencies:		<u>Amount</u>
San Benito County Water District	\$	0.3
State Agencies:		
Department of Water Resources		2.8
California Water Commission		0.7
Other:		
Apple		<u>0.5</u>
Total	\$	<u><u>4.3</u></u>

NOTE 5 - INVESTMENT INCOME

Valley Water earns interest income from the investment of cash. Generally accepted accounting principles, as discussed in GASB 31, require reporting investment at fair value in the financial statements. Because of this requirement, interest income earned from investing activity during the current fiscal year is adjusted upwards or downwards to reflect the change in fair value of investment.

The following represents the investment income as reported in the financial statements of the Funds, the current year GASB 31 fair value adjustment, and the unadjusted investment income at June 30, 2020 (in millions):

Investment Income as Reported	Current Year GASB 31 Fair Value Adjustment	Investment Income Before Adjustment
<u>\$ 8.8</u>	<u>\$ 3.3</u>	<u>\$ 5.5</u>

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows (in millions):

	Beginning Balance	Additions	Deletions	Transfers / Reclassified	Ending Balance
Nondepreciable capital assets:					
Land	19.2	0.8	-	-	20.0
Intangible - Easement	0.2	-	-	-	0.2
Construction in progress	399.6	122.2	-	(28.0)	493.8
Total nondepreciable capital assets	<u>419.0</u>	<u>123.0</u>	<u>-</u>	<u>(28.0)</u>	<u>514.0</u>
Depreciable capital assets:					
Contract water and storage rights	216.6	10.0	-	-	226.6
Buildings	91.0	-	-	6.2	97.2
Structures and improvements	918.7	-	-	20.8	939.5
Equipment	28.3	0.6	-	1.0	29.9
Total depreciable capital assets	<u>1,254.6</u>	<u>10.6</u>	<u>-</u>	<u>28.0</u>	<u>1,293.2</u>
Less accumulated depreciation and amortization					
Contract water and storage rights	(175.7)	(12.4)	-	-	(188.1)
Buildings	(10.2)	(2.1)	-	-	(12.3)
Structures and improvements	(300.3)	(15.5)	-	-	(315.8)
Equipment:	(23.5)	(1.2)	-	-	(24.7)
Total accumulated depreciation and amortization	<u>(509.7)</u>	<u>(31.2)</u>	<u>-</u>	<u>-</u>	<u>(540.9)</u>
Net depreciable capital assets	<u>744.9</u>	<u>(20.6)</u>	<u>-</u>	<u>28.0</u>	<u>752.3</u>
Total capital assets, net	<u><u>1,163.9</u></u>	<u><u>102.4</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,266.3</u></u>

New construction in progress amounted to \$122.2 million. There were 50 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$59.6 - Rinconada Water Treatment Plant Reliability Improvement
- \$19.0 - 10-year Pipeline and Rehabilitation
- \$17.3 - Pacheco Reservoir Expansion Project
- \$11.6 - Anderson Dam Seismic Retrofit
- \$6.3 - Coyote Pumping Plant Warehouse
- \$3.1 - Rinconada Water Treatment Plant Residuals Remediation
- \$1.0 - Dam Safety Seismic Stability

Depreciation and amortization expense for the fiscal year amounted to \$ 31.2 million.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7 - SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

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

On May 15, 2012, the Valley Water Board authorized the execution and delivery of certain agreements in connection with the commercial paper program in an aggregate principal amount not to exceed \$100.0 million.

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

On April 22, 2020, Valley Water issued \$17.7 million of Tax Exempt and \$25.0 million of Taxable commercial paper to reimburse Water Utility capital project costs incurred between May 2019 and February 2020. On June 25, 2020, Valley Water issued \$10.0 million of Taxable commercial paper to prefund Water Utility costs incurred in March 2020 and in the future.

As of June 30, 2020, outstanding commercial paper was \$102.7 million, consisting of \$30.0 million issued through the PFFC for the benefit of the Safe, Clean Water Program and \$72.7 million issued through the PFFC for the benefit of the Water Utility Enterprise.

Commercial paper activity for the year ended June 30, 2020 was as follows (in millions):

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	\$ 150.0	\$ 50.0
Additions	-	52.7
Ending balance	\$ 150.0	\$ 102.7

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

(b) Long-term liabilities

The long-term liabilities outstanding at the end of current fiscal year for the Funds consisted of the following (in millions):

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>All-in True Interest Cost*</u>	<u>Authorized and Issued</u>	<u>June 30, 2020</u>	<u>Due Within One Year</u>
2006B Water revenue bond	2035	5.39%	\$ 25.6	\$ 17.3	\$ 0.9
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	49.6	1.9
2019A Water revenue bond	2049	3.75%	15.2	15.0	0.2
2019B Water revenue bond	2049	3.81%	80.0	78.4	1.7
2019C Water revenue bond	2036	2.76%	38.3	37.0	1.9
2016C Water revenue COP bond	2029	2.13%	43.1	34.9	3.3
2016D Water revenue COP bond	2029	3.14%	55.0	44.3	4.2
Bond premium				37.0	1.6
Compensated absences				6.3	1.4
Net pension liability				100.6	-
Other post employment liability				25.7	-
Semitropic water banking agreement	2035		46.9	10.0	-
Total enterprise funds debt				<u>\$ 637.6</u>	<u>\$ 17.1</u>

* All-in true interest cost represents the total cost of a bond financing, taking account any accrued interest, original issue premium or discount and costs of issuance.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The following is a summary of changes in long-term liabilities for the current fiscal year (in millions):

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Due Within One Year
2006B Water revenue bonds	\$ 18.1	\$ -	\$ (0.8)	\$ 17.3	\$ 0.9
2016A Water revenue bonds	106.3	-	-	106.3	-
2016B Water revenue bonds	75.2	-	-	75.2	-
2017A Water revenue bonds	51.4	-	(1.8)	49.6	1.9
2019A Water revenue bonds	15.2	-	(0.2)	15.0	0.2
2019B Water revenue bonds	80.0	-	(1.6)	78.4	1.7
2019C Water revenue bonds	-	38.3	(1.3)	37.0	1.9
2007B Water revenue COP	38.0	-	(38.0)	-	-
2016C Water revenue COP	38.0	-	(3.1)	34.9	3.3
2016D Water revenue COP	48.4	-	(4.1)	44.3	4.2
Bond discount on refunding	(0.1)	0.1	-	-	-
Premium on debt issuance	38.6	-	(1.6)	37.0	1.6
Compensated absences	5.4	4.6	(3.7)	6.3	1.4
Net pension liability (See Note 11)	94.6	6.0	-	100.6	-
Other post employment benefits (See Note 12)	32.0	-	(6.3)	25.7	-
Semitropic water banking agreement (See Note 15)	10.0	-	-	10.0	-
Total business-type activity long-term liabilities	\$ 651.1	\$ 49.0	\$ (62.5)	\$ 637.6	\$ 17.1

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The aggregate maturities of long-term debt are as follows (in millions):

Description	Year Ending June 30	Principal	Interest and amortization
Bonds payable	2021	\$ 14.1	\$ 19.5
	2022	14.8	19.1
	2023	15.3	18.5
	2024	15.9	18.0
	2025	16.4	17.4
	2026 - 2030	93.9	76.6
	2031 - 2035	95.4	55.7
	2036 - 2040	76.2	35.7
	2041 - 2045	82.1	18.8
	2046 - 2050	33.9	2.7
Total bonds payable requirements		458.0	\$ 282.0
Compensated absence		6.3	
Premium		37.0	
OPEB		25.7	
Pension		100.6	
Semitropic water banking agreement		10.0	
Total outstanding non-current at June 30, 2020		\$ 637.6	

The following provides a brief description of the Funds' outstanding debt and long-term liabilities as of June 30, 2020:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued \$99.8 million of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The proceeds of \$57.4 million of the 2006A and 2006B Bonds were used to refinance \$55.3 million of the remaining 2000A and 2000B and the proceeds of \$42.4 million of 2006A and 2006B were used to repay approximately \$40.9 million of commercial paper notes. In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, Valley Water issued \$181.5 million of Water Systems Refunding Revenue Bonds comprising of Series 2016A for \$106.3 million and Taxable Series B for \$75.2 million, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay \$73.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

repay \$75.0 million of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues.

2017A Water System Refunding Revenue Bonds

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

2019A/B Water Systems Refunding Revenue Bonds

In April 2019, Valley Water issued \$95.3 million of Water System Refunding Revenue Bonds to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Parity Master Resolution (16-10).

2019C Water Systems Refunding Revenue Bonds

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

2007B Water Utility Revenue Certificates of Participation

In October 2007, Valley Water issued \$131.0 million of Water Utility Revenue Certificates of Participation, Series 2007A and Taxable Series 2007B, to be executed and delivered through the PFFC. The proceeds of the 2007A and 2007B COPs were used to finance capital construction projects in the Water Utility Enterprise. A 2007A Debt Service Reserve Fund was funded for the 2007A and 2007B COPs by purchasing a surety. The 2007A issuance was \$77.3 million fixed rate COPs with a 30-year maturity. The 2007B issuance of \$53.7 million are floating rate COPs based on the three-month LIBOR rate plus 32 basis points with a 30-year maturity. The 2007A and 2007B COPs are payable from 2007 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). The 2007A COPs were refunded by the 2017A Water System Refunding Revenue Bonds in May 2017. The 2007B COPs were refunded by the 2019C Water System Refunding Revenue Bonds in November 2019.

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

2016C/D Water Utility Revenue Certificates of Participation

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

Semitropic Water Banking Agreement

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. At June 30, 2020, Valley Water has \$10.0 million outstanding liability related to water storage and banking rights.

Compensated Absences

Compensated absences are paid out of the general fund as an employee benefit expense in the year the expense is realized and are charged to the different funds as part of the direct benefit rate. The compensated absences liability for the year is recognized in Valley Water's various enterprise funds and on the governmental activities column in the statement of net position.

(c) Other Debt Related Information

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

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

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

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

Valley Water has pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$458.0 million in long-term debt outstanding as of June 30, 2020, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. Total principal outstanding and interest costs remaining to be paid on the combined debt is \$740.0 million.

NOTE 8 - PROPERTY TAXES AND BENEFIT ASSESSMENTS

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

Property tax revenues recorded for the year ended June 30, 2020 are as follow (in millions):

	<u>Amount</u>
Property taxes:	
1% tax allocation	\$ 8.4
Voter approved indebtedness:	
State Water Project Fund	<u>21.8</u>
Total property taxes	<u><u>\$ 30.2</u></u>

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The County of Santa Clara (County) is responsible for the assessment, collection, and apportionment of property taxes for Valley Water. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). Valley Water is responsible for determining the amount of benefit assessment, special parcel tax, and State Water Project Debt Service. Secured property taxes and benefit assessments are each payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if still unpaid on August 31.

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

NOTE 9 - NET POSITION

The Funds financial statements utilize a net position presentation. Net position is categorized as follows:

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

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

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The following table shows the breakdown of the Funds' net position at June 30, 2020 (in millions):

	Water Enterprise Fund	State Water Projects Fund	Total
Net investment in capital assets	\$ 674.1	\$ 15.1	\$ 689.2
Restricted Net Position			
San Felipe Emergency Reserve	3.3	-	3.3
Cash on hand with fiscal agent	0.1	-	0.1
GP5 reserve	6.6	-	6.6
Rate Stabilization	23.5	-	23.5
Public-private partnership	8.0	-	8.0
WUE SVAWPC reserve	1.3	-	1.3
Supplemental Water Supply Reserve	15.1	-	15.1
Drought Reserve	10.0	-	10.0
State Water Projects	-	16.8	16.8
Total restricted net position	<u>67.9</u>	<u>16.8</u>	<u>84.7</u>
Unrestricted Net Position			
Operating & Capital Contingencies	48.7	-	48.7
Water inventory	134.4	-	134.4
Currently Authorized Projects	39.2	-	39.2
Market Valuation	4.9	-	4.9
Encumbrances	108.5	-	108.5
Net Pension Liability	(76.5)	-	(76.5)
Net Other Post Employment Benefit Liability	(32.2)	-	(32.2)
Total unrestricted net position	<u>227.0</u>	<u>-</u>	<u>227.0</u>
Net Position	<u>\$ 969.0</u>	<u>\$ 31.9</u>	<u>\$ 1,000.9</u>

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 10 - EMPLOYEES' RETIREMENT PLAN

Plan Description

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Prior to	3/19/2012 to	On or after
Hire date	3/19/2012	12/31/2012	1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 2.0%*	7.0% + 3.0%*	6.75% + 1.0%
Required employer contribution rates	10.276% plus \$15.3 million prepayment for prior unfunded service cost		

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

Employees Covered – As of the most recent CalPERS annual valuation report, dated June 30, 2020, the following employees were covered by the benefit terms of the Plan:

**WATER UTILITY ENTERPRISE FUNDS OF
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Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Inactive employees or beneficiaries currently receiving	814
Active employees	752

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2020, contributions to the plan were \$28.3 million. Valley Water is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All funds with payroll charges contribute to the actuarially determined contribution.

Net Pension Liability

Valley Water's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return ⁽¹⁾	7.375%
Mortality rate table ⁽²⁾	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% unit purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

⁽¹⁾Net of pension plan investment and administrative expenses; includes inflation

⁽²⁾The mortality rate table was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuarial Scale BB.

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65% to 7.15%. The Experience Study can be obtained at CalPERS' website under "Forms and Publications".

Change in Assumptions

Inflation Rate

For the measurement date of June 30, 2019, the inflation rate was 2.75%.

Discount Rate

The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled on all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above, adjusted to account for assumed administrative expenses.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class ⁽¹⁾	Current Strategic Allocation	Real Rates of Return Years 1-10 ⁽²⁾	Real Rates of Return Years 11+ ⁽³⁾
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

⁽¹⁾ In the CalPERS CAFR, Fixed Income is included in Global Debt Securities, Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities

⁽²⁾ An expected inflation of 2.00% used for this period.

⁽³⁾ An expected inflation of 2.92% used for this period.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period (in millions):

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning balance	\$813.7	\$593.8	\$219.8
Changes recognized for the Measurement Period:			
Service cost	16.5	-	16.5
Interest on total pension liability	58.3	-	58.3
Difference between expected and actual experience	13.4	-	13.4
Contribution from employer	-	26.6	(26.6)
Contribution from employees	-	7.6	(7.6)
Net investment income	-	39.3	(39.3)
Benefit payments, including refunds of employee contributions	(38.4)	(38.4)	-
Administrative expense	-	(0.4)	0.4
Net changes	49.8	34.7	15.1
Ending balance	\$863.5	\$628.5	\$234.9

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in millions):

	Discount Rate		
	-1%	Current	+1%
Plan Net Pension Liability	\$ 348.5	\$ 234.9	\$ 140.7

To present a more conservative estimate of the pension liability, applying a 3.25% discount rate, for example, would result in a pension liability of approximately \$696.5 million.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Pension Plan Fiduciary Net Position

Detailed information about Valley Water's pension plan fiduciary net position is available in separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020 (for measure period ended June 30, 2019), Valley Water recognized pension expense of \$43.6 million. As of June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in millions):

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Pension contribution subsequent to measurement date	\$ 28.3	\$ -
Change in assumptions	9.3	(4.2)
Net difference between actual and expected experience	10.0	(1.7)
Net difference between projected and actual earnings on plan investments	-	(3.3)
Total	<u>\$ 47.6</u>	<u>\$ (9.2)</u>

\$28.3 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction from the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as shown in the succeeding table.

Measurement Periods Ended June 30	Deferred Outflows(Inflows) of Resources
2020	\$11.4
2021	(4.1)
2022	2.0
2023	0.9
Total	<u>\$10.2</u>

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Benefits Provided

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
<u>Unclassified</u> At Will	Hired on or after December 30, 2006 and prior to March 1, 2007	15 years (con't) 25 years	cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years 20 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less. Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

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

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

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

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

Employees Covered – As of the most recent OPEB annual valuation report, dated June 30, 2019, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	846
Active employees	753

Contributions

On June 24, 2008, Valley Water’s Board of Directors adopted a resolution approving the agreement and election of Valley Water to prefund OPEB through CalPERS under its California Employer’s Retiree Benefit Trust (CERBT) Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. On September 9, 2008, Valley Water joined CERBT. The Board of Directors approved the reallocation of \$17.7 million from its existing reserve for the initial prefunding of the unfunded liability for the first year of reporting. Subsequent years’ funding, pursuant to the annual budget approved by the Board of Directors, was made at the beginning of each fiscal year through fiscal year 2017. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Employees’ Retirement System, P. O. Box 942703, Sacramento, CA 94229-2703.

OPEB and its contribution requirements are established by memorandum of understanding with the applicable employee bargaining units and may be amended by agreements between Valley Water and the bargaining groups. For the fiscal year ended June 30, 2020, Valley Water’s total contribution to the plan amounted to \$10.8 million. All funds with payroll charges contribute to the actuarially determined contribution.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Net OPEB Liability

Valley Water’s net OPEB liability was measured on June 30, 2019 for reporting date June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Discount Rate	7.59%
Inflation	3.00%
Salary Increases	3.25%
Investment Rate of Return	7.59%
Mortality Rate	Derived from the CalPERS study of Miscellaneous Public Agency experience
Pre-retirement Turnover ⁽¹⁾	Derived from the CalPERS study of Miscellaneous Public Agency experience
Healthcare Trend Rate ⁽²⁾	5.50% grading to ultimate 4% for medical and flat 3% for dental and vision

⁽¹⁾Net of OPEB plan investment expenses, including inflation.

⁽²⁾The mortality rate table was developed based on CalPERS’ non industrial miscellaneous public agency experience study for 14 years ending June 2011.

The long-term, expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Strategy 1 Allocation	Real Rates of Return: 1-10 Years ⁽¹⁾	Real Rates of Return: 11-60 Years ⁽²⁾
Global Equity	59.0%	4.80%	5.98%
Fixed Income	25.0%	1.10%	2.62%
Global Real Estate (REITs)	8.0%	3.20%	5.00%
Treasury Inflation Protected Securities (TIPS)	5.0%	0.25%	1.46%
Commodities	3.0%	1.50%	2.87%

⁽¹⁾An expected inflation rate of 2.00% was used for this period.

⁽²⁾An expected inflation rate of 2.92% was used for this period.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Discount Rate

The discount rate of 7.59% is the expected long-term rate of return on Valley Water assets using investment strategy #1 within the CERBT. The projected cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

The following table shows the changes in net OPEB liability recognized over the measurement period (in millions):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Beginning Balance	\$ 180.8	\$ 107.5	\$ 73.3
Changes Recognized for the Measurement Period:			
Service Cost	2.6	-	2.6
Interest Cost	12.9	-	12.9
Effect of changes in actuarial assumptions loss/(gain)	(5.5)	-	(5.5)
Other Liability Experience Loss/(Gain)	(8.0)	-	(8.0)
Contributions	-	10.1	(10.1)
Benefits Payments	(10.1)	(10.1)	-
Non Benefit Related Admin Expenses from Plan Trusts	-	(0.1)	0.1
Expected Investment Return	-	7.7	(7.7)
Investment Experience (Loss)/Gain	-	(1.1)	1.1
Net Changes	(8.1)	6.5	(14.6)
Ending Balance	\$ 172.7	\$ 114.0	\$ 58.7

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of Valley Water, calculated using the current discount rate, as well as what Valley Water's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in millions):

	Discount Rate		
	-1%	Current	+1%
Net OPEB Liability	\$ 78.7	\$ 58.6	\$ 41.7

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of Valley Water, if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current rate, for measurement period ended June 30, 2019 (in millions):

	Discount Rate		
	-1%	Current	+1%
Net OPEB Liability	\$ 40.7	\$ 58.6	\$ 80.2

OPEB Plan Fiduciary Net Position

Detailed information about Valley Water’s OPEB plan fiduciary net position is available in separately issued CalPERS financial reports.

OPEB Expense and Deferred Outflow/Inflow of Resources

For the year ended June 30, 2020, Valley Water recognized OPEB credit expense of \$5.9 million. At June 30, 2020, Valley Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in millions):

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	\$ 10.7	\$ -
Changes in assumption		(4.5)
Difference between actual and expected experience	-	(6.4)
Net difference between projected and actual earnings on plan investment	-	(0.7)
Total	\$ 10.7	\$ (11.6)

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

\$10.7 million is reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction from the net OPEB liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in millions):

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2021	(\$3.1)
2022	(3.1)
2023	(2.5)
2024	(2.3)
2025	(0.6)
Total	<u>(\$11.6)</u>

NOTE 12 - RISK MANAGEMENT

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

Valley Water’s deductibles and maximum coverage are as follows (in thousands):

<u>Coverage Descriptions</u>	<u>Commercial Insurance Deductibles</u>	<u>Coverage</u>
General liability	\$2,000	\$50,000
Workers’ compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2020, the liability for self-insurance claims was \$7.5 million. This liability is the Valley Water’s best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Changes in the reported liability since June 30, 2020 are as follows (in millions):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2018	\$3.5	\$3.0	\$6.5
Current year premiums, incurred claims and changes in estimates	1.6	0.1	1.7
Claim payments	(0.9)	(0.3)	(1.2)
Claims payable at June 30, 2019	<u>4.2</u>	<u>2.8</u>	<u>7.0</u>
Current year premiums, incurred claims and changes in estimates	1.0	0.3	1.3
Claim payments	(0.7)	(0.1)	(0.8)
Claims payable at June 30, 2020	<u>4.5</u>	<u>\$ 3.0</u>	<u>\$ 7.5</u>
Current Portion	<u>\$1.5</u>	<u>\$0.6</u>	<u>\$2.1</u>

NOTE 13 - TRANSFERS IN AND OUT BETWEEN VALLEY WATER

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) move debt proceeds held in the construction fund to the funds incurring the construction expense.

The Funds received \$1.1 million and sent out \$2.6 million of transfers in the current fiscal year for a net transfer out of \$1.5 million.

- \$0.5 million and \$0.6 million were transferred from the General Fund and Watershed Fund, respectively, to the Water and Enterprise Fund for the Open Space credit.
- \$0.1 million was transferred from the Water Enterprise Fund to the Watershed and Stream Stewardship Fund to help pay for the Safe Clean Water Renewal efforts.
- \$2.5 million were transferred from the Water Enterprise Fund to the Information Technology Fund to fund capital projects.

**WATER UTILITY ENTERPRISE FUNDS OF
VALLEY WATER**

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Details of the interfund transfers for the current fiscal year are as follows (in millions):

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	Amount Transferred
Water Enterprise Fund	General Fund	\$ 0.5
Water Enterprise Fund	Watershed & Stream Stewardship	0.6
Total Transfer In		<u>\$ 1.1</u>
Watershed & Stream Stewardship	Water Utility Enterprise Fund	\$ 0.1
Information Technology Fund	Water Utility Enterprise Fund	2.5
Total Transfer Out		<u>\$ 2.6</u>

NOTE 14 - PRIOR PERIOD ADJUSTMENT

Starting fiscal year 2020, Valley Water's Board of Directors decided to record stored water as inventory. The impact of the implementation on the beginning net position is as follows:

	<u>(Dollars in Millions)</u>
Net Position	
Beginning balance	\$ 775.3
Inventory adjustment	133.2
Beginning balance, restated	<u>\$ 908.5</u>

NOTE 15 - COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2020, the Funds have open purchase commitments of approximately \$108.5 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

Valley Water has contracted with the U.S. Department of the Interior (USDI) for water deliveries from the Central Valley Project. The contract requires Valley Water to operate and maintain Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities of the USDI.

During fiscal year 2017, Valley Water amended this contract. The amended contract provided for compliance with the Central Valley Project Improvement Act and converted the repayment of the San Felipe Division facilities from a water service contract to a repayment contract with fixed semi-annual payments. The semi-annual payments for January 2007 through July 2016 are \$7.5 million. The semi-annual payments starting January 2017 is \$7.7 million. The

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

amended contract preserved the attributes of a water service contract for other Central Valley Project costs.

The total commitment, including applicable interest, of the repayment contract was \$431.9 million. The remaining commitment as of June 30, 2020 was \$210.4 million.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

As of June 30, 2020, Valley Water has paid \$49.8 million towards the base fee obligation of this agreement. Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2020 rate to retrieve Tier 1 water is \$73.49 per acre-feet. During the first 10 years, Valley Water had a reservation for the full 35 percent allocation; by January 1, 2006, if Valley Water's contributions towards the program capital costs did not equal \$46.9 million, Valley Water's permanent storage allocation would have been reduced. Valley Water decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

Valley Water currently has a storage allocation of 350,000 acre-feet. As of June 30, 2020, Valley Water has 344,662 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of \$28.7 million has been recorded through fiscal year 2020. Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies.

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

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

The financial impact to Valley Water includes funding the local salt removal facility in the amount of \$16.0 million, which may be sourced as a component of the Expedited Purified

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

Water Program. Valley Water will also pay \$0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay \$1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for water charge related revenues. Timing of such payments is still to be determined.

NOTE 16 - CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, co-defendant, or cross-defendant in court cases in which money damages are sought. Discussed below are all pending litigations that Valley Water is aware of which are significant and may have a potentially impact on the financial statements.

Great Oaks Water Company v. Santa Clara Valley Water District

In 2005, Great Oaks Water Company (hereinafter "Great Oaks") filed an administrative claim alleging that Valley Water's groundwater charges for 2005-06 violated the law and sought a partial refund. After its claim was deemed denied, Great Oaks filed a lawsuit alleging, among other things, that Valley Water's groundwater production charges violated Proposition 218 (which added Article XIII D to the California Constitution), because proceeds are used to fund projects and services that benefit the general public, not just ratepayers (*Great Oaks Water Company v. Santa Clara Valley Water District*, Santa Clara County Superior Court Case No. 2005-CV-053142; Cal. Court of Appeals Case Nos. HO35260 and HO35885; Cal. Supreme Court No. S231846 (the "Great Oaks Case"). Great Oaks also alleged that the groundwater production charges violated the Law. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the trial court issued a Judgment After Trial in the Great Oaks case, ruling that Valley Water owed Great Oaks a refund of groundwater charges of approximately \$4.6 million plus interest at 7% per annum. The award of pre-judgment interest amounted to approximately \$1.3 million, and the court awarded post-judgment interest of \$886.62 per day. Valley Water appealed this decision to the California Court of Appeal for the Sixth Appellate District (the "Court of Appeal"). During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, Valley Water recorded a liability in the amount of the judgment plus interest. After the favorable judgment by the Court of Appeal in 2015, discussed below, Valley Water reversed its prior total recorded liability in the aggregate amount of \$7.4million in its audited financial statements for Fiscal Year 2017.

In 2015, the Court of Appeal reversed in full the judgment of the trial court. The Court of Appeal found that Valley Water's groundwater production charges did not violate Proposition 218 or the Law. Great Oaks petitioned the California Supreme Court to review the Court of Appeal's ruling, and the Supreme Court granted its petition. The case was placed on hold pending the California Supreme Court's decision in a similar case, *City of Buenaventura v. United Water Conservation District* ("UWCD"). In late 2017, the California Supreme Court issued its opinion in the UWCD case, finding that Proposition 218 does not apply to groundwater charges, but that Article XIII C of the California Constitution does apply. The

WATER UTILITY ENTERPRISE FUNDS OF VALLEY WATER

Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Supreme Court vacated the Court of Appeal's decision and remanded the Great Oaks case for reconsideration in light of its UWCD opinion. On November 8, 2018, the Court of Appeal reaffirmed its 2015 decision. The Court of Appeal declined to consider Great Oaks' request to consider whether Valley Water's groundwater production charges violated Article XIII C of the California Constitution, as this cause of action had never been considered by the trial court. This case was remanded to the trial court for further proceedings in February 2019.

While the 2005 Great Oaks case was pending, Great Oaks filed additional annual claims and additional annual lawsuits challenging Valley Water's groundwater production charges for each year after 2005, continuing through the present. Great Oaks' subsequent, similar lawsuits were stayed pending resolution of its 2005 case. (Santa Clara Superior Court Case Nos. 2007-CV-087884; 2008-CV-119465; 2008-CV-123064; 2009-CV-146018; 2010-CV-178947; 2011-CV-205462; 2012-CV-228340; 2013-CV-249349; 2015-CV-281385; 2016-CV-292097; 2017-CV-308140; and 2018-CV-327641). In addition, in 2011 Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club filed a similar refund action, making similar claims (Santa Clara Superior Court Case No. 2011-CV-195879). Other water retailers including San Jose Water Company and the cities of Morgan Hill, Gilroy and Santa Clara, and the Los Altos Golf and Country Club and Stanford University, dispute Valley Water's groundwater charges and entered into tolling agreements with Valley Water pending the final decision in the Great Oaks Case. In 2019, Valley Water filed a collection action against Shatto Corporation for failure to pay groundwater charges from 2009 to 2014 and associated penalties and interest. Valley Water estimates that the amount due is approximately \$1.0 million. Shatto Corporation filed a cross-complaint, alleging that Valley Water's groundwater charges violate Article XIII C of the California Constitution (Santa Clara Superior Court Case No. 2019-CV-348413).

Once the Great Oaks Case was remanded to the trial court in February 2019, the court lifted the stay over Great Oaks' subsequently filed cases, as well as the case brought by Shatto Corporation, Mike Rawitser Golf Shop, and Santa Teresa Golf Club. At the request of the trial court, in order to streamline resolution of the remaining issues this litigation and related litigation, the parties stipulated and agreed to the filing of a new, omnibus complaint. On June 12, 2020, the proposed omnibus "Master Complaint" of plaintiffs Great Oaks and Shatto Corporation was approved for filing and filed under Santa Clara Superior Court Case No. 2011-CV-205462. Great Oaks alleges that Valley Water's groundwater production charges violate Proposition 26, and that Valley Water does not levy or collect groundwater charges from agricultural pumpers but instead uses property taxes to pay these charges. See Note (17) Subsequent Events, regarding Valley Water's settlement with Shatto Corporation.

In the event that a court rules that Valley Water's groundwater production charges violate Proposition 26, such a ruling could materially impact Valley Water's rate revenue and finances.

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Flooding in the City of San Jose

Following a series of storms, a flood event occurred on the Coyote Creek in San Jose, California on or about February 21, 2017. The Coyote Creek is approximately 42 miles long and is the longest creek in the County. In the southern portion of the County, Valley Water owns and maintains the Leroy Anderson Dam and Reservoir along the Coyote Creek near Morgan Hill, California. The Anderson Dam is upstream from the City of San Jose. After the reservoir reached capacity, water began going over the Anderson Dam spillway on February 18, 2017. The spillover volume peaked on the morning of February 21, 2017, increasing flows on Coyote Creek. Beginning on or about February 21, 2017, certain residential and non-residential areas of San Jose along Coyote Creek experienced flooding due to rising water levels in the creek. Thousands of residents were temporarily evacuated, and numerous properties experienced flood damage. Such flood water receded within a short period of time after February 21, 2017.

As of the date of this Official Statement, Valley Water has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of \$10.0 million; however, Valley Water cannot predict the final amount of any proven damages. Many of the claimants are also seeking recovery from the City of San Jose; therefore, a portion of the aggregate stated value of the claims may be apportioned to the City of San Jose.

A number of claimants have filed lawsuits in Santa Clara County Superior Court against Valley Water and the City of San Jose alleging damage from the Coyote Creek flood event. Currently, 20 lawsuits have been filed and 19 are pending against Valley Water relating to the flood event (one case was dismissed). Valley Water is evaluating all of such claims and lawsuits and cannot predict the outcomes or financial impacts of these or any future claims and lawsuits with respect to the Coyote flood event. Valley Water intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek. Valley Water has filed a motion to remove all 19 pending cases from the State Superior Court to federal court. A hearing on the removal motion has been set for September 1, 2020.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, Valley Water settled 162 of such claims in September 2019 at a total cost of approximately \$0.7 million.

On September 30, 2020, Pacific Gas & Electric Corporation filed a civil action against Valley Water claiming personal property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

On or about June 14, 2018, San Jose Unified School District filed a civil action against Valley Water claiming property damages as a result of flooding resulting from a series of storms occurring on or about February 21, 2017.

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(b) Grants and Subventions

Valley Water has received federal and state grants for specific purposes that are subject to review and audit. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

(c) Central Valley Project

On June 7, 1977, Valley Water entered into a contract with the U.S. Bureau of Reclamation for water service from the San Felipe Division of the Federal Central Valley Project (CVP). The CVP water service provides for both agricultural operation and maintenance (O&M) and municipal and industrial (M&I) water deliveries to Valley Water up to a total maximum annual entitlement of 152,500 acre-feet per year. The contract specified initial water rates for O&M and M&I water service and provided for periodic adjustments for the respective water rates in accordance with prevailing CVP water rate policies commencing in the year 1993 for the in-basin M&I rate component; 1996 for the agricultural O&M rate component; 2001 for the full agricultural water rate; and 2008 for the out-of-basin M&I rate component. The methodology of CVP water rate setting has historically recovered current year operating costs and the applicable construction costs over 50 years.

In compliance with the Central Valley Improvement Act (CVPIA), Valley Water entered into negotiations, along with all other CVP contractors, with the U.S. Bureau of Reclamation for contract renewal. Because of concerns related to litigation challenging the renewal process, Valley Water entered into an amended contract. The amendment maintained the basic provisions of the original contract, implemented provisions of CVPIA, and allowed the establishment of a fixed repayment for the San Felipe Division facilities.

(d) Perchlorate

In 2003, perchlorate released from the Olin Corporation facility at Tennant Avenue in Morgan Hill was discovered in groundwater in much of the Llagas Subbasin in South County, impacting many water supply wells. The investigation and clean-up of the contamination are under the jurisdiction of the Central Coast Regional Water Quality Control Board. Due to ongoing remediation by Olin and managed recharge by Valley Water, both the plume size and number of wells impacted have been reduced. As of June 2019, perchlorate was present above the Maximum Contaminant Level (MCL) in fewer than 10 domestic water supply wells. As of June 2020, perchlorate is present above the MCL in fewer than 5 domestic water supply wells. The perchlorate plume exceeding the MCL extends south from the Tennant Avenue site for about 3 miles. Olin's remedial efforts have included on-site soil removal and groundwater treatment as well as off-site plume remediation. Since this issue is no longer of legal significance, it will not be reported in next year's Comprehensive Annual Financial Report.

(e) Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a \$179.9 million construction contract to Balfour Beatty Infrastructure, Inc. ("Balfour Beatty") for the Rinconada Water Treatment Plant (WTP) Reliability Improvement Project. Phase 2 of such project includes the construction of several new facilities for the upgraded treatment system at the Rinconada WTP, including

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Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

flocculation/sedimentation, ozone generation, and washwater recover facilities. Such project also includes the installation of an electrical control building and appurtenant wiring and control systems, significant underground piping, and installation of chemical feed systems.

Valley Water's contract with Balfour Beatty provided for the project to be built in five phases within a 5-year period. The existing Rinconada WTP is to remain operational during the entire construction period, with the newly constructed facilities and upgrades integrated with plant operations at the end of each phase.

Balfour Beatty's current estimated completion date of Phase 2 work is more than two years later than originally provided in the construction schedule. Valley Water advised Balfour Beatty of Valley Water's concerns regarding quality of construction work, the failure to comprehensively remedy construction defects, and Balfour Beatty's lack of diligence to ensure progress is made in a timely manner. On March 10, 2020, Valley Water and Balfour Beatty entered into an amendment to their original construction contract ("Amendment One") pursuant to which the scope of work was reduced such that Balfour Beatty only responsible for completing Phase 2 of the project and not the later phases, as originally agreed upon. Amendment One reduced the contract amount by approximately \$39.8 million. Balfour Beatty Infrastructure Inc. has completed the scope of work described in Amendment One. On January 12, 2021, Valley Water accepted the work as complete and will submit the Notice of Completion for recording with the County of Santa Clara Clerk/Recorder. As a result of Valley Water's delay in accepting the completed project, Balfour Beatty filed a California Government Code Claim pursuant to section 900 et. seq. on December 7, 2020 alleging entitlement to monetary compensation for Valley Water's breach of contract and violation of Public Contract Code section 7107 relating to the timely release of contract retention, which is approximately \$7.4 million.

(f) Factors Affecting Water Supply

Valley Water has access to several sources of water, both imported and local, which provides flexibility in managing its water supplies to meet the needs of the County. Under normal water conditions, Valley Water imports about half of its water supply under contracts with the California State Water Project (SWP) and the federal CVP, and obtains the other half from local surface water and groundwater resources. Certain water retailers in the County may also import water from the San Francisco Public Utility Commission's (SFPUC) Regional Water System, have their own local surface water supplies, and/or can deliver recycled water. To address factors which may impact these water supplies, Valley Water has undertaken several planning efforts focused on identifying strategies to safeguard the reliability and sustainability of County and State-side water resources on which Valley Water relies, assessing risks from climate change, economic and regulatory uncertainties, environmental and social conflicts, and other considerations.

Valley Water completed its 2015 Urban Water Management Plan ("UWMP") on June 20, 2016 (District Resolution No. 16-50), pursuant to California Water Code Sections 10610 through 10657 (the Urban Water Management Planning Act). The Urban Water Management Planning Act requires urban water suppliers such as Valley Water to review, update, and adopt an UWMP at least every five years. Valley Water's current UWMP was prepared in coordination with water retailers (who also must prepare their own UWMPs), the County, and local cities

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and towns. Valley Water's 2015 UWMP updated water demand projections based upon increases in population and job growth to 2040 as projected by local water retailers. The 2015 UWMP also presented water supply projections and included Valley Water's Water Shortage Contingency Plan to address dry year objectives and operations. Completion of UWMP updates allows Valley Water to remain eligible for state water bank assistance and for state grant funding. The next UWMP update cycle is scheduled for development and completion by July 2021.

A key finding of the 2015 UWMP was that Valley Water must make significant investments to maintain and safeguard existing water supplies, infrastructure, and programs to ensure a reliable water supply into the future. These investments were described in Valley Water's Water Supply Master Plan 2040 approved by the Board in November 2019 (the "Water Supply Master Plan"). The Water Supply Master Plan recommends a three-prong strategy to ensure a reliable water supply through 2040: secure existing supplies and infrastructure, increase water conservation and water reuse, and optimize the use of existing supplies and infrastructure. The process of developing the Water Supply Master Plan involved evaluating groups of water supply projects and programs to achieve long-term water supply reliability targets. The preliminary 100-year lifecycle cost projections for the water supply projects and programs considered in the Water Supply Master Plan ranges from less than \$100 million to over \$1 billion and are over \$2.3 billion in the aggregate.

The impact of the implementation of the various groups of water supply projects and programs on Valley Water's water supply reliability are provided in the Water Supply Master Plan. Through a Monitoring and Assessment Program ("MAP"), Valley Water expects to continue implementation planning for the Water Supply Master Plan projects. The MAP report summarizes changes in demand forecasts, project descriptions, and water supply reliability analyses and is present to the Board annually.

The Board approved an updated long-term water supply reliability level of service goal on January 14, 2019. The goal is to develop supplies to meet at least 100 percent of annual water demand identified in the Water Supply Master Plan during non-drought years and at least 80 percent of annual water demand in drought years. The projects identified in the Water Supply Master Plan, along with the baseline supplies and infrastructure, is projected meet the water supply reliability level of service goals, even though there are small supply shortages in demand year 2030. The Water Supply Master Plan provides that such small shortages, if they materialize, will be managed by short-term water purchases rather than additional capital projects. The objectives and projects in the Water Supply Master Plan are incorporated into the Capital Improvement Program.

Endangered Species Act Issues

Valley Water's imported and local supplies are subject to regulatory restrictions due to implementation of the federal Endangered Species Act ("ESA") and the California Endangered Species Act ("CESA"). The listing of winter-run Chinook salmon in 1989 and delta smelt in 1993 resulted in pumping restrictions imposed on the State and federal water projects to protect these species. These pumping restrictions resulted in reduced deliveries from the SWP and CVP, compounding the shortages created by the on-going drought at the time. In 1993, the United States Environmental Protection Agency (the "EPA") also proposed to

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implement water quality standards for the Bay-Delta that would impose severe restrictions on the operation of the SWP and CVP. These circumstances led to the Bay-Delta Accord in 1994, in which the State and federal governments, along with urban, agricultural and environmental interests, agreed to an interim set of ESA protection measures coupled with water supply certainty. The Bay-Delta Accord laid the groundwork for the establishment of the CALFED Bay-Delta Program, which has been succeeded by a number of efforts, including the California Water Action Plan, the Delta Reform Act and Delta Plan, and the proposed Delta Conveyance Project to develop a long-term solution for conflicts in the Bay-Delta. However, there has been significant recent litigation concerning ESA and CESA issues and water moving through the Delta for export to contractors.

Various legal actions have been filed, and are anticipated to be filed, involving the conveyance of water through the Delta by DWR, via the SWP, and by USBR, via the CVP.

2019 Revised Federal Biological Opinions Litigation. Three significant lawsuits have been filed against the United States challenging as unlawful, revised biological opinions (“BOs”) issued in October 2019 by the National Marine Fisheries Service (“NMFS”) and the United States Fish and Wildlife Service (“FWS”). The State (through its natural resources agencies) filed one of these lawsuits in February 2020 (*California Natural Resources Agency, et al. v. Ross*). Another lawsuit was filed by environmental groups in December 2019 (*Pacific Coast Federation of Fishermen’s Association, et al. v. Ross*), and a third lawsuit was filed by other environmental groups, the Central Delta Water Agency and the South Delta Water Agency in May 2020, (*AquaAlliance et al. v. United States Bureau of Reclamation*). These cases have been consolidated before Judge Drozd in the United States District Court for the Eastern District of California, Case Nos. 20-cv-00431, 20-cv-00426, and 20-cv-00878.

The foregoing three lawsuits allege violation of the Administrative Procedure Act (“APA”), the ESA and the National Environmental Policy Act (“NEPA”). Such cases arise from the BOs and associated permits issued by the FWS and NMFS under the ESA for the long-term, coordinated operations of the CVP and the SWP, and USBR’s reliance upon those opinions and permits. For the last decade, the SWP and CVP operations have been controlled by a pair of BOs issued in 2008 and 2009 by FWS and NMFS, respectively, and their reasonable and prudent alternatives (“RPAs”). On August 2, 2016, the USBR and DWR requested re-initiation of consultation for coordinated long-term operations due to new information learned after multiple years of drought, low populations for listed species and new scientific information. DWR and USBR worked to refine operations of the SWP and CVP to reflect water quality regulations, existing ESA restrictions, updated hydrology, developing scientific data, and enhanced real-time monitoring capacity. In January of 2019, USBR issued a Biological Assessment that proposed a new long-term operating plan that would control through 2030. On July 1, 2019, NMFS released a draft BO that found the proposed plan would cause jeopardy and included an RPA. DWR and USBR continued to work with the FWS and NMFS to refine the proposed operations to prevent jeopardy. On October 21, 2019, NMFS and FWS issued new BOs that concluded that the long-term operations plan would not cause jeopardy. On February 19, 2020, USBR completed its NEPA review of the long-term operating plan and issued a Record of Decision adopting the October 2019 BOs.

In these cases, the State and environmental groups allege that NMFS and FWS violated the APA in reaching no jeopardy conclusions in the October 2019 BOs. The State and such

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Notes to Basic Financial Statements (Continued) For the Year Ended June 30, 2020

environmental groups also allege that USBR violated the ESA by relying on the BOs and that USBR failed to comply with NEPA in issuing its Record of Decision.

Many water agencies, districts, authorities and other government entities have either intervened in these cases or have filed motions to intervene that remain pending. These include, for example, the State Water Contractors association (“SWC”), San Luis & Delta-Mendota Water Authority, Westlands Water District, Tehama-Colusa Canal Authority, and Sacramento River Settlement Contractors.

In two cases, the State and environmental groups brought motions for a preliminary injunction seeking to prevent USBR from implementing the new long-term operations plan and asking the court to require the federal defendants to abide by the 2008 and 2009 BOs pending a determination on the merits of their claims. The Court granted the preliminary injunction for one aspect of the operations plan for a limited amount of time in May 2020 and denied the preliminary injunction for all other aspects.

Depending on the outcome of the litigation, SWP and CVP water supplies may be slightly higher or remain similar to levels from 2009 through 2019 under the 2009 biological opinion.

California Incidental Take Permit and SWP Long-Term Operations EIR Litigation. To Valley Water’s knowledge, between five to seven lawsuits have been filed against the State in three or four different Superior Courts by State and federal water contractors and by environmental groups concerning the DWR’s March 2020 Final Environmental Impact Report (“EIR”) and the California Department of Fish and Wildlife’s (“CDFW”) Incidental Take Permit (“ITP”) for the long-term operation of the SWP. Under CESA, DWR is required to obtain an ITP to minimize, avoid and mitigate impacts to threatened or endangered species, including the Delta Smelt and other fish species, as a result of SWP operations. In past years, DWR obtained coverage for SWP operations under CESA by securing a “consistency determination” from CDFW based on BOs issued by the NMFS and FWS. In 2018, as federal agencies were working to update their BOs, President Trump issued a Presidential Memorandum to accelerate their completion. In February 2019, DWR and CDFW announced that they would pursue a separate State permit to ensure the SWP’s compliance with the CESA.

In November 2019, DWR issued its draft EIR for long-term operations of the SWP. The draft EIR found that the project would have no significant environmental impacts. However, the draft EIR also discussed several project alternatives, including “Alternative 2[b]-Proposed Project with Dedicated Water for Delta Outflow from SWP.” In December 2019, DWR applied to CDFW for an ITP under the CESA. Despite the draft EIR finding of no significant impact, in its ITP application, DWR described the project in terms closer to Alternative 2b than what it had originally proposed. On March 27, 2020, DWR certified its final EIR, which adopted “Refined Alternative 2b” as the approved project. However, “Refined Alternative 2b” includes several project components that were neither described in the original project description nor in Alternative 2b. In announcing its final EIR, DWR also announced that it does not expect long-term SWP operations to result in an increase in the amount of water exported south of the Delta as compared to that under the prior 2008/2009 federal BOs. On March 31, 2020, CDFW issued an ITP consistent with the final EIR. The ITP and Final EIR will significantly limit exports in wetter years as compared to what is allowed under the 2019 revised federal

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BOs, with potential reductions of up to 400,000 acre-feet in April and May. The EIR and ITP apply only to SWP operations, not CVP operations.

In April 2020, Metropolitan Water District and Mojave Water Agency jointly filed suit against the State in Fresno Superior Court, as did the San Luis & Delta Mendota Water Authority, Friant Water Authority, and the Tehama Colusa Canal Authority. SWC and Kern County Water Agency jointly filed another lawsuit. These lawsuits allege, among other things, that the State violated CEQA or CESA by: (a) changing the project description after the draft EIR and certifying new “Refined Alternative 2b” without adequate disclosure or public comment; and (b) failing to use the best available science and requiring unnecessary and unjustified fish avoidance and mitigation measures. Metropolitan Water District and Mojave Water Agency also allege in their lawsuit that the State breached its SWP contract by agreeing to mitigation measures stronger than necessary under the CESA, reducing the amount of water that will be delivered and increasing charges. In contrast, the Sierra Club, Center for Biological Diversity and two other environmental groups jointly filed suit against the State in San Francisco Superior Court, alleging that the final EIR and ITP violate the Delta Reform Act and CEQA and do not go far enough in protecting threatened fish species. The Sierra Club, Center for Biological Diversity and the environmental groups allege that the final EIR And ITP allow too much water to be exported south of the Delta and fail to account for the cumulative impacts of SWP operations. Finally, they allege DWR violated CEQA by failing to analyze the Delta Conveyance Facility, the single tunnel project proposed by Governor Newsom. The foregoing lawsuits could be coordinated and consolidated.

The final EIR and ITP could result in less SWP water being exported south of the Delta than would otherwise be authorized under the 2019 revised federal BOs. Valley Water cannot determine at this time whether the final EIR and ITP will result in less SWP water being delivered to contractors than had been delivered for 11 years under the former (2008 and 2009) federal BOs.

Bay-Delta and Imported Water Litigation

Delta Stewardship Council Delta Plan Litigation. In 2013, the federal government, SWP contractors, including Valley Water, and several environmental groups, filed suit against the Delta Stewardship Council (“DSC”), challenging its Bay-Delta Plan. The Delta Reform Act of 2009 (“DRA”) established the co-equal goals of restoring the Bay-Delta ecosystem and increasing the reliability of Delta water supplies. The DRA also created the DSC, which was charged with developing a plan that accomplishes these goals. SWC and Valley Water allege that the Bay-Delta Plan violates the DRA because, among other things, its Regulation WR P1 provides that the DSC may reject any projects involving water moving through the Bay-Delta if local agencies do not demonstrate efforts to reduce local water demand, improve efficiency, and/or increase local water supplies. Environmental groups sued the DSC alleging that the Bay-Delta Plan violates the DRA because it does not set forth enforceable, quantified minimum water flows or other measurable objectives. The trial court held that the Bay-Delta Plan violated the DRA because it did not set forth quantified water flow objectives or other measurable limits.

In 2020, the Court of Appeal issued an opinion rejecting the arguments of both the SWP contractors and environmental groups, holding that the Bay-Delta Plan does not violate the

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DRA. The Court of Appeals rejected the SWP contractors' arguments that the Bay-Delta Plan exceeded the DSC's jurisdiction by regulating local water agencies and local water use by requiring agencies to demonstrate reduced reliance on the Delta, as well as their other arguments. The Court of Appeals also rejected the argument that the Bay-Delta Plan violates the DRA because it does not contain quantified or measurable water flow limits or targets. The Court of Appeals' decision could impact SWP contractors' ability to participate in multi-year water transfers if a SWP contractor, such as Valley Water, is unable to demonstrate reduced reliance on imported Delta water to the satisfaction of the DSC, which may require proof of local retail water agencies or purveyors showing reduced reliance on imported water. However, single-year water transfers are not impacted, as the DRA expressly exempts such transfers.

Bay-Delta Water Quality Control Plan Phase 1 Amendments Litigation. In late 2018, the SWRCB released its "Phase 1" amendments to the San Francisco Bay/Sacramento - San Joaquin Delta Estuary Water Quality Control Plan ("Bay Delta WQCP"), which addressed water quality objectives on the Lower San Joaquin River, its tributaries, and the southern Delta. Phase 2 amendments will focus on the Sacramento River, its tributaries and the northern and central Delta. Among other things, the Phase I amendments require an adaptive 30% – 50% unimpaired flow requirement on all major tributaries to the San Joaquin River, including the Tuolumne River, from which the SFPUC Hetch-Hetchy system obtains its water supplies. The SWRCB announced that it anticipates in forthcoming Phase 2 amendments concerning the Sacramento River and its tributaries and north and central Delta, that it expects to impose a higher, adaptive 45% – 65% unimpaired flow requirement.

Approximately 24 entities, including Valley Water, filed suit against the SWRCB in 13 lawsuits concerning the Phase I Bay-Delta WQCP amendments. Such lawsuits have been consolidated in Sacramento Superior Court in Case No. JCCP 5013. Several water and irrigation districts, environmental groups, the cities of San Francisco and Modesto, the United States, and one Indian tribe are plaintiffs/petitioners. The public agency plaintiffs allege that the flow requirements are arbitrary and capricious, not based on the best available science, or are too restrictive of, or alter, water rights; and the environmental groups allege they are not protective of fish enough. This consolidated litigation is in an early stage. Valley Water's expects to file a dismissal in this matter and to address the issues raised in the lawsuit through a voluntary agreement process. The Phase 1 amendments as well as the anticipated Phase 2 amendments could reduce the supply of imported water available to Valley Water, SFPUC, and other State and federal water contractors.

Litigation Relating to Monterey Amendments to SWP Contract. In late 1994, SWP contractors and DWR entered into an agreement in Monterey to substantially amend the standard SWP contract. In 1995 the first of several CEQA lawsuits challenging the "Monterey Amendments" was filed after a SWP contractor prepared an EIR for these amendments. That case settled after DWR agreed to prepare a new EIR for the Monterey Amendments, which was named the "Monterey Plus" project. In 2010, DWR certified its final Monterey Plus EIR. Central Delta Water Agency and several NGOs filed suit against DWR thereafter (Sac. Sup. Ct. Case No. 34-2010-80000561) ("*Central Delta I*"), alleging that the Monterey Plus EIR violated CEQA because it failed to provide an adequate description of the project and its impacts, failed to adequately analyze alternatives and mitigation measures, contained inadequate responses to public comments, and was not properly circulated. The plaintiffs also

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alleged that DWR's CEQA findings were not supported by substantial evidence. A related lawsuit was filed, *Rosedale-Rio Bravo Water Storage District v. DWR* (Sac. Sup. Ct. Case No. 34-2010-80000703), alleging only that the Monterey Plus EIR failed to adequately analyze the operations of the proposed Kern Water Bank). Finally, the Central Delta Water Agency filed a second, separate lawsuit challenging the validity of the transfer of the Kern Water Bank from the Kern County Water Agency to the Kern Water Bank Authority (Sac. Sup. Ct. Case No. 34-2010-80000719, "*Central Delta II*"). These three actions were ordered related and assigned to a Sacramento Superior Court Judge. *Central Delta II* has been stayed pending resolution of *Central Delta I*.

In a decision in 2014 in *Central Delta I* and *Rosedale-Rio Bravo*, the court upheld the majority of the Monterey Plus EIR. However, the court found that the Monterey Plus EIR did not sufficiently analyze or address the operation of the Kern Water Bank and issued a writ for DWR to further analyze its operations and recertify the Monterey Plus EIR. The *Central Delta I* plaintiffs appealed the rejection the CEQA claims (Ct. of App. 3d. Dist. Case No. C078249). The parties completed appellate court briefing in July of 2016. This case remains pending, as the Court of Appeal has not yet issued a decision.

As ordered by the trial court, DWR conducted further environmental review of the Kern Water Bank, and, in 2016, issued its revised EIR: "Monterey Plus — Kern Water Bank Development and Continued Use Operation." The Center for Food Safety and other NGOs (represented by *Central Delta I & II's* counsel) filed suit shortly thereafter, alleging various CEQA violations (*Center for Food Safety v. DWR*, Sac. Sup. Ct. Case No. Case No. 34-2016-800002469). The court denied all of plaintiffs' claims in an order and judgment in October 2017, and plaintiffs appealed. The parties completed appellate court briefing approximately 20 months ago, and this action is also pending in the Court of Appeal (Ct. of App. 3d Dist. Case No. C086215).

DWR SWP Contract Long-Term Extension Validation Action. DWR filed a validation action in Sacramento County Superior Court in 2018 (Sac. Sup. Ct No. 34-2018-00246183) to validate the legality of its approval of long-term extensions of all SWP contracts, including Valley Water's contract. A judgment in favor of DWR would provide that the matters contained therein are in conformity with applicable law, as set forth in such validation action. However, there can be no assurance that a court exercising equitable powers or judicial discretion would not hear an action challenging the matters set forth in such judgment. In February 2019, Valley Water filed an answer supporting DWR's allegations, as did several other SWP contractors. However, several environmental groups and counties and districts filed answers or separate actions opposing DWR's approval, asserting that the approval violates CEQA, the Public Trust Doctrine and the DRA. This case is in its initial procedural stage. All cases have been consolidated and assigned to Judge Culhane, and the administrative record is being prepared.

Oroville Spillway Environmental Damage Cases. In response to record rainfall in early 2017, DWR's Oroville Dam filled and excess water ran down its spillway (as designed). The spillway, however, failed and caused water and debris to be released, uncontrolled, into the Feather River. The District Attorney of Butte County (People of State of CA v. DWR) and other individuals and entities have filed suit for environmental damage or property damage resulting from the spillway failure. These cases have been consolidated in Sacramento

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Superior Court Case No. JCCP 4974. The Butte County District Attorney is seeking \$51.0 billion in damages (\$25k/day penalty + \$10/pound of spillway and materials discharged into river) under Cal. Fish & Game Code § 5650. Although Article 13(b) of the SWP contract provides that contractors are not liable for DWR's operation or maintenance of SWP structures or facilities before their turnouts, DWR maintains that ultimately, regardless of legal liability, all costs of the SWP system must be borne by SWP contractors rather than the general public, and thus DWR may bill contractors or raise SWP costs to recover expenditures related to this litigation (cost of litigation, settlements, damages awards/verdicts). If a judgment in this case resulted in the award in the amount of the maximum damages being sought by Butte County and it was determined that DWR could recover these costs from SWP contractors, Valley Water's share could be approximately \$1.3 billion. Valley Water cannot predict the outcome of this litigation or the damages in the event that Butte County prevails.

DWR's cost estimate for the Oroville Spillways Emergency Recovery Project is currently \$1.1 billion, but no determination has been made as to the amount for which SWP contractors will ultimately be responsible. The Federal Emergency Management Agency's ("FEMA") Public Assistance program allows for the reimbursement of up to 75 percent of eligible costs for federally declared disasters. As a result, DWR has issued debt for 25 percent of total project costs, resulting in an annual increase of about \$0.6 million to Valley Water's Statement of Charges. To date, FEMA has reimbursed DWR for approximately 50 percent of total project costs and DWR is considering appeal of this decision. If DWR is not successful in obtaining further reimbursement from FEMA and instead issues debt to be repaid by SWP contractors, Valley Water's share of project costs could increase by an additional \$0.6 million per year.

Valley Water cannot predict the outcome of these Delta-related cases. However, Valley Water believes that any new decision or order by a State or federal court related to one or more of the above-described biological opinions and leading to adverse decisions reducing State Water Project and/or Central Valley Project supplies would not have a material impact on Valley Water's ability to pay debt service on the 2020 Bonds or the Installment Payments.

**Required
Supplementary
Information**

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios
as of June 30, 2020
Last 10 Years*
(Dollars in Millions)

	2015	2016	2017	2018	2019	2020
Total pension liability						
Service cost	\$ 14.3	\$ 13.7	\$ 13.8	\$ 15.7	\$ 16.0	\$ 16.5
Interest on total pension liability	46.3	48.8	51.1	53.1	54.9	58.4
Differences between expected and actual experience	-	(0.2)	(3.2)	(4.7)	(1.4)	13.3
Changes in assumptions	-	(12.0)	-	44.3	(8.1)	-
Benefit payments, including refunds of employee contributions	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Net change in pension liability	35.6	22.5	31.3	75.9	26.1	49.8
Total pension liability, beginning	622.2	657.8	680.3	711.6	787.5	813.6
Total pension liability, ending (a)	<u>\$ 657.8</u>	<u>\$ 680.3</u>	<u>\$ 711.6</u>	<u>\$ 787.5</u>	<u>\$ 813.6</u>	<u>\$ 863.4</u>
Plan fiduciary net position						
Contributions - employer	\$ 13.8	\$ 15.2	\$ 17.0	\$ 19.0	\$ 20.1	\$ 26.6
Contributions - employee	9.0	6.2	6.6	6.6	7.0	7.6
Net investment income	75.7	11.5	2.8	56.5	47.2	39.3
Benefits payment	(25.0)	(27.8)	(30.4)	(32.5)	(35.3)	(38.4)
Administrative expense	-	(0.6)	(0.3)	(0.7)	(0.9)	(0.4)
Other miscellaneous income/(expenses)	-	-	-	-	(1.6)	-
Net change in fiduciary net position	73.5	4.5	(4.3)	48.9	36.5	34.7
Plan fiduciary net position, beginning	434.7	508.2	512.7	508.4	557.3	593.8
Plan fiduciary net position, ending (b)	<u>\$ 508.2</u>	<u>\$ 512.7</u>	<u>\$ 508.4</u>	<u>\$ 557.3</u>	<u>\$ 593.8</u>	<u>\$ 628.5</u>
Net pension liability, ending (a - b)	<u>\$ 149.6</u>	<u>\$ 167.6</u>	<u>\$ 203.2</u>	<u>\$ 230.2</u>	<u>\$ 219.8</u>	<u>\$ 234.9</u>
Plan fiduciary net position as a percentage of total pension liability	77.26%	75.36%	71.44%	70.77%	72.98%	72.79%
Covered payroll	\$ 77.9	\$ 78.0	\$ 79.6	\$ 84.1	\$ 88.5	\$ 92.1
Net pension liability as a percentage of covered payroll	192.04%	214.87%	255.28%	273.72%	248.36%	255.05%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%	7.15%

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Pension Contributions
June 30, 2020
Last 10 Years*
(Dollars in Millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 13.9	\$ 16.5	\$ 18.6	\$ 19.7	\$ 22.6	\$ 25.4
Contributions in relation to the actuarially determined contribution	<u>(13.9)</u>	<u>(16.5)</u>	<u>(18.6)</u>	<u>(19.7)</u>	<u>(26.1)</u>	<u>(29.4)</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3.5)</u>	<u>\$ (4.0)</u>
Covered payroll ⁽¹⁾	\$ 78.0	\$ 79.6	\$ 84.1	\$ 88.5	\$ 92.1	\$ 95.0
Contribution as a percentage of covered payroll	17.82%	20.73%	22.12%	22.26%	24.54%	26.74%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net pension liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 6 years are shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net OPEB Liability and Related Ratios
as of June 30, 2020
Last 10 Years*
(Dollars in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB liability			
Service cost	\$ 2.9	\$ 2.9	\$ 2.6
Interest on total OPEB liability	12.0	12.5	12.9
Changes in assumptions	-	-	(5.5)
Benefit payments	(8.5)	(8.9)	(10.1)
Other liability experience loss/(gain)	-	-	(8.0)
Net change in OPEB liability	<u>6.4</u>	<u>6.5</u>	<u>(8.1)</u>
Total OPEB liability, beginning	167.8	174.3	180.8
Total OPEB liability, ending (a)	<u>\$ 174.2</u>	<u>\$ 180.8</u>	<u>\$ 172.7</u>
 Plan fiduciary net position			
Contributions	\$ 11.5	\$ 11.9	\$ 10.1
Benefits payment	(8.5)	(8.9)	(10.1)
Net investment income	6.2	7.1	7.8
Investment return - difference between expected and actual experience	<u>2.9</u>	<u>0.8</u>	<u>(1.2)</u>
Net change in fiduciary net position	<u>12.1</u>	<u>10.9</u>	<u>6.6</u>
Plan fiduciary net position, beginning	84.5	96.6	107.5
Plan fiduciary net position, ending (b)	<u>\$ 96.6</u>	<u>\$ 107.5</u>	<u>\$ 114.1</u>
 Net OPEB liability, ending (a - b)	<u>\$ 77.6</u>	<u>\$ 73.3</u>	<u>\$ 58.6</u>
 Plan fiduciary net position as a percentage of total OPEB liability	55.45%	59.46%	66.07%
Covered payroll	\$ 79.7	\$ 84.1	\$ 88.5
Net OPEB liability as a percentage of covered payroll	97.37%	87.16%	66.21%
Discount rate	7.28%	7.28%	7.28%

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Other Post Employment Benefit Contributions
June 30, 2020
Last 10 Years*
(Dollars in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 9.5	\$ 10.2	\$ 10.8
Contributions in relation to the actuarially determined contribution	<u>(12.5)</u>	<u>(10.2)</u>	<u>(10.8)</u>
Contribution Deficiency / (Excess)	<u>\$ (3.0)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ⁽¹⁾	\$ 84.1	\$ 88.5	\$ 91.0
Contribution as a percentage of covered payroll	14.86%	11.53%	11.87%

⁽¹⁾ The covered payroll noted on this page is different from the covered payroll presented on the previous page as the previous page is payroll related to the net OPEB liability in the applicable measurement period.

The covered payroll for the current year is from the actuarial valuation study using a prior year measurement date, adjusted to the current year using a 3% increase.

* Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 3 years are shown.

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Other Information

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Valley Water District
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Santa Clara Valley Water District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District’s internal control. Accordingly, we do not express an opinion on the effectiveness of District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Maze + Associates". The signature is written in a cursive, slightly slanted style.

Pleasant Hill, California
August 16, 2021

**WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICTS**

Schedule of Revenues and Expenses

(Budgetary Basis)

For the Year Ended June 30, 2020

(Dollars In millions)

	North County	South County	Total
Operating Revenues:			
Ground Water Charges	\$ 97.4	\$ 15.2	\$ 112.6
Treated Water Charges	152.6	-	152.6
Surface and recycled water charges	1.1	0.7	1.8
Other	0.2	-	0.2
Total Operating revenues	251.3	15.9	267.2
Operating Expenses			
Sources of Supply	77.4	10.7	88.1
Water Treatment	37.4	0.3	37.7
Transmission and distribution:			
Raw Water	9.8	3.3	13.1
Treated Water	1.7	-	1.7
Administration and general	20.5	4.2	24.7
Capital Cost Recovery	(5.6)	5.6	-
Total Operating Expenses	141.2	24.1	165.3
Operating income (loss)	110.1	(8.2)	101.9
Nonoperating revenues (expenses):			
Property Taxes	27.1	3.1	30.2
Investment Income	8.8	-	8.8
Operating Grants	3.7	-	3.7
Rental Income	0.1	-	0.1
Other	2.2	0.2	2.4
Interest and fiscal agent fees	(19.4)	-	(19.4)
Open Space Credit Transfer	(7.0)	7.0	-
Interest earned credit	(0.3)	0.3	-
Net Operating revenues	15.2	10.6	25.8
Change in Net Position	\$ 125.3	\$ 2.4	\$ 127.7

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

Income (Loss)	127.7
Depreciation and amortization expenses not budgeted	(31.2)
Capital contributions	4.3
Interfund transfers	(1.5)
Reconcile GAAP to budgetary basis for operating expenses	(6.9)
Change in net position per Statement of Revenues, Expenses, and Change in Net Position	92.4



Santa Clara Valley Water District

File No.: 21-0969

Agenda Date: 9/15/2021
Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Progress Report on Implementing the Grants Management Performance Audit Recommendations.

RECOMMENDATION:

Receive information on the progress of implementing the recommendations from the Grants Management Performance Audit.

SUMMARY:

On February 17, 2021, the Board Audit Committee accepted the Grants Management Performance Audit report by TAP International's subcontractors, Greta MacDonald and Drummond Kahn. Subsequently, the Grants Management Performance Audit Report was accepted by the Board of Directors on March 23, 2021. Since then, staff has begun or continued implementing the 11 recommendations as described in the Management Response to the audit report and will provide progress updates to the Board Audit Committee semi-annually.

In the first six months, key accomplishments include the following:

- **Additional staffing resources allocated** - In May 2021, the Board approved two additional positions for the grants program for FY22, a Management Analyst II and a Staff Analyst. The Management Analyst II position was recently filled and the Staff Analyst position is currently in recruitment. These new positions will "right size" resources with the workload, as recommended in the audit report and by the Safe, Clean Water Independent Monitoring Committee.
- **Completed the Grantee Survey** - A consultant conducted an anonymous survey of grantees in July 2021. Staff will use the survey results to improve the program and plans to continue to annually collect feedback from grantees. The complete survey results are included as Attachment 1.
- **Continued to administer active grants while making improvements** - Since April 2021, 10 agreements were executed, 4 amendments were executed, 16 agreement closeouts were processed, and 21 invoices were processed. Invoices were approved for payment within 13 days, on average, after being submitted by the grantee. There are currently a total of 93 active

grants, which includes 50 standard grants, 6 partnerships, and 37 mini-grants.

- **Grantee Guide and Grants Manual** - A consultant was hired to create a Grantee Guide and a Grants Manual to outline processes and procedures for applicants, grantees, and staff. Preparation of these documents is underway and expected to be completed by June 2022.
- **Checklist to streamline CEQA review** - Staff worked with the environmental planners and other internal staff to develop and finalize a streamlined CEQA review process for common project activities that are exempt. This will significantly reduce the amount of time for Valley Water to complete the necessary CEQA review before disbursement of funds for grant projects. Since funding a project is a discretionary approval, CEQA would apply to Valley Water's approval of a grant, regardless of the grant award amount, unless a project is determined to be exempt from CEQA.
- **New Bottle Filling Station grant funding opportunity** - With the passage of Measure S, the renewed Safe, Clean Water and Natural Flood Protection Program, a new funding opportunity for bottle filling stations was approved. Staff is working with risk management, environmental planners, and other internal staff to incorporate the audit recommendations to "right size" the processes for low-risk grant projects. This effort will result in a shorter template agreement, no insurance requirements, and a streamlined CEQA review process.
- **Trainings to learn industry best practices** - The grants management team attended multiple training and professional development workshops for more in-depth understanding of best practices in the grants management industry. These opportunities included the National Grants Management Association Training (April 2021), PEAK Grantmaking conference (May 2021), and Fluxxcon (June 2021).

The 11 Grants Management Performance Audit recommendations are stated below, followed by an update on the implementation activities completed in the first six months. Five recommendations have been achieved and six recommendations are in progress.

Recommendations and Status Update

Auditor Recommendation:

1. Valley Water should consider developing clear guidelines for "right-sized" application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant:
 - a. Valley Water should develop a formal due diligence policy and perform a due diligence review for high risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee's ability to perform and assess the extent of the grantee's reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or, gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.

- b. For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee's IRS Form 990, staff should also memorialize its analysis in the grant file.
- c. For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like \$25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.

Status: In Progress

Staff is working on hiring a consultant to “right-size” the grants guidelines, develop a due diligence policy and review process, and develop a process to analyze grantee fiscal health. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.”

In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects.

Currently, the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects.

Staff is developing the new Bottle Filling Station grant funding opportunity to include a shorter agreement, fewer required reviewers and a shorter routing time, a streamlined CEQA review using a checklist, no insurance requirements, and a photo as the reporting requirement.

Auditor Recommendation:

- 2. As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.

Status: In Progress

Staff began implementing kick-off/orientation meetings with grantees after agreement execution in early FY21. During the kick-off meeting, staff review and explain all expectations and requirements as specified in the agreement, as well as provide an orientation on the Fluxx grants management system. The agreement templates for standard and mini-grants include the invoicing and reporting templates and staff contact information. Staff remain available and accessible to all grantees throughout the process. Since April 2021, staff have conducted kick-off/orientation meetings with all new standard grantees. Staff send an onboarding email to mini-grantees with the grant information as part of the award notification.

A consultant was hired to create a Grantee Guide to outline processes and procedures for applicants

and grantees. These documents are expected to be completed by June 2022.

Auditor Recommendation:

3. Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.

Status: Achieved

Staff track timeliness and monitoring of grants activities using the Grant Tracker spreadsheet. Staff have adopted and incorporated a 30-day payment deadline once an invoice is approved, which aligns with Valley Water's standard timeframe for paying invoices.

Since April 2021:

- Mini-grant applications have taken an average of 29 days from application submittal to award, and an average of 69 days from award to agreement execution. Staff is currently collaborating with other internal units on ways to reduce the agreement execution timeframe.
- Invoices have been approved for payment within 13 days after initial submittal, on average. After invoices are approved by the grants team, they are submitted to accounting to cut the check.
- Agreement closeouts have taken an average of 51 days from when the final invoices are approved to when the Agreement Status Change Request Form is signed by the Chief of External Affairs and submitted to accounting.

Staff continues to migrate active grants data, documentation, and files into the Fluxx system to more effectively utilize Fluxx's robust reporting capabilities.

Staff is using the grants tracking sheet to track the metrics internally and report them to External Affairs management monthly.

Auditor Recommendation:

4. Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.

Status: Achieved

Staff set up automatic reminders in the Fluxx grants management system to notify of upcoming expiration dates for insurance and agreement terms. Staff manually monitor grant projects by following up via email to inquire about status and if the grantee is ready to submit a report or invoice.

Auditor Recommendation:

5. In addition to right sizing invoicing requirements based on the grant's risk level, Valley Water

should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.

Status: In Progress

Staff is working with the Contracts unit to retain a consultant to “right-size” the level of progress reporting detail for smaller dollar value standard grants. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.”

Currently, the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects.

Staff is developing the new Bottle Filling Station grant funding opportunity to include a shorter agreement, fewer required reviewers and a shorter routing time, a streamlined CEQA review using a checklist, no insurance requirements, and a photo as the reporting requirement.

Auditor Recommendation:

6. Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.
 - a. For example, Valley Water could treat grant agreements up to \$25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.
 - b. Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills \$10,000 for its performance, and Valley Water questions \$500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.
 - c. Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.

Status: In Progress

Staff is working on hiring a consultant to “right-size” the grant reporting and invoicing requirements based on risk, dollar value, and project complexity, and develop processes for risk assessment and financial reporting system compliance. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.”

Staff is approving partial payment for unquestioned amounts in invoice reimbursement requests or withholding a 10 percent retention that is approved for payment after the required supporting documentation has been submitted.

Auditor Recommendation:

7. Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:
 - a. Confirm the integrity of grantee financial management system data used for review before award.
 - b. Include language in the grant agreement such as, “Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays”.

Status: In Progress

Staff is working on hiring an outside consultant to “right-size” the grant requirements for agreements and invoicing based on the grant’s risk, dollar value and project complexity.

The auditor’s suggested language has been incorporated into the agreement templates for standard grants and partnerships. Additionally, the agreements and invoice template currently require the grantee’s authorized signatory to sign the following statement upon submitting an invoice:

“I certify, under penalty of perjury under the laws of the State of California, that the Quarterly/Monthly Status Report and all attachments, signed on the date below, on behalf of Grantee, were prepared under my direction or supervision in accordance with a system designed to ensure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the loss of the current and future Grant Funding.”

Auditor Recommendation:

8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.

Status: Achieved

A consultant conducted an anonymous survey of grantees in July 2021. Staff will use the survey results to improve the program and plan to continue to collect feedback from grantees each year, using this year’s survey as a baseline to track grantee satisfaction over time. The survey results presentation is included as Attachment 2.

Auditor Recommendation:

9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be

monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.

Status: Achieved

Staff established a 60-day timeline to close out a project after the final invoice is paid in full. The closeout timeline is tracked and monitored in the grants tracking sheet, which staff reviews on a weekly basis. Since April 2021, closeouts have taken an average of 51 days from when the final invoice is approved to when the Agreement Status Change Request Form is signed by the Chief of External Affairs and submitted to accounting.

Auditor Recommendation:

10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.

Status: In Progress

A consultant was hired to work on the Grants Manual to outline processes and procedures for staff. These documents are expected to be completed by June 2022.

Auditor Recommendation:

11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:
 - a. Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.
 - b. Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants.
 - c. Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities.

- d. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.

Status: Achieved

In May 2021, two additional positions were approved by the Board as part of the budget, for the grants program for FY22, a Management Analyst II and a Staff Analyst. The Management Analyst II position was recently filled in August 2021 and the Staff Analyst position is currently in recruitment.

With the additional positions, staff has been able to take on designated roles in the grants program:

- Supervising Program Administrator (0.6 FTE) - This position oversees all aspects of the grants program, including redesigning the program under Measure S. This position leads the partnerships funding opportunity and approves invoices for payment.
- Senior Management Analyst (1.0 FTE) - This position manages the day-to-day support for the grants program. This position leads the standard grant funding opportunity, including the annual grant cycle, evaluation, agreements, amendments, monitoring, tracking, and reporting.
- Management Analyst II (1.0 FTE) - This position leads the mini-grant funding opportunity, including applications, evaluation, award, monitoring, tracking, and reporting.
- Management Analyst II (0.6 FTE) - This position supports all aspects of the grants program, including agreements, amendments, invoicing, and closeouts. This position leads the grants communications and outreach activities and reporting.
- Staff Analyst (1.0 FTE) - Upon hiring, this position will lead the new Bottle Filling Station funding opportunity, including applications, evaluation, award, agreements, monitoring, tracking, and reporting. This position will manage the grants inbox, filing and data in the Fluxx grants management system.

The grants team meets weekly to ensure sufficient cross-training on all grants management tasks and active items to ensure cohesive customer service to all grantees.

The grants team has identified individual training opportunities through the Valley Water annual goal setting process to continue learning industry best practices and expand knowledge of grants management. Staff will continue to look towards these industry best practices to continually improve upon the recommendations set forth in the audit report.

ATTACHMENTS:

Attachment 1: PowerPoint

Attachment 2: Grantee Survey Results

UNCLASSIFIED MANAGER:

Marta Lugo, 408-630-2237



Valley Water

Clean Water • Healthy Environment • Flood Protection



Safe, Clean Water Grants Management Performance Audit Progress Report

Board Audit Committee
September 15, 2021

Key Accomplishments

- Additional staffing resources allocated.
- Completed the Grantee Survey.
- Continued to administer active grants while making improvements.
- Grantee Guide and Grants Manual underway.
- Checklist to streamline CEQA review.
- New Bottle Filling Station grant funding opportunity.
- Trainings to learn industry best practices.

#1: “Right-sizing” and Fiscal Review

In Progress

4

- Hiring a consultant to “right-size” the grants program.
- Mini-grants – Only reporting requirement is final project fact sheet. No supporting documentation. Insurance waiver option for low-risk projects.
- New Bottle Filling Stations – Brief application form. Shorter agreement with fewer reviewers. Streamlined CEQA checklist. No insurance requirements.

#2: Grantee Orientation and Guide

In Progress

5

- Implemented kick-off/orientation meetings.
- Grantee Guide underway with consultant.

#3: Reporting and Tracking

Achieved

6

- Tracking timeliness and monitoring using the Grant Tracker spreadsheet.
- Mini-grants – Awarded within 29 days, on average, and executed agreement within 69 days, on average.
- Invoices – Adopted a 30-day payment deadline. Approved payment within 13 days, on average.
- Closeouts – Completed within an average of 51 days.

#4: Monitoring

Achieved

7

- Set up automatic reminders in the Fluxx grants management system to notify of upcoming expiration dates for insurance and agreement terms.

#5: “Right-size” Reporting Requirements

In Progress

8

- Hiring a consultant to “right-size” the grants program.
- Mini-Grants – Only requirement is a final project fact sheet. No receipts or other documentation is required for invoice.
- New Bottle Filling Stations – No insurance requirements. Photo is the only reporting requirement.

#6: Base Requirements on Risk

In Progress

9

- Hiring a consultant to “right-size” the grants program.
- Implemented insurance waiver option for low-risk mini-grant projects.

#7: Financial Review of Grantees

In Progress

10

- Hiring a consultant to “right-size” the grants program, including a process to analyze grantee’s financial health.
- Added auditor’s recommended language to the agreement and invoice templates.

#8: Grantee Feedback

Achieved

11

- Completed an anonymous survey of grantees by an independent, third-party in July 2021.
- Results will be used to improve the grants program and serve as a baseline to track feedback over time.
- Survey will be conducted annually moving forward.

#9: Closeout Timeliness

Achieved

12

- Established a 60-day timeline to closeout a project after the final invoice is paid.
- Closeouts have taken an average of 51 days.

#10: Grants Manual

In Progress

13

- Grants Manual is underway with consultant. Projected completion date by June 2022.

#11: Job Assignments

Achieved

14

- Board approved two positions for the grants team.
- Established designated roles amongst the grants team members.
- Continue cross-training grants staff on all aspects of grants management.
- Individual training opportunities identified through the annual goal setting process.

What's Next

- Hire and onboard new staff.
- Hire consultant to redesign grants program.
- Continue to implement industry best practices.
- Launch new Bottle Filling Station grant opportunity.
- Implement CEQA checklist to streamline review.
- Continue to develop Grantee Guide and Grants Manual.
- Develop outreach strategy, including working with the REDI Office to reach disadvantaged communities.

QUESTIONS



Santa Clara Valley Water District Grants Survey Results Presentation

September 2021



Market and Opinion Research



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Washington DC
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Santa Clara Valley Water District Grants Survey

Survey Methodology*

From Tuesday, July 20, 2021 to Tuesday, July 27, 2021, Probolsky Research conducted a survey among Santa Clara Valley Water District Grants Program participants.

A total of 65 grants program participants were surveyed online and by phone. We invited participation via email and text message and called those who did not respond online. Security measures precluded individuals from completing the survey more than once and allowed only the designated respondents to complete the survey. Online respondents were able to use their computer, tablet or smart phone to participate.

Our sample was developed from the Santa Clara Valley Water District Grants Program database.

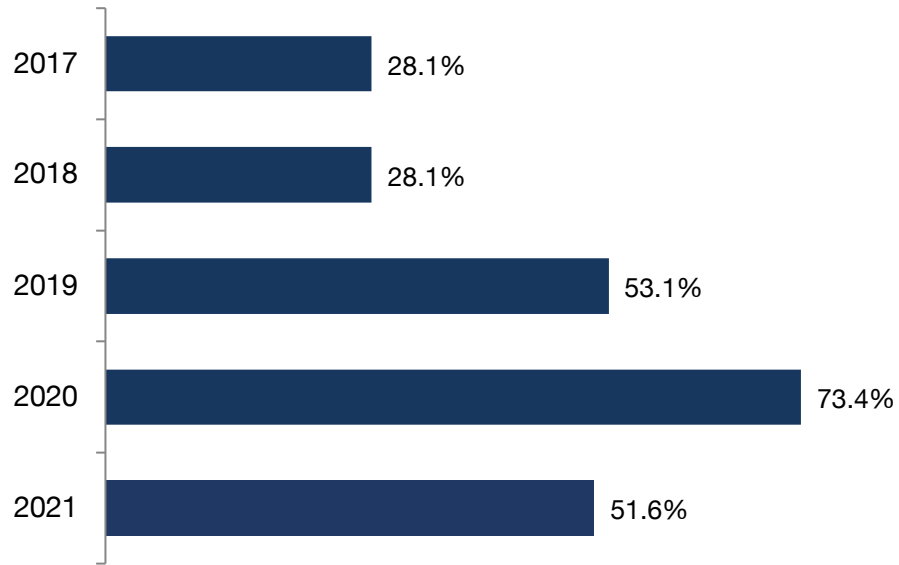
Probolsky Research is a Latina and woman owned market and opinion research firm with corporate, election, government, and non-profit clients.



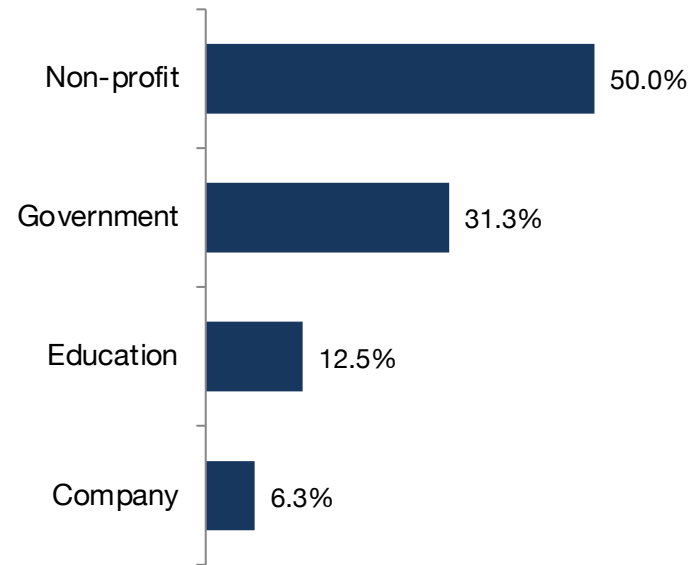
**Due to rounding, totals shown on charts may not add up to 100%*

Respondent demographics by years with grants experience, organization type and grant type

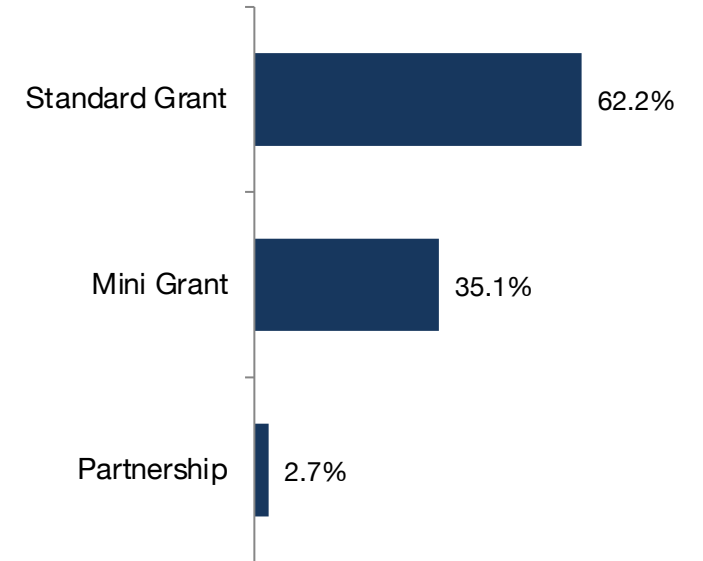
Years with Grants experience



Organization type

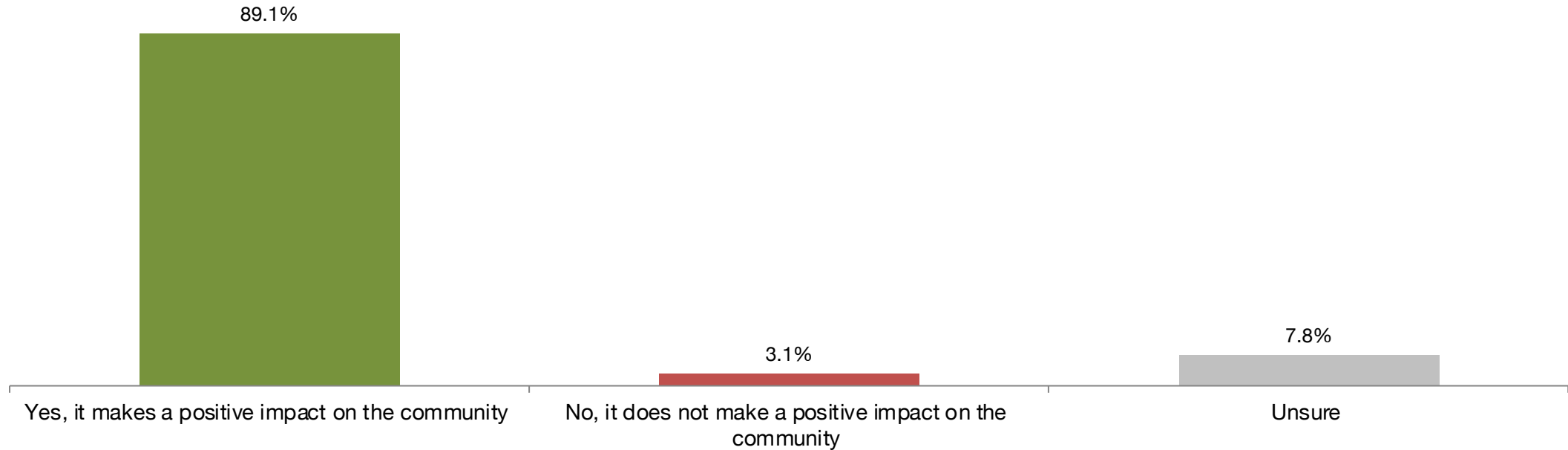


Grant type



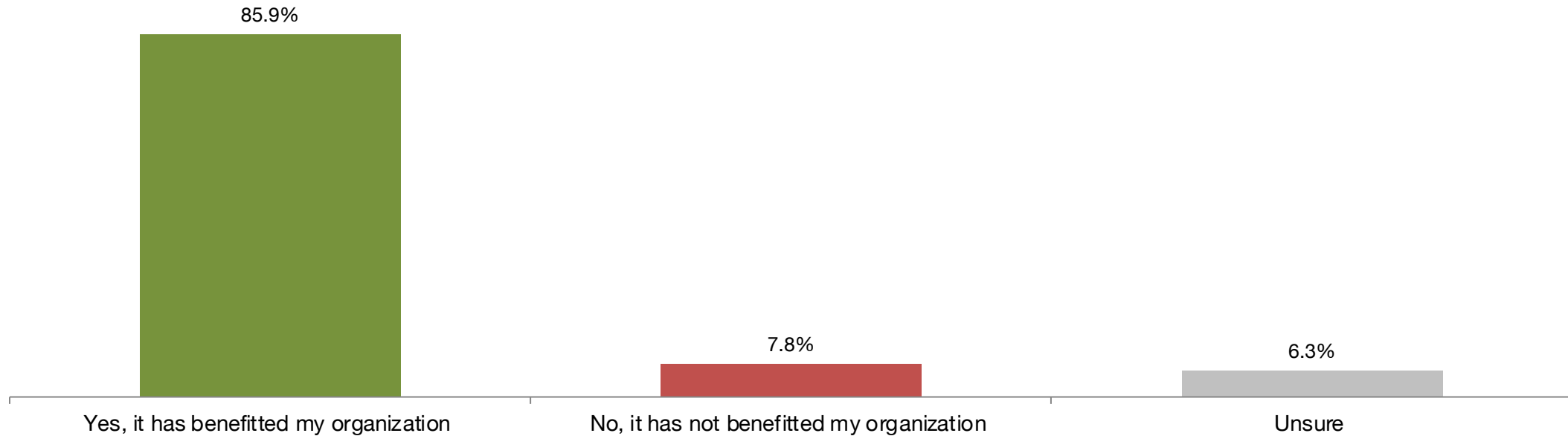
89% believe Grants & Partnerships Program makes a positive impact on the community

Question 1: Do you believe that Valley Water's Safe, Clean Water Grants & Partnerships Program makes a positive impact on the community?



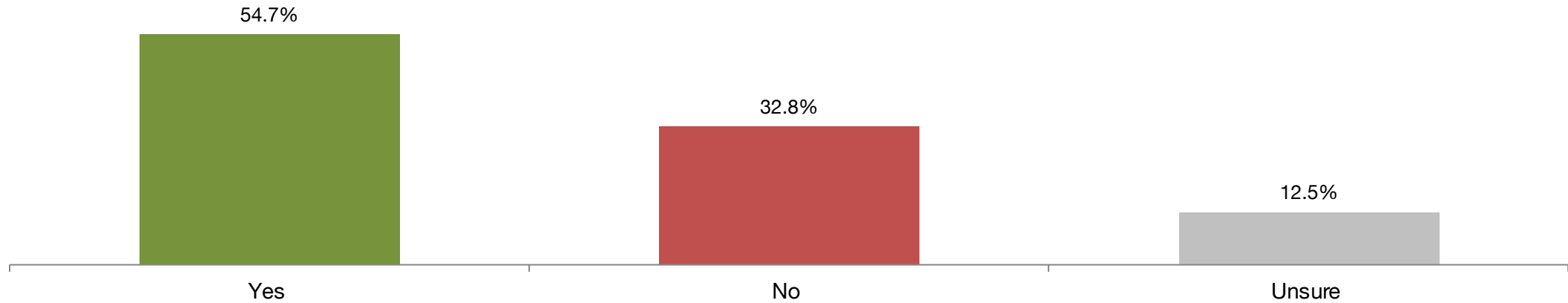
86% say Grants & Partnerships Program have benefitted their organization

Question 2: Has Valley Water's Safe, Clean Water Grants & Partnerships Program benefitted your organization?



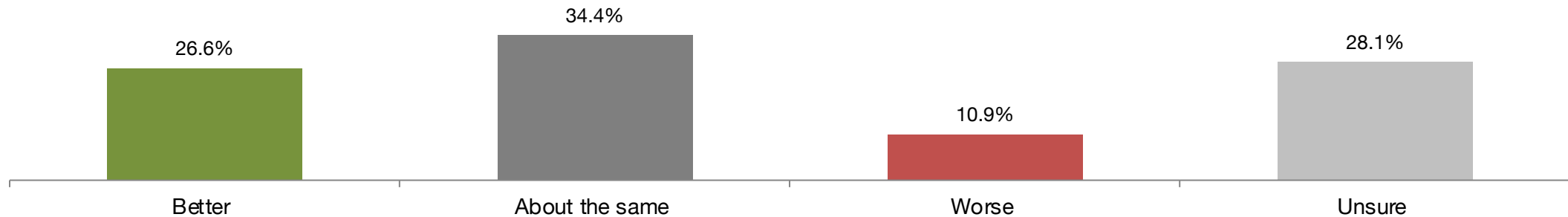
55% say grant funding is a critical part of their organization's budget

Question 3: Is grant funding from Valley Water's Safe, Clean Water Grants & Partnerships Program a critical part of your organization's budget?



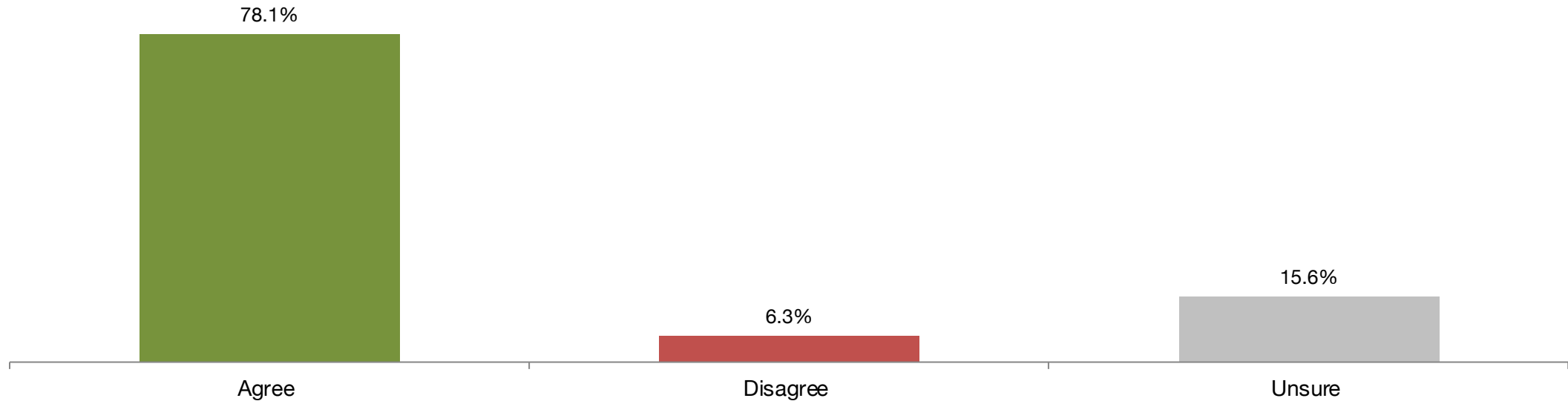
61% say the Grants & Partnerships Program is better or about the same as other grant-offering public agencies

Question 5: In the past year, how would you compare the way Valley Water administers its Safe, Clean Water Grants & Partnerships Program compared to other public agencies that offer grants, would you say that Valley Water is better, the same, or worse?



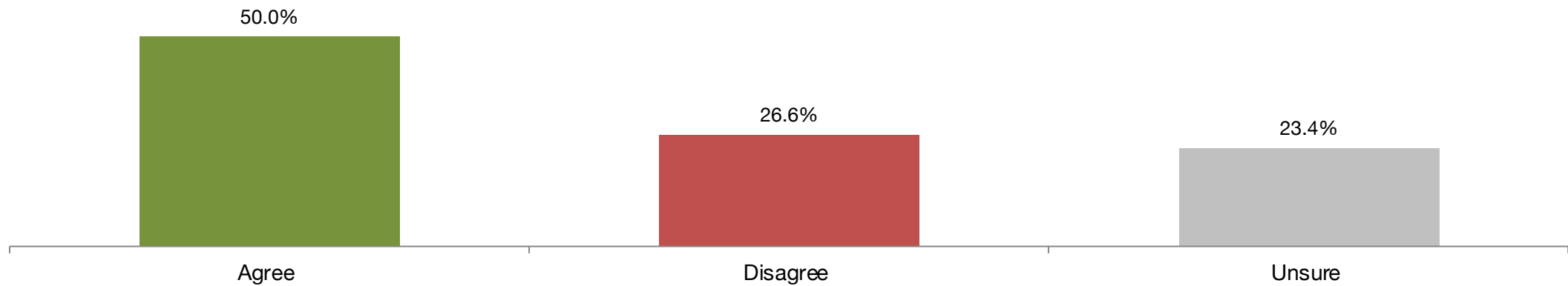
78% would apply for Grants & Partnerships Program again

Question 6: Based on my experience in the past year, I would apply for a grant with Valley Water's Safe, Clean Water Grants & Partnerships Program again.



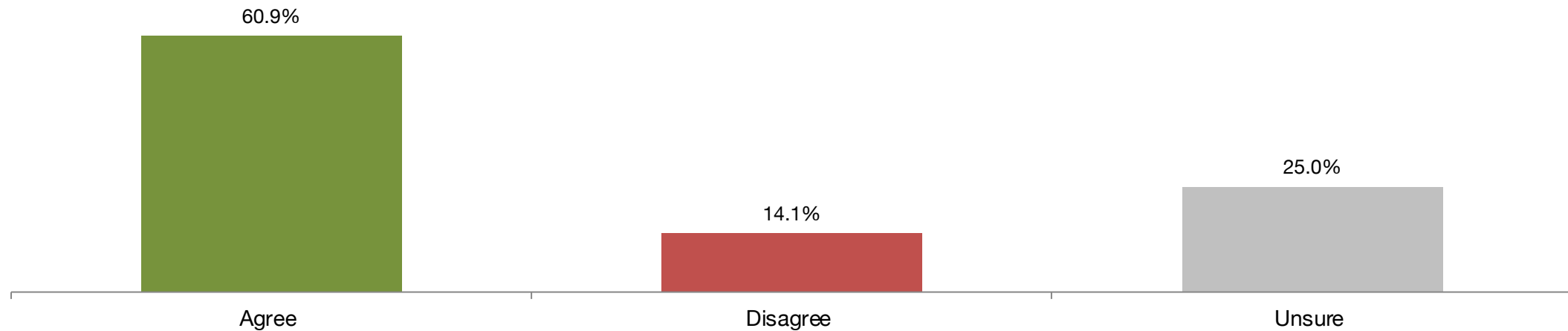
50% say application process was easy to understand

Question 7: In the past year, the process of completing a grant application was seamless and easy to understand.



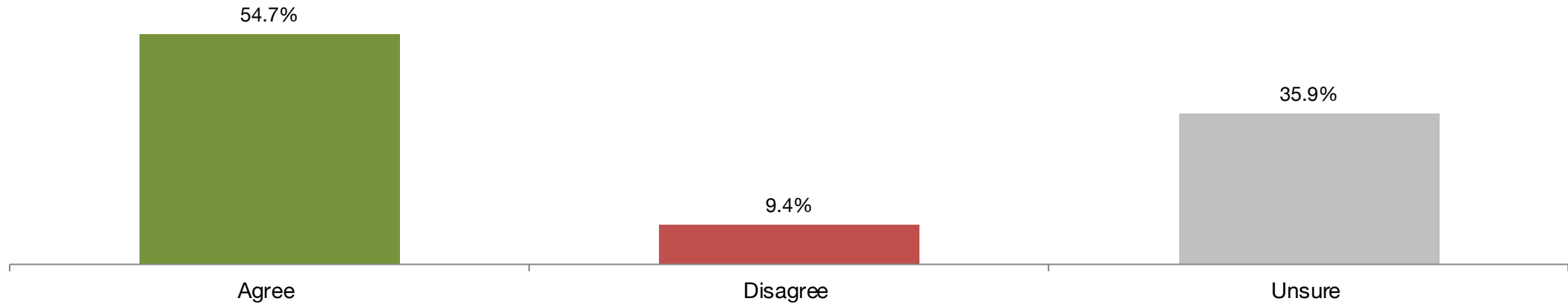
61% say the grant eligibility criteria was reasonable

Question 8: In the past year, the grant applicant eligibility criteria were clear, reasonable, and not overly cumbersome.



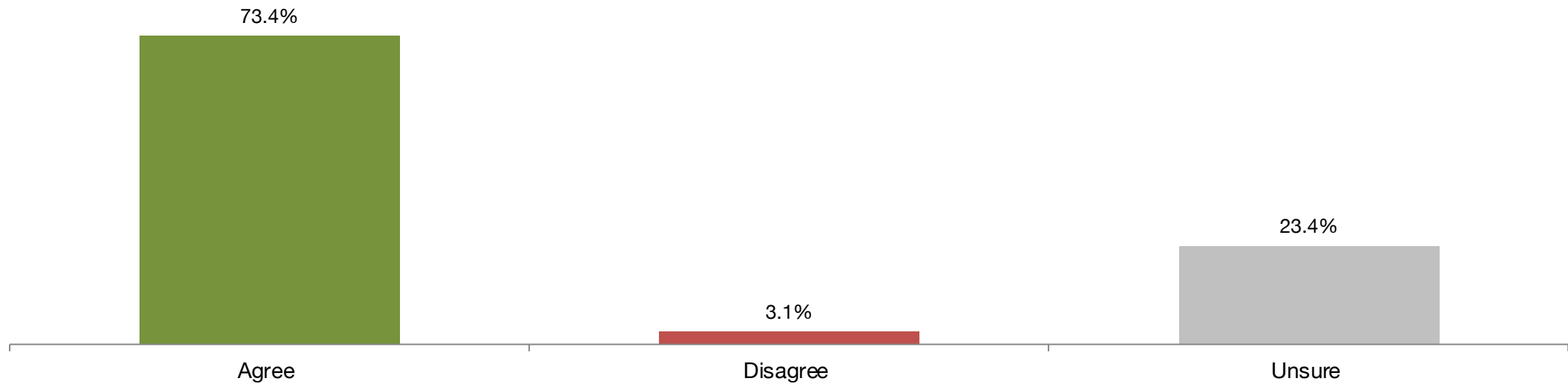
55% say the insurance requirements for grants were reasonable

Question 9: In the past year, the insurance requirements for grants were reasonable.



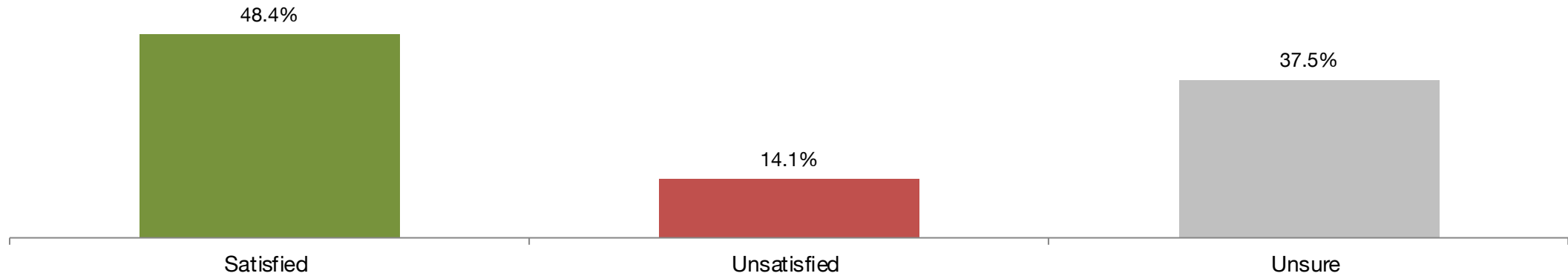
73% say their projects usually meet eligibility requirements

Question 10: The projects I seek funding for usually meet Valley Water's Safe, Clean Water Grants & Partnerships Program eligibility requirements.



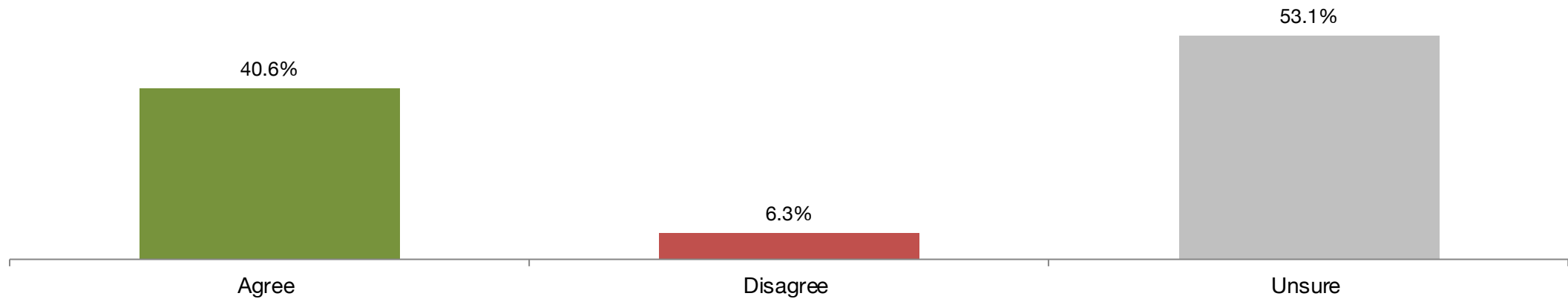
48% are satisfied with grant registration through FLUXX system

Question 11: Are you satisfied or unsatisfied with the registration and administration of your grant(s) through the online FLUXX grants management system?



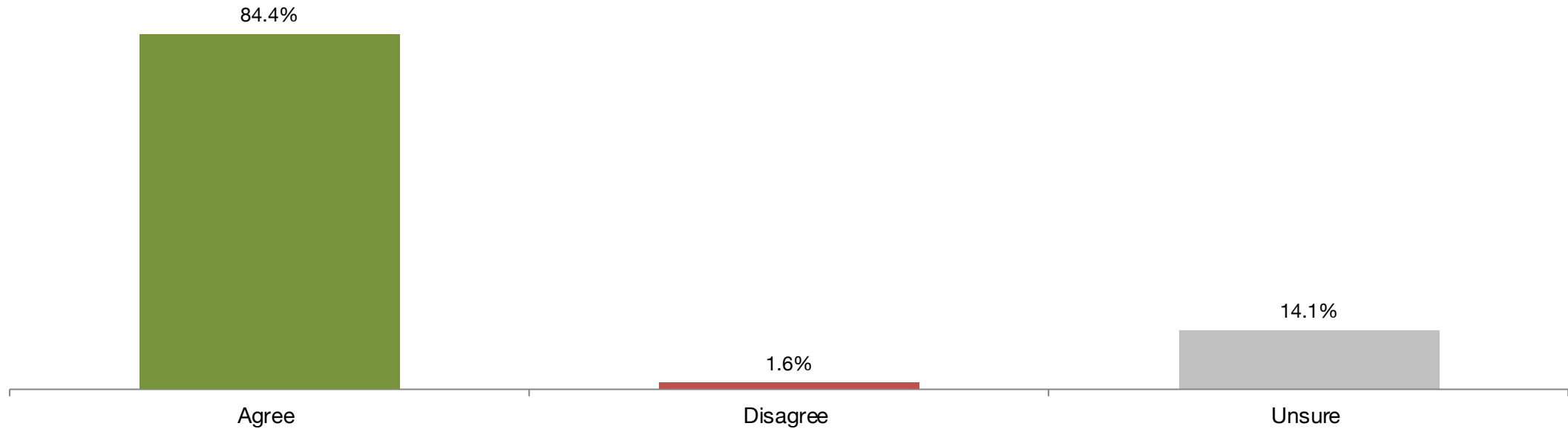
41% say the Grants & Partnerships Program has improved

Question 12: In the past year, the administration of Valley Water's Safe, Clean Water Grants & Partnerships Program has improved.



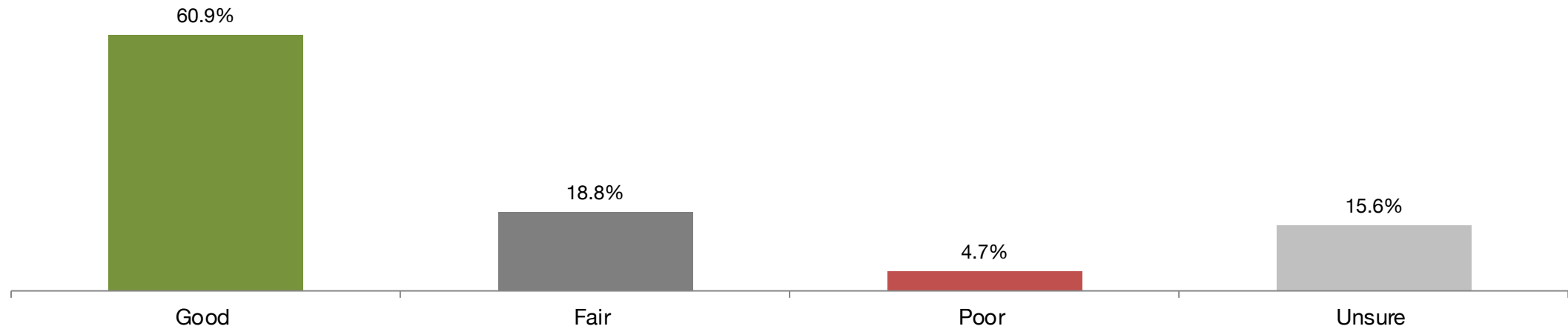
84% find grants staff friendly, helpful, and professional

Question 13: In the past year, working with Valley Water grants staff, I have found them to be friendly, helpful, and professional.



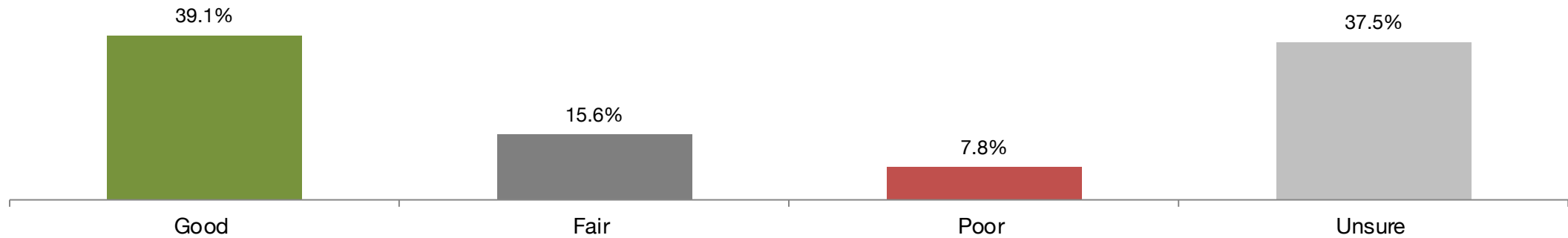
61% rate grant's staff customer service as good

Question 14: In the past year, how would you rate the customer service provided by staff, such as responding to inquiries?



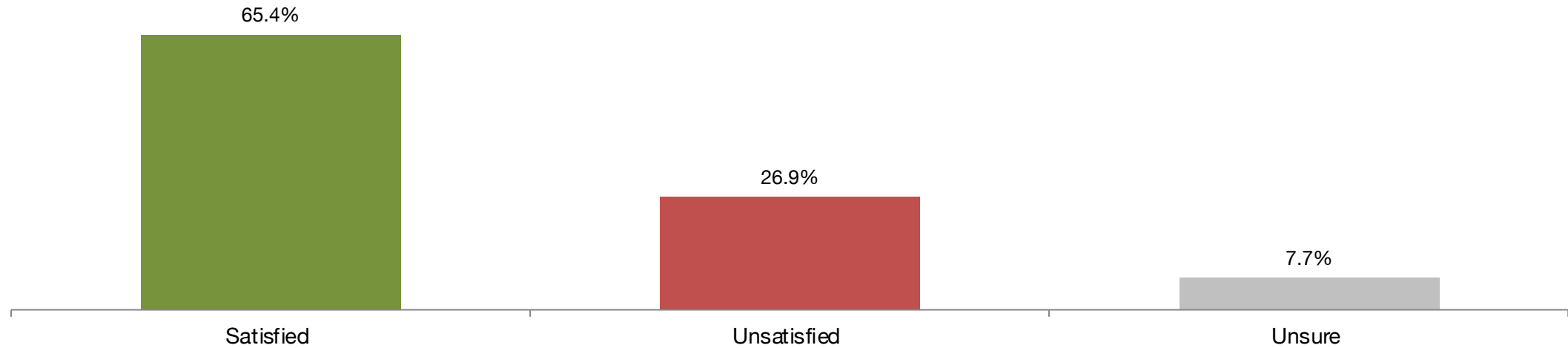
55% rate grant's staff community outreach as good or fair

Question 15: In the past year, how would you rate the outreach that Valley Water's grants staff conducts in the community?



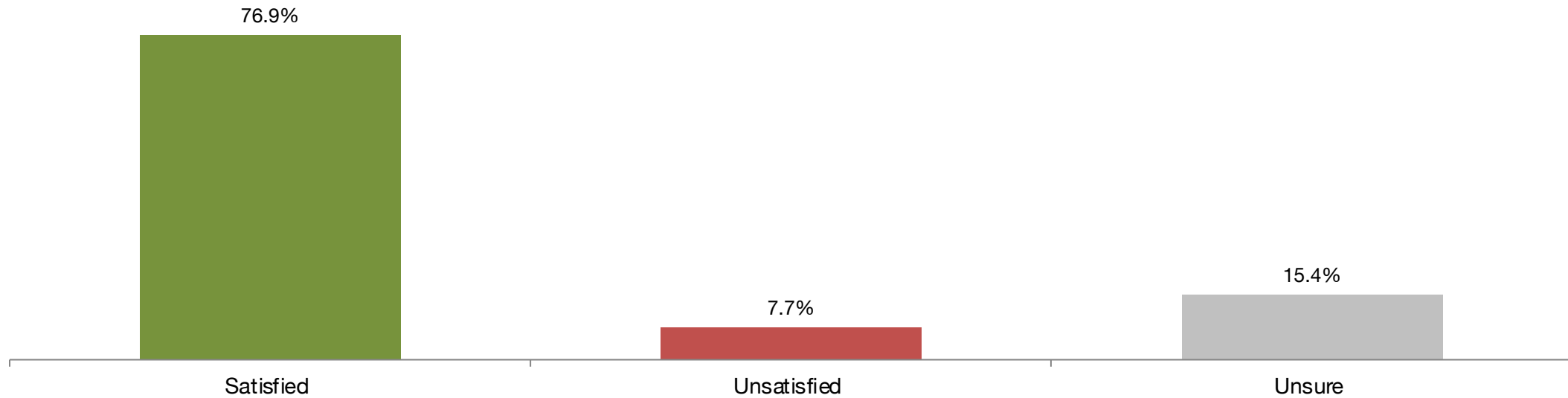
65% are satisfied with mini-grants process

Question 17: Are you satisfied or unsatisfied with the year-round mini-grants (\$5,000 or less) process?
[Asked among mini-grant applicants only]



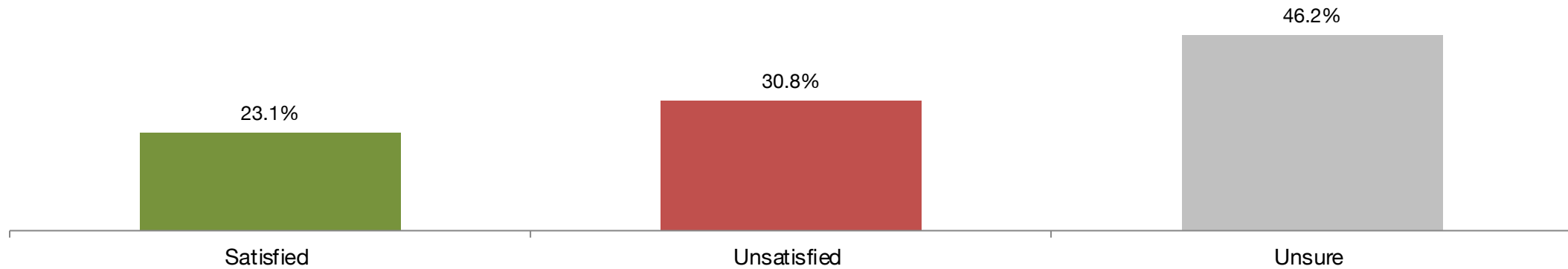
77% are satisfied with mini-grant application review process

Question 19: Are you satisfied or unsatisfied with the review process once you submit your application for a mini-grant?
[Asked among mini-grant applicants only]



31% are unsatisfied with mini-grant pay process

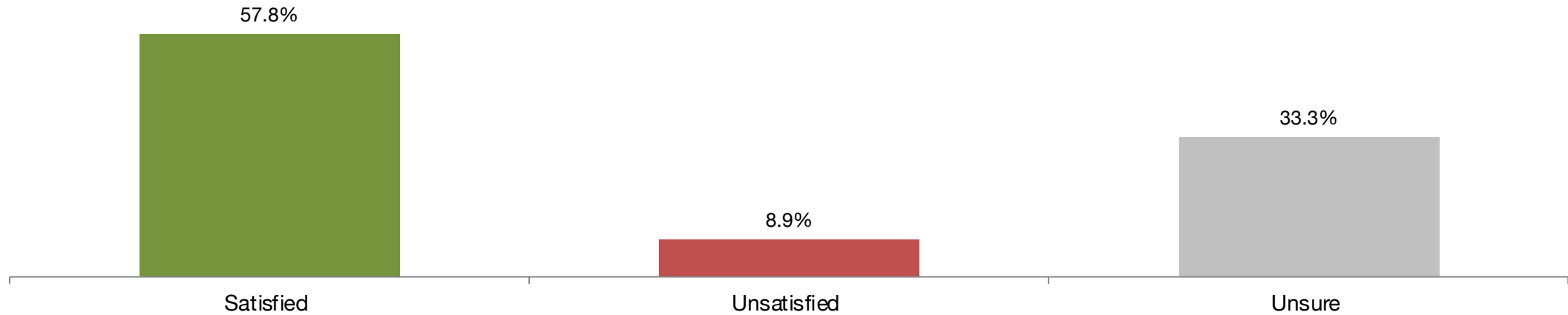
Question 20: Are you satisfied or unsatisfied with the process of getting paid after you have been awarded a mini-grant?
[Asked among mini-grant applicants only]



58% are satisfied with applications review process

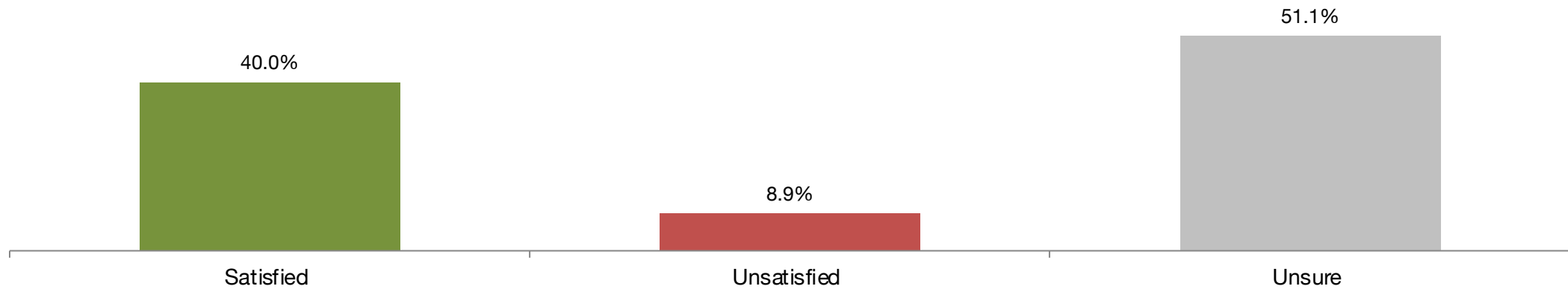
Question 23: Are you satisfied or unsatisfied with the application review and evaluation process, including the required subject matter experts, staff, and Board approval of the grant application?

[Asked among standard grant applicants only]



40% are satisfied with standard grants payment process

Question 24: Are you satisfied or unsatisfied with the invoicing and payment process and how they are made in either monthly or quarterly transactions for standard grants?
[Asked among standard grant applicants only]



100% are satisfied with interaction with partnership agreement

Question 26: Are you satisfied or unsatisfied with your interactions with Valley Water staff when entering into a partnership agreement?*

[Asked among partnership applicants only]

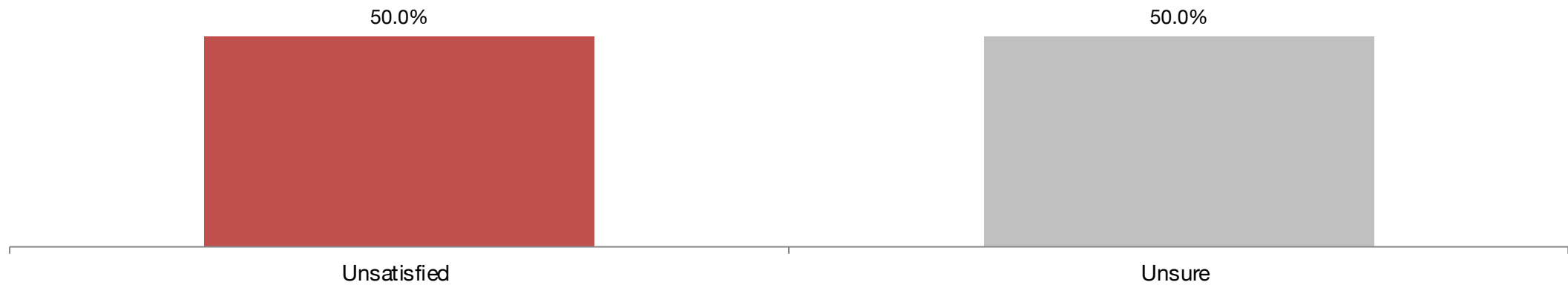


* Historically, partnerships were executed uniquely as either agreements or contracts by Valley Water staff in different units. Therefore, the administration of partnerships is unique per each of the partnership terms and conditions set at the time the partnership was executed.

50% are unsatisfied with partnership payment process

Question 27: Are you satisfied or unsatisfied with the invoicing and payment process and how you received funds?*

[Asked among partnership applicants only]



* Historically, partnerships were executed uniquely as either agreements or contracts by Valley Water staff in different units. Therefore, the administration of partnerships is unique per each of the partnership terms and conditions set at the time the partnership was executed.

Questions?

Adam Probolsky, President

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Santa Clara Valley Water District

File No.: 21-0956

Agenda Date: 9/15/2021
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Discuss Process to Follow-up on Completed Audits.

RECOMMENDATION:

- A) Discuss process to follow-up on completed audits; and
- B) Approve the recommended process for follow-up on completed audits.

SUMMARY:

At the August 18, 2021 Board Audit Committee (BAC) meeting, staff informed the committee that they would research best practices as it related to follow-up on completed audits, and then return to the BAC with a discussion and a recommendation.

Background:

The Board Audit Committee (BAC) Audit Charter is largely silent with regard to follow-up on completed audits, other than Article VII section 6, which states that “The Committee may request a report by Valley Water on any response to Management Initiated or Third-Party Audits and any plans by Valley Water staff to implement changes as a result of the audits.”

The current follow-up process for completed audits is for staff to provide a recommendations implementation status report to the BAC one year after the completion of an audit, and then semi-annual reports thereafter unless otherwise requested by the BAC.

Research Results:

The Institute of Internal Auditors (IIA) publishes and updates the International Standards for the Professional Practice of Internal Auditing (more commonly referred to as the “Red Book”). These standards are mandatory requirements for the practice of internal audit which include, amongst other things: “Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels”. Within those standards, IIA provides a process for follow-up

(Practice 2500), which includes the following:

“1. Internal auditors determine whether management has taken action or implemented the recommendation. The internal auditor determines whether the desired results were achieved or if senior management or the board has assumed the risk of not taking action or implementing the recommendation

2. Follow-up is a process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others.”

Recommendation:

Based on the Red Book standards, staff recommends that the Independent Auditor be responsible for determining if an action is complete, the desired results were achieved, or if the appropriate senior management/board has assumed the risk of not completing the action.

This is usually accomplished through a follow-up evaluation, scheduled sometime after the last completion date of all management responses within a particular audit. The follow-up evaluation typically consists of identifying the status of the management actions, followed by verification procedures performed by the Independent Auditor. These verification procedures can range from examination of new materials/policies/procedures to retesting of items that were previously noted as deficient and/or other procedures the auditor determines necessary to confirm the action was successfully implemented.

In situations where there are long lead times to complete an action (i.e., greater than 1 year), it would be most prudent to conduct a follow-up evaluation when most action items are done, and then periodically update on the longer lead time action items. The longer lead time actions could be broken up into smaller components and tracked accordingly.

This does not preclude staff from providing a recommendations implementation status report to the BAC on a periodic basis, such as one year after the completion of an audit, and then thereafter as requested by the BAC. Also, this does not preclude the BAC from requesting a follow-up prior to the 1 -year anniversary for those audits with higher areas of risk.

In summary, the staff recommendation is as follows:

- If all management actions have been implemented within 1 year after audit completion, staff to report that to the BAC at the 1-year anniversary so that the BAC can engage a Board auditor to conduct a follow-up evaluation.
- If all management actions have not been implemented within 1 year after audit completion, staff to provide a status report on the implementation of management actions at the 1-year anniversary, which would include a discussion of any long lead time actions and a proposed time frame for a follow-up evaluation to be conducted by the Board auditor.

- Follow-up evaluations conducted by an independent auditor to be piloted for 2 years at which time the BAC would assess effectiveness and make a determination as to whether to continue.

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Santa Clara Valley Water District

File No.: 21-0951

Agenda Date: 9/15/2021
Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Review and Discuss the 2021 Board Audit Committee Work Plan.

RECOMMENDATION:

Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.

SUMMARY:

Under direction of the Clerk, Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

At the May 26, 2021 BAC meeting, the committee requested staff bring back a status update of the Grants Audit Recommendation. At the June 16, 2021 BAC meeting, the committee was informed that the Grants Audit Recommendation Implementation Report would be presented at the September 15, 2021 BAC meeting.

At the July 21, 2021 BAC meeting, the committee was informed of minor corrections to the work plan that would be incorporated into the next revision. The corrections were incorporated and presented at the August 18, 2021 BAC Meeting.

At the August 18, 2021 BAC meeting, staff informed the BAC that they would return later with a plan to follow-up on audit recommendations from previously completed audits. This topic has been added to the work plan as item # 92.

Attachment 1 is the updated 2021 Board Audit Committee Work Plan. Upon review, the Committee may approve the updated 2021 Board Audit Committee Work Plan and/or make changes, as determined by the Committee.

File No.: 21-0951

Agenda Date: 9/15/2021
Item No.: 4.4.

ATTACHMENTS:

Attachment 1: 2021 BAC Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
Board Audit Committee Meeting Dates														
	Number of Agenda Items per Meeting Date	11	11	5	5	8	6	4	8	8	3	4	3	Note: For informational purposes only.
	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2021, to meet monthly, on the third Wednesdays at 2:00 p.m.
Board Audit Committee Management														
1	Election of 2021 BAC Chair and Vice Chair		•											<u>Recommendation:</u> Nominate and elect the 2021 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter													<u>Recommendation:</u> Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
3	Review and Update 2021 BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2021 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor		•				•							<u>Recommendation:</u> Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor				See Note									<u>Recommendation:</u> Receive Annual Audit Training from Board Independent Auditor. <u>Note:</u> FY20 Training was delayed by Pandemic and conducted at Special BAC meeting on 4/2/2021 FY21 Training is related to Grants Management and will be scheduled when TAP is ready (6/23/21)
6	Conduct Annual Self-Evaluation	•	•	•				•						<u>Recommendation:</u> A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
7	Receive and Discuss Board Auditor Activity Report to Evaluate Board Auditor Performance	•	•											<u>Recommendation:</u> Receive and discuss Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor Performance.
8	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective June 30, 2021.													<u>Recommendation:</u> A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective June 30, 2021; and B. Approve recommendation to the full Board to: 1. Allow the expiration of the Board Independent Auditor Contract with TAP International; or 2. Exercise option to extend Board Independent Auditor Contract with TAP International, Inc.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed.

BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
9	Chief Board Auditor - Request for Proposal: Review Panel					•								<u>Note:</u> Review Panel for the role of the Chief Board Auditor will be the BAC members
10	Tri-annual Risk Assessment		•		•	•	•	•	•	•				<u>Recommendation:</u> Discuss the scope of work for the 2021 Risk Assessment. <u>Note:</u> Next Risk Assessment scheduled to be completed by September 2021. Risk Assessment scope was discussed at Special BAC meeting on 2/26/2021.
Board Audit Committee Special Requests														
11	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed. In June David Alvey offered to speak with each member individually.
12	Provide status report to full Board quarterly													<u>Note:</u> Report to be provided to Board in non-agenda the month after each BAC meeting.
13	Discuss the Scope and Approach of the Ad-hoc Desk Reviews													<u>Recommendation:</u> Discuss the scope and approach of the ad-hoc Desk Reviews.
14	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract		•											<u>Recommendation:</u> Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.
15	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis							•						<u>Note:</u> At the Dec '19 BAC meeting, the BAC approved new PO for \$25K min for Tanner Pacific, Inc. to prepare QEMS Methodology Benchmarking Analysis. <u>Recommendation:</u> Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.
16	Risk Management Organization	•												<u>Note:</u> At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. <u>Recommendation:</u> Review and discuss Risk Management Organization.
17	Valley Water Policies Related to Financial Auditor Responsibility	•												<u>Note:</u> At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. The full Board transferred this item to the BPPC at the 2/9/2021 Board meeting <u>Recommendation:</u> Review and discuss Valley Water Policies Related to Financial Auditor Responsibility.
18	Financial Auditor Selection Parameters	•												<u>Recommendation:</u> Discuss prior to the selection of the next financial auditor
Management and Third Party Audits														

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
19	Review Draft Audited Financial Statements	•											•	<u>Recommendation:</u> A. Review draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
20	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year													<u>Recommendation:</u> Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.
21	Receive QEMS Annual Internal Audit Report								•					<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.
22	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.		•											<u>Note:</u> Staff CAS update every 6 months. <u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process.
23	Review Contract Change Order Audit Report								•					<u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by TAP International, Inc. in the Contract Change Order Audit Report. <u>Note:</u> Staff periodic update.
24	Audit Recommendations Implementation Status	•											•	<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Board Independent Auditor - TAP International, Inc. Items														
25	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.
Audit - Grants Management														
26	Receive notification of initiated Grants Management Audit													<u>Note:</u> Audit Objectives - Performance audit of the efficiency and effectiveness of grant management and administration.
27	Review Grants Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
28	Review Grants Management Audit Draft Report Presentation	•												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
29	Review Response to Grants Management Audit Final Draft Report		•											<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
30	Recommendation Implementation Status (Semi-Annual Rpt.; Target Completion = June 30,2023)												•	<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Audit - Permitting Best Practices														

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
31	Receive notification of initiated Permitting Best Practices Audit													<u>Note:</u> Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?
32	Review Permitting Best Practices Audit Progress Report	•	•	•										<u>Recommendation:</u> Receive an update on the status of the on-going audit.
33	Review Permitting Best Practices Audit Draft Report Presentation				•									<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
34	Review Response to Permitting Best Practices Audit Final Draft Report					•								<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Pacheco Reservoir Expansion														
35	Receive notification of initiated Pacheco Project Investigation			•										<u>Note:</u> Audit Objectives - Determine how and why the initial Project Scope & Cost evolved and increased over time?
36	Review Pacheco Project Investigation Progress Report				•	•	•		•	•				<u>Recommendation:</u> Receive an update on the status of the on-going audit.
37	Review Pacheco Project Investigation Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
38	Review Response to Pacheco Project Investigation Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Construction Project Management (Tentative)														
39	Receive notification of initiated Construction Project Management Audit													<u>Note:</u> Audit Objectives - What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?
40	Review Construction Project Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
41	Review Construction Project Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
42	Review Response to Construction Project Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Supervisory Control and Data Acquisition (Tentative)														
43	Receive notification of initiated Supervisory Control and Data Acquisition Audit													<u>Note:</u> Audit Objectives - Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?
44	Review Supervisory Control and Data Acquisition Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
45	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
46	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Risk Management (Tentative)														
47	Receive notification of initiated Risk Management Audit													<u>Note:</u> Audit Objectives - Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).
48	Review Risk Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
49	Review Risk Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
50	Review Response to Risk Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Billing and Collections (Tentative)														
51	Receive notification of initiated Billing and Collections Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance Valley Water's billing and collection processes?
52	Review Billing and Collections Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
53	Review Billing and Collections Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
54	Review Response to Billing and Collections Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Accountability (Tentative)														
55	Receive notification of initiated Accountability Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance safe clean water audits?
56	Review Accountability Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
57	Review Accountability Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
58	Review Response to Accountability Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Community Engagement (Tentative)														
59	Receive notification of initiated Community Engagement Audit													<u>Note:</u> Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?
60	Review Community Engagement Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
61	Review Community Engagement Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
62	Review Response to Community Engagement Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Property Management (Tentative)														
63	Receive notification of initiated Property Management Audit													<u>Note:</u> Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
64	Review Property Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
65	Review Property Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
66	Review Response to Property Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Homelessness Analysis (Tentative)														
67	Receive notification of initiated Homelessness Analysis Audit													<u>Note:</u> Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
68	Review Homelessness Analysis Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
69	Review Homelessness Analysis Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
70	Review Response to Homelessness Analysis Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Classified Information (Tentative)														
71	Receive notification of initiated Classified Information Audit													<u>Note:</u> Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
72	Review Classified Information Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
73	Review Classified Information Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
74	Review Response to Classified Information Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Local Workforce Hiring (Tentative)														
75	Receive notification of initiated Local Workforce Hiring Audit													<u>Note:</u> Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
76	Review Local Workforce Hiring Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
77	Review Local Workforce Hiring Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
78	Review Response to Local Workforce Hiring Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Equipment Maintenance (Tentative)														
79	Receive notification of initiated Equipment Maintenance Audit													<u>Note:</u> Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
80	Review Equipment Maintenance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
81	Review Equipment Maintenance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
82	Review Response to Equipment Maintenance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
Audit - Delta Conveyance (Tentative)														
83	Receive notification of initiated Delta Conveyance Audit													<u>Note:</u> Audit Objectives - What potential financial risks could occur on the California Water Fix project?
84	Review Delta Conveyance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
85	Review Delta Conveyance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
86	Review Response to Delta Conveyance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Miscellaneous BAC Work Plan Items														
87	BAC Self-Evaluation Report													<u>Note:</u> Per the February 19, 2020 BAC meeting, the 2019 BAC Self-Evaluation form is to be completed and a formal report provided to the full Board at a future meeting. At the January 13, 2021 BAC meeting, the 2020 BAC Self-Evaluation form is to be completed by the Committee and a formal report provided to the full Board at a future meeting.
88	Sponsorship Program													<u>Recommendation:</u> Discuss the potential for a desk review or audit of the Sponsorship Program. <u>Note:</u> Board chose not to do a desk review or audit at the 1/12/2021 meeting.
89	Establishment of Additional Board Auditors					•			•					<u>Recommendation:</u> Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.
90	Participate in financial statement audit procurement process													<u>Note:</u> Next procurement scheduled for January 2022.
90	Financial Audit - Quarterly Update					•				•		•		<u>Note:</u> suggested frequency is as follows: February for mid-year review; May for Q3 review; September for unaudited close; November for Q1 review
91	Financial Audit - Periodic Update												•	Schedule as needed <u>Recommendation:</u> Receive and Discuss the Financial Audit
92	Completed Audits - Recommendation Follow-up Process												•	<u>Recommendation:</u> Discuss the process to follow-up on Audit Recommendations

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Santa Clara Valley Water District

File No.: 21-0952

Agenda Date: 9/15/2021
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Discuss and Approve any Updates to the Annual Audit Work Plan.

RECOMMENDATION:

Discuss and approve any updates to recommend to the Board, if necessary.

SUMMARY:

On January 12, 2021 the Board of Directors (Board) recommended that an audit be performed to determine the timeline associated with cost increases for the Pacheco Reservoir Expansion Project. Accordingly, at its February 17, 2021 meeting, the Board Audit Committee (BAC) added an Ad Hoc Board Audit to the Annual Audit Work Plan.

At its January 26, 2021 meeting, the Board approved a recommendation from the BAC to have the Board's Independent Auditor, TAP International, Inc., conduct the 2021 Risk Assessment.

On April 26, 2021 the BAC did not identify any changes to the Annual Audit Work Plan. During the meeting Legal Counsel advised the committee that Jackson Lewis L.L.C. has been identified as the firm to conduct fact-finding for the cost increases associated with the Pacheco Reservoir Expansion project.

Since the approval to proceed with the 2021 Risk Assessment, the Board has not approved any changes to the Annual Audit Work Plan. Efforts identified in the 2018 Risk Assessment that have not been completed will be reviewed in conjunction with any new areas of risk to develop the next comprehensive work plan.

The BAC is requested to identify any potential changes to the Annual Audit Work Plan (Attachment 1) to recommend to the Board for approval.

ATTACHMENTS:

Attachment 1: Annual Audit Work Plan

File No.: 21-0952

Agenda Date: 9/15/2021
Item No.: 4.5.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District Annual Audit Work Plan, FY 18/19 to FY 20/21.

DRAFT AUDIT WORK PLAN – MAY 5, 2021

SANTA CLARA VALLEY WATER DISTRICT BOARD OF DIRECTORS DRAFT
ANNUAL WORK PLAN, FY 18/19 TO FY 20/21

OVERVIEW

The selection of audits is an important responsibility of the Audit Committee. The formulation of this audit work began in 2018 when the Valley Water's Board of Director provided input and approved the enterprise risk assessment that was administered across agency operations. The audit work plan is a culmination of a comprehensive effort to consider input on auditable areas from Valley Water employees, mid-level management, executive management, and Board Directors.

The proposed audit work plan considers factors that, if addressed, will provide opportunities to mitigate those risks and improve operations. These factors include:

- **Operational** – Are Valley Water programs/activities performed and services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- **Financial** – Is there an opportunity to improve how Valley Water manages, invests, spends, and accounts for its financial resources?
- **Regulatory** – Do Valley Water programs and activities comply with applicable laws and regulations?
- **Health and Safety** – Are Valley Water services delivered in a manner that protects our residents and employees from unnecessary exposure to environmental factors?
- **Information Security** – Are Valley Water's information systems and networks protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several other factors in the selection of audits.

- **Relevance** – Does the audit have the potential to affect Board decision-making or impact Valley Water customers and residents?
- **Best Practices** – Does the audit provide the opportunity to compare current performance to best practices?
- **Return on Investment** – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- **Improvement** – Does the audit have the potential to result in meaningful improvement in how Valley Water does its business?
- **Risk** - The audit work plan also considers risks related to major functions, as identified through a 2017 enterprise risk assessment conducted by TAP International.
- **Audit Frequency** – Individual Divisions at Valley Water should not be subject to more than two audits per year.

AUDIT WORK PLAN, FY 18/19 TO FY 20/21

This proposed audit work plan is divided into section. Section A describes ongoing non-audit (e.g. advisory) responsibilities of the Independent auditor and well as other quality assurance activities planned by executive management. Section B describes the audits planned for implementation by the Independent Auditor and other audits planned by Valley Water’s executive management.

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2019-20 audit work plan:

Project	Scope	Planned Hours
Board of Director/Audit Committee Requests for Information	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80
Audit Training	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to BAC committee members at least annually.	2
Support services	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks, such as the planning of a new ERP system.	40
QEMS – Independent Auditor	Ongoing. Provide services to ensure proper oversight and accountability.	As needed
Management reviews	Ongoing. Valley Water ‘s CEO as needed will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed

SECTION B: AUDIT SERVICES**AUDIT WORK PLAN – INDEPENDENT AUDITOR****FY 2018-19**

The following audits have been approved in FY 2018-19 by the Board of Directors and will continue into the FY 2019-20 audit work plan.

ID	Audit	Audit Objectives	Planned Hours
1	District Counsel Office Review	Are there structural, organizational, and process improvement opportunities for the District Counsel's Office?	664
5	Contract Change Order Processing	What types of business process improvements are necessary for contract change order processing?	429
6	Real Estate Review	How can the Real Estate improve its financial and service delivery performance?	574
Total	3 audits		1,667

FY 2019-20

The following audits have been selected for approval for the FY 2019-20 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Sub Total		620-800	
13	Construction project management	What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?	314-371	Financial Improvement Risk Best practices
2	SCADA audit*	Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?	714-857	Information Security Relevance Improvement Risk
7	Permitting best practices	How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?	171-229	Operational Best practices Improvement

4	Risk Management	Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).	143-260	Relevance Financial Operational Best practices
3	Billing and Collections audit	Are there opportunities to enhance Valley Water's billing and collection processes?	343-429	Relevance Financial Regulatory Improvement Risk Return on Investment
11	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
Sub Total	5		1,800-2,317	

*The SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

FY 2020-21

The following audits have been selected for approval for the FY 2020-21 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits**	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		620-800	
	<u>Grants Management</u>	<u>Performance audit of the efficiency and effectiveness of grant management and administration</u>	<u>Outsourced-TBD</u>	<u>Financial improvement</u> <u>Operational Best practices</u>
Ad Hoc Board Audit	Pacheco Reservoir Expansion (Lessons Learned)	(1) Develop a timeline of project costs (including contract change orders and professional services agreement amendments) and identify the types of expenses incurred.	220-270	Financial, Operational, and best practices improvements

		(2) Identify key drivers for project cost increases that were within and outside of VW's control. (3) Identify lessons learned in the planning, design and construction phases of the project.		
21	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?	417-543	Financial Improvement Operational Best practices
	Property Management	<u>Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?</u>	400	Operational
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up activities that <u>protect health and safety</u> ?	290-371	Health and Safety Relevance Financial Operational
8	Classified information***	To what extent does the Valley Water's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?	200-229	Operational
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	9		1,973-2,528	

**Ad-Hoc Audits to be added to the Board performance plan upon identification and approval of reviews.

***This issue was included in the project plan for the performance audit of the District Counsel's office.

AUDIT WORK PLAN – VALLEY WATER RESPONSIBILITY

FY 18/19 THRU FY 19-20

QEMS

QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS	
AUDIT DESCRIPTION AND UNIT #	
Treated Water O&M DOO: TW Survey (customer service w/ WS DOO)	#515
Laboratory Services Unit	#535
North Water Treatment Operations Unit	#565
South Water Treatment Operations Unit	#566
Treatment Plant Maintenance Unit (North & South WTP)	#555
Water Quality Unit	#525
Water Utility Capital Division	
Capital Program Planning and Analysis Unit	#335
Construction Services Unit	#351
Pipelines Project Delivery Unit	#385
East Side Project Delivery Unit	#375
West Side Project Delivery Unit	#376
Dam Safety & Capital Delivery Division	
CADD Services Unit	#366
Dam Safety Program & Project Delivery Unit	#595
Design and Construction Unit #3	#333
Pacheco Project Delivery Unit	#377
Water Supply Division DOO: TW Survey (customer service w/ TW O&M DOO)	#415
Wells & Water Measurement Unit	#475
Watersheds Design and Construction Division	
Design and Construction Unit #1	#331
Design and Construction Unit #2	#332
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COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit



Santa Clara Valley Water District

File No.: 21-0954

Agenda Date: 9/15/2021
Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Receive an Update on the 2021 Risk Assessment.

RECOMMENDATION:

Receive an update on the 2021 Risk Assessment.

SUMMARY:

Per the Board Audit Committee (BAC) Audit Charter, Article 3, Section 7, Sub-paragraph 7.4, Risk Assessment, the Committee shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually and to annually update Valley Water-wide audit risk assessment to include objectively recommended audits ranked based upon the potential level of risk to Valley Water. The results of this Valley Water-wide audit risk assessment should be relied upon to develop the proposed Annual Audit Work Plan. The next Tri-annual Risk Assessment is due to be completed by October 2021.

At its January 26, 2021 meeting, the Board of Directors (Board) approved a recommendation from the BAC to have the Board's Independent Auditor, TAP International, Inc., conduct the 2021 Risk Assessment.

At its March 9, 2021 meeting, the Board approved the Scope of Work for the 2021 Risk Assessment. The scope of work includes a survey of multiple stakeholders to identify risks from their perspective as part of the initial audit planning assessment. The Board and BAC will then determine which risk factors are to be included in the final audit planning assessment at a later date.

At its May 26, 2021 meeting, staff informed the BAC that the State and Federal partnership contact details are still outstanding. Subsequently, the details were provided on Monday, June 7, 2021. TAP Int'l confirmed receipt and initiated the survey outreach effort.

At its June 16, 2021 meeting, TAP Int'l informed the Committee that the survey was released on June 10, 2021. The survey technically closed on June 24, 2021. TAP Int'l then analyzed the survey results, followed up with respondents as appropriate, and presented a summary for discussion at the July 21, 2021 BAC meeting. At the August 18, 2021 BAC meeting, staff informed the BAC that

Phase 2 efforts to analyze processes and procedures were ongoing. The Committee noted the information, without taking any formal action.

Following initiation of the risk assessment, the Committee may receive and discuss the status of the on-going risk assessment until the risk assessment is completed. TAP Int'l will provide a verbal status update regarding the current phase of the Risk Assessment.

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 21-0955

Agenda Date: 9/15/2021
Item No.: 5.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Fiscal Year 2020-21 Fourth Quarter Financial Status Update.

RECOMMENDATION:

Receive the Fiscal Year 2020-21 fourth quarter financial status update as of June 30, 2021.

SUMMARY:

Valley Water's Fiscal Year 2020-21 closed on June 30, 2021. The fourth quarter financial status update presentation (Attachment 1) summarizes cash and investment balances, the debt portfolio and includes a detailed comparison, and analysis, of the budget to actual status of revenues and expenditures for all funds as of June 30, 2021.

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

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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FY2020-21 Financial Status Update

September 15, 2021

The FY 2020-21 unaudited financial statements contained herein have been prepared by Valley Water for information only and have not been audited by the external auditor. These financial statements remain subject to change by Valley Water and remain subject to review by external auditor. Changes made by the external auditor, including changes in response to the outsider auditor's review, could be material. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency nor post these statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale Valley Water bonds, notes or other obligations and investors and potential investors should rely on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

1. Financial Status

- Cash & Investments
- Debt Portfolio

2. FY 21 Unaudited Close Status

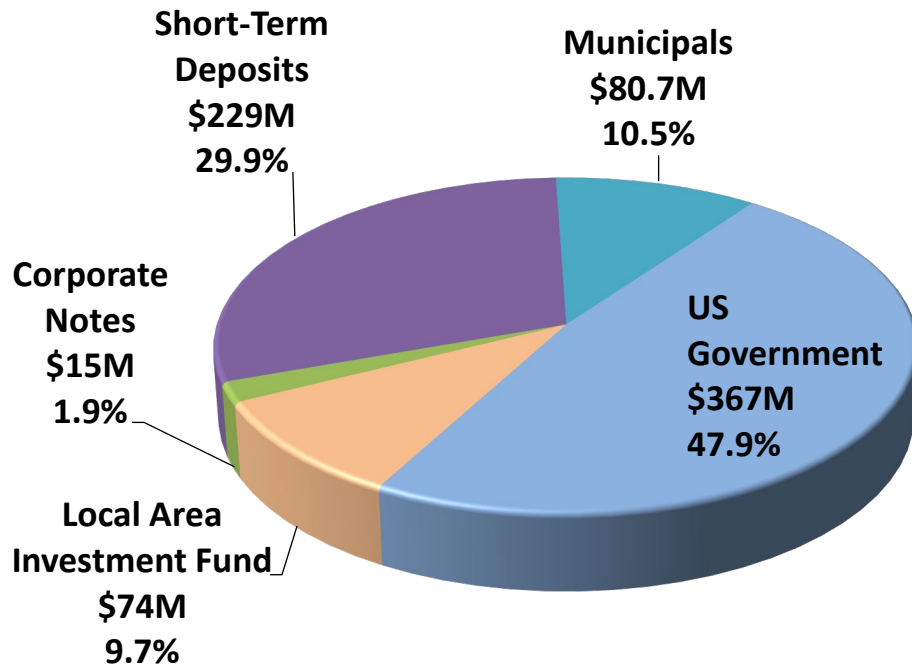
- Revenue
- Operating & Capital Expenditures

3. Back Up Slides – Revenue and Op & Cap Expenditures by Fund

Financial Status Update – Cash & Investments

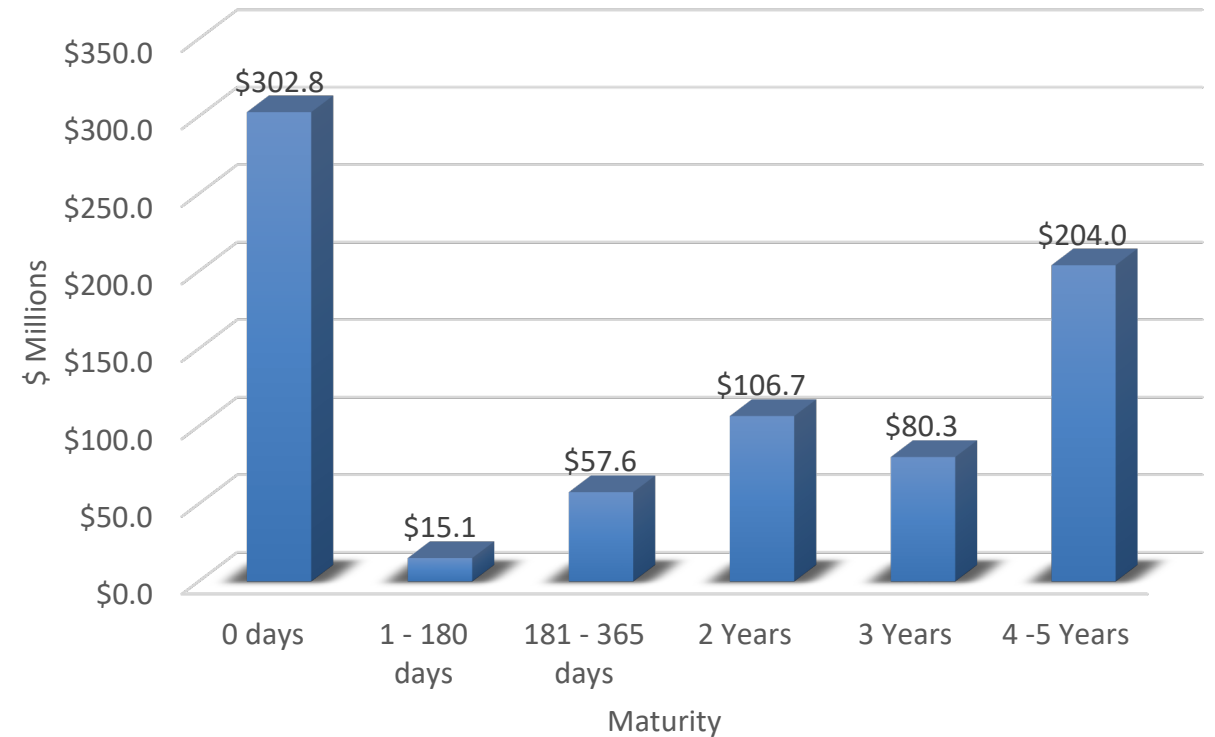
\$375M or 49% of portfolio very liquid (<1-year maturity)

Valley Water Investment Portfolio Composition



Valley Water Portfolio Book Value as of June 30, 2021: \$766 Million

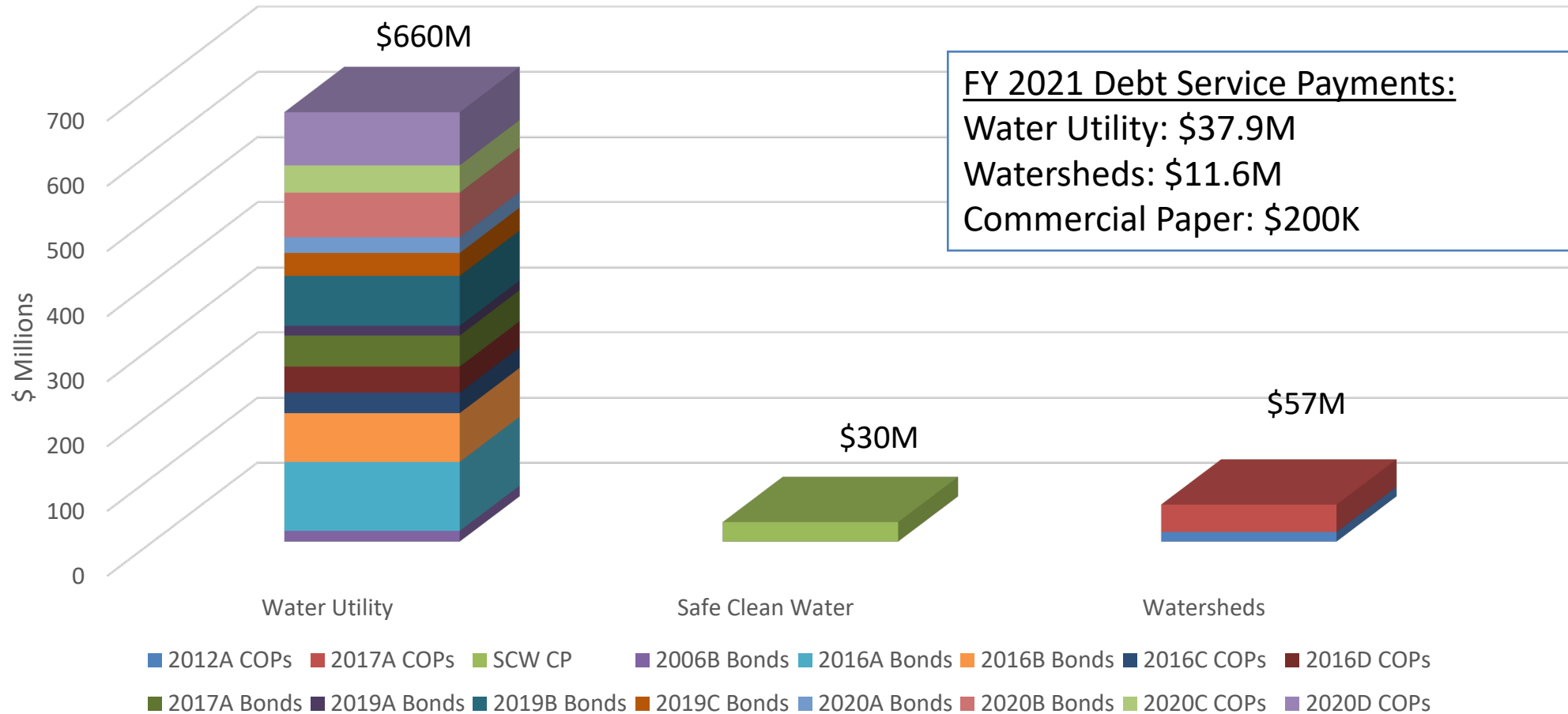
Valley Water Portfolio Aging Report June 30, 2021 Portfolio Book Value: \$766 Million



Financial Status Update - Outstanding Debt (6/30/2021)

4

Total Outstanding Debt: \$747 Million



valleywater.org



Ample access to cash at low interest rates

\$320M short-term credit facilities

- \$150M Commercial Paper – ongoing program
- \$170M Bank Line of Credit (\$150M Lead + \$20M Small/Local)
 - US Bank Lead (\$150M), Community Bank of the Bay (\$5M), Bank of SF (\$7M), and First Foundation Bank (8M)

FY 2021 Debt Issuance: \$216M Water Utility Series 2020 A/B/C/D

FY 2022 Planned Debt Issuances (~March – May 2022):

- \$100M Safe, Clean Water Program
- \$159M Water Utility

WIFIA Loan Program Update: \$135M SCW + \$1.2B Pacheco

FY 21 Unaudited Close - Revenues

Majority of sources of revenues exceeded budget, except for capital reimbursements

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Groundwater Production Charges	\$ 121.1	\$ 121.5	\$ 0.4	100%	\$ 112.6	\$ 8.9
Treated Water Charges	137.4	154.9	17.5	113%	152.6	2.3
Surface/Recycled Water Revenue	2.6	2.6	-	100%	1.7	0.9
1% Ad-valorem Property Tax	110.9	117.3	6.4	106%	110.6	6.7
Safe Clean Water Special Parcel Tax	45.5	46.1	0.6	101%	46.1	-
Benefit Assessments	12.4	12.4	-	100%	13.4	(1.0)
State Water Project Tax	18.0	21.3	3.3	118%	21.8	(0.5)
Capital Reimbursement	43.6	19.9	(23.7)	46%	33.8	(13.9)
Interest Income & Other	15.1	18.1	3.0	120%	23.9	(5.8)
Total Revenue	\$ 506.6	\$ 514.1	\$ 7.5	101%	\$516.5	\$ (2.4)

Note: Interest Income revenue does not include GASB 31 market valuation adjustments

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
General Fund	\$ 9.4	\$ 10.0	\$ 0.6	106%	\$ 9.7	\$ 0.3
Watershed & Stream Stewardship Fund	117.8	107.7	(10.1)	91%	114.7	(7.0)
Safe, Clean Water Fund	61.1	57.0	(4.1)	93%	64.4	(7.4)
Water Utility Enterprise Fund	305.5	326.5	21.0	107%	313.3	13.2
Service Funds	0.5	0.6	0.1	120%	1.1	(0.5)
Benefit Assessment Funds	12.4	12.4	-	100%	13.4	(1.0)
Total Revenue	\$ 506.6	\$ 514.1	\$ 7.5	101%	\$516.5	\$ (2.4)

Observations

- FY 21 revenues \$514.1M, 101% of Adj budget.
- 1% Ad Valorem Property Tax and State Water Project Tax higher than budget due to 2021 assessment roll growth in Santa Clara County (leading contributors are changes in ownership and new construction).
- Groundwater production charges \$121.5M or 100% of budget.
- Treated water charges \$154.9M, 113% of the budget due to approximately 24 KAF higher volume consumption.
- Capital Reimbursement \$19.9M or 46% of the budget, due to timing of expenditures vs. grant reimbursement process.
- Interest Income and Other revenue, \$3.0M higher than budget due to higher intergovernmental service revenue than budget

FY 21 Unaudited Close – Operating Outlays & Capital Expenditures

Capital expenditures end FY below budgeted levels

Operating

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 Est % Spent	FY20 Actuals	FY21 vs FY20
General Fund	\$ 69.5	\$ 68.4	1.1	98%	\$ 59.1	\$ 9.3
Watershed & Stream Stewardship Fund	62.6	58.9	3.7	94%	51.7	7.2
Safe, Clean Water Fund	20.4	15.7	4.7	77%	21.1	(5.4)
Water Utility Enterprise Fund	243.1	236.6	6.5	97%	199.5	37.1
Service Funds	31.9	30.6	1.3	96%	23.8	6.8
Benefit Assessment Funds	11.2	11.0	0.2	99%	11.0	-
Total Operating Expenditures	\$ 438.7	\$ 421.2	\$ 17.5	96%	\$366.2	\$ 55.0

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

Note 2: FY 21 Actuals column reflects Budgetary basis Actuals, includes actuals and encumbrances as of 06/30/21

Note 3: Operating Expenditures does not include OPEB and Pension accruals related to unfunded liability

Capital

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 Est % Spent	FY20 Actuals	FY21 vs FY20
General Fund	\$ 3.0	\$ 3.0	\$ -	100%	\$ 1.5	\$ 1.5
Watershed & Stream Stewardship Fund	87.4	63.4	24.0	73%	19.0	44.4
Safe, Clean Water Fund	127.0	71.7	55.3	56%	70.9	0.8
Water Utility Enterprise Fund	210.2	136.0	74.2	65%	132.2	3.8
Service Funds	18.7	9.4	9.3	50%	11.3	(1.9)
Total Capital Expenditures	\$ 446.3	\$ 283.5	\$ 162.8	64%	\$234.9	\$ 48.6

Note 1: Capital Adjusted Budget includes Adopted Budget and prior year capital carryforward

Note 2: Budgetary basis Actuals includes actuals and encumbrances as of 06/30/21

Observations

- FY 21 Operating Expenditures of \$421.2M or 96% of Budget
- SCW Fund \$4.7M below budget due to impact of COVID 19 on project schedules (pending execution for grants projects, CDC restrictions on Encampment Cleanup / suspended activities in the Impaired Water Bodies Improvements project).
- Water Utility Enterprise Fund savings \$6.5M primarily due to savings in training and travel and debt service expenses.
- FY 21 Capital Expenditures of \$283.5M of the Adj Budget, lower spending primarily due to project schedule changes and contract encumbrance/contract award delays.

Back Up Slides

FY 21 Unaudited Revenue and Expenditures – General Fund

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Property Tax	\$ 9.2	\$ 9.8	\$ 0.6	106%	\$ 9.2	\$ 0.6
Interest Income	0.2	0.1	(0.1)	62%	0.4	(0.3)
Other	-	0.1	0.1	-	0.1	-
Total Revenue	\$ 9.4	\$ 10.0	\$ 0.6	106%	\$ 9.7	\$ 0.3

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Operations	\$ 69.0	\$ 67.9	1.1	98%	\$ 58.6	\$ 9.3
Operating Project	-	-	-	-	-	-
Debt Service	0.5	0.5	-	100%	0.5	-
Operating Outlays	\$ 69.5	\$ 68.4	\$ 1.1	98%	59.1	9.3
Capital Projects	3.0	3.0	-	100%	1.5	1.5
Capital Outlays	3.0	3.0	-	100%	1.5	1.5
Total Outlays	\$ 72.5	\$ 71.4	\$ 1.1	98%	\$ 60.6	\$ 10.8

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

Note 2: FY 21 Actuals column reflects Budgetary basis Actuals, includes actuals and encumbrances as of 06/30/21

Note 3: Operating Expenditures does not include OPEB and Pension accruals related to unfunded liability

Note 4: Capital Adjusted Budget includes Adopted Budget and prior year capital carryforward

Note 5: Budgetary basis Actuals includes actuals and encumbrances as of 06/30/21

Observations

- General Fund FY 21 Operating Capital budget expenditures on target

FY 21 Unaudited Revenue and Expenditures – Service Funds

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Interest Income	0.4	0.5	0.1	123%	0.8	(0.3)
Non-Operating Other	0.1	0.1	-	100%	0.3	(0.2)
Total Revenue	\$ 0.5	\$ 0.6	\$ 0.1	120%	\$ 1.1	\$ (0.5)

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Operations	\$ 31.6	\$ 30.4	1.2	96%	\$ 22.7	\$ 7.7
Operating Project	0.3	0.2	0.1	67%	1.1	(0.9)
Operating Outlays	\$ 31.9	\$ 30.6	\$ 1.3	96%	23.8	6.8
Capital Projects	18.7	9.4	9.3	50%	11.3	(1.9)
Capital Outlays	18.7	9.4	9.3	50%	11.3	(1.9)
Total Outlays	\$ 50.6	\$ 40.0	\$ 10.6	79%	\$ 35.1	\$ 4.9

Observations

- Operations savings \$1.3M due to vacant position salary savings and lower vehicle maintenance expenses
- Capital projects outlays \$9.3M lower than Budget due to purchase delay of network equipment (global microprocessors/computer chip shortage) and several unplanned high priority tasks (cybersecurity) affected IT's ability to carry out computer refresh and software upgrades

FY 21 Unaudited Revenue & Expenditures – Watershed & Stream Stewardship Fund

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Property Tax	\$ 93.5	\$ 98.6	\$ 5.1	105%	\$ 93.1	\$ 5.5
Intergovernmental Services	-	-	-	-	0.5	(0.5)
Interest Income	2.6	2.1	(0.5)	82%	3.1	(1.0)
Capital Reimbursements	20.1	5.0	(15.1)	25%	15.2	(10.2)
Other	1.7	2.1	0.4	122%	2.8	(0.7)
Total Revenue	\$ 117.8	\$ 107.8	\$ (10.1)	91%	\$ 114.7	\$ (6.9)

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Operations	\$ 59.8	\$ 57.4	2.4	96%	\$ 50.2	\$ 7.2
Operating Project	2.8	1.5	1.3	-	1.4	0.1
Operating Outlays	\$ 62.6	\$ 58.9	\$ 3.7	94%	51.7	7.2
Capital Projects	87.4	63.4	24.0	73%	19.0	44.4
Capital Outlays	87.4	63.4	24.0	73%	19.0	44.4
Total Outlays	\$ 150.0	\$ 122.3	\$ 27.7	82%	\$ 70.7	\$ 51.6

Observations

- Property Tax higher than budgeted due to the 2021 growth in property assessed values (changes in ownership and new construction)
- Capital Reimbursements \$15.1M less than budget primarily due to reimbursements for the SFBRA Measure AA Grant for the SF Bay Shoreline project that have been partially collected and are still in process.
- Capital Outlays are \$24.0M lower due to:
 - Updated project schedule for Calabazas Creek Bank Repair Project (\$8.4M), which shifts remaining funds to FY 22;
 - Encumbrance of construction costs (awarded during the 5/25/21 Board Meeting) in FY22 instead of FY 21 for the Lower Berryessa Creek project (\$9.9M)
 - Project delays in the Lower Silver project (\$2.0M)

FY 21 Unaudited Revenue & Expenditures– Safe, Clean Water Fund

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Special Parcel Tax	\$ 45.5	\$ 46.1	\$ 0.6	101%	\$ 46.1	-
Interest Income	3.4	2.0	(1.4)	60%	3.6	(1.6)
Capital Reimbursements	12.2	8.5	(3.7)	70%	14.3	(5.8)
Other	-	0.4	0.4	-	0.4	-
Total Revenue	\$ 61.1	\$ 57.0	\$ (4.1)	93%	\$ 64.4	\$ (7.4)

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Operations	\$ 16.2	\$ 13.2	3.0	81%	\$ 11.5	\$ 1.7
Operating Project	2.5	1.7	0.8	66%	9.0	(7.4)
Debt Service	1.7	0.9	0.9	50%	0.6	0.3
Operating Outlays	\$ 20.4	\$ 15.7	\$ 4.7	77%	21.1	(5.4)
Capital Projects	127.0	71.7	55.3	56%	70.9	0.8
Capital Outlays	127.0	71.7	55.3	56%	70.9	0.8
Total Outlays	\$ 147.4	\$ 87.4	\$ 60.0	59%	\$ 92.0	\$ (4.6)

Observations

- Capital Reimbursements \$3.7M less than budgeted primarily due to reimbursements from state subventions that are partially collected and still in process for the Llagas Creek project.
- Operations outlays savings primarily due to impact of COVID on projects (ie: agreements pending execution for grant projects; CDC restrictions Encampment Cleanup project; suspended activities in the Impaired Water Bodies project), and permitting challenges related to the Uvas Creek Fish Habitat Improvement project;
- Capital Outlays are \$55.3M lower due to:
 - Project delays for the Sunnyvale East & West project(\$17.3M) and Upper Penitencia Creek Project(\$6.6M) and Upper Guadalupe River project (\$6.9M);
 - Reimbursements pending to USACE for the Berryessa Calaveras Project (\$12.2M)

FY 21 Unaudited Revenue and Expenditures – Benefit Assessment Funds

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Lower Peninsula Watershed	\$ 2.7	\$ 2.7	\$ -	100%	\$ 2.7	\$ -
West Valley Watershed	2.0	2.0	-	100%	2.3	(0.3)
Guadalupe Watershed	4.0	4.0	-	100%	4.5	(0.5)
Coyote Watershed	3.7	3.7	-	100%	3.9	(0.2)
Total Revenue	\$ 12.4	\$ 12.4	\$ -	100%	\$ 13.4	\$ (1.0)

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Debt Service	11.2	11.0	0.2	99%	11.0	-
Total Outlays	\$ 11.2	\$ 11.0	\$ 0.2	99%	\$ 11.0	\$ -

Observations

- Revenue received and expenditures by zone, comprised of voter-approved debt repayment of the benefit assessment program

FY 21 Unaudited Revenue and Expenditures – Water Utility Enterprise Fund

Revenue

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Over/(Under) Adj Budget	FY21 Est % Rec'd	FY20 Actuals	FY21 vs FY20
Groundwater Charges	\$ 121.1	\$ 121.5	\$ 0.4	100%	\$ 112.6	\$ 8.9
Treated Water Charges	137.4	154.9	17.5	113%	152.6	2.3
Surface/Recycled	2.6	2.6	-	102%	1.7	0.9
Intergovernmental Services	1.2	4.0	2.8	323%	3.7	0.3
Property Tax	26.2	30.3	4.1	116%	30.2	0.1
Capital Reimbursements	11.4	6.4	(5.0)	56%	4.3	2.1
Interest Income	3.5	4.3	0.8	121%	5.5	(1.3)
Other	2.1	2.5	0.4	119%	2.7	(0.2)
Total Revenue	\$ 305.5	\$ 326.5	\$ 21.0	107%	\$ 313.3	\$ 13.2

Total Outlays

(\$ in millions)	FY21 Adj Budget	FY21 Est Actuals	Remaining Budget	FY21 % Spent	FY20 Actuals	FY21 vs FY20
Operations	\$ 201.4	\$ 197.3	4.1	98%	\$ 165.1	\$ 32.2
Operating Project	0.3	0.3	0.0	95%	0.2	0.1
Debt Service	41.4	39.0	2.4	94%	34.2	4.8
Operating Outlays	\$ 243.1	\$ 236.6	\$ 6.5	97%	199.5	37.1
Capital Projects	210.2	136.0	74.2	65%	132.2	3.8
Capital Outlays	210.2	136.0	74.2	65%	132.2	3.8
Total Outlays	\$ 453.3	\$ 372.6	\$ 80.7	82%	\$ 331.7	\$ 40.9

Observations

Revenue:

- Treated/Groundwater Revenue higher than budget due to approximately 24 KAF volume higher consumption
- Capital Reimbursements shortfall primarily due to delays in Pacheco and So. Co. Recycled Water Pipeline reimbursements

Operations:

- \$2.0M unspent administrative support primarily in training
- \$1.1M unspent for Dams/Reservoir General Maintenance due to delayed lower access road availability at Lenihan Dam
- \$2.4M debt service savings due to lower than anticipated interest costs

Capital:

- \$24.3M due to Pacheco contract scope and schedule changes
- \$10.7M Rinconada Residuals Remediation Construction contract awarded in July 2021 rather than June 2021
- \$8.9M due to So. Co. Recycled Water Pipeline Short-Term 1B project schedule delays
- \$5.2M delays to 10-Year Pipeline project due to drought impact on District-wide shut down schedule
- \$25.1M due to variances across 54 project budgets

FY 21 Year – end Reserve Balances (unaudited)

Estimated Actual Reserve Balances higher than projected

(\$ in millions)	FY20 Actual	FY21 Projected	FY21 Year-end (unaudited) Estimate	FY 21 Year End Estimate vs Projected
Restricted Reserves				
Safe Clean Water Fund	\$ 153.4	\$ 105.2	\$ 131.9	26.7
Water Utility Enterprise Fund	81.6	63.8	67.8	4.0
Restricted Subtotal	\$ 235.0	\$ 169.0	\$ 199.7	\$ 30.7
Committed Reserves				
General Fund	\$ 8.2	\$ 5.8	\$ 7.0	1.2
Watershed & Stream Stewardship Fund	161.6	92.6	131.5	38.9
Water Utility Enterprise Fund	86.8	141.1	210.2	69.1
Service Funds	27.0	18.8	27.8	9.0
Committed Subtotal	\$ 283.6	\$ 258.3	\$ 376.5	\$ 118.2
Total Reserves	\$ 518.6	\$ 427.3	\$ 576.2	\$ 148.9

Observations

- Overall, FY 21 estimated year-end reserve balances of \$576.2M, \$148.9M higher than FY 21 projected
- Safe Clean Water Fund Reserve: \$26.7M higher than projected, primarily due to lower capital spending
- Watershed & Stream Stewardship Fund: \$38.9M higher due to actual FY21 expenditures lower than projected for San Francisco Bay Shoreline Project
- Water Utility Enterprise Fund: \$73.1M higher than projection (\$57.1M in Currently Authorized Project Reserves, \$12.0M in Operating and Capital reserve and \$4.0M in Restricted State Water Project Reserve)
- Service Fund Reserve: \$9.0M higher than projected (\$7.7M in Currently Authorized Project reserves and \$1.3M in Operating and Capital Reserve)

QUESTIONS



Santa Clara Valley Water District

File No.: 21-1005

Agenda Date: 9/15/2021
Item No.: 6.1.

NON-EXHIBIT/CLOSED SESSION ITEM

SUBJECT:

CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

INITIATION OF LITIGATION Government Code Section 54956.9(d)(4)

One Potential Case

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