

Overview

OVERVIEW

The Santa Clara Valley Water District's (Valley Water) Fiscal Year (FY) 2021-25 Five-Year Capital Improvement Program (CIP) is a projection of Valley Water's capital funding for planned capital projects from FY 2020-21 through FY 2024-25. The purpose of the CIP is to document planned Valley Water projects to help integrate Valley Water work with the larger community by aligning Valley Water planning with other local agency planning efforts.

Valley Water's CIP is developed following the guidelines of Government Code (GC) § 65403 which governs the development and annual review of Capital Improvement Programs developed by special districts in the State of California. State law requires that the program be reviewed and updated annually. It also requires circulation of the document to all agencies having land use authority within Valley Water boundaries prior to adoption of the program. This document is intended to provide the information necessary to facilitate planning and construction of water-related infrastructure to meet the needs of Santa Clara County.

The CIP is prepared in accordance with the guidelines established by the Government Finance Officers Association (GFOA). Capital projects in this document are defined by both the accounting criteria for capital investment and the California Public Contract Code definition of public works. They exceed \$50,000 in cost, have long-term life spans and are generally nonrecurring. They usually fall within one of the following six categories:

1. Acquisition of land for public purpose;
2. Construction of a significant facility, i.e. a flood protection facility, a water treatment facility, or a building;
3. Addition to or expansion of an existing facility;

4. Nonrecurring rehabilitation or major repair to all or part of a facility provided the total cost is more than \$50,000;
5. Specific planning, engineering study, or design work related to an individual project which falls within the above categories;
6. Significant one-time investment in tangible goods of any nature, the benefit of which will accrue over several years. Examples include items such as large initial investments or improvements in technology or the purchase of a new telephone system.

The CIP includes several Small Capital Improvement Projects in the various funds. These projects will be ongoing and will be used to fund multiple small projects to undertake repairs, replacements, and minor modifications to existing water utility, watershed or campus facilities. Small Capital Improvements generally meet the following criteria:

1. Project cost is less than \$2.5 million;
2. Project can be completed within 2 fiscal years;
3. Rights-of-way acquisition is not required.

The proposed funding for the Water Supply Small Capital Improvement projects is anticipated to vary each year based on the work identified in the Water Utility Asset Management Plan. The Facility Management, Small Capital Improvements project is funded at a flat rate each year. Unspent funds in these projects will not carry forward from previous years.

There are some miscellaneous capital expenditures incurred by Valley Water that are not captured in the CIP. These capital expenditures include certain components of water purchases, indirect costs to manage and train staff that are fully engaged in capital work, and routine replacement of vehicles and large equipment.

Mission

SANTA CLARA VALLEY WATER

The mission of Valley Water is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.

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ALIGNMENT WITH ENDS POLICIES

Valley Water plans, manages and carries out capital improvements to comply with the Ends Policies and Executive Limitations established by its Board of Directors. Under Valley Water's Policy Governance Model, Ends Policies describe the outcomes or results to be achieved by Valley Water staff. The Executive Limitations balance the Ends Policies and set limits on staff activities in fulfilling them.

Program plans, master plans and the asset management plan are developed to achieve the results established by the Ends Policies and to further define the goals and objectives of each Ends Policy. The Board either formally approves the plans or provides direction to staff, confirming the goals and objectives. These plans then become the basis for staff to propose and develop individual capital projects. Project ideas that are proposed by Operations staff must be vetted via a feasibility study and then validated to prepare a business case for proceeding with a capital investment. Some high-profile feasibility studies are included in the CIP. Alignment of the CIP with program or master plans provides a direct link to Ends Policies and ensures Valley Water's long-term capital investments are planned and executed according to the Board's priorities. Three Ends Policies directly drive program or master plans and the types of capital improvements described in the CIP:

- Ends Policy E-2 "There is a reliable, clean water supply for current and future generations."
- Ends Policy E-3 "There is a healthy and safe environment for residents, businesses and visitors, as well as for future generations."
 - E-3.1 "Provide natural flood protection for residents, businesses, and visitors"
 - E-3.2 "Reduce potential for flood damages"
- Ends Policy E-4 "There is water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County."

(See flowchart "CIP Process Alignment with Ends Policies" on page I-5)

CIP PLANNING PROCESS

Valley Water conducts an annual planning process for its CIP. The purpose of the CIP Planning Process is to ensure the capital projects included in the CIP:

- Meet the Board's priorities and contribute to the objectives of Valley Water's various programs;
- Have identified funding for the duration of the projects; and
- Are coordinated with the local jurisdiction's General Plans.

The CIP Planning Process is carried out in accordance with the following Executive Limitations:

- Executive Limitation EL-4.3.1., "A BAO shall produce an annual Rolling Five-Year Capital Improvement Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan."
- Executive Limitation EL-4.4.1., "A BAO shall demonstrate to the Board the planned expenditures for the identified and selected capital projects in the Rolling Five-Year Capital Improvement Plan are aligned with the Board's capital priorities."

The annual CIP Process is the responsibility of the CIP Group comprised of division managers, with the responsibility to initiate or implement capital projects. The detailed process is a documented ISO procedure. It includes the following key steps:

- Management review and approval, to ensure staff proposed projects are aligned with Board policies and approved program plans;
- Validation of projects to ensure there is a business case for doing the project and that a capital investment is the best solution;
- Review of all projects, including continuing and newly proposed projects, to ensure the projects in the CIP reflect Board priorities;
- Financial analysis, to determine the capacity of Valley Water's capital funding sources to fund the proposed capital projects;

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- Review of impacts the completed capital project will have on the Operations and Maintenance (O&M) resources.
- Outreach to local jurisdictions with land use authority, within Santa Clara County, to coordinate Valley Water's Capital Improvement Program with their General Plans;
- Board review and direction at appropriate steps, to ensure the CIP reflects Board policies and priorities; and
- Board adoption of the CIP plan.

The annual CIP Planning Process starts with collecting information on proposed new capital projects in July, followed by the validation of proposed new projects, preliminary scoping, review and financial analyses to produce a Draft CIP in February. The Draft CIP serves as a multi-year plan, and together with other long-term planning efforts of Valley Water, is the basis for the budget for the following fiscal year. This Draft CIP plan is also reviewed by local jurisdictions for consistency with their General Plans. While the Draft CIP is being reviewed by the cities and County, the budget is reviewed and finalized. The Board concludes the outreach on the Draft CIP with a public hearing. The first year of the CIP is reconciled with the budget; The Resolution to adopt the CIP and the budget are presented to the Board for approval in May.

Board Direction and CIP Outreach

The Board has many opportunities each year to provide direction on projects contained in the CIP. The CIP is developed in parallel with the budget and the water rates. It is presented to the Board for review and input on multiple occasions throughout the development process. Early in the validation process the list of newly proposed projects is presented to the Board so they can provide direction to staff, followed by Board workshops to review the Preliminary CIP to ensure that the document is developed in accordance with Board priorities. The direction received is used to develop the Draft CIP which is reviewed by the Board before staff is authorized to release the document for public review. Following a public hearing, the Board approves the resolution to adopt the Final CIP in May.

The Board CIP Committee meets throughout the year to review and discuss information related to the development and implementation of the CIP and provide input to staff. The Committee provides recommendations on issues ranging from project implementation, to resource utilization and funding sources or distribution. The Committee's recommendations are presented to the Board for direction on incorporation into the CIP document or implementation by staff.

On January 14, 2020 the FY 2021-25 Preliminary CIP project list was reviewed and endorsed by the Board. The following are highlights of changes from the previous year that have been approved as the basis for the FY 2021-25 CIP:

- To fully fund the Water Supply projects in the FY 2021-25 CIP, staff initially proposed increases in groundwater production charges of up to 8.6% in North County Zone W-2 and 9.4% in South County Zone W-7 and a reduction of no more than 2.9% for the modified South County Zone W-5 and 32% for the new South County Zone W-8 in FY 2020-21. In light of the economic crisis spurred on by the COVID-19 Pandemic, Valley Water's Board of Directors directed staff to implement a 0% increase to the existing rates for North County Zone W-2 and South County Zone W-7. Staff will return mid-year FY 2021 with updates regarding the local economic situation to determine if a rate adjustment is feasible at that time.
- Five new Water Supply projects with a combined value of \$120.9 million were added to the CIP. They are; Land Rights – South County Recycled Water Pipeline Project, Almaden Valley Pipeline Replacement Project, SCADA Implementation Project; Water Treatment Plant Implementation Project, and Distribution System Implementation Project.
- The Los Gatos Creek Restoration and Flood Protection Project (Safe, Clean Water Program Priority D, Project D6) had been added to the FY 2020-24 CIP with \$9M in funding, but was removed this year because the landowner Google, Inc. is not proceeding with a flood protection and stream restoration project that aligns with the Safe, Clean

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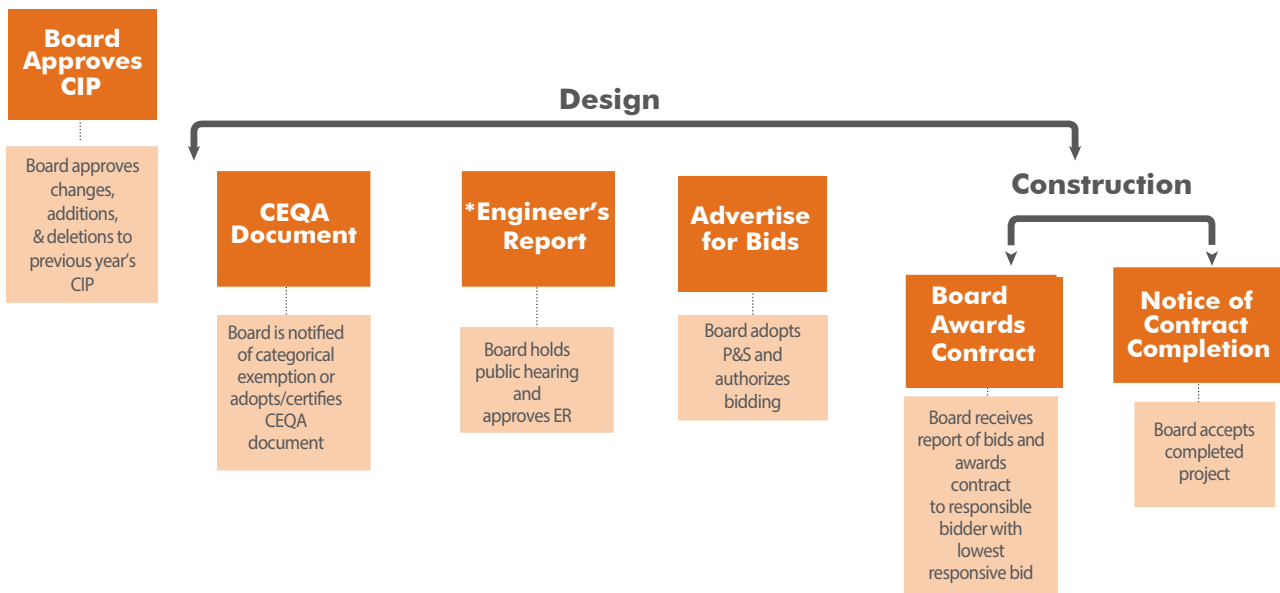
Water Project D6 Key Performance Indicator and therefore cannot receive Safe, Clean Water Program funds.

- The Guadalupe River, Tasman Drive to I-880 Project was approved by the Board for inclusion in the FY 2020-24 CIP with \$1 million in funding for planning. Project funding has increased in the FY 2021-25 CIP to \$99 million to reflect all future planning, design and construction costs to restore design flow conveyance capacity.
- The Palo Alto Flood Basin Tide Gate Structure Improvement Project increased in cost by \$20 million due to increased construction phase cost estimates.
- The Upper Llagas Creek Flood Protection Project increased by \$60 million to correctly reflect future year funding requirements. Funding sources have been updated to reflect the pursuit of outside funding from the Natural Resource Conservation Service.

- The South San Francisco Bay Shoreline Project Phase 1 increased in cost by \$49M due to costs for right of way acquisition, levee soil acquisition, and construction of ecotone that were not included in the original estimated project cost.

Projects in the CIP are typically divided up into planning, design and construction phases. The Board may determine not to implement a project based on various considerations, such as financial constraints, environmental impacts, Operations and Maintenance, or community desire during a project's planning or design phases. The Board has various opportunities to provide direction and approval of capital projects as shown in the graphic below.

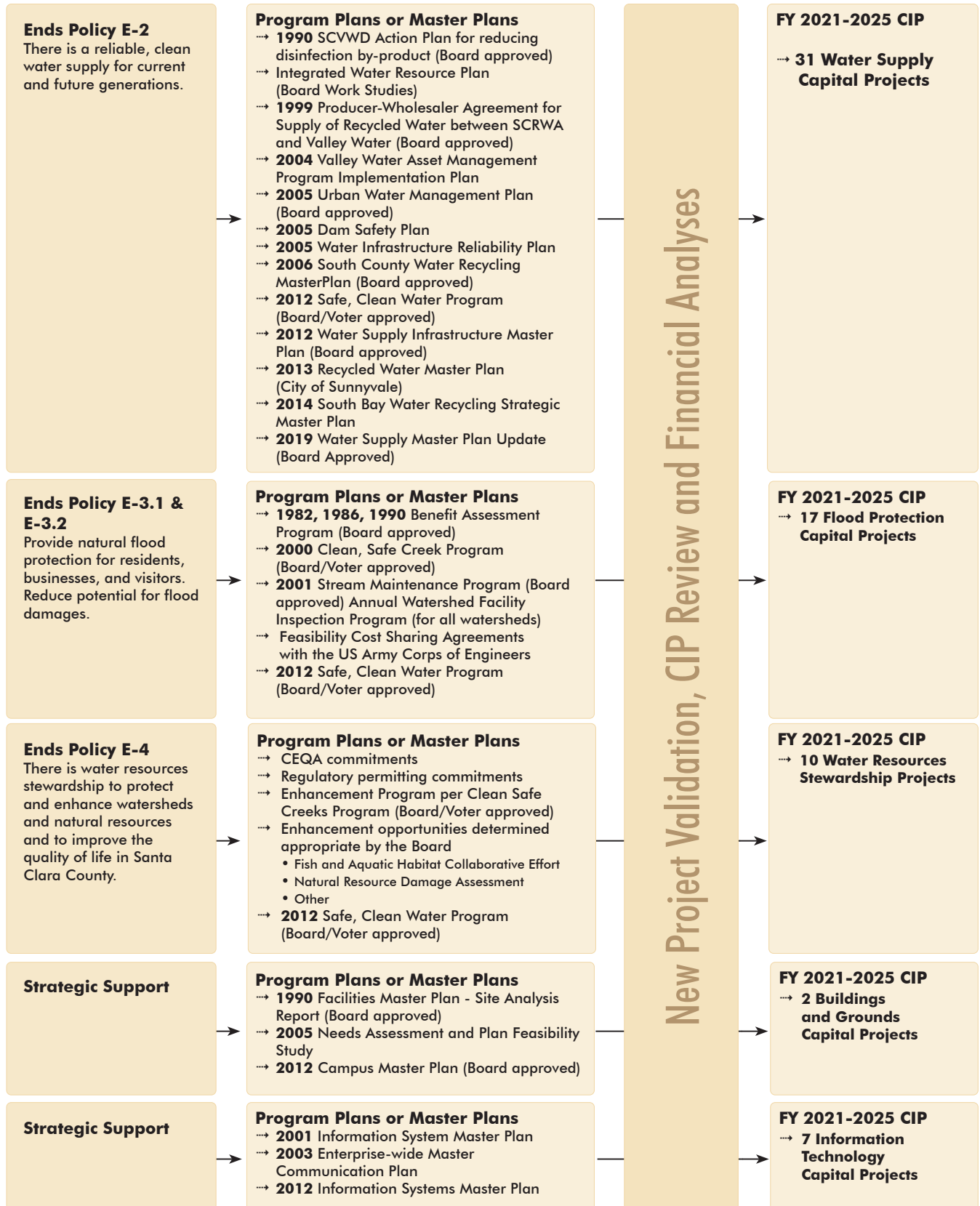
OPPORTUNITIES FOR BOARD DIRECTION ON CAPITAL PROJECTS



* Board approval of the Engineer's Report is required only on projects with zone funding.

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CIP PROCESS ALIGNMENT WITH ENDS POLICIES



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FISCAL YEAR 2021-25 CIP SUMMARY

The recommended CIP for FY 2021-25 includes 67 priority projects to implement the goals and objectives of Valley Water’s program plans and master plans. These projects are grouped into five types of improvements:

- **Water Supply Capital Improvements**
31 projects contributing to Ends Policy E-2
- **Flood Protection Capital Improvements**
17 projects contributing to Ends Policy E-3
- **Water Resources Stewardship Capital Improvements**
10 projects contributing to Ends Policy E-4
- **Buildings and Grounds Capital Improvements**
2 projects supporting Valley Water efforts to achieve the Ends Policies
- **Information Technology Capital Improvements**
7 projects supporting Valley Water efforts to achieve the Ends Policies

Each of the 67 projects in the CIP has an identified funding source based on the type of improvement or function of the project.

The principal sources of revenue for Valley Water are: property taxes; a special parcel tax, which funds the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program); and water production charges for use of groundwater, treated water, and surface water. These revenues are organized into eight funds. Seven of the eight funds have a specific purpose and only finance the operational and capital

expenditures related to that purpose. In 2008 the Board decided to combine the individual watershed funds into a county-wide watershed and stream stewardship fund to send the message that the watershed activities are managed for the benefit of the county. This also streamlines most tracking and accounting activities for staff. Valley Water continues to receive a small amount of revenue from benefit assessments that were approved by voters in the 80s and 90s. These funds are dedicated to specific watersheds and the accounting practices to ensure that they are spent and accounted for appropriately have been kept in place. As shown in the chart below, five of the eight funds are used to finance the five types of capital improvements in the CIP.

Valley Water aggressively pursues external funding to supplement its principal revenue when practical. For a complete listing of grants and partnerships see Appendix A.

A number of Valley Water projects are receiving substantial State funding through grants:

- \$25 million for Lower Silver Creek and Cunningham Flood Detention from DWR;
- \$485 million for Pacheco Reservoir from the California Water Commission;
- \$30 million for Upper Berryessa, Lower Berryessa, and Lower Penitencia from DWR; and
- \$61.5 million for South San Francisco Bay Shoreline Phase 1 Project from the San Francisco Bay Restoration Authority.

VALLEY WATER PRIORITIES	Valley Water Funds				
	Water Utility Enterprise Fund	Watershed Stream Stewardship Fund	General Fund	Safe, Clean Water Fund	Information Technology Fund
Water Supply	🔴			🔴	
Flood Protection		🔴		🔴	
Water Resources Stewardship	🔴	🔴		🔴	
Buildings and Grounds			🔴		
Information Technology	🔴				🔴

This chart identifies which types of improvement are associated with each of Valley Water’s five capital funds.

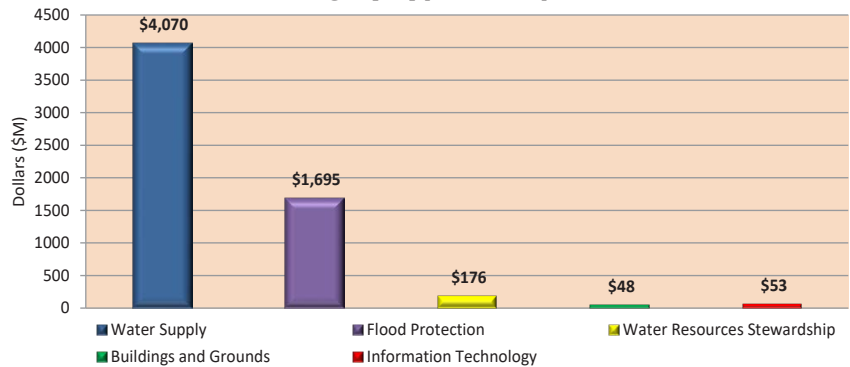
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The estimated total funding required to implement the 67 projects defined in the CIP is \$6.520 billion. Valley Water has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$6.520 billion total funding, \$1.218 billion is expected from Valley Water’s various partners, such as the U.S. Army Corps of Engineers (USACE), and \$5.302 billion from Valley Water. A list of projects that are funded cooperatively with Valley Water’s partners is summarized in Appendix A. Funding from partners for the cooperative capital projects generally come in two ways:

- Funds that are made available by the partners when needed (cost-sharing agreements or in-kind services), or
- Funds that are reimbursed by the partners after Valley Water advances the needed funds.

Of the \$1.218 billion that is expected from Valley Water’s partners, \$742 million is advanced by Valley Water and reimbursed later. This \$742 million is included in the CIP, and increases Valley Water’s total funding requirement from \$5.302 billion to \$6.044 billion, to ensure that Valley Water has adequate funding to advance the reimbursement.

CIP Funding by Type of Improvement

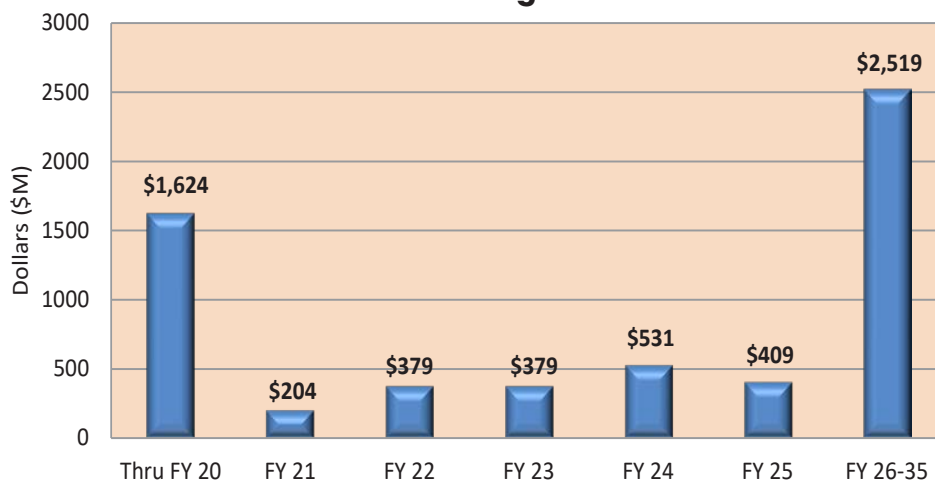


The chart above shows the distribution by type of improvement, of the \$6.044 billion total CIP funding as planned in the FY 2021-25 CIP.

The chart above shows how the \$6.044 billion to implement the 67 projects is allocated to each of the five types of improvements.

Of the \$6.044 billion in total funding for the 67 projects identified in the CIP, the Board has appropriated \$1.624 billion in prior years (through June 30, 2020, the end of Fiscal Year 2019-20). This year’s CIP process identified additional funding needs of \$4.421 billion to complete the projects in the CIP, with \$204 million allocated in Fiscal Year 2020-21 and a total of \$4.217 billion proposed for future years. The table shown on page I-8 breaks down the fiscal year total by the five types of improvement and by applicable funding sources.

CIP Funding Schedule



The chart above shows how the \$6.044 billion is distributed by fiscal year.

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CIP Funding Schedule by Type of Improvement and Funding Sources (\$K)

	Through FY19	FY20	FY20 Unspent	FY21	FY22	FY23	FY24	FY25	FY26-35	TOTAL
WATER SUPPLY										
Water Utility Enterprise Fund	495,396	120,611	29,388	117,445	202,358	213,097	385,523	334,273	2,172,205	4,040,908
Safe, Clean Water and Natural Flood Protection Fund	18,326	733	671	633	1,902	27	2,522	2,592	2,773	29,508
Water Supply Total	513,722	121,344	30,059	118,078	204,260	213,124	388,045	336,865	2,174,978	4,070,416
FLOOD PROTECTION										
Watershed Stream Stewardship Fund	381,441	54,130	16,548	28,119	51,710	38,916	95,552	43,565	186,326	879,759
Safe, Clean Water and Natural Flood Protection Fund	450,109	30,046	44,347	48,702	84,967	96,833	26,223	3,953	74,850	815,683
Flood Protection Total	831,550	84,176	60,895	76,821	136,677	135,749	121,775	47,518	261,176	1,695,442
WATER RESOURCES STEWARDSHIP										
Water Utility Enterprise Fund	5,597	21	2,699	170	7,883	5,018	2,475	11,710	30,316	63,190
Watershed Stream Stewardship Fund	28,826	1,893	1,382	2,412	17,212	13,672	4,117	3,716	20,500	92,348
Safe, Clean Water and Natural Flood Protection Fund	5,828	1,646	3,389	-	7,228	2,180	218	1,897	1,953	20,950
Mitigation Total	40,251	3,560	7,470	2,582	32,323	20,870	6,810	17,323	52,769	176,488
BUILDINGS AND GROUNDS										
General Fund	20	2,063	-	3,016	5,188	5,199	9,784	5,553	17,655	48,478
Buildings and Grounds Total	20	2,063	-	3,016	5,188	5,199	9,784	5,553	17,655	48,478
INFORMATION TECHNOLOGY										
Water Utility Enterprise Fund	2,723	1,162	877	156	204	1,475	2,985	854	3,747	13,306
Information Technology Fund	20,975	1,973	4,307	3,334	793	2,453	1,388	459	8,581	39,956
Information Technology Total	23,698	3,135	5,184	3,490	997	3,928	4,373	1,313	12,328	53,262
TOTAL	1,409,241	214,278	103,608	203,987	379,445	378,870	530,787	408,572	2,518,906	6,044,086
CUMULATIVE TOTAL	1,409,241	1,623,519		1,827,506	2,206,951	2,585,821	3,116,608	3,525,180	6,044,086	

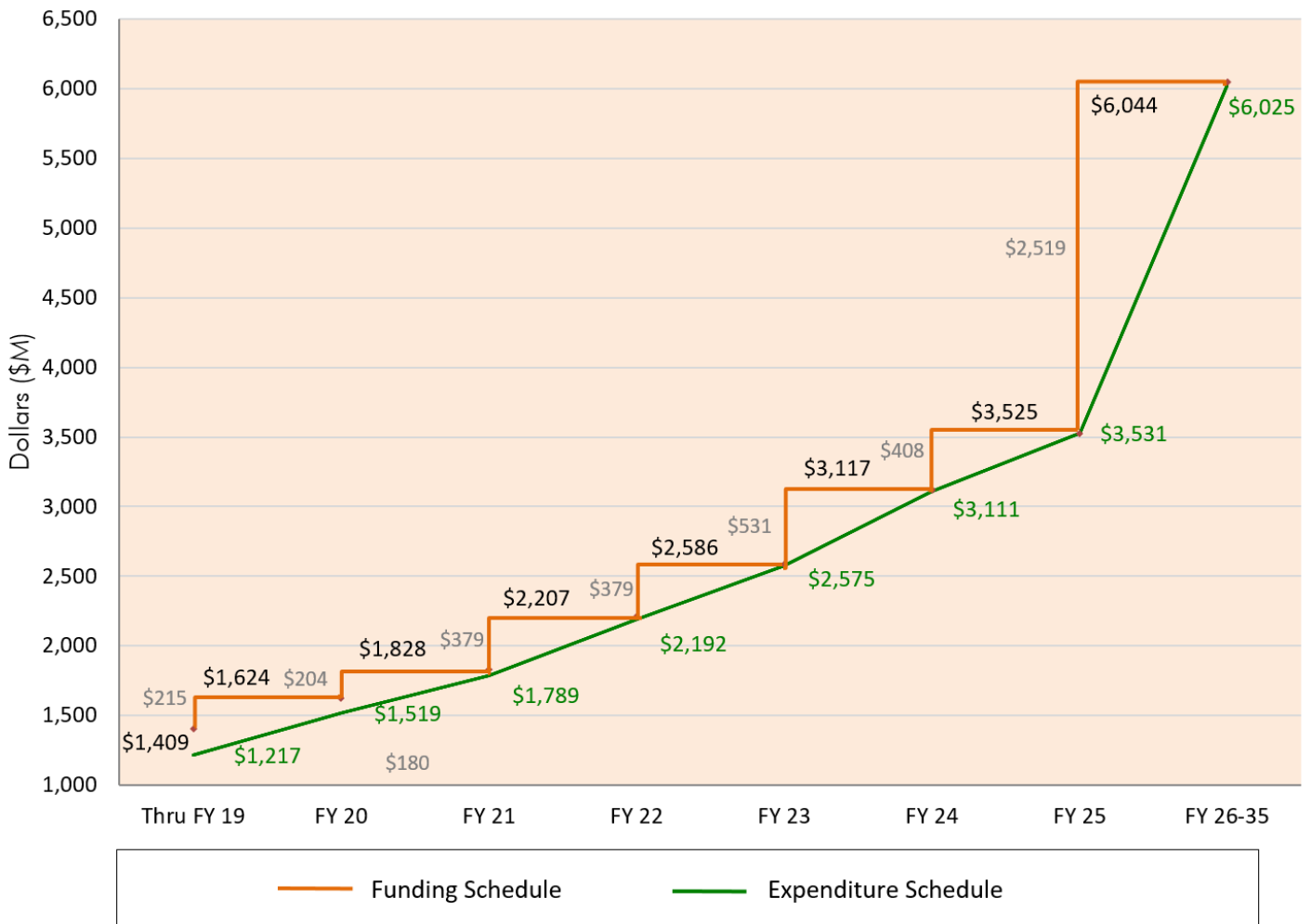
 FY 2019-20 Funds to be reappropriated

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As shown in the table, CIP Funding Schedule by Type of Improvement and Funding Sources (on the previous page): approximately \$104 million of the already appropriated \$1.624 billion is not spent and is reappropriated to FY 2020-21 for continued use

in those same projects in amounts consistent with the project expenditure schedule for FY 2020-21. The following chart explains the relationship between the CIP funding schedule and expenditure schedule.

CIP Funding Schedule vs. CIP Expenditure Schedule



Overview

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