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The Santa Clara Valley Water District's (District) Fiscal Year 2012-16 Five-Year Capital Improvement Program (CIP) is a projection of the District's capital funding for planned capital projects from Fiscal Year 2011/12 through Fiscal Year 2015/16. The purpose of the CIP is to document planned District projects to help integrate District work with the larger community by aligning District planning with other local agency planning efforts.

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

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

1. Acquisition of land for public purpose
2. Construction of a significant facility, i.e. a flood protection facility, a water treatment facility, or a building

3. Addition to or expansion of an existing facility
4. Nonrecurring rehabilitation or major repair to all or part of a facility provided the total cost is more than \$50,000
5. Specific planning, engineering study, or design work related to an individual project which falls within the above categories
6. Significant one-time investment in tangible goods of any nature, the benefit of which will accrue

over several years. Examples include items such as large initial investments or improvements in technology or the purchase of a new telephone system.

The CIP includes 5 Small Capital Improvement Projects in the various cost centers. These projects will be ongoing and will be used to fund multiple small projects to undertake repairs, replacements, and minor modifications to existing water utility or campus facilities. Small Capital Improvements generally meet the following criteria:

1. Project cost is less than \$1.5 million
2. Project can be completed within 2 fiscal years
3. Rights-of-Way acquisition is not required.

The proposed funding for the Water Supply Small Capital Improvement projects is anticipated to vary each

year based on the work identified in the Water Utility Asset Management Plan. The Almaden Campus Small Capital Improvements Project is funded at a flat rate of \$2 million per year. Unspent funds in these projects will not carry forward from previous years.

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

Mission

The mission of the District is a healthy, safe, and enhanced quality of living in Santa Clara County through watershed stewardship and comprehensive management of water resources in a practical, cost-effective and environmentally sensitive manner.

SANTA CLARA VALLEY WATER DISTRICT

ALIGNMENT WITH ENDS POLICIES

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

Program plans or master plans are developed to achieve the results established by the Ends Policies and to further define the goals and objectives of each Ends Policy. The Board either formally approves the plans or provides direction to staff, confirming the goals and objectives. These plans then become the basis for staff to propose and develop individual capital projects. Alignment of the CIP with program or master plans provides a direct link to Ends Policies and ensures the District's long-term capital investments are planned and executed according to the Board's priorities. Three Ends Policies directly drive program or master plans and the types of capital improvements described in the CIP.

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

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

CIP PLANNING PROCESS

The District conducts an annual planning process for its Capital Improvement Program. The purpose of the planning process is to ensure the capital projects included in the CIP:

- meet the Board's priorities and contribute to the objectives of the District's various programs
- have identified funding for the duration of the projects
- are coordinated with the local jurisdiction's General Plans.

The CIP planning process is carried out in accordance with the following Executive Limitations.

- Executive Limitation EL-4.1.1., "The CEO shall not fail to produce an annual Rolling Five-Year Capital Improvement Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan."
- Executive Limitation EL-4.2.1., "The CEO shall not fail to demonstrate to the Board the planned expenditures for the identified and selected capital projects in the Rolling Five-Year Capital Improvement Plan do not deviate materially from the Board's priorities."

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

- Management review and approval, to ensure staff proposed projects are aligned with Board policies and approved program plans
- Prioritization of all projects, including continuing and newly proposed projects, to ensure the projects in the CIP reflect Board priorities
- Financial analysis, to determine the capacity of the District's capital funding sources to fund the proposed capital projects

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- Outreach to local jurisdictions within Santa Clara County, to coordinate the District's Capital Improvement Program with their General Plans
- Board review and direction at appropriate steps, to ensure the CIP reflects Board policies and priorities
- Board adoption of the CIP plan

The annual CIP planning process takes approximately 10 months to complete. The process starts with collecting information on proposed new capital projects in July, followed by preliminary scoping, priority and financial analyses to produce a Draft CIP in January/February. The Draft CIP serves as a multi-year plan, together with other long-term planning efforts of the District, is the basis for the budget for the following fiscal year. This Draft CIP plan is also reviewed by local jurisdictions for consistency with their General Plans. While the CIP is being reviewed by the cities and County the budget is being reviewed and finalized. The Board concludes the outreach on the CIP with a public hearing. The first year of the CIP is reconciled with the budget and the two documents are presented to the board for formal adoption in April/May.

Board Direction and CIP Outreach

The Board has many opportunities each year to provide direction on projects contained in the Capital Improvement Program. The CIP is developed in parallel with the budget and the water rates. It is presented to the Board on three separate occasions for review and input. Early in the process the criteria and project list are presented to the board so they can provide direction to staff, ensuring that the document is developed in accordance with board priorities. The direction received is used to develop the Draft CIP which is reviewed and accepted by the Board before staff is authorized to release the document for public review.

On January 11, 2011 the FY 2011/12 project list and prioritization criteria were reviewed and endorsed by the Board. The following are highlights of changes from

the previous year that were approved as the basis for the FY 2012-16 CIP:

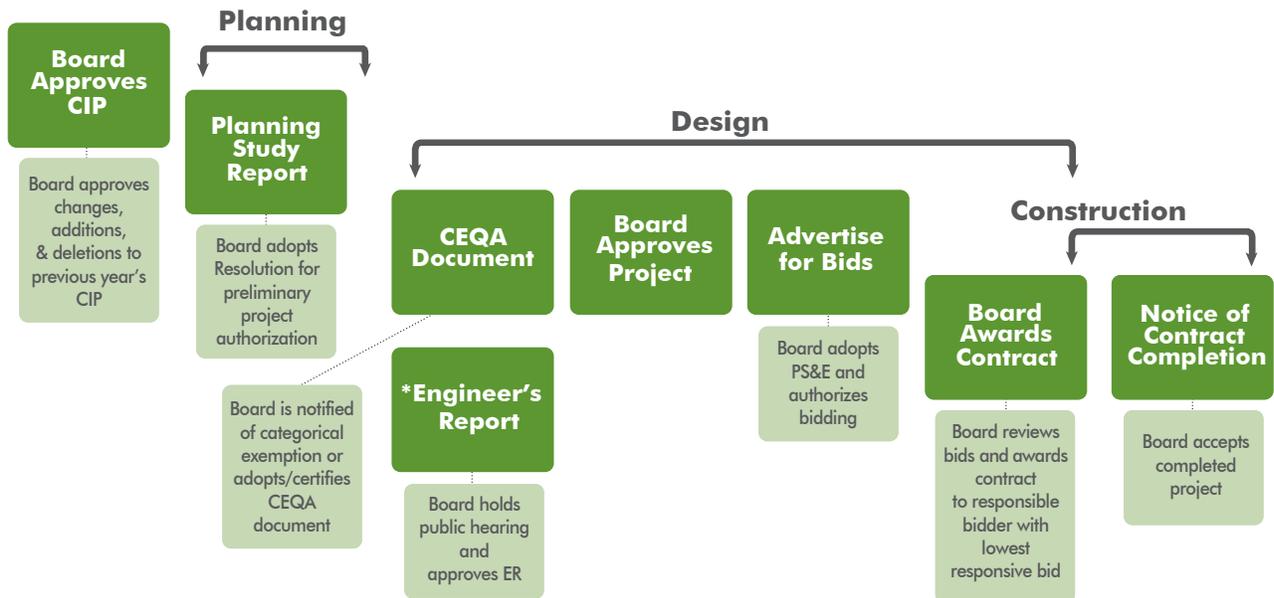
- Lower water usage has decreased the revenue available for projects and programs funded by groundwater production charges. A \$10 million revenue shortfall is anticipated in the current budget year, FY 2010/11.
- To fully fund the Water Supply projects in the FY 2012-16 CIP an increase in the groundwater production charges of 9.4% in Zone W-2 (North County) and 3.6% in Zone W-5 (South County) will be required in FY 2011/12.
- The Stream Stewardship fund is also experiencing a downward trend in available revenue. The estimated actual revenue for FY 2010/11 is -2.7% below budget, revenue for FY 2011/12 is projected to fall by 2% (-2%), with a gradual return to a +3.6% growth in FY 2014/15 and beyond. This reduction in revenue will be offset by removing future years funding for construction of the Upper Penitencia Creek Project (\$25.7 million in FY 2017-19) and early implementation of the San Francisco Bay Shoreline Project (\$6 million in FY 2019/20).
- Two new projects (estimated costs of \$127 million) will be included in the FY 2012-16 CIP. The net impact to the CIP is only \$0.8 million because the \$126 million funding for the Anderson Dam seismic Retrofit Project was previously included in the CIP.
- To clarify the differences between regulatory-driven and optional environmental enhancements a fourth sub-category was added to the Water Resources Stewardship category of the CIP. The new sub-category is Environmental Commitment and will contain projects that are implemented to satisfy agreements made with regulatory agencies that improve the watershed environment. The criteria for prioritizing the various sub-subcategories of Water Resources Stewardship projects will be re-evaluated in the upcoming months.

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Each project in the CIP goes through a planning phase, design phase and construction phase. The Board may determine to not implement a project based on various considerations such as financial constraints, environmental impacts or community desire during

a project's planning or design phases. Approval of a capital project by the Board occurs at the end of the design phase when the Board approves the plans and specifications to solicit bids for construction of the project.

OPPORTUNITIES FOR BOARD DIRECTION ON CAPITAL PROJECTS



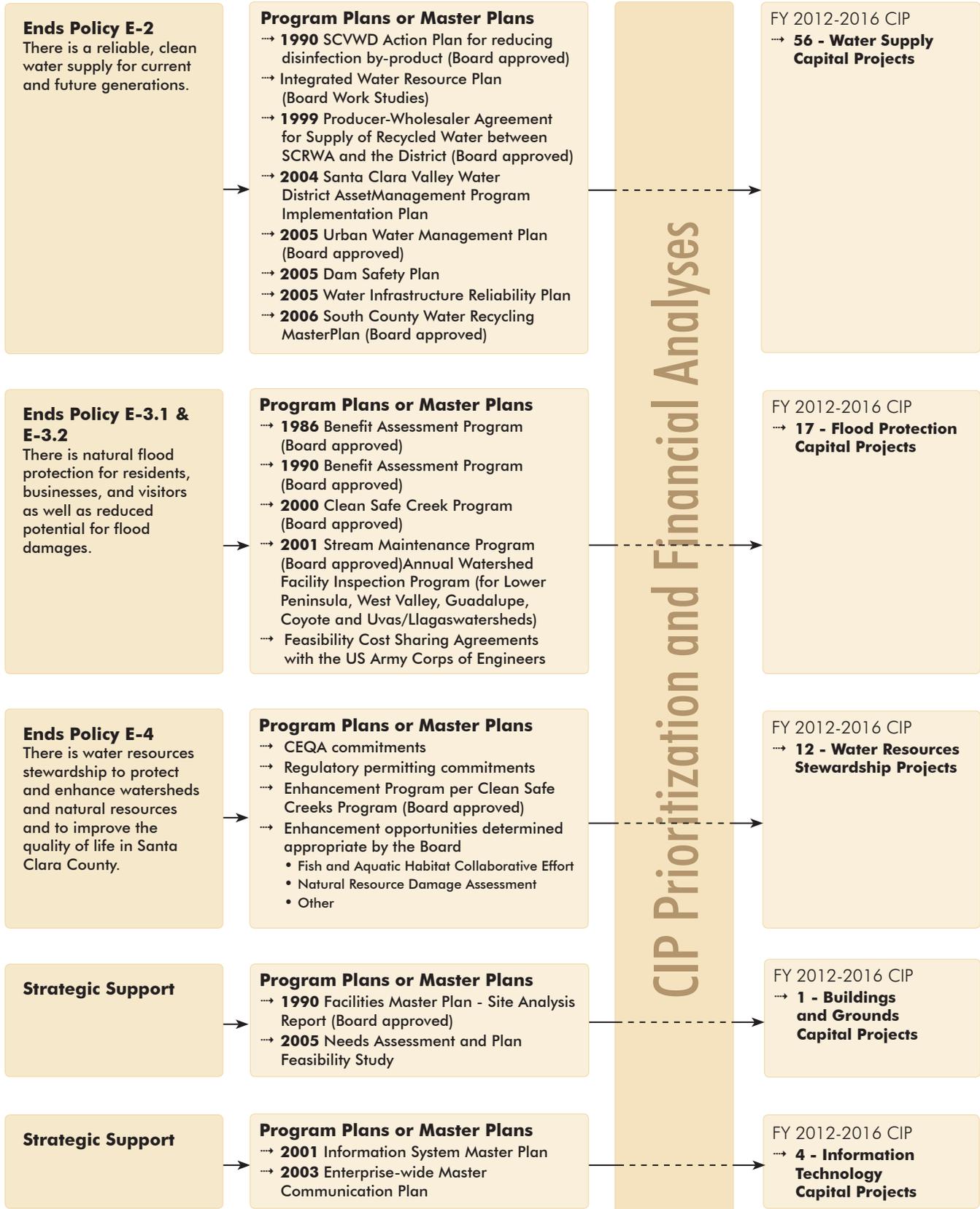
** Engineer's Report is required only on projects with zone funding.*



Construction of the Pond A-8 Notch was completed in FY 2011. The project received over half of its funding from external sources including an ARRA award from the California Coastal Conservancy and a grant from State Water Resources Control Board.

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CIP PROCESS ALIGNMENT WITH ENDS POLICIES



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FISCAL YEAR 2012-16 CIP SUMMARY

The recommended CIP for FY 2012-16 includes 90 priority projects to implement the goals and objectives of the District’s program plans and master plans. These projects are grouped into five types of improvements.

- **Water Supply Capital Improvements**
56 projects contributing to Ends Policy E-2
- **Flood Protection Capital Improvements**
17 projects contributing to Ends Policy E-3
- **Water Resources Stewardship Capital Improvements**
12 projects contributing to Ends Policy E-4
- **Buildings and Grounds Capital Improvements**
1 project supporting District efforts to achieve the Ends Policies
- **Information Technology Capital Improvements**
4 projects supporting District efforts to achieve the Ends Policies

Each of the 90 projects in the CIP has an identified funding source based on the type of improvement or function of the project.

The principal sources of revenue for the District are property taxes, a special parcel tax and water production charges for use of groundwater, treated water, and surface water. These revenues are organized into seven funds. Six of the seven funds have a specific purpose and only finance the operational and capital expenditures related to that purpose. In 2008 the Board decided to combine the individual watershed funds into a county-

wide watershed and stream stewardship fund to send the message that the watershed activities are managed for the benefit of the county. This also streamlines most tracking and accounting activities for staff. The District continues to receive a small amount of revenue from benefit assessments that were approved by voters in the 80s and 90s. These funds are dedicated to specific watersheds and the accounting practices to ensure that they are spent and accounted for appropriately have been kept in place. As shown in the chart below, four of the seven funds are used to finance the five types of capital improvements in the CIP.

The passage of the American Recovery and Reinvestment Act (ARRA) by congress in February of 2009 made additional federal funds available for construction of infrastructure projects. With 82 active capital projects the district was well positioned to benefit from ARRA funds. Four of the projects in the FY2011/12 CIP are partially funded by ARRA funds. The District received a \$20.6 million commitment from the Natural Resource Conservation Service (NRCS) to continue work on Lower Silver Creek, from I-680 to Lake Cunninham. The US Army Corps of Engineers (USACE) secured \$12.5 million to complete the downtown portion of the Guadalupe River project. The US Bureau of Reclamation committed \$8.1 million for Recycled Water Advanced Treatment Facility WPCP and up to \$1.6 million for Recycled Water Master Plan - Short Term. The Pond A-8 Advanced Study Project which received \$866 thousand, in ARRA funding, from the California Coastal Conservancy was completed in 2011 and removed from the CIP.

This chart identifies which types of improvement are associated with each of the District’s four capital funds.

DISTRICT PRIORITIES	District Funds			
	Water Enterprise Fund	Watershed Stream Stewardship Fund	General Fund	Clean Safe Creeks Funds
Water Supply	●			
Flood Protection		●		●
Water Resources Stewardship	●	●		●
Buildings and Grounds	●		●	
Information Technology	●	●		

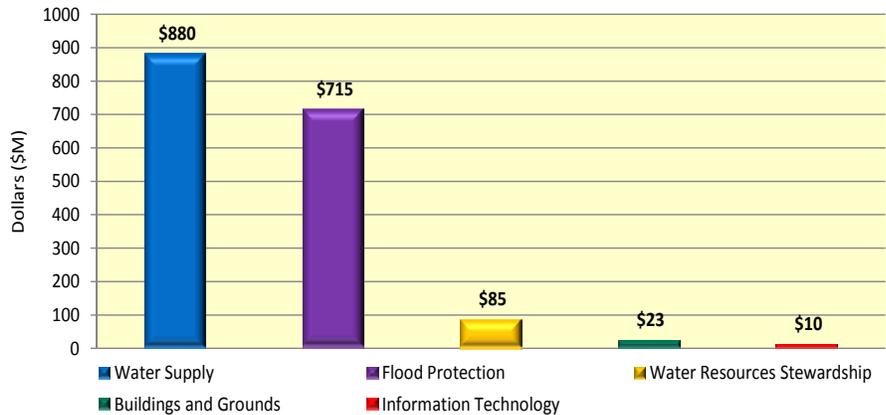
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The estimated total funding required to implement the 90 projects defined in the CIP is \$2.072 billion. The District has been and continues to be successful in leveraging funding for its capital projects through partnerships with federal, state, and local agencies. Of the \$2.072 billion total funding, \$567 million is expected from the District's various partners, such as the U.S. Army Corps of Engineers (USACE), and \$1.505 billion from the District. A list of projects that are funded cooperatively with the District's partners is summarized in Appendix C. Funding from partners for the cooperative capital projects generally come in two ways:

- Funds that are made available by the partners when needed, or
- Funds that are reimbursed by the partners after the District advances the needed funds.

Of the \$567 million that is expected from the District's partners, \$208 million is advanced by the District and reimbursed later. This \$208 million is included in the CIP, and increases the District's total funding requirement from \$1.505 billion to \$1.713 billion, to ensure that the District has adequate funding to advance the reimbursement.

CIP Funding by Type of Improvement

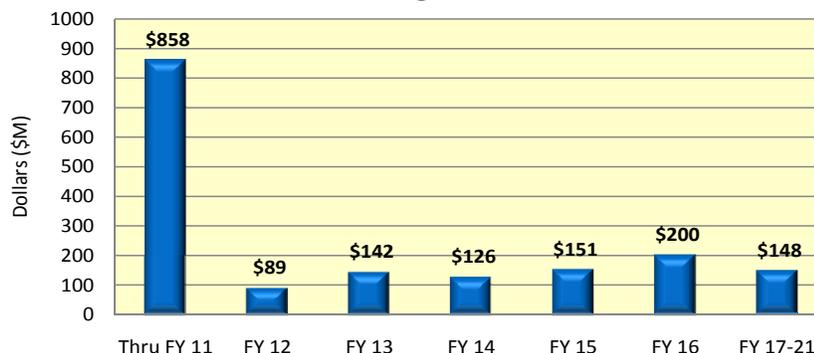


The chart above shows the distribution by type of improvement, of the \$1.713 billion total CIP funding as planned in the FY 2011/12 CIP.

The chart above shows how the \$1.713 billion to implement the 90 projects is allocated to each of the five Types of Improvements.

Of the \$1.713 billion in total funding for the 90 projects identified in the CIP, the Board has appropriated \$858 million in prior years (through June 30, 2011 the end of Fiscal Year 2010/11). This year's CIP process identified additional funding needs of \$855 million to complete the projects in the CIP, with \$89 million allocated in Fiscal Year 2011/12 and a total of \$766 million proposed for future years. The table shown on page I-8 breaks down the fiscal year total by the five types of improvement and by applicable funding sources.

CIP Funding Schedule



The chart above shows how the \$1.713 billion is distributed by fiscal year.

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

	Through FY10	FY11	FY11 Unspent	FY12	FY13	FY14	FY15	FY16	FY17-21	TOTAL
WATER SUPPLY										
Water Enterprise Fund	277,206	70,111	40,184	40,255	48,266	39,302	95,774	182,438	126,153	879,505
Water Supply Total	277,206	70,111	40,184	40,255	48,266	39,302	95,774	182,438	126,153	879,505
FLOOD PROTECTION										
Watershed Stream Stewardship Fund	224,381	47,846	10,029	20,942	7,060	14,444	770	10,552	1,768	327,763
Clean, Safe Creeks and Natural Flood Protection Fund	154,599	37,058	46,370	22,845	64,330	61,863	45,140	1,037	-	386,872
Flood Protection Total	378,980	84,904	56,399	43,787	71,390	76,307	45,910	11,589	1,768	714,635
WATER RESOURCES STEWARDSHIP										
Water Enterprise Fund	9,148	142	1	115	2,449	5,257	4,248	2,913	8,634	32,906
Watershed Stream Stewardship Fund	24,640	1,146	12,705	2,335	16,585	2,594	2,634	723	627	51,284
Clean, Safe Creeks and Natural Flood Protection Fund	250	-	-	316	514	-	-	-	-	1,080
Mitigation Total	34,038	1,288	12,706	2,766	19,548	7,851	6,882	3,636	9,261	85,270
BUILDINGS AND GROUNDS										
General Fund	n/a	2,086	-	2,048	2,124	2,202	2,284	2,368	10,383	23,495
Buildings and Grounds Total	-	2,086	-	2,048	2,124	2,202	2,284	2,368	10,383	23,495
INFORMATION TECHNOLOGY										
Water Enterprise Fund	3,604	1,877	495	0	174	10	-	-	-	5,666
Watershed Stream Stewardship Fund	4,026	198	218	1	197	12	-	-	-	4,433
Information Technology Total	7,630	2,075	712	1	371	22	-	-	-	10,099
TOTAL	697,854	160,464	110,001	88,857	141,699	125,684	150,850	200,031	147,565	1,713,004
CUMULATIVE TOTAL	697,854	858,318		947,175	1,088,874	1,214,558	1,365,408	1,565,439	1,713,004	

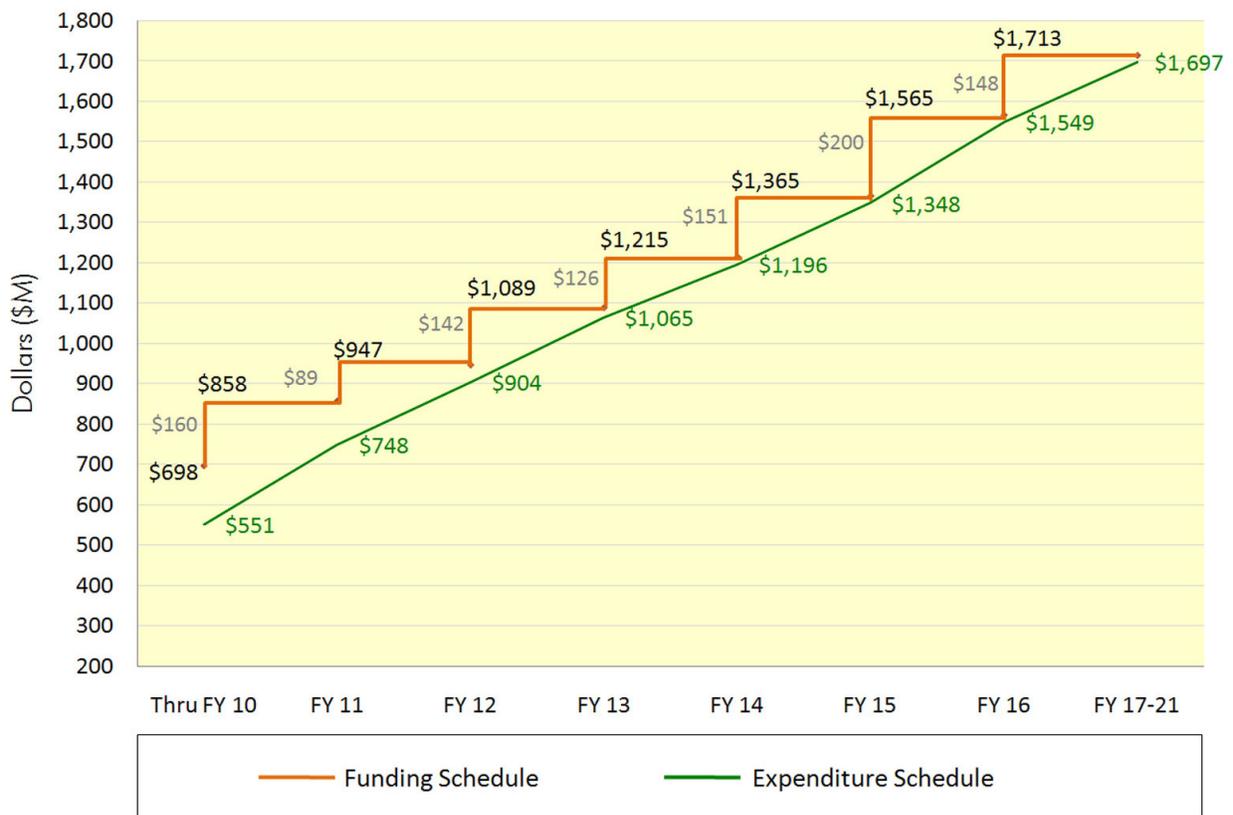
 FY 2010/11 Funds to be reappropriated

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As shown in the table, CIP Funding Schedule by Type of Improvement and Funding Sources (on the previous page): approximately \$110 million of the already appropriated \$858 million is not spent and is reappropriated to Fiscal Year 2011/12 for continued use

in those same projects in amounts consistent with the project expenditure schedule for Fiscal Year 2011/12. The following chart explains the relationship between the CIP Funding Schedule and Expenditure Schedule.

CIP Funding Schedule vs. CIP Expenditure Schedule



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