

**COMMISSION OF SILICON VALLEY CLEAN WATER
JOINT POWERS AUTHORITY
SPECIAL MEETING – Monday, January 27, 2020
8:00 a.m.**

Pelican Conference Room
Silicon Valley Clean Water
1400 Radio Road, 2nd Floor
Redwood City, California

COMMISSIONERS

COUNCIL MEMBER ALICIA AGUIRRE, REDWOOD CITY – CHAIR
BOARD MEMBER GEORGE OTTE, P.E., WEST BAY SANITARY DISTRICT – VICE CHAIR
COUNCIL MEMBER MARK OLBERT, SAN CARLOS – SECRETARY
MAYOR WARREN LIEBERMAN, PhD., BELMONT – MEMBER

MANAGER: TERESA A. HERRERA

ATTORNEY FOR THE AUTHORITY: CHRISTINE C. FITZGERALD

CONTROLLER:

TREASURER: MATTHEW ANDERSON

AMERICANS WITH DISABILITIES ACT

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact SVCW (650) 591-7121. Notification in advance of the meeting will enable the Authority to make reasonable arrangements to ensure accessibility to this meeting.

AGENDA

1. CALL TO ORDER

2. ROLL CALL

3. PLEDGE OF ALLEGIANCE

4. PUBLIC COMMENT

Any member of the public may address and ask questions of the Chair under this item relating to any matter within the Commission's jurisdiction that does not appear as a separate item on the Agenda. An opportunity will be provided for members of the public to address the Chair and ask questions about any item that is listed on the agenda at the time the Commission considers the item and before action is taken. If you address the Commission on a non-agenda item, please be aware that the Ralph M. Brown Act (Gov. C. § 54950 et seq.)

prohibits the Commission from acting on or discussing such matters at this meeting. Any such item may be referred to staff for a decision with regard to placing it on a future agenda for discussion, action or a report.

5. SAFETY MOMENT and REPORTS

- A. Safety Moment
- B. Manager's Report
 - 1. Verbal Report
 - 2. Presentation of Laboratory Operations
- C. Financial Reports
 - 1. Investment Report
- D. Engineering Projects Status Update
- E. Commission Requested Staff-Level Action Items
- F. RESCU Program Design-Build Project Status Update

6. MATTERS OF COMMISSION MEMBER'S INTEREST

7. CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR

8. BUSINESS ITEMS

A. CONSIDERATION OF RESOLUTION ADOPTING REVISION TO SILICON VALLEY CLEAN WATER'S INVESTMENT POLICY AND GUIDELINES

Proposed Action:

Move adoption of RESOLUTION APPROVING AND ADOPTING REVISION "S" TO ADMINISTRATIVE POLICY 1992-01 ESTABLISHING SILICON VALLEY CLEAN WATER'S INVESTMENT POLICY AND GUIDELINES

B. CONSIDERATION OF RESOLUTION ADOPTING THE 2020 CIP UPDATE AND CORRESPONDING CEQA CONCLUSIONS

Proposed Action:

Move adoption of RESOLUTION APPROVING AND ADOPTING THE 2020 UPDATE OF THE SILICON VALLEY CLEAN WATER CAPITAL IMPROVEMENT PROGRAM AND CORRESPONDING CEQA CONCLUSIONS

C. CONSIDERATION OF MOTION TO RECEIVE AND ACCEPT PRESENTATION OF LONG RANGE FINANCIAL PLAN – 2020 UPDATE

Proposed Action:

Move approval of RECEIPT AND ACCEPTANCE OF SILICON VALLEY CLEAN WATER LONG RANGE FINANCIAL PLAN – 2020 UPDATE

9. CLOSED SESSION

A. CONFERENCE WITH REAL PROPERTY NEGOTIATORS

Pursuant to Government Code Section 54956.8

Property Description: County of San Mateo (APN(s):095-220-140, 046-082-010, 046-081-790, 046-081-580, 095-030-230)

SVCW Negotiators: SVCW Manager, Teresa A. Herrera; SVCW Authority Engineer, Kim Hackett

Negotiating Parties: County of San Mateo

Under Negotiation: Price and terms

10. RECONVENE IN OPEN SESSION – Announce action taken in Closed Session, if any.

11. ADJOURN

CONSENT CALENDAR

NOTICE TO PUBLIC

All matters listed under CONSENT CALENDAR are considered to be routine. There may be discussion on items on the CONSENT CALENDAR. All items will be enacted by one motion with a roll call vote unless members of the Commission, staff, or public request specific items be removed from the CONSENT CALENDAR for separate action.

7. A. APPROVAL OF MINUTES – December 16, 2019

- B. CONSIDERATION OF MOTION APPROVING CLAIMS AND CHECKS DATED DECEMBER 13, 2019 AND DECEMBER 27, 2019 AND NECESSARY PAYMENTS THROUGH DECEMBER 27, 2019

- C. CONSIDERATION OF MOTION ACCEPTING CONTROL BUILDING HVAC IMPROVEMENTS PROJECT AND AUTHORIZATION TO FILE NOTICE OF COMPLETION

Proposed Action:

Move approval of MOTION TO ACCEPT THE CONTROL BUILDING HVAC IMPROVEMENTS (PROJECT #259) AND AUTHORIZE FILING NOTICE OF COMPLETION – RODAN BUILDERS

- D. CONSIDERATION OF MOTION APPROVING TASK ORDER AMENDMENT TO RESCU PROGRAM'S COMPLIANCE MONITORING SERVICES BY RGM KRAMER

Proposed Action:

Move approval of TASK ORDER AMENDMENT SCOPE OF WORK AND BUDGET FOR COMPLIANCE MONITORING SERVICES FOR THE RESCU PROGRAM (CIP #9500) IN AN AMOUNT NOT TO EXCEED \$475,000 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – RGM KRAMER INCORPORATED

- E. CONSIDERATION OF MOTION AUTHORIZING PURCHASE ORDER CONTRACT FOR EMERGENCY ROADWAY REPAIRS IN THE WEST ACCESS ROAD ASSOCIATED WITH DUAL MEDIA FILTER FEED LINE EMERGENCY REPAIRS PROJECT (PROJECT #313)

Proposed Action:

Move approval of PURCHASE ORDER CONTRACT FOR ROADWAY REPAIRS (PROJECT #313) IN AN AMOUNT NOT TO EXCEED \$98,000, AUTHORIZE MANAGER TO EXECUTE SAID PURCHASE ORDER CONTRACT AND TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – ANDREINI BROTHERS, INC.

- F. CONSIDERATION OF RESOLUTION APPROVING SIDE LETTER OF AGREEMENT BETWEEN SILICON VALLEY CLEAN WATER AND STATIONARY ENGINEERS, LOCAL 39

Proposed Action:

Move adoption of RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF SIDE LETTER AGREEMENT MODIFYING THE MEMORANDUM OF UNDERSTANDING BETWEEN SILICON VALLEY CLEAN WATER AND STATIONARY ENGINEERS, LOCAL 39

- G. CONSIDERATION OF RESOLUTION AND MOTION APPROVING MASTER SERVICES AGREEMENT AND TASK ORDER WITH INTEGRAL GROUP, INC. FOR BUILDING MECHANICAL SYSTEMS (ALSO KNOWN AS HEATING, VENTILATION, AND AIR CONDITIONING OR HVAC) CONSULTING SERVICES

Proposed Actions:

- i. Move adoption of RESOLUTION APPROVING MASTER SERVICES AGREEMENT FOR BUILDING MECHANICAL SYSTEM CONSULTING SERVICES WITH INTEGRAL GROUP INC.
 - ii. Move approval of TASK ORDER SCOPE OF WORK AND BUDGET FOR ENGINEERING DESIGN SERVICES FOR LABORATORY BUILDING HVAC REHABILITATION (CIP #9251) IN AN AMOUNT NOT TO EXCEED \$102,000 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – INTEGRAL GROUP INC.
- H. CONSIDERATION OF RESOLUTION APPROVING CONTRACT CHANGE ORDER TO GRAVITY PIPELINE PROJECT

Proposed Action:

Move adoption of RESOLUTION AUTHORIZING THE SILICON VALLEY CLEAN WATER MANAGER TO APPROVE CONTRACT CHANGE ORDER FOR THE GRAVITY PIPELINE PROJECT IN THE AMOUNT OF \$111,568 – BARNARD-BESSAC JOINT VENTURE

- I. CONSIDERATION OF MOTION APPROVING CONTRACT CHANGE ORDER FOR NEW 12KV SWITCHGEAR PROJECT (CIP #9807)

Proposed Action:

Move approval of CONTRACT CHANGE ORDER FOR NEW 12KV SWITCHGEAR PROJECT (CIP #9807) IN THE AMOUNT OF \$198,480 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – JFSHEA/PARSONS JOINT VENTURE

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AGENDA ITEM 5A

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SAFETY MOMENT

Tire Safety and Maintenance

Your tires are the only part of the car that has direct contact with the road. Tires affect your vehicle handling, ride, braking, and safety. Checking your tires on a regular basis is an important step in protecting your safety and your automotive investment. Ideally, tire inspections should be performed monthly. If you drive over potholes and debris in the road, live in a cold climate, or drive long distances regularly, then you should inspect your tires more often.

Poor tire maintenance can lead to premature tire wear, a flat tire or even a blowout. Factors other than tires themselves also can affect tire wear. Worn suspension parts and wheel alignment both play a direct role in tire wear and performance.

Tire Problems to Look for During a Visual Inspection

- **Over inflation:** Too much air pressure causes the tire's middle section to contact the road more than the entire width of tire. This creates wear primarily in the center of the tread, with less wear at the tire's edges.
- **Under inflation:** Too little air pressure causes the tire's outer edges to contact the road more than the center. This creates wear primarily on both edges of the tire tread, with less wear in the center.
- **Tread wear on one edge of the tire:** This typically occurs when the wheels are out of alignment.
- **Erratic tread wear:** This is often called cupping, and may mean the wheel is out of balance, or that the shock absorbers or other suspension components need to be replaced.
- **Raised portion of the tread or sidewall:** May indicate that one of the belts in the tire carcass has separated from those next to it.

Tire Problems to Notice While Driving

- **Unusual vibration or thumping noise:** Vibration or thumping noises can indicate an out-of-balance tire, one with tread that has a flat spot due to locking the wheels in a panic stop, or a tire with a separated belt.
- **A pull to one side:** While driving at a steady speed, pulling to one side may indicate an underinflated or damaged tire on the side of the car to which the vehicle pulls. If this is not the case, a brake problem or poor wheel alignment may be causing the pull.

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AGENDA ITEM 5B

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Recurring and Upcoming 2020 Commission Actions
Updated for January 2020 Meeting

January	February	March	April
<ul style="list-style-type: none"> • Long Range Financial Plan • CIP Update (annual or biennial) • Review Investment Policy 	<ul style="list-style-type: none"> • Review Debt Policy (move to March) 	<ul style="list-style-type: none"> • Budget Workshop • Local Limits Adoption 	Budget Adoption
May	June	July	August
<ul style="list-style-type: none"> • Initiate Manager Performance Evaluation 	<ul style="list-style-type: none"> • Approve Resolution 77-6 “Personnel Resolution” • Perform Manager Evaluation 	Commission Chair, Vice Chair, and Secretary Appointment	Conflict of Interest Update (Biennial; even-numbered years)
September	October	November	December
Review Reserve Funds Policy			<ul style="list-style-type: none"> • Commission Meeting schedule for following year • Audited Financial Reports

 - Recurring Commission Actions

 - Upcoming Commission Actions

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AGENDA ITEM 5C

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**Silicon Valley Clean Water Authority
Cash & Investments Summary Report
December 31, 2019**

Description	Market Value	% of Total Holdings	Yield
<u>Reserve Accounts</u>			
Operating Reserve* - Securities	\$ 3,321,255	1.4%	1.80%
Operating Reserve - Money Market Fund Balance	357,748	0.1%	1.49%
CIP Reserve* - Securities	19,271,886	7.9%	2.01%
CIP Reserve - Money Market Fund Balance	289,981	0.1%	1.49%
Stage 2 Capacity Reserve* - Securities	12,950,190	5.3%	2.00%
Stage 2 Capacity Reserve - Money Market Fund Balance	137,652	0.1%	1.49%
Total Market Value: Operating and Reserve Accounts	\$ 36,328,712	14.9%	1.98%
Total Accrued Interest: Operating and Reserve Accounts	196,169		
GRAND TOTAL, OPERATING AND RESERVE ACCOUNTS	\$ 36,524,880		
<u>Bond and Notes Accounts</u>			
Zions Bank (Trustee)			
2018 Project Fund Account - CAMP	\$ 20,660,383	8.5%	1.80%
2018 Revenue Account - Cash	4,053	0.0%	1.24%
2018 Acquisition Account - Euro for TBM Purchase	1,136,305	0.5%	
2019A Project Fund Account* - Securities	107,976,558	44.2%	1.70%
2019A Project Fund Account - Money Market Fund	39,019,237	16.0%	1.26%
2019A Capitalized Interest Account* - Securities	27,269,667	11.2%	1.62%
2019A Capitalized Interest Account - Money Market Fund	259,024	0.1%	1.26%
2019 Nt Cost of Issuance	48,595	0.0%	1.24%
Bank of New York (Trustee)			
2014 Revenue Account	448	0.0%	1.74%
2014 Interest Account - Money Market Fund	13	0.0%	1.80%
2014 Principal Account - Money Market Fund	7	0.0%	1.81%
2014 Cost of Issuance Account - Cash	2	0.0%	
2015 Project Account - Cash	2	0.0%	
2015 Revenue Account	172	0.0%	1.61%
2015 Interest Account	55	0.0%	1.70%
Total Market Value: Bond Proceeds Accounts	\$ 196,374,522	80.4%	1.60%
Accrued Interest: Bond Proceeds Accounts	639,376		
Uninvested Operating Cash (including outstanding checks)	2,925,775	1.2%	
Local Agency Investment Funds (LAIF) Balance	8,735,036	3.6%	2.10%
Total Cash & Investments	\$ 245,199,590	100.0%	1.66%


Matt Anderson, CPA

Chief Financial Officer / Assistant Manager

* Monthly report of security transactions and interest available upon request

- 1. All operating fund accounts are in compliance with SVCW's Investment Policy, and all bond proceeds accounts are in compliance with the relevant bond documents.*
- 2. SVCW has adequate funding levels for more than six months of operations and claim payments, as referenced in CA Code Section 53646.*
- 3. Market valuations for the Operating and Reserve accounts along with the 2018 and 2019A bond proceeds accounts are provided by PFM Asset Management LLC (PFM). Generally, PFM's market prices are derived from closing bid prices as of the last business day of the month as supplied by ICE Data Services or Bloomberg. Where prices are not available from generally recognized sources the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. Non-negotiable FDIC-insured bank certificates of deposit are priced at par. Although PFM believes the prices to be reliable, the values of the securities do not always represent the prices at which the securities could have been bought or sold.*
- 4. Market valuations for the 2009, 2014, and 2015 bond proceeds accounts are provided by Bank of New York Mellon.*
- 5. In accordance with Generally Accepted Accounting Principles (GAAP), month-end holdings and information are reported on a trade date basis.*
- 6. The yields shown for securities portions of the operating and reserve accounts and the 2019A bond proceeds accounts are the yields to maturity at cost.*
- 7. The yield for LAIF is the average monthly effective yield. Source: https://www.treasurer.ca.gov/pmia-laif/historical/avg_mn_ylds.asp*
- 8. The yields shown for the PFM-managed money market funds are the Yield to Maturity at Cost, and the Yield to Maturity at Market sourced from the respective fund providers' statements. Yields for BNY-managed funds are Market Yields sourced from the respective fund providers' statements.*
- 9. The yield shown for CAMP is the monthly distribution yield.*

Silicon Valley Clean Water
Operating and Reserve Funds - Sector Allocation & Compliance December 31, 2019

Security Type	Operating Reserve	CIP Reserve	Capacity Reserve	Total Market Value	% of Total Portfolio	% Allowed by Policy	In Compliance	% Change vs. Prior Month
U.S. Treasury	\$ 1,276,073	\$ 5,359,056	\$ 3,521,055	\$ 10,156,184	27.8%	100%	✓	1.8%
Federal Agency/GSE	\$ 1,434,139	\$ 5,420,749	\$ 3,743,275	10,598,162	29.0%	100%	✓	(4.7%)
Federal Agency CMO	\$ -	\$ 2,526,919	\$ 1,569,239	4,096,158	11.2%	100%	✓	3.7%
Federal Agency MBS	\$ 2,141	\$ 1,518,338	\$ 1,122,003	2,642,482	7.2%	100%	✓	(0.1%)
Municipal	\$ -	\$ 274,745	\$ 199,768	474,513	1.3%	100%	✓	0.7%
Corporate Notes	\$ 608,902	\$ 4,172,081	\$ 2,794,850	7,575,832	20.7%	30%	✓	0.5%
Securities Sub-Total	\$ 3,321,255	\$ 19,271,886	\$ 12,950,190	\$ 35,543,331	97.3%		✓	
Accrued Interest	\$ 14,578	\$ 108,370	\$ 73,220	196,169	0.5%			
Securities Total	\$ 3,335,833	\$ 19,380,256	\$ 13,023,410	\$ 35,739,499	97.8%			
Money Market Fund	357,748	289,981	137,652	785,381	2.2%	20%	✓	(2.0%)
Total Investments	\$ 3,693,581	\$ 19,670,238	\$ 13,161,061	\$ 36,524,880	100%			
<i>As % of 6/30/20 Target:</i>	<i>102%</i>	<i>101%</i>	<i>100%</i>	<i>101%</i>				

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AGENDA ITEM 5D

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**ENGINEERING REPORT: DECEMBER 2019
CAPITAL IMPROVEMENT PROGRAM****Capital Improvement Program Update:** Update to the CIP

The CIP is a living document and is updated approximately every year. The last update was adopted by the Commission in November 2018. An update to the CIP is being prepared and will be presented to the Commission in conjunction with the annual Long-Range Financial Plan which is presented to the Commission and available for member agencies uses in January of each year.

Planned Commission Actions: Adopt 2020 CIP Update – January 2020

RESCU Program (6008, 9501, 9502): Design and construct conveyance system improvements.

SVCW has awarded progressive design build contracts to Barnard Bessac Joint Venture for the Gravity Pipeline (GP) Project and Shea Parsons Joint Venture for the Front of Plant (FoP) and Pump Stations Improvements (PSI) Projects. These projects are in varying states of design and construction. SVCW staff is tracking potential changes to the work to assure that they are completed within budget.

The Gravity Pipeline Project has experienced increased costs due to tariffs that have been announced since the construction amendment was executed. A cost has been established and confirmed and a contract amendment will be forthcoming to account for those costs.

The PSI project is nearing 60% design. SVCW staff will soon begin negotiating the scope and budget for completing the design and construction (Stage 2 Amendment) and will present to the Commission for approval.

Planned Commission Actions: Approve GP Contract Change Order – January 2020

Approve Task Order for Wage Compliance Services – January 2020

Approve PSI Contract Change Order for Stage 2 Design and Construction – March and April 2020

New 12kV Switchgear Project (9807): Construct new 12kV switchgear equipment and enclosure.

In March 2018, the Commission approved a contract with Shea/Parsons Joint Venture to construct a new 12kV Switchgear. Design was completed by Beecher Engineering and Kennedy/Jenks. The new 12kV equipment is needed to supply power to the new front of plant facilities; the equipment also provides SVCW the ability to export power back to the utility. The construction is almost complete. An unforeseen condition was

identified with existing conduits on the site, and a Contract Change Order is required to reroute some wiring between the new and the existing Switchgear.

Planned Commission Actions: Approve Contract Change Order – January 2020

Laboratory HVAC Rehabilitation (9251): Rehabilitate aging HVAC system for Laboratory Building.

The Laboratory Building was constructed in 1993. The fans, controllers, and electrical infrastructure that supports the HVAC system is past its useful life. An assessment of the system indicated that all mechanical equipment, electrical equipment, and instrumentation need to be replaced, including the air handling unit. Integral Group, Inc. has experience with designing HVAC systems in industrial settings, including wastewater treatment plants. SVCW has negotiated a scope and budget for the design of this project.

Planned Commission Actions: Adopt Master Services Agreement and Approve Task Order – January 2020

Control Building HVAC Improvements (259): Modify HVAC system for Control Building.

This project was initiated following an emergency condition related to failure of sensitive electronic equipment inside the Control Building. Failure was due to corrosive air entering the building's HVAC system. Construction began in September 2018 and reached substantial completion in late November 2019. The project can now be accepted by the Commission and a Notice of Completion filed with the County.

Planned Commission Actions: Accept Project and File Notice of Completion – January 2020

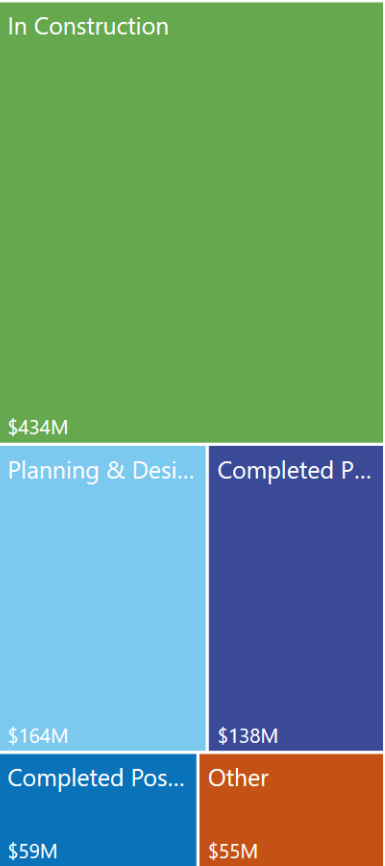
West Access Road Repair (313): Replace failed road base and asphalt of West Access Road.

An emergency condition exists related to leaks in the DMF Feed Pipe. The leaks affected the pipeline and the roadway adjacent the Main Structure. This roadway is used for heavy construction and chemical delivery traffic. Since November the roadway has been closed due to probability of a sinkhole appearing. Quotes to repair the roadway have been obtained from reputable contractors and a purchase order to the company with the lowest quote will be presented to the Commission for approval.

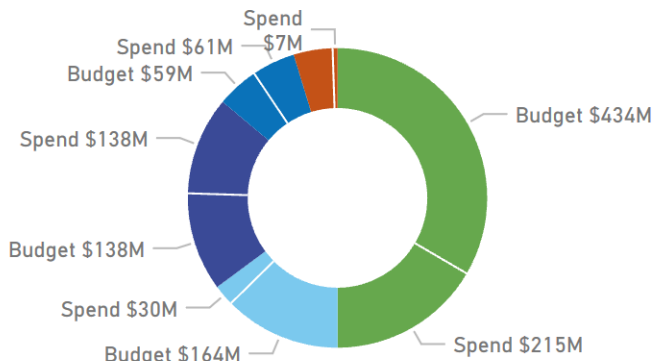
Planned Commission Actions: Approve Purchase Order – January 2020

CIP Spend Analysis

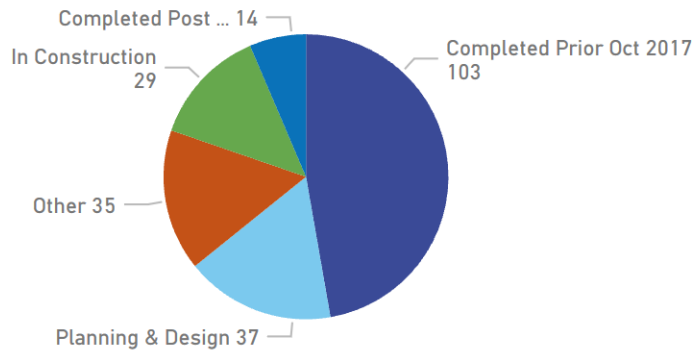
Project Phase	Project Count	2018 CIP Budget	Actual Spend	Remaining	% Unspent
Completed Prior Oct 2017	103	\$138,103,158	\$137,700,336	\$402,822	0.29%
Completed Post Oct 2017	14	\$58,806,039	\$60,598,071	\$-1,792,033	-3.05%
In Construction	29	\$434,311,619	\$215,486,371	\$218,825,247	50.38%
Planning & Design	37	\$163,645,251	\$29,567,674	\$134,077,577	81.93%
Other	35	\$54,700,355	\$6,793,145	\$47,907,211	87.58%
Total	218	\$849,566,422	\$450,145,597	\$399,420,824	47.01%



Budget and Spend by Project Phase



ProjectCount by Project Phase



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AGENDA ITEM 5E

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Silicon Valley Clean Water
Commissioners' Requested Action Items

JANUARY 27, 2020
AGENDA ITEM 5E

Updated: 01/20/2020

Commission Meeting Date		Action Item	Requested or Estimated Date for Completion	Status			Date of Completion	Notes
				Ongoing	In Progress	Complete		
12/16/2019	1	WWTP Underslab Piping	N/A			✓	1/27/2020	Describe plans for investigating condition of underslab piping
	2	Improve readability of presentations	1/27/2020	✓				Some slides hard to read on screen and in handouts; improve all powerpoint presentations' readability.
	3	Practice for use of risk registers on projects	N/A			✓	1/9/2020	Information shared at Technical Committee meeting.
11/18/2019	1	Data reporting solutions associated with ERP	N/A			✓	12/16/2020	Consider use of Tableau software as opposed to the proposed Power BI. Memo with decision-making process points presented to Commission.
	2	Investment Policy	1/27/2020		✓			Item tabled pending further discussion between SVCW and member agency staff. Discussion occurred. Will bring to January 2020 meeting.
	3	Investment Report	12/16/2019			✓	12/10/2019	Operating and Reserve Funds Sector Allocations table: Add total % change vs prior month to summary
	4	County Easement	12/16/2019			✓	12/10/2019	Discussed item under Closed Session - December meeting
	5	Reserve Policy	12/16/2019			✓	12/10/2019	Add escalator to reserves annual contributions; using ENR Construction Cost Index for S.F. Bay Area December of each year
10/21/2019	1	Research video recording meetings	N/A			✓	12/10/2019	Reach out to Menlo Park FD and Town of Atherton regarding video recording meetings. Outreach completed. Recommendation is to not pursue.
	2	Change information on financial reports and RESCU updates	N/A			✓	11/18/2019	On financial reserves report, add comparison of reserves collected to policy targets. On RESCU report, add information on change orders issued on projects.
9/16/2019	1	Research viability of videoing meetings	10/21/2019			✓	10/21/2019	An agenda item was added to the agenda and discussion ensued. Further research was requested.
	2	Review necessity for roll call vote on agenda items	10/21/2019			✓	9/18/2019	Roll call votes are not necessary.
8/19/2019	1	Nepotism and Fraternization Policy	9/16/2019			✓	9/5/2019	Review member agencies' policies and compare with proposed. Item was brought back to Commission in September.
	2	Recycled Water Facilities	N/A			✓	8/23/2019	Review payment for facilities repair with RWC. Per the agreement, repairs are RWC's responsibility.
7/15/2019	1	No new items at this meeting						

Silicon Valley Clean Water
Commissioners' Requested Action Items

Updated: 01/20/2020

JANUARY 27, 2020
AGENDA ITEM 5E

Commission Meeting Date	Action Item		Requested or Estimated Date for Completion	Status			Date of Completion	Notes
				Ongoing	In Progress	Complete		
6/17/2019	1	No new items at this meeting						Direction provided to Counsel and staff re: closed session items only
5/20/2019	1	Send Updated Agenda Item 5E				✓	5/20/2019	The incorrect version was included in the agenda packet. A corrected version was emailed to Commissioners on 5/20/19.
	2	Days Since Last Incident Sign - Pelican Board Room				✓	7/15/2019	The sign is on display in Pelican Room
4/15/2019	1	Maple Street Development	N/A	✓				SVCW and RWC staff coordinating efforts and messages to developer to protect mutual and exclusive interests.
3/18/2019	1	Emergency Declaration	4/15/2019			✓	4/10/2019	Ratified emergency declaration at April meeting
2/25/2019		No new items at this meeting						Direction provided to Counsel and staff re: closed session items only
> One Year	1	8E - JPA Amendment; re-initiate "clean up" to JPA	N/A		✓			Make required and requested changes to the JPA a priority. Comments received; Manager to begin working on consolidation.
	2	When SVCW can begin exporting power to grid, make public for positive public relations standpoint	N/A		✓			While the 12kV switchgear is ready to export power, the contract with P.G.&E. and documentation with CA Energy Commission will not be complete until April 2020. Public notice will be prepared and distributed when appropriate.
	3	Project delay costs	N/A	✓			Ongoing	Inform Commission of any potential delays that could add time and costs to projects they have authorized.
	4	Connection Fees	NA		✓			Additional plant capacity evaluation is underway to ensure proper flow numbers are used in the calculations. Will be incorporated into upcoming JPA changes.

AGENDA ITEM 5F

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RESCU Program describes eleven projects which constitute full replacement and rehabilitation of SVCW's conveyance system. RESCU includes the Gravity Pipeline, Front of Plant, Pump Stations, and Belmont Force Main projects. The Front of Plant includes six and Pump Stations includes four of the eleven projects. The Conveyance System Improvements Environmental Impact Report completed and adopted by the SVCW Commission in April 2017 covers work to be done under all the RESCU Program projects.

Available Budget

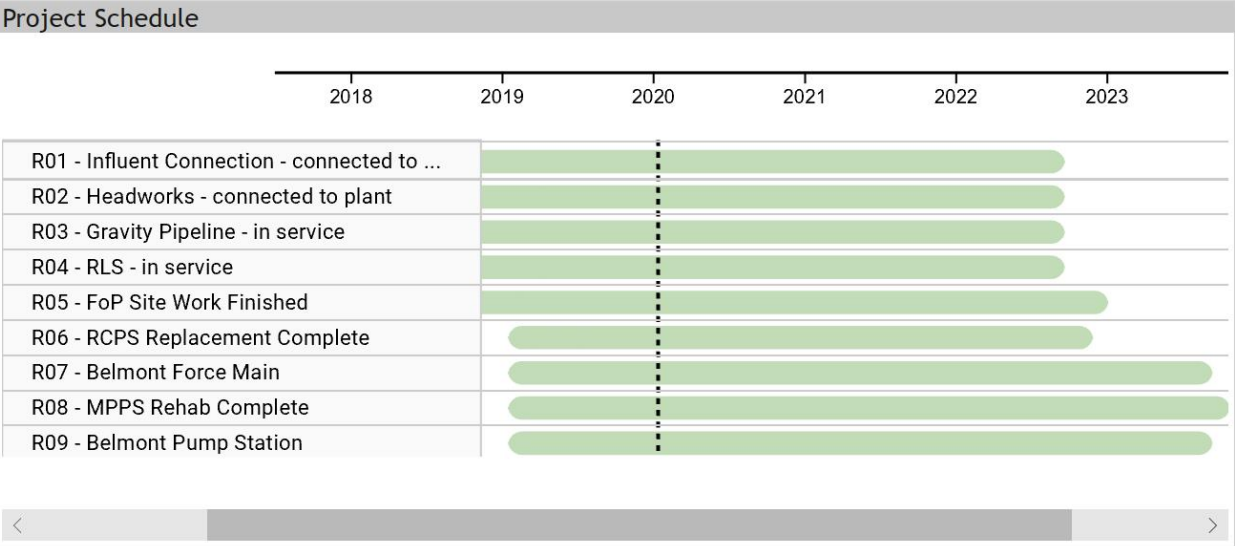
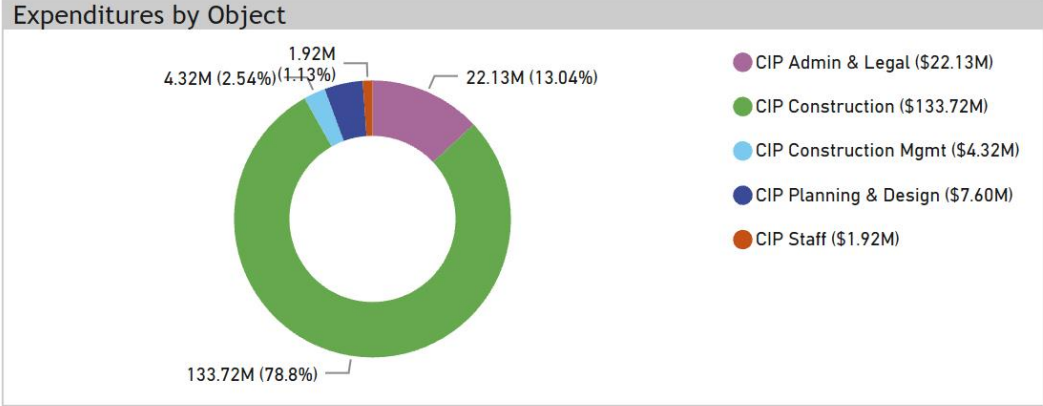
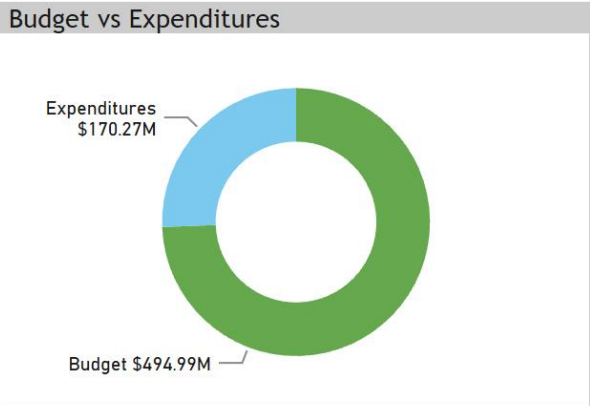
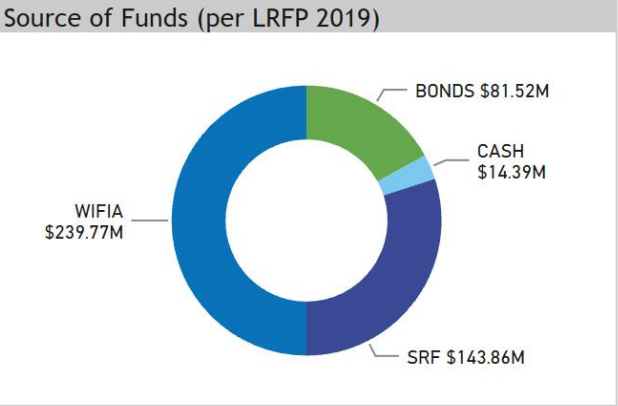
\$494.99M

Total Expenditure

\$170.27M

Remaining Budget

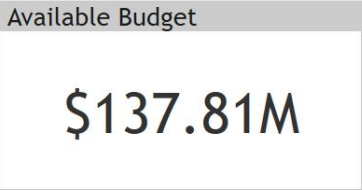
\$324.72M



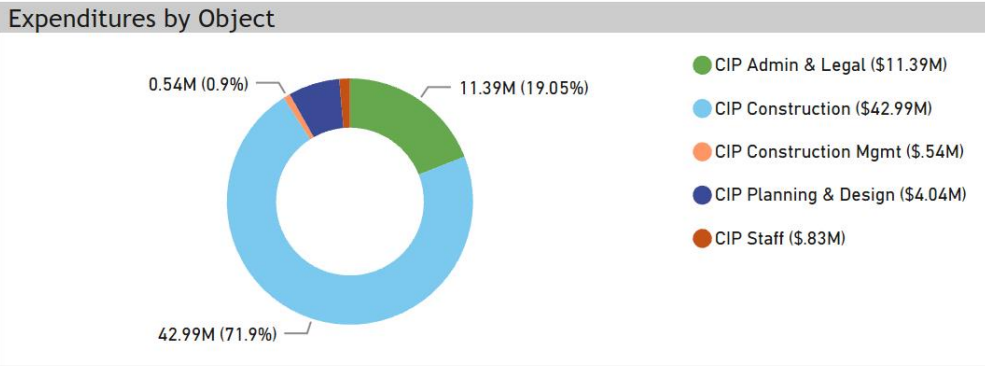
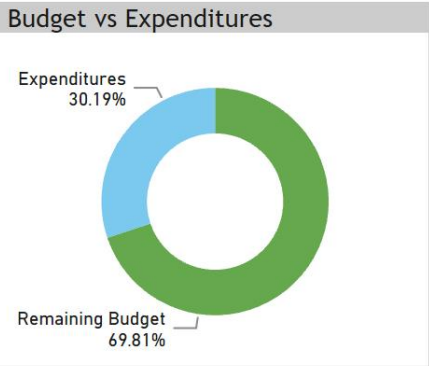
Front of Plant Progressive DB Project



The Front of Plant (FoP) Project consists of the design, construction, permitting, start-up, commissioning, and final acceptance for the Receiving Lift Station (RLS), Surge and Flow Splitter (SFS), Headworks Facility, Odor Control Facilities, Influent Connector Pipe, Storage and Chemical Offload Facilities, Civil site work, Emergency Overflow pipe to storage basin and related process support systems. Work is being implemented under a Progressive Design-Build procurement process in stages.



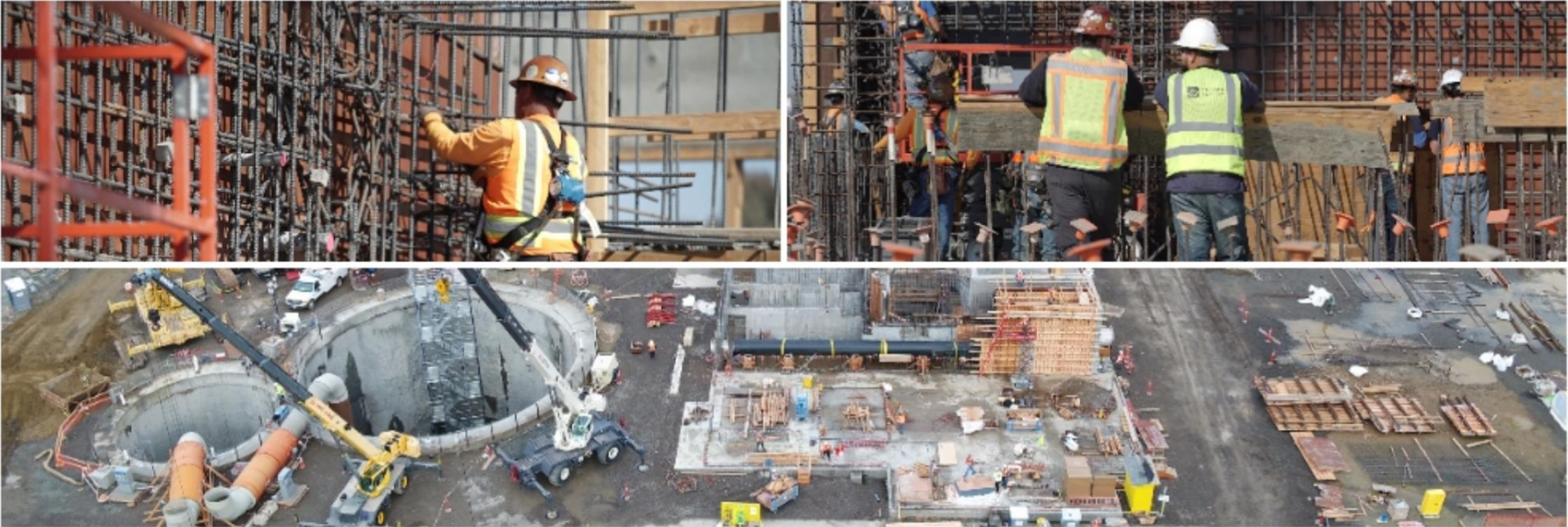
Milestone Schedule		
	Start	Finish
100 (%) Design Documents	11/1/2019	12/4/2019
Stage 2C - RLS Shaft Construction	10/11/2018	2/25/2020
Headworks Facility Completed	12/6/2018	10/24/2021
SFS/RLS Operational	12/6/2018	8/28/2022
Stage 2D - Balance of Stage 2 Work Final Completion	12/6/2018	10/20/2022



Construction KPIs



As of : 2020 - 01





Major Accomplishments this Period	
Design	- SPJV held a meeting with SVCW to reviewed the control narrative issued with the 100% design package. SPJV to incorporate comments from review and reissue.
Procurement of Trade Packages	- SPJV provided submittals for the various valves, the RLS elevator, the odor control system, and RLS pumps. - SPJV is finalizing submittals of other major equipment (slide gates, bulkhead, grit systsem, piping, HVAC, aluminum covers) with preferred manufacturers for submission - WIFIA and SRF requirements compliance for trade packages are in progress - SPJV executed contracts with multiple subcontractors for upcoming work
Construction	- Completed placement of 27 of 29 first-level wall panels for the Headworks Facility - Completed excavation of the SFS - Continued rebar installation for the base slab in preparation for concrete placement in January

Potential Issues

3 - Month Look Ahead					
	Start	End	January	February	March
Installation of Electrical Room Walls	February 2, 2020	May 14, 2020		X	X
Installation of Elevation 115' Walls	October 3, 2019	January 2, 2020	X		
Installation of Headworks Channel Decks	January 3, 2020	March 20, 2020	X	X	X
Installation of RLS Second Pass Walls	February 4, 2020	June 9, 2020		X	X
RLS Concrete Base Slab Work	November 7, 2019	January 22, 2020	X		
SFS Concrete Base Slab Work	December 16, 2019	April 14, 2020	X	X	X

Project Changes
Change order for odor control system
Credit for deletion of 48" bypass from 54" force main
Credit for the deletion of the chemical storage system
Electrical System
New County/Local Sales Tax
Project Management past December 2021

Safety Spot Light	
Lost Time	0
Near Misses	0
Recorded Losses	0

Gravity Pipeline Progressive DB Project



The Gravity Pipeline (GP) Project consists of the design, construction, permitting, start-up, commissioning, and closeout of approximately 17,600 feet of wastewater gravity FRP pipe inside a concrete-segment tunnel. The work includes three shafts and will interface directly with the Front of Plant (FoP) Project at the Surge & Flow Shaft (SFS). Work is being implemented under a Progressive Design-Build procurement process.

Available Budget

\$253.25M

Total Expenditure

\$104.42M

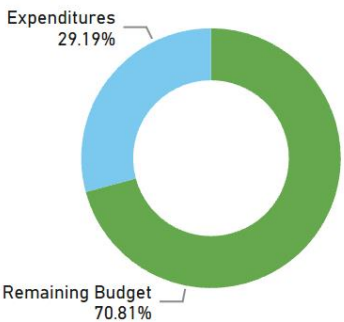
Remaining Budget

\$148.83M

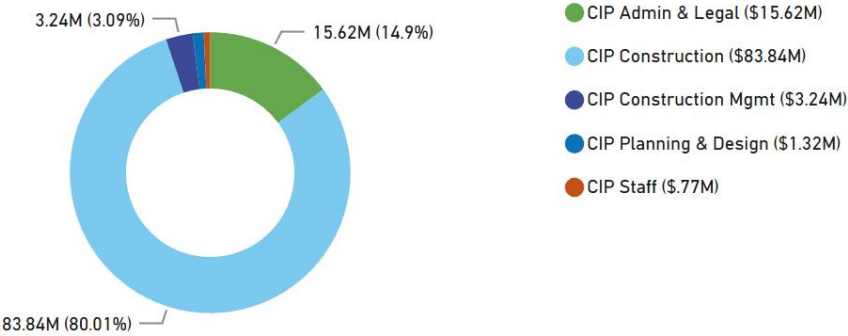
Milestone Schedule

	Start	Finish
100% Design Documents		5/7/2020
Bair Island Shaft Construction	6/24/2019	3/18/2020
TBM Drive (AAS to Bair Island)	9/17/2019	7/6/2020
San Carlos Shaft Construction	6/12/2020	2/15/2022
TBM Drive (AAS to SFS)	9/10/2020	10/26/2021
FRP Pipe Installation	8/9/2021	5/18/2022
Final Commissioning		7/1/2022

Budget vs Expenditures



Expenditures by Object



Construction KPIs

37.17%

% Complete

33.45%

% Expenditures

As of : 2020 - 01





Major Accomplishments this Period

▼	
Design	- 60% Design for San Carlos and Bair Island connecting pipework/inlets review returned to BBJV. Response to comments to follow.
Procurement of Trade Packages	- Muck off-haul & disposal contract in progress - Pipe Handling contract in progress - Outreach in conformance with SRF and WIFIA funding requirements
Construction	- BBJV completed the third stage of TBM assembly in tunnel and constructed 182 rings (910 LF) - BBJV completed excavation of the Bair Island Shaft -First shipment of FRPM pipe scheduled to arrive from Jakarta, Indonesia

Potential Issues

County Permits and Easements.
Muck Disposal Site
Tarrifs on Chinese Steel

3 - Month Look Ahead

	Start	End	January	February	March
100% Design Completion	August 10, 2018	May 7, 2020	X	X	X
Bair Island Shaft Excavation and Construction	September 30, 2019	March 18, 2020	X	X	X
Second Shipment of FRP Pipe	January 15, 2020	February 15, 2020	X	X	
TBM mining for Bair Island Drive	September 17, 2019	May 18, 2020	X	X	X

Project Changes

New County/Local Sales Tax

Safety Spot Light

Lost Time	0
Near Misses	0
Recorded Losses	0

Pump Stations



All SVCW pump stations require replacement or rehabilitation. Menlo Park PS will be rehabilitated. Redwood City PS will be replaced. Belmont PS will be replaced with a gravity pipeline. San Carlos PS is no longer needed due to the new gravity pipeline; flows from San Carlos and Belmont will enter into the gravity pipeline via a drop structure at the current San Carlos pump station site. Flows from the MPPS and RCPS will flow through the new 48-inch force main to a drop structure at Inner Bair Island. RCPS will be designed to pump the MPPS flows during wet weather events.

Available Budget

\$103.93M

Total Expenditure

\$11.99M

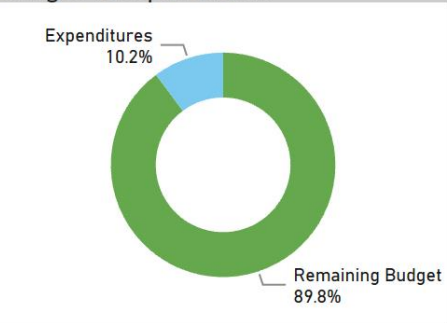
Remaining Budget

\$92.12M

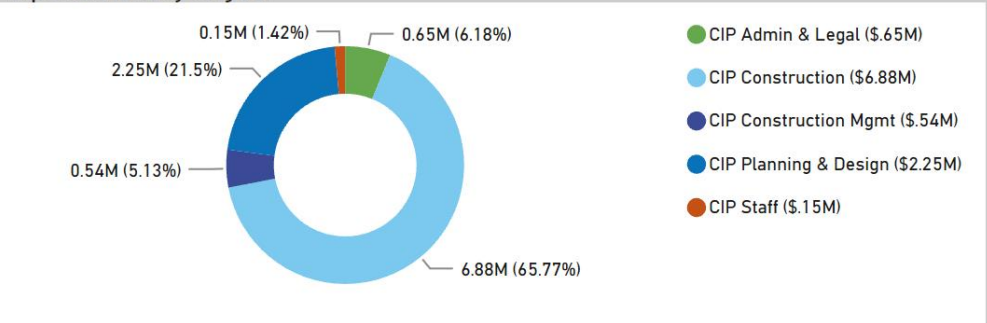
Milestone Schedule

	Start	Finish
PSI Project Procurement process approved by Commission	7/13/2018	7/13/2018
Recommend Award of DB Agreement to Commission	2/25/2019	2/25/2019
Basis of Design Report (BODR)	7/1/2019	10/7/2019
30 Percent (%) Design Documents	7/2/2019	9/19/2019
60 Percent (%) Design Documents	11/30/2019	12/23/2019
Stage 1 Services Complete		3/16/2020

Budget vs Expenditures



Expenditures by Object



Stage 2 is scheduled to start on 3/16/2020.

No % Complete or % Expenditures available at this time.



Major Accomplishments this Period

- Design
- Held workshop to discuss open design items for MPPS Rehab, Belmont Gravity Pipeline, and RCPS 60% designs.
 - Performed physical modeling for RCPS and MPPS and finalized pump selection for both locations.
 - EIR update completed.

Potential Issues

No issues to note for this period.

3 - Month Look Ahead

	Start	End	January	February	March
BIM Model Development, Analysis, and Support	November 8, 2019	January 20, 2020	X		
Control Strategy / Narratives Development	May 23, 2019	January 15, 2020	X		
Cost Modeling Development and Estimates	May 3, 2019	February 28, 2020	X	X	
P&ID, Master Equipment & I/O List Development	July 2, 2019	January 15, 2020	X		
Permitting & Public Outreach Support	February 28, 2019	March 16, 2020	X	X	X
Preliminary Staffing & Staff Training Plan	October 16, 2019	January 31, 2020	X		
Preliminary Startup, Testing and Acceptance Plan	October 16, 2019	February 7, 2020	X	X	

Project Changes

No issues to note for this period.

Safety Spot Light

Lost Time	0
Near Misses	0
Recorded Losses	0

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AGENDA ITEM 7A

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**MINUTES OF SILICON VALLEY CLEAN WATER
REGULAR MEETING – December 16, 2019
8:00 a.m.**

ITEM 1

CALL TO ORDER

The meeting was called to order at 8:00 a.m.

ITEM 2

ROLL CALL - Commissioners Duly Appointed by Each Agency

Council Member Alicia Aguirre, Redwood City - Chair
Board Member George Otte, P.E., West Bay Sanitary District – Vice Chair
Mayor Mark Olbert, San Carlos – Secretary
Council Member Warren Lieberman, PhD., Belmont

Staff, Consultants and Visitors Present

Teresa A. Herrera, SVCW Manager
Christine C. Fitzgerald, SVCW Legal Counsel
Jennifer Flick, SVCW Human Resources Director
Matt Anderson, SVCW Chief Financial Officer/Assistant Manager
Monte Hamamoto, SVCW Chief Operating Officer
Kim Hackett, SVCW Authority Engineer
Arvind Akela, SVCW Engineering Director
Jessica Mangual, SVCW Secretary Pro Tem
EJ Shalaby, DNS Strategic Partners
Derek Rampone, City of Redwood City
Molly Flowerday, City of Redwood City
Bill Tanner, Tanner Pacific, Inc.
Mark Minkowski, Kennedy/Jenks
Aren Hansen, Brown & Caldwell
Robert Donaldson, Collaborative Strategies
Sylvia Alejos, SVCW Administrative Assistant

ITEM 3

PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was recited by those in attendance.

ITEM 4

PUBLIC COMMENT

There was no Public Comment

ITEM 5

SAFETY MOMENT AND REPORTS

Safety Moment focused on tips to protect your home and possessions during the holidays.

Under the Manager's Report, SVCW's Chief Operating Officer, Mr. Hamamoto, provided a presentation on treatment plant operations and efficiencies gained by completed CIP projects. Commissioners extended appreciation for the information and staff's contributions and requested the presentation be offered to member agencies staff and/or Councils/Board.

For the remaining written reports contained within the agenda packets (Financial Reports, Engineering Projects Status, and Commission-Requested Action Items), there were no questions nor comments.

ITEM 6

MATTERS OF COMMISSION MEMBER'S INTEREST

Commissioners selected meeting dates for calendar year 2020.

ITEM 7

CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR ITEMS

Item 7D was pulled for discussion.

D. CONSIDERATION OF MOTION APPROVING CONTRACT CHANGE ORDER FOR SITE WASTE PUMP STATION UPGRADES

Proposed Action:

Move approval of CONTRACT CHANGE ORDER FOR THICKENING IMPROVEMENTS PHASE 1 IN THE AMOUNT OF \$150,000 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – C. OVERAA CO.

Ms. Hackett and Ms. Herrera responded to questions posed by the Commissioners regarding Agenda Item 7D.

Motion/Second: Mr. Otte / Mr. Olbert on Item 7D

The Motion carried by Unanimous Roll Call Vote

A. APPROVAL OF MINUTES – November 18, 2019

B. CONSIDERATION OF MOTION APPROVING CLAIMS AND CHECKS DATED NOVEMBER 15, 2019, NOVEMBER 17, 2019, AND DECEMBER 2, 2019 AND NECESSARY PAYMENTS THROUGH DECEMBER 2, 2019

- C. CONSIDERATION OF RESOLUTION APPROVING SILICON VALLEY CLEAN WATER STANDARD CONTRACT DOCUMENTS, VERSIONS DECEMBER 2019.

Proposed Action:

Move adoption of RESOLUTION APPROVING SVCW'S STANDARD LONG-FORM STANDARD CONTRACT SPECIFICATIONS, SHORT-FORM STANDARD CONTRACT SPECIFICATIONS AND STANDARD PROCUREMENT CONTRACT DOCUMENTS - VERSIONS DECEMBER 2019

- E. CONSIDERATION OF MOTION APPROVING RECEIPT OF SILICON VALLEY CLEAN WATER BASIC FINANCIAL STATEMENTS AND AUDITOR'S REPORTS FOR FISCAL YEAR 2018-19

Proposed Action:

Move approval of RECEIPT AND ACCEPTANCE OF BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR YEAR ENDED JUNE 30, 2019

- F. CONSIDERATION OF RESOLUTION APPROVING SALE OF REAL PROPERTY OWNED BY SILICON VALLEY CLEAN WATER

Proposed Action:

Move adoption of RESOLUTION APPROVING SALE OF CERTAIN HEREIN DESCRIBED REAL PROPERTY AND AUTHORIZING EXECUTION OF ALL DOCUMENTS NECESSARY AND APPROPRIATE FOR SAID TRANSACTION (APN 057-133-010, -020, -030, -040, -050, -080)

Motion/Second: Mr. Lieberman / Mr. Olbert on Items 7A, 7B, 7C, 7E and 7F

The Motion carried by Unanimous Roll Call Vote

ITEM 8A

PRESENTATION ON RESCU PROGRAM STATUS INCLUDING POTENTIAL PROJECT CHANGES

Proposed Action:

Receive PRESENTATION ON RESCU PROGRAM STATUS INCLUDING POTENTIAL PROJECT CHANGES

Presentation was given by staff and received by Commissioners. Staff responded to questions throughout the presentation.

ITEM 8B

CONSIDERATION OF RESOLUTION APPROVING CONTRACT CHANGE ORDER TO THE RESCU PROGRAM FRONT OF PLANT PROJECT (CIP #9502)

Proposed Action:

Move adoption of RESOLUTION AUTHORIZING THE SILICON VALLEY CLEAN WATER MANAGER TO APPROVE CONTRACT CHANGE ORDERS FOR THE FRONT OF PLANT PROJECT IN AN AMOUNT NOT TO EXCEED \$5,375,000.

Motion/Second: Mr. Olbert / Mr. Otte

The Motion carried by Unanimous Roll Call Vote

ITEM 9

CLOSED SESSION

Closed Session was called to order at 9:22 a.m.

ITEM 10

RECONVENE IN CLOSED SESSION

Open Session reconvened at 9:42 a.m.

Ms. Fitzgerald reported as to Agenda Item 9A no reportable action was taken and direction was given to staff.

ITEM 11

ADJOURN

There being no further business, the meeting adjourned at 9:43 a.m.

Minutes prepared by Teresa A. Herrera
Reviewed by General Counsel

Mark Olbert, Secretary

AGENDA ITEM 7B

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SVCW WARRANT REGISTER

SVCW Warrant Register dated December 2, 2019 – December 17, 2019 and December 18, 2019 – December 30, 2019, were scanned and a copy was emailed to Commissioners and Legal Counsel on January 16, 2020.

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AGENDA ITEM 7C

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**CONTROL BUILDING HVAC IMPROVEMENTS (PROJECT #259)
FINAL PROJECT ACCEPTANCE**

ISSUE

Final Acceptance of Construction Contract for the Control Building HVAC Improvements Project and Authorization to File Notice of Completion

BACKGROUND

On September 16, 2015, SVCW Information Systems (IS) Division staff became aware of a failure of the Uninterruptable Power Supply (UPS) units that provide backup power to all IS network hardware. The Manager declared an emergency condition to essential facilities while staff and consultants worked diligently to remedy the issues.

After intense investigations, many meetings and consultation with specialists in data center configurations, SVCW staff identified a plan for resolving the issues and preventing future failures of the IS system. The plan consisted of the following:

1. Purchase and install a new Nimble Storage Array.
2. Purchase and install two redundant UPS units fed from two independent power supplies.
3. Modify the HVAC system to the Control Building, changing the location of the air intake to a less corrosive area of the plant and adding scrubber capacity.

Item 1 was completed shortly after the emergency was declared.

Item 2 was completed in March 2017 where two new UPS units were installed in the server room within the Control Building.

Item 3 included an interim step to improve air quality in the server room by installing a Purafil® scrubber unit and was completed in April 2017. The emergency condition was removed at the March 2018 Commission meeting and a project to address the overall control building HVAC deficiencies was approved. In May 2018, CDM-Smith completed design of a new HVAC system.

DISCUSSION

The project addressed overall Control Building HVAC deficiencies by relocating the air intake from the main treatment process deck to the control building roof and changed the pressurization of the building to a positive pressure; both help prohibit the corrosive plant air from entering the building. Additionally, new system sensors and programming were integrated into the building's automatic temperature control system.

The construction documents were completed by CDM-Smith and the bid documents were publicly advertised on May 29, 2018. A mandatory pre-bid meeting was held at SVCW on Wednesday, June 13, 2018. Bids were due on Thursday, July 26, 2018 and two bids were received. Rodan Builders submitted the lowest responsible bid in the amount of \$685,694 and the Commission awarded the contract to Rodan Builders on August 23, 2018.

Notice to Proceed was issued on September 21, 2018 and construction commenced. Rodan Builders installed a new outside air fan, moved the air intake to the control building roof, installed monitoring devices, and updated the building management system programming. Due to the absence of a scrubber media monitoring system that could work on the existing configuration, a portion of work was removed from the project and a credit of \$25,375 with a no-cost time extension was issued. This was the only change order to the project. Substantial Completion was issued on November 21, 2019; the Substantial Completion Certificate is attached. Rodan Builders is a cooperative and responsible contractor and their work quality excellent.

FINANCIAL IMPACT

Funds for the project come from Capital Project #259 with a budget of \$1,401,102. As of July 2018, \$616,328 had been spent on Items 1 and 2 listed above, the interim step noted for Item 3, and design services for this HVAC upgrade project. The remaining funds were included in SVCW Fund 14 – Capital Expenditures Budget, in an amount of \$784,774. The project construction cost totaled \$660,319.

RECOMMENDATION

Move approval of MOTION TO ACCEPT THE CONTROL BUILDING HVAC IMPROVEMENTS (PROJECT #259) AND AUTHORIZE FILING NOTICE OF COMPLETION – RODAN BUILDERS

**Silicon Valley Clean Water
Control Building HVAC Improvements Project
SUBSTANTIAL COMPLETION CERTIFICATE**

The following portions of the Control Building HVAC Improvements Project are accepted as Substantially Complete in accordance with Specification Section 00700-8.6, 00800-1.5 as defined herein.

As of November 21, 2019 these portions of the Project are accepted:

1. All work on the Project except as noted below:
 - a. All work on the attached Punch List, dated November 21, 2019.

As of the above dates the following responsibilities are agreed to:

1. Authority:
 - a. The Authority assumes responsibility for security, maintenance (except as noted below), heat, utilities, damage to the Work (except as caused by the Contractor's actions) and insurance for the facilities.
2. Rodan Builders, Inc.:
 - a. The Contractor shall maintain and provide proof of insurance as required by Specification Section 00800-3.1.4 for all work required to complete the Punch List and for five (5) years following Final Completion as required by Specification Section 00800-3.2 or as otherwise referenced in the technical specifications.
 - b. The Contractor shall be responsible for repairs or maintenance, as necessary, until the Contractor has submitted, and the Authority has accepted all Record Documents and Operation & Maintenance Manuals.
 - c. The Contractor shall work in an expeditious manner to the complete the remaining work and administrative requirements on the Project including the items on the Punch List, dated November 21, 2019 within sixty (60) days from the date of this certificate.

This Certificate does not constitute an acceptance of Work not in accordance with the Contract Documents nor is it a release of Contractor's obligation to complete the Work in accordance with the Contract Documents. The one year (365 Calendar Days) warranty for the accepted Work shall commence per Specification Section 01740-1.0 on the date of Acceptance by Silicon Valley Clean Water.

The undersigned hereby acknowledge agreement to the above provisions:

Contractor: Rodan Builders, Inc.

Construction Manager: Tanner Pacific, Inc.

By: 

Juan Herrera

By: 

William Tanner, P.E.

Title: Project Manager

Title: Construction Manager

Date: 1/6/20

Date: 1/6/20

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AGENDA ITEM 7D

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**RESCU PROGRAM – PROGRAM MANAGEMENT (CIP #9500)
TASK ORDER AMENDMENT TO RGM KRAMER**

ISSUE

Approve Task Order Amendment to the RESCU Program's Compliance Monitoring Services by RGM Kramer

BACKGROUND

Projects being undertaken within the RESCU Program are partially funded through loans from the State Revolving Fund (SRF) and Water Infrastructure Finance and Innovation Act (WIFIA). Based on requirements of these funding programs, construction is subject to Skilled Trade Workforce compliance processing and reporting, including state and federal prevailing wage laws and regulations such as the Davis-Bacon Acts (DB Act).

Such laws and regulations include, among other things, the requirement for SVCW to inform contractors of their prevailing wage obligations, monitoring compliance by obtaining and reviewing certified payroll reports, conducting on-site visits while workers are employed on the project, regularly interviewing workers, investigating complaints and other suspected violations, and taking appropriate enforcement action whenever violations are found. Typically, it is the higher standard of the DB Act or California Labor Code which will be enforced, including prevailing wage rates.

Additionally, the State of California enacted the 2018 California Consumer Privacy Act (CCPA) that created new requirements related to the access to, deletion of, and sharing of personal information that is collected by businesses. The submittal of prevailing wage documentation includes personal information. If SVCW is not in full compliance with state and federal workforce compliance, funding received could be rescinded.

Based on the complexity and criticality associated with understanding and ensuring compliance with the State and Federal labor compliance laws, SVCW hired RGM Kramer ("RGMK") in July 2018 for a period of one-year to perform all activities associated with SVCW's prevailing wage monitoring and enforcement activities. Their work efforts have included job monitoring, certified payroll monitoring, compliance enforcement, database management and reporting, and reviews and audits.

DISCUSSION

In the one-year contract with RGMK, the budget approved for the work was \$71,270. Their scope of work covered labor compliance services for the Front of Plant (FoP) and Gravity Pipeline (GP) projects. RGMK used this initial budget to accomplish 18 months of work instead of the originally planned 12 months duration. The primary reason budget was able to be extended was that there was very little construction occurring during the initial 6 months of the RGMK agreement. The bulk of the construction for both projects began in early 2019.

To enable RGMK to continue their services through the end of the RESCU program, a task order amendment is required. The scope of work will expand to include the pump

stations improvement project and will extend to mid-2023, or three and a half additional years. Staff has negotiated the budget for the expanded scope of work in the amount not-to-exceed \$475,000. The budget is estimated by using past expenditures plus budget to cover the pump stations improvements (which is the most complex of the three RESCU projects), adding a contingency amount, and accounting for higher-level work effort for project closeout. Work will be billed on a time and expense basis.

FINANCIAL IMPACT

Funds for this task order amendment derive from the RESCU program management services (CIP #9500) and have been included in the RESCU budget.

RECOMMENDATION

Move approval of TASK ORDER AMENDMENT SCOPE OF WORK AND BUDGET FOR COMPLIANCE MONITORING SERVICES FOR THE RESCU PROGRAM (CIP #9500) IN AN AMOUNT NOT TO EXCEED \$475,000 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – RGM KRAMER INCORPORATED

AGENDA ITEM 7E

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**EMERGENCY ROAD REPAIR
DUAL MEDIA FILTER FEED LINE LEAK (PROJECT #313)
PURCHASE ORDER CONTRACT**

ISSUE

Authorization of Purchase Order Contract for Emergency Roadway Repairs in the West Access Road associated with Dual Media Filter Line Emergency Repairs Project (Project #313)

BACKGROUND

On November 7, 2019 SVCW staff learned of and identified a leak originating from under the West Access Road pavement across from the Dual Media Filter (DMF) structure. To confirm the source of the leak, staff placed dye into the DMF wet pit, a suspected source, and monitored the flow of colored water from under the pavement on the West Access road, confirming staff's suspicions of the source.

As part of the investigation of the water leak, staff noticed soil washing out from under the asphalt along with the water running under and atop the roadway. The West Access Road is a primary route for heavy chemical truck deliveries, construction equipment, and vehicular traffic. The SVCW Manager declared an emergency associated with the pipeline leak, the DMF Feed Pipe was taken out of service, and the roadway was closed to through traffic until repairs could be made to address damage to the road base and asphalt.

DISCUSSION

The DMF influent pumps discharge into a 66-inch steel pipe to feeding the filtration process. It was decided by SVCW to hire Power Engineering Construction. (PEC) to send a diver into the pipeline after the pumps were isolated and before the line was drained to identify the location of the leak. The diver located a 6-inch hole in the pipeline approximately midway the length of the pipe. A temporary repair was made to seal the hole and to allow for draining the pipeline for further inspection.

PEC drained and entered the pipe to clean and inspect the pipe interior and to take pipe-thickness measurements to determine if there were structural failures in the pipeline. During the internal inspection, PEC discovered a total of 4 holes ranging in sizes from 6-inch to 2-inch. The pipeline thickness measurements for the rest of the pipe appears to be consistent with the specified pipe thickness.

The voids behind each of the pipe holes were sealed with grout by PEC workers. Steel plates fabricated to cover the holes were welded to the interior of the steel pipe, and coated with an epoxy-based coating for corrosion control. The pipeline was secured and placed back into service on December 18, 2019. One item of work remains on the pipeline: coating the welded access ports attached to the above-grade portion of DMF Feed Pipe. Quotes for this work are being gathered and work is estimated to be less than \$10,000.

To address the roadway repairs, staff requested bids from three qualified contractors, Power Engineering Construction, Shea/Parsons, and Andreini Brothers, Inc. The work includes excavating the roadway to a depth of 3 feet (or deeper if more material had sloughed away due to the original leak) to ensure a stable foundation for the new asphalt, repairing the curbs, and re-building the pedestrian pathways. Andreini Brothers provided the lowest quote for the work in the amount of \$98,500. Andreini Brothers has performed work for SVCW in the past and is a highly reputable contractor providing excellent work product. Work will begin upon issuance of the purchase order and is scheduled for completion by the end of February, weather permitting. Upon completion of the roadway and coating the pipe access ports, this project will be complete and the emergency condition closed.

FINANCIAL IMPACT

The contract price to perform this work is \$98,500. Funds for this effort will come from the project number created to track costs associated with the DMF Feed Pipe Leak (Project 313). Thus far \$316,810 has been expended on all aspects of this emergency condition.

RECOMMENDATION

Move approval OF PURCHASE ORDER CONTRACT FOR ROADWAY REPAIRS (PROJECT #313) IN AN AMOUNT NOT TO EXCEED \$98,500, AUTHORIZE MANAGER TO EXECUTE SAID PURCHASE ORDER CONTRACT AND APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – ANDREINI BROTHERS, INC.

AGENDA ITEM 7F

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**MEMORANDUM OF UNDERSTANDING WITH
GENERAL EMPLOYEE BARGAINING UNIT**

ISSUE

Approval of Side Letter of Agreement between Silicon Valley Clean Water and Stationary Engineers, Local 39

BACKGROUND

In April 2016, CalPERS made a determination and issued findings to SVCW that the cost of laundering and maintaining uniforms should be reported to CalPERS for purposes of determining pension benefits for Classic members. SVCW appealed the decision based on the fact that uniforms are laundered for health and safety reasons. This matter was reported to the Commission at their meeting held May 20, 2019 and the Commission authorized staff to enter into settlement negotiations with CalPERS.

In August 2019 SVCW entered into a settlement agreement with CalPERS and agreed to report and pay contributions on the cost of laundering and maintaining certain pieces of clothing identified by CalPERS for the period of July 1, 2014 through June 30, 2019. Under the agreement, SVCW agreed to pay the employer and employee contributions for that period. The total amount paid by SVCW is \$9,358.

DISCUSSION

The settlement agreement with CalPERS is conditioned upon SVCW and Local 39 reaching agreement on the terms of the settlement agreement and for the reporting of the value of laundering and maintaining uniforms on and after July 1, 2019. Such agreement is noted in a side letter to the five-year Memorandum of Understanding (MOU) effective July 1, 2018 through June 30, 2023 between SVCW and Stationary Engineers, Local 39 (Local 39).

The side letter has been drafted and signed by the SVCW Manager and Local 39 representatives. It notes, effective July 1, 2019, that SVCW will report the value of uniform maintenance to CalPERS as special compensation for CalPERS Classic members and that the estimated amount for such special compensation is \$29.00 bi-weekly.

Adoption of the side letter needs to be approved and adopted by SVCW's governing body (Commission) in accordance with public meeting laws. The side letter is attached.

RECOMMENDATION

Move adoption of RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF SIDE LETTER AGREEMENT MODIFYING THE MEMORANDUM OF UNDERSTANDING BETWEEN SILICON VALLEY CLEAN WATER AND STATIONARY ENGINEERS, LOCAL 39

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**Side Letter of Agreement
Between
Silicon Valley Clean Water
And
Stationary Engineers, Local 39**

This side letter memorializes an agreement reached between Silicon Valley Clean Water ("SVCW") and Stationary Engineers, Local 39 ("Local 39") to add language to the 2018-2023 Memorandum of Understanding ("MOU") between the parties. All other terms and conditions of the existing MOU shall remain in full force and effect. SVCW and Local 39 agree to the following addition to the MOU so that the following text is added to Section 15:

15.2 Uniform Maintenance

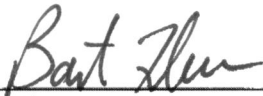
SVCW and Local 39 agree that the approximate value to employees of SVCW maintaining and laundering uniforms, excluding lab coats, gloves, rain gear, safety goggles or face masks, respirators, hearing protections, hard hats, aprons, and other protective and safety gear is \$29.00 bi-weekly. Effective July 1, 2019, to the extent required by CalPERS, SVCW will report the value of uniform maintenance to CalPERS as special compensation for CalPERS classic members.


SVCW and Local 39 agree to incorporate the above language into the 2018-2023 MOU.


It is understood that this side letter of agreement is of no force and effect whatsoever until the SVCW Commission adopts the side letter.

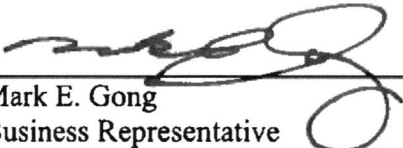
Dated: December 30, 2019

For Stationary Engineers, Local 39

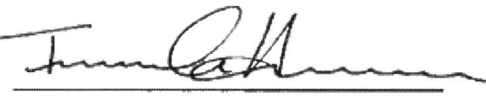

Bart Florence
Business Manager


Stahly Robert Aldrich
President


Steve Crouch
Director of Public Guidance


Mark E. Gong
Business Representative

For SVCW


Teresa Herrera
Manager

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AGENDA ITEM 7G

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**MASTER SERVICES AGREEMENT
INTEGRAL GROUP, INC.**

ISSUE

Approval of Master Services Agreement and Task Order with Integral Group, Inc. for Building Mechanical Systems (also known as Heating, Ventilation, and Air Conditioning or HVAC) Consulting Services

BACKGROUND

While most of the structures at SVCW are of an industrial nature, SVCW has some buildings, including the Control and Laboratory Buildings that have continuous employee occupancy. These buildings have many of the features of standard office buildings; however, they are unique as they are also subject to corrosive gases from the wastewater treatment process and to a marine environment from San Francisco Bay. Standard office construction and mechanical and electrical systems do not fare well in such environments and it is important to retain specialists who understand both wastewater and HVAC systems.

DISCUSSION

SVCW's Laboratory Building was built in 1993. With its HVAC system in service for over 25 years, the building mechanical system has exceeded its useful life and is exhibiting signs of failure. Specialized laboratory equipment (such as fume hoods) require a complex control system to maintain positive air pressure in the building (positive air pressure in the building pushes air out versus negative air pressure which pulls air in). SVCW laboratory staff have reported multiple system malfunctions and equipment failure due to corrosive air entering the building.

SVCW staff conducted a search for a consulting firm that specializes in industrial building mechanical systems and has identified Integral Group, Inc (Integral) as a competent firm to provide services. Integral Group has extensive experience in industrial building system design and will serve as a great resource for ongoing building mechanical system designs. Integral performed an initial assessment of the Laboratory Building and developed a plan for rehabilitation of the HVAC system and the system's electrical components.

Prior to contracting with Integral Group, a Master Services Agreement is needed. Staff has negotiated a scope of work and budget for the design of the rehabilitation of the Laboratory Building HVAC system in the amount not-to-exceed \$102,000. Work can begin immediately upon task order approval and design will be completed within four months. After the design is complete, the project will be publicly advertised for bids and staff will return to the Commission with a recommendation to award the construction contract and to approve a task order to Integral for Engineering Services During Design.

FINANCIAL IMPACT

Funding for the design will be paid from the Laboratory HVAC Rehabilitation project (CIP #9251) which has an allocated budget of \$2,300,000. Integral Group's design fee is 5%

of the estimated construction cost which is well below the typical industry design fee (8 to 10% of estimated construction cost). Currently no money has been spent on this project.

RECOMMENDATION

- i. Move adoption of RESOLUTION APPROVING MASTER SERVICES AGREEMENT FOR BUILDING MECHANICAL SYSTEM CONSULTING SERVICES WITH INTEGRAL GROUP INC.
- ii. Move approval of TASK ORDER SCOPE OF WORK AND BUDGET FOR ENGINEERING DESIGN SERVICES FOR LABORATORY BUILDING HVAC REHABILITATION (CIP #9251) IN AN AMOUNT NOT TO EXCEED \$102,000 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – INTEGRAL GROUP INC.

AGENDA ITEM 7H

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**GRAVITY PIPELINE PROJECT
CONTRACT CHANGE ORDER FOR TARIFFS AND DUTIES**

ISSUE

Authorize Contract Change Order to Gravity Pipeline Project to Cover Added Costs from Duties on Chinese Steel.

BACKGROUND

The Commission has previously approved Stage 2 amendments to the Design-Build Agreements for the Gravity Pipeline Agreement with Barnard-Bessac Joint Venture (BBJV). There were two Stage 2 amendments to allow early work packages and early purchase of the Tunnel Boring Machine to begin while other aspects of the design were being completed. Amendment 2B was approved in November 2018 to cover all work to complete design and construction for the project and was negotiated as a lump sum contract, intended to be all-inclusive through the end of the project.

In May and October 2019, the Commission authorized Contract Change Orders to account for a 0.5% increase in sales tax for Redwood City and an additional 0.5% increase in sales tax for San Mateo County, respectively. Both of these tax increases were not anticipated nor included in the negotiated costs for the Gravity Pipeline project, as they went into effect after the Stage 2B amendment was negotiated and approved.

DISCUSSION

RESCU is partially funded through a Federal loan (WIFIA) and SVCW is working to secure a State loan (SRF), which has federal money as its source of funds. One requirement of federal money is that projects must comply with the American Iron and Steel (AIS) provisions of the loan programs. These provisions require that most of the steel or iron products purchased for the project be produced in the United States. One exception to the AIS provisions is for “temporary” steel. Items that are used during the construction project but are removed from the site before the construction is complete (i.e., temporary) is exempt from AIS provisions and can be purchased from non-domestic sources.

The Gravity Pipeline Project includes several fabricated steel items that are considered temporary under the AIS provisions. These include structural forms and rails used to help support and align the Tunnel Boring Machine. Since these elements are necessary for construction but will not remain in the ground as part of the final infrastructure, they are not subject to AIS requirements. BBJV contracted with a Hong Kong-based company for fabrication and shipment of these steel items.

In July 2019, the United States federal government imposed a 32.64% anti-dumping duty on fabricated structural steel from China. This duty had not been announced and was not included as an expense at the time of the Stage 2B agreement negotiation; the additional cost is not the responsibility of the contractor to bear.

BBJV submitted their purchase orders, customs paperwork, and invoices in support of the cost analysis. The paperwork was reviewed by SVCW's Owner Advisor staff, resulting in a recommended contract change order of \$111,568.

FINANCIAL IMPACT

The contract change order is a .05% increase to the contract amount and is included in the new budget amounts for the RESCU Program. When comparing the US steel products versus the non-domestic source-with-duties costs, the non-domestic source is still less expensive by approximately \$260 thousand.

RECOMMENDATION

Move adoption of RESOLUTION AUTHORIZING THE SILICON VALLEY CLEAN WATER MANAGER TO APPROVE CONTRACT CHANGE ORDER FOR THE GRAVITY PIPELINE PROJECT IN THE AMOUNT OF \$111,568 – BARNARD-BESSAC JOINT VENTURE

AGENDA ITEM 7I

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**NEW 12KV SWITCHGEAR PROJECT (CIP #9807)
CONTRACT CHANGE ORDER****ISSUE**

Authorize Contract Change Order to New 12kV Switchgear Project (CIP #9807)

BACKGROUND

Electrical utility power for the SVCW treatment plant was previously provided from a single 12kV Pacific Gas and Electric Company (PG&E) connection located near the old plant entrance. This PG&E power service entered the plant's main 12kV switchgear where it was metered and then distributed to all plant electrical loads.

On March 8, 2018, the Commission awarded a construction contract to Shea-Parsons Joint Venture (SPJV) for the new 12kV Switchgear Project (CIP #9807). The new 12kV switchgear was successfully installed and placed in service in September of last year and is now the main source of power for the treatment plant. The new 12kV switchgear meets the following objectives for SVCW:

- Expands the Plant's power delivery system to meet new electrical demands of the Front of Plant Project,
- Adds redundancy to the Plant's electrical system,
- Allows connections for onsite electrical generation and storage facilities,
- Allows for SVCW to export excess generated power to the utility grid,
- Moves this critical infrastructure to above flood-plain levels.

Typically, PG&E does not allow two service connections to a property at the same time. To have avoided two service connections while constructing the project, SVCW would have had to run the plant on rental generators throughout the construction period. Using rental generators would not only have been disruptive to Plant operations, it would have also been very expensive. SVCW staff managed to work with PG&E to temporarily allow two independent service connections on the condition that at the end of construction, the second service would be removed. This arrangement allowed SVCW to complete most of the construction without any major power disruption and renting generators for only a week.

Since the new 12kV switchgear was energized in September 2019, SVCW has two independent service connections serving the Plant. To abide by the agreement made with PG&E, the second service connection needs to be removed. To remove the old service connection, SVCW needs to provide a "tie" (PMV-Tie) between the two switchgear which will provide redundancy to the plant electrical system.

DISCUSSION

Construction contract documents called for using an existing conduit between the old and new switchgear to provide the PMV-Tie connection. During construction, the contractor was unsuccessful in installing the PMV-Tie conductors through the existing conduit. Engineering review determined that there were too many bends in the existing

conduit installation to successfully perform the installation. The project team looked at alternatives - including routing new conduit around the problematic portion of conduit - but determined the cost and complexity of replacing a portion of in-service concrete-encased ductbank was too high. The Engineer-of-Record subsequently provided a new design to install a new 6-inch conduit and ductbank between the two switchgears for the PMV-Tie conductors. The design also includes an additional 2-inch conduit in the new ductbank for future fiber optic connections.

Staff negotiated costs with SPJV to install a new conduit and ductbank as designed by the Engineer-of-Record and recommends approving a contract change order to the 12kV Switchgear project to SPJV in the amount of \$198,480. There is no additional contract time included in this change order work.

FINANCIAL IMPACT

Work under this project will be funded from the project New 12kV Primary Switchgear project (CIP #9807), which has an allocated capital budget of \$11.3 million. The contract value at the time of contract award to SPJV was \$7,527,000. Previous change orders have been issued, which has brought the total change order percentage to 6.81%. With the approval of this contract change order, the total contract value will be \$8,238,347. As of December 2019, approximately \$9,687,000 has been expended on design, construction, and administrative tasks.

RECOMMENDATION

Move approval of CONTRACT CHANGE ORDER FOR NEW 12KV SWITCHGEAR PROJECT (CIP #9807) IN THE AMOUNT OF \$198,480 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – JF SHEA/PARSONS JOINT VENTURE

AGENDA ITEM 8A

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**SILICON VALLEY CLEAN WATER
INVESTMENT POLICY AND GUIDELINES**

ISSUE

Review and Update Silicon Valley Clean Water Investment Policy and Guidelines

BACKGROUND

All investments of funds are governed by California Government Code Section 53600, et seq and by SVCW's Investment Policy. The Investment Policy serves as a strategic guide for planning, implementation, and oversight of investments. In July 1992, SVCW adopted an Investment Policy and Guidelines (Policy No. 1992-01, or "the Investment Policy") to formally guide the investment of all surplus funds not required for immediate use by SVCW.

This item was presented to the Commission November 18, 2019. To allow Member Agencies time to review, staff was instructed to bring the item again for consideration.

DISCUSSION

The Investment Policy requires annual Commission review and approval of changes proposed by staff. Policy No. 1992-01 was last updated as Revision R at the June 17, 2019 Commission meeting. Those changes added specificity regarding pertinent government codes, incorporated standard industry practices, and clarified the role of PFM as investment advisor.

Staff proposes additional amendments as shown in the attached "redline" version of the policy. A "clean" copy with changes accepted is also attached. Staff recommends certain qualifying criteria for selection of investment advisors. Other recommendations regarding permitted investment sectors are recommended by PFM and supported by staff. These changes will expand permitted investment language to include investment sectors as permitted by California Government Code. These sectors include Commercial Paper, Negotiable Certificates of Deposit (CDs), Asset-Backed Securities, and Supranationals.

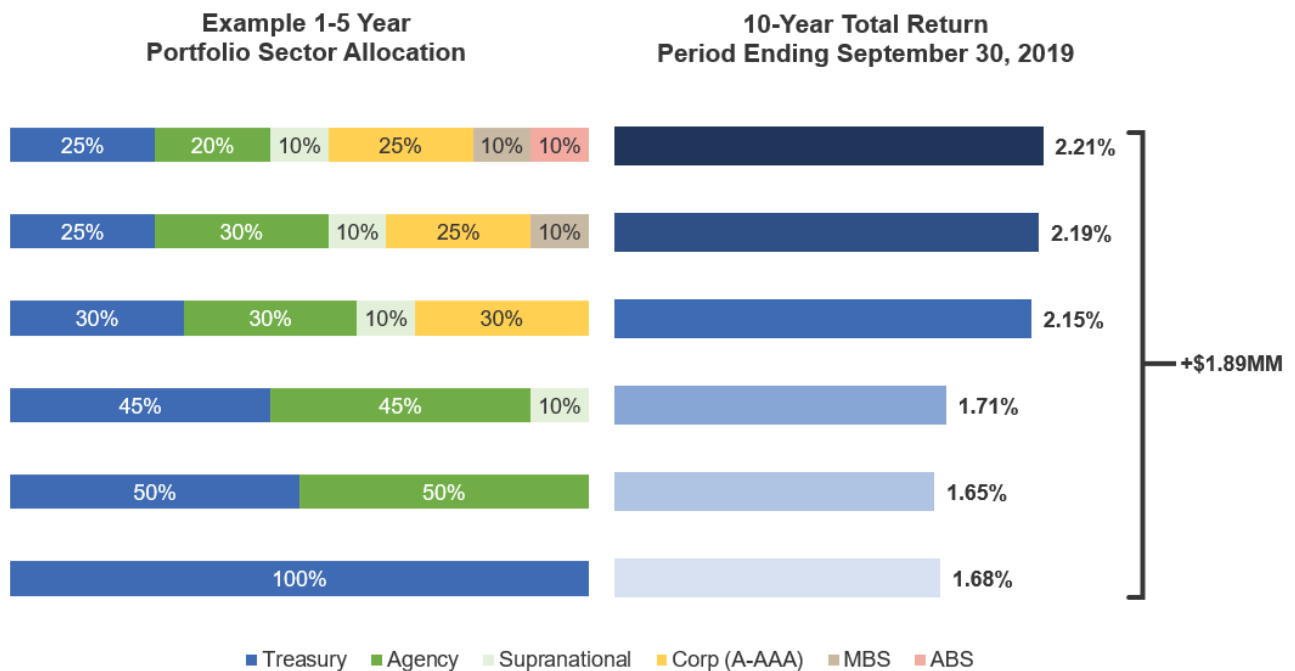
Adding investment sectors will diversify SVCW's investment portfolio, which is meant to balance between risk and return over time. This item was discussed with the Members' finance and technical staff on October 15, 2019, with suggestions that the policy emphasize the importance of capital preservation. Staff also presented the recommended changes to the WBSD Board in December. PFM and the Chief Financial Officer incorporated Members' suggestions into the proposed amendments to expand permitted investment allocations as shown in the table below. The SVCW Manager and CFO recommend the proposed changes be accepted, as diversification protects SVCW's capital to a greater extent than keeping all investments in a single sector and the possible increase in interest earnings is substantial. SVCW's CFO and portfolio manager from PFM will be available at the meeting to answer questions.

Sector	Gov't Code Max Permitted Allocation	SVCW's Current Max Allocation Sector / Issuer	Recomm. Max. Allocation Sector / Issuer	SVCW's Current Rating Required	Recomm. Rating Required
Commercial Paper	25%	0%	15% / 5%	N/A	A-1 / P-1 / F-1
Negotiable CDs	30%	0%	15% / 5%	N/A	A / A-1
Asset-Backed Securities	20%	0%	10% / 5%	N/A	AAA
Supranationals	30%	0%	15% / 15%	N/A	AA

FINANCIAL IMPACT

The proposed changes to the Investment Policy will enable SVCW's investment advisor, PFM, to diversify the investment portfolio and potentially improve long-term returns with the fundamental objective of preserving principal. There is no direct cost to the proposed changes.

The changes will provide additional safety to SVCW's investments due to diversification and could equate to an additional \$1.89 million in return over a ten-year period.



Source: Bloomberg as of September 30, 2019. Example portfolio returns are based on the ICE BofAML 1-5 Year indices except for Mortgage- and Asset-Backed Securities, which use 0-5 Year indices and are annualized for trailing periods longer than one year. Incremental earnings of \$1.89 million are based on a \$30 million initial investment amount compounded over the ten year time horizon analyzed. Past performance does not necessarily reflect and is not a guaranty of future results

RECOMMENDATION

Move adoption of RESOLUTION APPROVING AND ADOPTING REVISION "S" TO ADMINISTRATIVE POLICY 1992-01 ESTABLISHING SILICON VALLEY CLEAN WATER'S INVESTMENT POLICY AND GUIDELINES

Rev: **RS**

Rev Date:

1/27/20 Issue Date: 7/20/92

Approved by the SVCW Commission at the Meeting held on January 27, 2020 by Resolution No. SVCW 20-04

SUBJECT: Silicon Valley Clean Water Investment Policy and Guidelines

PURPOSE:

The purpose of this Investment Policy (the “Policy”) is to establish the investment policy and guidelines to be followed in the investment of all Silicon Valley Clean Water (“SVCW” or the “Authority”) surplus funds not required for immediate use by SVCW. All investment of such surplus monies is governed by California Government Code Section (CGC) 53600, et seq. and by the Policy.

To the extent possible, all money belonging to or in the custody of SVCW required for the immediate use of the Authority shall be deposited for safekeeping pursuant to relevant CGC sections, including Sections 53635.2, 53637-53645 and 53649.

SCOPE:

This Policy applies to all funds and investment activities of the Authority except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

RESPONSIBILITIES:

The Chief Financial Officer (CFO) shall have the responsibility of investing all Authority surplus funds in accordance with this Policy, providing regular investment reports to the Commission (as described in more detail in Section X of this Policy), and allocating interest to each fund.

The SVCW Commission shall have the responsibility of annually reviewing the Investment Policy and Guidelines and approving proposed changes.

POLICY:

I. INTRODUCTION

Authority monies not required for immediate expenditure will be invested in compliance with governing provisions of law, the Joint Exercise of Powers Agreement establishing the Authority and this Policy.

Funds of the Authority will be invested in accordance with California Government Code Sections 53601 through 53686 and with sound treasury management.

Investments will be made in a range of instruments to ensure diversification of the Authority's portfolio and liquidity of assets.

II. STANDARD OF CARE

Prudence: All investments shall be made within the policy framework of liquidity and safety with the judgment and care which a prudent and intelligent person would, under circumstances then prevailing (including, but not limited to, the general economic conditions and the anticipated needs of SVCW), exercise in the management of his/her affairs. The standard of prudence to be used by investment officials will be the “prudent investor” standard, which states that “when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

Ethics: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with reporting requirements of applicable state laws including annual filing of Statements of Economic Interest.

III. OBJECTIVES The primary investment objectives of this policy in order of priorities are:

Safety: Safety of the principal shall be the top priority in consideration of any investment undertaken by the CFO. The portfolio shall be so diversified that the losses, if any, on particular securities shall be offset by the revenue generated from other investments. The Authority’s portfolio shall be actively managed. Therefore, securities may be sold prior to maturity if doing so would better align the portfolio with its selected performance benchmark, and/or increase the earnings potential or credit quality of the portfolio. The Authority shall seek to preserve principal by mitigating credit risk and market risk.

Credit risk: Defined as the loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the Authority's capital base and cash flow. In the event of a downgrade in credit after the date of purchase to a level below the minimum credit standards provided in the California Government Code, the CFO or his/her designee shall advise the Commission of the change at or before the next regular meeting. If the Authority has retained the services of an Investment Advisor, the Investment Advisor will notify the CFO of such a downgrade and will recommend a plan of action.

Market risk: Defined as market value fluctuations due to overall changes in the general level of interest rates, will be mitigated by structuring the investment portfolio so that securities mature to meet the cash requirements for ongoing operations, thereby limiting the need to sell securities prior to maturity.

Liquidity: The CFO shall keep the portfolio sufficiently liquid to meet the operating and capital needs of the Authority which can be reasonably anticipated from his/her experience of the Authority's operations and adopted budget. S/he shall also review the various construction and other contracts the Authority has entered into to anticipate the cash needs.

Return on Investment: Within the safety and liquidity constraints imposed by law and [the AuthoritySVCW](#)'s own safety objective and cash flow requirements, the investment portfolio shall be designed to attain the market rate of return.

IV. AUTHORIZATION TO INVEST AND DELEGATION OF AUTHORITY

The CFO shall have the authority to invest the funds of the Authority.

The CFO may delegate day-to-day investment decision-making and execution authority to an investment advisor. [Such investment advisor must have not less than five years' experience managing public agency funds subject to California Government Code and must have total public agency assets under management nationwide of at least \\$10 billion.](#) The rights and responsibilities delegated to an investment advisor must be in a written agreement. The investment advisor shall make all investment decisions and transactions in accordance with California Government Code and this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the CFO and approved by the SVCW Commission.

Investments of Authority monies not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided by Section 53601, et seq. of the California Government Code for the investment of public funds, except those expressly prohibited by this policy.

V. CASH FLOW AND AVAILABILITY

An amount equal to two weeks' cash flow requirements is to be maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund, money market funds, or similar liquid instruments.

VI. ACCEPTABLE INVESTMENT INSTRUMENTS

All investments must be made in accordance with this policy and the State of California Government Code Section 53600, et seq. In the case of a discrepancy between this Policy and California Government Code Section 53600, et seq., the more stringent requirements shall apply.

The Authority will limit investments in any one issuer except for obligations of the U.S. Treasury, U.S. federal agencies, U.S. government-sponsored enterprises, U.S. instrumentalities, and pooled funds (e.g., money market funds, local government investment pools, and LAIF) to no more than 5%, regardless of security type.

Where this section specifies a percentage limitation for a particular issuer or security type, that percentage is applicable only at the date of purchase. Credit criteria listed in this section refers to the credit rating category (inclusive of modifiers) at the time the security is purchased.

The Commission may, as part of a bond issuance, direct or authorize staff to invest bond proceeds in investment instruments authorized by the California Government Code that are not contained within this policy.

The Authority's investment portfolio may include the following instruments:

1. **U.S. Treasury Obligations.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. **U.S. Federal Agency Obligations.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. **California State and Local Agency Obligations.** Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by ~~two~~a Nationally Recognized Statistical Rating Organizations ("NRSROs"). Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.
4. **Other State Obligations.** Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by an NRSRO. Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.

No more than 30% of the Authority's portfolio may be invested in California State and Local Agency Obligations (subsection 3 above) and Other State Obligations, collectively.

- 4.5. **Medium-Term Notes.** Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S. medium-term notes must be rated "A," its equivalent, or better by an NRSRO. No more than 30% of the Authority's portfolio may be invested in medium-term notes.
- 5.6. **Bank Deposits.** Funds may be deposited in federally-insured or collateralized bank deposits to include, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time deposits. To be eligible to receive deposits from the Authority, the financial institution must be located in California and comply with the requirements listed in Government Code Section 53630 et. seq. The CFO, at his/her discretion, may waive the collateralization requirements for any portion that is insured by the Federal Deposit Insurance Corporation or by the National Credit Union Administration. The Authority shall have a signed agreement with any depository accepting Authority funds per Government Code Section 53649. The final maturity of time deposits may not exceed five years. There is no limit on the percentage of the Authority's portfolio that may be invested in bank deposits. However, a maximum of 50% of the Authority's portfolio may be invested in time deposits.
- 6.7. **State of California's Local Agency Investment Fund (LAIF).** The State Treasurer established LAIF for the benefit of local agencies. The Authority may invest up to the maximum amount permitted by the State Treasurer.

7.8. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies will either:

- Attain the highest ranking letter or numerical rating provided by not less than two of the three largest NRSROs *or*
- Have an Investment Advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of five hundred million dollars (\$500,000,000).

No more than 20% of the Authority's portfolio may be invested in money market funds.

8.9. Shares of a Joint Powers Authority (JPA). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, of Government Code Section 53601. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- 1) The adviser is registered or exempt from registration with the Securities and Exchange Commission, *and*
- 2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive of California Government Code Section 53601, *and*
- 3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

10. Commercial Paper. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

- 1) The entity meets the following criteria:
 - a. Is organized and operating in the United States as a general corporation;
 - b. Has total assets in excess of five hundred million dollars (\$500,000,000); and
 - c. Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.
- 2) The entity meets the following criteria:
 - (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company;
 - (B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 15% of the Authority's portfolio may be invested in commercial paper.

11. Negotiable Certificates of Deposit. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. The legislative body of the Authority and the treasurer or other officials of the Authority having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, a person with investment decision making authority employed by the investment advisor, if so engaged, or a person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. Eligible negotiable certificates of deposit shall have a maximum remaining maturity of five years or less and shall be rated in a rating category of "A" for long-term, "A-1" for short-term, their equivalent, or better by an NRSRO.

No more than 15% of Authority's portfolio may be invested in negotiable certificates of deposit.

12. Asset-Backed Securities (ABS). A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AAA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less.

No more than 10% of the Authority's portfolio may be invested in these asset-backed securities.

13. Supranationals. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO.

No more than 15% of the Authority's portfolio may be invested in these specific supranational obligations.

VII. PROHIBITED INVESTMENTS

The Authority shall not invest any funds in Repurchase Agreements (REPOS) or Reverse Repurchase Agreements (REVERSE REPOS). The Authority shall not purchase or sell securities on margin or invest in financial futures/financial options.

VIII. MAXIMUM MATURITY OF INVESTMENTS

Maturities will be based on a review of cash flow forecasts. Maturities will be scheduled to permit the Authority to meet all projected obligations. The purchase of U.S. Treasury obligations, U.S. federal agency and government-sponsored enterprise (GSE) obligations, and California state and local agency obligations and other state obligations (subsections VI. 1, 2, 3,

and 4 above) with maturities in excess of five years is permitted, subject to the following constraints: U.S. Treasury, federal agency/GSE, and California state and local agency obligations and other state obligations shall have a maximum remaining maturity at time of purchase of eleven years or less, and federal agency/GSE mortgage-backed securities (including pass-throughs and CMOs) shall have a maximum remaining average life of ten years or less. This change to the investment program was authorized at the June 17, 2019 meeting of the SVCW Commission.

IX. BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The CFO, or his/her designee, will maintain a list of financial dealers and institutions qualified and authorized to transact business with the Authority.

The purchase by the Authority of any investment, other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, who is a member of Financial Industry Regulatory Authority (FINRA), or a member of a federally-regulated securities exchange, a National- or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The CFO shall annually send a copy of the current Investment Policy to all financial institutions and broker/dealers approved to do business with the Authority. Written confirmation of receipt of this Policy shall be considered evidence that the dealer understands the Authority's investment policies and intends to sell the Authority only appropriate investments authorized by this Investment Policy. Moreover, the Authority will execute an agreement with any broker/dealer prior to doing business with such.

If the Authority has retained the services of an Investment Advisor, the Investment Advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the Authority.

Purchase and sale of securities will be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, whenever possible.

X. REPORTS TO COMMISSION

On a quarterly basis, the CFO shall provide to the Commission a detailed investment report that shall include the following information: description of investment instrument, issuer name, maturity date, credit rating, interest rate, yield, purchase price, par value, book value, current market value and the source of the valuation. This report shall also state compliance of the portfolio with this Investment Policy, or manner in which the portfolio is not in compliance. The CFO shall also provide a list of monthly investment transactions.

XI. PERFORMANCE EVALUATION

The Authority's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. The benchmark for "market-average rate" shall be the rate of return of an appropriate market-based index which has a duration similar to that of the the Authority's portfolio(s), against which portfolio performance shall be compared on a regular basis.

XII. INTEREST ALLOCATION

Quarterly interest is to be allocated to each fund using the average rate of return and based on the average monthly cash balance for each fund. Residual interest earned will remain in the operations fund.

Funds with a negative cash balance will be charged interest using the average rate of return.

The Authority will further allocate the interest earned for each fund by entity. The interest earnings will be allocated based on the average monthly balance of each entity. The beginning balances for each entity will be taken from the audited financial statements of the previous year.

XIII. SAFEKEEPING OF SECURITIES

All marketable securities owned by the Authority shall be held in safekeeping by a third-party administrator (custody bank or trust department) acting as agent for the Authority under the terms of a custody or trustee agreement executed by the bank and the Authority. All securities will be received and delivered using the standard delivery versus payment (DVP) procedure.

XIV. INTERNAL CONTROL

The CFO is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the Authority are protected from loss, theft, or misuse. A CFO's office staff member who is not involved in the purchase of investments, wire transfers, or maintaining the general ledger shall be assigned the responsibility of reviewing and reconciling the monthly reports received from the investment advisor and custody bank. This review shall include, but not be limited to, reconciling the listing and amounts of each investment position and transaction.

Silicon Valley Clean Water

COMMISSION POLICY NO. 1992-01

APPROVED BY: _____

Revision: S

Revision Date: 1/27/2020

Issue Date: 07/20/1992

Approved by the SVCW Commission at the Meeting held on January 27, 2020 by Resolution No. SVCW 20-04

SUBJECT: Silicon Valley Clean Water Investment Policy and Guidelines

PURPOSE:

The purpose of this Investment Policy (the “Policy”) is to establish the investment policy and guidelines to be followed in the investment of all Silicon Valley Clean Water (“SVCW” or the “Authority”) surplus funds not required for immediate use by SVCW. All investment of such surplus monies is governed by California Government Code Section (CGC) 53600, et seq. and by the Policy.

To the extent possible, all money belonging to or in the custody of SVCW required for the immediate use of the Authority shall be deposited for safekeeping pursuant to relevant CGC sections, including Sections 53635.2, 53637-53645 and 53649.

SCOPE:

This Policy applies to all funds and investment activities of the Authority except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

RESPONSIBILITIES:

The Chief Financial Officer (CFO) shall have the responsibility of investing all Authority surplus funds in accordance with this Policy, providing regular investment reports to the Commission (as described in more detail in Section X of this Policy), and allocating interest to each fund.

The SVCW Commission shall have the responsibility of annually reviewing the Investment Policy and Guidelines and approving proposed changes.

POLICY:

I. INTRODUCTION

Authority monies not required for immediate expenditure will be invested in compliance with governing provisions of law, the Joint Exercise of Powers Agreement establishing the Authority and this Policy.

Funds of the Authority will be invested in accordance with California Government Code Sections 53601 through 53686 and with sound treasury management.

Investments will be made in a range of instruments to ensure diversification of the Authority's portfolio and liquidity of assets.

II. STANDARD OF CARE

Prudence: All investments shall be made within the policy framework of liquidity and safety with the judgment and care which a prudent and intelligent person would, under circumstances then prevailing (including, but not limited to, the general economic conditions and the anticipated needs of SVCW), exercise in the management of his/her affairs. The standard of prudence to be used by investment officials will be the “prudent investor” standard, which states that “when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

Ethics: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with reporting requirements of applicable state laws including annual filing of Statements of Economic Interest.

III. OBJECTIVES The primary investment objectives of this policy in order of priorities are:

Safety: Safety of the principal shall be the top priority in consideration of any investment undertaken by the CFO. The portfolio shall be so diversified that the losses, if any, on particular securities shall be offset by the revenue generated from other investments. The Authority’s portfolio shall be actively managed. Therefore, securities may be sold prior to maturity if doing so would better align the portfolio with its selected performance benchmark, and/or increase the earnings potential or credit quality of the portfolio. The Authority shall seek to preserve principal by mitigating credit risk and market risk.

Credit risk: Defined as the loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the Authority's capital base and cash flow. In the event of a downgrade in credit after the date of purchase to a level below the minimum credit standards provided in the California Government Code, the CFO or his/her designee shall advise the Commission of the change at or before the next regular meeting. If the Authority has retained the services of an Investment Advisor, the Investment Advisor will notify the CFO of such a downgrade and will recommend a plan of action.

Market risk: Defined as market value fluctuations due to overall changes in the general level of interest rates, will be mitigated by structuring the investment portfolio so that

securities mature to meet the cash requirements for ongoing operations, thereby limiting the need to sell securities prior to maturity.

Liquidity: The CFO shall keep the portfolio sufficiently liquid to meet the operating and capital needs of the Authority which can be reasonably anticipated from his/her experience of the Authority's operations and adopted budget. S/he shall also review the various construction and other contracts the Authority has entered into to anticipate the cash needs.

Return on Investment: Within the safety and liquidity constraints imposed by law and the Authority's own safety objective and cash flow requirements, the investment portfolio shall be designed to attain the market rate of return.

IV. AUTHORIZATION TO INVEST AND DELEGATION OF AUTHORITY

The CFO shall have the authority to invest the funds of the Authority.

The CFO may delegate day-to-day investment decision-making and execution authority to an investment advisor. Such investment advisor must have not less than five years' experience managing public agency funds subject to California Government Code and must have total public agency assets under management nationwide of at least \$10 billion. The rights and responsibilities delegated to an investment advisor must be in a written agreement. The investment advisor shall make all investment decisions and transactions in accordance with California Government Code and this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the CFO and approved by the SVCW Commission.

Investments of Authority monies not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided by Section 53601, et seq. of the California Government Code for the investment of public funds, except those expressly prohibited by this policy.

V. CASH FLOW AND AVAILABILITY

An amount equal to two weeks' cash flow requirements is to be maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund, money market funds, or similar liquid instruments.

VI. ACCEPTABLE INVESTMENT INSTRUMENTS

All investments must be made in accordance with this policy and the State of California Government Code Section 53600, et seq. In the case of a discrepancy between this Policy and California Government Code Section 53600, et seq., the more stringent requirements shall apply.

The Authority will limit investments in any one issuer except for obligations of the U.S. Treasury, U.S. federal agencies, U.S. government-sponsored enterprises, U.S. instrumentalities, and pooled funds (e.g., money market funds, local government investment pools, and LAIF) to no more than 5%, regardless of security type.

Where this section specifies a percentage limitation for a particular issuer or security type, that percentage is applicable only at the date of purchase. Credit criteria listed in this section refers to the credit rating category (inclusive of modifiers) at the time the security is purchased.

The Commission may, as part of a bond issuance, direct or authorize staff to invest bond proceeds in investment instruments authorized by the California Government Code that are not contained within this policy.

The Authority's investment portfolio may include the following instruments:

1. **U.S. Treasury Obligations.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **U.S. Federal Agency Obligations.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. **California State and Local Agency Obligations.** Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by a Nationally Recognized Statistical Rating Organizations ("NRSRO"). Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.
4. **Other State Obligations.** Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by an NRSRO. Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.

No more than 30% of the Authority's portfolio may be invested in California State and Local Agency Obligations (subsection 3 above) and Other State Obligations, collectively.

5. **Medium-Term Notes.** Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S. medium-

term notes must be rated "A," its equivalent, or better by an NRSRO. No more than 30% of the Authority's portfolio may be invested in medium-term notes.

6. **Bank Deposits.** Funds may be deposited in federally-insured or collateralized bank deposits to include, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time deposits. To be eligible to receive deposits from the Authority, the financial institution must be located in California and comply with the requirements listed in Government Code Section 53630 et. seq. The CFO, at his/her discretion, may waive the collateralization requirements for any portion that is insured by the Federal Deposit Insurance Corporation or by the National Credit Union Administration. The Authority shall have a signed agreement with any depository accepting Authority funds per Government Code Section 53649. The final maturity of time deposits may not exceed five years. There is no limit on the percentage of the Authority's portfolio that may be invested in bank deposits. However, a maximum of 50% of the Authority's portfolio may be invested in time deposits.
7. **State of California's Local Agency Investment Fund (LAIF).** The State Treasurer established LAIF for the benefit of local agencies. The Authority may invest up to the maximum amount permitted by the State Treasurer.
8. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies will either:
 - Attain the highest-ranking letter or numerical rating provided by not less than two of the three largest NRSROs *or*
 - Have an Investment Advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of five hundred million dollars (\$500,000,000).

No more than 20% of the Authority's portfolio may be invested in money market funds.

9. **Shares of a Joint Powers Authority (JPA).** Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, of Government Code Section 53601. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:
 - 1) The adviser is registered or exempt from registration with the Securities and Exchange Commission, *and*
 - 2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive of California Government Code Section 53601, *and*

- 3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

10. **Commercial Paper.** Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

- 1) The entity meets the following criteria:
 - a. Is organized and operating in the United States as a general corporation;
 - b. Has total assets in excess of five hundred million dollars (\$500,000,000); and
 - c. Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- 2) The entity meets the following criteria:
 - a. Is organized within the United States as a special purpose corporation, trust, or limited liability company;
 - b. Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 15% of the Authority’s portfolio may be invested in commercial paper.

11. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. The legislative body of the Authority and the treasurer or other officials of the Authority having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, a person with investment decision making authority employed by the investment advisor, if so engaged, or a person with investment decision making authority in the administrative office manager’s office, budget office, auditor-controller’s office, or treasurer’s office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. Eligible negotiable certificates of deposit shall have a maximum remaining maturity of five years or less and shall be rated in a rating category of “A” for long-term, “A-1” for short-term, their equivalent, or better by an NRSRO.

No more than 15% of Authority's portfolio may be invested in negotiable certificates of deposit.

12. **Asset-Backed Securities (ABS).** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall

be rated in a rating category of “AAA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less.

No more than 10% of the Authority’s portfolio may be invested in these asset-backed securities.

13. **Supranationals.** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO.

No more than 15% of the Authority’s portfolio may be invested in these specific supranational obligations.

VII. PROHIBITED INVESTMENTS

The Authority shall not invest any funds in Repurchase Agreements (REPOS) or Reverse Repurchase Agreements (REVERSE REPOS). The Authority shall not purchase or sell securities on margin or invest in financial futures/financial options.

VIII. MAXIMUM MATURITY OF INVESTMENTS

Maturities will be based on a review of cash flow forecasts. Maturities will be scheduled to permit the Authority to meet all projected obligations. The purchase of U.S. Treasury obligations, U.S. federal agency and government-sponsored enterprise (GSE) obligations, and California state and local agency obligations and other state obligations (subsections VI. 1, 2, 3, and 4 above) with maturities in excess of five years is permitted, subject to the following constraints: U.S. Treasury, federal agency/GSE, and California state and local agency obligations and other state obligations shall have a maximum remaining maturity at time of purchase of eleven years or less, and federal agency/GSE mortgage-backed securities (including pass-throughs and CMOs) shall have a maximum remaining average life of ten years or less. This change to the investment program was authorized at the June 17, 2019 meeting of the SVCW Commission.

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X. REPORTS TO COMMISSION

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All securities will be received and delivered using the standard delivery versus payment (DVP) procedure.

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AGENDA ITEM 8B

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**CAPITAL IMPROVEMENT PROGRAM
2020 CIP UPDATE AND CEQA COMPLIANCE**

ISSUE

Adopt the 2020 CIP Update and Corresponding CEQA Conclusions

BACKGROUND

SVCW's first Capital Improvement Program (CIP) was adopted by the Commission in May 2008. At the time, it was intended that the CIP would be a "living program" and would be updated as new information became available and as necessary to appropriately plan and implement capital facility replacement and improvements. To that end, the CIP has been updated 7 times since its inception. Over the past twelve years, over 120 projects have been undertaken and completed and the CIP's usefulness as a long-term rolling process to keep SVCW facilities in good operating condition performing their intended services is well proven.

DISCUSSION

A current and comprehensive CIP is a common and invaluable tool for public agencies. The SVCW CIP allows methodical planning for capital improvements to ensure that facilities necessary for transport and treatment of the community's wastewater are provided. It is also necessary for a public agency to adequately protect the capital assets necessary to fulfill its primary core function.

There are many uses of a long range CIP. For example, it allows an agency to make informed decisions about funding it will need to collect from the citizens it serves to ensure the rates are adequate to meet the required expenditures when they occur. It is also a valuable vehicle to comply with environmental documentation necessary for California Environmental Quality Act (CEQA) compliance.

The current update to the CIP includes information regarding the status of projects already identified and newly identified projects, updates estimated project costs and timing, and includes consideration of necessary CEQA actions. For most of the projects within the treatment plant, CEQA actions are comprised of Categorical Exemptions or Statutory Exemptions. For projects that occur outside the wastewater treatment plant boundary, Initial Studies and subsequent environmental documentation may be needed. Specific CEQA actions are determined on a case-by-case basis and included in the CIP Update are anticipated actions for each and every project.

The CIP is almost 12 years old and projects that were completed early in the program need to be revisited and possibly repeated in order to keep the treatment plant operating effectively. SVCW currently has a robust preventative maintenance program in place and to augment this capability for long-range planning, is implementing an asset management program. The asset management program will be used to ensure SVCW assets are rehabilitated or replaced prior to failure as well as to inform future CIP updates.

The CIP is organized into six categories:

1. Conveyance System, which includes RESCU
2. Structural Rehabilitation, including Corrosion Control and Underslab Piping
3. Mechanical, Electrical, and Instrumentation Rehabilitation
4. Site Civil Rehabilitation
5. Process Efficiency and Regulatory Mandates
6. CIP Support

1. Conveyance System

RESCU involves the vast majority of the Conveyance System section of the CIP. The RESCU budget is projected to increase by approximately \$59 million, as presented at the December Commission meeting. In addition to RESCU, two new projects were added to the Conveyance System CIP category. Both relate to the 33-inch Force Main which serves West Bay Sanitary District and is the pipeline connecting the Menlo Park Pump Station and Redwood City Pump Station. This pipeline was not addressed as part of the original CIP and subsequent updates.

The first of the new projects will evaluate the condition of the 33-inch Force Main. This investigation is intended to occur within a 5-year timeframe and estimated costs are included in the 2020 CIP Update. The second of the new projects is a long-term CIP project (beyond the 10-year Program) and is the repair and/or replacement of the pipeline, if needed; the investigation will dictate the extent of work, if any, that is required for the 33-inch Force Main. Although the 33-inch Force Main is expected to have more than 10 years of useful life ahead of it, it was added to the CIP as a long-term project. Since it is not projected to be initiated within a 10-year timeframe, funding for this project was not included in the Long-Range Financial Plan (LFRP or Plan).

2. Structural Rehabilitation

This section of the CIP covers potential structural issues associated with the corrosive environment inherent in a wastewater treatment environment. It includes replacement of coatings inside process tanks and channels, replacement of coatings on steel piping, investigation and repair of underslab piping, crack repair on structures, and seismic improvements. Investigation of corrosion issues and replacement of coatings is a constant process (think Golden Gate Bridge). Budget also was added to the CIP based on the recent failure of the DMF Feed Pipe and repairs on the RAS suction pipe.

3. Mechanical, Electrical, and Instrumentation Rehabilitation

This section covers rehabilitation and/or replacement of equipment that is no longer performing efficiently. Since almost every piece of equipment in the plant has been replaced over the last decade, the majority of the new projects in this section consist of evaluation and rehabilitation of equipment once it has been in service for 10 years, including those rehabilitated as part of the original CIP.

There is one large new project added; Fixed Film Reactor (FFR) Rehabilitation. The FFR is a key treatment process, taking effluent from the primary sedimentation tanks and removing a high amount of biochemical oxygen demand before sending the wastewater to the aeration basins. This project was included in the original CIP then was placed in a holding pattern and later removed from the CIP in the 2015 Update. In 2015, SVCW had indications from the Regional Water Quality Control Board (RWQCB) that all Bay Area Wastewater Treatment Plants would have to remove large amounts of nitrogen and phosphorus from plant effluent. In light of the RWQCB indications, SVCW planned to significantly change its secondary processes in order to meet these future limits, which would mean that the FFRs would no longer be used. Management did not want to spend money on rehabilitating a process that would shortly be deemed unusable. Through a regional effort to provide better data and negotiations with the RWQCB, requirements for nutrient removal will be gradual and likely less stringent than anticipated in 2015. Since SVCW now plans on using the FFRs for at least an additional 10 years, the FFR Rehabilitation Project needs to be added back into the CIP and implemented soon as these process facilities are well beyond their useful life.

4. Site Civil Rehabilitation

This section of the CIP includes grounds and site improvements and repair/replacement projects. Since the treatment plant location is situated on a deep layer of Young Bay Mud, anything not on deep piles moves significantly. This results in cracks, settlement of roadways and grounds, and non-pile-supported pipes and structures. The need to attend to such settlement is an ongoing work effort for SVCW engineering and maintenance staff.

5. Process Efficiency and Regulatory Mandates

Contained in this section are improvement projects that will help the plant perform more efficiently and/or more cost effectively. Examples of projects in this section include the BioForceTech biosolids drying system and the Food Waste System. An example of regulatory mandates is an anticipated requirement to replace the waste gas burners; an upcoming industry-wide mandate for San Francisco Bay treatment plants.

6. CIP Support

This section covers administrative tasks for supporting the CIP, including standard specification updates, cost estimating services, and support for SRF and WIFIA funding.

In total, there are 17 new projects added to this CIP update, with a total budget of \$98 million. Of these projects, one of them, the 33" Force Main replacement, has an associated \$38 million anticipated cost but timing will fall outside the 10-year CIP window. While its anticipated cost is indicated in the CIP, it is not considered as part of the LRFP since that Plan covers a 10-year period only.

Staff will provide a presentation at the meeting which will explain the CIP 2020 Update in greater detail.

FINANCIAL IMPACT

This 2020 CIP predicts approximately \$510 million will be spent in the next 10 years (beginning November 1, 2019), which will be financed using a defined long-term debt strategy. Since Member Agency sewer rates provide the underlying repayment security for this financing, SVCW annually updates its LRFP as a roadmap for funding the CIP. The LRFP Update is the subject of a separate action.

RECOMMENDATION

Move adoption of RESOLUTION APPROVING AND ADOPTING THE 2020 UPDATE OF THE SILICON VALLEY CLEAN WATER CAPITAL IMPROVEMENT PROGRAM AND CORRESPONDING CEQA CONCLUSIONS

AGENDA ITEM 8C

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**LONG RANGE FINANCIAL PLAN
2020 UPDATE****ISSUE**

Receipt and Approval of the Silicon Valley Clean Water Long Range Financial Plan January 2020 Update

BACKGROUND

The proposed Long-Range Financial Plan (LRFP or Plan) Update describes the total cash flows needed by Silicon Valley Clean Water (SVCW) over the next decade to provide wastewater services to the communities it serves. This includes funding for operations and maintenance of wastewater facilities, revenue-funded capital projects, debt service payments, and required cash reserve contributions. Meant to encourage discussion and support decision making, the Plan provides up-to-date financial information so that SVCW and its Member Entities have the information needed to understand the financial impact of decisions and to communicate with internal and external stakeholders.

The Plan conforms to the financial and budgetary aspects of the SVCW Joint Powers Agreement, the adopted 2019-20 operating/capital budgets, and relevant fiscal policies that influence cash flow requirements. Staff updates the Plan annually and presents the Plan to the Commission as a measure of SVCW's financial position relative to anticipated cash flows required from Member Entities. SVCW staff strives to adhere to the Plan, including construction and cost schedules, debt coverage ratio targets, and operating cost forecasts.

DISCUSSION

In 2006, engineering studies determined the majority of SVCW's fixed assets were beyond their useful lives and needed replacement. SVCW thereafter initiated its Capital Improvement Program (CIP) to replace and rehabilitate its wastewater conveyance and treatment system in a structured and prioritized manner. Now in its twelfth year, the CIP has completed over 120 projects and through the end of fiscal year 2018-19 SVCW has spent \$370 million to rebuild, rehabilitate, and upgrade SVCW facilities. The concurrent 2020 CIP Update, subject of a separate action, has been included in the Plan. Now estimates for the entire CIP cost will be \$931 million over the 22-year period since inception. Remaining CIP expenditures are \$561 million as illustrated below:

SVCW Remaining Capital Expenditures - By Fiscal Year End and Member Allocation (\$ Millions)												
Description		FYE 2020	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	Total
Redwood City	48.57%	\$ 52.4	\$ 73.3	\$ 76.3	\$ 52.5	\$ 8.0	\$ 3.3	\$ 3.0	\$ 1.3	\$ 1.3	\$ 1.3	\$ 272.5
West Bay SD	26.84%	29.0	40.5	42.2	29.0	4.4	1.8	1.6	0.7	0.7	0.7	150.6
San Carlos	15.14%	16.3	22.8	23.8	16.4	2.5	1.0	0.9	0.4	0.4	0.4	84.9
Belmont	9.45%	10.2	14.3	14.8	10.2	1.6	0.6	0.6	0.2	0.2	0.2	53.0
TOTAL	100.00%	\$ 108.0	\$ 150.8	\$ 157.1	\$ 108.0	\$ 16.5	\$ 6.8	\$ 6.1	\$ 2.6	\$ 2.6	\$ 2.6	\$ 561.1

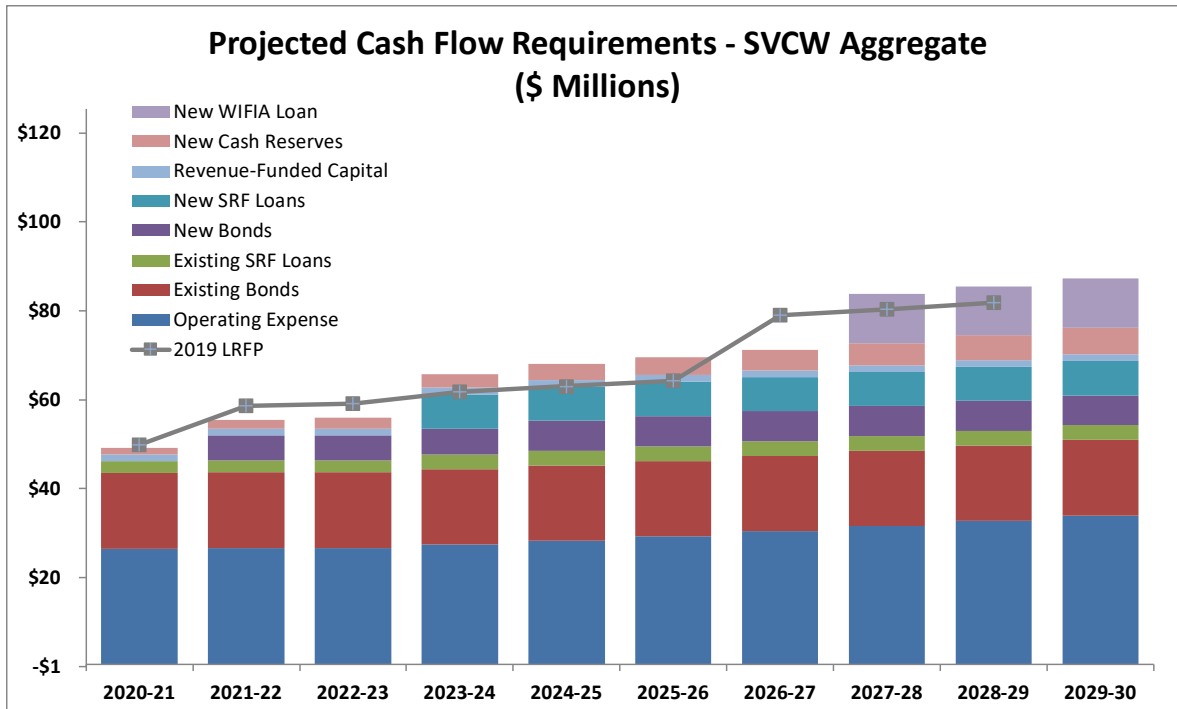
The CIP is largely funded through long-term debt strategies. The 2019 LRFP assumed the source of funds for remaining expenditures would be 13% wastewater revenue bonds, 62% Government Loans, and 25% from Proceeds or Members' cash contributions.

Each year, the LRFP adjusts funding strategies by considering three critical items:

- **CIP Update:** SVCW concurrently updates its CIP document to incorporate changes in project cost estimates and to add or delete projects. It also recognizes regulations by the Regional Water Quality Control Board as it determines how to manage nutrient-loading in the San Francisco Bay. Combined, these factors added \$81 million in anticipated CIP expenditures.
- **Construction Timing:** Over the past year, construction commenced on two significant conveyance projects that are part of the RESCU initiative (Regional Environmental Sewer Conveyance Upgrade). Using the Progressive Design-Build (PDB) project delivery method, the two RESCU projects in construction (Gravity Pipeline and the Front of Plant) remain on schedule. Design of the final element (Pump Station Improvements) is nearly complete and construction is anticipated to commence by summer 2020. There is also timing associated with nutrient removal projects, which is now anticipated to occur after 2030.
- **Financing Sources and Rates:** In addition to adjustments in the size and rates of remaining bond issuances, this 2020 update reflects an increased State Revolving Fund (SRF) loan from \$141 million to \$169 million. It also recognizes final WIFIA loan rates executed in July 2019 at 2.4%, considerably lower than the 3.45% assumed last year.

FINANCIAL IMPACT

The LRFP describes the structure, timing, and amount of all SVCW expenditures over the next decade and is useful to Member Entities for rate-setting purposes. It incorporates inflationary factors, estimates debt service payments, provides for cash-funded capital projects, and accounts for future contributions to cash reserves. Whereas SVCW anticipates \$48.6 million of cash flows are needed in fiscal year 2020-21, this annual figure rises to \$86.8 million in ten years. Projected cash flow requirements are shown on the following page.



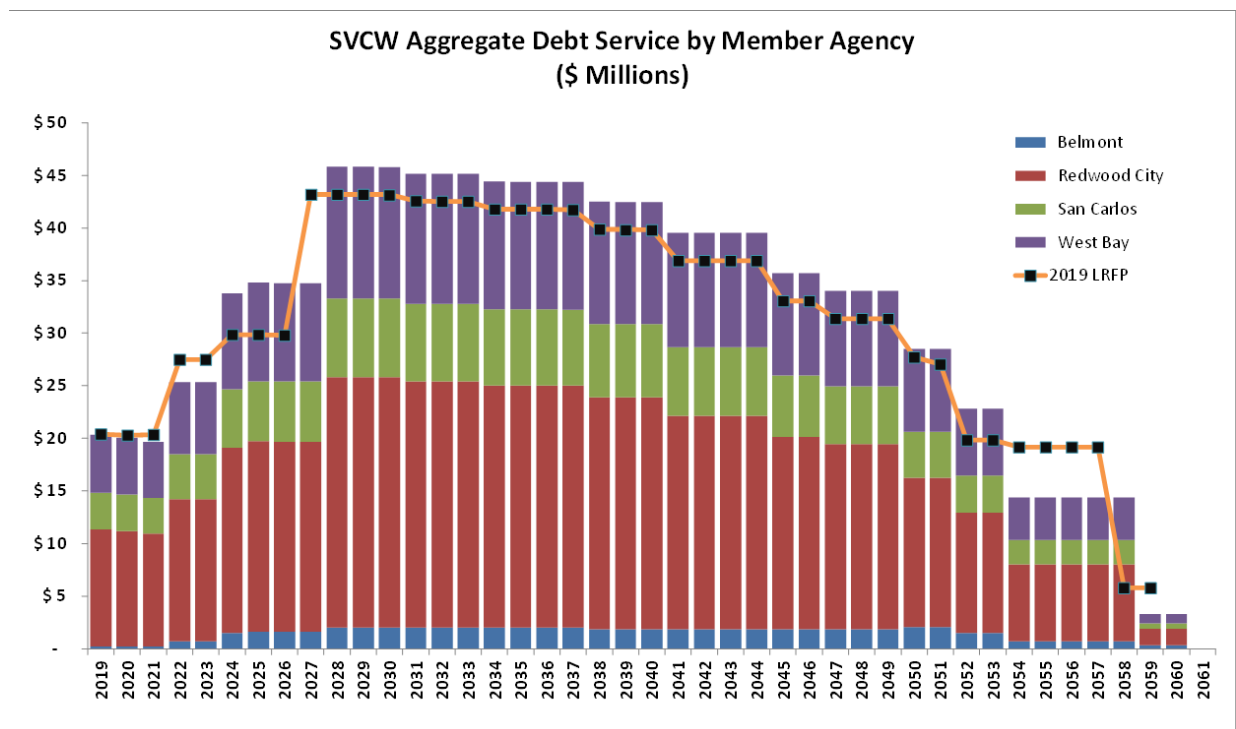
Debt service increases compared to prior year's LRFP as additional CIP expenditures will require more wastewater revenue bonds to be issued. While mitigated by low interest rates, annual debt service payments increase compared to the prior year's LRFP.

A comparison of debt strategies is below. It shows how interest rates have improved after finalizing the \$208 million WIFIA loan, reflecting favorable market conditions. With these changes, the Weighted Average Cost of Capital (WACC) is estimated at 2.57%.

Description	2019 LRFP	2020 LRFP
Remaining CIP to be funded	\$560 Million	\$561 Million
\$ Fixed Bonds / % of New Debt	\$24M / 4%	\$99M / 18%
\$ Variable Bonds / % of New Debt	\$48M / 9%	\$29M / 5%
\$ SRF Loans* / % of New Debt	\$141M / 25%	\$169M / 30%
\$ WIFIA Loan / % of New Debt	\$208M / 37%	\$208M / 37%
Proceeds or Cash / % of New Debt	\$139M / 25%	\$56M / 10%
Weighted Average Cost of Capital	2.88%	2.57%

Over the next four decades, total remaining aggregate debt service is \$1.28 billion, or approximately \$56 million more (in nominal dollars) than prior year's Plan. If discounted to January 2020 dollars, this difference is a Net Present Value of \$22 million. Maximum Annual Debt Service payments (MADS) will increase by \$2.6 million beginning in fiscal

year 2027-28. Over the next eight years through fiscal year 2026-27, however, cumulative debt service payments are net neutral.



The impact of the above to each Member is described in pages 40 through 43 of the attached report, and reflect factors such as cash contributions in lieu of debt, participation assumptions for future debt issuances, and flow & loading behaviors.

RECOMMENDATION

Move approval of RECEIPT AND ACCEPTANCE OF SILICON VALLEY CLEAN WATER LONG RANGE FINANCIAL PLAN 2020 UPDATE

LONG RANGE FINANCIAL PLAN 2020



Presented January 2020 by:

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Silicon Valley Clean Water Commissioners

<u>Commissioner</u>	<u>Title</u>	<u>Member Agency</u>
Alicia Aguirre	Chair	City of Redwood City
George Otte	Vice Chair	West Bay Sanitary District
Mark Olbert	Secretary	City of San Carlos
Warren Lieberman	Member	City of Belmont

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Thomas Fil	Finance Director	City of Belmont
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Rebecca Mendenhall	Administrative Services Director	City of San Carlos
Grace Le	City Engineer	City of San Carlos
Steven Machida	Public Works Director	City of San Carlos
Phil Scott	District Manager	West Bay Sanitary District
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SECTION 1 – EXECUTIVE SUMMARY AND INTRODUCTION

This Long Range Financial Plan (LRFP; or the Plan) describes the anticipated cash flows required by Silicon Valley Clean Water (SVCW; or the Authority) over the next decade to provide wastewater services and fund critical construction for the communities it serves. This includes funding for operations and maintenance of wastewater facilities, revenue-funded capital projects, as well as the Capital Improvement Program (CIP) program and its associated debt service payments. It also describes contributions to cash reserves to go towards future capital improvements. This Plan is meant to encourage discussion and support decision-making. It provides to-date financial information to Member Entities (as herein defined) as they measure the financial implications of decisions and communicate with internal and external stakeholders.

SVCW's Wastewater Treatment Plant (WWTP) was placed in operation November 1981 and connected to an influent conveyance system and effluent disposal system built in 1969. In 2006, engineering studies determined the majority of SVCW fixed assets were beyond their useful lives and needed replacement. SVCW therefore initiated its Capital Improvement Program (CIP) to replace and rehabilitate the wastewater conveyance and treatment system in a structured and prioritized manner. It has also anticipated more stringent treatment requirements will be necessary. Now in its twelfth year, the CIP has completed over 120 projects and spent \$370 million through October 2019. The CIP is the Authority's guiding document and a recent update in October 2019 estimates that, inclusive of spending to date, the program will cost \$931.6 million over 22 years.

This Plan incorporates the guidelines from the SVCW Joint Powers Agreement, the adopted 2019-20 Operating and Capital Budget, and relevant fiscal policies that influence cash flow requirements. It also recognizes the importance of growing the Authority's cash reserves dedicated to future projects.

The LRFP is updated each year to measure SVCW's financial position relative to anticipated cash flows needed from SVCW's Member Entities. After incorporating CIP construction and expenditure schedules, the LRFP-recommended strategy ensures SVCW obligations can be met while members strengthen their credit ratings.

Compared to the January 2019 LRFP, this Plan incorporates three significant changes:

- **CIP Update:** SVCW has concurrently updated its CIP document to incorporate changes in project cost estimates and to add or delete projects. It also recognized regulations by the Regional Water Quality Control Board as it determines how to manage nutrient-loading in the San Francisco Bay. Combined, these factors added \$81 million and bring total anticipated CIP expenditures (over the 22 years since inception) to \$931.6 million.
- **Construction Timing:** Over the past year, construction commenced on two significant conveyance projects that are part of the RESCU initiative (Regional Environmental Sewer

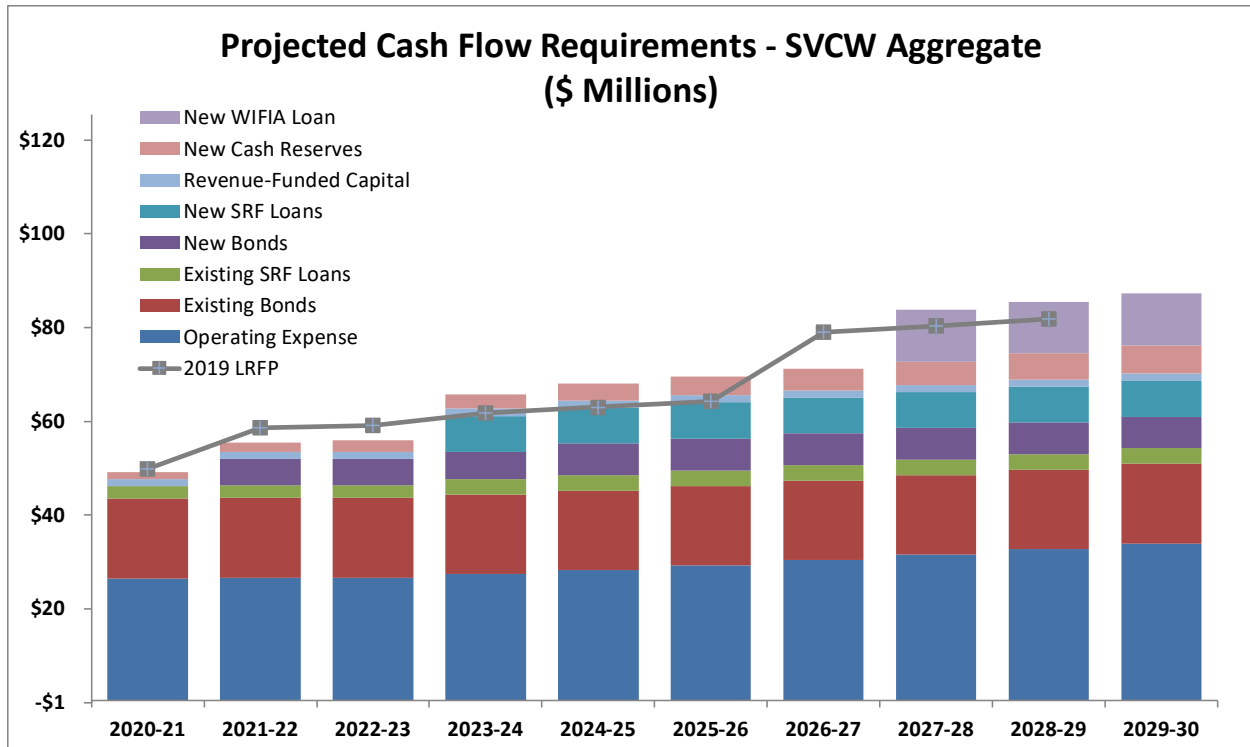
Conveyance Upgrade). Using the Progressive Design-Build (PDB) project delivery method, the two RESCU projects in construction (Gravity Pipeline and the Front of Plant) remain on schedule. Design of the final element (Pump Station Improvements) is nearly complete and construction is now anticipated to commence by summer 2020. There is also timing associated with nutrient removal projects, which is now anticipated to occur after 2030.

- **Financing Sources and Rates:** In addition to adjustments to the size and rates of remaining bond issuances, this 2020 update also reflects an increased State Revolving Fund (SRF) loan from \$141 million to \$169 million. It also recognizes final WIFIA loan rates executed in July 2019 at 2.4%, considerably lower than the 3.45% assumed last year.

Like many other water treatment agencies, SVCW infrastructure was originally funded by the 1972 Clean Water Act. As assets aged, the absence of a sinking fund at SVCW created a reliance on debt to fund the current CIP. The Authority now strives to obtain the lowest-cost financing available through a combination of Wastewater Revenue Bonds, low-cost Governmental Loans at federal and state levels, and cash reserves when available.

When made aware in 2008 of the need to invest a significant amount into SVCW infrastructure, Member Entities enacted strategies to increase sewer rates. Regular updates to the SVCW CIP and this LRFP keeps Member Entities informed of the next decade's cash flow requirements and, as a result of their steady rate adjustments, forecasted rate increases are likely modest.

SVCW annual cash flow requirements in FY 2020-21 are estimated at \$48.6 million. Cash flow requirements are thereafter projected to reach \$86.8 million by FY 2029-30. The largest increase in expenditures over the next decade is for debt service payments, estimated to peak at \$45.8 million annually once fully in place. Other non-debt related expenditures are less impactful; the average annual increase in Operating Expense is less than 4%. This LRFP informs SVCW Member Agencies of SVCW cash flows anticipated over the next decade.



Projected SVCW Cash Flow Requirements - Aggregate (\$ Millions)										
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating Expense	\$ 25.99	\$ 26.17	\$ 26.14	\$ 26.91	\$ 27.69	\$ 28.76	\$ 29.87	\$ 31.02	\$ 32.22	\$ 33.46
Existing Bonds	17.02	17.01	17.00	17.00	17.01	16.98	16.98	16.98	16.97	16.96
Existing SRF Loans	2.63	2.63	2.63	3.32	3.32	3.32	3.32	3.32	3.32	3.32
New Bonds	-	5.69	5.69	5.69	6.71	6.71	6.71	6.71	6.71	6.71
New SRF Loans	-	-	-	7.75	7.75	7.75	7.75	7.75	7.75	7.75
New WIFIA Loan	-	-	-	-	-	-	-	11.06	11.06	11.06
Revenue-Funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
New Cash Reserves	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50	6.00
TOTAL	\$ 48.63	\$ 55.00	\$ 55.46	\$ 65.18	\$ 67.48	\$ 69.03	\$ 70.63	\$ 83.34	\$ 85.03	\$ 86.76

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INTRODUCTION

Purpose of Long-Term Financial Planning

Member Entities' sewer rates provide the underlying repayment security for all SVCW financing. As such, in 2008, SVCW developed a Five Year Financial Plan (the "Financial Plan") to provide a financial roadmap for funding the CIP and ongoing operating costs. The Financial Plan was frequently updated and presented to the SVCW Commission (as hereinafter defined) to incorporate CIP budget figures. It provides a roadmap that Member Entities follow when considering sewer rates.

A long-term financial plan combines financial projections with strategy. The Government Finance Officers Association (GFOA) recommends that all governments regularly engage in long-term financial planning as a collaborative process to consider future scenarios and help navigate challenges. By aligning financial capacity with long-term service objectives, SVCW and its Member Entities) gain insight as to financial resources needed to support strategies. With this information, Member Entities can balance objectives and financial challenges.

SVCW will manage its finances and meet critical funding needs while recognizing its Member Entities' need to maintain reasonable wastewater rates. This LRFP will be enacted as SVCW and its Members adopt annual budgets, monitor financial performance, and incorporate Commission-directed actions. The LRFP is based upon financial planning models that include long-term forecasts of operating and capital expenditures. It includes reasonably conservative assumptions and attempts to account for uncertainties. It aims to generate adequate cash reserves for capital projects while maintaining good standing in the credit markets to provide ready access to cost-effective capital financing when needed. It evaluates the capital financing and debt service coverage policies to optimize cash funding of capital investments. Finally, it continues to evaluate cash reserve policies that must consider intergenerational equity with regards to funding capital projects and raising rates.

The LRFP includes a debt structure model to document recommended debt strategy, identify risks to that strategy, and offer mitigation steps available or alternative funding solutions. As part of the Plan a financial model (the Model) was created to assess financing alternatives for the CIP.

This LRFP is meant to stimulate discussions for decision making by providing up-to-date financial information. Member Entities can incorporate this material to understand the financial impact of decisions, and to communicate those impacts to internal and external stakeholders. This long-term financial plan includes the following elements:

- **Time Horizon:** The plan looks ten years into the future.
- **Scope:** The plan considers all expenditures associated with the conveyance and treatment of wastewater received from Member Entities. Expenditures include all SVCW operating costs, capital improvements, debt service, and cash reserve requirements.
- **Frequency:** This long-term plan is updated annually to aid Member Entities with their own budget and rate-setting processes.
- **Content:** The plan includes an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and monitoring mechanisms such as a scorecard of key financial health indicators. Adherence with the financial plan and the ability to comply with the financial requirements of this Plan can be measured primarily through debt service coverage and the number of days cash on hand. SVCW can readily monitor these financial metrics through an annual review of the Member Entities' respective audited financial statements.
- **Visibility:** The plan will inform Member Entities about the long-term financial prospects of SVCW. Each year going forward, actual results will be compared to the LRFP by integrating it into future LRFPs.

SVCW Member Entity staff was involved in the Plan preparation process to help identify necessary tables, discuss assumptions, and review results. Member Entities, via the Silicon Valley Clean Water governing commission (the Commission), can now integrate the information provided into their own respective financial plans.

Organizational and Business Structure

SVCW was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property, capital and equipment of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities that were originally constructed or otherwise owned by the Strategic Consolidation Sewerage Plan. SVCW provides wastewater transmission, treatment, and effluent disposal services for the surrounding communities including the Cities of Belmont, Redwood City, and San Carlos and for the West Bay Sanitary District (collectively, the Members Entities). SVCW provides recycled water to the City of Redwood City.

SVCW is a Joint Exercise of Powers Authority (JPA) that provides wastewater transmission, treatment, recycled water, and effluent disposal services to its Member Entities, all facilities of which (hereinafter referred to as Joint Facilities) are located in the northern part of Silicon Valley between the cities of San Francisco and San Jose. SVCW's wastewater treatment plant is located in the City of Redwood City. SVCW serves more than 200,000 people and businesses located predominantly in San Mateo County, California. SVCW operates in a strong Bay Area economy, with a customer base that includes large business customers such as Oracle Corporation, EA Sports, and Facebook.

SVCW owns and operates a regional wastewater treatment plant with an average dry weather flow permitted capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Member Entities to SVCW's treatment plant, four wastewater pump stations, and a 1.25-mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. SVCW also provides recycled water to the City of Redwood City.

Governance & Management

The JPA is governed by a four-member Commission consisting of one appointed person from each of the Member Entities' governing bodies. There is a total of 100 votes, allocated as follows:

- City of Redwood City 42 votes
- West Bay Sanitary District 28 votes
- City of San Carlos 19 votes
- City of Belmont 11 votes

A vote of at least 75% is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$75,000; to employ the manager and certain consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a simple majority of the votes. In addition, any amendment to the Joint Powers Agreement must be approved by a four-fifths vote by each of the Member Entities' governing bodies.

Financial Oversight and Control

SVCW sets an annual budget according to goals established by the Commission that support operational priorities, the Capital Improvement Program and the Long Term Financial Plan. The Budget reflects a progressive approach to fund wastewater operations while controlling costs, minimizing unplanned expenditures, limiting risks, and investing in projects and programs that provide the long-term resources needed for the community.

SVCW has no taxing power. SVCW receives nearly all funding, other than interest earnings and other miscellaneous revenues, from payments made by the Member Entities for operations, capital improvements, debt service, and cash reserves.

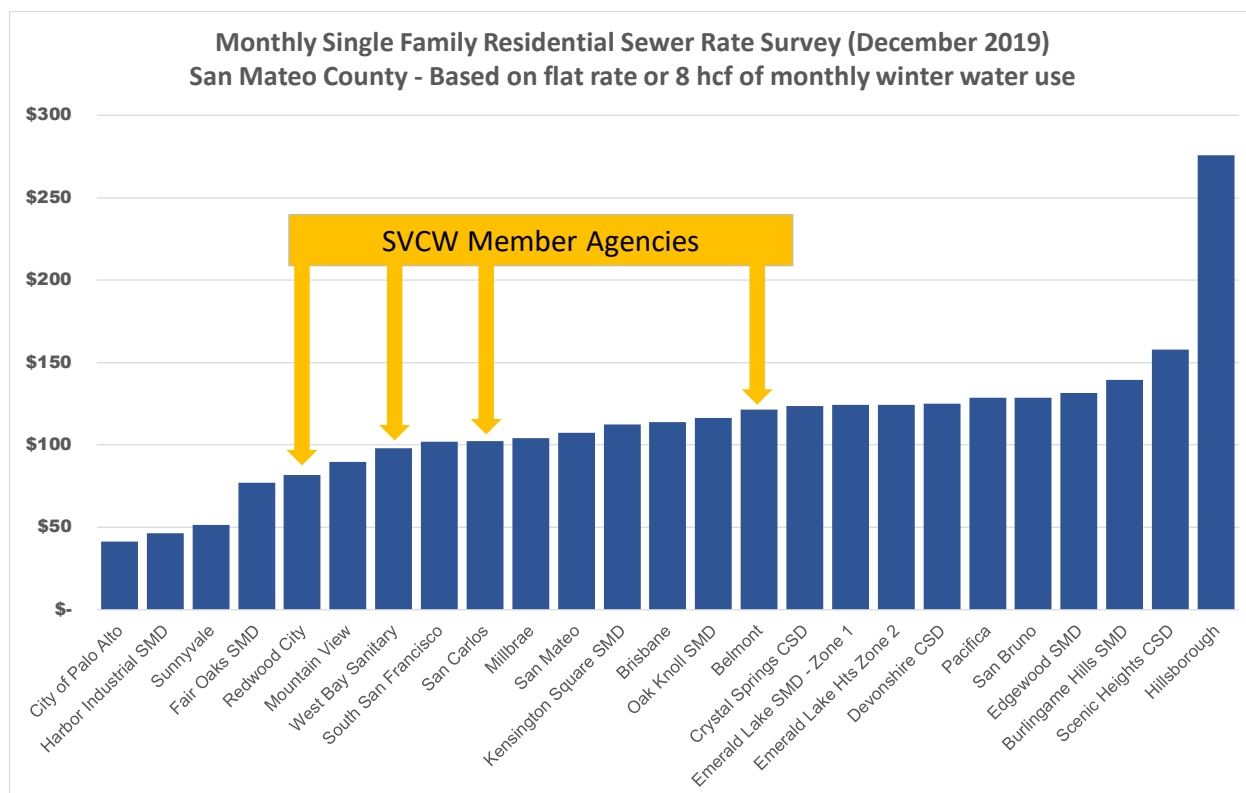
Comparative Residential Sewer Charges

Member Entities have adopted significant rate increases and currently generate adequate revenues to fund their share of the CIP and capital program costs. The below tables show Members' increases in single family residential monthly sewer rates over the past decade.

Residential Sewer Rates by Member Agency Based on 8 HCF of flow										
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Belmont	\$51.34	\$72.13	\$77.33	\$82.77	\$88.13	\$ 88.13	\$ 99.47	\$ 105.35	\$ 116.14	\$ 121.28
Redwood City	\$48.72	\$53.10	\$57.88	\$63.09	\$68.77	\$74.95	\$75.11	\$76.68	\$78.24	\$81.76
San Carlos	\$46.82	\$50.10	\$53.10	\$67.29	\$80.75	\$88.82	\$88.82	\$93.26	\$97.93	\$102.32
West Bay SD	\$54.17	\$57.50	\$62.67	\$68.33	\$74.42	\$81.08	\$85.92	\$89.33	\$93.83	\$98.08

Residential Sewer Rate Year-over-Year % Increase, by Member Agency										
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Belmont	6.8%	40.5%	7.2%	7.0%	6.5%	0.0%	12.9%	5.9%	10.2%	4.4%
Redwood City	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	0.2%	2.1%	2.0%	4.5%
San Carlos	7.0%	7.0%	6.0%	26.7%	20.0%	10.0%	0.0%	5.0%	5.0%	4.5%
West Bay SD	16.1%	6.1%	9.0%	9.0%	8.9%	8.9%	6.0%	4.0%	5.0%	4.5%

Despite these increases, Member Entities' rates remain among the middle tier of San Mateo County sewer rates:



Regulations and Permits

The federal Clean Water Act requires that all municipal, industrial and commercial facilities that discharge wastewater or storm-water directly from a point source into a water of the United States (such as a lake, river, bay, or ocean) must obtain a National Pollutant Discharge Elimination System ("NPDES") permit. All permits are written to ensure the receiving waters will achieve certain water quality standards.

The federal government delegates the NPDES Program to the State of California for implementation through the State Water Resources Control Board and its nine Regional Water Quality Control Boards, collectively Water Boards. It is the responsibility of the Water Boards to preserve and enhance the quality of the state's waters through the development of water quality control plans and the issuance of NPDES Permits.

SVCW currently operates under a five-year NPDES permit that was is valid through September 2022. As an active member in the Bay Area Clean Water Agencies ("BACWA"), a consortium of publicly-owned treatment works agencies that operate within the nine-county San Francisco Bay Area, SVCW prepares for future NPDES permit requirements. BACWA is central since some

requirements imposed may be efficiently fulfilled as a group. Through BACWA, SVCW meets provisions related to overall receiving water quality monitoring, Total Maximum Daily Load and Site Specific-Objective Support, Mercury Special Studies, Copper Action Plans, and Cyanide Action Plans.

Regulatory requirements of the NPDES program may increase in the future. Many California agencies have already been required to significantly increase treatment to remove nutrients (ammonia, nitrates and phosphates) and further reduce pathogenic organisms. Studies are also underway regarding Active Pharmaceutical Ingredients to monitor the cumulative effects of pharmaceuticals and personal products, including anti-psychotic and antihypertensive drugs.

Additionally, nutrients like nitrogen and phosphorus are found in municipal waste. When excessive, these nutrients are considered harmful water pollutants leading to such problems as algae blooms. Nutrient management is an important planning consideration for California wastewater treatment operators – both to remove and to recover these resources. This LRFP includes estimated costs needed to address nutrients in SVCW’s wastewater. It should be noted, however, that SVCW has joined a cooperative to explore a joint response strategy regarding future Nutrient Removal requirements.

Financial Modeling

The CIP estimates approximately \$561 million remains to be spent on capital expenditures over the next ten fiscal years. This Financial Plan documents the funding strategy, risks to this strategy, and anticipated mitigation and/or alternative funding solutions available. Prior to issuing debt SVCW updates a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service to its, and the Member Entities’, financial condition. To that end, SVCW’s Chief Financial Officer oversees ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected cash reserve balances, including the Operating Fund, the CIP Fund, Revenue-funded Capital Fund, and Debt Service Reserve Fund, if any;
- Historic and projected debt service coverage;
- The most efficient mix of funding sources (debt and cash);
- The most efficient form of debt (government-subsidized loans, capital market offerings, or private loans) and most efficient structures;
- Projected revenue requirements; and
- Revenue Sources, including miscellaneous revenues and grants.

The Plan incorporates these factors to develop an all-inclusive projection of future cash flow requirements. As part of the Plan, the Financial Model was created to generate and assess multiple debt-based financing alternatives for the CIP. Several scenarios were analyzed to reach the recommended plan, including the extent to which funds would be sourced from Wastewater Revenue Bonds versus Governmental Loans. Further analysis and results are described in Sections 2 and 3 of this Plan.

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SECTION 2 – GUIDING DOCUMENTS AND PRINCIPLES

Audited Financial Reports

SVCW financial statements are maintained in accordance with all state and federal laws, Generally Accepted Accounting Policy, and standards of the Government Accounting Standards Board. This means revenues and expenses are recognized on a full accrual basis, where revenues are recognized in the period when they are earned and expenses are recognized in the period incurred.

An annual audit is performed by an independent public accounting firm, with an unqualified opinion that SVCW financial statements are presented fairly in all material respects.

Operating Budgets

Each year, the adopted budget establishes the funding requirements for Member Entities. It includes all operating costs, revenue-funded capital needs, debt service payments, and cash reserves requirements. A full overview of all expenditures facilitates discussion of anticipated changes. Subsequent to the fiscal year-end closing, annual payments made by each SVCW Member Entity are reconciled against the actual expenditures allocated to each SVCW Member Entity and any differences are applied toward funding reserves held by SVCW.

The Budget is constructed consistent with goals established by the Commission to support operational priorities and the Capital Improvement Program. The Budget reflects a progressive approach to controlling costs, minimizing unplanned expenditures, limiting risk, and investing in activities that provide the long-term resources needed for the community.

Used as a baseline for this study, the 2019-20 Budget was \$48.2 million. This includes \$25.2 million in operating expenditures, \$1.68 million for revenue-funded capital projects, additional cash reserve contributions of \$1.1 million, and debt service payments estimated at \$20.3 million.

2019-20 Budget - Total Contributions by Member Agency					
Description	City of Belmont	Redwood City	City of San Carlos	West Bay San District	TOTAL
Net Operating Expenditures	\$ 3,004,200	\$ 11,999,297	\$ 3,341,409	\$ 6,864,371	\$ 25,209,277
Revenue-Funded Capital Expenditures	159,169	818,077	255,007	452,073	1,684,325
Reserve Contributions	99,469	511,240	159,361	282,513	1,052,583
Projected Debt Service	178,425	10,999,297	3,477,413	5,632,324	20,287,459
Total Contributions to SVCW	\$ 3,441,263	\$ 24,327,911	\$ 7,233,190	\$ 13,231,281	\$ 48,233,645

Expenditure Allocation

SVCW annual operating and maintenance costs are allocated according to the Joint Powers Agreement. Specifically, administrative, safety, and conveyance operating costs are allocated based on each Member Agency's proportionate share of total flow contributed to the Joint Facilities. Treatment plant operation and maintenance costs are allocated according to each Member Agency's proportionate contribution of hydraulic flow ("Flow"), Biochemical Oxygen Demand ("BOD") and Suspended Solids ("SS") to the Joint Facilities. The total annual treatment plant maintenance and operation costs are allocated as 26.5% to flow, 33.5% to Biochemical Oxygen Demand and 40% to Suspended Solids. Specific Pump Station maintenance and operation costs are tracked as actual costs by coding to each pump station and borne by the Member Agency served by that particular pump station. However, maintenance and operation costs of the booster station are split on a percentage basis between West Bay Sanitary District and Redwood City at 92% and 8%, respectively.

Using these allocations, the 2019-20 Operating Budget assigns costs using the following three-year flow and loading averages:

2019-20 Budget Revenue Allocation to Member Agencies - Adopted									
Description				Belmont	Redwood City	San Carlos	West Bay San District	TOTAL	
Allocation Factors									
Flow				11.82%	49.49%	14.45%	24.24%	100%	
Biochemical Oxygen Demand (BOD)				12.29%	44.89%	12.83%	29.99%	100%	
Suspended Solids (SS)				11.72%	47.62%	12.19%	28.47%	100%	
Operating Expenditures	Weightings								
	Flow	BOD	SS						
	Operations	26.5%	33.5%	40.0%	\$ 1,167,495	\$ 4,616,307	\$ 1,271,736	\$ 2,724,566	\$ 9,780,104
	Maintenance	26.5%	33.5%	40.0%	772,899	3,056,065	841,909	1,803,704	6,474,578
	Laboratory	26.5%	33.5%	40.0%	211,372	835,772	230,245	493,276	1,770,665
	Environmental Services	26.5%	33.5%	40.0%	148,127	585,699	161,353	345,682	1,240,862
	Engineering	26.5%	33.5%	40.0%	96,585	381,901	105,209	225,400	809,095
	Safety	100.0%	0.0%	0.0%	57,165	239,347	69,884	117,231	483,627
	Information Services	26.5%	33.5%	40.0%	216,440	855,811	235,765	505,103	1,813,120
	Administrative Services	100.0%	0.0%	0.0%	460,593	1,928,490	563,077	944,567	3,896,727
Subtotal				\$ 3,130,677	\$ 12,499,392	\$ 3,479,178	\$ 7,159,529	\$ 26,268,777	
Subtract Miscellaneous Income	26.5%	33.5%	40.0%	\$ 126,477	\$ 500,095	\$ 137,770	\$ 295,158	\$ 1,059,500	
2019-20 Net Operating Revenue Required				\$ 3,004,200	\$ 11,999,297	\$ 3,341,409	\$ 6,864,371	\$ 25,209,277	
2018-19 Net Operating Revenue Required				2,973,317	11,245,294	3,067,987	6,927,025	24,213,623	
\$ Increase / (Decrease)				30,883	754,003	273,422	(62,654)	995,654	
% Increase / (Decrease)				1.04%	6.71%	8.91%	(0.90%)	4.11%	

Capital costs are distributed based on each member entity's percentage of its capacity rights as defined in the Joint Powers Agreement:

<u>Belmont</u>	<u>San Carlos</u>	<u>Redwood City</u>	<u>West Bay SD</u>
9.45%	15.14%	48.57%	26.84%

Unrelated to the number of votes originally ascribed to Member Agencies in the Joint Powers Agreement, the above capital cost distributions are derived from each member entity's share of maximum capacity rights of the originally-built facilities ("Stage 1" capacity) plus its share of expansion capacity ("Stage 2"), based on average dry weather flows.

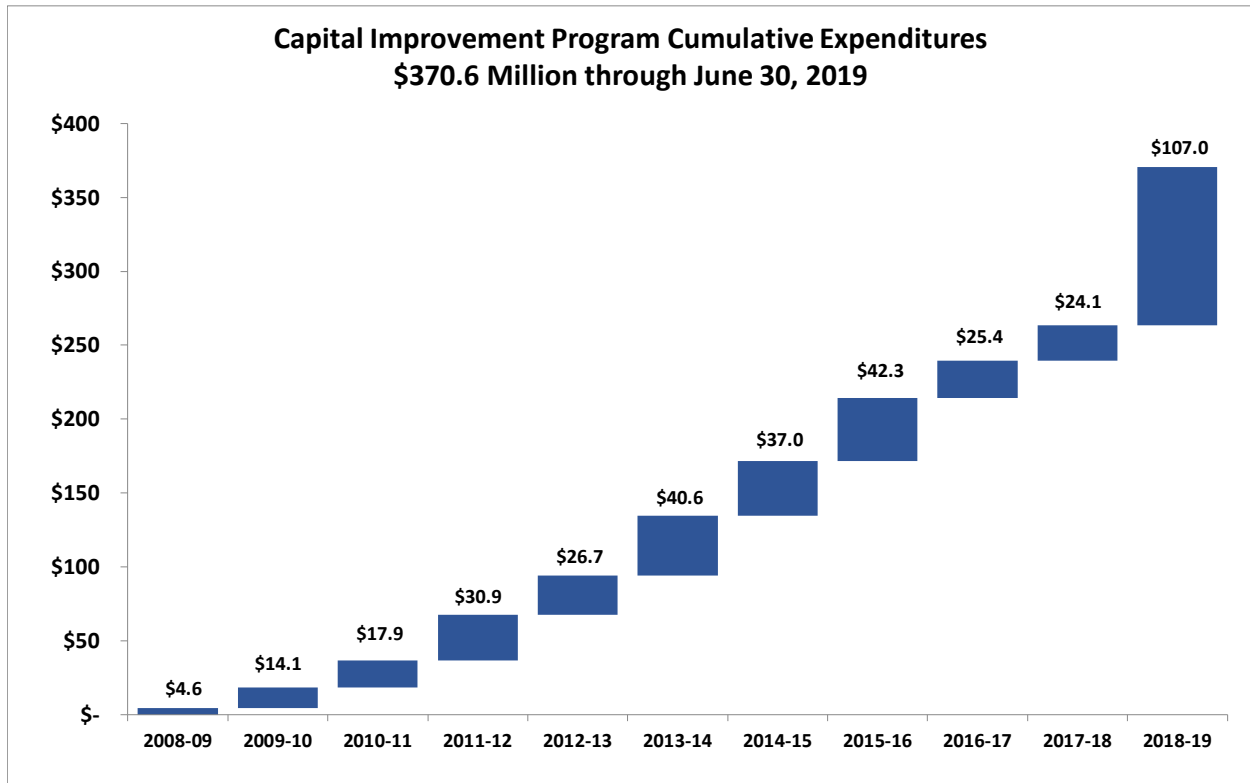
Capital costs associated with the Joint Facilities include improvements resulting from reconstruction, replacement, rehabilitation, remodeling or relocation. This includes all costs meeting the definition of a capital expense as defined in SVCW's Capital Expense Policy.

2019-20 Capital and Reserve Allocation Calculations					
Description	City of Belmont	Redwood City	City of San Carlos	West Bay San District	TOTAL
Capital and Reserve Allocation Factors	9.45%	48.57%	15.14%	26.84%	100.00%
CAPITAL IMPROVEMENT					
Plant (cash-funded capital)	\$ 46,241	\$ 237,665	\$ 74,084	\$ 131,335	\$ 489,325
Pump Stations	-	-	-	-	-
Force Main	-	-	-	-	-
Equipment	112,928	580,412	180,923	320,738	1,195,000
Subtotal	\$ 159,169	\$ 818,077	\$ 255,007	\$ 452,073	\$ 1,684,325
RESERVE CONTRIBUTIONS					
Operating Reserve	\$ 4,969	\$ 25,540	\$ 7,961	\$ 14,113	\$ 52,583
CIP Reserve	94,500	485,700	151,400	268,400	1,000,000
Subtotal	\$ 99,469	\$ 511,240	\$ 159,361	\$ 282,513	\$ 1,052,583
Contributions for Capital & Reserves	\$ 258,638	\$ 1,329,316	\$ 414,368	\$ 734,586	\$ 2,736,908

Capital Improvement Program (CIP)

SVCW is in the process of rebuilding, rehabilitating, and updating its wastewater conveyance and treatment facilities which are at or approaching the end of their useful operating lives. The CIP was originally developed in 2008 to proactively address near-term and long-term capital replacement needs. Engineering staff periodically updates the CIP to include projects that will address known Joint Facility deficiencies. This includes rehabilitation and replacement of aging infrastructure and equipment; improvements and additions to the treatment plant and conveyance system that substantially enhance reliability; technological upgrades, required regulatory treatment improvements and system-wide automation projects designed to improve operational efficiency and reliability (thereby reducing future operating and maintenance expenses); and additional energy management solutions.

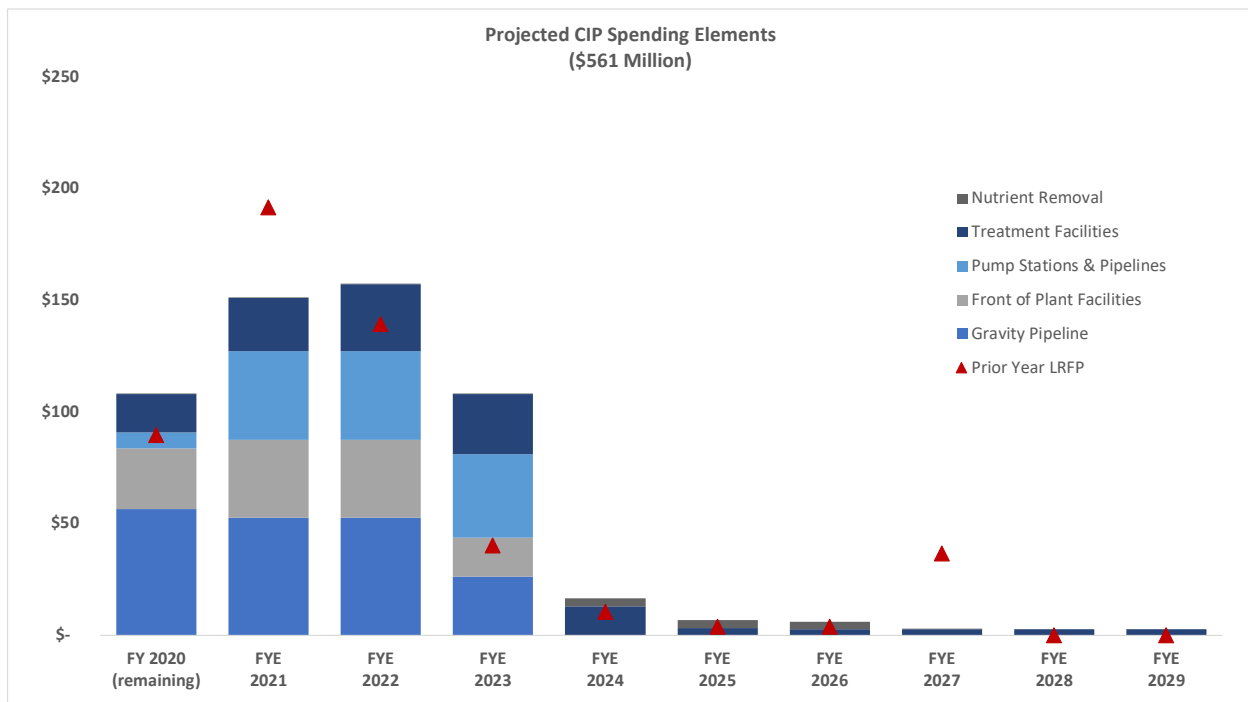
Charges to the CIP include all capitalized components of projects such as planning, design, engineering, construction, and construction management. The costs also include certain administrative costs like insurance and engineering labor directly related to projects. Since the inception of the CIP, SVCW spent approximately \$370.6 million through June 2019. Expenditures during the 2018-19 fiscal year were the highest on record, reflecting the beginning of construction on two significant Regional Environmental Sewer Conveyance Upgrade (RESCU) projects.



Forecasted CIP Expenditures

Concurrent with this Long-Range Financial Plan update, the CIP was updated in December 2019. It estimates expenditures will be approximately \$932 million over a 22-year period from inception to completion. As of June 2019, remaining CIP expenditures were \$561 million.

SVCW Capital Improvement Program Expenditures (\$ Millions)				
Description	Spent thru		Remaining	Total
	FYE 2019			
Gravity Pipeline	\$ 72.6	\$	187.6	\$ 260.3
Front of Plant Facilities	48.7		114.7	163.4
Pump Stations & Pipelines	5.0		123.8	131.3
Non-RESCU Conveyance	50.0		0.3	50.3
Treatment Plant Improvements	193.5		124.1	314.9
Nutrient Removal	0.8		10.7	11.5
TOTAL	\$ 370.6	\$	561.1	\$ 931.6



Capital expenditures are allocated per the Joint Powers Authority Agreement, as follows.

SVCW Remaining Capital Expenditures - By Fiscal Year End and Member Allocation (\$ Millions)												
Description	FYE 2020	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	Total	
Redwood City	\$ 52.4	\$ 73.3	\$ 76.3	\$ 52.5	\$ 8.0	\$ 3.3	\$ 3.0	\$ 1.3	\$ 1.3	\$ 1.3	\$ 272.5	
West Bay SD	29.0	40.5	42.2	29.0	4.4	1.8	1.6	0.7	0.7	0.7	150.6	
San Carlos	16.3	22.8	23.8	16.4	2.5	1.0	0.9	0.4	0.4	0.4	84.9	
Belmont	10.2	14.3	14.8	10.2	1.6	0.6	0.6	0.2	0.2	0.2	53.0	
TOTAL	\$ 108.0	\$ 150.8	\$ 157.1	\$ 108.0	\$ 16.5	\$ 6.8	\$ 6.1	\$ 2.6	\$ 2.6	\$ 2.6	\$ 561.1	

The majority of remaining CIP expenditures is attributed to replacement of the RESCU program. RESCU is comprised of three significant elements with a combined remaining expenditures estimate of approximately \$426 million. These projects include:

1. Gravity Pipeline: Replaces the influent force main with a gravity pipeline;
2. Front of Plant: Constructs a headworks facility comprised of a receiving lift station, screening and grit removal, peak flow and storm water handling facilities, and an influent connector pipeline; and
3. Pump Station Improvements: Replaces, rehabilitates, decommissions SVCW pump stations.

Cash Reserves Policy

In 2013, the SVCW Commission adopted a cash reserves policy that protects its fiscal solvency and funds future long-term capital needs. The policy describes the goals and amounts intended to be held in reserves. Each year during the budget process, SVCW reviews reserve balances and adjusts as needed. SVCW debt reserves mitigate the negative impact of revenue shortfalls from economic fluctuations, to fund unforeseen expense requirements, to provide stable rates for member entities, and to help fund future long-term capital needs.

- The Operating Reserve must be maintained at a minimum balance of 10% of the approved Operating and Pay-go Capital Budget, plus \$1 million. This fund allows for continued operation in times of local, regional state, or national crisis or for unbudgeted, unexpected operational, maintenance or capital expenses approved by the SVCW Commission. As of December 31, 2019 the amount held in this reserve was \$3.7 million.
- The Capital Improvement Program Reserve Fund goal is to accrue funds equal to the annual calculated depreciation of SVCW facilities to meet the long term needs of replacing capital assets when their useful life has been met. This will ultimately allow most major expenses in the future to be paid for on a pay-as-you go basis and limit the need for borrowing. Per policy, a minimum of \$1 million is added to the Capital Improvement Program Reserve Fund each fiscal year until fiscal year 2020-21, when it increases by \$500 thousand each year until the balance reaches an inflation-adjusted value equivalent to \$50 million in 2019 dollars. As of December 31, 2019 this reserve was \$19.6 million.
- Stage 2 Capacity Reserve is utilized to pay for capital projects that increase the treatment capacity of SVCW facilities. This fund income is from fees paid by new connections that use the excess capacity of SVCW facilities. Projects that enhance capacity may be built using these cash reserves at the discretion of the SVCW Commission. As of December 31, 2019 the amount in this reserve was \$13.1 million.

Debt Policy

SVCW adopted a debt policy in 2017 that considers intergenerational equity between residents, strives to achieve the lowest possible cost of capital, and mitigates market and credit risk. Appropriately structured, the debt policy attempts to assign capital costs between current ratepayers and future generations.

Significant capital acquisitions can be funded through traditional bonds or alternative financing mechanisms such as government loans (e.g. SRF and WIFIA) and/or public/private partnerships. Long term financings are structured to minimize transaction-specific risk and total debt portfolio risk to SVCW and its Member Entities.

SVCW debt must comply with all laws, legal agreements, contracts, best practices, and adopted policies related to debt issuance and management, including disseminating, in a timely manner, disclosure information concerning SVCW's and SVCW's Member Entities' financial condition. It must also follow sound procurement practices to avoid conflicts of interest.

SVCW debt promotes cooperation and coordination with all stakeholders in the financing and delivery of services by maintaining cost-effective access to capital markets through prudent debt management. This includes integrating debt policies with the operating and capital budgets, the multi-year CIP, the Long Range Financial Plan, and other financial goals. SVCW must also maintain good investor relationships through the timely dissemination of material financial information to maintain the highest practical credit rating and ensure efficient access to capital markets.

Long-term debt financing is not used to fund operating costs or operating deficits of SVCW. The principal types of municipal debt instruments employed by SVCW to finance long-term capital projects are SRF Loans and Wastewater Revenue Bonds. Such instruments may be refunded by the issuance of refunding obligations for economic savings and/or restructuring considerations.

Short-term debt has terms to maturity of less than five years and may be issued to provide financing for the acquisition and/or construction of long-lived capital projects that could otherwise be funded by long-term debt financing described above. This includes commercial paper notes that are issued to provide interim project financing, Bond Anticipation Notes which may have a final maturity of not more than five years and are issued in anticipation of the issuance of wastewater revenue bonds, and a short-term line of credit not to exceed five years.

Investment Policy

SVCW has adopted a policy to invest monies not required for immediate expenditure. The policy establishes a standard of care to ensure investments are made with the appropriate considerations of capital safety, liquidity, and yield. The investment portfolio is diversified such that losses, if any, on specific securities are offset by the revenue generated from other investments. The portfolio is also kept sufficiently liquid to meet the operating and capital needs of SVCW. Within these two constraints, as well as in accordance with California Government Code Section 53601 through 53686, the investment portfolio is designed to attain the market rate of return after consideration is given to safety and liquidity.

SECTION 3 – MODELING ASSUMPTIONS

SVCW has developed a Debt Model (the Model) to project debt service costs associated with the Capital Improvement Plan. Currently approximately \$561 million of capital projects requires funding over the next decade. The Model produces multiple funding scenarios that compare debt service costs at aggregate and Member Entity levels. The Model also optimizes variables by considering the impact of using cash, longer repayment terms, caps on debt service levels, deferred repayment, and changes in interest rate assumptions.

The Model displays total aggregate debt service, maximum aggregate annual cost, average annual debt service cost, weighted average cost of capital and weighted average CIP repayment year, among a few other debt summary outputs. Additionally, the Model illustrates the height and length of the debt service “plateau”, a critical consideration for members’ sewer rates. Finally, the Model also compares efficiency versus affordability of financing the debt by determining the length of each repayment period and financing rates.

Debt Structure

Using the Model, SVCW staff generated and compared multiple debt financing scenarios that could fund the remaining CIP by comparing interest rates and average costs per year. The flexibility of the Model allows for changing multiple assumptions, including interest rates, the timing and structure of government loan or bond repayments, and the mix of financing methods such as government loans or wastewater revenue bonds.

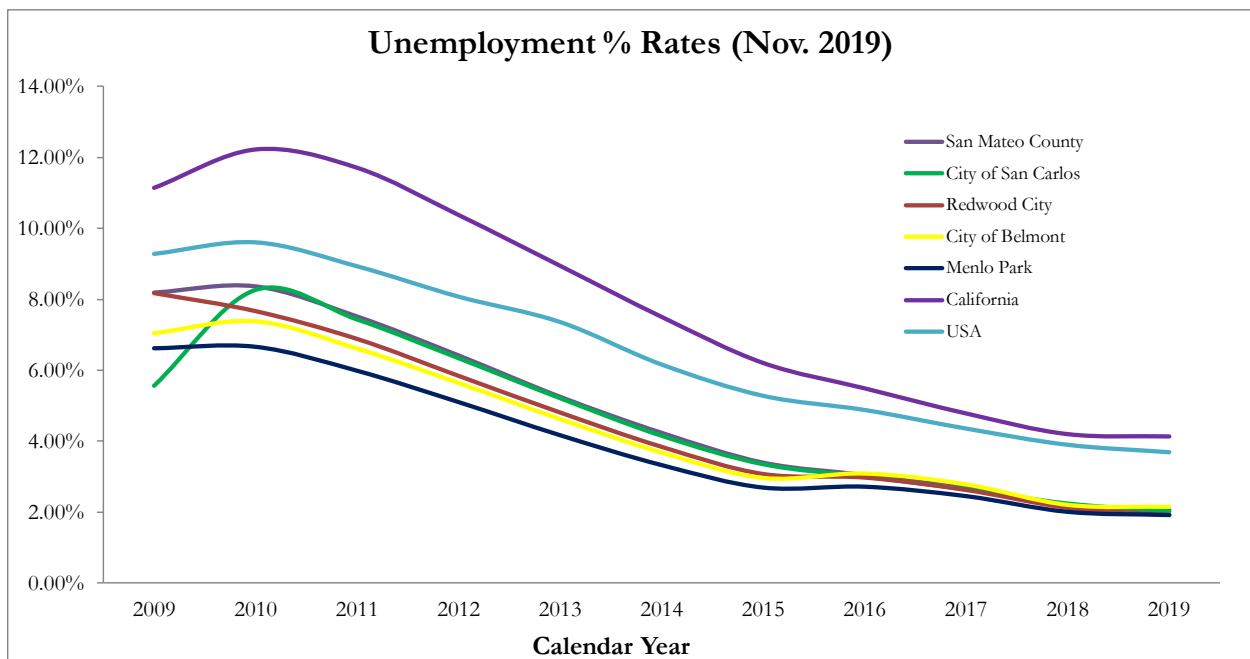
Government loan programs like SRF and WIFIA have at times been uncertain, but were pursued for their attractive low interest rates and flexible repayment structures. While both have a similar structure as revenue bonds – thirty-year amortization and level debt service – the SRF interest rate is half the California General Obligation Bonds rate and the WIFIA loan is at Treasury rates plus one basis point.

Economic Factors

Sewer revenues are somewhat influenced by the strength of the economy and other financial indicators. SVCW-estimated operating costs and the timing of CIP expenditures assume neither a significant downturn nor expansion in the San Francisco Bay Area economy. General economic conditions are comprised of many different factors; but sewer revenues are likely influenced by only a few factors. This report therefore focuses on six different broad factors that are good indicators of a strong economic environment: unemployment, assessed property valuation, taxable sales, income (measured by effective buying income and median household income), and interest rates.

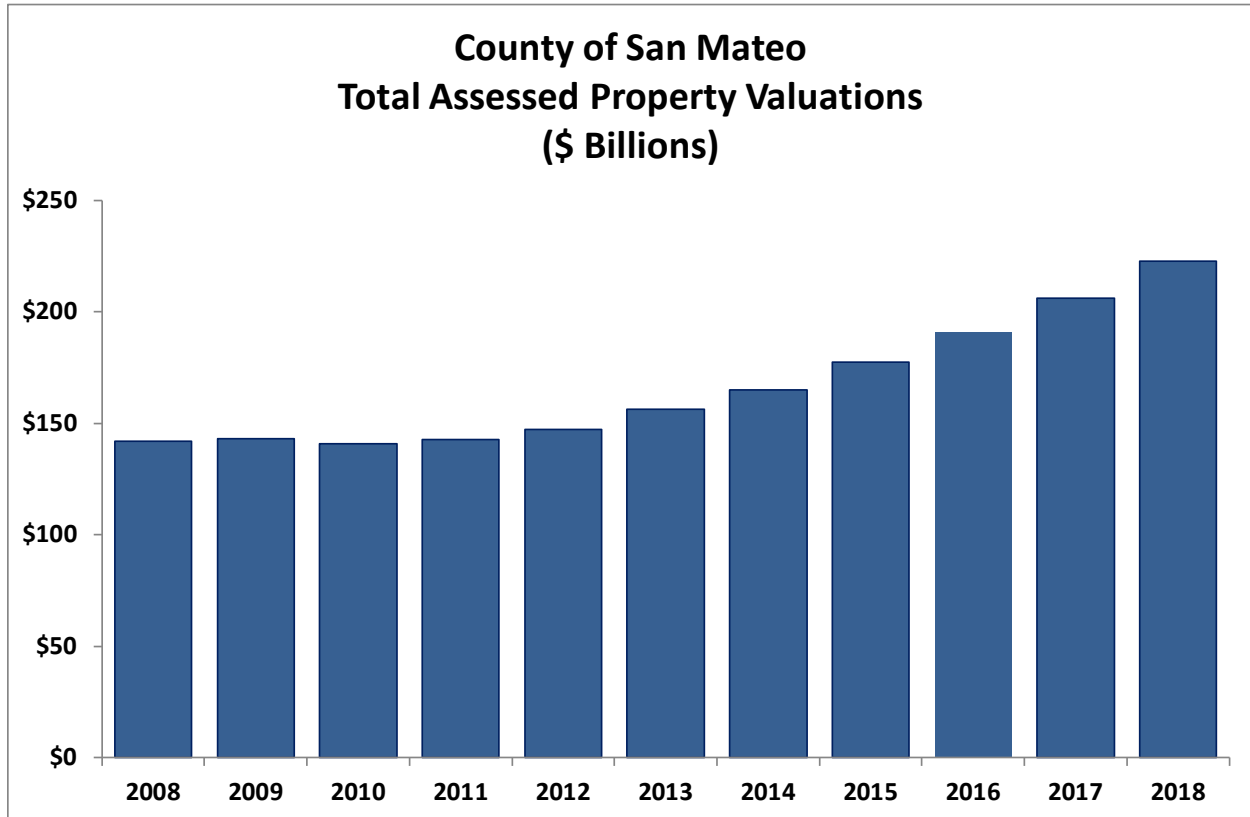
Unemployment

Reflective of the Bay Area's strong economy, recent 2019 data from the United States Bureau of Labor Statistics shows unemployment rates for San Mateo County and SVCW Member Agencies at approximately 2%, well below California and National rates, respectively.



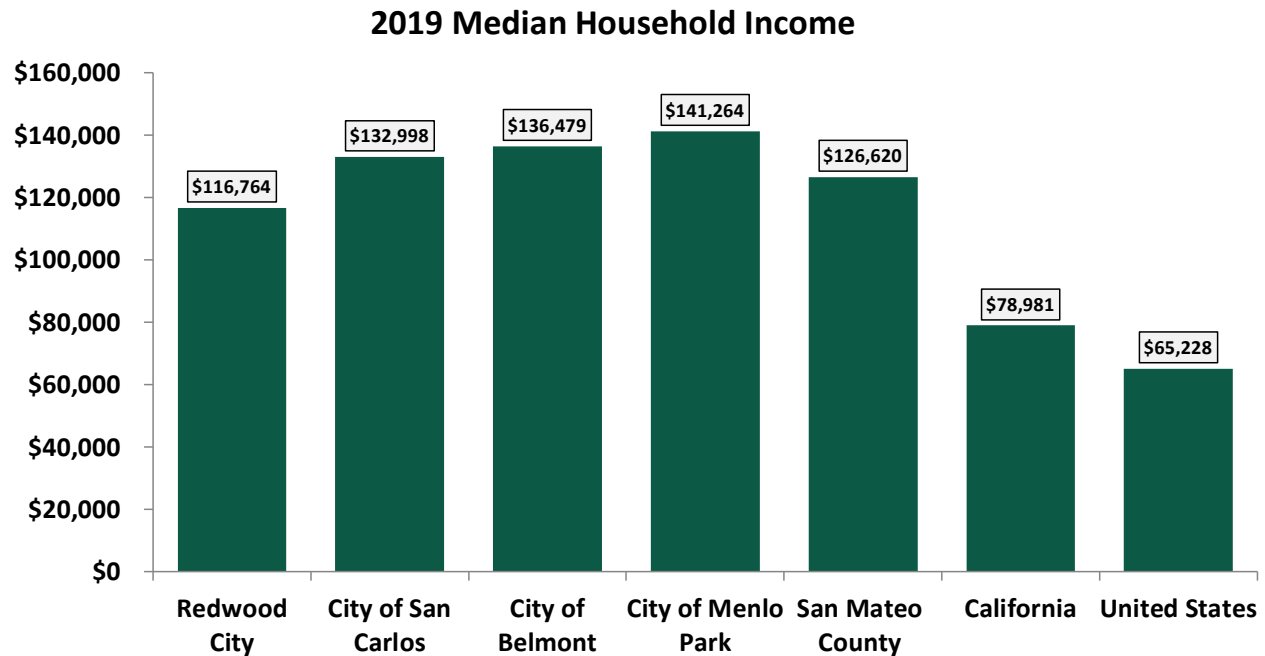
County Assessed Valuations

San Mateo County had approximately \$223 billion in total assessed 2018 real property valuation, an increase of \$16.5 billion (or 8.0%) from the previous year.



Median Household Income

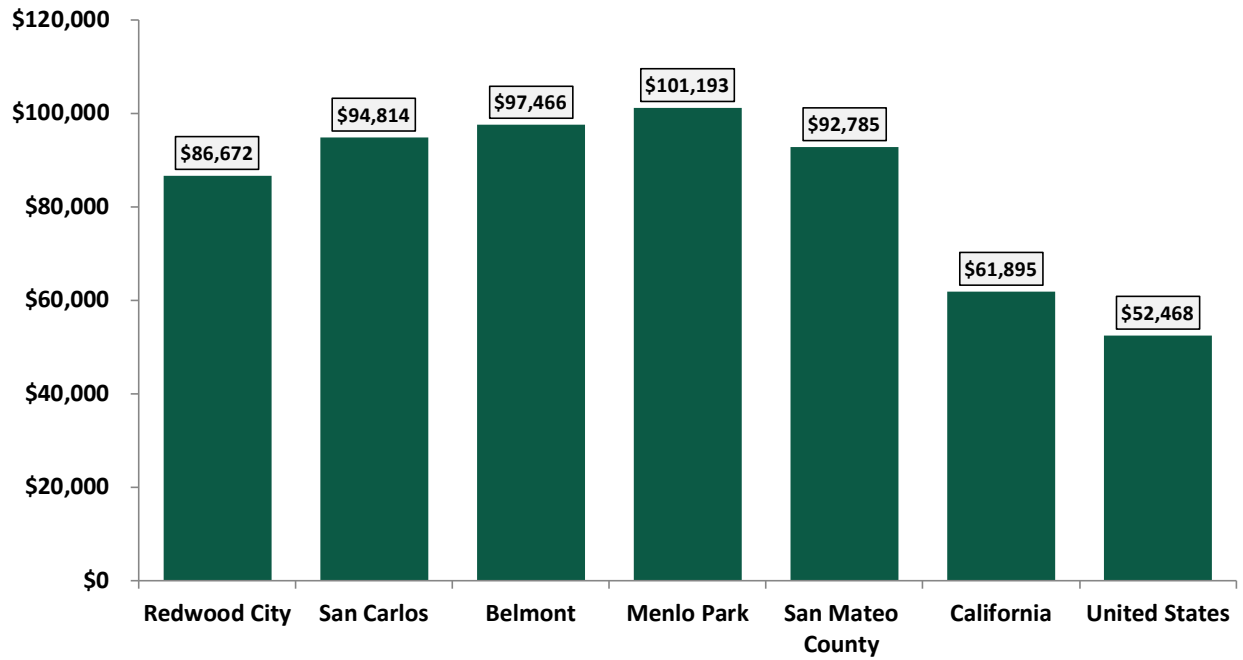
The median household incomes and effective buying incomes are consistently above the State and National income rates for San Mateo County, City of Belmont, City of San Carlos, City of Menlo Park and Redwood City. Public 2019 economic data shows that the median household income of San Mateo County, at \$126.6 thousand, is 194% and 160% of the Nation's and State's median household income, respectively.



Effective Buying Income

The Communities served by SVCW show high effective buying income levels in comparison to National and State medians. The Effective Buying Income is the amount of a consumer's disposable income; it reflects the money consumers retain after taxes. The following chart shows that SVCW communities have Effective Buying Incomes of \$86 thousand to \$101 thousand, which is 165% to 193% of the National levels, and 140% to 163% of California levels.

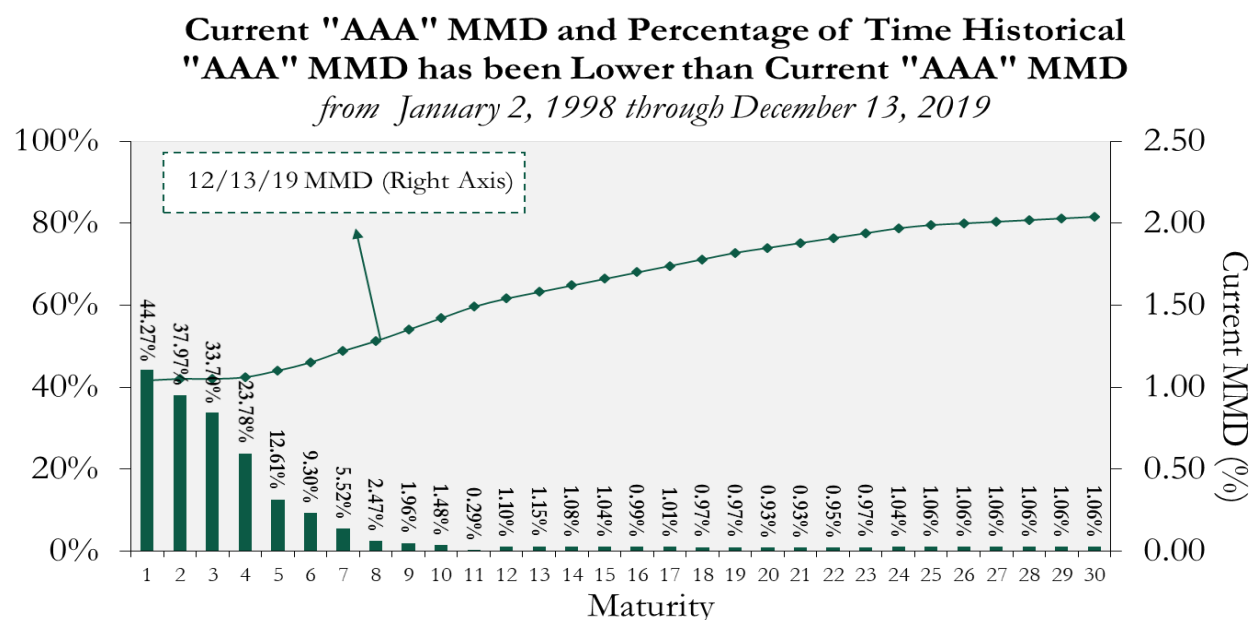
2018 Effective Buying Income



Interest Rates

Based upon market conditions, every financing tool has projected interest rates depending on the type of the debt whether it is fixed or variable. For example, the anticipated SRF loan rate for the RESCU program, based on discussions with the state, may be as low as 1.3%. The WIFIA loan rate was indexed to the treasury rate and, though forecasted last year at 3.45%, closed in July 2019 at 2.40%. As fixed rate bonds are subsequently used, SVCW anticipates a projected interest rate of 3.8% for bonds issued in summer of 2020. Finally, the Model uses a total projected variable rate of 3.40% inclusive of annual liquidity fees by the time they are issued in 2024. At present, tax-exempt rates remain not far above near-historical lows of July 2016.

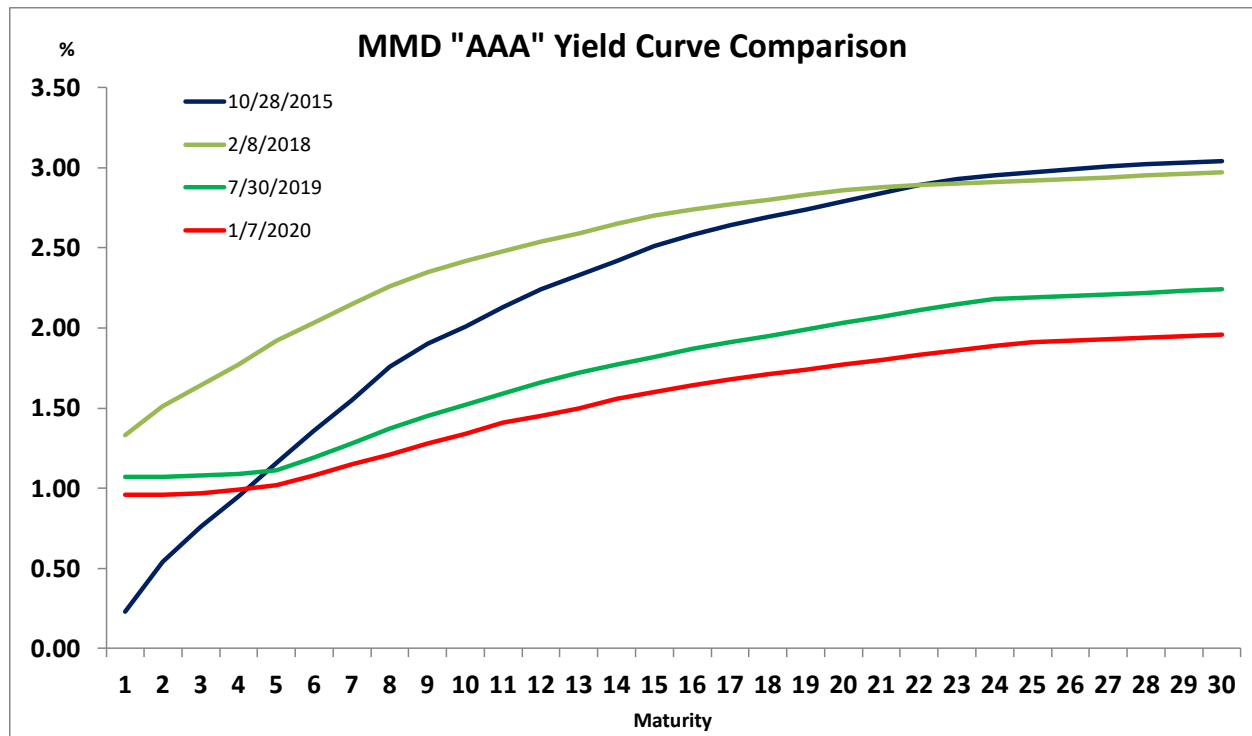
The table below provides tax-exempt interest rates for the Municipal Market Index as of December 13, 2019 and compares current rates to historical rates by term. The data demonstrates that interest rates are lower historically in the longer maturities greater than five years, suggesting advantageous market conditions for issuing long-term debt.



Source: Thomson Municipal Market Monitor

The four yield curves shown below are a snapshot of interest rates when SVCW issued three series of Bonds or Notes, with a comparison to January 7, 2020. Notably, current rates are the lowest throughout the 30-year maturities.

The Federal Reserve decreased the Fed Funds rate by a quarter percent three times in the past year. In the upcoming election year, significant changes in rates are not anticipated. With interest rates near historical lows, however, it remains an advantageous time to finance projects.



Source: Thomson Municipal Market Monitor

Interest earnings on Project Funds and Reserves:

It is estimated that funds held by SVCW related to the CIP, including reserve funds required by the SRF Loan program, will achieve investment earnings of 1.75% annually over the long term.

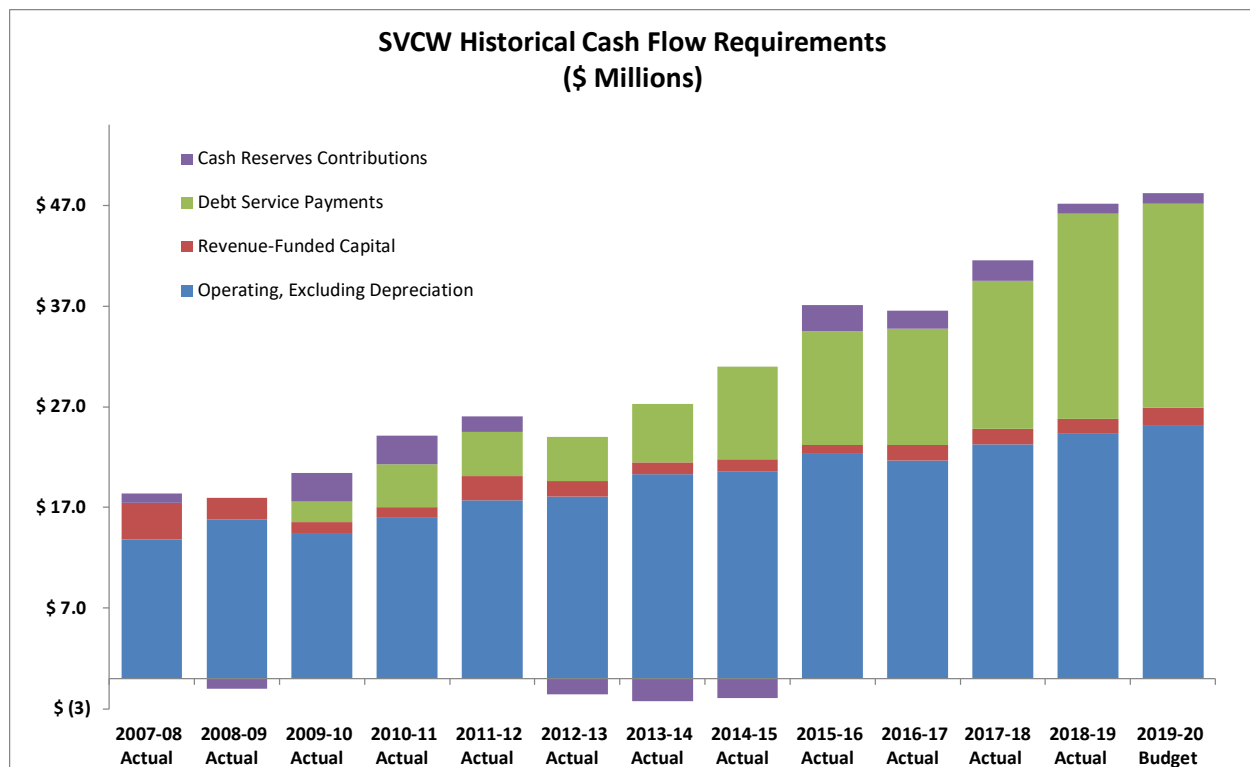
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SECTION 4 – HISTORICAL FINANCIALS

Historical Cash Flow Requirements

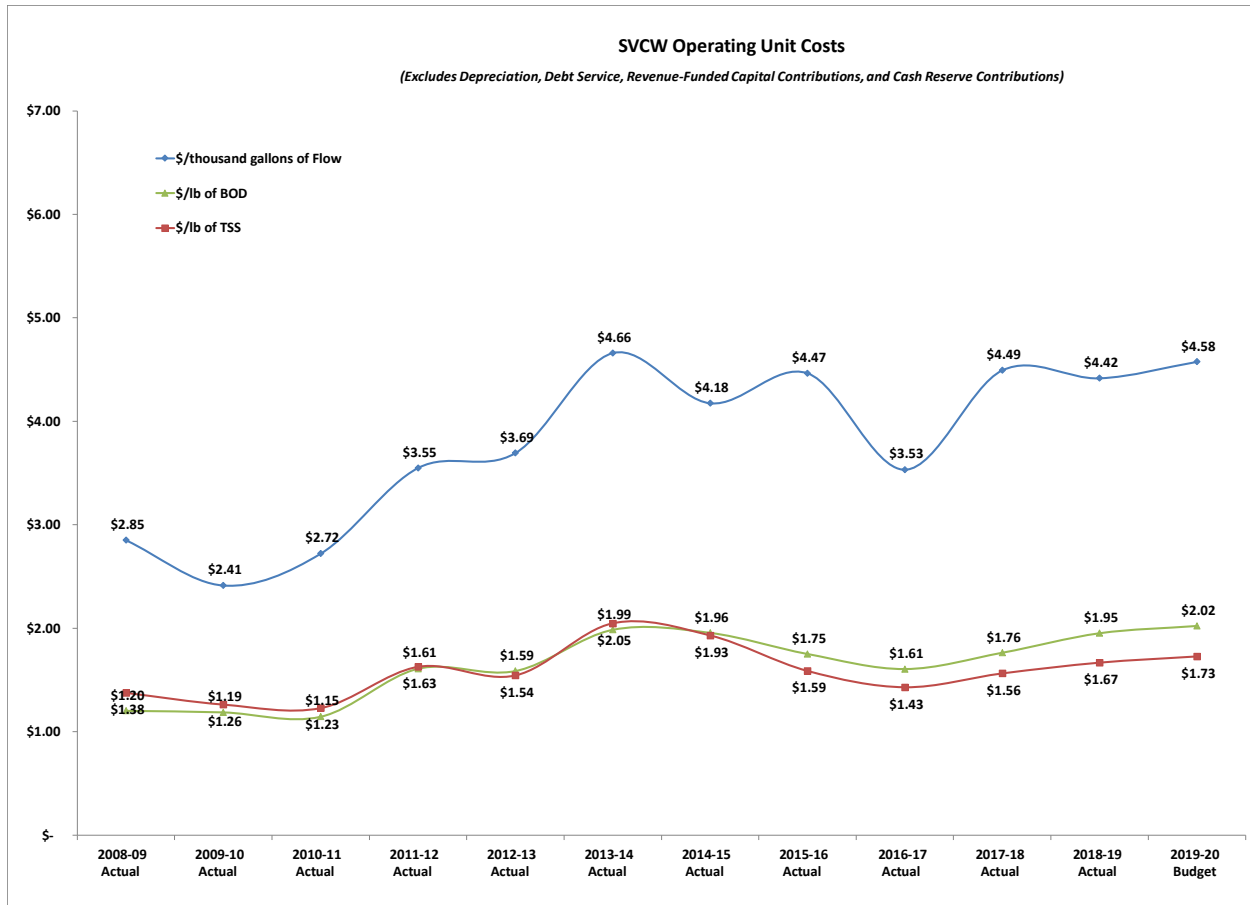
Total Cash Flow Requirements

SVCW annual cash flow requirements from Members have more than doubled over the past decade, mostly due to higher debt service payments needed to finance its CIP.



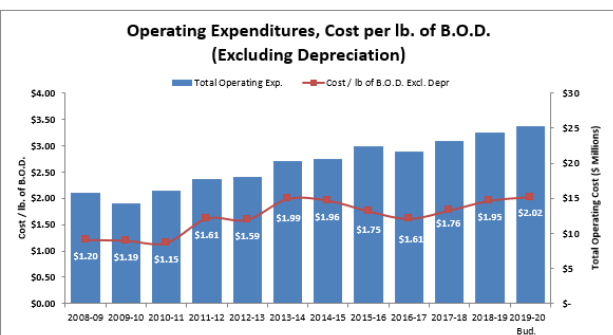
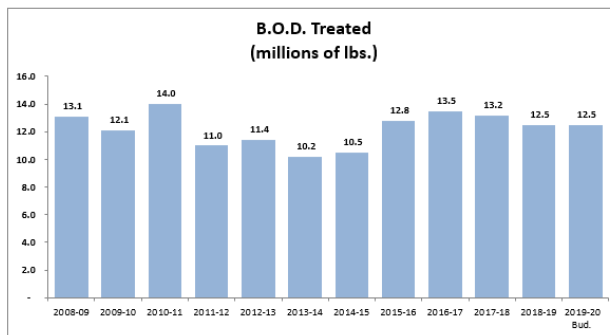
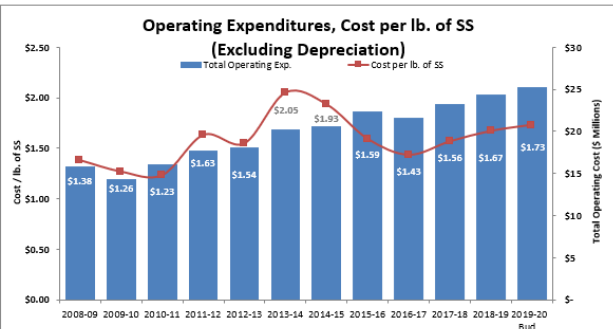
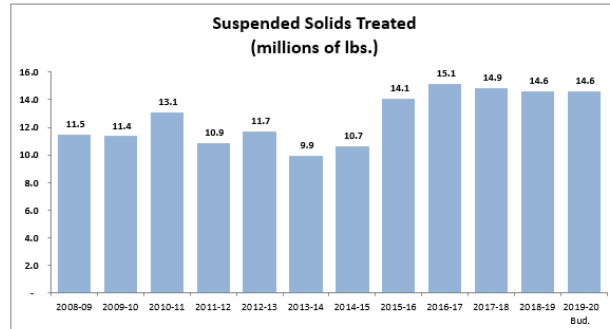
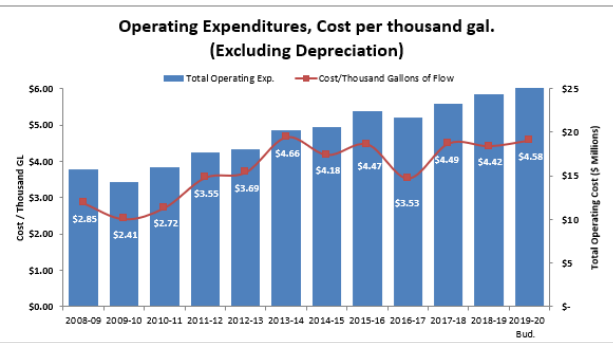
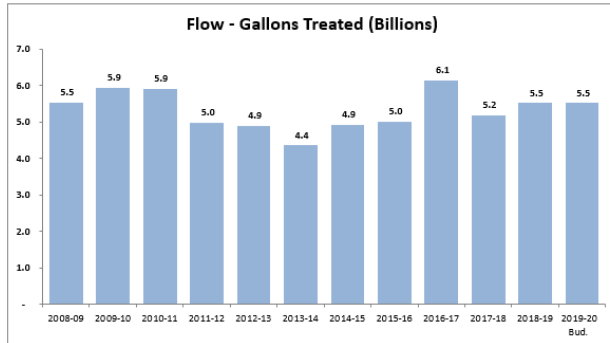
Historical Unit Costs

When isolated to only Operating Expenditures (excluding Depreciation), SVCW historical operating unit costs have increased 82% since 2007-08 repair plans were initiated. These increases were driven by ordinary inflationary pressures, increased staffing to better operate and maintain SVCW assets, and creating an engineering division to develop and manage the CIP.



In addition to the change in wastewater flows caused by droughts, the characteristics of the wastewater stream have also changed as local communities added housing and commercial developments. The following charts provide a side-by-side comparison of operating volumes and unit cost trends.

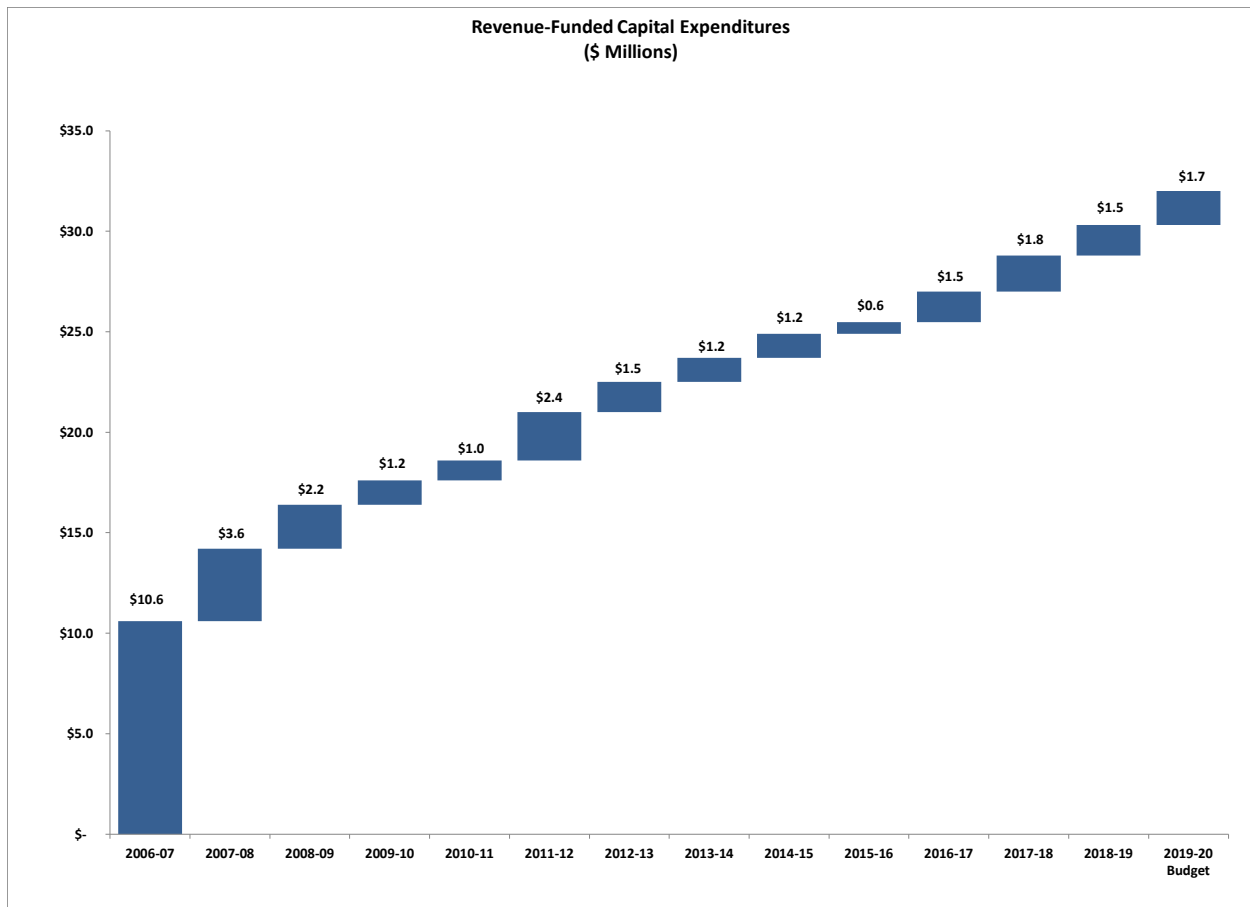
Another influencing factor on unit costs is volatility of operating volumes including Flow, Biological Oxygen Demand (BOD), and Total Suspended Solids (TSS). Drought conditions from 2011 to 2016 contributed to a rise in Unit Costs, then after a significant rain year in fiscal year 2016-17, flows returned to “normal” levels. Operating Unit Costs are measured per thousands of gallons treated, per pound of TSS, and per pound of BOD.



Revenue-Funded Capital Expenditures

Revenue-Funded Capital Expenditures are for capital projects that are generally below \$1 million and completed within one year. Revenue-funded capital projects may include minor construction, purchase of vehicles or heavy equipment, maintenance repairs that improve an asset's useful life, as well as planning studies or preliminary engineering analysis for major capital improvements. Due to their relatively minor cost, it is appropriate to fund these items using cash rather than long-term debt.

Since 2006-07, SVCW has spent approximately \$30 million on Revenue-Funded Capital. Prior to formally adopting the Capital Improvement Program in fiscal year 2007-08, Member Entities made relatively large cash contributions to address SVCW's immediate capital project needs. Since 2008-09, however, SVCW has averages \$1.5 million annually in Revenue-Funded capital expenditures.



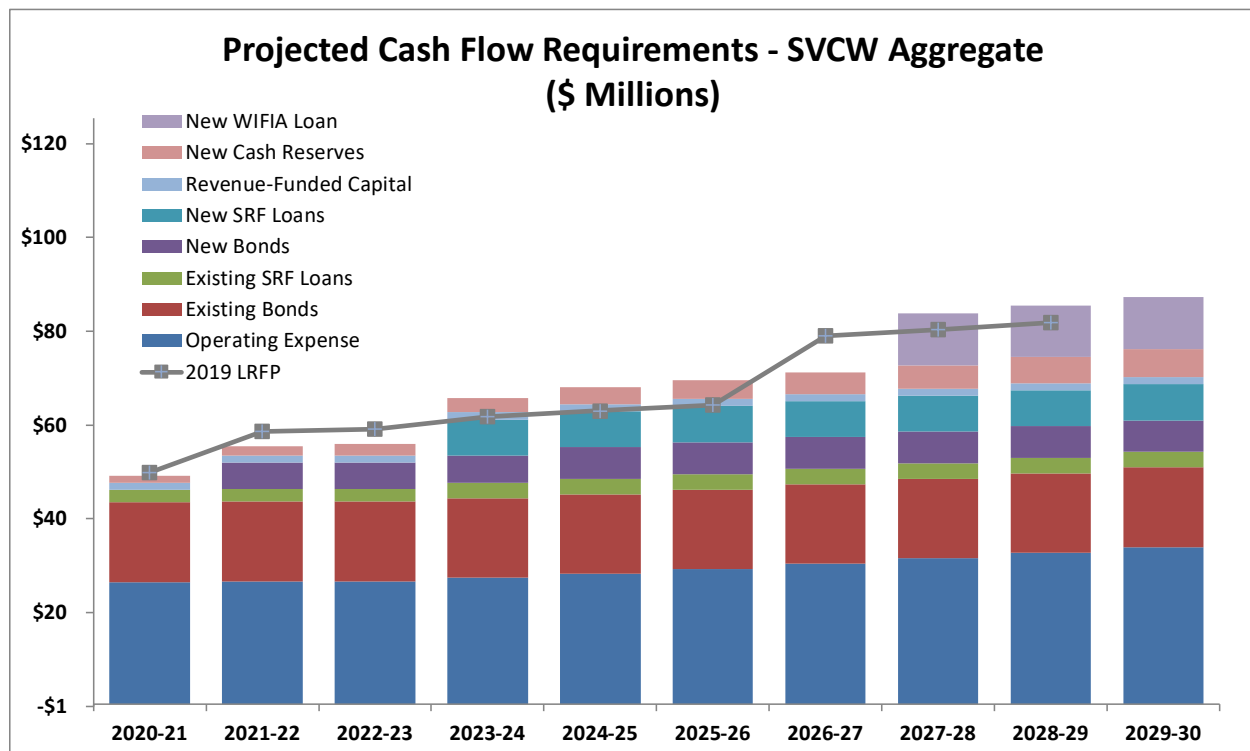
Cash Reserves

The SVCW Commission has adopted cash reserve policies that document the goals and amounts intended to be held in reserves. Each year, the SVCW budget process reviews reserve balances and makes adjustments necessary to meet the policy. In 2018-19, \$1 million was contributed to the Capital Improvement Program Reserve.

SECTION 5 – TEN-YEAR FINANCIAL PROJECTIONS

In fiscal year 2020-21 SVCW anticipates total expenditures will be \$48.6 million (excluding any cash contributions in lieu of Bonds) for all costs of operations, debt service, revenue-funded capital, and reserve contributions. This figure is anticipated to grow to \$86.8 million over the next ten years:

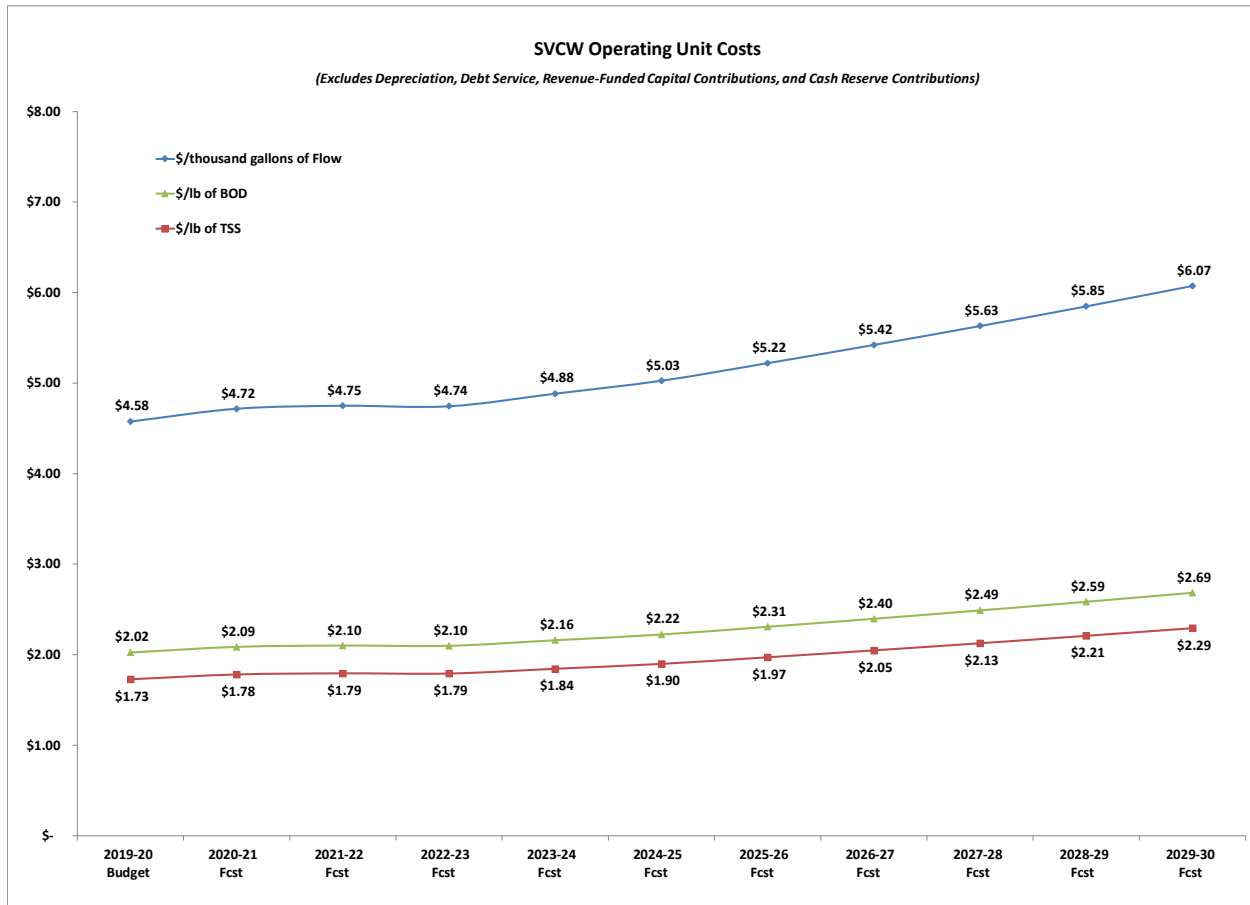
Projected SVCW Cash Flow Requirements - Aggregate (\$ Millions)										
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating Expense	\$ 25.99	\$ 26.17	\$ 26.14	\$ 26.91	\$ 27.69	\$ 28.76	\$ 29.87	\$ 31.02	\$ 32.22	\$ 33.46
Existing Bonds	17.02	17.01	17.00	17.00	17.01	16.98	16.98	16.98	16.97	16.96
Existing SRF Loans	2.63	2.63	2.63	3.32	3.32	3.32	3.32	3.32	3.32	3.32
New Bonds	-	5.69	5.69	5.69	6.71	6.71	6.71	6.71	6.71	6.71
New SRF Loans	-	-	-	7.75	7.75	7.75	7.75	7.75	7.75	7.75
New WIFIA Loan	-	-	-	-	-	-	-	11.06	11.06	11.06
Revenue-Funded Capital	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
New Cash Reserves	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50	6.00
TOTAL	\$ 48.63	\$ 55.00	\$ 55.46	\$ 65.18	\$ 67.48	\$ 69.03	\$ 70.63	\$ 83.34	\$ 85.03	\$ 86.76



Projected SVCW Operating Expenditures

SVCW operating expenses will increase as expected, by approximately 3.5% annually over the next decade. This includes future benefits derived from more power generation and additional miscellaneous revenues of a food waste-to-energy program.

SVCW Operating Expenditures (\$ Millions)												
Description	2019-20 Budget	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	
Personnel	\$ 16.6	\$ 17.3	\$ 18.0	\$ 18.7	\$ 19.2	\$ 19.7	\$ 20.5	\$ 21.3	\$ 22.2	\$ 23.1	\$ 24.0	
Utilities	1.7	1.6	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.2	2.3	
Administrative Costs	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	
Equipment & Supplies	2.6	2.6	2.7	2.8	2.9	3.0	3.0	3.1	3.2	3.3	3.4	
Chemicals	1.7	1.7	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	
Professional Services	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2	
Contractual Services	1.9	1.9	2.0	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.5	
Regulatory and Training	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	
Total Expenditures	\$ 26.3	\$ 27.0	\$ 28.0	\$ 29.1	\$ 29.9	\$ 30.8	\$ 31.9	\$ 33.1	\$ 34.3	\$ 35.6	\$ 36.9	
Less Misc. Revenue	(1.1)	(1.1)	(1.9)	(2.9)	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)	(3.4)	(3.5)	
Net Operating Expend.	\$ 25.2	\$ 26.0	\$ 26.2	\$ 26.1	\$ 26.9	\$ 27.7	\$ 28.8	\$ 29.9	\$ 31.0	\$ 32.2	\$ 33.5	



Debt Service Structure / Annual Debt Service Payments

SVCW and its Members have used debt as needed to fund the CIP. Approximately \$647 million of funding has been raised to date. Sources of funds include Wastewater Revenue Bonds, Member Entity cash contributions, SRF Loans, and grants.

Source of CIP Funds to date (\$ millions)			
Description	All-in TIC / Interest Rate	Max Proceeds	Available Proceeds at 6/30/2019
Bonds			
2008 Wastewater Revenue Bonds	5.03%	\$ 10.01	\$ -
2009 Wastewater Revenue Bonds	5.12%	55.86	-
2014 Wastewater Revenue Bonds	4.18%	65.54	-
2015 Wastewater Revenue Bonds	3.75%	30.00	-
2018 Wastewater Revenue Bonds	3.43%	148.98	29.30
Subtotal - Bonds		310.38	29.30
Cash Contributions in lieu of Debt			
Belmont		46.84	14.83
Redwood City		10.00	-
West Bay Sanitary District		13.02	13.02
Subtotal - Cash		69.85	27.84
Government Loans			
SWRCB SRF - Control Building	2.60%	11.36	-
SWRCB SRF - WWTP Improvements	1.80%	31.55	-
SWRCB SRF - Conveyance Planning	1.60%	14.00	-
U.S. EPA WIFIA - RESCU Program	2.40%	207.33	207.33
Subtotal - Government Loans		264.24	207.33
Grant Funding			
PG&E Cogeneration Grant		2.40	0.32
California Energy Commission		0.50	-
Subtotal - Grant Funding		2.90	0.32
TOTAL		\$ 647.38	\$ 264.79

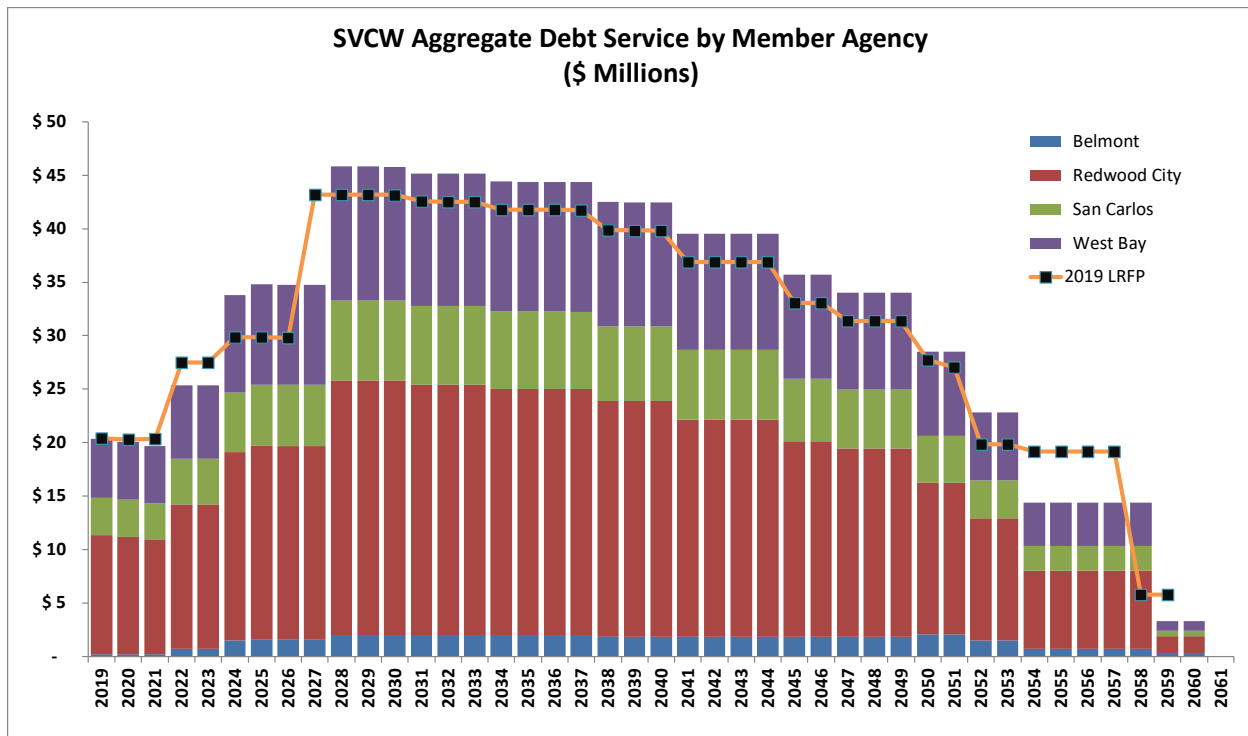
Looking forward, after recognizing \$264 million in currently-available funding at the beginning of the fiscal year, approximately \$561 million of CIP expenditures remains. This LRFP recommends the following funding approach, with a comparison to the prior year's LRFP:

Description	2019 LRFP	2020 LRFP
Remaining CIP to be funded	\$560 Million	\$561 Million
\$ Fixed Bonds / % of New Debt	\$24M / 4%	\$99M / 18%
\$ Variable Bonds / % of New Debt	\$48M / 9%	\$29M / 5%
\$ SRF Loans* / % of New Debt	\$141M / 25%	\$169M / 30%
\$ WIFIA Loan / % of New Debt	\$208M / 37%	\$208M / 37%
Proceeds or Cash / % of New Debt	\$139M / 25%	\$56M / 10%
Weighted Average Cost of Capital %	2.88%	2.57%

The attractive interest rates of WIFIA and the attractive market conditions result in an improved Weighted Average Cost of Capital (WACC), now estimated at 2.57%.

Over the next four decades displayed below, total remaining aggregate debt service is \$1.28 billion, or approximately \$56 million more (in nominal dollars) than prior year's Plan. If discounted to January 2020 dollars, this difference is a Net Present Value of \$22 million.

This Plan anticipates Maximum Annual Debt Service payments (MADS) will increase by \$2.6 million after fiscal year 2027-28. Over the next eight years through fiscal year 2026-27, however, cumulative debt service payments are net neutral.



SVCW Wastewater Revenue Bonds

Financing Agreements adopted between SVCW and its Member Entities obligate each of these agencies to make payments to SVCW for their respective allocable share of debt service. The City of Belmont has, to date, not participated in SVCW Bond financing and is therefore not obligated to make debt service payments on bonds currently outstanding.

Bond debt service payments are \$17.5 million in fiscal year 2019-20 including three issuances from series 2014, 2015, and 2018. With this update, an additional \$99.6 million bond issuance is planned in summer 2020, with a subsequent variable-rate issuance of \$29.3 million in 2024.

State Revolving Fund Loans

SVCW has thus far financed certain projects by entering into three separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). This program is funded from the California State Revolving Fund (SRF) program. The project funds, including any accrued interest, are repaid in annual installments commencing one year after construction.

Current SRF loan payments will peak at \$3.3 million. These loans financed the Control Building, certain Wastewater Treatment Improvements loans, and conveyance system planning efforts.

SVCW is currently in discussions with the SWRCB to secure a \$168.8 million SRF loan for the gravity pipeline element of RESCU, anticipated to close in early 2020. It is likely the interest rate will be 1.6%, though the Long Range Finance Model conservatively assumes 1.9%.

Line of Credit

SVCW holds a \$30 million Line of Credit (LOC), with an accordion feature for up to \$65 million, providing bridge financing for CIP projects. The LOC remains a valuable tool to manage cash flow and reduce borrowing costs. Specifically, the LOC furnishes interim cash flows between bond issuances or when SVCW awaits reimbursement of construction costs funded by the SRF program. When borrowing through SRF, SVCW pays for services and afterwards submits paid invoices to the state for reimbursement. Reimbursement generally takes 30 to 90 days and the LOC acts as a bridge loan during this period.

Revenue-Funded Capital Expenditures

Over the next decade, until the CIP Cash Reserve balance reaches its target, SVCW anticipates investing approximately \$1.5 million annually revenue-funded capital projects. These projects are typically installed and managed by staff and include fleet, valve replacements, new pumps and motors, gear assemblies, technology upgrades, or maintenance equipment.

Cash Reserves Contributions

The table below shows the projected annual cash reserve contributions to the Capital Improvement Program Fund, its earnings, and the balances. After ten years SVCW is projected to have nearly \$63 million in cash reserves that could be used for the next generation of capital improvements.

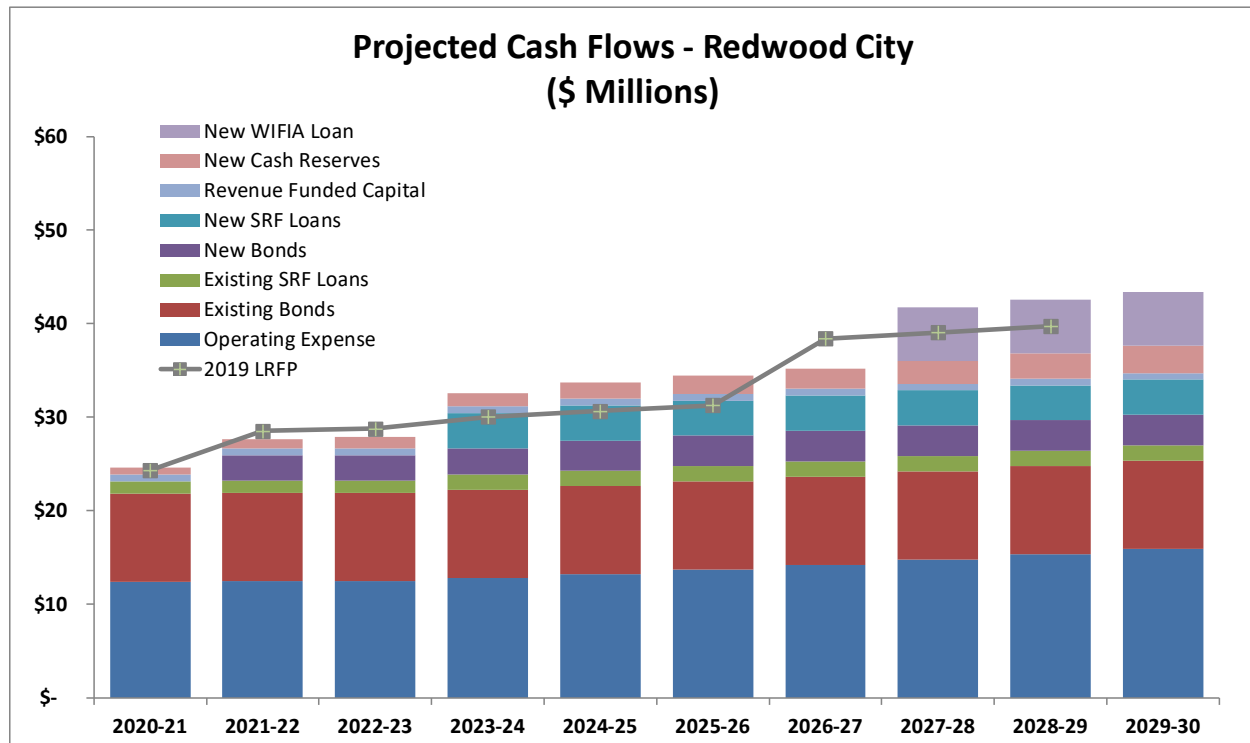
CIP Cash Reserves Forecast (\$ Millions)											
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	
Beginning Balance	\$ 19.5	\$ 21.4	\$ 23.8	\$ 26.7	\$ 30.2	\$ 34.3	\$ 39.0	\$ 44.3	\$ 50.1	\$ 56.6	
Contributions	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0	
Earnings (at 1.75%)	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.0	1.1	
Ending Balance	\$ 21.4	\$ 23.8	\$ 26.7	\$ 30.2	\$ 34.3	\$ 39.0	\$ 44.3	\$ 50.1	\$ 56.6	\$ 63.7	

Cash Reserve contributions follow SVCW policy at \$1.5 million contributed annually in fiscal year 2020-21, after which contributions increase annually by \$500 thousand. Such contributions continue until cumulative CIP Reserves reaches an inflation-adjusted target of \$63.7 million, after which the contributions will be redirected to Revenue-Funded Capital projects.

Total Cash Flow Projections by Member Entity

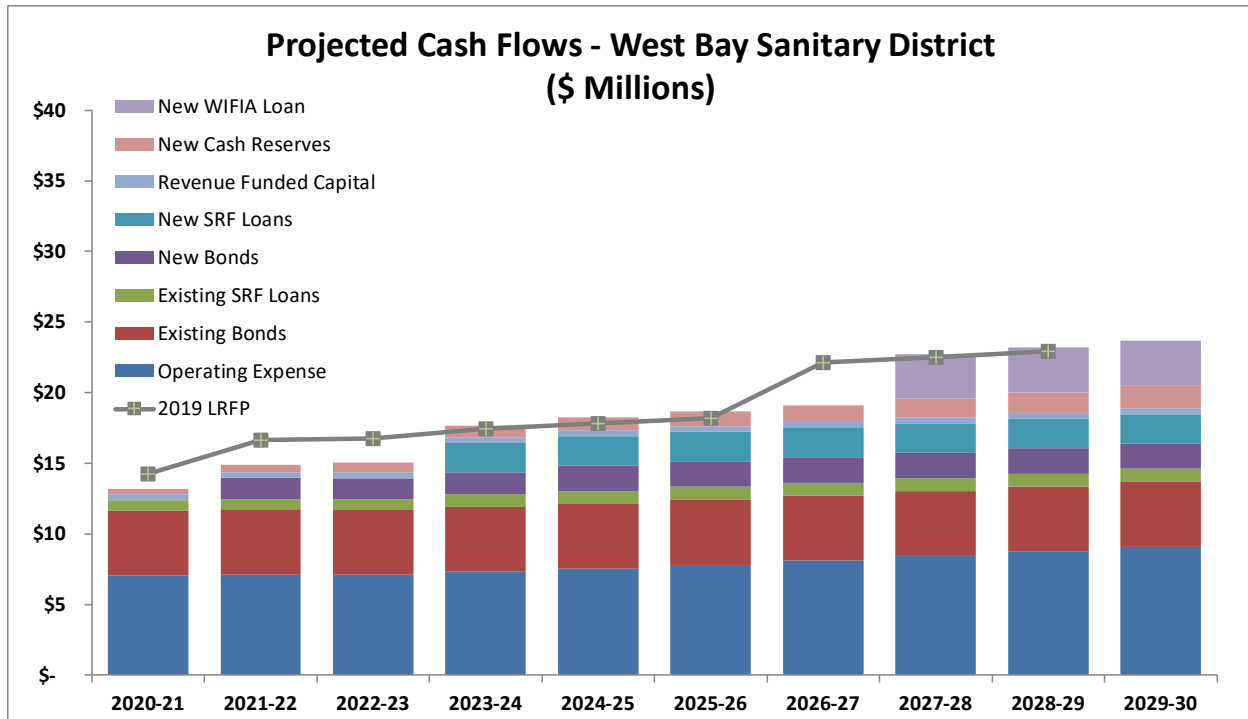
The following charts and tables describe the cash flow projections required for all SVCW expenditures. Each Member Entity is also provided with a detailed description for their own planning purposes.

Redwood City

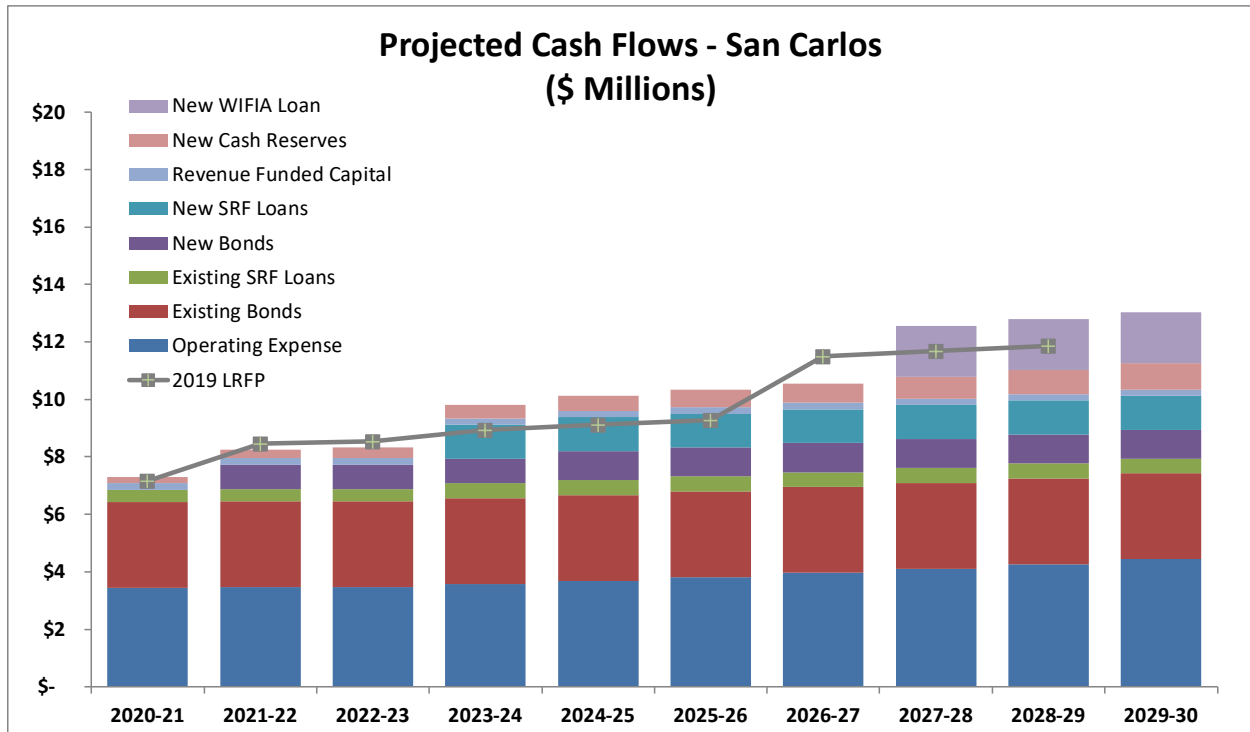


Projected SVCW Cash Flow Requirements - Redwood City (\$ Millions)										
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating Expense	\$ 12.37	\$ 12.46	\$ 12.44	\$ 12.81	\$ 13.18	\$ 13.69	\$ 14.22	\$ 14.77	\$ 15.34	\$ 15.93
Existing Bonds	9.43	9.42	9.42	9.42	9.41	9.41	9.41	9.41	9.40	9.39
Existing SRF Loans	1.32	1.32	1.32	1.65	1.65	1.65	1.65	1.65	1.65	1.65
New Bonds	-	2.76	2.76	2.76	3.26	3.26	3.26	3.26	3.26	3.26
New SRF Loans	-	-	-	3.77	3.77	3.77	3.77	3.77	3.77	3.77
New WIFIA Loan	-	-	-	-	-	-	-	5.72	5.72	5.72
Revenue Funded Capital	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73	0.73
New Cash Reserves	0.73	0.97	1.21	1.46	1.70	1.94	2.19	2.43	2.67	2.91
TOTAL	\$ 24.57	\$ 27.66	\$ 27.89	\$ 32.59	\$ 33.70	\$ 34.45	\$ 35.22	\$ 41.72	\$ 42.53	\$ 43.35

West Bay Sanitary District



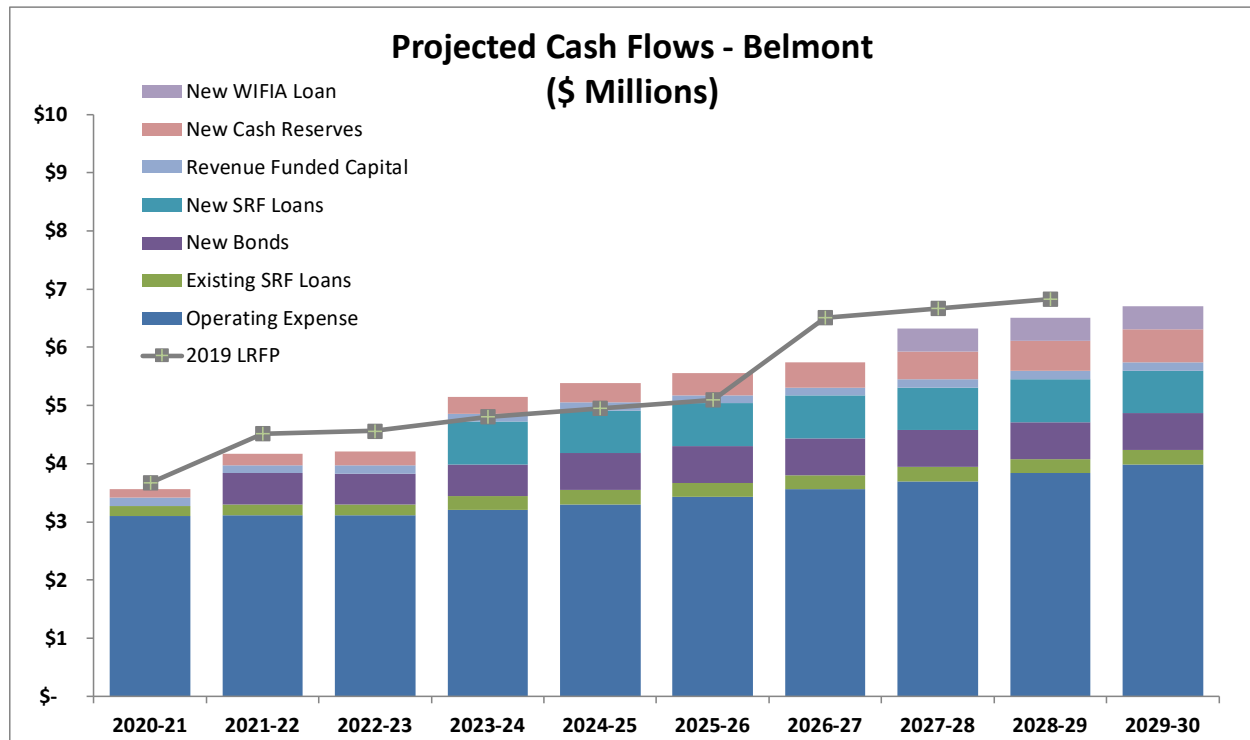
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating Expense	\$ 7.08	\$ 7.13	\$ 7.12	\$ 7.33	\$ 7.54	\$ 7.83	\$ 8.13	\$ 8.45	\$ 8.77	\$ 9.11
Existing Bonds	4.59	4.60	4.59	4.59	4.59	4.59	4.58	4.58	4.58	4.58
Existing SRF Loans	0.73	0.73	0.73	0.91	0.91	0.91	0.91	0.91	0.91	0.91
New Bonds	-	1.53	1.53	1.53	1.80	1.80	1.80	1.80	1.80	1.80
New SRF Loans	-	-	-	2.08	2.08	2.08	2.08	2.08	2.08	2.08
New WIFIA Loan	-	-	-	-	-	-	-	3.16	3.16	3.16
Revenue Funded Capital	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
New Cash Reserves	0.40	0.54	0.67	0.81	0.94	1.07	1.21	1.34	1.48	1.61
TOTAL	\$ 13.20	\$ 14.92	\$ 15.03	\$ 17.64	\$ 18.27	\$ 18.69	\$ 19.12	\$ 22.73	\$ 23.19	\$ 23.66



Projected SVCW Cash Flow Requirements - San Carlos (\$ Millions)											
Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	
Operating Expense	\$ 3.44	\$ 3.47	\$ 3.46	\$ 3.57	\$ 3.67	\$ 3.81	\$ 3.96	\$ 4.11	\$ 4.27	\$ 4.44	
Existing Bonds	2.99	2.99	2.99	3.00	3.00	2.98	2.99	2.99	2.99	2.98	
Existing SRF Loans	0.41	0.41	0.41	0.51	0.51	0.51	0.51	0.51	0.51	0.51	
New Bonds	-	0.86	0.86	0.86	1.02	1.02	1.02	1.02	1.02	1.02	
New SRF Loans	-	-	-	1.17	1.17	1.17	1.17	1.17	1.17	1.17	
New WIFIA Loan	-	-	-	-	-	-	-	1.78	1.78	1.78	
Revenue Funded Capital	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	
New Cash Reserves	0.23	0.30	0.38	0.45	0.53	0.61	0.68	0.76	0.83	0.91	
TOTAL	\$ 7.30	\$ 8.26	\$ 8.34	\$ 9.80	\$ 10.13	\$ 10.33	\$ 10.56	\$ 12.57	\$ 12.80	\$ 13.04	

Belmont

Belmont has not joined SVCW Bond issuances, instead contributing cash in lieu of debt participation. It has, however, fully participated in certain SRF loans and partially participated in the WIFIA government loan program. This decision reduces Belmont's SVCW-associated debt service as compared to 2019 Long Range Finance Plan.



Description	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating Expense	\$ 3.10	\$ 3.12	\$ 3.11	\$ 3.21	\$ 3.30	\$ 3.43	\$ 3.56	\$ 3.70	\$ 3.84	\$ 3.99
Existing SRF Loans	0.18	0.18	0.18	0.24	0.24	0.24	0.24	0.24	0.24	0.24
New Bonds	-	0.54	0.54	0.54	0.63	0.63	0.63	0.63	0.63	0.63
New SRF Loans	-	-	-	0.73	0.73	0.73	0.73	0.73	0.73	0.73
New WIFIA Loan	-	-	-	-	-	-	-	0.40	0.40	0.40
Revenue Funded Capital	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
New Cash Reserves	0.14	0.19	0.24	0.28	0.33	0.38	0.43	0.47	0.52	0.57
TOTAL	\$ 3.56	\$ 4.17	\$ 4.21	\$ 5.15	\$ 5.38	\$ 5.56	\$ 5.74	\$ 6.32	\$ 6.51	\$ 6.70

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SECTION 6 – SENSITIVITIES

Traditional risks to the efficient completion of large capital plans include unanticipated increases such as inflation and interest rate volatility. The risks of inflation and rising interest rates are outside the control of SVCW; however, strategies can mitigate these risks. The Plan, for instance, assumes a 4% inflation factor in operating costs. Further, interest rates utilized by the Model are conservative and generally based on historical averages and, as a result, are presumed to be higher than market rates. As another example of cost preparedness, SVCW increased the CIP estimates by implementing cost inflators through the midpoint of construction.

To assess the impact of borrowing at interest rates higher than the conservative rates assumed in the recommendation, a sensitivity-analysis was conducted by increasing the weighted cost of capital by 50 basis points (0.50%). Such an increase would result in a greater debt service cost of (Net Present Value) \$28 million over the life of the debt issued.

Capital Improvement Program Adherence

The timing of the projects is considered achievable under present economic and operational assessments. Based upon the size of the CIP, project costs and interest expense are both significant. Adhering to the budget and timing of the CIP is singularly the most cost-effective strategy to manage costs. As the regional economy continues to expand, inflationary pressures rise. It is estimated that a one-year delay to the RESCU program, for example, would increase costs by approximately \$27 million based upon a construction cost inflation factor of 4%. SVCW has shown that its Progressive Design-Build project delivery method is so far avoiding these schedule risks.

Government Loan Availability

The SWRCB has thus far secured \$57 million in SRF loans and a \$207 million WIFIA loan. The low cost of these government loans, with their flexible repayment terms, has significantly reduced interest expense. As an example, the recently-executed WIFIA loan was closed at a 2.4% interest rate and, when compared to traditional Wastewater Revenue Bonds, is estimated to save SVCW ratepayers \$43 million on a present value basis over the repayment period.

The SWRCB has also agreed the SVCW RESCU program is eligible for a \$168 million SRF loan. SVCW is actively working to close this loan in early 2020 and conservatively estimates an interest rate of 1.9%.

Inflation

Operating Expenditures - The LRFP includes inflationary assumptions of approximately 4% on operating costs. The Consumer Price Index (CPI) is a measure of the “average change in prices over time in a fixed market basket of goods and services” which translates to a guide for determining the prices on food, energy, fuel and other goods and services. CPI is a good indicator of how the economy holds up against inflation and surrounding economic changes.

Capital Expenditures – Construction costs of labor and materials continue to increase. While SVCW negotiates for best pricing on projects, the rise in material and labor costs places upward pressure on the CIP. Additionally, the list of capital projects will evolve as SVCW’s wastewater infrastructure continues to age, new regulations are introduced, or project scopes change.

Interest Rates

It is impossible to predict interest rate levels or the timing of changes. What is known, however, is today’s interest rates are attractive. With tax-exempt interest rates at historical low levels, a decrease in rates is unlikely. A more plausible outcome would be for the market to experience higher interest rates in the future.

Changes in interest rates have been somewhat mitigated with Governmental Loan funding. Publicly issued debt, however, would likely bear the entire market increase with estimated rates.

If SVCW’s remaining Weighted-Average Cost of Capital was to increase by 50 basis points (or 0.5%), SVCW annual debt service payments (at its maximum aggregate point) would increase by \$1.2 million. Over the entire amortization term, the cost of this change in interest rates would be a Net Present Value of \$34.5 million. It should be noted, however, that both the SRF Loan interest rates and publicly issued bond rates assumed in the Model have a significant cushion versus the current market (e.g. a minimum of 0.5% higher than the recent 2018 Fixed Bond rate).

SECTION 7 – SUMMARY

SVCW provides this Long Range Financial Plan as a recommendation and implementation strategy to fund the next decade of capital improvements. The Plan documents the analysis of possible alternatives. Due to the extensive nature and cost of the CIP, leveraging long term debt is the most practical funding method. Individual Members may of course determine that, for their own specific purposes, cash contributions may be appropriate.

Due to the historical lack of a sinking fund and cash reserves, the recommended debt strategy is in lieu of a pay-go cash strategy. Debt allows SVCW to distribute costs over the expected useful lives of constructed assets, and also provides fairness to Members' ratepayers by spreading costs across generations and facilitating moderate and consistent rate increases. In general, CIP funding sources include 1) Capital markets by issuing publicly traded revenue bonds; 2) Government loans through SRF and WIFIA programs when available; and 3) cash that has been accrued by the Members Agencies.

This LRFP's recommendations and its outcomes are for planning purposes. SVCW believes it is a reasonable forecast of expenditures over the next year, including a well-informed position that SVCW will be able to access government loan programs from the SWRCB. This LRFP therefore is useful for Member Agencies as they consider budgets and analyze their sewer rates.