Santa Clara Valley Water District
Board Audit Committee Meeting

Teleconference Zoom Meeting
5700 Almaden Expressway
San Jose, CA 95118

2:00 PM REGULAR MEETING
AGENDA

Wednesday, October 21, 2020
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
Linda J. LeZotte, District 4

All public records relating to an 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 for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, 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 attend Board of Directors' 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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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
AGENDA

Wednesday, October 21, 2020	2:00 PM	Teleconference Zoom Meeting

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-29-20 issued on March 17, 2020 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" or "Chat" tools 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.

Join Zoom Meeting:
https://valleywater.zoom.us/j/92008909366
Meeting ID: 920 0890 9366
Join by Phone:
1 (669) 900-9128, 92008909366#

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" or "Chat" tools 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. 20-0923

Recommendation: Approve the minutes.
Manager: Michele King, 408-630-2711
Attachments: Attachment 1: 091620 BAC Minutes
Est. Staff Time: 5 Minutes

4. ACTION ITEMS:

4.1. Receive an Update on the Status of the Safe, Clean Water Program Grant Management Audit. 20-0945

Recommendation: Receive an update on the status of the on-going Safe, Clean Water Program Grant Management Audit.
Manager: Darin Taylor, 408-630-3068
Attachments: Attachment 1 - Grants Management Program Audit Progress Repc
Est. Staff Time: 5 Minutes

4.2. Approve the Final Audit Report for the Real Estate Services Audit for Presentation to the Full Board. 20-0946

Recommendation: Approve the final audit report for the Real Estate Services Audit and direct staff and TAP International, Inc. to present to the full Board at a future Board meeting.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Real Estate Services Audit Report

Est. Staff Time: 15 Minutes

4.3. Receive and Discuss the District Counsel Audit Draft Report. 20-0767

Recommendation:

A. Receive and Discuss the District Counsel Audit Draft Report; and
B. Approve Issuance of District Counsel Audit Draft Report.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: District Counsel Audit Draft Report

Attachment 2: PowerPoint

Est. Staff Time: 15 Minutes

4.4. Review and Approve the Updated 2020 Board Audit Committee Work Plan. 20-0909

Recommendation:

A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
B. Approve the updated 2020 BAC Work Plan.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment: 2020 BAC Work Plan

Est. Staff Time: 5 Minutes

4.5. Recommended Updates to Annual Audit Work Plan. 20-0910

Recommendation: Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: Annual Audit Work Plan

Est. Staff Time: 5 Minutes

5. INFORMATION ITEMS:

5.1. Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2019. 20-0644

Recommendation: Receive and discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2019.

Manager: Darin Taylor, 408-630-3068

Attachments: Attachment 1: 2019 WUE Audit

Est. Staff Time: 10 Minutes

5.2. Discuss Strategy to Establish Additional Auditors via a Master Services Agreement in Conjunction with Options to Conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021. 20-0912

Recommendation: Discuss strategy to establish additional auditors via a Master Services Agreement in conjunction with options to conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021.

Manager: Darin Taylor, 408-630-3068

Est. Staff Time: 5 Minutes

6. 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.

7. ADJOURN:

7.1. Adjourn to Regular Meeting at 2:00 p.m., on November 18, 2020, 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.

Santa Clara Valley Water District

Valley Water

File No.: 20-0923 **Agenda Date:** 10/21/2020
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: 091620 BAC Minutes

UNCLASSIFIED MANAGER:
Michele King, 408-630-2711

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Wednesday, September 16, 2020
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) was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 2:00 PM.

1.1 Roll Call.

Committee members in attendance were District 2 Director Barbara Keegan, Chairperson presiding. Committee members participating by teleconference were District 4 Director Linda J. LeZotte, and District 7 Director Gary Kremen, constituting a quorum of the Committee.

Staff in attendance were M. Overland and E. Sans. Staff members participating by teleconference were R. Callender, Chief Executive Officer (CEO), M. King, Clerk, Board of Directors, G. Del Rosario, B. Hopper, N. Nguyen, D. Taylor, B. Yerrapotu, and T. Yoke.

Also, in attendance by teleconference were D. Callahan, K. Kousser, D. Kahn, and G. Macdonald, 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 August 19, 2020, meeting. It was moved by Director LeZotte, seconded by Chairperson Keegan, and unanimously carried that the amended minutes be approved. Director Kremen abstained.

4. ACTION ITEMS

4.1 Status Update on the Safe, Clean Water Program Grant Management Audit.

Recommendation: Receive a status update on the Safe, Clean Water Program Grant Management Audit.

Mr. Drummond Kahn, and Ms. Greta Macdonald, TAP International Inc., reviewed the information on this item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

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

- The Committee informed staff that Grantee Interviews are a priority and should be completed before staff is interviewed; and
- Chairperson Keegan acknowledged receipt of the attached Request to Speak from Ms. Trish Mulvey, Palo Alto resident, identified as handout 4.1-A, herein, and read it into the record as follows: *I continue to be concerned about if-and-how the Auditors are considering the challenges of this grant program from the perspective of the grantees. It would be helpful if future Project Status Reports can include more insights as to how the current Safe, Clean Water Grant Management Program can become more responsive to its grantees.*

4.2 Management Response for the Real Estate Services Audit Conducted by TAP International, Inc.

Recommendation: Discuss the Management Response to the Real Estate Services Audit Report.

Ms. Kate Kousser, TAP International Inc., reviewed the information on this item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

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

- The Committee requested staff to ensure that “follow through” on the target implementation of Recommendation 7 (Page 18) is completed and verified; and
- The Committee recommends that deputies of the Capital Improvement Projects will ensure that each capital improvement project, that require

acquisition of right-of-way, continue to have Real Estate Services Unit staff involved in meetings at the beginning of the project as key core team members.

4.3 Receive a Response to the Board Audit Committee's Inquiries Regarding the Real Estate Services Audit Report Findings.

Recommendation: Receive a response to the Board Audit Committee's inquiries regarding the Real Estate Services Audit Report Findings.

Mr. Eli Serrano, Real Estate Services Manager, reviewed the information on this item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

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

- The Committee requested that staff and IT develop a CRM tracking mechanism to effectively communicate with customers and members of the public, and to bring this back to the Committee for discussion at a future Committee meeting.

Mr. Darin Taylor, Chief Financial Officer, reviewed the information on items 4.4, 4.5, and 4.6, per the attached Committee Agenda Memorandums.

4.4 Review and Approve the Updated 2020 Board Audit Committee Work Plan.

Recommendation:
A. Review and discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan;
B. Approve the updated 2020 BAC Work Plan; and
C. Discuss next performance audit to be conducted.

The Committee considered the attached update to the 2020 Board Audit Committee Work Plan, and it was moved by Director Kremen, seconded by Director LeZotte, and unanimously carried that staff bring to the full Board a recommendation that TAP International begin the Permitting Best Practices Audit; and that staff place the Desk Review of the Sponsorship Program on the November 18, 2020 Board Audit Committee Agenda for discussion by the Committee, by roll call vote.

4.5 Recommended Updates to Board Independent Auditor (TAP International, Inc.) Annual Audit Work Plan.

Recommendation: Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

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

- Staff to bring to the full Board an Agenda Item at a future Board meeting where the following will be discussed:

- Staff to combine the two Community Engagement Audits (BAC Work Plan Line Items 21 and 30) into one audit assuming there are no objections from the full Board;
- Staff to note that (BAC Work Plan Line Item 3) will be deferred to the next Risk Assessment scheduled for October 2021, given that Valley Water is currently embarking on a SCADA Master Plan effort, and assuming there are not objections from the full Board; and
- Staff to include in the following Committee request from Item 4.4:
  - Request for approval to start the Permitting Best Practices Audit, Page 49, Line 48.

4.6 Discuss the October 20201 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International Expires on June 30, 2021

Recommendation: Discuss the October 2021 risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021.

The Committee noted the information without formal action and requested the following:

- The Committee requested that staff bring this item back to the Committee for further discussion.

4.7 Discuss Proposed Updates to the Board Audit Committee Audit Charter.

Recommendation: Discuss proposed updates to the Board Audit Committee Audit Charter and decide whether or not to recommend for the full Board adoption at a future Board meeting.

Mr. Brian Hopper, Senior Assistant District Counsel, reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee considered the proposed updates to the Board Audit Committee Audit Charter, and it was moved by Director LeZotte, seconded by Director Kremen, and unanimously carried that staff incorporate the proposed changes to the Board Audit Committee Audit Charter and present to the full Board for adoption at a future Board meeting, by roll call vote.

5. INFORMATION ITEMS

5.1 Receive an Update on the Status of the Board Agenda Preparation Ad-hoc Desk Review.

Recommendation: Receive an update on the status of the on-going Board Agenda Preparation Ad-hoc Desk Review.

Ms. Callahan reviewed the information on this item, per the attached Committee Agenda Memorandum, and per the information contained in Supplemental Attachment 2.

The Committee noted the information without formal action and requested the following:

- The Committee requested staff to bring (to a future Board meeting) an Agenda Item to the full Board recommending that this item (Item 5.1) be referred to the Board Policy and Planning Committee for discussion and recommendations.

5.2 Valley Water Comprehensive Annual Financial Report Transparency and Policy Issues.

Recommendation: Discuss content and format of the Valley Water Comprehensive Annual Financial Report (CAFR) and determine whether or not to recommend policy changes to the full Board.

The Committee noted the information without formal action and requested the following:

- The Committee requested that this item be continued to a Special BAC meeting to be scheduled within the next two weeks via a Zoom Teleconference meeting.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

6.1 Clerk Review and Clarification of Committee Requests.

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

7. ADJOURN

7.1 Adjourn to Regular Meeting at 2:00 p.m., on October 21, 2020, 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 4:00 p.m., to the 2:00 p.m. Regular Meeting on October 21, 2020, 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 of the Board

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Santa Clara Valley Water District

Valley Water

File No.: 20-0945

Agenda Date: 10/21/2020
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Receive an Update on the Status of the Safe, Clean Water Program Grant Management Audit.

RECOMMENDATION:
Receive an update on the status of the on-going Safe, Clean Water Program Grant Management Audit.

SUMMARY:
On January 14, 2020, the Board of Directors approved TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, as recommended by the Board Audit Committee (BAC). In addition to the FY 2020-2021 ad-hoc Board Audits included in the Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International: key controls and financial management regarding the extension of grants under the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program); risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process.

On February 19, 2020, the BAC discussed the status of the Safe, Clean Water Program Grant Management ad-hoc desk review. The Board's Independent Auditor, TAP International, recommended that an auditor with expertise on grant management, conduct a performance audit of the Safe, Clean Water Grant Program.

At its regular meeting of July 15, 2020, the Board Audit Committee voted to recommend that the Board approve a Board audit of the Grant Management Program and further recommended that the services be provided through the existing agreement with TAP - a sub-consultant with subject matter expertise in grants management would be utilized to provide this service. On July 21, 2020, the Board approved this performance audit to be placed on the Board Audit Committee's Annual Audit Work Plan. The BAC received additional information at its August 2020 BAC meeting to facilitate a discussion of audit objectives for a proposed scope of work based on the desk review.

On September 2, 2020, independent contractors, Greta MacDonald and Drummond Kahn, initiated the Grant Management Performance Audit to assess whether Valley Water can provide assurance that risks are being managed appropriately and whether or not the department's internal control environment is operating effectively to ensure the safeguarding of public funds, with the focus on improving grant management operations and aligning current processes with best practices. Additionally, it will assess the timeliness of grant/contract approvals, and grant payments.

Following initiation of the audit, the Committee shall discuss the status of the on-going audit progress report (Attachment 1) until the audit is completed.

ATTACHMENTS:
Attachment 1: Grants Management Program Audit Progress Report

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Santa Clara Valley Water District **Performance Audit** **Grants Management and Administration**	**October 21, 2020**

PROJECT STATUS REPORT

PROJECT SUMMARY

REPORTING TIMEFRAME	PROJECT NAME	PREPARED BY
Sept. 16, 2020 - Current	Grants Management and Administration Audit	Drummond Kahn and Greta Macdonald

WORK CONDUCTED

PHASE	% DONE	TASK DESCRIPTION
Planning	100%	Completed Audit Workplan based on risk assessment (to discuss)
Implementation	15%	Began grant file testing
		Conducted grantee survey and staff interviews

WORK TO BE CONDUCTED WITHIN THE NEXT TWO WEEKS

PHASE	
Implementation	Continue sample testing of grant agreements and grant files
	Complete follow up interviews

ITEMS NEEDING ATTENTION

None at this time.

PRELIMINARY INFORMATION

None at this time.

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File No.: 20-0946 | Agenda Date: 10/21/2020
Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Approve the Final Audit Report for the Real Estate Services Audit for Presentation to the Full Board.

RECOMMENDATION:
Approve the final audit report for the Real Estate Services Audit and direct staff and TAP International, Inc. to present to the full Board at a future Board meeting.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits. On May 23, 2017, the Board, approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services.

On September 26, 2018, TAP International presented the final Risk Assessment Model to the BAC assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment Model developed heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment include input from Valley Water's Board of Directors, management, and staff and would be used to assist in the development of an Annual Audit Work Plan. The highest risk areas include procurement, contract change order management, succession planning, and fraud prevention.

On February 26, 2019, the Board approved the recommendation by the Board Audit Committee (Committee) for TAP International, Inc. (TAP) to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, Construction Contract Change Order management processes, and Real Estate services.

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from $405,000 to $1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP initiated the performance audits of the District Counsel's office and Real Estate services.

On July 24, 2020, TAP issued the preliminary draft of the Real Estate Services Audit report for formal comment. Management Response to the Real Estate Services Audit draft report was submitted by Valley Water to TAP on August 12, 2020. On August 13, 2020, TAP provided the Summary of Agency

Responses that were discussed by the Committee at the September 16, 2020, Board Audit Committee meeting. Upon approval, the Committee shall direct staff to present the approved final audit report (Attachment 1) to the Board of Directors.

ATTACHMENTS:
Attachment 1: Real Estate Services Audit Final Report

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

TAPInternational

Final Report

REAL ESTATE SERVICES CAN BE A MORE EFFECTIVE RESOURCE FOR VALLEY WATER

August 2020

TAPInternational

Date: August 20, 2020

Memorandum For: Board Audit Committee

From: Independent Auditor, TAP International, Inc.

Subject: Transmittal of TAP International Performance Audit Report

Attached for your information is our draft report, *Real Estate Services Can be a More Effective Resource for Valley Water.* The audit objective was to determine how the Real Estate Services Unit (RESU) could improve its financial and service delivery performance.

Our audit identified a range of opportunities for Valley Water, across the agency, to improve its delivery of real estate services. The report offers recommendations to minimize undue hardships to property owners, enhance the timeliness of real estate transactions, increase revenue, and improve transparency and accountability of RESU current operations. Finally, the report offers a matter for consideration by the Board of Directors describing that RESU can become a strategic partner in addressing Valley Water's future water resources needs. Valley Water management generally agreed with all of the recommendations and matters for consideration described in this report. (see Appendix A).

TAP International, Inc.

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Audit Highlights

RESULTS IN BRIEF

Why the Audit Was Conducted

Efficient and effective service and delivery are key priorities for the Santa Clara Valley Water District (Valley Water) to accomplish the goals of providing safe and clean water, environmental stewardship, and flood protection. To support Valley Water priorities, the Real Estate Services Unit (RESU) buys, sells, and leases property for water supply, flood protection, and land stewardship projects. Until a specific property is needed for a project, RESU may lease or license the use of the property in accordance with Valley Water policies and public laws. Since 2015, RESU has acquired 249 properties through purchase or lease agreements.

Identified as having high potential to improve RESU operations, the Valley Water Board of Directors (Board) approved a planned performance audit of RESU that was conducted by the Independent Auditor (Auditor). The specific objective of the audit was to identify how RESU could improve its performance for financial and service delivery. It is important to note that the real estate transaction process for public agencies has more regulatory requirements to follow in comparison to the private commercial real estate sector.

How the Audit Was Conducted

The performance audit included an examination of organizational structures, operational effectiveness, employee roles and responsibilities, information collection and sharing, and policies and procedures. The audit work included: (1) interviews with staff working across Valley Water that have a role in the delivery of real estate and/or property management services; (2) analysis of a sample of 35 real estate transactions; and (3) analysis of service delivery and financial data and other documentation related to residential and non-residential property management.

What the Audit Found

RESU has successfully avoided the acquisition of property through the use of eminent domain laws, utilizing its authority 10 times since 2015. Adding to this accomplishment, RESU has implemented efforts to improve its service delivery by examining the workload of its staff, providing training on its acquisition process to some divisions when authorized to do so, and by closing acquisition files faster from about two years to 30 days. Further, RESU collected $1.6 million in Fiscal Year 18-19 on 114 income-producing properties, but better reporting on expenses and other costs are needed to assess fiscal sustainability of RESU's property management activities.

RESU averages almost a year and half to complete a property acquisition, but challenges exist both within and outside of RESU's control to speed up the process. These challenges include, among others:

- The willingness of a property owner to sell their property, extent of negotiations and an owner's desire to request their own appraisal.
- Delays in project funding for property acquisitions and by other Valley Water Units in completing environmental assessments.
- Extensive involvement by the District Counsel's office in the acquisition process.

This audit report finally describes that while RESU is generally operating and performing in accordance with its role as a support unit, RESU can be a useful resource to position Valley Water strategically to meet its future watershed and water utility needs.

Twelve recommendations described below are designed to increase the efficiency and effectiveness of the RESU's property maintenance and acquisition processes. Greater participation by RESU in capital project planning meetings and use of other tools can address other challenges that impact RESU's delivery of services. For instance, updating fee schedules and re-examining flat rate lease agreements would close the gaps of lost revenue opportunities, and use of better software applications can provide useful performance monitoring. Other potential improvement opportunities include enhancing forms to document sound explanations for "just compensation" decisions and developing policies and procedures for ensuring insurance compliance by tenants on non-residential property. In addition, the Auditor presents one matter for consideration by the Board of Directors that would better position RESU to meet future needs.

RECOMMENDATIONS

1. To improve RESU's timeliness of the real estate transaction process, Valley Water's CEO should ensure annual training is provided to all Valley Water divisions about the Valley Water real estate acquisition process, key steps, common pitfalls, and strategies to avoid these pitfalls. The training should include a planning guide for use by Valley Water that shows the timeline for requesting services, the information needed by RESU staff, and the time required to complete the service request.

2. To enhance transparency and accountability of RESU current operations, the RESU Manager should:

   (A) stipulate which form is to be used across all projects and acquisitions that RESU, project managers, and project owners come to an agreement on "just compensation".

(B) define what information defines “just compensation”,

(C) establish and routinely monitor and report on key performance measures, such as acquisition turnaround times, status of project manager requests, and outstanding “acquisition related” items needed by other Valley Water units.

3. To increase the effectiveness of RESU’s property management, the RESU manager should update Valley Water’s RESU policies and procedures for property management to include residential property management as well as procedures to ensure tenants have updated insurance, how staff will conduct physical inspections, and the payment of HOA fees when fees are collected.
4. To increase the effectiveness of RESU’s property management, the RESU manager should establish procedures to track all staff costs, property maintenance expenses and revenue for all rental properties. RESU’s annual report to the CEO should include financial analysis to determine whether Valley Water is covering its costs to maintain the leased/licensed properties it owns and the cost to lease/license property owned by others is fiscally prudent.
5. To facilitate effective delivery of RESU services, the RESU Manager should develop a risk assessment process to help Valley Water staff identify real estate transactions that will need extensive participation and review by District Counsel and a plan for key consultation points.
6. To increase service delivery timeliness, Valley Water’s CEO, in coordination with RESU’s Manager, should work with District Counsel to evaluate the costs and benefits of developing additional templates for the different types of right-of-way agreements, with a goal of minimizing changes to these pre-approved standard contracts and reducing District Counsel’s review time.
7. To enhance the effectiveness of capital project planning, the CEO should ensure the inclusion of RESU staff in early project design meetings for capital projects to assist project delivery teams with budgeting for real estate transactions and planning for adequate time to process those transactions, identify potential challenges for transactions given the project design, and allow RESU time to plan for these transactions and potential property management needs.
8. To improve planning for the costs of real estate acquisitions, the RESU Manager should complete a one-time study on (A) the impact of property owner appraisals on acquisition purchase prices over the past five years to identify the differences in appraisal methodologies that led to different appraised values, and (B) the impact of a property owner’s appraisal on the time to complete an acquisition. The RESU manager should share the research with District Counsel and Valley Water management to determine what changes, if any, should be made to the Valley Water acquisitions process.
9. To ensure that Valley Water adheres to “just compensation” principles on delayed real estate acquisitions, Valley Water’s CEO should ensure the development of criteria that would require the ordering of an updated appraisal, especially when there is a potential conflict

between project deadlines and the need for additional time to finish the acquisition process in accordance with Valley Water goals and state laws.

10. To facilitate effective communication with property owners and those wanting to use Valley Water owned land, Valley Water's CEO should leverage use of the existing Customer Resources Management Information System. The CEO should allow its use by RESU and all divisions/units (Community Projects Review Unit (CPRU), Watersheds, Utility) that deliver real estate services to track all external stakeholder contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners; and develop communication protocols/scripts for use by RESU, Watersheds, and Utility when contacting property owners about the need to use or acquire parcels.

11. To improve public confidence in its real estate services, the CEO should expand the information available on the Valley Water website about real estate services to describe generally the real estate acquisition process; provide brochures that explain the acquisition process and rights of property owners; provide a guide for property owners and other external parties showing which unit to call–either RESU or CPRU–depending on the service needed; and a frequently asked questions section.

12. To enhance Valley Water's fiscal performance and asset management strategy, the CEO should:

    (A) conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its, and

    (B) shorten the duration and establish regular fee adjustments on future longer-term lease agreements.

Matters for Consideration

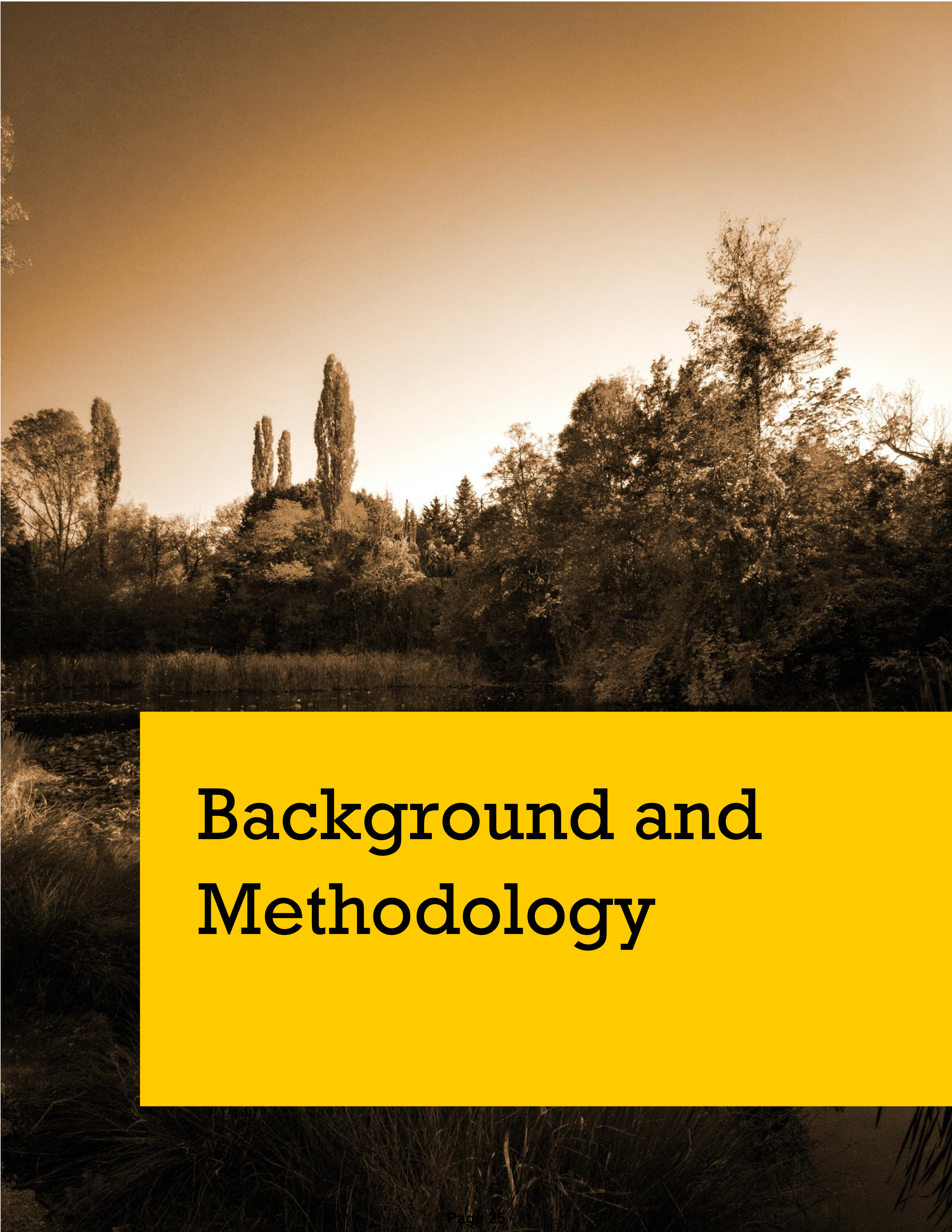
Should the Valley Water Board desire to update the current role of RESU from providing support services only to be a proactive partner in strategy planning for future water management activities, the Board could consider the following:

1. Direct the CEO to develop a five-year strategic plan that includes a new mission, goals, and objectives for all Valley Water Real Estate Services (including asset management) that proactively meets the needs of future Valley Water projects, goals, and objectives. The strategic plan should include an implementation plan that addresses the following:
    - Define the future roles and responsibilities for each unit that delivers or helps to deliver real estate and asset management services. If Valley Water continues to use its current organizational structure to deliver real estate services, roles and responsibilities should be identified by each type of real estate service and asset management function and function

performed, clear lines of accountability created for each unit performing each task, and key points of coordination and collaboration across the units defined.

- Assess the feasibility of consolidating the delivery of its real estate services and permitting services by combining the RESU and CPRU into a single unit to leverage opportunities. Consolidation will make the real estate transaction process and property management activities more efficient and effective, as well as providing a one-stop shop to constituents.
- Describe how Valley Water will collect, analyze, and verify the accuracy of data about its real property to allow Valley Water management to perform effective business analytics.
- Develop a communication strategy that addresses how Valley water will promote a culture of information sharing and enterprise-wide decision making, both internally and externally, for delivery of its real estate services
- Develop an asset management strategy.

2. Direct the CEO to begin a plan to implement a new, off-the-shelf real property and asset management software to track and capture all real property activities, including transactions, encroachment permits, contact management, lease/permit management, and workflow management performed by RESU and CPRU. The system should support business analytics for real property management, enhancing delivery of real estate services using technology.



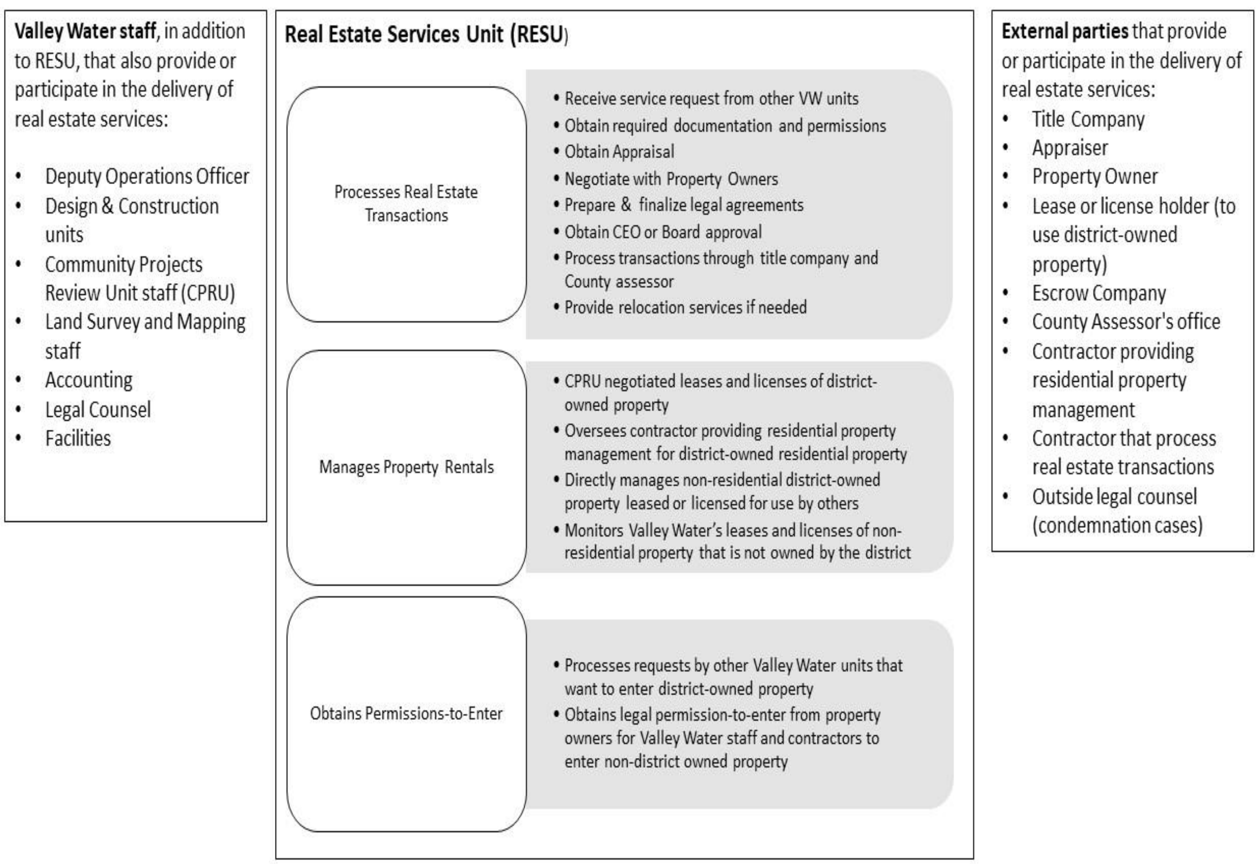
Background and Methodology

BACKGROUND

Who Delivers Real Estate Services at Valley Water?

RESU's mission is to provide real estate expertise in the acquisition, relocation, appraisal, and asset management services on behalf of Valley Water for current landholdings and land required for projects and operations. RESU provides three types of real estate services: (1) purchase, sale, exchange or dedication of property, (2) obtaining permission-to-enter property not-owned by Valley Water, and (3) property management.[1]

Figure 1. The Real Estate Services Unit (RESU) Depends on the Collaboration of Other Stakeholders to Deliver Real Estate Services



[1] Real property includes land and improvements to the land. Easements provide access to and/or use of the land.

The activities implemented by RESU are in response to requests by other Valley Water units. These other units decide whether to begin the processing of buying or selling property or issuing encroachment permits and continue to have key responsibilities throughout the process. For example, project delivery units request property descriptions from the Land Surveying & Mapping Unit, obtains environmental assessments of the identified property, approve the cost of the acquisition and provide information about the project to RESU for the Board or CEO review and approval process.

The actions of other Valley Water divisions and units, including other external parties, can impact RESU's financial and service delivery performance. If these other units delay their acquisition related activities, then RESU in turn experiences delays. See Figure 1 for other units like District Counsel, General Accounting, and Facilities Management that help RESU in completing these requests for services.

RESU does not initiate the lease or permit process that allow for external parties either to enter or use Valley Water owned property. CPRU has this responsibility. RESU's role is to prepare lease agreements and monitor compliance of the terms and conditions authorized by CPRU. Accounting tracks the payment of the fees associated with each lease or permit, notifying the project owner of payment issues.

RESU uses contractors to assist when needed with real estate transaction processes. RESU maintains standing contracts with local vendors for title reports, appraisals, and escrow services. Valley Water also has a standing contract with Associated Right-of-Way Specialists (ARWS) to provide complete real estate transaction processing services.

What are the Legal Requirements and Valley Water's Goals to Process a Real Estate Transaction?

The California Constitution gives public agencies in California, like Valley Water, the power to acquire property rights for public purposes under state law.[2] State law requires Valley Water to notify the property owner of their rights, pay the property owner "just compensation" for the property based on an appraisal of its value, and make every reasonable effort to negotiate with the property owner before entering the condemnation process. Valley Water has incorporated the state requirements into its service delivery goals, as shown in Figure 2.

[2] California Constitution Article 1, Section 19(a): "Private property may be taken or damaged for a public use and only when just compensation, ascertained by a jury unless waived, has first been paid to, or into court for, the owner. The Legislature may provide for possession by the condemnor following commencement of eminent domain proceedings upon deposit in court and prompt release to the owner of money determined by the court to be the probable amount of just compensation."

Figure 2. Valley Water Goals and Objectives for Real Estate Services

Valley Water Goals	Objectives
Promote "public confidence" in its real estate and relocation practices.	■ Valley Water real property shall not be leased to employees, Board members, or their immediate family members. ■ Pay "just compensation", based on an appraisal prepared by a qualified appraiser, for all real property except property dedicated to the District. ■ The Board approves all real estate transactions except for those delegated to staff for approval.
Provide uniform and equitable treatment to all property owners and Displaced Persons.	■ Comply with federal and state legal requirements for displaced persons.
Minimize litigation with affected members of the public.	■ Use reasonable efforts to acquire property. ■ Timely acquisition processes. ■ Acquire property through negotiated agreements. ■ Acquire property in a manner that minimizes undue hardship to property owners and occupants. ■ Assure consistent treatment to all owners and tenants. ■ Minimize unwarranted litigation.

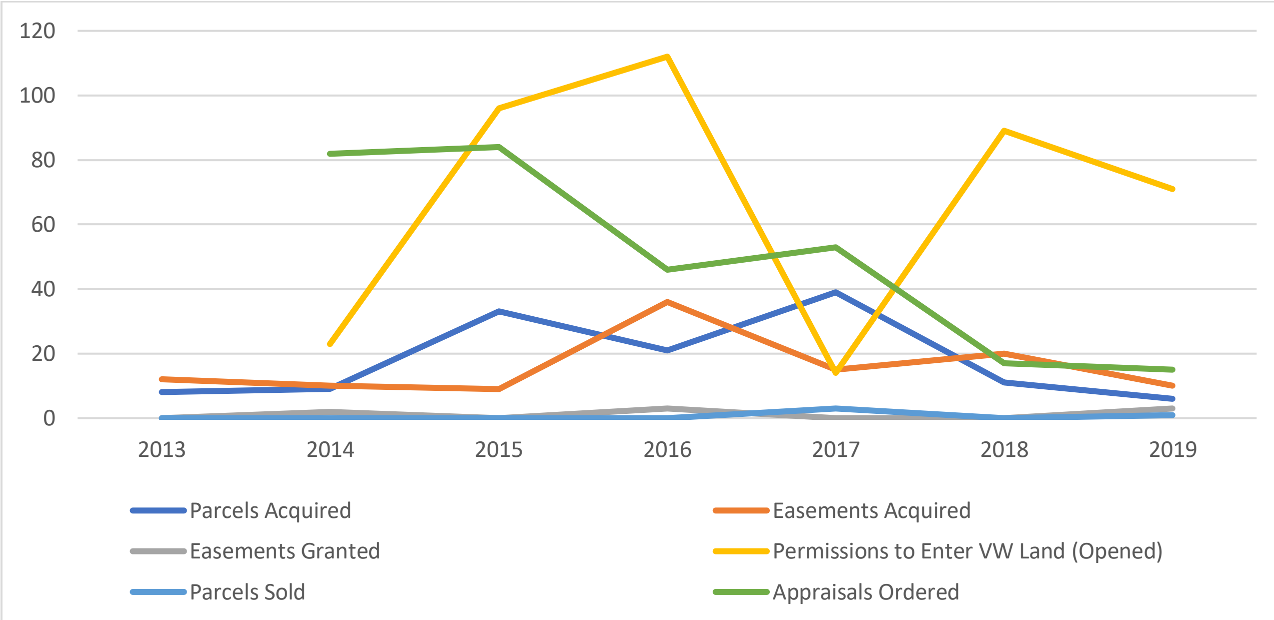
What Real Estate Services Has Valley Water Delivered?

Property Acquisitions

Valley Water's acquisitions of parcels and easements has fluctuated over time. In 2013-14, RESU averaged 51 acquisitions per year between 2015-2017 that declined to about 24 per year between 2018 and 2019, as shown in Figure 3 below. However, the number of appraisals declined steadily between 2013-2019, from 82 appraisals in 2014 to 15 appraisals in 2019. The number of permissions-to-enter privately owned parcels averaged 67 per year between 2018 and 2019 after completing 14 in 2017.

The size and timing of capital projects drive RESU's acquisition activities. Other activities performed by RESU (but not represented below) include ordering title reports, relocating tenants, and processing cases of eminent domain. Valley Water has filed 10 condemnation cases in court since 2015; nine of these cases occurred in 2015 and 2016.

Figure 3. RESU Real Estate Transaction Processing Activities



Lease and Licensing Management

RESU reported it administers leases and licenses for 78 non-residential properties: 55 properties owned by Valley Water and for 23 properties where Valley Water is the tenant. The 55 non-residential rental properties owned by Valley Water include two bridges, one building, and 20 parcels of land. Valley Water's leases and licenses of property owned by others include 11 parcels of land and one building. RESU staff said that its primary responsibilities are to (1) ensure that renters of Valley Water properties have up-to-date insurance and (2) conduct routine inspections of the property.

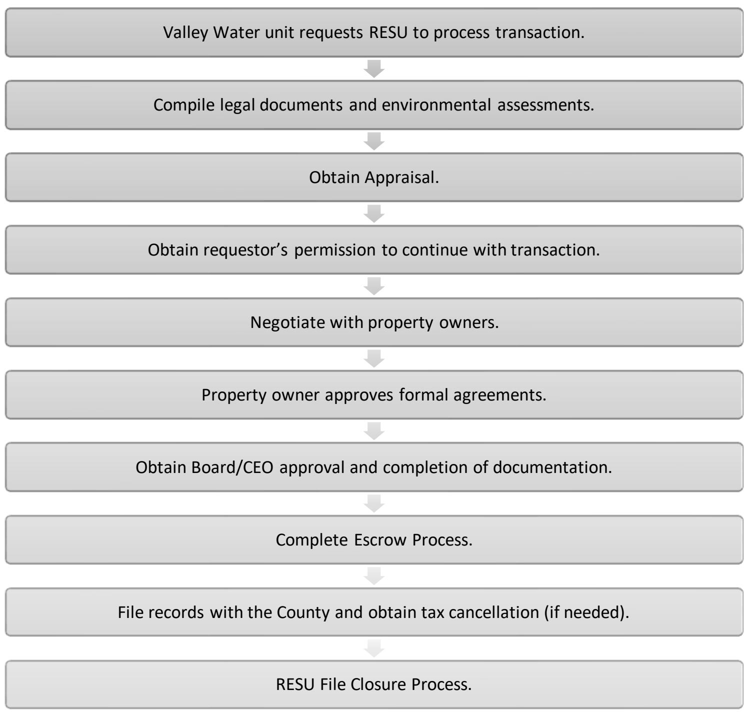
Valley Water outsources property management for 53 residential rental properties. RESU staff approves maintenance requests, and the Valley Water vendor performs all other property management activities, including the setting of rental rates.

Valley Water has budgeted about $2.7 million for District Real Property Administration between FY 18 and FY 20 to provide real estate services. For FY20, Valley Water has budgeted about $1.5 million for operations and $1.2 million for capital expenses. The budget includes expenses for appraisals performed by contracted appraisers, environmental assessments performed by contractors, professional services support for processing real estate transactions, RESU's labor hours. Funding for RESU, Office of District Counsel, CPRU, and Land Surveying & Mapping is budgeted under the FY20 budget for District Property Administration.

How does the Valley Water Real Estate Acquisition Process Work?

RESU does not start the real estate transaction process. Instead, a project delivery unit must request RESU's help for RESU to start a real estate transaction. Figure 4 below shows the steps involved in RESU's property acquisition process.

Figure 4. Overview of the Valley Water Acquisition Process



AUDIT METHODOLOGY

Audit Objective

In 2018, the Auditor conducted an enterprise-wide audit risk assessment and identified real estate services as an area that needed further review. The objective of this performance audit was to determine how the RESU could improve its service delivery and financial performance.

Scope of Work

The scope of this audit examined the business processes implemented by RESU to deliver property management and acquisition services. The audit included data collection efforts among other Valley Water units that participate directly in RESU's business processes, such as Community Project Resources Unit (CPRU), District Counsel's Office, Facilities Management Unit, and Valley Water project managers and engineers.

Project Approach

To address our audit objective, the Auditor performed the following activities:

- Examined the following Valley Water documents and work product to assess service delivery and financial performance and to identify potential improvement opportunities:
  - RESU organization chart
  - RESU policies and procedures
  - Valley Water Executive Limitations and other Board Policies
  - RESU job descriptions
  - RESU annual reports for FY17 to FY19 (Rental Property Income and Expense reports for the past three fiscal years)
  - RESU budgets for the past three years (FY20 Adopted)
  - Real Estate Transaction processing forms
  - SCVWD Standard Rate Schedule
  - Tracking sheet used to monitor the status of leases and licenses of non-residential property owned by Valley Water
  - Checklist used to purge files for preparation for closing Executive Limitation reports 6.7.1 for both anticipated and completed real estate transactions
  - Timeline to complete a real estate acquisition
  - Report of completed appraisals, appraisers over the past five years

- Interviewed RESU staff, project managers, unit managers and management in Valley Water's Watershed Design & Construction Division, CPRU and Design & Construction units, District Counsel's Office, Facilities Management Unit, Contractors, and Associated Right-of-Way Services to discuss RESU services.

- Examined the files (electronic and hard copy) for 34 total real estate transactions, including 24 acquisitions and 10 sales, exchanges, and dedications including one correction. Files were examined to assess the accuracy and completeness of the documentation and the timeliness of the real estate transaction process.

- Examined the leases and licenses of Valley Water-owned land, fee schedules, and terms and conditions to assess the financial performance of Valley's Water's property management activities.

- Reviewed the industry practices of California Department of General Services for acquisitions, Los Angeles Metropolitan Transportation Authority Program Management Plan (capital improvement infrastructure program), San Francisco Water Power Sewer–Land Use Framework; and U.S. Government Accountability Office Federal Real Property Asset

Management (Leading Practices) to determine the approach of real estate service delivery of other government entities that deliver large capital projects. We also reviewed the websites of California water districts and the California Department of Water Resources to identify what right of way and property acquisition information.

A SWOT analysis was applied to assess the service delivery and financial performance of the RESU and the other units that provide real estate services at Valley water, as illustrated in Figure 5 below. SWOT analysis identifies the strengths (S) and weaknesses (W) of the services delivered by the RESU and the broader opportunities (O) and threats (T) that challenge the delivery of real estate services by RESU and other Valley Water units. Once identified, the Auditor then evaluated the impact of each factor–helpful or harmful–toward the achievement of Valley Water's goals for the delivery of its real estate services and financial performance. Finally, the Auditor identified who at Valley Water had the authority and responsibility for maximizing strengths, improving areas of weakness, taking advantage of opportunities, and addressing threats to service delivery and financial performance of real estate services.

Figure 5. SWOT Analysis of the Delivery of Real Estate Services by RESU and Other Valley Water Units

	Factor	Potential Impact on Valley Water's goals	Change Agent at Valley Water
Within RESU's direct control	**S Strength**	**Helpful**	**RESU Manager & staff: Maximize strengths & improve areas of weakness**
	W Weakness	**Harmful**	
Outside RESU's control	**O Opportunity**	**Helpful**	**VALLEY WATER management: Take advantage of opportunities & address threats**
	T Threat	**Harmful**	

Assessment of the Reliability of Data

Section 9.2 of generally accepted government auditing standards require auditors to describe any limitations or uncertainties with the reliability or validity of evidence if: (1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. The Auditor assessed the reliability of RESU's database and found key limitations affecting the sufficiency of the data for performance reporting. To address limitations in the data, such as missing data and other records, the Auditor manually reviewed files to extract needed information and/or relied on information provided by RESU management and staff.

Assessment of Internal Controls

Section 9.20 of generally accepted government auditing standards require auditors to assess the adequacy of internal controls if significant to the audit objectives. A review of internal controls was not applicable to this audit. However, during our review, when internal controls could be strengthened, such as fee schedule reviews, those issues were described.

This audit is known as a performance audit. A performance audit evaluates the economy, efficiency, and effectiveness of programs, services, and operations. TAP International conducted this performance audit per generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The Auditor believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A draft report was provided to Valley Water for review. Comments were incorporated as applicable throughout the report. See Appendix A for formal agency comments to the recommendations included in this report.

Key Findings

Finding 1: RESU Has Worked to Improve Operations; Other Changes are Needed to Enhance Financial and Service Delivery

RESU Successfully Accomplished Board Guidance to Minimize Use of Eminent Domain to Acquire Property

One of Valley Water's goals for RESU is to minimize litigation with affected members of the public. Valley Water has successfully worked to prevent the use of the condemnation process (e.g. eminent domain) to acquire property. Since 2015, RESU, in coordination with the District Counsel's Office, triggered the process to acquire 10 properties or about four percent of its 249 acquisitions. RESU staff explained that its efforts to follow the Board's direction to exhaust all options to negotiate with property owners has minimized Valley Water's use of the legal process of condemnation for property acquisitions. When RESU used eminent domain, the agency's decisions were not due to failed voluntary negotiations with property owners. Instead, the agency chose to use eminent domain when property owners did not respond to Valley Water's requests to negotiate or when the property owner was not clearly stated in public records.

RESU has Self-Initiated Efforts to Improve the Timeliness of Real Estate Transactions

RESU staff cited two specific efforts to improve the timelines of real estate transaction processing, a Valley Water goal for real estate services. First, RESU has conducted training sessions, although on a limited basis. RESU depends on project delivery units to actively participate in the real estate transaction process, from promptly notifying RESU of its need for property transactions to participating in the transaction review and approval process. Capital projects staff said some of them have extensive experience working with RESU to process real estate transactions while other staff are less experienced. Capital projects staff added that understanding how the real estate transaction process works and the information requirements can prevent delays in processing. Recognizing the need for knowledge transfer, RESU had delivered training to Capital Projects staff within the Watersheds Division. RESU executive management has not yet authorized RESU to continue offering its training sessions to other Divisions.

Second, RESU staff has initiated efforts to close its files of completed transactions every month. Based on a review of 24 acquisitions, RESU took more than two years on average to update the RESU database (RESUdb) and check the Geographic Information System (GIS) layer to officially close the file. Delays in closing files could result in untimely correction of errors in the GIS or key documents as well as untimely identification of missing files. Valley Water staff said that it could take months to close a real estate file because once it is closed, the file cannot be modified in the RESUdb system. RESU staff said that, until recently, staff had performed the file closure process bi-annually, but at the time of our review, staff reported performing file closure monthly.

In another area, RESU has attempted to change how it provides reports to the Valley Water Board to better align with its current practices. The Executive Limitation 6.7.1 states, "to provide public transparency, the CEO will provide a written report to the Board, in open session, before the acquisition, of anticipated properties to be acquired under EL6.7.1." This Executive Limitation does not specify at what stage of the acquisition process (e.g. at the time preliminary project planning or when the property owner has agreed to the purchase price) the CEO should provide the Board a written report.

Presently, the CEO discloses the information during the preliminary project planning phase of capital projects in a quarterly report to the Board. RESU would like to discontinue including the Assessor's Parcel Number (APN) number in their reports to the Board. RESU staff explained that disclosing the APN number at this point in the process could prematurely disclose agency intentions given that Valley Water may or may not ultimately acquire the property, needlessly alarming property owners. Our review of the issue determined that disclosing the APN number on the 6.7.1 reports may aid in the Board's oversight responsibility to ensure that no potential conflicts of interest exists between Valley Water and the potential seller. There may exist an opportunity to both provide the Board the information needed to execute their oversight responsibility for these acquisitions by potentially increasing the frequency of 6.7.1 reporting to avoid disclosing potential properties too early in the process.

Opportunity to Enhance Key Forms that Document "Just Compensation"

State law requires public agencies to pay the property owner "just compensation" when acquiring property, based on its fair market value and to give the property owner the right to obtain their own appraisal paid for by the public agency. RESU variously uses several key documents that determine and support the acquisition price under California's "just compensation" requirements. These documents include:

1. Appraisal Report,
2. Appraisal Review Form completed by RESU staff,
3. Engineer Approval Form (EUMA),
4. Right-of-way Review and Approval Form or Board Agenda Memorandum, and.
5. Just Compensation memo.

The Auditor determined that a Just Compensation memo, EUMA and appraisal was used for some acquisitions but not for others. RESU policies and procedures do not stipulate which forms are required although RESU tries to include the EUMA form on all acquisitions.

There is no requirement for how Valley Water should document the details of how "just compensation" was determined. Documenting explanations will make the determination more transparent, easier to monitor, and ensure consistent treatment of affected property owners across transactions and projects.

Other potential improvement opportunities include the enhancement of key documents. For example, the Appraisal Review Form does not document the reason the RESU staff person, as the appraisal reviewer, does not inspect the property as part of the review. The Auditor identified that 11 of the deed-in-acquisitions in the sample reviewed did not have a reason stated why there was no inspection. RESU staff said that, because appraisers now routinely include digital photos in their reports, a physical inspection of the property by the RESU reviewer is not needed except under unique circumstances.

Opportunity to Update RESU's Property Management Policies and Procedures to Reflect Current Practices

There are currently opportunities to update the policies and procedures for property management. RESU began the process to develop formal policies and procedures for RESU's management of residential property, given that Valley Water management had transferred responsibility for residential property management to RESU from Facilities Management.

An area in need of policy development include Valley Water's current practice for the payment of HOA fees from RESU's budget (District Property Administration) on residential properties. Currently, the RESU agent assigned to the acquisition is responsible for noting the fee in the file and ensuring that those are being paid. RESU staff said they would not incorporate this practice into their policies and procedures because the payment of HOA fees occurs rarely.

Another area in need of policy development is when to inspect non-residential properties. Current policies require RESU staff to "physically check (non-residential) properties at least every six months. RESU had last visited (within the last six months) 65 percent of the 55 non-residential properties that it owns. RESU did have a record of a visit date for 12 of these properties, and six properties were last visited in 2018. RESU staff said that certain non-residential properties are inaccessible or not easily accessed, making physical inspection difficult to conduct every six months.

Finally, how RESU monitors insurance compliance needs policy development. Current policies and procedures state that "insurance must be up-to-date and in compliance with lease terms." Six tenants of non-residential properties had expired insurance at the time RESU's records were reviewed. RESU staff said they had developed practices to monitor these properties and had recently completed their update of the policies and procedures to reflect that practice.

Opportunity to Expand Financial Analysis of Valley Water's Rental Properties

In an annual report to the CEO, the Deputy Operations Officer for Watershed Design & Construction and RESU present the income, expenses, and net income for residential and non-residential rental properties. In FY19, RESU staff managed a total of 114 income-producing properties owned by Valley Water with a total net income of $1.612 million ($1.27 million from residential properties and $345,780 from non-residential properties) according to RESU's annual report of the income and expenses from residential and non-residential rental properties.

Financial reports show that RESU collects more revenue in comparison to expenses, but these reports do not capture all necessary costs to help assess the operational efficiency of RESU. Cost information should include:

(1) costs to maintain the property it has leased or licensed to others;

(2) trends in the rental income and expenses;

(3) expenses for Valley Water's non-residential property management including staff costs; and,

(4) costs for the property that it leases from others.

Finding 2: Acquisitions Take Longer Than Expected

RESU's acquisition timeline estimates about 6 months to complete the transaction process from the date of appraised value to the close of escrow. The Auditor determined that the actual time to complete the acquisition process took longer, varying significantly from the 8-10 months to complete the acquisition process. Even when applying the method recommended by RESU[3] to determine the average time required to complete a real estate acquisition, the average number

[3] RESU staff said measuring from the date staff received a request for services and opened a corresponding RESU file for the acquisition is not an accurate measure of the timeliness of the acquisition process because the requestor often is still deciding whether to acquire the property and may wait to decide to proceed with the acquisition until after the appraisal is completed. RESU staff said that a better measure is from the date of appraised value to the date escrow closes (or when the County Assessor records the transaction) because this period includes the bulk of the transaction processing (e.g. Valley Water staff notify and negotiate with property owners, prepare, and sign the agreement documents, obtain CEO or Board approval for the acquisition agreement, and close escrow).

of days from the date of appraised value to escrow closing was about 16 months, a difference of almost a year.[4]

According to RESU staff, when estimating the amount of time needed to complete a property acquisition, the estimate is based on four assumptions. The first assumption is that the property owner is willing to sell to Valley Water. However, RESU staff said property owners are not always willing to sell, which adds time to the acquisition process, because the Board has directed RESU to acquire property using negotiated agreements. California law requires public agencies to make an offer to purchase property prior to beginning the condemnation process. If a property owner is unwilling to sell their property or does not respond to Valley Water's proposals, the property owner's delay in their response could increase the amount of time for negotiations. Information was not readily available in the RESU files to verify the extent to which property owners are non-responsive or unwilling to negotiate with Valley Water.

The second assumption is that environmental assessments (EIR & CEQA & HSLA) are completed before the acquisition process begins. However, RESU said that delays by other Valley Water units in completing environmental assessments require additional time to complete the acquisition process. Appraisers use the information found in the environmental assessments, in particular the hazardous substance liability assessment (HSLA), to help determine the appraised value of the subject property. The RESU property acquisition process requires, as appropriate, that the project manager/engineer order the HSLA. The Auditor determined that the completion of the HSLA memo did not occur until after the appraisal was performed for eight of the acquisitions in the sample reviewed.

The third assumption is that no hazardous substance liabilities are present on the property. When the HSLA finds potential liabilities, it can trigger another appraisal, requiring extra time and potentially additional costs for ordering the updated appraisal to include the HSLA memo's findings.

The fourth assumption is that acquisitions planned for a project are funded. RESU staff explained that delays in the funding for a project have occurred and lengthened the amount of time needed to complete a property acquisition, a factor outside of RESU's control. Some delayed acquisitions are eventually terminated because of the unanticipated cancellation of a project. Valley Water staff explained that it is hard to predict when these assumptions will not hold for the acquisition which affects the completion time.

Finally, other factors for property acquisition delays are present. First, additional time is needed for negotiations when the property owner obtains their own appraisal, which is beyond RESU's control. While information was not readily available to determine the total number of property owners that obtained their own appraisal or the impact on the acquisition timeline when this happens, analysis of EL 6.7.1 quarterly reports of completed acquisitions found that 20 percent

[4] Based upon a sample of transactions reviewed by the Auditor.

of 96 property owners obtained their own appraisal and when an owner obtained their own appraisal, the purchase price always increased. For all 19 acquisitions on the EL 6.7.1 report, the owner's appraised value for these 19 acquisitions was, on average, $218,287 more than the District's initial offer. (Median difference was $62,100.) Further research is needed to develop a more accurate estimate of the impact on the acquisition timeline when an owner obtains their own appraisal and the effect on the purchase. This information could be used to help project delivery units in their budgeting and planning for property acquisitions. The RESU acquisition timeline could include information for project managers on how much time would be expected if the property owner obtained an appraisal.

Second, additional time is needed when legal counsel involvement in an acquisition is not limited to review of the final agreement documents prepared by RESU and, depending on the acquisition, may require their extensive participation in acquisition planning, property owner negotiations, and review of RESU prepared preliminary offers and agreements.[5] RESU staff reported initiating efforts to help reduce the frequency and extent of District Counsel's review throughout the real estate transaction process, including requesting District Counsel's assistance to create a set of standard pre-approved templates that would reduce the need and extent for modifications to the current standard template for right-of-way agreements. Efforts to increase the efficiency of District Counsel's review of key documents used in the acquisition process, like those initiated by RESU or to better plan for District Counsel involvement, will require the collaboration of Valley Water management, project delivery units, and District Counsel to execute successfully.

[5] RESU's files did not contain sufficient detailed information for the Auditor to verify the extent and effect of District Counsel involvement for each acquisition.

Finding 3: Better Engagement and Use of Other Tools Can Address Challenges that Impact Delivery of Real Estate Services

RESU Needs to Participate in Project Delivery Units' Planning & Budgeting for Property Acquisitions

Valley Water policies and procedures state that project owners should invite RESU to coordinate and collaborate in the planning and budgeting for real estate transactions. Nonetheless, project delivery unit staff do not routinely invite RESU staff to participate in the planning or budgeting for real estate acquisitions. To reduce the amount of time it takes RESU to process planned acquisitions, RESU staff identified the need to be involved in project planning phases to help project staff identify potential challenges and alternative solutions for potential properties and real estate transactions. Efforts to troubleshoot potential challenges or delays in the acquisition process, during project planning, can reduce the administrative costs that Valley Water incurs when challenges or delays are encountered.

Valley Water Needs to Establish Criteria for Updating Appraisals

RESU policies and procedures provide, in part, that six months after the date of an appraisal, "staff" will determine whether there is enough volatility in the real estate market for an updated appraisal of the value. While RESU staff said that they would make a recommendation to project delivery staff for an appraisal to be updated, it is the responsibility of the project delivery staff to request that RESU order an updated appraisal.

Competing priorities occur for project delivery staff when deciding whether to order an updated appraisal because ordering the updated appraisal may take several additional weeks, potentially bringing the acquisition process into conflict with project delivery goals. For example, on one acquisition reviewed by the Auditor, correspondence between project delivery staff and RESU staff showed concerns about how an updated appraisal could jeopardize the project delivery staff's ability to meet project deadlines. The correspondence cited concerns about the extra time and cost to complete an updated appraisal. Project delivery staff decided not to obtain an updated appraisal, but after the acquisition was complete, project delivery staff later obtained an updated appraisal for project reimbursement purposes. Valley Water management action would be needed to set criteria that triggers implementation of a second appraisal.

Enhanced Communication Activities Can Help Increase Public Confidence

A Valley Water goal for real estate services is to promote "public confidence" in its real estate services. Effective communication is a critical success factor for this goal.

Opportunities to enhance communication are present in four areas. One of the opportunities include continuously informing affected property owners of the status of capital projects. Although Valley Water administers community meetings and workshops to discuss planned Valley Water capital construction and maintenance projects, these projects often take years for them to begin. Meanwhile, some property owners have sold their properties. For these new property owners, their first notification of Valley Water's plans could be the acquisition notice sent by RESU.

Another communication opportunity is the need for better education and training of Valley Water staff on the roles and responsibilities of CPRU and RESU. Property owners often contact RESU for services to be provided by CPRU and vice versa. As a result, RESU staff have serviced customers because of confusion between the roles and responsibilities of CPRU and RESU.

In addition, there is a need to increase use of customer relations management (CRM) software applications. RESU staff explained that Valley Water's customer relations management system (Access Valley Water) is not available for their use, but they individually track their correspondence with property owners and do not have any information of project delivery staff's contacts with property owners. Valley Water can expand CRM use to include all staff, including real estate services. Such a system could systematically track contacts with customers/property owners across all the Valley Water units that may interact with a customer/property during a real estate transaction process. The CRM could track correspondence between project delivery staff, RESU staff, contracted environmental assessors, contracted appraisers over the course of several years during a real estate transaction.

Finally, another communication opportunity is to promote public confidence in Valley Water's real estate services by providing additional information on the external Valley Water website and intranet. While there is information about leasing or purchasing of Valley Water's properties on the Valley Water website, it is challenging to find information about the property acquisition process. Expanding the use of the Valley Water's Intranet, Aqua.gov, could also help other units learn more about RESU's responsibilities and how responsibilities for real estate services are allocated among Valley Water units. Presently, on Aqua.gov, RESU's intranet site has a link to request real estate services through the On-Line Request System (OLRS) and a link to the "permission to enter" form but no explanation of the acquisition process or other real estate transactions. Posting more information on the intranet like the acquisition timeline and the explanations of the services provided could help staff (especially project owners) better understand RESU services.

Updating Old Fee Schedules Can Increase Revenue

Fee schedules are commonly used by public agencies to set and charge fees to constituents uniformly.

In the review of lease agreements prepared by RESU, Valley Water has not updated the fee table used to set rates in lease agreements for telecommunication activities on Valley Water property (which are initiated by CPRU) since 2010. In a review of a limited number of transactions, the Auditor identified 14 lease agreements and 10 licenses without a rate adjustment date, meaning the lessor or licensee could have paid the same low fee for years. As a result, Valley Water has lost revenue opportunities on agreements. In one agreement allowing placement of fiber optic cables on Valley Water property, the term of the agreement was for 99 years at a flat rate of $216 annually. Underground use fees in nearby City of Morgan Hill was 750 percent more. At this city's rate, Valley Water could yield up to $53,559 more over the 99 years. RESU staff said that the rate had recently been increased to $500 annually, but we could not verify if the related lease agreements had also been updated. The new rate does not include labor charges, permit processing, and accounting services to manage the agreement.

Given the limited reported capability of the RESU's database (RESUdb), we could not determine the full magnitude of potential opportunities to enhance revenue on the various agreements. RESU and CPRU staff both said that they had not initiated requests to update the fee schedule, explaining that fee schedule development was not within their area of responsibility. Valley Water management needs to clarify the maximum term of the lease agreements, when and how rate schedules should be updated, and which unit is responsible for setting and updating the fee schedule.

Better Software Applications and Other Tools Can Provide Useful Performance Monitoring

RESUdb is the information system used by RESU to support the delivery of its real estate services. RESU uses the system to electronically file key documents, capture correspondence, and monitor the progress of each real estate transaction.

Limitations in the RESUdb have created challenges to the consistent filing of key documents across RESU electronic files. Approximately two-thirds of the transaction files (electronic and hard copy) reviewed by the Auditor appeared to be missing (or have misfiled within) at least one or more key documents. For example, the Parcel Record, which is required for every file, was missing from eight of the 34 real estate transaction files reviewed. RESU staff explained that RESUdb had a limited number of document names that can be used to upload electronic files, resulting in maintaining documents in paper files. At the time of our review, RESU's database administrator said that RESUdb has 1,000s of files with the status "pending acquisition", which means that a file was created but the acquisition had not occurred. At present, there is no sunset process or segregation of these records from the production database. An employee from the Information Technology Unit, who has since retired, developed the RESUdb.

The RESUdb software application does not have user-friendly reporting capability, nor was it configured for ease of understanding. A RESU vendor explained that despite receiving training, the RESUdb took too much time for the vendor to use and relied on RESU staff to file documents on their behalf. A separate management study would be needed to identify if other off the shelf software applications would meet RESU's needs.

RESUdb limits RESU ability to systematically report on the status of RESU activities to project staff. Project engineers participating in this audit reported the desire to have better information on the status of RESU's pending acquisitions. In the absence of data sharing, project engineers said that the frequency of communication with RESU staff varies. Some RESU staff actively monitor and share information while others do not share information as often

Finally, RESUdb cannot generate reports to measure RESU performance, such as the time to complete steps in the transaction process, which has hindered RESU's ability to implement performance management principles. While performance monitoring of operations is a standard practice for many Valley Water units, the current capability of the RESUdb hinders RESU's ability to formally implement and collect information on a standard set of performance measures (e.g. pending, initiated, partially complete, complete) or their overall success (e.g., average acquisition price, number of right-of-way agreements completed, etc.).

Other Issues Identified

Use of Real Estate Services Unit as a Strategic Partner Could Bring Significant Benefits to Valley Water

Valley Water's five-year plan describes plans for many large-scale projects–67 projects totaling $6.4 billion for water supply, flood protection, and water resources stewardship projects. Although RESU is implementing tasks and activities consistent with its support role to respond to service requests, RESU can be restructured to serve the role of a strategic partner in Valley Water's plans for water storage and property management. This way, financial and timeliness risks associated with property acquisitions and rights-of-way can be more effectively mitigated and built into Valley Water planning. However, RESU staff will need the support and assistance of Valley Water management to transform operations, especially implementing those activities that require coordination and collaboration across multiple units.

To be a strategic partner, RESU would need to have a comprehensive strategic plan to help identify and lay the groundwork on how RESU could better serve Valley Water. A strategic plan for real estate services could serve as one option that could include streamlining responsibility for real estate services especially where confusion occurs across Valley Water staff, Board members, and the public about the role and responsibilities of RESU, CPRU, Land Management Unit, and Facilities Management. Having business processes implemented across multiple units as well as a lack of a clear designation of responsibilities can undermine effective decision making and limit the ability of each unit to make improvements.

Valley Water may want to consider consolidating real estate services into a single unit. The California Department of Water Resources (DWR) and California Imperial Irrigation District (IID) have combined encroachments and permitting–functions that are currently performed by CPRU–with permissions-to-enter, acquisitions, easements right-of-way and property management–functions that are currently performed by RESU–into a unified Real Estate unit. RESU staff said that they did not think it necessary to integrate RESU and CPRU into the same unit for the fact both share the same Deputy Operating Officer (DOO) who can resolve issues of coordination and collaboration. Nonetheless, consolidating into one unit can better serve constituents and facilitate effective communication with property owners.

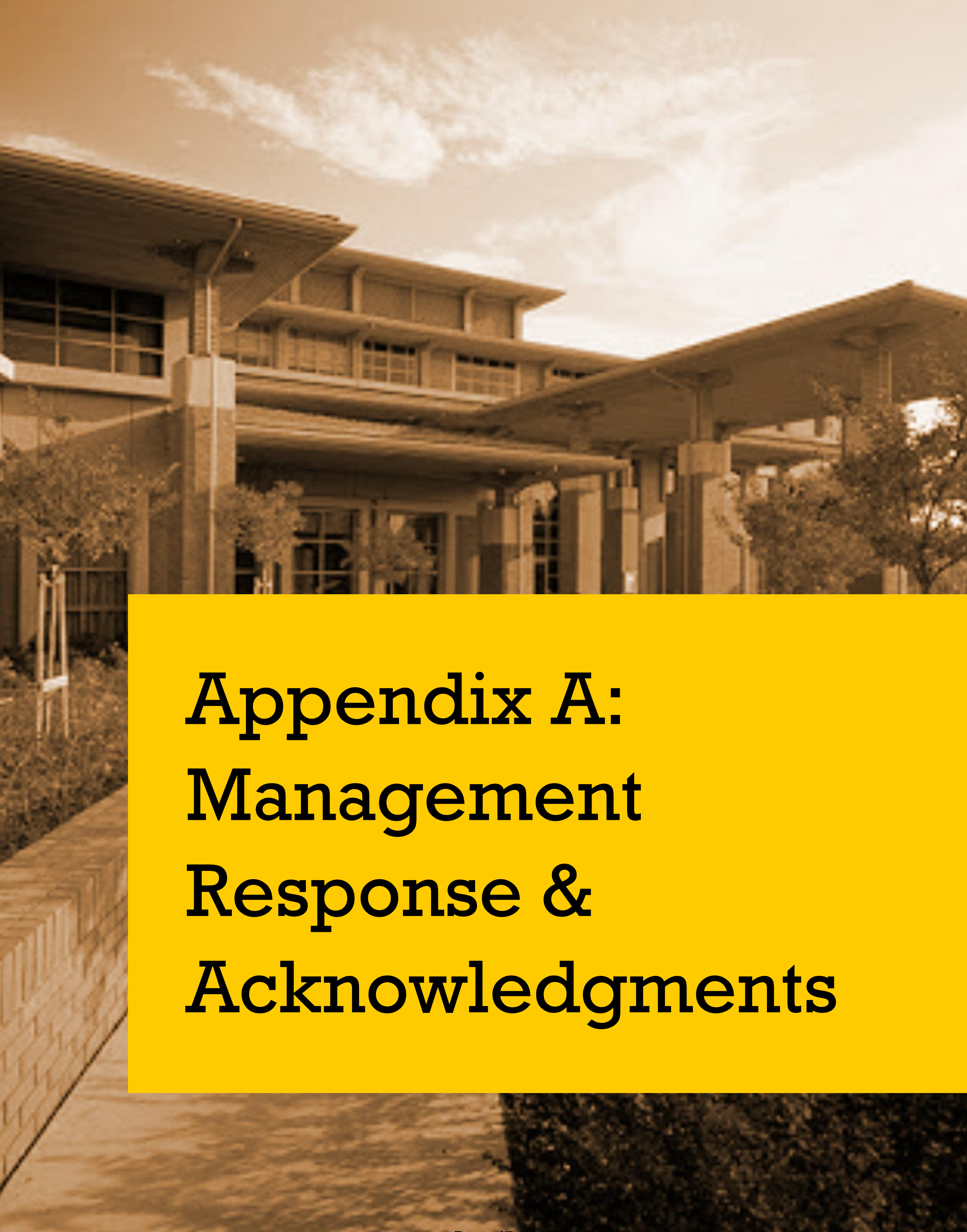
Valley Water may want to revamp RESU to improve financial performance by maximizing the value from Valley Water's real property assets. While a landlord of many types of property, Valley Water does not have a comprehensive and innovative asset management plan for these properties that could help enhance revenue received from these properties. Although current policies and procedures assign responsibility to RESU for "asset management services for current landholdings and land required for projects and operations," RESU staff said that formal delegation of this responsibility had not occurred even though no other Valley Water unit is responsible for coordinating, identifying, and implementing value enhancement solutions for unused and underutilized Valley Water owned properties. Without a clear strategy for asset management Valley Water risks underutilizing properties, not routinely identifying surplus property promptly, and not collecting proper fees for leases and licenses.

A new strategic partner role for RESU could advance the use of business analytics. Quality data is a component of an effective government asset management framework.[6] At present, RESU uses a home-grown system–RESUdb–that serves more as a data warehouse. More advanced software could allow analytics on historical acquisitions to help leverage negotiations, provide for up-to-date status information on pending acquisitions to Capital and Watershed Divisions project managers and engineers, and provide for performance reporting on the efficiency and effectiveness of RESU services.

Finally, Valley Water will need a communication strategy. A communications plan defines: (1) the message; (2) who communicates that message; (3) when the message will be communicated; (4) the tools and format of the communications; and (5) how the organization will track and maintain the connections created by the communications. Valley Water staff said the organization has, in place, pieces of the communication plan, such as pre-approved templates for written communications with property owners and brochures describing Valley Water's real estate process and property owner rights.

If Valley Water's Board would like RESU to have a more strategic role in accomplishing Valley Water's mission, then it should consider directing the CEO to address other matters for Board consideration described on page 9 of this report.

[6] Asset management, according to the GAO, is "the coordinated activity of an organization to realize value from assets." GAO defined asset management activities include: (1) developing an understanding of how each organization's assets contributes to its successes; (2) managing and investing in those assets in such a way as to maximize that success; and (3) fostering a culture of effective decision making through leadership support, policy development, and staff training.



Appendix A: Management Response & Acknowledgments

MANAGEMENT'S RESPONSE

<table>
<tr><td colspan="2">RECOMMENDATION 1 - To improve RESU's timeliness of the real estate transaction process, Valley Water's CEO should ensure annual training is provided to all Valley Water divisions about the Valley Water real estate acquisition process, key steps, common pitfalls, and strategies to avoid these pitfalls. The training should include a planning guide for use by Valley Water that shows the timeline for requesting services, the information needed by RESU staff, and the time required to complete the service request.</td></tr>
<tr><td>a. MANAGEMENT RESPONSE: Management agrees with this recommendation.
RESU staff will update and provide a training presentation to new and existing staff in capital engineering, operations and maintenance that require real estate services regarding Valley Water real estate acquisition processes. The training will include information on key steps, information needed for real estate service, common pitfalls, strategies to avoid pitfalls, and approximate timelines for completing a typical acquisition. In addition, RESU will create an online tutorial and place it on Aqua.gov website for easy reference and convenience of all Valley Water staff.
Target Implementation: July 2021</td><td>INDEPENDENT AUDITOR RESPONSE:
Valley Water management's response satisfies the recommendation.</td></tr>
</table>

<table>
<tr><td colspan="2">RECOMMENDATION 2 - To enhance transparency and accountability of RESU current operations, the RESU Manager should:
A. stipulate which form is to be used across all projects and acquisitions that RESU, project managers, and project owners come to an agreement on "just compensation".
B. define what information defines "just compensation",
C. establish and routinely monitor and report on key performance measures, such as acquisition turn-around times, status of project manager requests, and outstanding "acquisition related" items needed by other Valley Water units.</td></tr>
<tr><td>MANAGEMENT RESPONSE: Management agrees with the recommendation.
RESU will implement the following actions:
• Use a "Just Compensation Approval Form" for all transactions involving appraisals to be approved by the Senior Real Estate Agent and Project Manager.
• Research best practices defining "Just Compensation" and include that information in Real Estate procedures.
• Work with project managers and project owners to establish a real time report on key performance measures, such as</td><td>INDEPENDENT AUDITOR RESPONSE:
Valley Water management's response satisfies the recommendation.</td></tr>
</table>

acquisition turnaround times, status of real estate transaction requests, and other outstanding items related to each real estate transaction request. **Target Implementation:** July 2021	

RECOMMENDATION 3 - To increase the effectiveness of RESU's property management, the RESU Manager should update Valley Water's RESU policies and procedures for property management to include residential property management, including procedures to ensure tenants have updated insurance, how staff will conduct physical inspections, and the payment of HOA fees when Fees are collected.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU has begun working on some improvement activities that are related to this recommendation. Status of those items are described below: • Updating existing property management policies and procedures to include residential property management. • Implemented oversight by Senior staff to track non-residential insurance expirations. Residential structures owned by Valley Water are covered by Valley Water insurance policies managed by the Risk Management Unit. • Planning to coordinate a weekly property management schedule to do on-site property inspections. • Currently only one HOA fee is invoiced annually related to a District property, and it has been paid in accordance with the invoice terms. **Target Implementation:** July 2022	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation, except for policy and procedure development for the payment of HOA fees. We encourage RESU as they continue work on implementing this recommendation to ensure to develop policies for the payment of HOA fees. Although an infrequent occurrence, formal documentation in policies supports consistency and guidance when the event occurs.

RECOMMENDATION 4 - To increase the effectiveness of RESU's property management, the RESU Manager should establish procedures to track all staff costs, property maintenance expenses and revenue for all rental properties. RESU's annual report to the CEO should include financial analysis to determine whether Valley Water is covering its costs to maintain the leased/licensed properties it owns and the cost to lease/license property owned by others is fiscally prudent.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. As reported in the audit report, annually staff prepares a summary in a non-agenda submittal to the Board on the income, expenses, and net income for residential and non-residential rental properties. RESU Manager will work with accounting staff to retrieve and include the following information in the annual summary of rental income and expenses to the Board: 1. Costs to maintain the property it has leased or licensed to others.	**INDEPENDENT AUDITOR RESPONSE**: To assist the Board in its oversight responsibility, the annual summary should include a determination of whether Valley Water is covering its costs to maintain the

2. Trends in the rental income and expenses. 3. Expenses for Valley Water's non-residential property management including staff costs; and 4. Costs for the property that it leases from others. **Target Implementation:** July 2021	leased/licensed properties it owns.

RECOMMENDATION 5 - To facilitate effective delivery of RESU services, the RESU Manager should develop a risk assessment process to help Valley Water staff identify real estate transactions that will need extensive participation and review by Valley Water Counsel and a plan for key consultation points.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU staff will create a check list for potential risk factors associated with complicated acquisitions, for example, relocation or hazardous material issues, unwilling owner, or potential eminent domain matters. RESU will review potential risk factors with the project team early in the planning process to identify potential high-risk acquisitions and mitigation issues so that adequate schedule and budget can be considered for the project. RESU will also engage Legal counsel on complex legal issues and timing to resolve. **Target Implementation:** December 2021	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

RECOMMENDATION 6 - To increase service delivery timeliness, Valley Water's CEO, in coordination with RESU's Manager, should work with District Counsel to evaluate the costs and benefits of developing additional templates for the different types of right of way agreements, with a goal of minimizing changes to these pre-approved standard contracts and reducing District Counsel's review time.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU will work with Legal Counsel Office to identify and create standard templates for various right of way agreements. Standard templates may be considered for the following real property interests: • Temporary Construction Easement • Temporary Construction Easement and Permanent Easement • Fee-Full Take • Fee-Partial Take • Fee, Temporary and Permanent Easement • Ingress/Egress Easement • Permanent Easement **Target Implementation:** July 2022	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

<table>
<tr><td colspan="2">RECOMMENDATION 7 - To enhance the effectiveness of capital project planning, the CEO should ensure the inclusion of RESU staff in early project design meetings for capital projects to assist project delivery teams with budgeting for real estate transactions and planning for adequate time to process those transactions, identify potential challenges for transactions given the project design, and allow RESU time to plan for these transactions and potential property management needs.</td></tr>
<tr><td>MANAGEMENT RESPONSE: Management agrees with the recommendation.
Valley Water's current practice for capital improvement projects is to include key subject matter experts on its core project team. For projects that require right-of-way acquisitions, the project teams always include RESU staff. RESU staff serves as a task leader in planning and executing right-of-way acquisitions for each project. RESU staff input has always been requested and then incorporated into each project's schedule and budget. Deputies of Capital Improvement Projects will ensure that each capital improvement project, that require acquisition of right-of-way, continue to have participation of RESU staff as a key core team member.
Target Implementation: On-going</td><td>INDEPENDENT AUDITOR RESPONSE:
The audit found that RESU staff were not always included in the early phases of project planning. Capital Project staff are solely responsible for defining and planning acquisitions and RESU executes the real estate transaction process for the acquisition as defined by Capital Project staff. The purpose of the recommendation is for Capital Projects staff, when defining the parameters of each acquisition, to consult with RESU to prevent delays to the acquisition timeline in the execution of the transaction process that occurs later in the project lifecycle.</td></tr>
</table>

RECOMMENDATION 8 - To improve planning for the costs of real estate acquisitions, the RESU Manager should complete a one-time study on (A) the impact of property owner appraisals on acquisition purchase prices over the past five years to identify the differences in appraisal methodologies that led to different appraised values, and (B) the impact of a property owner's appraisal on the time to complete an acquisition. The RESU manager should share the research with District Counsel and Valley Water management to determine what changes, if any, should be made to the Valley Water acquisitions process.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU will research how to best complete a one-time study of the impact of property owner appraisals on acquisition purchase prices and to identify the differences in appraisal methodologies that led to different appraised values. The evaluation will also include the impact of a property owner's appraisal on the time to complete an acquisition. Based on evaluation, RESU will recommend and made changes, if any, to RESU procedures for property acquisition. **Target Implementation:** December 2021	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

RECOMMENDATION 9 - To ensure that Valley Water adheres to "just compensation" principles on delayed real estate acquisitions, Valley Water's CEO should ensure the development of criteria that would require the ordering of an updated appraisal, especially when there is a potential conflict between project deadlines and the need for additional time to finish the acquisition process in accordance with Valley Water goals and state laws.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU will evaluate and update current policy and procedures regarding appraisal life expectancy (usually 6 months) and determine a trigger for requesting an updated appraisal in coordination with project team or owner. RESU staff will monitor status of each acquisition and recommend necessary updated appraisal to avoid delay to the acquisition schedule. **Target Implementation:** December 2021	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

RECOMMENDATION 10 - To facilitate effective communication with property owners and those wanting to use Valley Water owned land, Valley Water's CEO should leverage use of the existing Customer Resources Management Information System. The CEO should allow its use by RESU and all divisions/units (Community Projects Review Unit (CPRU), Watersheds, Utility) that deliver real estate services to track all external stakeholder contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners; and develop communication protocols/scripts for use by RESU, Watersheds, and Utility when contacting property owners about the need to use or acquire parcels.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU will discuss with Information Technology (IT) Department the needs to track all external stakeholder contacts (dates, purpose, status) and to be able to research those contacts before connecting with property owners. RESU will invite other units that interact with property owners, such as Community Projects Review Unit (CPRU) or other units in Watershed or Water Utility on this discussion. As IT Department develops or acquires proper software to support the tracking of external stakeholder contacts, they will provide training on this new tool to RESU, CPRU, and other. **Target Implementation:** July 2022	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

RECOMMENDATION 11 - To improve public confidence in its real estate services, the CEO should expand the information available on the Valley Water website about real estate services to describe generally the real estate acquisition process; provide brochures that explain the acquisition process and rights of property owners; provide a guide for property owners and other external parties showing which unit to call–either RESU or CPRU–depending on the service needed; and a frequently asked questions section.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. RESU will work with Office of Communications to create a webpage site on valleywater.org to provide information to the public about the Real Estate Services Unit and the real estate acquisition process. The webpage will also include information on property owner rights, a FAQ page and related standard brochure, "When the Water District Buys Your Property". The webpage will also provide information on who at Valley Water to contact regarding acquiring or using a property right from Valley Water or doing property transaction with Valley Water. **Target Implementation:** July 2022	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

RECOMMENDATION 12 - To enhance Valley Water's fiscal performance and asset management strategy, the CEO should: A. conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its [land], and B. shorten the duration and establish regular fee adjustments on future longer-term lease agreements.

MANAGEMENT RESPONSE: Management agrees with the recommendation. CPRU will conduct an annual review of the Valley Water's fee schedules to ensure that the fees cover the cost to lease, license, and permit the use of its land. Currently, appraisals are performed for every request to establish fair market value. CPRU will recommend to the CEO revisions to the fee schedules as needed. We will include a clause in each lease/license to adjust the annual rate based on the Consumer Price Index (CPI) for San Francisco-Oakland-San Jose area. Additionally, for leases that have a term longer than 10 years, we will include a clause to review and revise the rate every 10 years. **Target Implementation:** December 2021	**INDEPENDENT AUDITOR RESPONSE**: Valley Water management's response satisfies the recommendation.

OTHER MATTERS FOR CONSIDERATION - Should the Valley Water Board desire to update the current role of RESU from providing support services only to be a proactive partner in strategy planning for future water management activities, the Board could consider the following: A. Direct the CEO to develop a five-year strategic plan that includes a new mission, goals, and objectives for all Valley Water Real Estate Services (including asset management) that proactively meets the needs of future Valley Water projects, goals, and objectives. The strategic plan should include an implementation plan that addresses the following: 1. Define the future roles and responsibilities for each unit that delivers or helps to deliver real estate and asset management services. If Valley Water continues to use its current organizational structure to deliver real estate services, roles and responsibilities should be identified by each type of real estate service and asset management function and function performed, clear lines of accountability created for each unit performing each task, and key points of coordination and collaboration across the units defined. 2. Assess the feasibility of consolidating the delivery of its real estate services and permitting services by combining the RESU and CPRU into a single unit to leverage opportunities. Consolidation will make the real estate transaction process and property management activities more efficient and effective, as well as providing a one-stop shop to constituents. 3. Describe how Valley Water will collect, analyze, and verify the accuracy of data about its real property to allow Valley Water management to perform effective business analytics. 4. Develop a communication strategy that addresses how Valley water will promote a culture of information sharing and enterprise-wide decision making, both internally and externally, for delivery of its real estate services 5. Develop an asset management strategy.

B. Direct the CEO to begin a plan to implement a new, off-the-shelf real property and asset management software to track and capture all real property activities, including transactions, encroachment permits, contact management, lease/permit management, and workflow management performed by RESU and CPRU. The system should support business analytics for real property management, enhancing delivery of real estate services using technology.	
MANAGEMENT RESPONSE: Management agrees to the additional recommendations. • Management agrees that the roles and responsibilities of RESU and CPRU can be clarified and communicated better so that the public can have a better understanding of the services provided and proper points of contact at Valley Water. • Management agrees that the roles and responsibilities for real property asset management need to be developed and implemented and Valley Water has already begun this effort. In 2019 Valley Water created the Lands Management Program to lead agency-level coordination for many of the broad aspects pertaining to lands management activities. The lands management function is resided in the Watershed Business Planning & Analysis Unit (WBPAU). Additional information on the roles and responsibilities of those 3 units will be posted on Valley Water Web Page as needed so the public can understand better and know who to contact for services provided by those 3 units. **Target Implementation**: July 2021 • Management does not agree with the recommendation to combine RESU and CPRU to make real estate transaction process property management activities more efficient and effective, as well as providing a one-stop shop to constituents. Currently, RESU and CPRU are in the Watersheds Design & Construction Division under the Chief Operating Officer Watersheds. These units have clear roles and responsibilities and a portion of their functions involves Valley Water real property. They coordinate and collaborate with each other and other units/operations for management and protection of Valley Water real properties. RESU is responsible for real estate services which includes buying and selling property, leasing and licensing of non-residential and residential properties, as well as negotiation, appraisal, title, and relocation services. CPRU is responsible for protecting Valley Water Watersheds and Water Utility assets and interests from external activities and threats as defined by the Water Resources Protection Ordinance. CPRU accomplishes this through the review of development projects from external parties and	**INDEPENDENT AUDITOR RESPONSE**: The Auditor has presented these as matters for consideration only. We commend Valley Water for their proactive response. The matter regarding assessing the feasibility of consolidating the CPRU and RESU units were developed with an emphasis on improving service delivery for Valley Water residents. Upon completion of clarifying roles and responsibilities between the two units, identify opportunities for continued collaboration and coordination to better serve customers.

issuance of encroachment permits for activities on Valley Water rights of way, and ordinance enforcement for activities undertaken without appropriate permits. The issuance of encroachment permits for long term uses of Valley Water property may include a license or lease which is established by CPRU staff and managed by RESU. **Target Implementation**: On-going operations • Management agrees that having a central location for information related to its real property can facilitate effective evaluation and decision making. Data about Valley Water's real property is collected and analyzed by CPRU and WBPAU. CPRU is responsible for verifying the accuracy of land rights data shown in GIS and to correct the Land Parcels, Fee, and Easement layers for Valley Water real property. As needed, CPRU staff provides corrections to the County of Santa Clara Assessor to ensure that Valley Water's ownership data is represented accurately in County of Santa Clara's records. WBPAU is in the process of procuring and implementing an Enterprise Content Management (ECM) system that will be utilized as an agency-wide central repository for documents and information pertaining to Valley Water land rights and obligations. As appropriate, metadata and summarized information on real property documentation will be incorporated in the ECM system so that Valley Water staff can query and retrieve real property information and perform analytics-based evaluations as needed to support strategic decision-making. Part of the Land Management Program will enhance the utilization of Geographic Information System (GIS) functionality to expand access to information on real property rights and obligations, and will advance the integration of internal GIS systems with many of the documents and associated information that will be stored in the ECM system. **Target Implementation**: July 2022 • Management agrees to develop a communication strategy that addresses how Valley water will promote a culture of information sharing and enterprise-wide decision making. We are planning to: o Develop, enhance, and/or consolidate internal and external web pages to provide easily accessible information to Valley Water staff and the public pertaining to real estate services program descriptions, policies and processes, roles and responsibilities, and contact information.	

- Hold regularly scheduled internal coordination meetings with relevant business areas to ensure strategic alignment, information sharing, and coordinated execution of business processes. - Explain the utilization of information technology solutions to aid in the access and distribution of real property information to contribute to coordinated and strategic decision-making. - In addition to maintaining the Fee and Easement GIS layers, CPRU has created layers for: Adopt-a-Creek locations (adopted and available segments), Encroachments (Fee, Easement and Suspected), Joint Use Agreement locations (with links to the JUA documents), and is in the process of populating a layer representing the locations of Agreements and Leases (which will also contain links to the relevant documents). These are all updated as new information becomes available. The Adopt-a-Creek and Encroachment layers (with the exception of the Suspected Encroachments) are available to all staff via the GIS data menu. The Joint Use Agreement layer has been made available to the Maintenance and Vegetation Management staff to facilitate their work and will be added to the data menu shortly. - Members of the public can request deed information about our Fee and Easement rights and pipeline or creek plans at any time. **Target Implementation**: July 2021 • Management agrees with the recommendation to develop an asset management strategy. WBPAU is developing the Lands Management Program and is responsible for coordination for many of the broad aspects pertaining to lands management activities. WBPAU will continue to develop and implement an integrated real property asset management strategy to align the acquisition, sustainment, use, and disposal of real property with agency goals, objectives, and service delivery requirements. Several of the components of a real property asset management strategy noted below are currently in development and will continue to be advanced by the Lands Management Program in collaboration with RESU, CPRU, and other business areas throughout Valley Water: - Short and long-term asset management goals and objectives. - A strategic property evaluation process for real property acquisition (fee and easement), surplus sale, and easement termination.	

- Integrated process(es) for the planning and budgeting, acquisition, sustainment, and disposition of real property. - Leveraging of information technology solutions to inventory and track real property assets and provide centralized access to real property documents and information. - Coordination for the planning and execution of corrective, preventative, and deferred maintenance. - Consolidated information on real property ownership and current use. - Land use planning assessments. - Use of industry standards and benchmarks for continuous improvement. - Mechanisms to periodically measure progress, assure continued relevance, and update asset management strategy as necessary. **Target Implementation**: July 2022 C. RESU will work with Information Technology (IT), CPRU and Facilities Management to collaboratively analyze the current software systems and capabilities, including transactions, encroachment permits, contact management, lease/permit management, and workflow management performed by RESU. RESU will work with IT staff and discuss future integrations and updates which will include feedback from other departments involved in the Real Estate/Property Management and Asset Management processes. RESU will implement training for staff which will provide transparency on the basic uses of the current RESU system by providing tutorials and help menus for continued assistance. The end product and objective are to ensure that Valley Water staff has all the tools needed to access Valley Water owned property information, as needed in a clear and easy to access method. **Target Implementation**: July 2022	

ACKNOWLEDGEMENTS

TAP International wishes to thank the staff who participated in this audit from the following divisions and units:

- Watersheds Design and Construction Division
- Real Estate Services Unit
- Community Projects Review Unit
- Information Technology & Administrative Services Division
- Facilities Management Unit
- Office of the District Counsel

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Valley Water

File No.: 20-0767 **Agenda Date:** 10/21/2020
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Receive and Discuss the District Counsel Audit Draft Report.

RECOMMENDATION:

A. Receive and Discuss the District Counsel Audit Draft Report; and
B. Approve Issuance of District Counsel Audit Draft Report.

SUMMARY:
On August 19, 2020, the Committee unanimously approved to extend the District Counsel Preliminary Draft Audit Report Review by 10 additional working days, allowing for a 20-day management review for technical accuracy. Staff will bring the District Counsel Audit Draft Report (Attachment 1) to the Committee for their review at the October 21, 2020, Board Audit Committee meeting.

On February 26, 2019, the Board approved the recommendation by the Board Audit Committee (Committee) for TAP International, Inc. (TAP) to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, Construction Contract Change Order management processes, and Real Estate services.

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from $405,000 to $1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP initiated the performance audits of the District Counsel's office and Real Estate services.

Following initiation of the audits, the Committee shall discuss the status of on-going audits until the audits are completed. Upon the Committee's approval of the issuance of this draft report, the management response will be due within fifteen working days per Article VI, section 7 of the Board Audit Committee Audit Charter.

ATTACHMENTS:
Attachment 1: District Counsel Audit Draft Report
Attachment 2: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

TAPInternational

Draft Report

DISTRICT COUNSEL'S OFFICE CAN BENEFIT FROM ENHANCED STRUCTURE AND IMPROVED MANAGEMENT PROCESSES

OCTOBER 2020

Draft Report by the Independent Auditor to the Board Audit Committee

TAPInternational

Date:	**October 21, 2020**
Memorandum For:	**Board Audit Committee (BAC)**
From:	**Independent Auditor, TAP International, Inc.**
Subject:	**Transmittal of TAP International Performance Audit Report**

Attached for your information is our draft report, *District Counsel's Office Can Benefit from Enhanced Structure and Improved Management Processes*. The audit objective was to identify potential structural, organizational, and procedural improvements in the District Counsel's Office.

Our audit identified opportunities to improve service delivery and performance through an enhanced operating strategy, implementing structural and process improvement changes. The report contains five recommendations that will enhance the efficiency and effectiveness of legal services provided to Valley Water's operational and administrative units.

Management's response to the recommendations in this audit report is included in Appendix I of this report. (This sentence will be included in the final report.)

TAP International, Inc.

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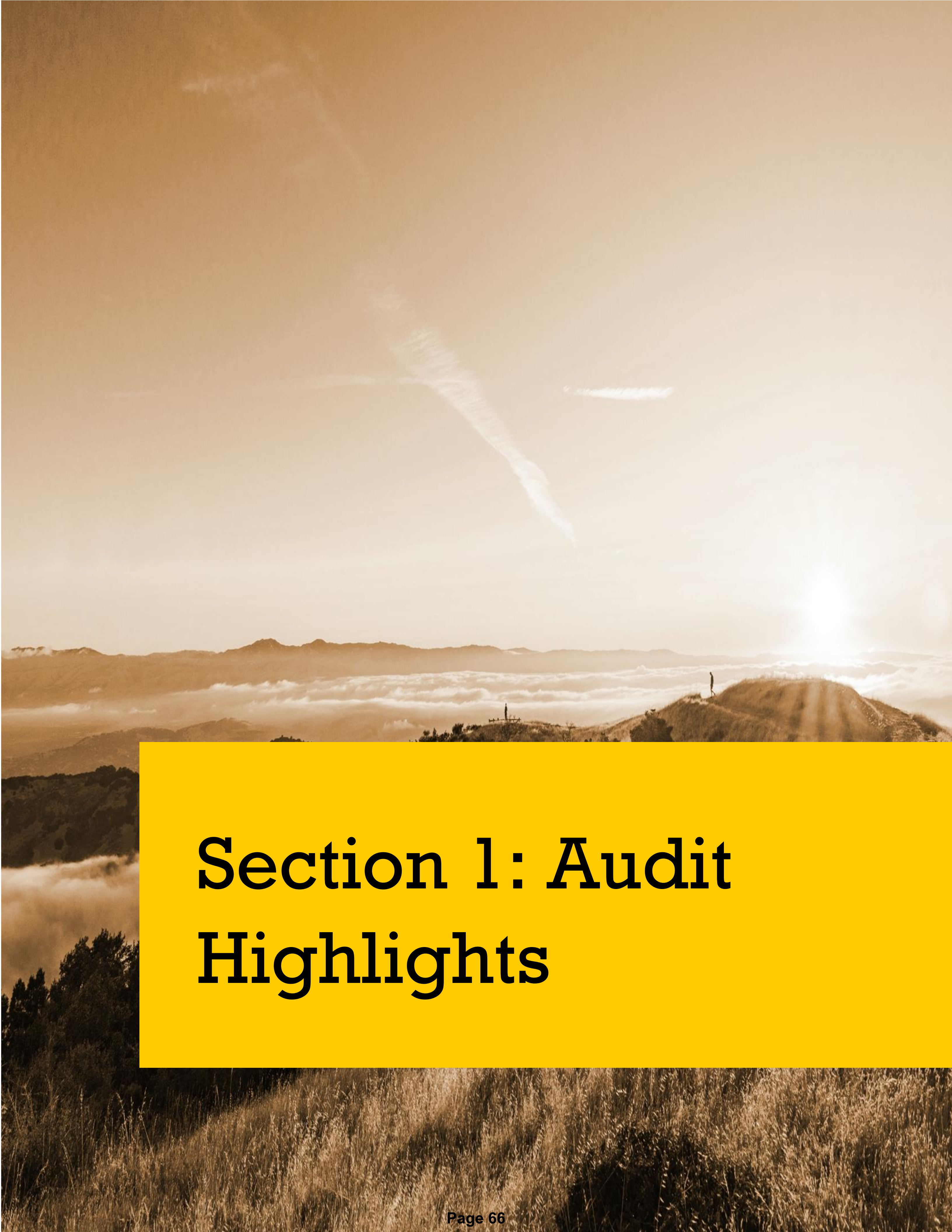


Section 1: Audit Highlights

Audit Highlights

Why the Audit Was Conducted

The Office of the District Counsel (District Counsel's Office) provides a myriad of legal services to Valley Water's Board of Directors (Board) and 80 operational and administrative offices, divisions, and units.[1] At the Board's direction, the Independent Auditor (Auditor) conducted a performance audit of the District Counsel's Office to identify potential structural, organizational, and procedural improvements.

How the Audit Was Conducted

The performance audit included a review of the District Counsel's Office organizational structure, operational performance, staff roles and responsibilities, processes, and policies and procedures. The audit work included: (1) interviews with District Counsel's Office attorneys and staff, (2) interviews with the primary customers of the District Counsel, (3) analysis of financial data, contracts, consultant agreements,[2] and other documentation related to the District Counsel's Office operations, and (4) peer agency research on structure and practices. This performance audit used qualitative evidence, documentary evidence, and other performance information to assess overall agency effectiveness. The Auditor took additional steps to corroborate and substantiate qualitative information described in the report per generally accepted government auditing standards.

What the Audit Found

Valley Water operations and administrative units generally agreed that the District Counsel's Office provides quality legal services, providing legal review, advice, and representation, but many of them raised concern about the frequency of communication and timeliness of services. This audit determined that attorneys have managed and prioritized their projects and workflows without centralized processes or tools. Each attorney has been encouraged to be independent and operate their own legal service center. While this management approach provides high autonomy to attorneys and increases morale, it also creates non-uniformity in service delivery among Valley Water operational and administrative units and customer satisfaction concerns.

While there is not an established operating standard for public sector legal offices, best practices suggest that operating models are evolving from board-centric roles and as-needed support

[1] Valley Water has 12 attorneys, risk and workers compensation managers and administrative support personnel supporting seven Directors serving on the Board and over 800 regular employees. The District Counsel’s Office also outsources legal services.

[2] Also referred to as professional services agreements within Valley Water.

services on a task-by-task basis to enterprise-wide models that uniformly support organizations. This audit reports various strategies to update the District Counsel's Office current operating model consistent with best management practices as well as practices identified in other public sector legal offices, such as added policy and procedural development, use of added document templates, effective workflow management, use of master services agreements, service level agreements (SLAs), performance management systems, and implementation of 360-degree type of reviews. Implementation of these strategies would likely increase customer satisfaction.

Recommendations (in priority order)

1. The District Counsel's Office should develop and implement a written strategy for approval by the Board that provides an updated operating model for efficient service delivery. In the development of the strategy, the District Counsel can consider, for example, enhanced policy and procedure development[3] and new/enhanced tools described throughout this report. These tools, for example, can include workflow management, SLAs, added performance measurement, use of 360 degree type of reviews, and risk-based criteria assessments.

   Estimated In-House Labor

   - Strategy Development: 24 to 36 hours to discuss and agree upon potential enhancements.
   - Strategy Implementation: Costs are dependent upon the scope of the strategy developed.

2. The District Counsel and the Information Technology & Administrative Services Chief Operating Officer should update Valley Water Administrative Policies that (1) identify areas that require the development of new contractual and agreement templates, and (2) identify the responsible party for updating existing contract, agreement, and amendment templates as well as non-disclosure agreements (NDAs). These updates should also include the responsible party for NDA monitoring.

   Estimated In-House Labor

   - Up to 36 hours to meet, confer, review, and approve updates to the administrative policies.

[3] -Development of risk-based criteria for reviewing consultant agreements, purchase acquisitions, and/or other types of contracts.
-Development of criteria for prioritization and assignment of Board and Valley Water requests for services.
-Preparation (sources of information to be used) and maintenance of the Quarterly Report provided to the Board and the Litigation Matrix used to document current litigation status, which is part of the Quarterly Report.
-Clarification of EL 7.5 regarding the handling of Board member requests for the drafting of resolutions.
-Maintenance of the Legal Advice Matrix used to document the communication of advice provided to Valley Water management and staff.
-Personnel training requirements, including cross-training and succession planning
-E-discovery procedures (currently in development).
-Criteria for risk management decision-making applicable to insurance

3. The District Counsel should convene a workgroup on planning activities or projects involving contracting opportunities with key stakeholders (E.g., Chief Executive Officer (CEO) and Chief Operating Officers (COOs)) to develop a decision-making guide for early engagement with the District Counsel Office and Risk Management.

   Estimated In-House Labor

   - Up to 24 hours to prepare for, facilitate, and document the working group meeting results.

4. The District Counsel should discuss with the Board the use of a master services agreement to add another procurement mechanism for legal services.

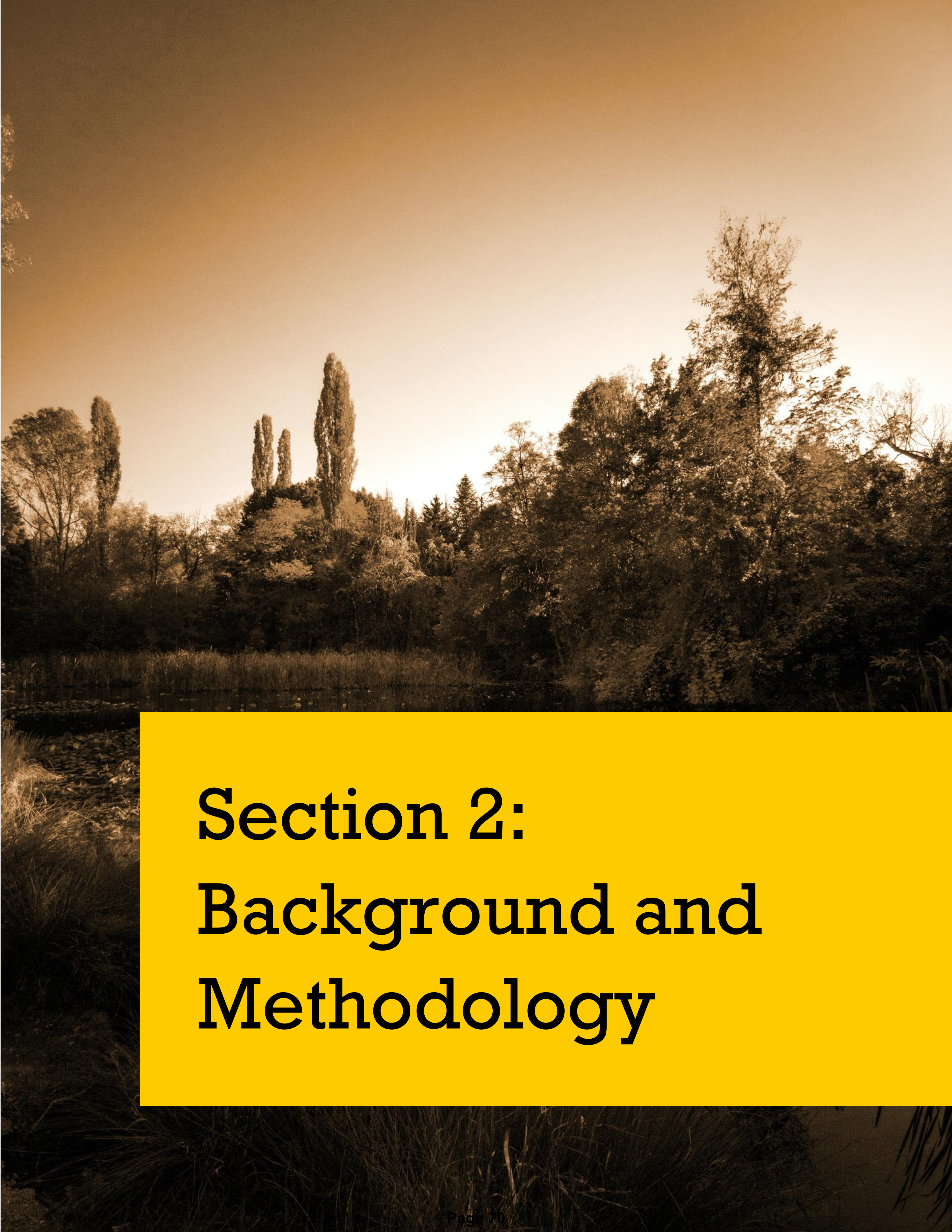
   Estimated In-House Labor

   - Up to five hours for preparation of memo and Board discussion.

5. The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs.

   Estimated In-House Labor

   - No labor cost for the District Counsel's Office.



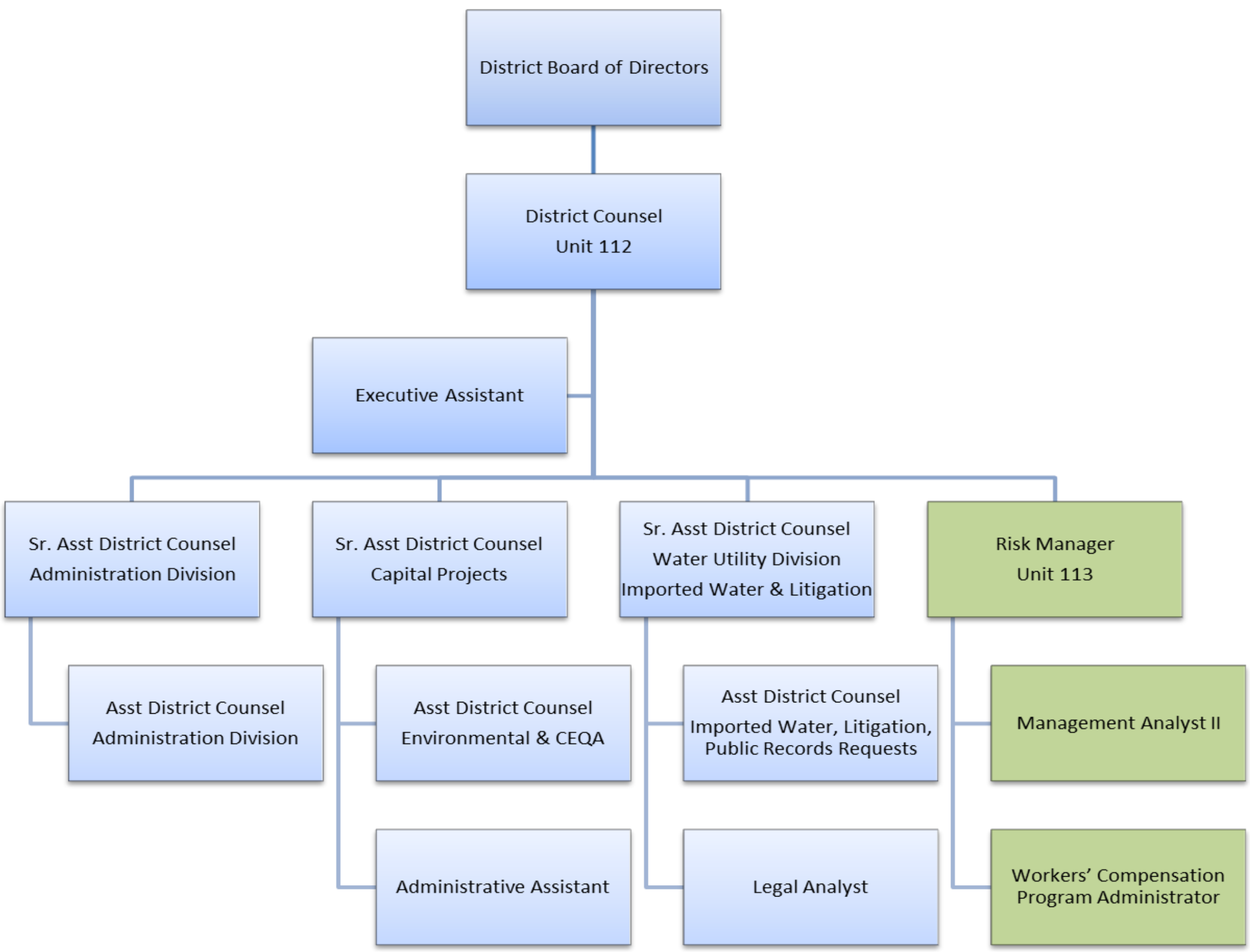
Section 2: Background and Methodology

Background

To Whom Does the District Counsel's Office Report?

The Valley Water Board directly appoints the District Counsel, who serves at the discretion of and reports directly to the Board, as shown in Figure 1 below. In addition to the District Counsel, Valley Water has two other Board Appointed Officers (BAOs) who serve as part of Valley Water's executive leadership team: The CEO and the Clerk of the Board. The District Counsel, as a BAO, is expected to "provide high quality, trustworthy and responsive legal counsel to Valley Water in a manner that creatively helps accomplish Valley Water's mission." The current District Counsel was appointed in February 2010.

Figure 1. Organizational Chart of the District Counsel's Office



How Should a Public Legal Counsel's Office Operate?

While multiple state and local laws guide District Counsel decisions, there is not an established standard for public legal offices that guide leaders on how day-to-day management should be performed. Public legal offices consistently report to an elected governing body with day-to-day strategies varying from limited organizational maturity to robust maturity that include use of formal SLAs, integration of legal support in enterprise-wide communication strategies, formal delineation of roles and responsibility, and embedding attorneys in specific departments. The size and complexity of the public agencies drive the maturity of the operating model.

Best practices for in-house legal service delivery recommend an exact operating model communicated both within the legal office and with the rest of the agency. The strategy is based on the needs of the requestors of legal services (customers) and defines the roles and responsibilities of all the parties, and the processes to support consistent service delivery.[4]

What Services are Provided by the District Counsel's Office?

Nine staff members assist the District Counsel in providing legal services to Valley Water. Three additional staff support the Risk Management and Workers' Compensation programs. Key services, among others, provided by the Office address:

- Water rights,
- Construction contract and amendment review,
- Consultant agreement and amendment review,
- Procurement agreement review,
- Contract drafting and negotiation,
- Public procurement compliance,
- Employee labor agreements and human resource issues,
- Construction law,
- Real estate law,
- Environmental law,
- Litigation,
- Grant compliance,
- Finance law,
- Statutory interpretation,
- Open government and ethics issues,
- General legal advice,
- Workers' compensation, and

[4] Deloitte Legal, "In-house Legal Service Delivery – Transform Your Legal Operating Model," 2020.

- Risk management and claims.

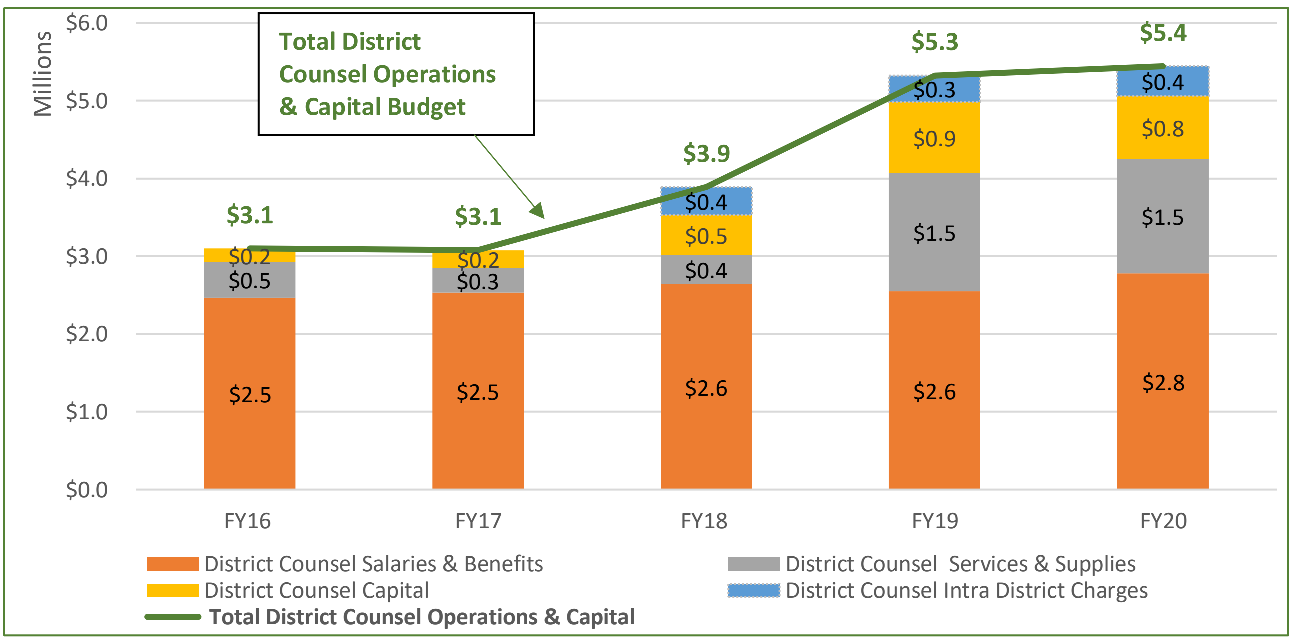
Valley Water does not maintain or track data that would show the volume or proportion of work performed by staff members among these types of services.

How Much Does the District Counsel's Office Spend?

In fiscal year (FY) 2019, the budget to operate the District Counsel's Office was $5.4 million, a growth of 76 percent since FY 2016, due to the expansion of Valley Water projects and operations.[5] As shown in Figure 2, (shaded in grey) services and supplies contributed to the increase. A detailed analysis of the budget showed an increase in outsourced legal services.

The District Counsel functions are budgeted through the general fund, which primarily receives funding through intra-district overhead charges to Watershed and Water Utility enterprise operations and capital programs. Valley Water's financial management officials said that the District Counsel's Office does not generally seek or receive separate reimbursement for services from other revenue sources.

Figure 2. District Counsel's Office Budget, FY 2016 to 2020



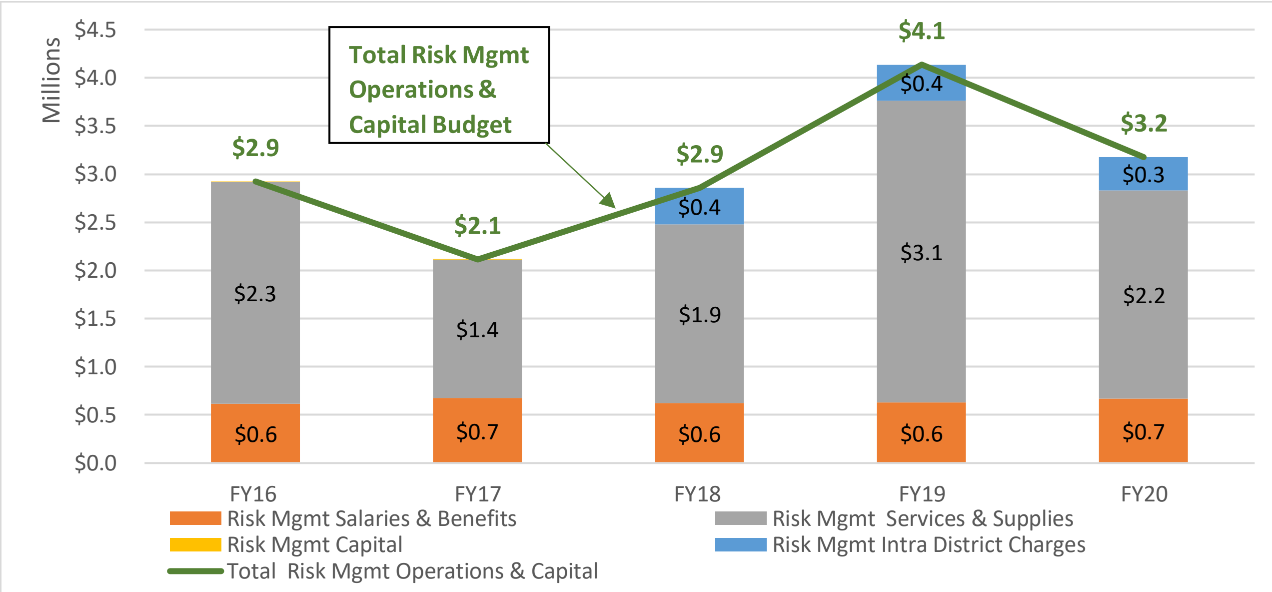
Source: Valley Water Budget Documents, http://www.aqua.gov/archived-budget-documents-prior-years

For the Risk Management Unit within the District Counsel's Office, the operating budget increased modestly by nine percent between FYs 2016 and 2020, as shown in Figure 3.

[5] Valley Water's total FY 2019 budget is $529 million, and the Five-Year Capital Improvement Program includes 67 projects totaling $6.5 billion.

The budgets for salaries & benefits for both the District Counsel's Office and the Risk Management Unit remained steady since FY 2016.

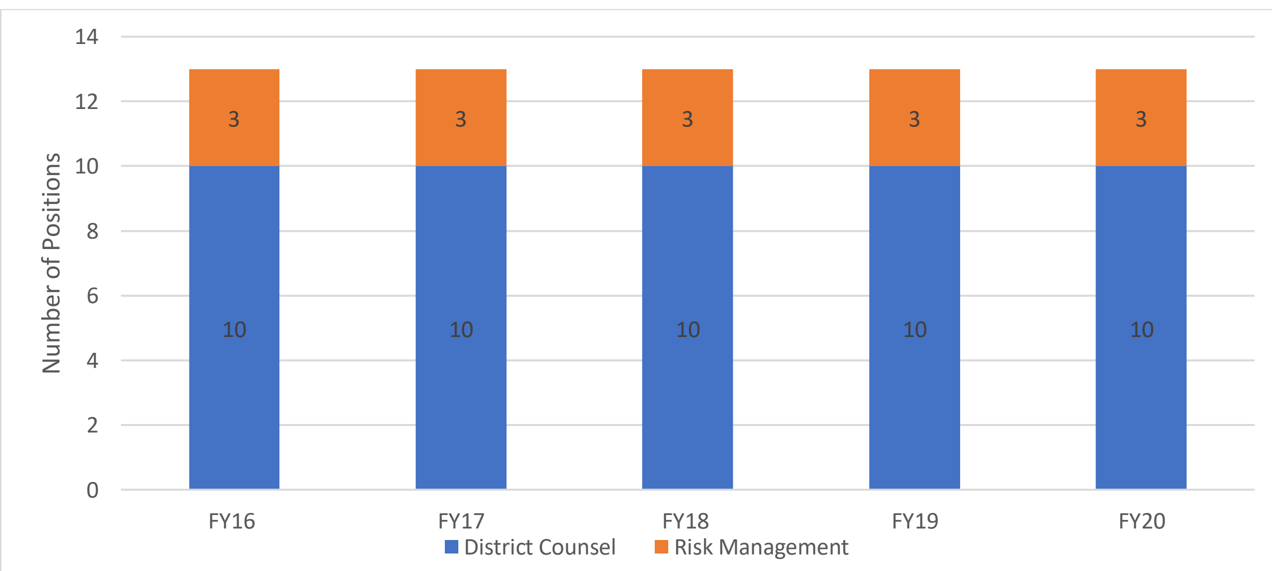
Figure 3. Risk Management Unit Budget, FY 2016 to 2020



Source: Valley Water Budget Documents, http://www.aqua.gov/archived-budget-documents-prior-years

Specifically, the number of budgeted positions in the District Counsel's Office and the Risk Management Unit did not change throughout the period, as shown in Figure 4.

Figure 4. District Counsel's Office and Risk Management Unit Budgeted Positions, FY 2016 to 2020



Source: Valley Water Budget Documents, http://www.aqua.gov/archived-budget-documents-prior-years

Methodology

How was the Performance Audit Conducted?

This performance audit assessed potential opportunities for structural, organizational, and procedural improvements in the District Counsel's Office. The audit examined the functions, structure, roles and responsibilities, and customer satisfaction of the District Counsel's Office's legal services to the Board and Valley Water management and staff in the operational and administrative units.

Audit Objective

In 2018, Valley Water's Auditor conducted an enterprise-wide audit risk assessment and identified the District Counsel's Office as an area that could benefit from further review. Our specific audit objective was to determine and identify potential structural, organizational, and procedural improvements.

Scope of Work

This specific audit examined the following areas:

- Roles and responsibilities of the District Counsel's Office.
- Valley Water Administrative Policies and other policies related to services provided by the District Counsel's Office.
- District Counsel's Office management structure and staff assignments.
- Customer service satisfaction and feedback.
- District Counsel's Office work processes, including:
    - Performance metrics and service levels
    - Time tracking and reporting
    - Succession planning
    - Contracting and use of outside legal firms (subject matter experts)
    - Use and maintenance of contract and agreement templates
    - Legal review of documents (contracts, agreements, amendments, etc.)
    - Use of NDAs
    - Use of District software systems
    - Information sharing and communications

The scope of the work did not assess whether legal documents and communications to the Board were properly classified because the District Counsel did not release these documents due to their privileged and/or confidential nature. This assessment is included on the annual audit work plan of the Auditor.

The scope of work also did not examine the efficiency of claims administration and management by the Risk Management Unit, which is also included on the annual audit work plan of the Auditor.

Finally, this audit did not include an assessment of any individual employee performance or a comparison of timeliness metrics with other peer agencies due to the absence of available data.

Project Approach

To address the audit objective, the Auditor performed the following activities:

- Analyzed the District Counsel's Office Manual for areas of enhancement, such as the use of risk-based criteria, communication protocols, training, and e-discovery procedures.
- Evaluated the Valley Water organizational charts and budget documents.
- Assessed available contract and agreement templates to determine the different types available and their last revision dates.
- Analyzed 23 recent selected records from the Consultant Agreement System (CAS)[6] to determine the work performed by District Counsel attorneys for the review and approval of consulting agreements, and the types of edits made by attorneys.
- Computed turnaround times for the length of the review process for 23 consultant agreements.
- Reviewed the District Counsel's Office folder log-in sheets to evaluate the approval process.
- Interviewed all District Counsel staff to:
    - Discuss job functions and primary service areas.
    - Assess workflow processes between the District Counsel's Office and internal customers.
    - Identify performance metrics for the Office.
    - Identify areas of possible improvement.
- Interviewed each member of the Board to assess:
    - Satisfaction with District Counsel's Office services and timeliness.
    - Processes for information sharing and transparency.
    - Use of outside attorneys and subject matter experts.
    - Succession planning and staff assignments.
- Interviewed 17 District management and staff in the following 12 Valley Water operational and administrative offices, divisions, and units.
    - Clerk of the Board
    - Office of Talent and Inclusion
    - Dam Safety and Capital Delivery
    - Watersheds Design and Construction

[6] CAS is Valley Water's in-house system for processing consulting agreements.

- Watersheds Stewardship and Planning
- Water Utility Capital
- Raw Water
- Water Supply
- Treated Water
- Information Technology and Administrative Services
- General Services
- Purchasing and Consultant Contracts Services

The purpose of the interviews was to:

- Determine the level of satisfaction with the District Counsel's Office services.
- Assess workflow processes with the District Counsel's Office.
- Evaluate communication protocols.
- Identify areas of concern and possible improvement.

- Conducted a peer review of public legal offices to identify and compare structure and management practices. Six agencies were contacted -- City of San Jose, Valley Transit Agency, Southern California Municipal Water District, San Diego County Water Agency, East Bay Municipal Utility District, and Los Angeles County. Three of these agencies agreed to provide additional information beyond what was contained on their website. Other information was obtained through the publicly available budget and financial documents.

Assessment of the Reliability of Data

Section 9.2 of generally accepted government auditing standards require auditors to describe limitations or uncertainties with the reliability or validity of evidence if: (1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

The District Counsel's Office does not routinely capture operating and workload data. In the absence of data related to consultant agreements, the Auditor collected and performed its analysis of CAS system (CAS) data and found it minimally adequate for the audit wherein a judgmental selection of recent consultant agreements from CAS was reviewed for comments, edits, and timeliness. As CAS records only the processing and review of consultant agreements and not construction contracts, procurement purchases,[7] or other documentation reviews, the results of our analysis cannot be projected to the entirety of the District Counsel's work.

Assessment of Internal Controls

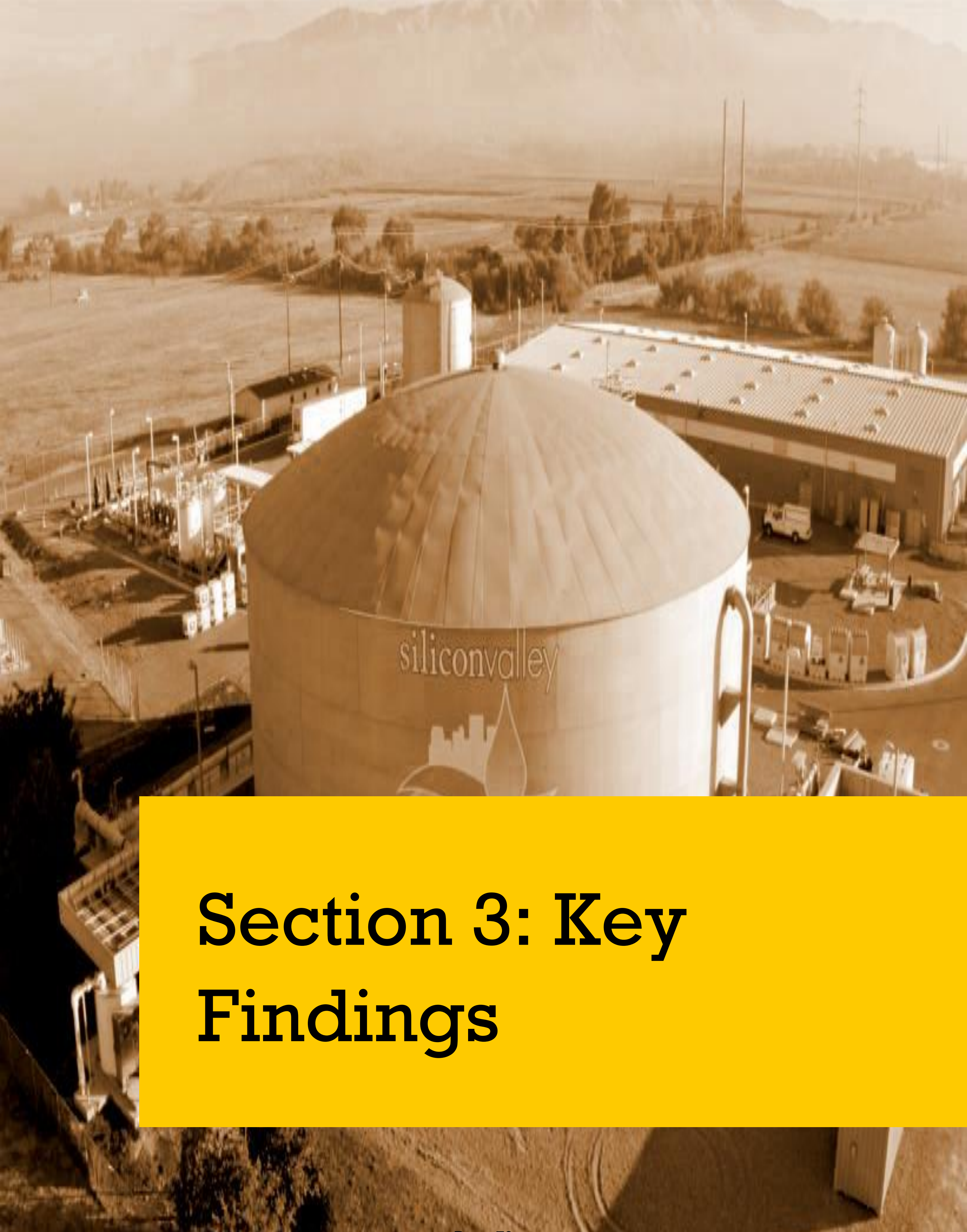
Section 9.20 of generally accepted government auditing standards require auditors to assess the adequacy of internal controls if they are significant to the audit's objectives. The objectives of

[7] Supplies, equipment, software, etc.

this performance audit did not require an internal control assessment, but policies and procedures and other controls were reviewed to identify potential improvements.

Audit Statement

This audit is known as a performance audit. A performance audit evaluates the economy, efficiency, and effectiveness of programs, services, and operations. The Auditor conducted this performance audit per generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. A preliminary technical draft for review of its technical accuracy and a formal draft report for a response to formal recommendations were provided to the District Counsel's Office. Comments were incorporated as applicable throughout the report. [See Appendix 1 for formal agency comments to the recommendations included in this report.] [*To be included in the final report version, only*.]



Section 3: Key Findings

Finding 1: Customer Satisfaction is Mixed

Customers report high satisfaction with the quality of services

One standard performance measure to gauge operational performance is customer satisfaction. Nearly all the Board's Directors (six of seven) and most of the managers (10 of 14) across 12 operational and administrative units we interviewed, highly rated the quality of services provided by the District Counsel's Office. Staff from Human Resources, and those working on California Environmental Quality Act (CEQA), Fish and Aquatic Habitat Collaboration Effort (FAHCE), and water rights generally reported the highest satisfaction levels with the quality of service while Administrative services reported being the least satisfied.

Valley Water managers want better communication on the status of services requested

Eleven of 12 operational and administrative offices, divisions, and units were not as satisfied with communication activities by the District Counsel's Office. Our review found that the District Counsel's Office does not routinely provide regular status updates to Valley Water managers and staff about work requests. Communication strategies varied through ad-hoc (sometimes prompted, other times unprompted) verbal or email updates. Valley Water managers said the frequency and the quality of District Counsel Office communication is highly dependent upon individual attorneys; some were particularly good at updating them on the status of the work, while others said that communication seldom occurs unless there was direct outreach. District Counsel staff reported varying level of awareness about these communication concerns with some reporting being unaware that Valley Water operational and administrative units had communication concerns.[8]

Valley Water managers want faster service

Eleven of the 12 operational and administrative offices, divisions, and units were also not as satisfied with timeliness by the District Counsel's Office. Valley Water managers and staff described multiple examples of service delivery with capital projects, real estate acquisitions, and other types of services that were delayed due to legal attorney review that took longer than expected to complete. While there is not an agreed-upon standard for timeliness, the turnaround times for legal review of 23 recent

[8] The District Counsel submits a quarterly report to the Board of Directors, which serves as the only formal mechanism for status reporting, but the District Counsel said that this report does not include the status of individual work requests by Valley Water units.

professional service agreements ranged from 1 to 49 calendar days, averaging 17 calendar days.[9] Consulting agreements outside of our sample of 23 agreements took between four months to over a year for final review and approvals. District Counsel attorneys said they were unaware of management's concerns regarding timeliness. Other attorneys said they were aware of these concerns and described their proactive communication efforts.

Valley Water and District Counsel's Office share responsibility for timeliness issues

Valley Water departments, divisions, and units and the District Counsel's Office described different circumstances for longer than expected turnaround times. Nine of 12 Valley Water operational and administrative offices, divisions, and units attributed the delays to two key areas. First, Valley Water managers reported that the reviewing attorney would require the use of a different contract template, although the managers believed they were using the correct template for their needs; some of them unknowingly used an outdated template because the District Counsel attorneys did not place the updated template on the Valley Water intranet. As shown in Figure 5 below, 32 percent of 190 legal review comments requested clarification or definition and another 12 percent commented on the use of non-standard contract language or incorrect templates among the consultant agreements. Second, Valley Water managers reported that delays occur when District Counsel attorneys request changes to the scopes of work, question costs and business-related decisions, as well as editing and format changes, including to documents that have been previously edited, rather than only focusing on legal or regulatory concerns. Figure 5 shows that 19 percent of legal comments addressed formatting suggestions or line edits, equating to about one in five comments. For example, the District Counsel's office attorneys corrected and commented on "typos" or noted that Valley Water units used an incorrect format to describe a list of tasks in the scope of work. District Counsel attorneys explained that many of their editing comments are necessary to help avoid future litigation. Contracts and Procurement staff explained that final review and verification of requested changes impact original processing schedules, creating bottlenecks, especially when multiple reviews occur.

Figure 5. Types of District Counsel's Office Comments on Professional Services Agreements (Sample of 23)

Type of Comment by the District Counsel Reviewer	Percent of Total
Needs clarification or definition	32%
Use of non-standard contract language, incorrect template/version	12%
Formatting suggestion or line edit	19%
Missing or incomplete element	13%
Extraneous or redundant materials; should be deleted or removed	9%

[9] The results of the professional services agreement reviewed cannot be projected to the full population of documents reviewed by the District Counsel's Office as CAS only contained consultant agreements and no other type of documents reviewed by the District Counsel's Office.

Flawed logical or inconsistent requirements	7%
Incorrect information	6%
Other	2%
Grand Total (190 First Review Comments)	**100%**

Source of data: Auditor Analysis

District Counsel staff attributed timeliness concerns to multiple issues, such as project managers submitting documentation that was not properly prepared, contracts that were improperly modified, or use of incorrect templates. The District Counsel attributes timeliness issues to insufficient staffing levels.

The Auditor verified that some timeliness concerns are due to the quality of documents submitted to the District Counsel's Office for review that could have benefitted from line editing. Other timeliness concerns stem from applying the same level of attorney review for each professional services agreement regardless of the nature of or complexity of the proposed work. In other public agencies legal offices, application of risk-based management principals guide the level of review based on the evaluation of risk exposure. District Counsel attorneys verified that the same level of review was performed even when some agreements may have low risk of future litigation. A District Counsel attorney explained that each attorney has their own philosophy in reviewing contracts, and the philosophy of the Office is to protect Valley Water from potential litigation.

Contracting delays have a financial impact. Actual costs could not be determined because of the unavailability of data to perform a cost analysis.[10] Valley Water managers prepared a memo about five years ago, requesting authority to outsource legal services when needed to help prevent project delays. Under Valley Water Board Governance Policy EL-5, District Counsel has the authority to procure outside legal services when internal resources cannot efficiently meet organizational needs, provided the District Counsel informs the Board immediately of the procurement.[11][12] While the Auditor did not have available information to assess District Counsel procurement decisions, the District Counsel explained that outsourcing decisions are based on his discretion.[13] The Auditor noted that the District Counsel does not have formal written decision-making criteria for these procurement decisions.

[10] A cost analysis would consider the amount of time spent reviewing contracts integrated with other data on project schedule delays due to contracting delays.

[11] Valley Water's Purchasing and Consultant Contracts Services Unit is not involved in these procurements or with ensuring compliance with procurement requirements.

[12] In FY 2018 the District Counsel's Office budgeted $1.1 million for outside legal services and by FY 2020, budgeted $2.5 million.

[13] The District Counsel explained that he considers the availability of attorneys and the specialized expertise available.

Finding 2: Updating the District Counsel's Office's Operating Model Can Enhance Customer Satisfaction

The District Counsel's Office can benefit from an enhanced operating model consistent with best practices to address service delivery issues such as timeliness, communication, and non-uniform approaches to providing services. The District's Chief Counsel explained that the Office's operating model is entrepreneurial in that each attorney determines how best to provide services. While this type of individual-centric operating model is not uncommon among public sector legal departments, others have more mature operating models to help sustain a consistent level of services. We describe strategies below that are designed to enhance service delivery.

Added policy and procedure development

Policies and procedures serve as one key element of effective governance by forming the basis for an organization's internal control system. In other words, policies and procedures help promote operational efficiency and effectiveness. The District Counsel's Office manual covers general areas of operations such as:

- Mission statement,
- Roles and responsibilities,
- Administrative policies,
- Office procedures, and
- Board communications.

Added procedural development could facilitate uniformity and transparency in decision-making and service delivery. Areas that need to be addressed in policies and procedures include:

- Development of risk-based criteria for reviewing consultant agreements, purchase acquisitions, and/or other types of contracts.
- Development of criteria for prioritization and assignment of Board and Valley Water requests for services.
- Preparation (sources of information to be used) and maintenance of the Quarterly Report provided to the Board[14] and the Litigation Matrix used to document current litigation status, which is part of the Quarterly Report.
- Clarification of EL 7.5 regarding the handling of Board member requests for the drafting of resolutions.
- Maintenance of the Legal Advice Matrix used to document the communication of advice provided to Valley Water management and staff.

[14] Governance Policy EL 7.11 provides direction on the information the District Counsel will communicate to the Board but does not constitute an office policy and procedure which would guide the development, format, timing, and review of the Board's quarterly report.

- Personnel training requirements, including cross-training and succession planning.[15]
- E-discovery procedures (currently in development).
- Criteria for risk management decision-making applicable to insurance requirements.[16]

Early District Counsel participation in planning activities

There is not a policy or criteria that requires District Counsel or other support unit involvement for projects that are new to Valley Water, complex in design, or will likely have significant costs (E.g., over $100 million). The District Counsel's Office is not involved in the review process during the development of requests for proposal or bids (which typically includes sample contract language) unless specifically requested by project management. The Auditor's review of 23 consultant agreements showed that 32 percent of comments involved requests for clarifications and definition, as shown in Table 5. These legal comments might have been prevented had the District Counsel's Office been involved earlier in the planning process. District Counsel attorneys reported that the first time they might see a request for proposal or contract is in the Legistar system when it needs to be reviewed just before Board review and/or approval. District Counsel attorneys said that they have previously advocated for early involvement in the planning process without success. However, another attorney said that it should be the project manager's and COO's decision to determine the need for early legal counsel involvement. Valley Water management has recently taken proactive steps on the Anderson Dam retrofit project to include District Counsel's Office participation in project planning meetings. Attorneys involved in these early planning meetings reported benefits from early risk assessment and proactive legal research.

Risk Management can also become involved earlier in the project planning process to help identify project risks and contractor insurance requirements, rather than consult at the project manager's discretion later in the project or during the contract negotiation phase. Efficient and effective project planning requires all stakeholders' participation and involvement so that any project issues can be identified and addressed as early in the process as possible

Added document template development

A standard practice in government purchasing is the development and maintenance of template documents that can be used for different procurements. The templates contain standard language for terms and conditions and formatting designed to address different contracting needs. If used effectively, the templates can minimize the time required to review contracts. While the Valley Water District Counsel's Office attorneys reported having developed a standard set of templates, they also stated that Valley Water units often do not use the correct templates, resulting in extra legal review work of contracts and agreements,

[15] Training on succession planning would convey the importance of the three designated staff that could potentially assume the leadership position to receive requisite knowledge transfer.
[16] Presently, decisions can vary. Risk management staff acknowledged that some vendors had raised questions about the level of insurance required of them for activities that do not have a material risk to the agency.

as previously described in Figure 5. Valley Water operational and administrative unit management stated that even though standard templates or templates from previously approved contracts or agreements are used, the District Counsel attorneys will edit the document language depending on the type of procurement or use the review and approval process to update the standard language.

Additional contract template development is needed to address all the types of services outsourced by Valley Water, such as for accounting/audit, staff support, marketing, other professional services, or different types of construction-related contracts. Valley Water management reported if a current template does not meet their needs, they will copy and paste language from other available contracts. With additional standard templates, Valley Water divisions and units could potentially minimize delays and frustration with the agreement and contract review process.

District Counsel and Valley Water management disagree over ownership for updating and maintaining the templates for contracts, amendments, and agreements. Most of the templates for standard consulting agreements available on Valley Water's intranet had not been revised since the calendar years 2016 and 2017. The last known agreement to be updated was the Capital Consultant Contracts Standard Consultant Agreement in 2018. District Counsel attorneys explained they are responsible for the review and approval of legal agreements; Government Relations is responsible for identifying necessary updates resulting from changes in California and federal legislation, and General Services is responsible for making the required legal changes to the documents. The General Services Purchasing Unit management, on the other hand, said it is not their responsibility because they do not have the legal expertise to make those types of changes.

Valley Water's Administrative Policy AD-6.3, "Approval Authority for Consultant Services Contracts," assigns responsibility to District Counsel to "develop, review and/or approve all standardized and customized contracts." The District Counsel explained this excludes the updates due to changes in laws.[17] The absence of formally defining the responsible party has led to inefficiencies in the contracting process. For example, a 2019 change in California law regarding small business enterprise preference in public construction contracts should have prompted a revision to Valley Water's templates. At the time of our review, the template had not been updated, even though District Counsel noted the need for a change in January 2020. In this instance, the general services unit had to repeat the request for proposal preparation process. The District Counsel explained that the Office does not have the resources or time to monitor

[17] Implementation of AD 6.3 language is not included in the job description for the District Counsel likely contributing to the ambiguity of ownership. The District Counsel job description does state, however, that the District Counsel "monitors legal developments, including proposed legislation and court decisions related to water agency law and activities; evaluates their impact on District operations and recommends appropriate action." The job description language would reasonably include legislative and regulatory changes that affect contracting language in contract and agreement templates

and identify the legal changes. Greater clarity about the responsible party to update contract templates could prevent the risk of undermining the integrity of the procurement process.

Effective workflow management

High performing organizations use software applications to receive, track, and monitor services requests. The District Counsel's Office uses three Valley Water electronic systems to help track workflow for some of its activities. The CAS and Legistar[18] software applications alert the District Counsel's Office when documents require review; limitations in these systems do not allow the District Counsel's Office to examine the overall number of assignments, staff assigned to them, and the status of the review. Historically, the District Counsel's Office did have a work request system, but its use was discontinued years ago, according to the District Counsel, because it could no longer be supported technically. The third system – the Risk Management Information System (RMIS) – is used by the Risk Management Unit to manage claims. At the time of our review, Risk Management staff had a backlog of claims to enter, preventing real-time analysis of all current claims.

In the absence of robust workflow management software applications, the Auditor examined how workflow is currently managed. First, in the area of assigning work requests, the District Counsel's Office utilizes general guidelines. For example, one attorney is generally responsible for imported water and litigation, while another is responsible for environmental law. Generally, one attorney is assigned to one or more key areas with another attorney serving as a backup. The key issue with these guidelines is that any attorney could be assigned to work on requests by the Board, which are given top priority thereby delaying the completion of work requested by operational and administrative units. Valley Water management has said they may or may not be informed of the delay of their deliverable that result in dissatisfaction with the timeliness of legal services and in uncertainty on project timelines.[19] One option that other public agencies have used is to have one or two specific attorneys dedicated to servicing Board requests and attending standing committee meetings while other attorneys would be dedicated to servicing specific divisions and units.

Second, in the area of managing work requests, the District Counsel's Office primarily relies on several manual processes to collect, manage, and track all other work requests. For instance, to track hardcopy documents requiring signatures, the District Counsel uses a manual paper log to record dates the documents are received, assigned, and completed. The workflow of other documents, such as construction contracts being prepared before bid or submittal through Legistar, are reviewed by District Counsel attorneys outside of either of these electronic workflow systems. A comprehensive electronic workflow application would better manage work requests by recording submittal and completion dates for all types of documents allowing the monitoring

[18] Legistar is Valley Water's electronic system for processing documents being submitted to the Board of Directors.
[19] Due to the lack of quantifiable information collected on workflow and turnaround times, the exact impact of delays due to the re-prioritization of work due to Board requests is not known.

of the status of work requests by external customers. Having this information could also aid District Counsel management in continuous process improvements.

Use of service level agreements

Best practices in service delivery between public agency departments encourage the use of service level agreements. SLAs define the services to be delivered by one department to another. For example, a service level agreement for contract reviews between the District Counsel's Office and an operational unit would address:

- Agreed-upon completion dates for service
- Expectations for document quality prior to submission for legal review
- Scope of services to be provided (e.g. line editing and or legal risk)
- Communication protocols (e.g. frequency and content)

Expectation setting afforded by SLAs could improve timeliness. The absence of defined work performance expectations is a contributing factor for lower levels of customer satisfaction. District Counsel staff explained that the preparation of SLAs might be too time-consuming.[20]

Better timekeeping system

Effective time tracking is a fundamental activity of all public agencies to ensure proper accountability and use of public funds. Timekeeping software applications are used in legal offices in both the public and private sectors, which allow a standard way to assess operating efficiency. The Office of the District Counsel has a time tracking application, but it is not configured to capture the type of data needed to perform staffing and financial analysis.[21] The District Counsel and attorneys provided various reasons for why they should not change how they track their time, such as:

- Staff maintain informal records for personal reference.
- The District Counsel's Office is a support service and should not be asked to track their time differently than other support departments.
- Providing privileged and confidential information about how their time is spent on activities to their customers could be problematic. In the private sector, time activity reports are classified as "privileged and confidential" to prevent the sharing of information to unintended parties.
- The Office's budget is not determined by time input.
- The Board has not asked the Office to formally track their hours.

The District Counsel added that time tracking would not likely result in increased funding to the Office, but staff has reported providing time records at the request of operations for invoicing purposes. The last verified instance of the reimbursement of attorney time was in February 2017. Comprehensive time tracking by the District Counsel's Office could potentially identify other

[20] The District Counsel's Office would need to consider if SLAs should be used for long term and/or short-term assignments.

[21] District Counsel staff currently record regular earning hours and leave time only.

reimbursement opportunities as well as provide the ability to effectively assign attorney workloads and right-size staffing levels.

Management of non-disclosure agreements

NDAs are an important legal structure used to protect information from being made available by the recipient of that information and are considered a legal contract. A party in breach of an NDA may be subject to legal action commensurate with the value of information. Like other public agencies, Valley Water sends and receives NDAs.

Standard management practices would, at a minimum, establish a standardized policy on the management and administration of NDAs, including defining roles and responsibilities for their compliance. A process to support the management of NDAs includes centralized maintenance, document tracking, compliance monitoring, and reporting. At the time of our review, Valley Water did not have a process for managing NDAs. Without a process, Valley Water does not know how many NDAs are in place, their nature, the signatory responsible for their compliance, or whether the District Counsel's Office has reviewed all of them. The District Counsel's Office said they are in the process of developing a formal policy for NDA management and administration. A target date has not been established for its completion.

Use of master services agreements

Many public agencies use master services agreements[22] to implement public outreach that procures legal services for a wide range of subject matter and demonstrate conformance to public procurement requirements, including allowing for consistent and timely acquisition of services when needs arise. A master services agreement would involve developing a list of pre-vetted firms through a request for qualifications process to develop a master services agreement for all eligible firms. The District Counsel explained that all the legal needs cannot be anticipated, defined, and incorporated into a master services agreement and that some type of "carve-out" will be needed for emergency procurements. The District Counsel added that Valley Water is unlikely to realize cost savings because the pool of available firms with water rights experience is very small and too specialized to have standard rates. Finally, the District Counsel also expressed concern about the limitations in the firms that can be retained due to possible conflicts of interest and their providing representation for an opposing legal party. A master services agreement is designed to have a broad reach, to provide a range of hourly costs, and to identify all eligible local, regional, and national firms that can avoid having these types of conflict of interest issues.

Use of added performance measures

Widely used in the public sector, regardless of the department's mission, performance measurement is the process of collecting, evaluating, and reporting information that can provide management with a quantifiable operational assessment of efficiency and effectiveness. The District Counsel's Office uses one formal performance

[22] Competitive bid contract that establishes a list of pre-qualified and approved firms for a selected set of services.

measurement - the submission of Quarterly Reports as the sole performance metric for operational performance.[23]

Other performance measures can be developed, such as turnaround times and volumes of documents, projects, or cases reviewed, which help Valley Water identify and correct possible process bottlenecks. District Counsel staff raised concern, however, that tracking performance measures could adversely influence attorneys' decision-making so that organizational performance could look more favorable. An effective set of performance measures would address this concern by including qualitative and quantitative metrics to assess tangible and intangible benefits from service delivery.

The District Counsel also raised concern that Valley Water's Board Appointed Officer (BAO) Performance Evaluation Procedure, Document Number Q622D02[24], already establishes the agreed upon evaluation criteria for assessing the District Counsel's performance. The Auditor identified that the purpose of the document is to guide the Board in assessing BAO employee performance, which is different from implementing performance management principles to guide day-to-day managerial decision-making based on routine operational performance measurement.

Use of a 360-degree type of review

A best practice in assessing operational effectiveness is to collect and evaluate feedback from stakeholders that provide or receive services from an office or unit. Implementation of a 360-degree type of review is an effective and anonymous multi-source assessment tool that supports a culture of continuous process improvement.

Receiving and providing feedback (on an annual basis) between the District Counsel's Office and its customers could allow the Office to be aware of the services and areas that need improvement, as evidenced by some attorneys reporting that they were unaware of the communication issues between the District Counsel's Office and the Valley Water divisions and units.

The District Counsel said that a 360-degree type of assessment might pose potential legal conflicts with the Board Governance Policy II. Section 3.2 of the Board BAO Linkage asserts that "The Board, as a whole, will not evaluate, either formally or informally, any employee other than the BAOs". Section 5.5 of the policy further states,

[23] These quarterly reports are prepared manually by the District Counsel's Office because the Office does not have available off-the-shelf software applications that could generate these reports electronically. The labor costs involved in manual preparation is unknown because of the absence of utilizing time tracking systems. Organizational performance measurement/management software is widely available or simple database development of key performance measures could be developed in house based on any number of performance measurement frameworks, such as the Balanced Score Card approach or a Results Based Management Framework.

[24] The criteria is limited to the Board's annual evaluation of individual BAO performance related to Leadership, Strategic Planning, Customer/Partner Focus Monitoring Organizational Performance, Workforce Focus, Financial, Communication and Support to the Board, and Business Results.

"Monitoring of each BAO's job performance will be against the expected BAO job output: accomplishment of the duties for which he/she is accountable to the Board, and performance within the applicable limitations established by the Board. The monitoring shall occur through a review of the reports submitted by the BAO in accordance with the Board Appointed Officer Performance Evaluation procedure."

The District Counsel explained that the policy and the District Counsel's employment agreement would require an amendment to include implementation of a multi-source assessment and could be done provided these amendments occur in the future. The Auditor's analysis determined that the Board policy and employment agreement were designed for individual employee performance evaluation and did not prohibit the District Counsel's Office from implementing best management practices that monitor operational performance.

Other Issues: Realigning the Risk Management Unit Needs Further Study

A clearly defined organizational structure, including well developed roles and responsibilities influence accountability, transparency, fairness, and responsibility. The results of our peer agency review showed that the risk management function was placed under administrative departments - variously reporting to the Deputy General Manager, the Directors of Finance, Human Resources, or Administrative Services, but ultimately reporting to the organization's CEO.[25]

In contrast, Valley Water's Risk Management Unit is placed under the Office of the District Counsel, reporting directly to the District Counsel who reports to the Board as previously discussed in this report. Valley Water's Risk Management Unit includes the Workers' Compensation program and risk retention (self-insurance), and risk transfer (insurance) program.[26] The Auditor's analysis showed that the activities of the Workers' Compensation program, such as claims processing administration and reporting, could organizationally move to the Environmental, Health, and Safety (EHSA) Unit. Combining these two units would integrate and centralize business processes for the prevention of accidents and management of claims should accidents occur.[27] The analysis also showed that the CEO does not have a formal role in

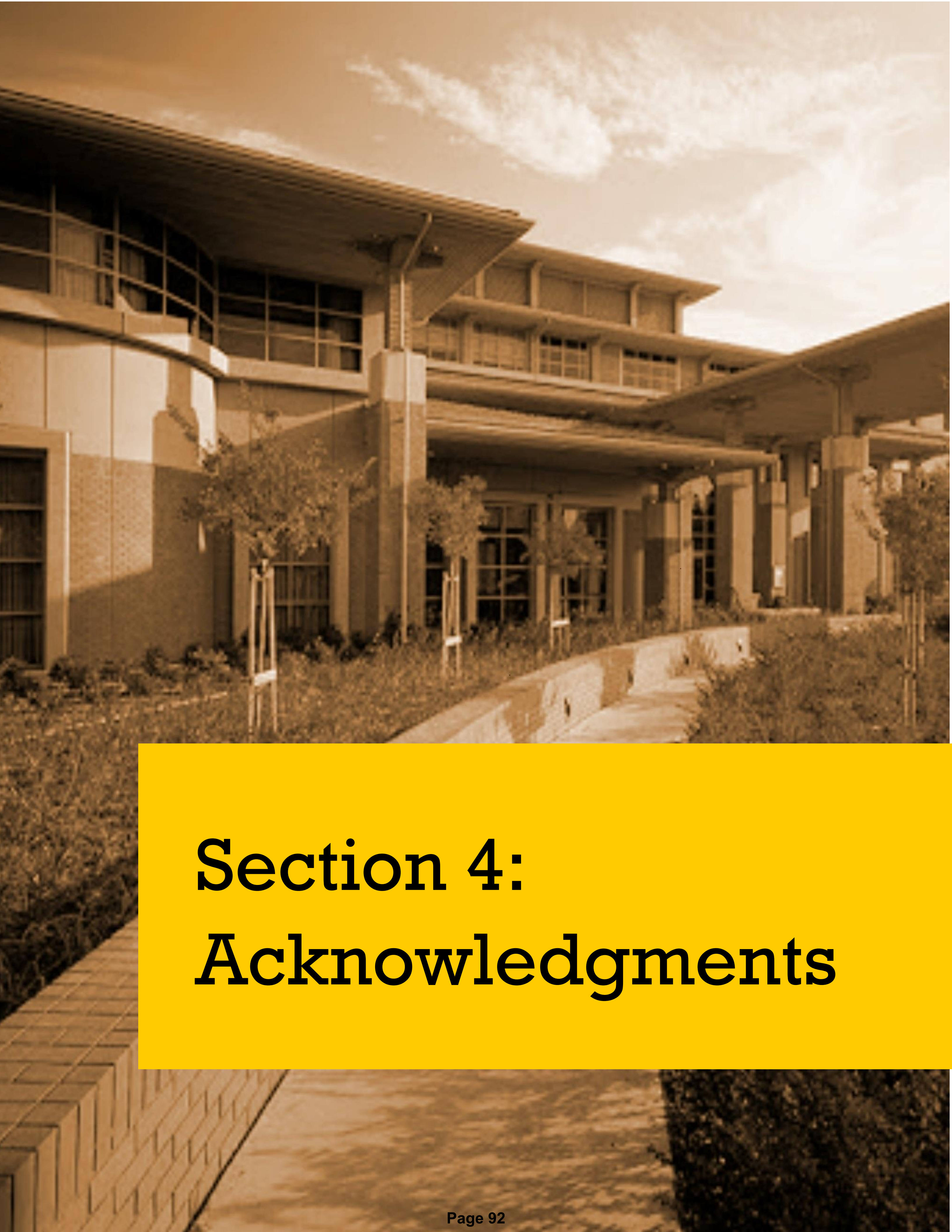
[25] City of San Jose, Valley Transportation Authority, S. CA Municipal Water District, San Diego County Water Agency, East Bay Municipal Utility District.

[26] The mission of the Risk Management Program Unit is to protect assets by identifying and evaluating loss exposures and applying effective risk management techniques to reduce or eliminate risk. Specifically, the unit is tasked with the management of Valley Water's Workers' Compensation program and risk retention (self-insurance) and risk transfer (insurance) programs to cost-effectively maximize coverage and to comply with the Board Governance policies. The Risk Management Unit, currently staffed by a Risk Manager and Management Analyst II, and a Program Administrator of the Workers' Compensation program, was transitioned to the District Counsel's Office in 2007 from the Chief Administrative Office (now the Information Technology & Administrative Services Office). Between July 2017 and March 2020, Risk Management processed approximately 208 settlements totaling approximately $828K.

[27] The program is housed under the Risk Management Unit as a separate function staffed by one Program Administrator.

establishing the Risk Management Unit’s goals and objectives or in the monitoring of its performance.

The Valley Water Risk Manager explained that the risk management function is structured under the District Counsel's Office to better review claims and contracts, provide easier access for legal coordination, and that the Workers' Compensation program should remain under his unit because of shared expertise among staff. In contrast, the Procurement and Contracts Manager reported that better efficiencies could be accomplished through consolidation with their office because separating the insurance coverage function has led to confusion and frustration among vendors. Further study would be needed on organizational restructuring given that standard business practices show that executive management, such as the CEO, should be responsible and held accountable for risk management and control processes.



Section 4: Acknowledgments

ACKNOWLEDGMENTS

TAP International wishes to thank the staff who participated in this audit from the following divisions and units:

- Office of the District Counsel and Risk Management
- Clerk of the Board
- Office of Talent and Inclusion
- Dam Safety and Capital Delivery
- Watersheds Design and Construction
- Watersheds Stewardship and Planning
- Water Utility Capital
- Raw Water
- Water Supply
- Treated Water
- Information Technology and Administrative Services
- General Services
- The Board of Directors

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Santa Clara Valley Water District

District Counsel's Office Performance Audit Draft Results Presentation

October 21, 2020

TAPInternational

Background

Acknowledgements

TAP International wants to thank the District Counsel and his staff for their participation in this audit.

We commend the District Counsel and his staff for their openness to ideas for improvement.

We also thank the Valley Water operating and administrative departments that participated in the audit and provided customer service feedback.

Background

Audit Objective & How the Audit was Conducted

Are there structural, organizational or procedural improvement opportunities for the District Counsel's Office?

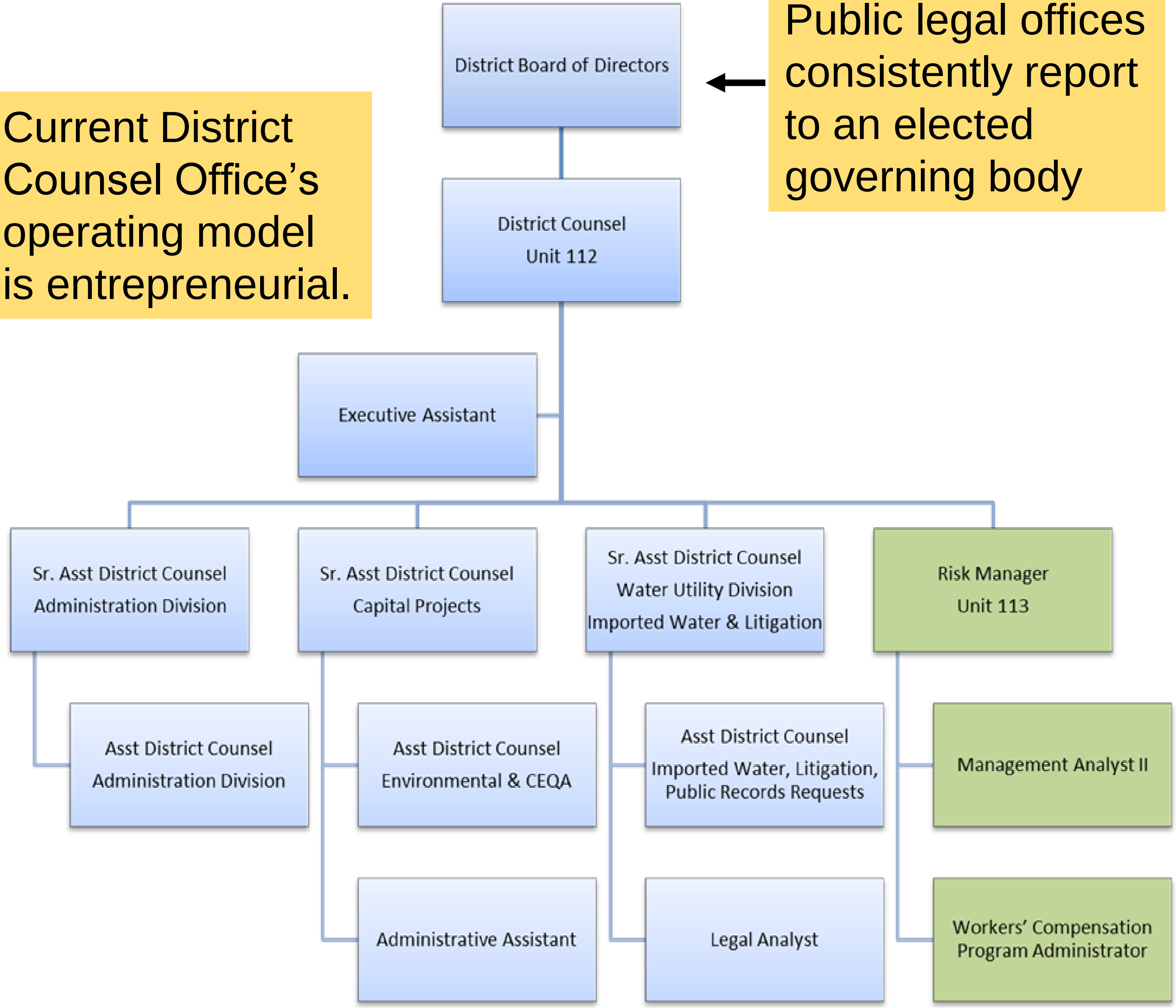
The audit work included:

- Interviews with District Counsel's Office attorneys and staff;
- Interviews with the primary customers of the District Counsel (12 operational and administrative units);
- Analysis of financial data, contracts, consultant agreements, and other documentation;
- Peer agency and best practices research.

Background

Current operating model

Current District Counsel Office's operating model is entrepreneurial.



Public legal offices consistently report to an elected governing body

Background

Best Practices for Public Legal Offices

What is the best operating model?

The size and complexity of the public agencies drive the maturity of the operating model.[1]

The goal is to sustain a consistent level of services.

What are the best practices for robust mature operating models?

- A clearly defined operating model;
- Processes to support consistent service delivery such as the use of formal SLAs;
- Integration of legal support in enterprise-wide communication strategies;
- Formal delineation of roles and responsibility; and
- Embedding attorneys in specific departments.

[1] There is not an established standard for public legal offices that guide leaders on how day-to-day management should be performed.

Report Message

District Growth & Complexity

As the District and project complexity has grown, so too have the demands for consistent and reliable legal services.

More Clearly Identified Operating Model is Needed

…to enable the District Counsel's Office to provide a more consistent level of services to Valley Water units and increase customer satisfaction.

Key Actions

-- Enhance District Counsel's operating model.

Finding #1

Mixed Customer Satisfaction with District Counsel's Service Delivery

Customer Satisfaction is a standard measure of service delivery performance:

- Best practices require clear communication between parties to ensure transparency and understanding of deliverable status.
- Turnaround times can positively or negatively affect a process or project if expectations are not met.

Customers report high satisfaction with the quality of services.

Finding #1

Mixed Customer Satisfaction with District Counsel's Service Delivery

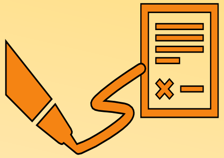
Valley Water managers want better communication on the status of legal services requested.

Valley Water managers want faster service.

Finding #1

Mixed Customer Satisfaction with District Counsel's Service Delivery

Valley Water and District Counsel's Office share responsibility for timeliness issues.



- Valley Water managers reported concerns with legal reviews. Extensive changes can impact original processing schedules and create bottlenecks.
- The District Counsel attributed timeliness issues to insufficientt staffing levels.
- Auditor verified that some submitted documents could have benefitted from line editing and.
- The same level of review was performed even when some agreements may have low risk of future litigation.

Finding #2

Updating the District Counsel's Office's Operating Model Can Enhance Customer Satisfaction

- Added policy and procedure development
- Early District Counsel participation in planning activities
- Added document template development
- Effective workflow management
- Use of service level agreements

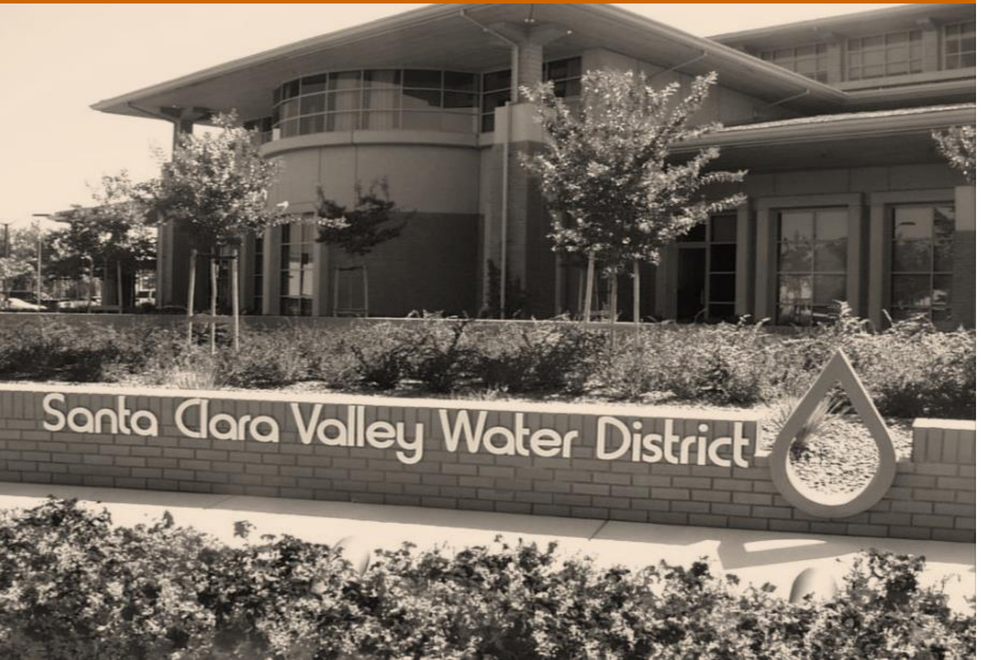
Finding #2

Updating the District Counsel's Office's Operating Model Can Enhance Customer Satisfaction

- Better timekeeping system
- Management of non-disclosure agreements
- Use of master services agreements
- Use of added performance measures
- Use of a 360-degree type of review

Other Issues

Realigning the Risk Management Unit needs further study



Worker's Compensation and risk retention (self-insurance) program

Risk transfer (insurance) program

Risk Management Unit

- Results of our peer agency review showed that the risk management function is placed under various administrative departments that ultimately report to the organization's CEO.

To develop a more clearly defined operating model for delivering legal services …

Recommendations

1

The District Counsel's Office should develop and implement a written strategy for approval by the Board that provides an updated operating model for efficient service delivery. In the development of the strategy, the District Counsel can consider, for example, enhanced policy and procedure development and new/enhanced tools described throughout this report. These tools, for example, can include workflow management, SLAs, added performance measurement, use of 360-degree type of reviews, and risk-based criteria assessments.

2

The District Counsel and the Information Technology & Administrative Services Chief Operating Officer should update Valley Water Administrative Policies that (1) identify areas that require the development of new contractual and agreement templates, and (2) identify the responsible party for updating existing contract, agreement, and amendment templates as well as non-disclosure agreements (NDAs). These updates should also include the responsible party for NDA monitoring.

To develop a more clearly defined operating model for delivering legal services …

Recommendations

3

The District Counsel should convene a workgroup on planning activities or projects involving contracting opportunities with key stakeholders (E.g., Chief Executive Officer (CEO) and Chief Operating Officers (COOs)) to develop a decision-making guide for early engagement with the District Counsel Office and Risk Management.

4

The District Counsel should discuss with the Board the use of a master services agreement to add another procurement mechanism for legal services

5

The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs.

TAPInternational

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Valley Water

File No.: 20-0909

Agenda Date: 10/21/2020
Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Review and Approve the Updated 2020 Board Audit Committee Work Plan.

RECOMMENDATION:
A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
B. Approve the updated 2020 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.

Attachment 1 is the updated 2020 Board Audit Committee Work Plan. Upon review, the Committee may approve the updated 2020 Board Audit Committee Work Plan and/or make changes, as determined by the Committee.

ATTACHMENTS:
Attachment 1: Updated 2020 Board Audit Committee Work Plan

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	*19-Feb*	*18-Mar*	*15-Apr*	*20-May*	*17-Jun*	*15-Jul*	*19-Aug*	*16-Sep*	*21-Oct*	*18-Nov*	*16-Dec*	
	Board Audit Committee Meeting Dates													
1	Meeting Dates	•	•					•	•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2020, to meet monthly, on the third Wednesdays at Noon, with the exception of January.
	Board Audit Committee Management													
2	Election of 2020 BAC Chair and Vice Chair	•	•											Recommendation: Nominate and elect the 2020 Board Audit Committee Chair and Vice Chair.
3	Board Audit Committee Audit Charter								•					Recommendation: Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
4	Review and Update 2020 BAC Work Plan	•	•					•	•	•	•	•	•	Recommendation: 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 2020 Board Audit Committee Work Plan.
5	Discuss Scope of Annual Audit Training from Board Independent Auditor	•												Recommendation: Discuss scope of Annual Audit Training from Board Independent Auditor.
6	Receive Annual Audit Training from Board Independent Auditor								•					Note: Training will be given to the full Board on the audit process. Management to identify staff to attend the training. Recommendation: Receive Annual Audit Training from Board Independent Auditor on the Audit Process.
7	Conduct Annual Self-Evaluation	•	•											Recommendation: A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
8	Receive and Discuss Board Auditor Activity Report to Evaluate Board Auditor Performance	•	•										•	Recommendation: Receive and discuss Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor Performance.
9	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective May 8, 2020.		•											Recommendation: A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective May 8, 2020; 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. for one year and increase the not-to-exceed amount by $600,000 from $1,005,000 to $1,605,000.

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 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
10	Discuss the Options to Increase the Board Independent Auditing Services Agreement Not-To-Exceed Amount							•						Recommendation: A. Discuss the Option to Increase the Board Independent Auditing Services Agreement; and B. Approve recommendation to the full Board to: 1. Exercise the option to increase the Board Independent Auditing services Agreement not-to-exceed amount by $600,000 from $1,005,000 to $1,605,000; or 2. Continue with the current not-to-exceed amount of $1,000,005 for the Board Independent Auditing Services Agreement with TAP International.
	Board Audit Committee Special Requests													
11	Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor		•					•						Recommendation: Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor.
12	External Financial Auditor Meeting with Individual Board members													Note: Schedule as needed.
13	Provide status report to full Board quarterly													Note: Report to be provided to Board in non-agenda the month after each BAC meeting.
14	Discuss the Scope and Approach of the Ad-hoc Desk Reviews	•												Recommendation: Discuss the scope and approach of the ad-hoc Desk Reviews.
15	Grant Management Ad-hoc Desk Review		•					•	•					Recommendation: Discuss the status of the on-going desk review.
16	Hiring Practices Ad-hoc Desk Review		•					•						Recommendation: Discuss the status of the on-going desk review.
17	Board Agenda Preparation Ad-hoc Desk Review		•							•				Recommendation: Discuss the status of the on-going desk review.
18	Receive a Response to the Board Audit Committee's Inquiries Regarding the Real Estate Services Audit Report Findings									•				Recommendation: The BAC requested staff to return to the BAC with the following information: (1) information regarding the difference between Real Estate being first contact instead of CPRU; (2) information regarding the best practices regarding environmental assessments taking six months or if there is room for improvement; and (3) information regarding the frequency and extent of District Counsel's review throughout the real estate transaction process in an effort to increase efficiency.
19	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract	•	•											Recommendation: Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.
20	Valley Water Comprehensive Annual Financial Report Transparency and Policy Issues									•		•		Recommendation: Discuss and provide direction on the content and format of the Valley Water Comprehensive Annual Financial Report. A. Receive and discuss update on research regarding valuing water as an asset and other policy issues.

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 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
21	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis											•	•	Note: At the Dec '19 BAC meeting, the BAC approved new PO for $25K min for Tanner Pacific, Inc. to prepare QEMS Methodology Benchmarking Analysis. Recommendation: Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.
	Management and Third Party Audits													
22	Review Draft Audited Financial Statements												•	Recommendation: A. Review draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
23	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year										•			Recommendation: Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.
24	Receive QEMS Annual Internal Audit Report								•					Recommendation: Receive information regarding the Quality and Environmental Management System.
25	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.											•		Note: Staff CAS update every 6 months. Recommendation: 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.
26	Review Contract Change Order Audit Report											•		Note: Staff periodic update. Recommendation: Receive and discuss a status update on the implementation of the recommendations made by TAP International, Inc. in the Contract Change Order Audit Report.
27	Status Update on the Lower Silver Creek Watershed Project Audit								•					Recommendation: Receive and discuss a status update on the State Controller Office Audit of Flood Control Subventions Program for Claim Numbers 86 - 91, submitted during the audit period, 08/01/2012 - 05/12/2016.
28	Status Update on the Annual Federal Single Audit of Federal Grants Audit								•					Recommendation: Receive and discuss a status update on the audit of an entity that expends $750,000 or more of federal assistance received for its operations. Once completed, the Single Audit must be submitted to the Federal Audit Clearinghouse.
29	Audit Recommendations Implementation Status												•	Recommendation: Receive and discuss a status update on the implementation of audit recommendations.

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 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
	Board Independent Auditor - TAP International, Inc. Items													
30	Review and Update Annual Audit Work Plan	•	•					•	•	•	•	•	•	Recommendation: Discuss the Annual Audit Work Plan and update, if necessary.
	Audit - Change Order													
31	Final Draft Management Response for the Contract Change Order Audit	•												Recommendation: Discuss the Final Draft Management Response to Draft Contract Change Order Audit Report.
32	Receive and Discuss Auditor Response to Final Draft Management Response for the Contract Change Order Audit		•											Recommendation: A. Receive and discuss the Auditor Response to the Final Draft Management Response to Draft Contract Change Order Audit Report; and B. Direct staff to have TAP International, Inc. to present the Final Draft Audit Report and Management Response to the Board of Directors.
	Audit - Real Estate													
33	Review Real Estate Audit Progress Report	•	•											Recommendation: Receive an update on the status of the on-going audit.
34	Review Real Estate Audit Draft Report Presentation							•						Recommendation: Receive and discuss the Final Draft Audit Report.
35	Review Response to Real Estate Audit Final Draft Report									•				Recommendation: 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 - District Counsel													
36	Review District Counsel Audit Progress Report	•	•					•	•					Recommendation: Receive an update on the status of the on-going audit.
37	Review District Counsel Audit Draft Report Presentation										•			Recommendation: Receive and discuss the Final Draft Audit Report.
38	Review Response to District Counsel Audit Final Draft Report											•		Recommendation: 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 - Grants Management													
39	Receive notification of initiated Grants Management Audit									•				Note: Audit Objectives - Performance audt of the efficiency and effectiveness of grant management and administration.
40	Review Grants Management Audit Progress Report									•	•			Recommendation: Receive an update on the status of the on-going audit.
41	Review Grants Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.

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 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
42	Review Response to Grants Management Audit Final Draft Report													Recommendation: 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 - Permitting Best Practices													
43	Receive notification of initiated Permitting Best Practices Audit													Note: Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?
44	Review Permitting Best Practices Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
45	Review Permitting Best Practices Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
46	Review Response to Permitting Best Practices Audit Final Draft Report													Recommendation: 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)													
47	Receive notification of initiated Construction Project Management Audit													Note: Audit Objectives - What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?
48	Review Construction Project Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
49	Review Construction Project Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
50	Review Response to Construction Project Management Audit Final Draft Report													Recommendation: 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)													
51	Receive notification of initiated Supervisory Control and Data Acquisition Audit													Note: Audit Objectives - Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?
52	Review Supervisory Control and Data Acquisition Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
53	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
54	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													Recommendation: 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.

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 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
	Audit - Risk Management (Tentative)													
55	Receive notification of initiated Risk Management Audit													Note: Audit Objectives - Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims)
56	Review Risk Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
57	Review Risk Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
58	Review Response to Risk Management Audit Final Draft Report													Recommendation: 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)													
59	Receive notification of initiated Billing and Collections Audit													Note: Audit Objectives - Are there opportunities to enhance Valley Water's billing and collection processes?
60	Review Billing and Collections Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
61	Review Billing and Collections Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
62	Review Response to Billing and Collections Audit Final Draft Report													Recommendation: 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)													
63	Receive notification of initiated Accountability Audit													Note: Audit Objectives - Are there opportunities to enhance safe clean water audits?
64	Review Accountability Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
65	Review Accountability Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
66	Review Response to Accountability Audit Final Draft Report													Recommendation: 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)													
67	Receive notification of initiated Community Engagement Audit													Note: Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?

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 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
68	Review Community Engagement Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
69	Review Community Engagement Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
70	Review Response to Community Engagement Audit Final Draft Report													Recommendation: 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)													
71	Receive notification of initiated Property Management Audit													Note: Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
72	Review Property Management Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
73	Review Property Management Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
74	Review Response to Property Management Audit Final Draft Report													Recommendation: 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)													
75	Receive notification of initiated Homelessness Analysis Audit													Note: Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
76	Review Homelessness Analysis Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
77	Review Homelessness Analysis Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
78	Review Response to Homelessness Analysis Audit Final Draft Report													Recommendation: 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)													
79	Receive notification of initiated Classified Information Audit													Note: Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
80	Review Classified Information Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
81	Review Classified Information Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	*19-Feb*	*18-Mar*	*15-Apr*	*20-May*	*17-Jun*	*15-Jul*	*19-Aug*	*16-Sep*	*21-Oct*	*18-Nov*	*16-Dec*	
82	Review Response to Classified Information Audit Final Draft Report													Recommendation: 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)													
83	Receive notification of initiated Local Workforce Hiring Audit													Note: Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
84	Review Local Workforce Hiring Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
85	Review Local Workforce Hiring Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
86	Review Response to Local Workforce Hiring Audit Final Draft Report													Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit
	Audit - Equipment Maintenance (Tentative)													
87	Receive notification of initiated Equipment Maintenance Audit													Note: Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
88	Review Equipment Maintenance Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
89	Review Equipment Maintenance Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
90	Review Response to Equipment Maintenance Audit Final Draft Report													Recommendation: 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)													
91	Receive notification of initiated Community Engagement Audit													Note: Audit Objectives - What are the best practices in planning and facilitating community engagement?
92	Review Community Engagement Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
93	Review Community Engagement Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
94	Review Response to Community Engagement Audit Final Draft Report													Recommendation: 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 - Delta Conveyance (Tentative)													
95	Receive notification of initiated Delta Conveyance Audit													Note: Audit Objectives - What potential financial risks could occur on the California Water Fix project?

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	*19-Feb*	*18-Mar*	*15-Apr*	*20-May*	*17-Jun*	*15-Jul*	*19-Aug*	*16-Sep*	*21-Oct*	*18-Nov*	*16-Dec*	
96	Review Delta Conveyance Audit Progress Report													Recommendation: Receive an update on the status of the on-going audit.
97	Review Delta Conveyance Audit Draft Report Presentation													Recommendation: Receive and discuss the Final Draft Audit Report.
98	Review Response to Delta Conveyance Audit Final Draft Report													Recommendation: 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.
BAC Work Plan Items Outside of the Current Term														
99	BAC Self-Evaluation Report													Note: Per the February 19, 2020 BAC meeting, the BAC Self-Evaluation form is to be completed and a formal report provided to the full Board at a future meeting.
100	Sponsorship Program											•		Recommendation: Discuss the potential for a desk review or audit of the Sponsorship Program.
101	Prepare risk assessment tri-annually									•	•			Note: Next Risk Assessment scheduled to be completed in October 2021.
102	Establishment of Additional Board Auditors													Recommendation: Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.
103	Participate in financial statement audit procurement process													Note: Next procurement scheduled for January 2022.

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Santa Clara Valley Water District

Valley Water

File No.: 20-0910 | **Agenda Date:** 10/21/2020
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Recommended Updates to Annual Audit Work Plan.

RECOMMENDATION:
Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

SUMMARY:
The Board Audit Committee (BAC) was established by the Santa Clara Valley Water District Board of Directors (Board) to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

On May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services.

On September 26, 2018, TAP presented the final Risk Assessment Model to the BAC, which provided an assessment of operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment Model developed heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment included input from Valley Water's Board of Directors, management and staff, and was used to assist in the development of an Annual Audit Work Plan. The highest risk areas included procurement, contract change order management, succession planning, and fraud prevention.

On February 26, 2019, the Board approved the BAC's recommendation for TAP to conduct three performance audits. The three audits included performance audits of the District Counsel's office, contract change order management processes, and real estate services. On June 7, 2019, an amendment to the Board independent auditing services agreement was completed to increase the not-to-exceed amount from $405,000 to $1,005,000 to complete all three proposed audits and approximately three additional future audits.

On June 25, 2019, the Board approved the Annual Audit Work Plan for FY 2018-2019 through FY 2020-2021 (Annual Audit Work Plan) (Attachment 1). In addition to carrying out audits in the Board approved Annual Audit Work Plan, the BAC shall discuss and propose any updates to the Annual Audit Work Plan, if necessary.

The Board previously approved updates to the Annual Audit Work Plan to include the FY 2020-2021

Property Management Audit, to audit whether Valley Water is implementing the encroachment program consistent with the Board's guiding principles. As part of the FY 2020-2021 Ad-hoc Board Audits included in the Annual Audit Work Plan, the BAC also identified three desk reviews to be performed by TAP: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process. These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

On July 21, 2020, the Board approved an update to the Annual Audit Work Plan to include the FY 2020-2021 Grants Management Audit, for a performance audit of the efficiency and effectiveness of grant management and administration.

At the September 16, 2020, BAC meeting, the Committee requested Staff to bring to the full Board an Agenda Item at a future Board meeting where the following will be discussed:

1. Staff to combine the two Community Engagement Audits (BAC Work Plan Line Items 21 and 30) into one audit assuming there are not objections from the full Board;
2. Staff to note that (BAC Work plan Line Item 3) will be deferred to the next Risk Assessment scheduled for October 2021, given that Valley Water is currently embarking on a SCADA Master Plan effort, and assuming there are no objections from the full Board; and
3. Staff to include in the following Committee request from Item 4.4:
   i. Request for approval to start the Permitting Best Practices Audit, Page 49, Line 48.

Staff is targeting the October 13, 2020, Board meeting to bring the following requests to the full Board for approval per BAC direction:

1. Approve the Permitting Best Practices Audit as the next audit to be undertaken by TAP;
2. Approve modifying the Annual Audit Work Plan such that the two community engagement audits (ID 21 and ID 30) are combined into one audit; and
3. Approve modifying the Annual Audit Work Plan to note that 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.

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

ATTACHMENTS:
Attachment 1: Annual Audit Work Plan.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

2019

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

DRAFT AUDIT WORK PLAN – JULY 30, 2020

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	**6**		**1,800-2,317**	

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**	
	Grants Management	Performance audit of the efficiency and effectiveness of grant management and administration	Outsourced-TBD	Financial improvement Operational Best practices
21	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?	371-457	Financial Improvement Operational Best practices
	Property Management	Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?	400	Operational
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up	290-371	Health and Safety Relevance

		activities that protect health and safety?		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
30	Community engagement	What are the best practices in planning and facilitating community engagement?	46-86	Best practices Operational
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	**7**		**1,125 -1,661**	

*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
Design and Construction Unit #4	#334
Design and Construction Unit #5	#336
Land Surveying and Mapping Unit	#367
Real Estate Services Unit	#369
Associated Business Support Areas	
Facilities Management Unit	#887
Infrastructure Services Unit/IT	#735
Equipment Management Unit	#885
Business Support & Warehouse Unit	#775
Purchasing & Consultant Contracts Services Unit	#820
Emergency Services & Security	#219
Environmental, Health & Safety Unit	#916
Workforce Development (Training)	*#915*
Core ISO Procedures: Continual Improvement Unit	*#116*
Office of Communications (Customer Service)	*#172*
Office of the Clerk of the Board (Customer Service)	*#604*

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

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File No.: 20-0644

Agenda Date: 10/21/2020
Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2019.

RECOMMENDATION:
Receive and discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2019.

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.

For Fiscal Year 2018-19, two major water utility zones formed the basis for establishing Valley Water's water charges. Water charges were set separately for each zone, reflecting Valley Water activities carried out in each.

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

The report entitled "Water Utility Enterprise Funds of the Santa Clara Valley Water District - Annual Financial Report for the Fiscal Year Ended June 30, 2019," 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 the Water Utility fund financial statements are fairly stated in all material respects and 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: 2019 WUE Audit

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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WATER UTILITY ENTERPRISE FUNDS
OF THE
Santa Clara Valley Water District

San Jose, California

Annual Financial Report
For the Fiscal Year Ended June 30, 2019

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICT
Annual Financial Report
For the Year Ended June 30, 2019

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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, 2019, 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, 2019, 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.

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Emphasis of Matter
As described in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2019, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which became effective during the year ended June 30, 2019 as discussed in Note 7C to the financial statements. This Statement had no material effect on the financial statements. 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 December 16, 2019, 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.

Maze + Associates

Pleasant Hill, California
August 13, 2020

WATER UTILITY ENTERPRISE FUNDS OF THE SANTA CLARA VALLEY WATER DISTRICT

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Santa Clara Valley Water District's Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds financial activities for the fiscal year ended June 30, 2019. 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 Santa Clara Valley Water District (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, 2019. 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 Santa Clara Valley Water District 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 Santa Clara Valley Water District 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.

- *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 Thousands)

	2019	2018
Current and other assets	$ 300,283	$ 244,388
Capital assets	1,163,908	1,133,623
Other non current assets	341	373
Total assets	1,464,532	1,378,384
Deferred outflow of resources		
Deferred amount on refunding	411	454
Pension activities	20,838	26,160
OPEB activities	4,418	5,465
Total deferred outflow of resources	25,667	32,079
Current liabilities	74,394	125,881
Long-term liabilities outstanding	635,063	557,692
Total liabilities	709,457	683,573
Deferred inflow of resources		
Pension activities	4,399	3,320
OPEB activities	1,039	1,019
Total deferred inflow of resources	5,438	4,339
Net position:		
Net investment in capital assets	625,256	626,514
Restricted	71,527	58,679
Unrestricted	78,521	37,358
Total net position	$ 775,304	$ 722,551

The total net position of the Funds amounted to $775.3 million at June 30, 2019. The largest portion of the Funds' net position (80.6% or $625.3 million) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since, in general, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, decreased by $1.3 million or 0.2% from the previous fiscal year. Capital assets, net of depreciation and amortization, increased by $30.3 million. Long term liabilities, which include related debt outstanding, went up by $77.4 million.

New construction in progress amounted to $50 million for the Funds. There were 55 in progress and completed projects during the fiscal year, with major projects listed below (in millions):

- $18.0 - Rinconada Water Treatment Plant Reliability Improvement
- $8.8 - Anderson Dam Seismic Retrofit
- $6.4 - 10-year Pipeline and Rehabilitation
- $3.9 - Pacheco Reservoir Expansion Project
- $2.5 - Calero Dam Seismic Retrofit Design and Construction
- $1.5 - Rinconada Water Treatment Plant FRP Solids Handling System
- $1.4 - Dam Safety Seismic Stability
- $1.3 - Rinconada Water Treatment Plant Residuals Remediation
- $1.2 - South County Recycled Water
- $1.1 - Calero-Guadalupe Dams Seismic Retro
- $0.9 - Coyote Plant Pumping Warehouse
- $0.9 - Indirect Potable Reuse

Net position categorized as "unrestricted" may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position of $78.5 million represents an increase of $41.1 million or 110.2% when compared to the prior fiscal year.

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

	2019	2018
Revenues:		
Ground water charges	$ 81,923	$ 97,483
Treated water charges	143,998	132,477
Surface and recycled water charges	1,758	1,041
Operating grants	2,754	4,396
Capital grants and contributions	1,149	4,350
Property taxes	30,468	37,417
Investment income	8,074	1,267
Miscellaneous	1,905	6,428
Total revenues	272,029	284,859
Expenses:		
Operating expenses	197,966	216,876
Nonoperating and other expenses	18,630	16,050
Total expenses	216,596	232,926
Change in net position before transfers	55,433	51,933
Transfers	(2,680)	(8,225)
Change in net position	52,753	43,708
Net position, beginning	722,551	710,650
Prior period adjustment, beg. OPEB liability	-	(31,807)
Net position, ending	$ 775,304	$ 722,551

Net position of the Funds of $775.3 million increased by $52.7 million compared to the prior fiscal year. Total revenues and expenses amounted to $272.0 million and $216.6 million, respectively. Net transfers out lowered the ending net position by $2.7 million.

Compared to the prior fiscal year, total revenues and expenses decreased by $12.8 million and $16.3 million, respectively. Key elements of the changes in revenues and expenses from prior year are as follows:

- Water charges for services were $3.3 million or 1.4% lower than last fiscal year, due to the lower volume of ground water pumped.
- Property taxes were $6.9 million or 18.6% lower than last fiscal year, reflecting lower State tax requirements needed to fund State Water project contract obligations.
- The increase in investment income of $6.8 million was the result of higher investment yields and positive fair market value gains.
- Water enterprise expenses decreased by $16.3 million or 7.0% from the prior year. Expenses related to water delivery and water banking expenses went down by $18.9 million. Offsetting this was $2.6 million of higher interest and debt related expenses realized during the current fiscal year.

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

	North County		South County		Total	
	2019	2018	2019	2018	2019	2018
Operating revenues:						
Ground water charges	$ 69,213	$ 84,747	$ 12,710	$ 12,736	$ 81,923	$ 97,483
Treated water charges	143,998	132,477	-	-	143,998	132,477
Surfaced and recycled water charges	1,101	401	657	640	1,758	1,041
Total water charges	214,312	217,625	13,367	13,376	227,679	231,001
Operating grants	2,753	4,325	1	71	2,754	4,396
Other	41	4,217	-	-	41	4,217
Total operating revenues	217,106	226,167	13,368	13,447	230,474	239,614
Operating expenses:						
Source of supply	73,906	86,215	9,222	9,562	83,128	95,777
Water treatment	37,579	36,719	412	257	37,991	36,976
Transmission and distribution:						
Raw water	12,704	10,735	4,418	3,736	17,122	14,471
Treated water	1,538	1,466	-	-	1,538	1,466
Cost of goods sold	125,727	135,135	14,052	13,555	139,779	148,690
Administration and general	20,740	21,537	4,240	3,841	24,980	25,378
Capital cost recovery	(5,483)	(4,387)	5,483	4,387	-	-
Total operating expenses	140,984	152,285	23,775	21,783	164,759	174,068
Operating income (loss)	76,122	73,882	(10,407)	(8,336)	65,715	65,546
Non-operating income (expenses):						
Property taxes	27,432	34,085	3,036	3,332	30,468	37,417
Investment income	8,074	1,267	-	-	8,074	1,267
Rental income	85	81	34	34	119	115
Other	1,579	1,882	166	214	1,745	2,096
Interest/fiscal agent fees	(18,630)	(16,050)	-	-	(18,630)	(16,050)
Open space credit transfer	(7,384)	(8,075)	7,384	8,075	-	-
Interest earned credit	(313)	(121)	313	121	-	-
Net non-operating income	10,843	13,069	10,933	11,776	21,776	24,845
Net income (loss)	$ 86,965	$ 86,951	$ 526	$ 3,440	$ 87,491	$ 90,391

Note: Fiscal year 2018 surface water and recycled water charges, and capital cost recovery allocations between North and South Counties were restated to reflect corrections resulting in South County income of $108 thousand.

Budgetary basis discussion:

- The Funds' total operating revenues were $230.5 million during the current fiscal year. 94.2 percent of those revenues, or $217.1 million were related to the North County, while the remaining 5.8 percent or $13.4 million were related to the South County.

- Operating grants applied for and received were $2.8 million and $1 thousand for the North County and South County, respectively. These grants helped to fund water conservation, landscape water efficiency, raw water field maintenance and operations, and recycled/reclaimed water programs.

- Operating expenses for the North County include $125.7 million in cost of goods sold, or 57.9 percent of its total operating revenues. For the South County, cost of goods sold is $14.1 million or 105.1 percent of its total operating revenues.

- Administration and general expenses were 9.6 percent of total operating revenues in the North County and 31.7 percent of total operating revenues in the South County.

- Total operating revenues of $230.5 million, less total operating expenses of $164.8 million, netted $65.7 million of income from operations. The North County registered a net operating gain of $76.1 million, while the South County incurred a loss of $10.4 million.

Income from operations was supplemented with property tax and investment earnings totaling $38.5 million.

- Property taxes collected in the North County amounted to $27.5 million, while $3.0 million were collected in South County for a total of $30.5 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.

- Due to higher yields realized in the current fiscal year, investment earnings of $8.1 million were up by 537.3 percent compared to the $1.3 million earned during the previous fiscal year.

The following table shows the rates for water services for fiscal year 2019

Water Utility Enterprise Funds Rate Summary

		Rate
<u>Groundwater</u>		
North County – Agricultural	$	27.02
North County – Non-Agricultural		1,289.00
South County – Agricultural		27.02
South County – Non-Agricultural		450.00
<u>Treated Water</u>		
Contract (Scheduled)(2)		1,389.00
Non-Contract(3)		1,339.00
<u>Surface Water (Basic User Charge)</u>		
North County – Agricultural		27.02
North County – Non-Agricultural		1,289.00
South County – Agricultural		27.02
South County – Non-Agricultural		450.00
Water Master(1)		35.93
<u>Minimum Surface Water Charge</u>		
North County – Non-Agricultural		966.75
South County – Non-Agricultural		337.50
North County – Agricultural		20.27
South County – Agricultural		20.27
<u>Reclaimed Water</u>		
Gilroy Reclamation Facility – Agricultural		54.41
Gilroy Reclamation Facility – Non-Agricultural		430.00

(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 $1.16 billion at June 30, 2019. 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 $30.3 million or 2.7%.

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 Thousands)

	2019	2018
Land	$ 19,180	$ 19,180
Easements	162	162
Contract water and storage rights	40,911	43,333
Buildings	80,780	82,656
Structures and improvements	618,457	585,049
Equipment	4,695	5,401
Intangible software	102	-
Construction in progress	399,621	397,842
Total	$ 1,163,908	$ 1,133,623

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, 2019 amount to $651.1 million. A comparative breakdown of its long-term debts is shown below:

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

	2019	2018
Bonds payable	$ 470,800	$ 386,335
Compensated absences	5,364	5,168
Net pension liability	94,565	100,278
Semitropic water banking	9,973	8,150
Other post employment benefits	31,958	33,814
Bond discount	(139)	(147)
Premium on bond issue	38,580	37,587
Total	$ 651,101	$ 571,185

Total long-term debts increased by $80.0 million during the current fiscal year. Bonds payable, inclusive of premium and discounts, went up $85.5 million with the issuance of the 2019A/B revenue bonds. Liabilities related to Semitropic water banking and compensated absences also went up by $1.8 million and $0.2 million, respectively. Offsetting the increases were decreases in pension and other post employment (OPEB) liabilities of $5.7 million and $1.8 million, respectively.

The current year credit ratings of the Funds' senior debt obligations (Series 2006B and 2007B) and parity debt obligations (Series 2016ABCD, Series 2017A, and Series 2019AB) are summarized in the table shown below.

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

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

Economic Factors and Next Year's Budgets and Rates

The District's $528.9 million budget for fiscal year 2020 will focus on the following initiatives:

- Actively participating in decisions regarding the California Delta Conveyance Project
- Pursuing opportunities to expedite regulatory permit processes and streamline permit reviews
- Attaining net positive impact on the environment when implementing flood protection and water supply projects
- Advancing the Anderson Dam Seismic Retrofit Project
- Leading recycled and purified water efforts with the City of San Jose and other agencies
- Finalizing the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE)
- Actively pursuing efforts to increase water storage opportunities
- Ensuring Emergency Action Plans and flood preparedness measures are provided jointly with local cities for flood hot spots throughout the County
- Engaging and educating the community, local elected officials and staff on future water supply strategies in Santa Clara County
- Promoting the protection of creeks, bay, and other aquatic ecosystems from threats of pollutions and degradation
- Advancing diversity and inclusion, succession planning, and long-term resource planning strategy efforts
- Pursuing affordable and effective cost of service strategies

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, 2019
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
ASSETS			
Current assets:			
Cash and investments (Note 3)	$ 244,291	$ 19,533	$ 263,824
Receivables:			
Accounts	25,644	-	25,644
Taxes	303	662	965
Deposits and other assets	9,850	-	9,850
Total current assets	280,088	20,195	300,283
Non current assets:			
Restricted cash and investments (Note 3)	189	-	189
Prepaid insurance on bond issuance	152	-	152
Capital assets: (Note 6)			
Contract water rights, net	24,856	16,055	40,911
Depreciable, net	704,034	-	704,034
Nondepreciable	418,963	-	418,963
Total non current assets	1,148,194	16,055	1,164,249
Total assets	1,428,282	36,250	1,464,532
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	411	-	411
Deferred outflows of resources - pension activities (Note 10)	20,838	-	20,838
Deferred outflows of resources - OPEB (Note 11)	4,418	-	4,418
Total deferred outflows of resources	25,667	-	25,667
LIABILITIES			
Current liabilities:			
Accounts payable	17,355	4,840	22,195
Accrued liabilities	5,527	-	5,527
Commercial paper (Note 7)	20,000	-	20,000
Deposits payable	9,427	-	9,427
Unearned revenue	1,207	-	1,207
Bonds payable - current (Note 7)	14,788	-	14,788
Compensated absense	1,250	-	1,250
Total current liabilities	69,554	4,840	74,394
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	494,453	-	494,453
Compensated absense	4,114	-	4,114
Net pension liability (Note 10)	94,565	-	94,565
Other post employment benefits liability (Note 11)	31,958	-	31,958
Other Debt	9,973	-	9,973
Total non current liabilities	635,063	-	635,063
Total liabilities	704,617	4,840	709,457
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activities (Note 10)	4,399	-	4,399
Deferred inflows of resources - OPEB (Note 11)	1,039	-	1,039
Total deferred inflows of resources	5,438	-	5,438
NET POSITION (Note 9)			
Net investment in capital assets	609,201	16,055	625,256
Restricted			
Debt service	189	-	189
San Felipe operations	3,150	-	3,150
State water projects		15,355	15,355
Rate stabilization	26,090	-	26,090
Public-private partnership	4,000	-	4,000
Advance water purification	1,066	-	1,066
Supplemental water supply	14,677	-	14,677
Drought reserve	7,000	-	7,000
Unrestricted	78,521	-	78,521
Total net position	$ 743,894	$ 31,410	$ 775,304

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, 2019
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
Operating revenues:			
Ground water production charges	$ 81,923	$ -	$ 81,923
Treated water charges	143,998	-	143,998
Surface and recycled water revenue	1,758	-	1,758
Other	41	-	41
Total operating revenues	227,720	-	227,720
Operating expenses:			
Sources of supply	57,055	20,892	77,947
Water treatment	38,854	-	38,854
Transmission and distribution:			
Raw water	16,791	-	16,791
Treated water	1,735	-	1,735
Administration and general	32,543	-	32,543
Depreciation and amortization	29,152	944	30,096
Total operating expenses	176,130	21,836	197,966
Operating income (loss)	51,590	(21,836)	29,754
Nonoperating revenues (expenses):			
Property taxes (Note 8)	8,124	22,344	30,468
Investment income (Note 5)	8,074	-	8,074
Operating grants	2,754	-	2,754
Rental income	119	-	119
Other	620	1,125	1,745
Interest and fiscal agent fees	(18,630)	-	(18,630)
Net nonoperating revenues	1,061	23,469	24,530
Income before capital contributions and transfers	52,651	1,633	54,284
Capital contributions (Note 4)	1,149	-	1,149
Transfers in from District (Note 13)	1,228	-	1,228
Transfers out to District (Note 13)	(3,908)	-	(3,908)
Change in net position	51,120	1,633	52,753
Net position, beginning of year	692,774	29,777	722,551
Net position, end of year	$ 743,894	$ 31,410	$ 775,304

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, 2019
(Dollars in Thousands)

	Water Enterprise Fund	State Water Project Fund	Total
Cash flows from operating activities:			
Receipts from customers and users	$ 238,909	$ 11	$ 238,920
Payments to suppliers	(55,235)	(16,373)	(71,608)
Payments to employees	(82,638)	-	(82,638)
Reimbursement/(payments) for interfund charges	(10,284)	-	(10,284)
Net cash provided by (used for) operating activities	90,752	(16,362)	74,390
Cash flows from noncapital financing activities:			
Property taxes received	7,867	21,832	29,699
Operating grants	2,754	-	2,754
Well permits, refunds and adjustments	620	1,125	1,745
Transfers in/(out) to other funds	1,228	-	1,228
Net cash provided by noncapital financing activities	12,469	22,957	35,426
Cash flows from capital and related financing activities:			
Issuances/(payments) of COP/revenue bonds	85,519	-	85,519
Issuances/(payments) of commercial papers	(55,800)	-	(55,800)
Capital grants	1,149	-	1,149
Interest and fiscal agent fees paid	(18,630)	-	(18,630)
Payment for contract water rights	(9,683)	-	(9,683)
Acquisition and construction of capital assets	(50,394)	-	(50,394)
Transfers in/(out) - capital project reimbursements	(3,908)	-	(3,908)
Net cash used by capital and related financing activities	(51,747)	-	(51,747)
Cash flows from investing activities:			
Proceeds from sale/(purchase) of investments	23	-	23
Rental income received	119	-	119
Interest received on cash and investments	8,074	-	8,074
Net cash provided by investing activities	8,216	-	8,216
Net increase/(decrease) in cash and cash equivalents	59,690	6,595	66,285
Cash and cash equivalents, beginning of year	184,601	12,938	197,539
Cash and cash equivalents, end of year	$ 244,291	$ 19,533	$ 263,824
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	$ 244,291	$ 19,533	$ 263,824
Restricted cash and investments	189	-	189
Less cash and investments not meeting the definition of cash equivalents	(189)	-	(189)
Cash and cash equivalents, end of year	$ 244,291	$ 19,533	$ 263,824
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 51,590	$ (21,836)	$ 29,754
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, amortization and asset deletion	28,849	944	29,793
Change in operating assets and liabilities:			
(Increase)/decrease in deposits and other assets	(41)	-	(41)
(Increase)/decrease in accounts receivable	11,189	11	11,200
Increase/(decrease) in accounts payable	(2,608)	4,519	1,911
Increase/(decrease) in accrued liabilities	(178)	-	(178)
Increase/(decrease) in compensated absences	196	-	196
Increase/(decrease) in deposits payable	34	-	34
Increase/(decrease) in other post employment benefits payable	(1,856)	-	(1,856)
Increase/(decrease) in deferred outflow/inflow of resources	7,467	-	7,467
Increase/(decrease) in pension liabilities	(5,713)	-	(5,713)
Increase/(decrease) in payable to Semitropic	1,823	-	1,823
Net cash provided (used) by operating activities	$ 90,752	$ (16,362)	$ 74,390

See accompanying notes to basic financial statements.

(1) THE FINANCIAL REPORTING ENTITY

(a) Description of the Reporting Entity

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

The District 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 the District 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, the District 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.

The District has broad powers relating to all aspects of flood control and storm waters within the District, whether or not such waters have their sources within the District. 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 the District. The District acquires, stores, and distributes water for irrigation, residential, fire protection, municipal, commercial, industrial, and all other uses. The District 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 of the District that were established to account for the water utility related transactions of the District. 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 the District’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.

(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 the District'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 the District 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.

(c) Cash and Investments

While maintaining safety and liquidity, the District 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.

The District 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.

(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. The District 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.

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

The District 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

The District 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 the District 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

The District 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 amounts due for property taxes and interest on investments. All receivables are shown net of an allowance for doubtful accounts of $5 million.

(j) Accrued Vacation and Sick Leave Pay

It is the policy of the District 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. Prepaid insurance associated with the issuance of debts are reported as prepaid expenses.

(l) Accounting for Encumbrances

The District 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 the District is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, the District expends the restricted funds and then the unrestricted funds.

(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 the District'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, 2017
Measurement Date	June 30, 2018

(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 the District'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, 2017
Measurement Date	June 30, 2018

(q) Fair Value Measurement

The District 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. The District categorizes 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 the District's financial reporting process. Current and future new standards which may impact the District include the following:

Current Accounting Pronouncements:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or fiscal year 2019. The District has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018, or fiscal year 2019. The District has implemented this pronouncement for fiscal year 2019.

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. The District has not determined the impact of this pronouncement on the financial statements.

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. The District 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. The District has not determined the impact of this pronouncement on the financial statements.

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. The District 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. The District has not determined the impact of this pronouncement on the financial statements.

(3) CASH AND INVESTMENTS

The Funds pool their cash and investments with the District. The pool balance at June 30, 2019 is as follows (in thousands):

Statement of Net Position:	
Cash and investments	$ 670,435
Restricted cash and investments	7,758
Statement of Fiduciary Net Position:	
Cash and investments	199
	$ 678,392

Investments

At June 30, 2019, cash and investments based on fair market value consist of the following (in thousands):

U.S. Government Agencies	$ 447,287
U.S. Treasury Obligations	29,317
Medium Term Notes	19,718
Local Agency Investment Fund	55,450
Mutual Funds	121
Supranational Obligations	15,156
Municipal Bonds	45,881
Negotiable Certificates of Deposit	1,920
Time Certificates of Deposit	16,037
Money Market Funds	38,185
Total Investments	669,072
Carrying amount of cash	9,320
Total Cash and Investments	$ 678,392

As of June 30, 2019, the fair value of the District's investment in the State investment pool (LAIF) is $55 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. The District 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 the District's position in LAIF. The pool is not registered with the SEC.

Authorized Investments by the District

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	(Exempt from disclosure)	None	None
U.S. Government Agency Issues [(A)]	5 years	(Exempt from disclosure)	None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit	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 [(B)]	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)] LAIF will accept no more than $65 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 the District's revenue bond resolutions and Installment Purchase Agreement for the 2007B, 2012A, 2016C, 2016D, and 2017A Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, and 2019B, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee.

As of June 30, 2019, the amount invested in assets held by fiscal agent amounted to $5.5 million for certificates of participation and $80 thousand for revenue bonds and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

The District has construction and acquisition funds from the 2017A Certificates of Participation (COP) which is used to pay for the capital projects on flood control and watershed improvements authorized by the COP indenture. At June 30, 2019, the balance of this fund is $2 million.

The District, through the Santa Clara Valley Water District Public Financing Corporation (PFFC), has also issued commercial paper to provide for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District. At June 30, 2019, the total balance of the taxable and the tax-exempt commercial paper certificate accounts is $195 thousand. Both account balances were cash transfers from the District to fiscal agent to fund maturing interest payments on commercial papers outstanding.

Authorized Investments by Debt Agreements

The District 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 the District 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, District ordinances, policies, and bond indentures. The following table identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations[(A)]	N/A	N/A
U.S. Agency Securities[(B)]	N/A	N/A
State Obligations[(C)]	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit[(D)]	N/A	N/A
Money Market Funds	N/A	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.

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

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

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

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or"A3" or better by Moody's and “A-1” or “A-” or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 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.

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. The District generally manages its own interest rate risk by holding investments to maturity.

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

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	$ 300,813	$ 120,677	$ 63,630	$ 116,506
U.S. Government Agencies - Callable	146,474	26,996	17,182	102,296
U.S. Treasury Obligations	29,317	12,974	8,000	8,343
Medium Term Notes	7,625	1,574	3,037	3,014
Medium Term Notes - Callable	12,093	-	2,007	10,086
Local Agency Investment Fund	55,450	55,450	-	-
Mutual Funds	121	121	-	-
Supranational Obligations	13,152	2,992	7,015	3,145
Supranational Obligations - Callable	2,004	-	-	2,004
Municipal Bonds	45,881	3,251	9,222	33,408
Negotiable Certificates of Deposit	1,920	950	723	247
Time Certificate of Deposit	16,037	16,037	-	-
Money Market Funds	38,185	38,185	-	-
Total Investments	$ 669,072	$ 279,207	$ 110,816	$ 279,049

Credit Risk

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

The following table shows the minimum rating required by the` California Government Code, the District's investment policy, or debt agreements and the actual rating as of June 30, 2019 for each investment type as provided by Standard and Poor's (in thousands):

	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year-end AAA	AA+	AA	AA-	Not Rated
U.S. Government Agencies	$ 447,287	AA-	$ -	$ -	$ 447,287	$ -	$ -	$ -
U.S. Treasury Obligations	29,317	AA-	29,317	-	-	-	-	-
Medium Term Notes	19,718	AA-	-	10,097	5,033	-	-	4,588
Local Agency Investment Fund	55,450	N/A	-	-	-	-	-	55,450
Mutual Funds	121	AAA	-	121	-	-	-	-
Supranational Obligations	15,156	AA	-	15,156	-	-	-	-
Municipal Bonds	45,881	AA-	-	9,168	10,604	23,699	2,410	-
Negotiable Certificates		AA-						
of Deposits	1,920	AA-	-	-	-	-	-	1,920
Time Certificate of Deposit	16,037	N/A	-	-	-	-	-	16,037
Money Market Funds	38,185	N/A	-	-	-	-	-	38,185
Total Investments	$ 669,072		$ 29,317	$ 34,542	$ 462,924	$ 23,699	$ 2,410	$ 116,180

Concentration of Credit Risk

The District's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and District investment policy, whichever is more restrictive. However, the District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual District Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2019, those investments consisted of the following (in thousands):

Issuer	Investment Type	Reported Amount
Government-wide		
Federal Home Loan Bank	U.S. Government Agency	$143,324
Federal Farm Credit Bank	U.S. Government Agency	136,440
Federal Home Loan Mortgage Corp.	U.S. Government Agency	82,699
Federal National Mortgage Association	U.S. Government Agency	80,348

Custodial Credit Risk

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

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

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair market value of 105% to 150% of public agencies' cash on deposit. All of the District'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 the District's name.

Fair Market Value Measurement and Application

The District 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 the District).

Shown below is a summary of the fair value hierarchy of the District's investment at fair value on June 30, 2019 (in thousands):

	6/30/2019	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U.S. Government Agencies	$ 447,287	$ 447,287	$ -	$ -
U.S. Treasury Obligations	29,317	29,317	-	-
Medium Term Notes	19,718	-	19,718	-
Mutual Funds	121	-	121	-
Supranational Obligations	15,156	-	15,156	-
Municipal Bonds	45,881	-	45,881	-
Negotiable Certificates of Deposit	1,920	-	1,920	
Time Certificate of Deposit	16,037	-	16,037	-
Subtotal - Leveled Investments	575,437	476,604	98,833	-
Local Agency Investment Fund	55,450	-	-	55,450
Money Market Funds	38,185	-	-	38,185
Subtotal - Uncategorized	93,635	-	-	93,635
Total Investments	$ 669,072	$ 476,604	$ 98,833	$ 93,635

Deposits and withdrawals in the State Investment Pool are made on the basis of $1 and are not using fair value. Accordingly, the District's investments of $55 million in LAIF at June 30, 2019 are classified as uncategorized input (not classified as Level 1, Level 2, or Level 3).

(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 2019 (in thousands):

	Amount
Local Agencies:	
San Benito County Water District	$ 545
San Francisco Public Utility	15
State Agencies:	
Department of Water Resources	298
California Water Commission	291
Total	$ 1,149

(5) INVESTMENT INCOME

The District 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, 2019 (in thousands):

Investment Income as Reported	Current Year GASB 31 Fair Value Adjustment	Investment Income Before Adjustment
$ 8,074	$ 3,008	$ 5,066

(6) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Transfers / Reclassed	Ending Balance
Nondepreciable capital assets:					
Land	$ 19,180	$ -	$ -	$ -	$ 19,180
Intangible - Easement	162	-	-	-	162
Construction in progress	397,842	50,055	-	(48,276)	399,621
Total nondepreciable capital assets	417,184	50,055	-	(48,276)	418,963
Depreciable capital assets:					
Contract water and storage rights	206,361	10,274	-	-	216,635
Buildings	91,001	-	-	-	91,001
Structures and improvements	870,455	-	-	48,276	918,731
Equipment	27,997	643	(304)	-	28,336
Total depreciable capital assets	1,195,814	10,917	(304)	48,276	1,254,703
Less accumulated depreciation and amortization					
Contract water and storage rights	(163,028)	(12,106)	-	(590)	(175,724)
Buildings	(8,344)	(1,877)	-	-	(10,221)
Structures and improvements	(285,406)	(14,868)	-	-	(300,274)
Equipment:	(22,597)	(1,246)	304	-	(23,539)
Total accumulated depreciation and amortization	(479,375)	(30,097)	304	(590)	(509,758)
Net depreciable capital assets	716,439	(19,180)	-	47,686	744,945
Total capital assets, net	$1,133,623	$30,875	$ -	$ (590)	$1,163,908

During fiscal year 2019, new construction in progress amounted to $50.0 million. There were 55 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- $18.0 - Rinconada Water Treatment Plant Reliability Improvement
- $8.8 - Anderson Dam Seismic Retrofit
- $6.4 - 10-year Pipeline and Rehabilitation
- $3.9 - Pacheco Reservoir Expansion Project
- $2.5 - Calero Dam Seismic Retrofit Design and Construction
- $1.5 - Rinconada Water Treatment Plant FRP Solids Handling System
- $1.4 - Dam Safety Seismic Stability
- $1.3 - Rinconada Water Treatment Plant Residuals Remediation
- $1.2 - South County Recycled Water
- $1.1 - Calero-Guadalupe Dams Seismic Retro
- $0.9 - Coyote Plant Pumping Warehouse
- $0.9 - Indirect Potable Reuse

Depreciation and amortization expense for the fiscal year amounted to $ 30.1 million.

(7) SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the District Board of Directors authorized a commercial paper program. The commercial paper program allows the District to finance capital acquisitions while taking advantage of short-term rates. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for the District.

On May 15, 2012, the District Board of Directors authorized the execution and delivery of certain agreements in connection with the District's commercial paper program in an aggregate principal amount not to exceed $100 million.

On January 13, 2015, the District Board of Directors authorized an increase in the commercial paper program to an aggregate principal amount not to exceed $150 million. The proceeds of the commercial paper may be used for any District purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

On April 25, 2019, the District issued Water System Refunding Revenue Bonds, Series 2019A and Taxable Series, 2019B, in the amount of $95.3 million to provide funds to the PFFC, including $2.5 million original issue premium, to repay $97.3 million in commercial paper ($79.7 million of outstanding taxable certificates and $17.6 million of tax-exempt certificate), which had been issued for the benefit of the Water Utility.

As of June 30, 2019, outstanding commercial paper was $20 million issued through the PFFC for the benefit of the Water Utility Enterprise.

Short-term debt outstanding for the Funds at June 30, 2019 is broken down as follows (in millions):

Commercial Paper Program	Authorized	Outstanding Amount
Beginning balance	$ 150.0	$ 75.8
Additions	-	41.5
Reductions	-	(97.3)
Ending balance	$ 150.0	$ 20.0

(b) Long-term liabilities

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

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding Balance	Due in 1 Year
2006B Water revenue bond	2035	5.15%-5.31%	$ 25,570	$ 18,155	$ 815
2016A Water revenue bond	2046	5.0%	106,315	106,315	-
2016B Water revenue bond	2046	4.154%-4.354%	75,215	75,215	-
2017A Water revenue bond	2037	3.4% - 3.7%	54,710	51,410	1,780
2019A Water revenue bond	2039	5.0%	15,225	15,225	230
2019B Water revenue bond	2034	2.44%-3.634%	80,030	80,030	1,630
2007B Water revenue COP bond	2037	5.55%-floating	53,730	37,980	1,470
2016C Water revenue COP bond	2029	4.0% - 5.0%	43,075	38,045	3,185
2016D Water revenue COP bond	2029	1.567%-3.679%	54,970	48,425	4,130
Bond discount				(139)	(8)
Bond premium				38,580	1,556
Compensated absences				5,364	1,250
Net pension liability				94,565	-
Other post employment liability				31,958	-
Semitropic water banking agreement	2035		46,900	9,973	-
Total Funds debt				$ 651,101	$ 16,038

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

	Start of Year	Additions	Reductions	End of Year	Due in 1 Yr
2006B revenue bonds	$ 18,930	$ -	$ (775)	$ 18,155	$ 815
2016A revenue bonds	106,315	-	-	106,315	-
2016B revenue bonds	75,215	-	-	75,215	-
2017A revenue bonds	53,110	-	(1,700)	51,410	1,780
2019A revenue bonds	-	15,225	-	15,225	230
2019B revenue bonds	-	80,030	-	80,030	1,630
2007B COP revenue bonds	39,370	-	(1,390)	37,980	1,470
2016C COP revenue bonds	41,055	-	(3,010)	38,045	3,185
2016D COP revenue bonds	52,340	-	(3,915)	48,425	4,130
Bond discount on refunding	(147)	-	8	(139)	(8)
Premium on debt issuance	37,587	2,521	(1,528)	38,580	1,556
Compensated absences	5,168	4,477	(4,281)	5,364	1,250
Net pension liability	100,278	-	(5,713)	94,565	-
Other post employment benefits	33,814	-	(1,856)	31,958	-
Semitropic water banking agreement	8,150	1,823	-	9,973	-
Total Funds debt	$ 571,185	$ 104,076	$ (24,160)	$ 651,101	$ 16,038

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

Description	Year Ending June 30	Principal	Interest and amortization
Bonds payable	2020	$ 13,240	$ 20,980
	2021	13,760	20,473
	2022	14,305	19,940
	2023	14,885	19,376
	2024	15,485	18,787
	2025 - 2029	87,955	83,625
	2030 - 2034	98,435	62,361
	2035 - 2039	82,340	39,786
	2040 - 2044	78,580	22,371
	2045 - 2046	51,815	5,030
Total bonds payable requirements		$ 470,800	$ 312,729
Add: unamortized premium on issuance		38,580	
Less: unamortized discount on refunding		(139)	
Add: compensated absences		5,364	
Add: other post employment benefits		31,958	
Add: net pension liability		94,565	
Add: semitropic water banking agreement		9,973	
Amount outstanding at June 30, 2018		$ 651,101	

The following provides a brief description of the Funds' debt outstanding as of June 30, 2019:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, the District issued $99,835,000 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 $57,415,000 of the 2006A and 2006B Bonds were used to refinance $55,265,000 of the remaining 2000A and 2000B and the proceeds of $42,420,000 of 2006A and 2006B were used to repay approximately $40,900,000 of commercial paper notes. In March 2016, the District issued Series 2016A Water System Refunding Revenue Bonds to refund all 2006A outstanding principal.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, the District issued $181,530,000 of Water Systems Refunding Revenue Bonds comprising of Series 2016A for $106,315,000 and Taxable Series B for $75,215,000, 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 $73,040,000 of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay $75,000,000 of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of the District to pay principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on the District's Water Utility System Revenues.

<u>2017A Water System Utility Refunding Revenue Bonds</u>

In May 2017, the District issued $54,710,000 of Water Systems Refunding Revenue Bonds to refund the $64,750,000 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 the District to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on the District'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).

<u>2019A/B Water Systems Refunding Revenue Bonds</u>
In April 2019, the District issued $95,255,000 of Water System Refunding Revenue Bonds to repay the outstanding Commercial Paper Certificates in order to free up capacity in the District's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of the District 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).

<u>2007B Water Utility Revenue Certificates of Participation</u>

In October 2007, the District issued $131,000,000 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 $77,270,000 fixed rate COPs with a 30-year maturity. The 2007B issuance of $53,730,000 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 the District 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 Utility Refunding Revenue Bonds in May 2017.

<u>2016C/D Water Utility Revenue Certificates of Participation</u>

In March 2016, the District issued $98,045,000 of Water Utility Systems Improvement Projects Revenue Certification of Participation, Series 2016C for $43,075,000 and Taxable Series 2016D for $54,970,000, to be executed and delivered through the PFFC. Proceeds of the 2016C and 21016D 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 the District 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, the Santa Clara Valley Water District entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles the District to storage, withdrawal, and exchange rights for the District's State Water Project supplies. The Santa Clara Valley Water District's share of the total program capital costs is $46.9 million based on a 35 percent vesting in the program. The District pays the program capital costs when storing and recovering water. At June 30, 2019, the District has $10 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 the District's various enterprise funds.

(c) Other Debt Related Information

The District has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. The District has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of the District and which contain certain events of default and remedies as described therein. The District 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 District revenues if certain of the following conditions occur: default on debt service payments; the failure of the District to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by the District; or if any court or competent jurisdiction shall assume custody or control of the District, among other defaults. Certain of such District 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 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 the District's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. The District 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. A District 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.

The District has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay $470.8 million in long-term debt outstanding as of June 30, 2019, 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 2046. Total principal outstanding and interest costs remaining to be paid on the combined debt is $783.5 million.

(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, 2019 are as follow (in thousands):

	Amount
Property taxes:	
1% tax allocation	$ 8,124
Voter approved indebtedness:	
State Water Project Fund	22,344
Total property taxes	$ 30,468

The County of Santa Clara (County) is responsible for the assessment, collection, and apportionment of property taxes for the District. The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13). The District 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.

The District has elected to participate in the "Teeter Plan" offered by the County whereby the District 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.

(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 the District, not restricted for any project or other purpose.

The following table shows the breakdown of the Funds' net position at June 30, 2019 (in thousands):

	Water Enterprise Fund	State Water Projects Fund	Total
Net investment in capital assets	$ 609,201	$ 16,055	$ 625,256
Restricted Net Position			
San Felipe Emergency Reserve	3,150	-	3,150
Cash on hand with fiscal agent	189	-	189
Rate Stabilization	26,090	-	26,090
Public-private partnership	4,000	-	4,000
WUE SVAWPC reserve	1,066	-	1,066
Supplemental Water Supply Reserve	14,677	-	14,677
Drought Reserve	7,000	-	7,000
State Water Projects	-	15,355	15,355
Total restricted net position	56,172	15,355	71,527
Unrestricted Net Position			
Operating & Capital Contingencies	12,885	-	12,885
Currently Authorized Projects	52,252	-	52,252
Market Valuation	1,522	-	1,522
Encumbrances	120,529	-	120,529
Net Pension Liability	(76,513)	-	(76,513)
Net Other Post Employment Benefit Liability	(32,154)	-	(32,154)
Total unrestricted net position	78,521	-	78,521
Net Position	$ 743,894	$ 31,410	$ 775,304

(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 District'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 the District's governing board.

The Plan's provisions and benefits in effect at June 30, 2019, 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% + 1.5%*	7.0% + 2.5%*	6.75% + 0.5%
Required employer contribution rates	10.059% plus $13,163,082 prepayment for prior unfunded service cost		

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

Employees Covered – As of the most recent CalPERS 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	781
Active employees	748

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, 2019, contributions to the plan were $25.4 million. The District 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

The District'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, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry-age normal cost method
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return(1)	7.15%
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.

The actuarial methods and assumptions used for the June 30, 2017 valuation were derived from the December 2017 experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. 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, 2018, the inflation rate was reduced from 2.75% to 2.50%.

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 took into account 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.

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 Return Years 1 – 10[2]	Real Return Years 11+[3]
Global Equity	50.0%	4.80%	5.98%
Global Income	28.0%	1.00%	2.62%
Inflation Income	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%	-0.90%
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.

Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Beginning Balance	$ 787,529,110	$ 557,322,464	$ 230,206,646
Changes Recognized for the Measurement Period:			
Service Cost	16,022,730	-	16,022,730
Interest on Total Pension Liability	54,939,649	-	54,939,649
Changes in Assumptions	(8,125,682)	-	(8,125,682)
Difference between Expected and Actual Experience	(1,354,497)	-	(1,354,497)
Net Plan to Plan Resource Movement	-	(1,380)	1,380
Contribution from Employer	-	20,101,080	(20,101,080)
Contribution from Employees	-	7,030,182	(7,030,182)
Net Investment Income	-	47,227,283	(47,227,283)
Benefit Payments, including Refunds of Employee Contribution	(35,347,202)	(35,347,202)	-
Administrative Expense	-	(868,462)	868,462
Other Misc. Income/(Expenses)[1]	-	(1,649,224)	1,649,224
Net Changes	26,134,998	36,492,277	(10,357,279)
Ending Balance	$ 813,664,108	$ 593,814,741	$ 219,849,367

[1]During fiscal year 2018, as a result of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California’s agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during fiscal year 2018, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB68).

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

The following presents the net pension liability of the District, calculated using the current discount rate, as well as what the District'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:

	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	6.15%	7.15%	8.15%
Plan Net Pension Liability/(Assets)	$ 327,919,615	$ 219,849,367	$ 130,168,389

Pension Plan Fiduciary Net Position

Detailed information about the District'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, 2019, the District recognized pension expense of $30.0 million. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 25,409,359	$ -
Changes in assumptions	20,979,011	(6,143,808)
Differences between actual and expected experience	-	(3,926,477)
Net difference between projected and actual earnings on plan investments	1,237,798	-
Total	$ 47,626,168	$ (10,070,285)

$25.4 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 follows:

Year ending June 30	Deferred Outflows/(Inflows) of Resources
2019	$ 14,375,280
2020	7,560,010
2021	(7,988,548)
2022	(1,800,218)
Total	$ 12,146,524

(11) OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District 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. The District must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

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.

	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

	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	District's Required Contribution
Unclassified 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 the District's health plan must also enroll in Medicare upon their eligibility date. The District reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

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

The District 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, 2017, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving	711
Active employees	741

Contributions

On June 24, 2008, the District's Board of Directors adopted a resolution approving the agreement and election of the District 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, the District 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 the District and the bargaining groups. For the fiscal year ended June 30, 2019, the District's total contribution to the plan amounted to $10.2 million. All funds with payroll charges contribute to the actuarially determined contribution.

Net OPEB Liability

The District's net OPEB liability was measured on June 30, 2018 for reporting date June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Discount Rate	7.28%
Inflation	3%
Salary Increases	3.25%
Investment Rate of Return	7.28%

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)	5.75% 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.

Discount Rate

The discount rate of 7.28% is the expected long-term rate of return on District 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:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Beginning Balance	$ 174,265,200	$ 96,639,700	$ 77,625,500
Changes Recognized for the Measurement Period:			
Service Cost	2,913,500	-	2,913,500
Interest Cost	12,473,300	-	12,473,300
Other Liabiliy Experience Loss/(Gain)	53,800	-	53,800
Contributions	-	11,876,700	(11,876,700)
Benefits Payments	(8,876,700)	(8,876,700)	-
Non Benefit Related Admin Expenses from Plan Trusts	-	(51,829)	51,829
Expected Investment Return	-	7,142,684	(7,142,684)
Investment Experience (Loss)/Gain	-	787,345	(787,345)
Net Changes	6,563,900	10,878,200	(4,314,300)
Ending Balance	$ 180,829,100	$ 107,517,900	$ 73,311,200

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

The following presents the net OPEB liability of the District, calculated using the current discount rate, as well as what the District'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:

	Discount Rate - 1%	Current Discount	Discount Rate +1%
Net OPEB Liability	$ 94,980,800	$ 73,311,200	$ 55,187,400

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

The following presents the net OPEB liability of the District, 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, 2018:

	1% Decrease	Current Rates	1% Increase
Net OPEB Liability	$ 52,444,800	$ 73,311,200	$ 98,517,100

OPEB Plan Fiduciary Net Position

Detailed information about the District'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, 2019, the District recognized OPEB credit expense of $2.0 million. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
OPEB contribution subsequent to measurement date	$ 10,227,034	$ -
Differences between actual and expected experience	43,513	-
Net difference between projected and actual earnings on plan investments	-	(2,384,814)
Total	$ 10,270,547	$ (2,384,814)

$10.2 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:

Year ended June 30	Deferred Outflows/(Inflows) of Resources
2020	$ (732,162)
2021	(732,162)
2022	(732,160)
2023	(147,182)
2024	2,365
Total	$ (2,341,301)

(12) RISK MANAGEMENT

The District 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. The District reports all of its risk management activities in its Risk Management Internal Service Fund.

The District's deductibles and maximum coverage are as follows (in thousands):

Coverage Descriptions	Deductibles	Commercial Insurance Coverage
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, 2019, the liability for self-insurance claims was $7,086,000. This liability is the District's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Changes in the reported liability since June 30, 2019 are as follows (in thousands):

	General Liability	Workers' Compensation	Total
Claims payable at June 30, 2017	$ 2,987	$ 2,679	$ 5,666
Current year premiums, incurred claims and changes in estimates	584	677	1,261
Claim payments	(84)	(378)	(462)
Claims payable at June 30, 2018	3,487	2,978	6,465
Current year premiums, incurred claims and changes in estimates	1,636	174	1,810
Claim payments	(872)	(317)	(1,189)
Claims payable at June 30, 2019	$ 4,251	$ 2,835	$ 7,086
Current Portion	$ 1,378	$ 602	$ 1,980

The total claims payable in the amount of $7.09 million is recorded in the District's Risk Management Internal Service Fund. No portion of this amount is recorded in the Funds.

(13) TRANSFERS IN AND OUT BETWEEN THE DISTRICT

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.

During the fiscal year, the Funds received $614 thousand each from the General Fund and Watershed & Stream Stewardship Fund for the Open Space credit on property tax receipts.

The Funds transferred $3.9 million to the Information Technology Fund to fund various capital projects.

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

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Water Enterprise Fund	General Fund	$ 614
Water Enterprise Fund	Watershed & Stream Stewardship	614
Total Transfer In		$ 1,228
Information Technology Fund	Water Utility Enterprise Fund	$ 3,908
Total Transfer Out		$ 3,908

(14) COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2019, the Funds have open purchase commitments of approximately $120.5 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

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

During fiscal year 2017, the District 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 $7,466,867. The semi-annual payments starting January 2017 is $7,742,285. The 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 $440,492,081. The remaining commitment as of June 30, 2019 was $252,443,321.

(c) Participation Rights in Storage Facilities

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

The District pays the program capital costs when storing and recovering Tier 1 water. As of June 30, 2019, the District has paid $41.5 million towards the base fee obligation of this agreement. During the first 10 years, the District has a reservation for the full 35 percent allocation; by January 1, 2006, if the District's contributions towards the program capital costs did not equal $46.9 million the District's permanent storage allocation would have been reduced. The District decided to utilize its total allowable storage rights at 35 percent on January 1, 2006.

The District currently has a storage allocation of 350,000 acre-feet. As of June 30, 2019, the District has 315,824 acre-feet of water in storage. The participation rights are amortized using the straight-line method over the life of the agreement. Amortization of $27.6 million has been recorded through fiscal year 2019.

(15) CONTINGENCIES

(a) Litigation

It is normal for a public entity like the District, 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 the District 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 the groundwater charges for 2005-06 violated the Law and sought a partial refund. After the claim was deemed denied, Great Oaks filed its lawsuit that subsequently included an allegation that the groundwater production charges violated Proposition 218, or Article XIII D of the state constitution because proceeds are used to fund projects and services that benefit the general public, not just ratepayers. Great Oaks demanded a partial refund as well as declaratory, injunctive and mandamus relief.

On February 3, 2010, the Honorable Kevin Murphy issued Judgment After Trial and decided that the District owed Great Oaks a refund of groundwater charges in the amount of $4,623,096 plus interest at 7% per annum. The award of pre-judgment interest as of December 1, 2009, amounted to $1,285,524. Judge Murphy also awarded post-judgment interest at the rate of $886.62 per day until the date of the entry of judgment. Judge Murphy also decided that the District owed Great Oaks damages in the amount of $1,306,830. Recovery of this damages amount is in the alternative to the award of refund described above. The District appealed this decision to the Sixth District Court of Appeals.

During the pendency of the appeal, in accordance with the requirements of GASB Statement No. 62, the District recorded a liability in the amount of $5,930,000, which includes the Judgment After Trial decision amount plus interest in fiscal year 2008-09. The District recorded $160,000 in Fiscal Year 2009-10, $324,000 in Fiscal Year 2010-11, $325,000 in Fiscal Year 2011-12, and $324,000 in Fiscal Years 2012-13 and 2013-14 as liability for the post-judgment interest from January 1, 2010 through June 30, 2014 at the rate of $886.62 per day. No further interest was booked after the favorable judgement on March 26, 2015 by the Sixth District Court of Appeals, which is discussed further below.

On March 26, 2015, the California Court of Appeal for the Sixth Appellate District ("Court of Appeal") reversed in full the judgment of the trial court in the Great Oaks case. The Court of Appeal found that under Proposition 218 the District's groundwater charge is a "property-related fee," but also a fee for water service excepted from the voter ratification requirement. The Court of Appeal also found that the trial court erred when it found that the 2005-06 groundwater charges failed to satisfy the applicable procedural requirements. The Court of Appeal also reversed the trial court's finding that the District had failed to comply with the Law in setting the groundwater fee. The effect of the Court of Appeals decision is to reverse the refund the trial court had ordered the District to pay to Great Oaks, as well as reverse the awards of damages, pre-judgment interest, and certain other amounts. The Court of Appeal remanded the case to the trial court for proceedings consistent with its decision.

On April 10, 2015, the District and Great Oaks each filed their separate petitions for rehearing with the Court of Appeal, which were granted on April 24, 2015. On August 12, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case, leaving intact the substantive findings from its prior opinion. On August 27, 2015, Great Oaks again filed its petition for rehearing. On September 10, 2015, the Court of Appeal, without requiring any reply by the District granted Great Oaks petition for rehearing. On December 8, 2015, the Court of Appeal again reversed in full the judgment of the trial court in the Great Oaks case. Based on the recent court decisions, the total liability of $7.4 million previously recognized was reversed in fiscal year 2017.

Great Oaks has filed refund actions for subsequent years of annual groundwater charges, all of which are currently stayed (Santa Clara Superior Court Case Nos. 107-CV-087884; 108-CV-119465; 108-CV-123064; 109-CV-146018; 110-CV-

178947; 111-CV-205462; 112-CV-228340; 113-CV-249349; 115-CV-281385; 16-CV-292097; 17-CV-308140; and 18-CV-327641).

Similar to the Great Oaks Case, Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa Golf Club have filed a refund action, Santa Clara Superior Court under Case No. 111-CV-195879. The action is currently stayed.

Other water retailers including San Jose Water Company, the cities of Morgan Hill, Gilroy and Santa Clara and the Los Altos Golf and Country Club, and Stanford University dispute the District's groundwater charges and have subsequently entered into tolling agreements with the District pending the final decision in the Great Oaks Case.

The District filed its petition for review in the California Supreme Court on January 19, 2016, and on March 23, 2016, review was granted. The case was placed on hold pending resolution of the California Supreme Court's City of Buenaventura v. United Water Conservation District (UWCD) case. The UWCD case presents similar issues to the Great Oaks Case – namely whether Proposition 218 applies to groundwater charges.

On December 5, 2017, the California Supreme Court ruled on the UWCD case, and found that Proposition 218 does not apply to UWCD's groundwater charges, but that Proposition 26 does. After issuance of the UWCD decision, the California Supreme Court transferred the Great Oaks Case back down to the Court of Appeal on June 21, 2018 with instruction to vacate the Court of Appeal's prior decision and to reconsider the appeal in light of the principles of the California Supreme Court laid out in its decision in the UWCD case. On November 8, 2018, the Court of Appeal reaffirmed its March 26, 2015 decision described above. On December 17, 2018, Great Oaks filed a petition for review of this decision with the California Supreme Court. On February 20, 2019, the California Supreme Court denied the petition for review and this order became final the same day. On February 21, 2019, the Court of Appeal issued a remittitur to the trial court, effectively notifying the trial court that the appellate court judgement is final, and no further appeals are available.

The District can make no assurances as to whether Great Oaks will file a lawsuit in the future with respect to the District's groundwater charges based on different legal principles.

In order to streamline resolution of the remaining issues in the Great Oaks Case, along with similar issues in the later-filled pending cases brought by Great Oaks, including the filling of amended pleadings and the development of plans for resolving various legal issues that run across the cases, and the Shatto Corporation, Mike Rawitser Golf Shop and Santa Teresa cases, the District submitted a motion to consolidate these cases pending in the Superior Court and to have those cases designated complex for future handling. Great Oaks joined that motion, which was granted on June 30, 2017 (with each new case filed since then being added to the list by stipulation of the parties). Great Oaks also agreed to file a single, omnibus complaint to supersede its prior pleadings, each of which approached Great Oaks' claims in a slightly different way and captured all its pending claims in a single pleading.

On May 21, 2019, the District filed a collection action against the Shatto Corporation for failure to pay groundwater charges from 2009 to 2014. The District estimates that the claim against Shatto Corporation is approximately $1 million. On or about August 22, 2019, the Shatto Corporation filed a cross complaint (19-CV-348413) against the District alleging among other things, that the groundwater charges sought by the District violate Proposition 26.

(b) Grants and Subventions

The District 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, the District 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 the District 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.

The District's initial CVP water rates were determined based on a November 1974 CVP water rate policy and estimated construction costs of the San Felipe Division. The actual construction costs of the San Felipe Division were significantly higher than the estimates used in the initial rate calculation, and changes in the Federal Reclamation Law during the 1980's have led to the development of new CVP water rate policies. These policies, coupled with the terms of the original contract, resulted in the District facing significant increases for repayment of the San Felipe Division.

In compliance with the Central Valley Improvement Act (CVPIA), the District 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, the District 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 the District, both the plume size and number of wells impacted have been reduced. As of June 2019, perchlorate is present above the Maximum Contaminant Level (MCL) in fewer than 10 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.

(e) 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, the District owns and maintains the 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, the District has received 423 claims with respect to the flooding along Coyote Creek. Estimated damages are in excess of $10,000,000; however, the District 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 the District, Santa Clara County, City of San Jose, DWR and/or DSOD alleging damage from the Coyote Creek flood event. Currently, 19 lawsuits have been filed and are pending against the District relating to the flood event. The District is evaluating all of such claims and lawsuits with respect to the Coyote flood event. The District intends to vigorously defend any actions brought against it with respect to flood-related property damage caused by the flooding along Coyote Creek.

Of the 423 claims, 192 of the claimants have not filed an action in superior court. As to these 192 claims, the District settled 162 of such claims in September 2019 at a total cost of approximately $666,700.

(f) Rinconada Water Treatment Plant Upgrade

On May 26, 2015, the Board awarded a $179,850,000 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 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.

The District'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. The District has advised Balfour Beatty of the District'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. The parties are engaged in ongoing discussions regarding remediating the defective work and obtaining a realistic schedule from Balfour Beatty.

On September 26, 2018, the District notified Balfour Beatty that the District was assessing liquidated damages of more than $11 million for the lack of completion of both Phase 2 and Phase 3 construction milestones. The District began withholding liquidated damages from the progress payments to Balfour Beatty in October 2018 and continues withholding funds from monthly progress payments. To date, the District has withheld approximately $7 million and assessed $18 million in liquidated damages. Balfour Beatty had previously threatened to file suit if the District did not cease withholding liquidated damages by November 28, 2018. To date, Balfour Beatty has not yet filed such lawsuit against the District.

The District cannot predict the timeframe for the District and Balfour Beatty to resolve such issues. The District has not filed any formal claims against Balfour Beatty. The District does not believe the foregoing construction issues will have a material adverse impact on the operation of the Rinconada WTP.

Required Supplementary Information

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Changes In Net Pension Liability and Related Ratios
as of June 30, 2019
Last 10 Years*

	2015	2016	2017	2018	2019
Total pension liability					
Service cost	$ 14,351,245	$ 13,735,953	$ 13,764,288	$ 15,752,291	$ 16,022,730
Interest on total pension liability	46,261,670	48,842,236	51,160,517	53,109,673	54,939,649
Differences between expected and actual experience	-	(184,479)	(3,173,782)	(4,716,605)	(1,354,497)
Changes in assumptions	-	(12,079,891)	-	44,289,025	(8,125,682)
Benefit payments, including refunds of employee contributions	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)	(35,347,202)
Net change in pension liability	35,608,066	22,513,586	31,322,719	75,935,678	26,134,998
Total pension liability, beginning	622,149,061	657,757,127	680,270,713	711,593,432	787,529,110
Total pension liability, ending (a)	$ 657,757,127	$ 680,270,713	$ 711,593,432	$ 787,529,110	$ 813,664,108
Plan fiduciary net position					
Contributions - employer	$ 13,804,460	$ 15,157,939	$ 17,044,538	$ 19,055,019	$ 20,101,080
Contributions - employee	9,036,853	6,242,234	6,567,551	6,624,798	7,030,182
Net investment income	75,675,314	11,478,076	2,752,954	56,514,065	47,227,283
Benefits payment	(25,004,849)	(27,800,233)	(30,428,304)	(32,498,706)	(35,347,202)
Net plan to plan resource movement	-	-	370	370	(1,380)
Administrative expense	-	(566,550)	(312,496)	(750,585)	(868,462)
Other miscellaneous income/(expenses)	-	-	-	-	(1,649,224)
Net change in fiduciary net position	73,511,778	4,511,466	(4,375,387)	48,944,961	36,492,277
Plan fiduciary net position, beginning	434,729,646	508,241,424	512,752,890	508,377,503	557,322,464
Plan fiduciary net position, ending (b)	$ 508,241,424	$ 512,752,890	$ 508,377,503	$ 557,322,464	$ 593,814,741
Net pension liability, ending (a - b)	$ 149,515,703	$ 167,517,823	$ 203,215,929	$ 230,206,646	$ 219,849,367

	2015	2016	2017	2018	2019
Plan fiduciary net position as a percentage of total pension liability	77.27%	75.37%	71.44%	70.77%	72.98%
Covered payroll	$ 77,885,844	$ 78,009,731	$ 79,663,661	$ 84,110,908	$ 88,533,154
Net pension liability as a percentage of covered payroll	191.97%	214.74%	255.09%	273.69%	248.32%
Discount rate	7.50%	7.65%	7.65%	7.15%	7.15%

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 5 years are shown.*

SANTA CLARA VALLEY WATER DISTRICT
Schedule of Employer Pension Contributions
June 30, 2019*

	2015	2016	2017	2018	2019
Actuarially determined contribution	$13,948,105	$ 16,532,182	$ 18,568,910	$ 19,746,343	$ 25,409,359
Contributions in relation to the actuarially determined contribution	(13,948,105)	(16,532,182)	(18,568,910)	(19,746,343)	(25,409,359)
Contribution Deficiency	$ -	$ -	$ -	$ -	$ -
Covered payroll [1]	$78,009,731	$ 79,663,661	$ 84,110,908	$ 88,533,154	$ 91,189,149
Contribution as a percentage of covered payrc	17.88%	20.75%	22.08%	22.30%	27.86%

[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 measurment date, adjusted to the current year using a 3% increase.

** Fiscal year 2015 was the first year of GASB 68 implementation, therefore only 5 years are shown.*

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Changes In Net OPEB Liability and Related Ratios
as of June 30, 2019
Last 10 Years*

	2018	2019
Total OPEB liability		
Service cost	$ 2,913,500	$ 2,913,500
Interest on total OPEB liability	12,017,600	12,473,300
Benefit payments	(8,471,200)	(8,876,700)
Other liability experience loss/(gain)	-	53,800
Net change in OPEB liability	6,459,900	6,563,900
Total OPEB liability, beginning	167,805,300	174,265,200
Total OPEB liability, ending (a)	$ 174,265,200	$ 180,829,100
Plan fiduciary net position		
Contributions	$ 11,471,200	$ 11,876,700
Benefits payment	(8,471,200)	(8,876,700)
Net investment income	6,259,202	7,142,684
Investment return - difference between expected and actual experience	2,924,898	787,345
Administrative expense	(44,900)	(51,829)
Net change in fiduciary net position	12,139,200	10,878,200
Plan fiduciary net position, beginning	84,500,500	96,639,700
Plan fiduciary net position, ending (b)	$ 96,639,700	$ 107,517,900
Net OPEB liability, ending (a - b)	$ 77,625,500	$ 73,311,200

Plan fiduciary net position as a percentage of total OPEB liability	55.46%	59.46%
Covered payroll	$ 79,663,700	$ 84,110,900
Net OPEB liability as a percentage of covered payroll	97.44%	87.16%
Discount rate	7.28%	7.28%

** Fiscal year 2018 was the first year of GASB 75 implementation, therefore only 2 years are shown.*

SANTA CLARA VALLEY WATER DISTRICT

Schedule of Employer Other Post Employment Benefit Contributions

June 30, 2019*

	2018	2019
Actuarially determined contribution	$ 9,546,137	$ 10,227,034
Contributions in relation to the actuarially determined contribution	(12,546,137)	(10,227,034)
Contribution Deficiency / (Excess)	$ (3,000,000)	$ -
Covered payroll [1]	$ 84,110,900	$ 86,634,227
Contribution as a percentage of covered payroll	14.92%	11.80%

[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 2 years are shown.*

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, 2019, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated December 16, 2019.

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.

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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.

Maze + Associates

Pleasant Hill, California
August 13, 2020

WATER UTILITY ENTERPRISE FUNDS
OF THE
SANTA CLARA VALLEY WATER DISTRICTS

Schedule of Revenues and Expenses
(Budgetary Basis)
For the Year Ended June 30, 2019

	North County	South County	Total
Operating Revenues:			
Ground Water Charges	$ 69,213	$ 12,710	$ 81,923
Treated Water Charges	143,998	-	143,998
Surface and recycled water charges	1,101	657	1,758
Other	41	-	41
Total Operating revenues	214,353	13,367	227,720
Operating Expenses			
Sources of Supply	73,906	9,222	83,128
Water Treatment	37,579	412	37,991
Transmission and distribution:			
Raw Water	12,704	4,418	17,122
Treated Water	1,538	-	1,538
Administration and general	20,740	4,240	24,980
Capital Cost Recovery	(5,483)	5,483	-
Total Operating Expenses	140,984	23,775	164,759
Operating income (loss)	73,369	(10,408)	62,961
Nonoperating revenues (expenses):			
Property Taxes	27,432	3,036	30,468
Investment Income	8,074	-	8,074
Operating Grants	2,753	1	2,754
Rental Income	85	34	119
Other	1,579	166	1,745
Interest and fiscal agent fees	(18,630)	-	(18,630)
Open Space Credit Transfer	(7,384)	7,384	-
Interest earned credit	(313)	313	-
Net Operating revenues	13,596	10,934	24,530
Change in Net Position	$ 86,965	$ 526	$ 87,491

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

Income (Loss)	$ 87,491
Depreciation and amortization expenses not budgeted	(30,096)
Capital contributions	1,149
Interfund transfers	(2,680)
Reconcile GAAP to budgetary basis for operating expenses	(3,111)
Change in net position per Statement of Revenues, Expenses, and Change in Net Position	$ 52,753

Santa Clara Valley Water District

Valley Water

File No.: 20-0912 **Agenda Date:** 10/21/2020
Item No.: 5.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:
Discuss Strategy to Establish Additional Auditors via a Master Services Agreement in Conjunction with Options to Conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021.

RECOMMENDATION:
Discuss strategy to establish additional auditors via a Master Services Agreement in conjunction with options to conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021.

SUMMARY:
The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

On May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. (TAP International) for Board Independent Auditing Services. The agreement requires TAP International to work with the Board and the Board Audit Committee (BAC) to develop an annual audit program, assess operational risks, advise on potential audits to ensure Santa Clara Valley Water District (Valley Water) is in full compliance with its policies, procedures, and regulations, and conduct audits as directed by the Board and BAC.

On April 28, 2020, the full Board approved the Board Audit Committee's recommendation for an amendment (Amendment No. 2) to extend the Board Independent Auditing Services Agreement (Agreement No. A4071A) with TAP International to June 30, 2021.

At the August 19, 2020 BAC meeting, the BAC requested that staff develop a plan to bring on additional Board auditors by implementing a Master Services agreement. Having additional Board auditors available would expand the areas of expertise and capability of the resources that could assist Valley Water. The best practice in this case is typically to establish an "umbrella" auditor to do most tasks complemented by a master services agreement with a pool of additional auditors to do certain work. For example, an umbrella auditor could perform but not be limited to the following tasks:

- Advising the BAC
- Performing risk assessments
- Developing an annual audit program

- Conducting audits and desk reviews
- Attending BAC and Board meetings

In addition, Valley Water could establish a master services agreement, in which the types of audit services (typically conducting certain audits and desk reviews based on the annual audit work plan), and the areas of auditor expertise needed would be defined for a specific period of time. Alternatively, an “On Call” agreement could be established on a continuing basis in which a pool of auditors would be updated continuously from which to assign work based on alignment of expertise with the needed work.

Another consideration is that the BAC could establish an agreement with subject matter expert consultants (that are not auditors), that could be engaged to help with specific audits that require expertise that audit firms typically do not have.

The next Risk Assessment is currently scheduled to be completed in October 2021. At the September 16, 2020 BAC meeting, the BAC requested that staff develop detailed options for consideration in terms of how to proceed given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021. A Risk Assessment usually takes about four months to complete.

Options to complete the next Risk Assessment include:

1) TAP could initiate the Risk Assessment no later than March 1, 2020, four months prior to TAP’s agreement expiration on June 30, 2021;

2) The Board could extend the TAP agreement such that Tap could begin the Risk Assessment as scheduled in October 2021;

3) Initiate a procurement process for a new “umbrella” auditor that would begin service on July 1, 2021 and would therefore be in a position to conduct the Risk Assessment as scheduled in October 2021.

ATTACHMENTS:
None.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068