

**COMMISSION OF SILICON VALLEY CLEAN WATER  
JOINT POWERS AUTHORITY  
REGULAR MEETING – Monday, December 16, 2019  
8:00 a.m.**

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

**COMMISSIONERS**

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 – MEMBER

**MANAGER:** TERESA A. HERRERA

**ATTORNEY FOR THE AUTHORITY:** CHRISTINE C. FITZGERALD

**CONTROLLER:** KIMBRA MCCARTHY

**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
- 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

- A. Set 2020 Commission Meeting Calendar

7. CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR

8. BUSINESS ITEMS

- A. PRESENTATION ON RESCU PROGRAM STATUS INCLUDING POTENTIAL PROJECT CHANGES

Proposed Action:

Receive PRESENTATION ON RESCU PROGRAM STATUS INCLUDING POTENTIAL PROJECT CHANGES

- B. 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.

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 – 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

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.

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)

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## AGENDA ITEM 5A

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## **SAFETY MOMENT**

### **Tips to Protect Your Home from Theft During the Holidays**

#### **Holiday Theft**

Theft overall tends to rise in the months of November and December. The best thing to do is to make sure you secure everything that you can. Lock up cars, trucks, and homes.

#### **Leave the Lights On**

Thieves usually don't approach homes that appear to be occupied. Leave on outside lights at night (or set them with a timer) and when you leave the house during the day leave on some of the lights inside the home to give an appearance that someone is home.

#### **Package Delivery**

More and more people are purchasing gifts online and having them shipped to their home. With this trend, more people are having packages stolen right off their front porch. If you're expecting packages, request signature confirmation or have a trusted neighbor hold on to it for you.

#### **Creative Disposal**

Creatively dispose of boxes and packaging in which your presents arrive. Try and break down boxes and other packages as to not let potential thieves know what wonderful gifts you and your family received.

#### **Social Media**

In today's interconnected age, it's important to be very careful about what you share on social media. Be careful about what you post and if you decide to share what gifts you received on social media, please make sure you don't have your location tagged to the post.

#### **Travel**

If you're traveling to visit family or going on a holiday vacation, wait until after your trip to post about it. Have a good friend or neighbor check on your house every couple of days to give you an update.

#### **Decorating and Lighting**

Make sure not to run extension cords through windows or garage doors. Just the littlest crack can expose a home to thieves.

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## **AGENDA ITEM 5B**

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Recurring and Upcoming 2020 Commission Actions  
Updated for December 2019 Meeting

January	February	March	April
<ul style="list-style-type: none"> <li>• Long Range Financial Plan</li> <li>• CIP Update (annual or biennial)</li> <li>• Local Limits Adoption</li> </ul>	<ul style="list-style-type: none"> <li>• Review Debt Policy</li> <li>• Review Investment Policy</li> </ul>	Budget Workshop	Budget Adoption
May	June	July	August
<ul style="list-style-type: none"> <li>• Initiate Manager Performance Evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Approve Resolution 77-6 “Personnel Resolution”</li> <li>• Perform Manager Evaluation</li> </ul>	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"> <li>• Commission Meeting schedule for following year</li> <li>• Audited Financial Statements</li> </ul>

 - 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**  
**November 30, 2019**

Description	Market Value	% of Total Holdings	Yield
<b><u>Reserve Accounts</u></b>			
Operating Reserve* - Securities	\$ 3,528,360	1.4%	1.82%
Operating Reserve - Money Market Fund Balance	142,612	0.1%	1.54%
CIP Reserve* - Securities	18,433,086	7.4%	1.99%
CIP Reserve - Money Market Fund Balance	861,975	0.3%	1.54%
Stage 2 Capacity Reserve* - Securities	12,509,117	5.0%	1.98%
Stage 2 Capacity Reserve - Money Market Fund Balance	479,890	0.2%	1.54%
<b>Total Market Value: Operating and Reserve Accounts</b>	<b>\$ 35,955,040</b>	<b>14.4%</b>	<b>1.95%</b>
<b>Total Accrued Interest: Operating and Reserve Accounts</b>	<b>169,603</b>		
<b>GRAND TOTAL, OPERATING AND RESERVE ACCOUNTS</b>	<b>\$ 36,124,643</b>		
<b><u>Bond and Notes Accounts</u></b>			
Zions Bank (Trustee)			
2018 Project Fund Account - CAMP	\$ 20,628,838	8.2%	1.88%
2018 Revenue Account - Cash	4,048	0.0%	1.27%
2018 Acquisition Account - Euro for TBM Purchase	1,115,843	0.4%	
2019A Project Fund Account* - Securities	126,356,455	50.5%	1.71%
2019A Project Fund Account - Money Market Fund	20,209,291	8.1%	1.32%
2019A Cap-I Account* - Securities	27,270,862	10.9%	1.67%
2019A Cap-I Account - Money Market Fund	258,745	0.1%	1.32%
Bank of New York (Trustee)			
2009 Reserve Account - Securities	44	0.0%	0.50%
2009 Revenue FD Account - Money Market Fund 1	11	0.0%	0.46%
2014 Revenue Account	448	0.0%	1.72%
2014 Interest Account - Money Market Fund	13	0.0%	1.80%
2014 Principal Account - Money Market Fund	7	0.0%	1.81%
2014 COI Account - Cash	2	0.0%	
2015 Project Account - Cash	2	0.0%	
2015 Revenue Account	172	0.0%	1.65%
<b>Total Market Value: Bond Proceeds Accounts</b>	<b>\$ 195,844,781</b>	<b>78.3%</b>	<b>1.67%</b>
Accrued Interest: Bond Proceeds Accounts	797,516		
Uninvested Operating Cash (including outstanding checks)	3,645,687	1.5%	
Local Agency Investment Funds (LAIF) Balance	14,685,036	5.9%	2.10%
<b>Total Cash &amp; Investments</b>	<b>\$ 251,097,663</b>	<b>100.0%</b>	<b>1.71%</b>

  
Matt Anderson, CPA

Chief Financial Officer / Assistant General 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](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 November 30, 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	\$ 1,517,320	\$ 4,597,567	\$ 3,272,352	\$ 9,387,239	26.0%	100%	✓	(2.1%)
Federal Agency/GSE	1,633,599	6,357,996	4,182,756	12,174,351	33.7%	100%	✓	(9.9%)
Federal Agency CMO	-	1,685,560	1,034,248	2,719,808	7.5%	100%	✓	1.7%
Federal Agency MBS	3,360	1,528,775	1,130,984	2,663,118	7.4%	100%	✓	5.9%
Municipal	-	99,730	99,730	199,460	0.6%	100%	✓	(0.0%)
Corporate Notes	374,081	4,163,458	2,789,047	7,326,586	20.3%	30%	✓	2.2%
<b>Securities Sub-Total</b>	<b>3,528,360</b>	<b>18,433,086</b>	<b>12,509,117</b>	<b>34,470,563</b>	<b>95.4%</b>			
Accrued Interest	12,852	97,334	59,417	169,603	0.5%			
<b>Securities Total</b>	<b>3,541,212</b>	<b>18,530,420</b>	<b>12,568,533</b>	<b>34,640,166</b>	<b>95.9%</b>			
Money Market Fund	142,612	861,975	479,890	1,484,477	4.1%	20%	✓	2.1%
<b>Total Investments</b>	<b>\$ 3,683,824</b>	<b>\$ 19,392,396</b>	<b>\$ 13,048,423</b>	<b>\$ 36,124,643</b>	<b>100%</b>			<b>0.0%</b>
<i>As % of 6/30/20 Target:</i>	<i>101.57%</i>	<i>99.52%</i>	<i>100.00%</i>	<i>99.90%</i>				

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## AGENDA ITEM 5D

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**ENGINEERING REPORT: NOVEMBER 2019  
CAPITAL IMPROVEMENT PROGRAM**

**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.

As reported at the May 2019 Commission meeting, the Bay Area Air Quality Management District's permit requirements required a change in odor control technology that will result in higher project costs. The impact of this change has been determined. A change order will include these and other project changes and brought to the Commission in December.

Additionally, the Gravity Pipeline Project has experienced increased costs due to tariffs that have been announced or increased since the construction amendment was executed. An amendment will be forthcoming to account for those costs.

Planned Commission Actions: Receive Report on RESCU Program Status – December 2019

Approve Contract Change Order to FoP for Odor Control System – December 2019

Approve Contract Change Order for New Tariffs – January 2019

**Capital Improvement Program Update:** Annual 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

**Thickening Improvements – Phase 1 (9168):** Procure and install two rotary drum thickeners to thicken primary sludge.

At the March 2017 meeting, the Commission authorized purchase of two rotary drum thickeners to replace the Gravity Thickeners which are well beyond their useful lives.

The rotary drum thickeners will thicken primary sludge before it enters the digesters and will be used for future recuperative thickening of the digester contents to improve digester volatile solids destruction resulting in increased digester gas production. In September 2017 Overaa Construction was awarded the construction contract to install the thickeners.

During the commissioning of the project, it has become clear that the facility's site waste pumps are unable to handle the additional flow of material from the new rotary drum thickeners, requiring replacement of the pumps.

Planned Commission Actions: Approve Contract Change Order for Site Waste Pumps Installation – December 2019

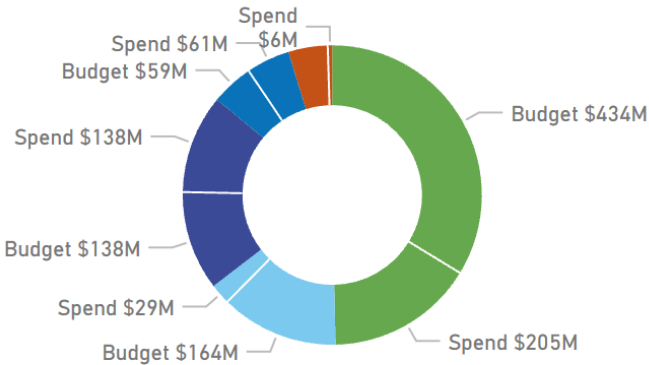


# CIP Spend Analysis

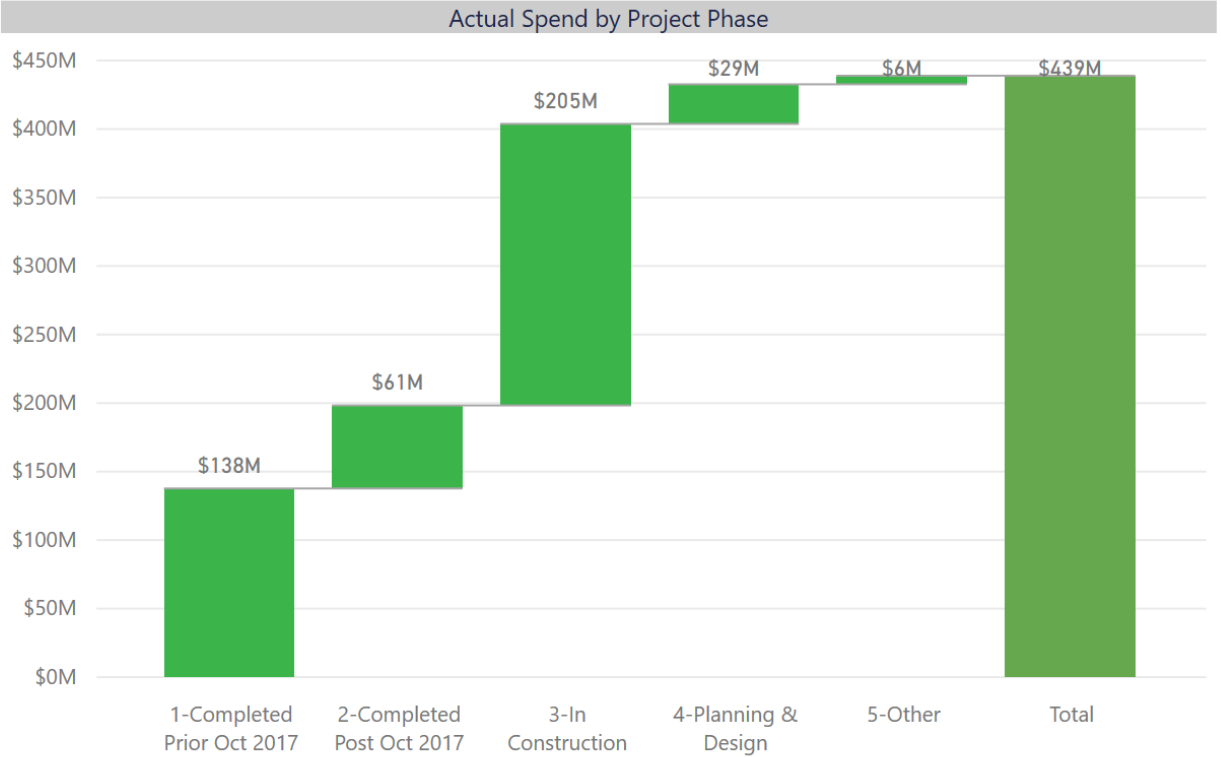
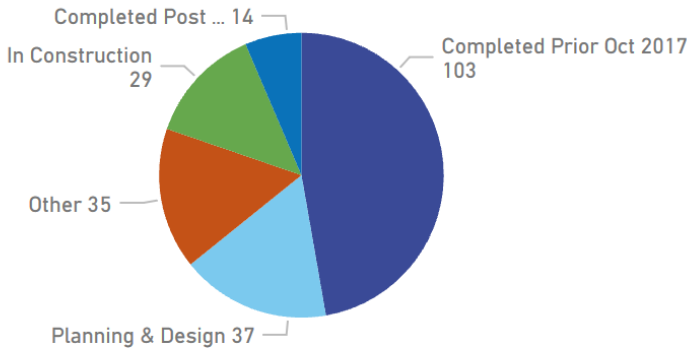
	Project Phase	Project Count	2018 CIP Budget	Actual Spend	Remaining	% Unspent
	Completed Prior Oct 2017	103	\$138,103,158	\$137,694,334	\$408,823	0.30%
	Completed Post Oct 2017	14	\$58,806,039	\$60,588,105	\$-1,782,067	-3.03%
	In Construction	29	\$434,311,619	\$205,470,921	\$228,840,698	52.69%
	Planning & Design	37	\$163,645,251	\$28,895,354	\$134,749,897	82.34%
	Other	35	\$54,700,355	\$6,272,224	\$48,428,131	88.53%
Total		218	\$849,566,422	\$438,920,939	\$410,645,483	48.34%



Budget and Spend by Project Phase



ProjectCount by Project Phase



This report is a snapshot of CIP spending and displays the cost of projects as they evolve from un-initiated to completed. Within each phase, actual expenditures is compared to the 2018 CIP Budget Plan to arrive at dollars remaining.

"Planning/Design" budget values are not fully encumbered and therefore not meant for comparison to actual expenditures. Only upon completion of the planning and design phase will project budget and actual expenditures be recategorized to "In Construction" and a good measure of budget adherence.

"In Construction" dollar values reflect encumbrances (Budget) and expenditures (Actual Spent to date); comparing these numbers describes budget adherence.

"Other" phase includes projects that are administrative in nature (e.g. SRF loan expenses, Insurance, etc) and/or projects that have not been initiated.

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## AGENDA ITEM 5E

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**Silicon Valley Clean Water**  
**Commissioners' Requested Action Items**

**DECEMBER 16, 2019**  
**AGENDA ITEM 5E**

Updated: 12/10/2019

Commission Meeting Date	Action Item		Requested or Estimated Date for Completion	Status			Date of Completion	Notes
				Ongoing	In Progress	Complete		
11/18/2019	1	Data reporting solutions associated with ERP	N/A			✓		Consider use of Tableau software as opposed to the proposed Power BI
	2	Investment Policy	1/13/2020		✓			Item tabled pending further discussion between SVCW and member agency staff. 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	Add item for discussion under Closed Session
	5	Reserve Policy	12/16/2019			✓	12/10/2019	Add escalator to reserves annual contributions; will use ENR Construction Cost Index for S.F. Bay Area December of each year
10/21/2019	1	Research video recording meetings	N/A		✓			Reach out to Menlo Park FD and Town of Atherton regarding video recording meetings.
	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						
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

**Silicon Valley Clean Water  
Commissioners' Requested Action Items**

Updated: 12/10/2019

**DECEMBER 16, 2019  
AGENDA ITEM 5E**

Commission Meeting Date	Action Item		Requested or Estimated Date for Completion	Status			Date of Completion	Notes
				Ongoing	In Progress	Complete		
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
1/28/2019		No new items at this meeting						
12/6/2018	1	Private property easements: keep Commission apprised if/when impasse during easement negotiations	2/25/2019			✓	6/28/2019	Easements for the two private property owners have been obtained without need for eminent domain.
> 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

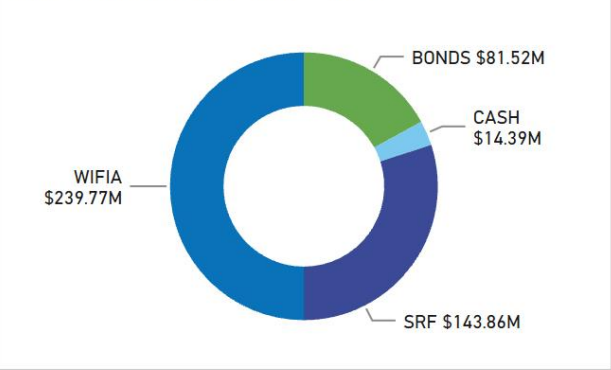
Total Expenditure

\$160.73M

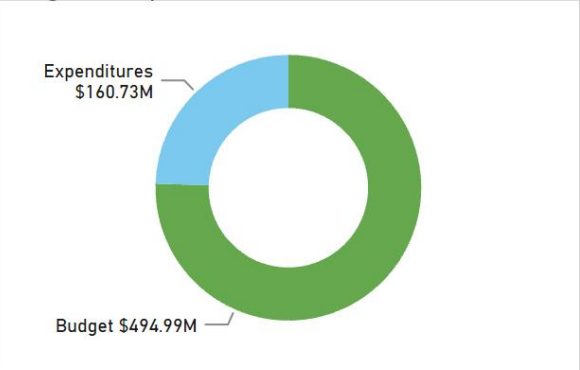
Remaining Budget

\$334.26M

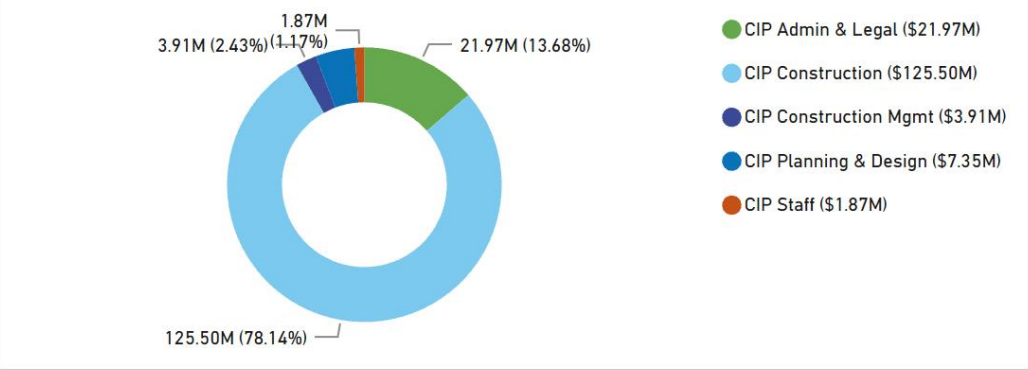
Source of Funds (per LRFP 2019)



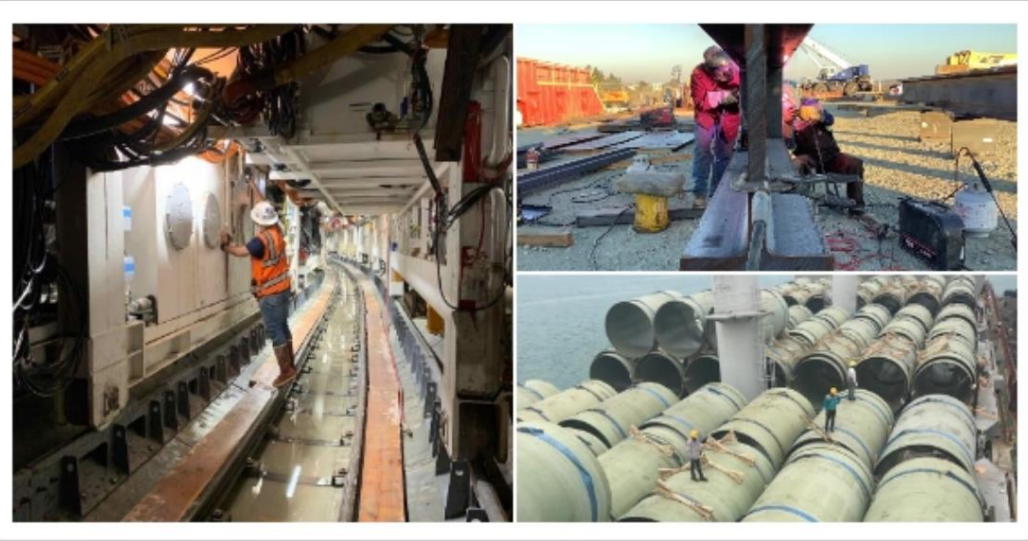
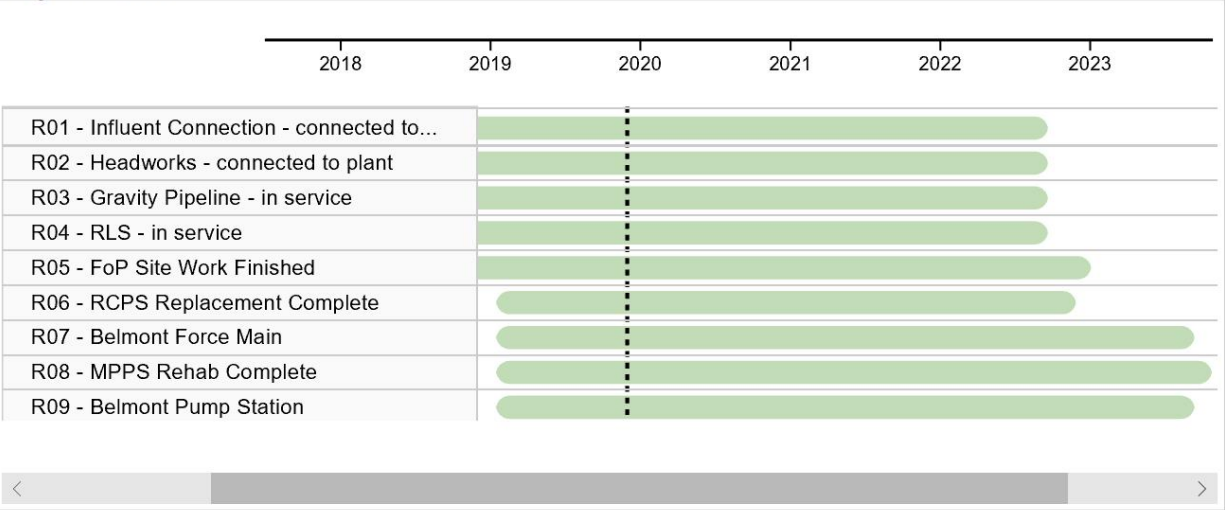
Budget vs Expenditures



Expenditures by Object



Project Schedule

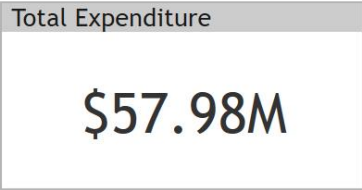
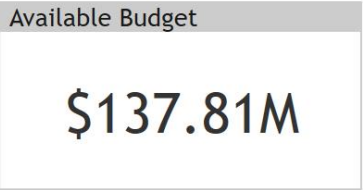




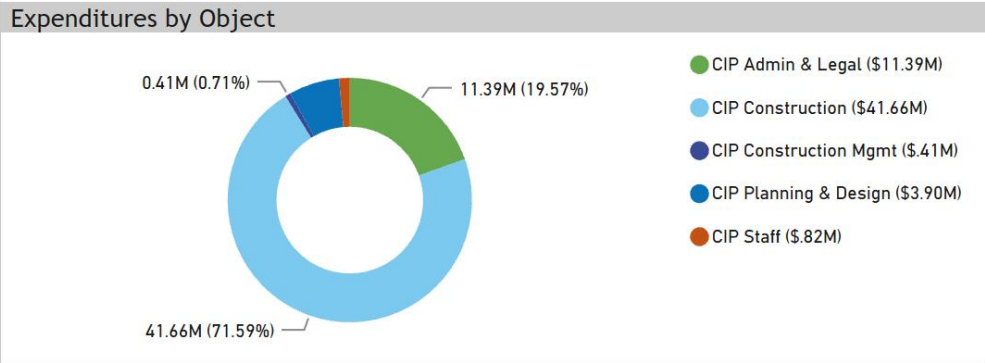
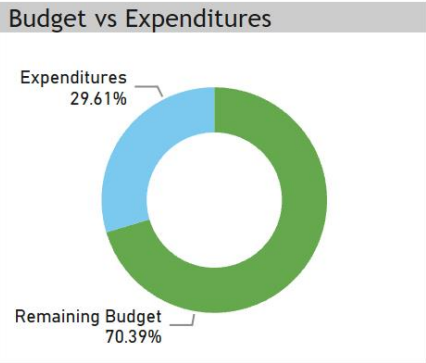
# Front of Plant Progressive DB Project



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
95 Percent (%) Design Documents	10/27/2019	11/1/2019
Stage 2C - RLS Shaft Construction	10/11/2018	2/25/2020
Headworks Completed/Early Start-Up	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 : 2019 - 12



## Major Accomplishments this Period

Design	- SPJV issued the 100% design package and the control narrative with the finalized asset tags.
Procurement of Trade Packages	<ul style="list-style-type: none"> <li>- SPJV provided submittals for the various valves, the RLS elevator, the odor control system, and RLS pumps.</li> <li>- SPJV is finalizing submittals of other major equipment (slide gates, bulkhead, grit system, piping, HVAC) with preferred manufacturers for submission</li> <li>- WIFIA and SRF requirements compliance for trade packages are in progress</li> <li>- SPJV executed contracts with multiple subcontractors for upcoming work</li> </ul>
Construction	<ul style="list-style-type: none"> <li>- Completed placement of 17 of 29 wall panels for the Headworks Facility</li> <li>- Placed a working platform in the RLS to begin rebar installation for the base slab</li> <li>- Continued excavation of the SFS</li> </ul>

## Potential Issues

Change order for odor control system.  
 Credit for the deletion of the chemical storage system.  
 Electrical System  
 Project Management past December 2021

## 3 - Month Look Ahead

	Start	End	December	January	February
Installation of Elevation 115' Walls	October 3, 2019	January 2, 2020	X	X	
Installation of Headworks Channel Decks	January 3, 2020	March 20, 2020		X	X
RLS and SFS Concrete Base Slab Work	October 22, 2019	January 7, 2020	X	X	

## Project Changes

New County/Local Sales Tax

## Safety Spot Light

Category	Value
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

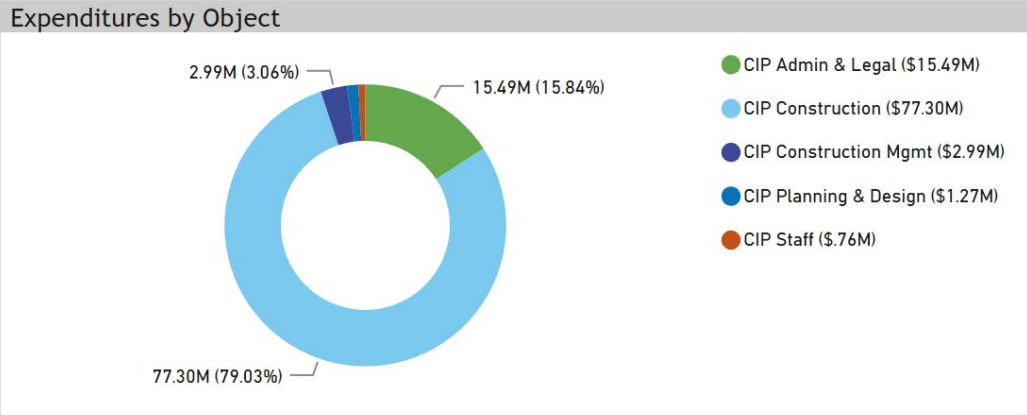
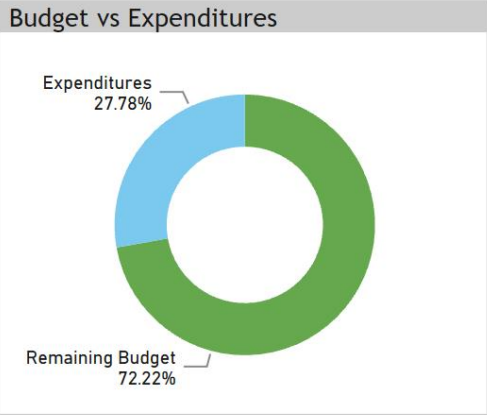
Total Expenditure

\$97.43M

Remaining Budget

\$155.82M

Milestone Schedule		
	Start	Finish
100% Design Documents		4/30/2020
Bair Island Shaft Construction	6/24/2019	2/14/2020
TBM Drive (AAS to Bair Island)	9/17/2019	7/1/2020
San Carlos Shaft Construction	6/4/2020	2/10/2022
TBM Drive (AAS to SFS)	9/4/2020	10/18/2021
FRP Pipe Installation	8/4/2021	5/13/2022
Final Commissioning		7/1/2022



Construction KPIs

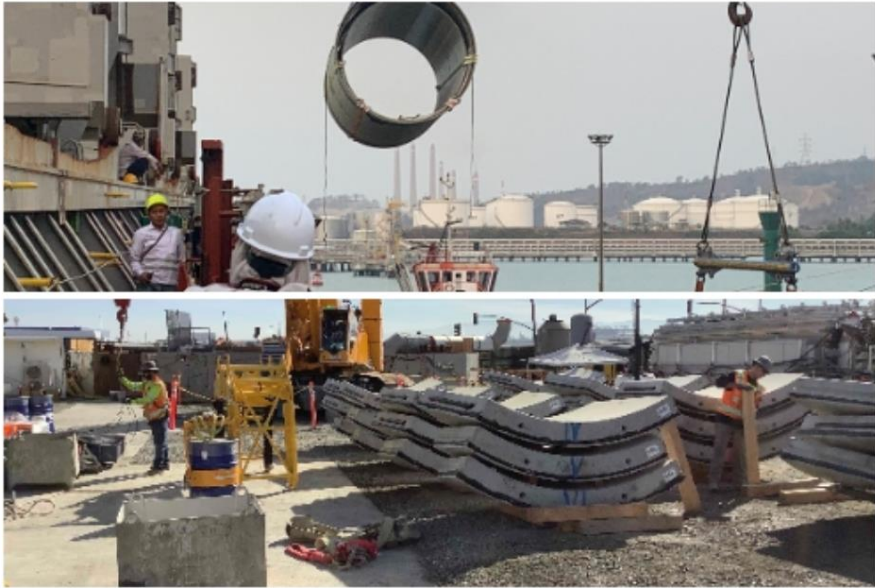
34.00%

% Complete

30.60%

% Expenditures

As of : 2019 - 12



## Major Accomplishments this Period

Design	<ul style="list-style-type: none"> <li>- Bair Island Shaft 100% design issued</li> <li>- 60% Design for San Carlos and Bair Island connecting pipework/inlets continues to be under review by BBJV and SVCW.</li> </ul>
Procurement of Trade Packages	<ul style="list-style-type: none"> <li>- Muck off-haul &amp; disposal contract in progress</li> <li>- Outreach in conformance with SRF and WIFIA funding requirements</li> </ul>
Construction	<ul style="list-style-type: none"> <li>- BBJV completed the second stage of TBM assembly in tunnel and constructed 100 rings (500 LF)</li> <li>- BBJV excavated to level 4 of the Bair Island Shaft</li> <li>- First shipment of FRPM pipe left Jakarta, Indonesia</li> </ul>

## Potential Issues

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

## 3 - Month Look Ahead

	Start	End	December	January	February
100% Design Completion	August 10, 2018	April 30, 2020	X	X	X
Bair Island Shaft Excavation and Construction	September 30, 2019	February 14, 2020	X	X	X
First Shipment of FRP Pipe	November 25, 2019	December 25, 2019	X		
TBM mining for Bair Island Drive	September 17, 2019	May 13, 2020	X	X	X

## Project Changes

New County Sales Tax

## Safety Spot Light

Category	Value
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 rehabilitated. 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. This project also includes replacement of the Belmont Force Main and will be implemented via a Progressive Design-Build Process.

### Available Budget

\$103.93M

### Total Expenditure

\$11.06M

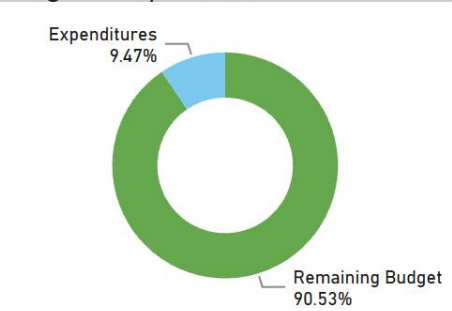
### Remaining Budget

\$93.06M

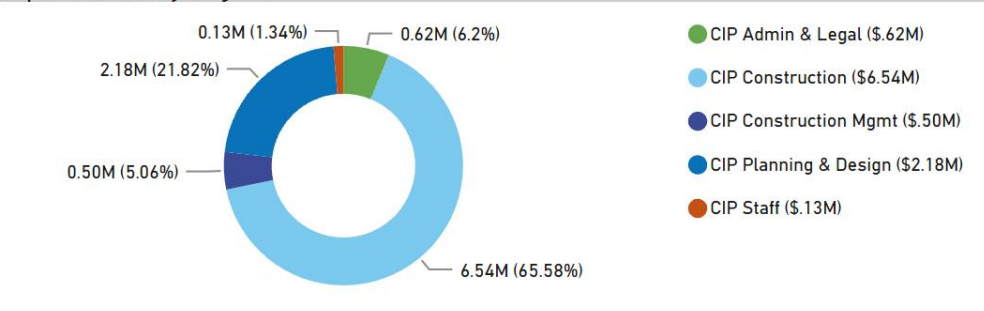
### Milestone Schedule

	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	8/19/2019	12/9/2019
Stage 1 Services Complete		3/16/2020

### Budget vs Expenditures



### Expenditures by Object



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

No % Complete or % Expenditures available at this time.



## Major Accomplishments this Period

- Design
- MPPS Rehab, Belmont Gravity Pipeline, and RCPS 60% designs were reviewed by SVCW.
  - Ongoing coordination with GP project.
  - Significant work on EIR update this period (Belmont PS replaced with Gravity Pipe) EIR update to be completed December.

## Potential Issues

No issues to note for this period.

## 3 - Month Look Ahead

	Start	End	December	January	February
60% Design Package	August 19, 2019	December 18, 2019	X		
BIM Model Development, Analysis, and Support	November 8, 2019	January 20, 2020	X	X	
BODR & 30% Design Documents	May 24, 2019	December 18, 2019	X		
Control Strategy / Narratives Development	May 23, 2019	December 16, 2019	X		
Cost Modeling Development and Estimates	May 3, 2019	February 10, 2020	X	X	X
Design & Construction Phasing Plan	May 27, 2019	December 15, 2019	X		
Modeling	May 24, 2019	December 31, 2019	X		
P&ID, Master Equipment & I/O List Development	July 2, 2019	December 15, 2019	X		
Permitting & Public Outreach Support	February 28, 2019	March 16, 2020	X	X	X
Preliminary Staffing & Staff Training Plan	October 16, 2019	January 3, 2020	X	X	
Preliminary Startup, Testing and Acceptance Plan	October 16, 2019	January 10, 2020	X	X	

## Project Changes

No project change orders at this time

## Safety Spot Light

Category	Value
Lost Time	0
Near Misses	0
Recorded Losses	0

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## AGENDA ITEM 6A

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**Memorandum**  
**Commission Meeting Dates for Calendar Year 2020**

The following are the scheduled Commission Meeting dates for calendar year 2020. Regular Commission Meetings are held on the third Monday of each month at 8:00 a.m. Please review the dates below and be prepared to discuss any needed changes at the Commission meeting of December 16, 2019.

January 13 (proposed)
February 10 (proposed) or February 24
March 16, 2020
April 20, 2020
May 18, 2020
June 15, 2020
July 20, 2020
August 17, 2020
September 21, 2020
October 19, 2020
November 16, 2020
December 21, 2020

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## AGENDA ITEM 7A

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**MINUTES OF SILICON VALLEY CLEAN WATER  
REGULAR MEETING – November 18, 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  
Matt Anderson, SVCW Chief Financial Officer/Assistant Manager  
Kim Hackett, SVCW Authority Engineer  
Arvind Akela, SVCW Engineering Director  
Jessica Mangual, SVCW Secretary Pro Tem  
Eric Hansen, SVCW  
EJ Shalaby, DNS  
Bill Tanner, Tanner Pacific  
Mark Minkowski, Kennedy/Jenks  
Derek Rampone, City of Redwood City  
Leslie Murphy, PFM Asset Management  
Jim Lewis, member of the public

**ITEM 3**

**PLEDGE OF ALLEGIANCE**

The Pledge of Allegiance was recited by those in attendance.

**ITEM 4**

**PUBLIC COMMENT**

Mr. Jim Lewis, a member of the public, thanked the Commissioners and SVCW staff members for all their work over the last five years.

**ITEM 5A THROUGH 5F**  
**SAFETY MOMENT AND REPORTS**

This month's Safety Moment provided tips for storing, buying, and cooking turkeys as well as storing leftovers.

The Manager's Report included a reminder about the SVCW Holiday Potluck Luncheon on Wednesday, December 11<sup>th</sup>. A description of bioassays was provided to the Commissioners; bioassays are a permit requirement, are performed once a month and last for a week. Fish are placed into tanks with plant effluent and a control and 100% survival rate is required. A bioassay just completed with 100% survival rate.

The Financial Reports were then given by Mr. Anderson after which he along with Ms. Herrera responded to Commissioners' questions.

For the Engineering Projects Status Update and Commission Requested Staff Level Action Items, there were no verbal reports.

For the RESCU Program Update, information related to contract change orders was added.

**ITEM 6**  
**MATTERS OF COMMISSION MEMBER'S INTEREST**

There were no comments.

**ITEM 7**  
**CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR ITEMS**

Items 7C and 7D were pulled for questions and clarifications.

- A. APPROVAL OF MINUTES – October 21, 2019
- B. CONSIDERATION OF MOTION APPROVING CLAIMS AND CHECKS DATED OCTOBER 18, 2019 AND NOVEMBER 1, 2019, AND NECESSARY PAYMENTS THROUGH NOVEMBER 1, 2019

**Motion/Second: Mr. Olbert / Mr. Otte on Items 7A and 7B**

The Motion carried by Unanimous Vote

- C. CONSIDERATION OF MOTION APPROVING TASK ORDER SCOPE AND BUDGET FOR NEXINITE DATA DEVELOPMENT AND REPORTING FOR SVCW'S ENTERPRISE RESOURCE PLANNING (ERP) SOFTWARE (CIP #9105)



Proposed Action:

Move approval of TASK ORDER SCOPE OF WORK AND BUDGET FOR DATA AND REPORTING SOLUTIONS ASSOCIATED WITH THE ENTERPRISE RESOURCE PLANNING (ERP) SOFTWARE PROJECT (CIP #9105) IN THE AMOUNT NOT TO EXCEED \$173,350 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT (10%) CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – NEXINITE LLC

The Commission asked if other software solutions besides Power BI were evaluated. The proposed action was modified to authorize staff to review other software solutions, specifically, Tableau, within the same budgetary authorization.

**Motion/Second: Mr. Olbert / Mr. Lieberman**

The amended Motion carried by Unanimous Vote

**D. CONSIDERATION OF RESOLUTION APPROVING CONTRACTS FOR CONSTRUCTION OF SAF-MBR RESEARCH FACILITY INFRASTRUCTURE (CIP #9236)**

Proposed Action:

Move adoption of RESOLUTION APPROVING CONTRACTS FOR CONSTRUCTION OF INFRASTRUCTURE IMPROVEMENTS FOR THE SAF-MBR PILOT RESEARCH PROJECT WITHOUT COMPETITIVE BIDDING FINDING THAT COMPETITIVE BIDDING WOULD BE UNAVAILING, WOULD NOT PRODUCE AN ADVANTAGE AND WOULD NOT BE IN THE PUBLIC INTEREST AND AUTHORIZING SVCW MANAGER TO APPROVE CONSTRUCTION CONTRACT CHANGE ORDERS UP TO TEN PERCENT (10%) OF THE CONTRACT PRICE – SHEA PARSONS JOINT VENTURE (\$140,000) AND MORROW MEADOWS (\$140,000)

The Commission requested clarification on the policy under which staff makes a determination of the need to publicly bid a project. The Manager and Legal Counsel responded to the Commissioner's question.

**Motion/Second: Mr. Otte / Mr. Lieberman**

The Motion carried with 3 ayes and 1 nay; Commissioner Olbert opposing.

**ITEM 8A**

**CONSIDERATION OF RESOLUTION APPROVING UPDATE TO SILICON VALLEY CLEAN WATER 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

After discussion, Agenda Item 8A was tabled until the December Meeting.

**ITEM 8B**

**CONSIDERATION OF RESOLUTION APPROVING UPDATE TO SILICON VALLEY CLEAN WATER RESERVE FUND POLICY AND PROCEDURES**

Proposed Action:

Move adoption of RESOLUTION APPROVING AND ADOPTING REVISION “D” TO ADMINISTRATIVE POLICY 2013-03, “SVCW RESERVE FUND POLICY AND PROCEDURES”

The Commission asked several questions related to where the reserve funds should reside and inclusion of an annual escalator to the reserve amounts. After discussion, a motion was made with a revision to the proposed action including an annual escalator to the recommended reserve amounts.

**Motion/Second: Ms. Aguirre / Mr. Otte**

The Motion carried with 3 ayes and 1 nay; Commissioner Olbert opposing.

**ITEM 8C**

**CONSIDERATION OF RESOLUTION DECLARING EXISTENCE OF AN EMERGENCY CONDITION AND APPROVING REPAIR OF ESSENTIAL FACILITIES (DMF FEED PIPE)**

Proposed Action:

Move adoption of RESOLUTION DECLARING EXISTENCE OF EMERGENCY CONDITION REQUIRING IMMEDIATE EXPENDITURE OF FUNDS IN FURTHERANCE OF PUBLIC HEALTH, WELFARE AND SAFETY AND APPROVING AND RATIFYING EXECUTION OF CONTRACTS FOR REPAIR OF ESSENTIAL PUBLIC FACILITIES RELATING THERETO (DMF FEED PIPE) (4/5<sup>th</sup> weighted vote required)

**Motion/Second: Mr. Olbert / Mr. Lieberman**

The Motion carried by Unanimous Vote

**ITEM 9A THROUGH 9D**

**CLOSED SESSION**

Closed Session was called to order at 9:43 a.m.

**ITEM 10**

**RECONVENE FROM CLOSED SESSION**

Open Session reconvened at 10:11 a.m.

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

**ITEM 11**

**ADJOURN**

There being no further business, the meeting adjourned at 10:12 a.m.

Minutes prepared by Teresa A. Herrera  
Reviewed by General Counsel

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Mark Olbert, Secretary

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## AGENDA ITEM 7B

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**SVCW WARRANT REGISTER**

SVCW Warrant Register dated November 5, 2019 – November 18, 2019 and November 19, 2019 – December 2, 2019, were scanned and a copy was emailed to Commissioners and Legal Counsel on December 9, 2019.

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## AGENDA ITEM 7C

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**APPROVE UPDATED SVCW STANDARD CONTRACT DOCUMENTS**

ISSUE

Approve Silicon Valley Clean Water Standard Contract Documents, Versions December 2019

BACKGROUND

Construction projects are carried out by completing a set of specifications and plans (collectively, "Contract Documents") that spell out, via words and drawings, what is involved in the construction project and what work the construction contractor agrees to perform. There is an industry-standard for the method in which Contract Documents are organized. They are comprised of three main sections: Standard Contract Specifications, Technical Specifications, and Drawings. Standard Contract Specifications are designated as Divisions 0 and 1. Technical Specifications are designated as Divisions 2 through 16 with each Division pertinent to different areas of construction (for example, Division 3 covers concrete while Division 16 covers electrical work).

The Standard Contract Specifications primarily contain standard contractual requirements with the majority of the language constant from project to project. Technical Specifications and Drawings are unique to each project and vary accordingly. Typically, a public agency owns and prepares the Standard Contract Specifications, while the Technical Specifications and Drawings are prepared by the project's Engineer-of-Record.

It is industry standard for the contracting agency to "own" the Standard Contract Specifications and SVCW has owned its Standard Contract Specifications since the inception of the Capital Improvement Program in 2008. They are updated approximately annually by a consultant for SVCW who keeps apprised of pertinent changes in law, regulations, and insurance industry recommendations. Changes are reviewed by SVCW's insurance provider and Legal Counsel, as necessary. The last update to SVCW's standard contract specifications was made in November 2018.

In August 2008 and approximately once per year since, the Commission has approved the Standard Contract Specifications allowing SVCW construction projects to be let out to bid and subsequent action by the Commission approving the specific Contract Documents when the project construction contract is awarded.

There are two forms of contract specifications used by SVCW for construction: "Long-Form" and "Short-Form". Long-form Standard Contract Specifications are used for projects that are publicly advertised for bidding and over \$100,000 in anticipated contract value. Short-Form Standard Contract Specifications are used for projects having an anticipated construction value under \$100,000. For construction projects under \$100,000 SVCW generally solicits quotes from three contractors rather than publicly bidding the work. The projects are then awarded at the lowest quoted price. This process is allowed under the Public Contracts Code and SVCW's Purchasing Guidelines, and preferred, as the process to produce drawings and specifications for publicly bid projects can be prohibitive for projects of this small size.

In addition to construction contracts, SVCW uses standard form specifications for procurement of equipment (Procurement Contract). Procurement covers items such as direct purchase of pumps, valves, and other equipment and involves no construction or installation. This occurs when construction or installation would be done by SVCW staff or via a separate construction contract with a general contractor.

Updates to all of SVCW's Standard Specifications have just been completed and are ready for Commission approval.

#### DISCUSSION

Updates to the Long-Form and Short-Form Standard Contract Specifications and Procurement Contract have been prepared and staff recommends the Commission approve the revised versions effective December 2019. Changes to each are depicted in the table below:

Standard Contract Specifications	Affected Section	Change
Long Form	Section 00010 – Notice Inviting Bids	Clarify that bids are subject to disclosure under the California Public Records Act
	Section 00430 – Designation of Subcontractors	Clarify requirements for listing subcontractors
	Section 01010 – Summary of Work	Clarify interaction with O&M for system outage request procedures during construction
Short Form	Same as above	All changes proposed in Long Form
	Throughout	Change “bid” to “quotation”
Procurement	Section 00300 – Proposal	Update sales tax amount

Staff recommends that the Commission approve the revised Standard Long-Form, Short-Form, and Procurement Contract Documents effective December 2019.

#### FINANCIAL IMPACTS

There are no direct financial impacts from this action.

#### RECOMMENDATION

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

## AGENDA ITEM 7D

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**THICKENING IMPROVEMENTS – PHASE 1 PROJECT  
APPROVE CHANGE ORDER FOR SITE WASTE PUMP STATION UPGRADES**

ISSUE

Approval of Contract Change Order for Site Waste Pump Station Upgrades

BACKGROUND

Silicon Valley Clean Water's wastewater treatment processes can be categorized as solids treatment and liquids treatment. Most of the solids treatment processes are located inside the Solids Handling Building (SHB), a three-story building on the east side of the treatment plant. Solids processing includes pre- and post-digested sludge mixing and pumping, solids dewatering, and grit removal from primary sludge.

The Thickening Improvements – Phase 1 Project was awarded to C. Overaa & Co. (Overaa) in September 2017. The main element of the project included installing rotary drum thickeners (RDTs) in the basement of the SHB. These RDTs replaced the Gravity Thickeners, which were at risk of failing.

The entire SHB is outfitted with floor and process drains which collect all liquids; this includes washdown water and liquids from all the solids processes. All drains lead to a concrete pit in the SHB basement called the Site Waste Pump Station. From here, all liquid is pumped back to the plant influent where it enters the liquid treatment process. The Thickening Improvements – Phase 1 Construction Contract included improvements to the Site Waste Pump Station.

DISCUSSION

Addition of the RDTs has put strain on the existing Site Waste Pump Station due to increased loads and the nature of the discharged liquid. To thicken solids, a polymer is added to the sludge as it goes through a mechanical process to remove water. The process reduces the water in primary sludge by approximately 7% (going into the RDT, solids are approximately 1% and after thickening are approximately 7-8%). Water removed from the sludge is a high concentration liquid waste that includes some of the added polymer.

The Site Waste Pump Station has three 10 horsepower pumps. With increased loads and additional polymer in the system due to the recently installed RDT, the site waste pumps have been unable to pump the flow. The new characteristics of the site waste liquids requires a different style of pumps that can handle additional flow and floatables created by RDT filtrate. SVCW staff worked with more than half-a-dozen pump manufacturers and found three pumps that will perform the necessary pumping. Staff obtained competitive quotes from the three shortlisted manufacturers and purchased the lowest price pumps that met the performance requirements.

SVCW engineering staff, with assistance from Kennedy/Jenks consulting engineers, then developed the necessary mechanical and electrical changes required to install the new

Report By:   K.H.  

7D-1

pumps. Overaa was asked to provide a quote for the work, and two other contractors were also asked to provide quotes in order to verify that SVCW was receiving good pricing. A summary of quotes for the work is provided below:

SPJV	did not provide quote
C. Overaa Construction	\$150,000.00
D.W. Nicholson	\$197,600.00

SVCW recommends approval of a Contract Change Order to the Thickening Improvements – Phase 1 project in the amount of \$150,000 for replacement of the Site Waste Pumps.

#### FINANCIAL IMPACT

Funding for this effort is included in SVCW's annual Capital Budget, Project #300. The allocated capital budget for project #300 is \$300,000 of which \$66,000 was expended for the pre-purchased pumps.

#### RECOMMENDATION

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.



## AGENDA ITEM 7E

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**ANNUAL AUDITED FINANCIAL REPORT AS OF JUNE 30, 2019**

**ISSUE**

Receipt of Silicon Valley Clean Water (SVCW) Basic Financial Statements and Auditor's Reports for Fiscal Year 2018-19

**BACKGROUND**

Each year, in compliance with Government Accounting Standards Board requirements, SVCW issues basic financial statements and an auditor's report. The auditor's report (Attachment A, including a memo on internal controls and other required communications) is complete and ready for the Commission's receipt. It provides detailed financial information for the Commission, ratepayers, and SVCW investors. This fiscal year SVCW retained a new accounting firm, Maze & Associates, LLP. Maze & Associates concluded its audit of SVCW's financial statement with an unqualified ("clean") opinion.

**DISCUSSION**

A summary of SVCW's Statement of Net Position is below, showing a \$25.1 million increase in SVCW's net position during the fiscal year. Significant changes included:

- Current Assets decreased by \$76.3 million (48.8%) as cash was spent on construction during the year. This decline in current assets was net of receiving \$17 million from members for capital projects.
- Restricted assets marginally increased \$130.2 thousand (1.7%) from the prior year-end balance of \$7.7 million as SVCW set aside additional reserves for State Revolving Fund loans.
- Capital assets, net of depreciation, increased by \$108.3 million (38.2%) as significant construction activity on the Regional Environmental Sewer Upgrade (RESCU) program continued.
- Total SVCW liabilities increased by \$6.3 million (1.7%) as SVCW withheld \$6.1 million for construction retention. Other activity associated with liabilities included a reduction in long-term debt liabilities after payments, offset by increased accounts payable for construction.
- Deferred Outflows and Deferred Inflows represent changes in the components of the Authority's pension liability. The most significant change in deferred inflows and outflows was the impact of CalPERS' changed assumptions and earnings.

### Condensed Statement of Net Position

	Fiscal Year 2019	Fiscal Year 2018	\$ Higher / (Lower)	% Higher / (Lower)
Current and other assets	\$ 80,094,833	\$ 156,442,864	\$ (76,348,031)	(48.8%)
Restricted assets	7,823,426	7,693,222	130,204	1.7%
Capital assets	391,416,119	283,126,844	108,289,275	38.2%
<b>Total Assets</b>	<b>479,334,378</b>	<b>447,262,930</b>	<b>32,071,448</b>	<b>7.2%</b>
 <b>Deferred Outflows</b>	 <b>5,611,134</b>	 <b>6,236,059</b>	 <b>(624,925)</b>	 <b>(10.0%)</b>
 <b>Total Liabilities</b>	 <b>378,937,205</b>	 <b>372,589,353</b>	 <b>6,347,852</b>	 <b>1.7%</b>
 <b>Deferred Inflows</b>	 <b>1,246,858</b>	 <b>1,243,778</b>	 <b>3,080</b>	 <b>0.2%</b>
Net investment in capital assets	87,049,556	61,254,055	25,795,501	42.1%
Restricted	7,823,426	7,693,222	130,204	1.7%
Unrestricted	9,888,467	10,718,581	(830,114)	(7.7%)
<b>Total Net Position</b>	<b>\$ 104,761,449</b>	<b>\$ 79,665,858</b>	<b>\$ 25,095,591</b>	<b>31.5%</b>

The Statement of Activities and Changes in Net Position (Table below) addresses the nature and source of changes during the fiscal year. Total 2018-19 revenues increased from the prior year by \$27.8 million (60.7%), of which Operating Revenues increased by \$23.7 million (52.6%) and reflects increased contributions for debt service. Non-operating Revenues increased \$4.1 million as interest income was earned on a higher balance of bond proceeds.

Fiscal year 2018-19 total expenses increased by \$4.6 million (10.5%) over the prior year, which included:

- Depreciation expense increased \$150.3 thousand (1.7%) after new capital projects were placed into service during the year.
- Operating expenses were \$2 million (8.5%) more than the prior year, primarily related to filling personnel vacancies and settlement of a claim.
- Non-operating expenses increased by \$2.4 million, reflecting increased interest expense for additional long-term debt.

**Condensed Statements of Activities and Changes in Net Position**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>\$ Higher / (Lower)</b>	<b>% Higher / (Lower)</b>
Operating revenues	\$ 68,827,874	\$ 45,091,922	\$ 23,735,952	52.6%
Non-operating revenues	4,797,281	730,108	4,067,173	557.1%
Capital Contributions	-	-	-	-
<b>Total Revenues</b>	<b>73,625,155</b>	<b>45,822,030</b>	<b>27,803,125</b>	<b>60.7%</b>
Depreciation expense	8,986,961	8,836,703	150,258	1.7%
Operating expense	26,215,903	24,169,268	2,046,635	8.5%
Non-operating expense	13,579,021	11,142,216	2,436,805	21.9%
<b>Total Expenses</b>	<b>48,781,885</b>	<b>44,148,187</b>	<b>4,633,698</b>	<b>10.5%</b>
<b>Changes in Net Position</b>	<b>24,843,270</b>	<b>1,673,843</b>	<b>23,169,427</b>	<b>1,384.2%</b>
Prior period adjustment	252,321	(3,686,613)	3,938,934	100.0%
Beginning net position	79,665,858	81,678,628	(2,012,770)	(2.5%)
Beginning net position - adjusted	79,918,179	77,992,015	1,926,164	2.5%
<b>Ending Net Position</b>	<b>\$ 104,761,449</b>	<b>\$ 79,665,858</b>	<b>\$ 25,095,591</b>	<b>31.5%</b>

**FINANCIAL IMPACT**

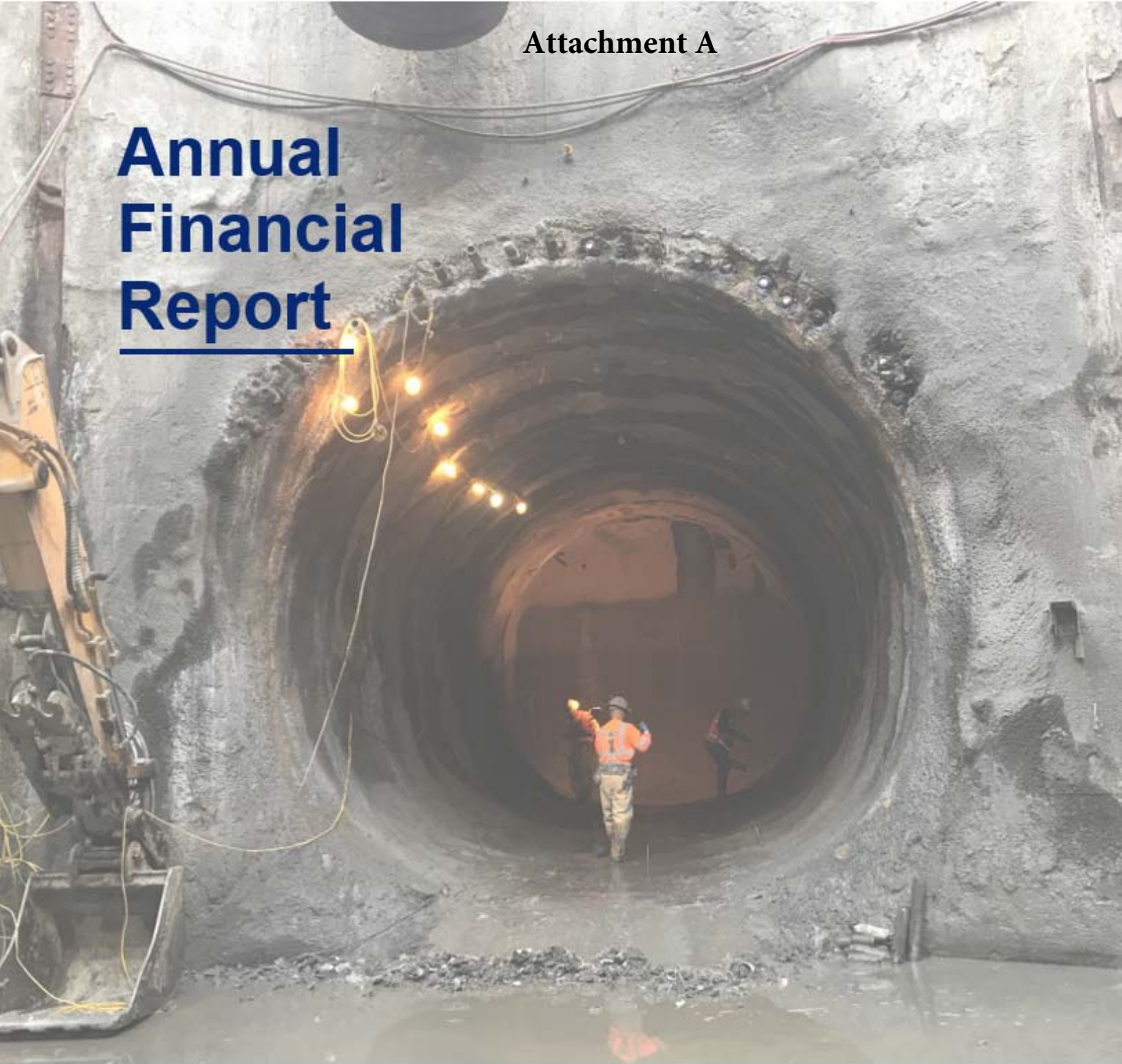
There is no financial impact associated with this report

**RECOMMENDATION**

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

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# **Annual Financial Report**



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**Silicon Valley Clean Water  
For the Year Ending June 30, 2019**



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**SILICON VALLEY CLEAN WATER**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2019**

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# Silicon Valley Clean Water

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## INDEPENDENT AUDITOR'S REPORT

To the Commission of Silicon Valley Clean Water  
Redwood City, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Silicon Valley Clean Water ("SVCW"), California, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SVCW, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SVCW's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information, except for Schedule of analysis of Net Position, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary information, except for Schedule of analysis of Net Position, is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Analysis of Net Position has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 on our consideration of SVCW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SVCW's internal control over financial reporting and compliance.

### **Prior Year Comparative Information**

The financial statements and the related notes of SVCW as of June 30, 2018, were audited by other auditor whose report dated November 11, 2018, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Maze & Associates".

November 25, 2019  
Pleasant Hill, California

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Silicon Valley Clean Water**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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Silicon Valley Clean Water (the "Authority", or "SVCW") has issued its financial statements for the fiscal year ended June 30, 2019 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). The Management of SVCW presents the following narrative overview and analysis of the financial activities, with comparative data for the fiscal year ended June 30, 2018. The Management's Discussion and Analysis (MD&A) section is an overview of SVCW's financial activities and is an integral part of the accompanying Basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section.

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

SVCW's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements. The Financial Statements report information about SVCW accounting using methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities and include:

- The *Statement of Net Position* presents SVCW assets and liabilities, with the difference between the two reported as *net position*. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the SVCW. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SVCW is improving or deteriorating.
- The *Statement of Activities and Changes in Net Position* accounts for revenues and expenses and reflects the results of SVCW operations over the course of the fiscal year. This statement can be used as an indicator of the extent to which SVCW recovers its costs through charges.
- The final required Financial Statement is the *Statement of Cash Flows*, with the primary purpose of providing information about SVCW's cash receipts and cash payments during the reporting period. In addition to cash receipts and payments, this statement illustrates net changes in cash resulting from operations and investments. It also answers questions about the sources and uses of cash, and describes the change in cash balance during the reporting period.

The Notes to Financial Statements provide information that is not displayed on the face of the financial statements but is essential to a reader's full understanding.

## **ORGANIZATION AND BUSINESS**

SVCW is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal to the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members"), all of which 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 and serves more than 200,000 people and businesses located predominantly in San Mateo County, California. SVCW operates in a robust Bay Area economy with a customer base that includes Oracle Corporation, EA Sports, and Facebook. In response to SVCW capital needs, ratepayers have already accommodated the majority of rate increases needed for large infrastructure improvements.

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

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SVCW owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to SVCW's treatment plant, five 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.

A four-member "Commission" consisting of one appointed member from each of the Members' governing bodies governs SVCW. Voting is proportional to the Members' respective ownership interests in SVCW's wastewater system. A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, materials and construction contracts, appropriations, or transfers of more than \$50,000; 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 majority of total possible votes. Any amendment of the Joint Powers Agreement requires the concurrence of all Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a 4/5 vote by each of the Members' governing bodies.

The Joint Powers Agreement sets forth how SVCW's operating and capital costs are allocated to the Members. Operating costs are allocated to each Member based on a three-year average of each Member's annual pro-rata share of total wastewater flow and strength loadings as measured by biological oxygen demand ("BOD") and suspended solids ("SS"). As a result, the Budget for fiscal year 2018-19 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City           46.4%
- West Bay Sanitary District   28.6%
- City of San Carlos           12.7%
- City of Belmont               12.3%

Capital costs are allocated per Members' share of capacity owned in various components of the wastewater system as established in the Joint Powers Agreement. All SVCW capital improvement expenditures are allocated as follows:

- City of Redwood City           48.57%
- West Bay Sanitary District   26.84%
- City of San Carlos           15.14%
- City of Belmont               9.45%

The following table shows a history of average daily wastewater flow conveyed to SVCW from each Member for the last five fiscal years.

<u>Member</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Redwood City	6.1	6.4	7.8	7.2	7.7
West Bay	3.6	3.8	3.9	3.4	3.5
San Carlos	1.8	1.5	2.7	2.0	2.2
Belmont	<u>1.9</u>	<u>1.7</u>	<u>2.0</u>	<u>1.6</u>	<u>1.8</u>
Total	13.4	13.4	16.4	14.2	15.20

**Silicon Valley Clean Water**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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## **FINANCIAL ANALYSIS**

Our analysis of SVCW begins on page 17 of the Financial Statements. One of the most important questions asked about SVCW's finances is "Is SVCW as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about SVCW's activities in a way that will help answer this question. These two statements report the net position of SVCW and changes in them, which helps measure the financial health of the organization. Over time, increases or decreases in SVCW's net position are one indicator of whether its financial health is improving or deteriorating. However, it is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment.

SVCW's fiscal year 2018-19 operating revenues and expenses were comparable both to the prior fiscal year as well as to the 2018-19 Budget. The most significant differences from the prior year were caused by increased debt service activities to fund ongoing capital improvements. This closely relates to cash expenditures of \$118.1 million for capital improvement construction. The Regional Environmental Sewer Conveyance Upgrade (RESCU) program is in construction and includes a gravity pipeline tunnel, front-of-plant receiving and pretreatment facilities, and improvements to pump stations.

The Capital Improvement Program is largely funded through long-term borrowings and, to a lesser extent, member agency cash contributions. As of June 30, 2019, SVCW long-term debt was \$338 million, a net decrease of \$6 million after principal payments on Wastewater Revenue Bonds. The State Revolving Fund (SRF) loan balances increased by \$1.4M after disbursements and repayments.

The SVCW Commission has an established reserve policy to protect its fiscal solvency. As of June 30, 2018, cash reserves totaled \$34.4 million including an Operating Reserve, a Capital Improvement Program Reserve, and a Capacity Construction Reserve. Of this amount, the Authority has restricted \$7.8 million as required by SRF loan agreements.

Like other governmental agencies, SVCW implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75) regrading accounting and reporting for post-employment benefits in fiscal year 2017-18.

## **FINANCIAL HIGHLIGHTS**

- SVCW net position increased during fiscal year 2018-19 by \$25.1 million (31.5%) from the previous year. The largest increase in net position occurred in the Capital Improvement Program Fund, which recognized \$17.4 million in cash contributed by members not fully participating in SVCW long-term debt, a net \$5.1 million reduction in debt principal owed, and \$2.6 million in investment earnings. Other increases in net position included a \$1.0 million increase in policy-required contributions and associated earnings in the Capital Improvement Program Reserve Fund, and a \$3.1 million increase in the Construction Stage 2 Reserve Fund as development occurred in the community. The Operating Fund net position declined by \$7.8 million after recognizing annual depreciation expense.
- The accounts receivable balance at year end increased by \$1.2 million due to a \$862 thousand receivable for Stage 2 capacity connection fee and a \$600 thousand receivable related to the California Energy Commission.

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

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- SVCW's net OPEB liability decreased by \$724 thousand during the fiscal year as the Authority continued its prefunding program.
- SVCW's Pension liability decreased by \$661 thousand primarily after recognition of CalPERS' changes in actuarial assumptions.
- Operating revenues increased \$23.7 million (52.6%) from the previous year after members contributed more to pay increased debt service.
- Total expenses ended the fiscal year at \$48.8 million, a \$4.8 million increase (10.9%) compared to the prior year. Operating expenses were \$2.2 million more than prior year as SVCW filled personnel vacancies, incurred ordinary inflationary pressures, and settled a legal claim. Non-operating expense increased \$2.4 million (21.9%) as the Authority incurred more interest expense associated with additional debt. Depreciation increased by \$150.3 thousand as capital projects were placed into service.
- Cash and investment balances, excluding restricted cash, declined \$78.9 million as bond proceeds were used to pay for construction.
- Note that, subsequent to June 30, 2019 SVCW issued water revenue notes in August 2019 which generated \$196.7 million for CIP projects.

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

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**NET POSITION**

A summary of SVCW's Statement of Net Position is presented in Table 1, which indicates a \$25.1 million increase in SVCW's net position from fiscal year 2018-19. Significant changes during the fiscal year included:

- Current Assets decreased by \$76.3 million (48.8%) after cash from bond proceeds was spent on construction.
- Restricted assets marginally increased \$130.2 thousand (1.7%) from the prior year-end balance of \$7.7 million as SVCW set aside additional reserves for State Revolving Fund loans.
- Capital assets, net of depreciation, increased by \$108.3 million (38.2%) as Construction in Progress balances associated with the Capital Improvement Program grow.
- Total SVCW liabilities increased by \$6.3 million (1.7%) as SVCW withheld \$6.1 million for construction retention. Other activity associated with liabilities included a reduction in long-term debt liabilities after payments, offset by increased accounts payable for construction.
- Deferred Outflows and Deferred Inflows represent changes in the components of Authority's pension liability. The most significant change in deferred inflows and outflows was the impact of CalPERS' changed assumptions and earnings.

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

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**TABLE 1**  
**Condensed Statement of Net Position**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>\$ Higher / (Lower)</b>	<b>% Higher / (Lower)</b>
Current and other assets	\$ 80,094,833	\$ 156,442,864	\$ (76,348,031)	(48.8%)
Restricted assets	7,823,426	7,693,222	130,204	1.7%
Capital assets	391,416,119	283,126,844	108,289,275	38.2%
<b>Total Assets</b>	<b>479,334,378</b>	<b>447,262,930</b>	<b>32,071,448</b>	<b>7.2%</b>
 <b>Deferred Outflows</b>	 <b>5,611,134</b>	 <b>6,236,059</b>	 <b>(624,925)</b>	 <b>(10.0%)</b>
 <b>Total Liabilities</b>	 <b>378,937,205</b>	 <b>372,589,353</b>	 <b>6,347,852</b>	 <b>1.7%</b>
 <b>Deferred Inflows</b>	 <b>1,246,858</b>	 <b>1,243,778</b>	 <b>3,080</b>	 <b>0.2%</b>
Net investment in capital assets	87,049,556	61,254,055	25,795,501	42.1%
Restricted	7,823,426	7,693,222	130,204	1.7%
Unrestricted	9,888,467	10,718,581	(830,114)	(7.7%)
<b>Total Net Position</b>	<b>\$ 104,761,449</b>	<b>\$ 79,665,858</b>	<b>\$ 25,095,591</b>	<b>31.5%</b>



**Silicon Valley Clean Water**  
**Management's Discussion and Analysis**  
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Table 2 below summarizes activities associated with all construction-related funds. Members contributed \$1 million, \$1.5 million, and \$2.7 million, respectively, to Capital Reserves, pay-go capital projects, and Stage 2, respectively. In the Capital Improvement Program Fund, approximately \$38.7 million was received to pay for debt service and project expenditures.

As part of continued expenditures on its Capital Improvement Program, SVCW spent \$118.1 million on capital projects during fiscal year 2018-19. Specific expenditures included gravity pipeline tunnel, front-of-plant receiving and pretreatment facilities, and improvements to pump stations.

**TABLE 2**  
**Construction Fund Activity**

	<b>Capital Reserve (13 Fund)</b>	<b>New Capital (14 Fund)</b>	<b>Replacement (17 Fund)</b>	<b>Stage 2 (15 Fund)</b>	<b>Capital Improvement Program (20 Fund)</b>	<b>Totals</b>
Member contributions	\$ 1,000,008	\$ 1,485,504	\$ -	\$ 2,747,284	\$ 38,700,687	\$ 43,933,483
Operating income	-	6,816	-	-	-	6,816
Interest Earnings	641,580	-	124,681	411,395	2,492,591	3,670,247
<b>Total Revenue</b>	<b>\$ 1,641,588</b>	<b>\$ 1,492,320</b>	<b>\$ 124,681</b>	<b>\$ 3,158,679</b>	<b>\$ 41,193,278</b>	<b>\$ 47,610,546</b>
Cash to construction	\$ -	\$ 838,118	\$ -		\$ 117,269,898	\$ 118,108,016

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While the Statement of Net Position shows the change in financial position from year to year, the Statement of Activities and Changes in Net Position (Table 3 below) addresses the nature and source of the changes. Total 2018-19 revenues increased from the prior year by \$27.8 million (60.7%), of which Operating Revenues increased by \$23.7 million (52.6%) and reflects increased contributions for debt service. Non-operating Revenues increased \$4.1 million as interest income was earned on a higher balance of bond proceeds.

Fiscal year 2018-19 total expenses increased by \$4.6 million (10.5%) over the prior year, which included changes in several key expenditures:

- Depreciation expense increased \$150.3 thousand (1.7%) after new projects were placed into service during the year.
- Operating expenses were \$2 million (8.5%) more than the prior year, primarily related to filling personnel vacancies and settlement of a claim.
- Non-operating expenses increased by \$2.4 million, reflecting increased interest expense on outstanding debt.

**TABLE 3**  
**Condensed Statements of Activities and Changes in Net Position**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>\$ Higher / (Lower)</b>	<b>% Higher / (Lower)</b>
Operating revenues	\$ 68,827,874	\$ 45,091,922	\$ 23,735,952	52.6%
Non-operating revenues	4,797,281	730,108	4,067,173	557.1%
Capital Contributions	-	-	-	-
<b>Total Revenues</b>	<b>73,625,155</b>	<b>45,822,030</b>	<b>27,803,125</b>	<b>60.7%</b>
Depreciation expense	8,986,961	8,836,703	150,258	1.7%
Operating expense	26,215,903	24,169,268	2,046,635	8.5%
Non-operating expense	13,579,021	11,142,216	2,436,805	21.9%
<b>Total Expenses</b>	<b>48,781,885</b>	<b>44,148,187</b>	<b>4,633,698</b>	<b>10.5%</b>
<b>Changes in Net Position</b>	<b>24,843,270</b>	<b>1,673,843</b>	<b>23,169,427</b>	<b>1,384.2%</b>
Prior period adjustment	252,321	(3,686,613)	3,938,934	100.0%
Beginning net position	79,665,858	81,678,628	(2,012,770)	(2.5%)
Beginning net position - adjusted	79,918,179	77,992,015	1,926,164	2.5%
<b>Ending Net Position</b>	<b>\$ 104,761,449</b>	<b>\$ 79,665,858</b>	<b>\$ 25,095,591</b>	<b>31.5%</b>

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

**BUDGETARY HIGHLIGHTS**

The SVCW Commission adopts an annual Operating Fund budget that provides for current activities and establishes a short-term spending plan aligned with SVCW financial goals. Budgets are prepared on the accrual basis of accounting. Table 4 below compares actual and budgeted expenditures for the Operating Fund during the year ended June 30, 2019.

**TABLE 4**  
**FY 2018-2019 Actual vs Budget**

	<u>Actual</u>	<u>Budget</u>	<u>\$ Higher/ (Lower)</u>	<u>% Higher/ (Lower)</u>
Member Contributions	\$ 24,197,664	\$ 24,213,623	\$ (15,959)	(0.1%)
Source Control Revenue	51,206	65,000	(13,794)	(21.2%)
Other Revenue	397,330	426,198	(28,868)	(6.8%)
<b>Total Operating Revenue</b>	<b>24,646,200</b>	<b>24,704,821</b>	<b>(58,621)</b>	<b>(0.2%)</b>
Operations	8,487,280	9,187,056	(699,776)	(7.6%)
Maintenance	6,373,299	6,359,611	13,688	0.2%
Laboratory	1,710,575	1,764,871	(54,296)	(3.1%)
Environmental Services	1,147,991	1,173,532	(25,541)	(2.2%)
Engineering	903,887	763,033	140,854	18.5%
Information Services	1,585,728	1,687,833	(102,105)	(6.0%)
Safety	421,319	401,813	19,506	4.9%
Administration	4,842,475	3,642,071	1,200,404	33.0%
Depreciation	8,986,961	8,986,961	-	-
<b>Total Operating Expenses</b>	<b>34,459,515</b>	<b>33,966,781</b>	<b>492,734</b>	<b>1.5%</b>
<b>Operating Income/(Loss)</b>	<b>\$ (9,813,315)</b>	<b>\$ (9,261,960)</b>	<b>\$ (551,355)</b>	<b>(6.0%)</b>

Inclusive of \$9 million in depreciation, SVCW reported an Operating Fund loss of \$9.8 million, which was \$551.4 thousand more than budgeted during fiscal year 2018-19. Total expenses were \$492.7 thousand (1.5%) more than budgeted. Significant variances by Division included:

- Operations: Expenses were \$699.8 thousand less than budget due to improved performance of cogeneration engines, which reduced SVCW energy costs by nearly \$200 thousand. Additionally, effective use of drying beds lowered biosolids hauling costs by \$267 thousand, and conversion to lower-cost 40% concentrate of sodium bisulfite reduced chemical costs by \$175 thousand.
- Laboratory Services: Below budget by \$54.3 thousand (3.1%) due to personnel vacancies.

**Silicon Valley Clean Water**  
Management's Discussion and Analysis  
June 30, 2019

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- Engineering: \$140.9 thousand higher than budget due primarily to organization changes associated with the Authority Engineer position. Additionally, \$43 thousand was spent to join the Bay Area's Potable Reuse Exploratory Plan (PREP) initiative.
- Information Services: Below budget by \$140.0 thousand after certain support, backup, and restore services were not incurred in preparation for hardware upgrades.
- Safety: Higher than budget by \$19.5 thousand (4.9%) due to unanticipated purchases of site signage and confined space equipment.
- Administration: Over budget by \$1.1 million, largely associated with legal fees and payment to settle a claim.

**Silicon Valley Clean Water**  
**Management's Discussion and Analysis**  
**June 30, 2019**

**CAPITAL ASSETS**

SVCW has a Long-Range Capital Improvement Program to improve existing facilities, build new facilities, rehabilitate assets, repair or replace infrastructure, preserve assets, enhance safety and security, and perform needed maintenance. Significant investments in infrastructure have included replacement of significant lengths of the influent conveyance pipe, modernization of electronic control systems for activated sludge handling, upgrades of electrical systems. SVCW is in construction of its Regional Environmental Sewer Conveyance Upgrade (RESCU) program. This program replaces an existing force main with a gravity pipeline and constructs essential pretreatment facilities.

Consistent with the Capital Improvement Program, the Commission approved these and other capital improvements to protect public health, the environment, and agency facilities. Table 5 below provides a summary of SVCW capital assets and shows how, at the ends of fiscal years 2017-18 and 2018-19, Net Property Plant & Equipment (PP&E) was \$151.6 million and \$144.1 million, respectively. Additional information about SVCW's capital acquisitions and construction is presented in Note 5 to the financial statements.

**TABLE 5**  
**Capital Assets**

	<b>Balance at June 30, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments &amp; Transfers</b>	<b>Balance at June 30, 2019</b>
Land	\$ 1,282,081	\$ -	\$ -	\$ -	\$ 1,282,081
Buildings & Struct.	84,599,149	-	-	163,804	84,762,953
Pipelines	55,151,004	-	-	307,200	55,458,204
Pump Stations	7,175,591	-	-	298,362	7,473,953
Machines & Equip.	92,427,359	-	(113,260)	860,170	93,174,269
<b>Total PP&amp;E, Cost</b>	<b>240,635,184</b>	<b>-</b>	<b>(113,260)</b>	<b>1,629,536</b>	<b>242,151,460</b>
Accum. Depreciation	89,048,596	9,026,438	(16,607)	(40,454)	98,017,973
<b>Total PP&amp;E, Net</b>	<b>\$ 151,586,588</b>	<b>\$ (9,026,438)</b>	<b>\$ (96,653)</b>	<b>\$ 1,669,990</b>	<b>\$ 144,133,487</b>
<b>Construction in Progress:</b>					
Stage 2 Capacity	\$ 2,934,618	\$ -	\$ -		\$ 2,934,618
General	128,605,638	118,110,915	-	(2,368,539)	244,348,014
<b>Total CIP</b>	<b>\$ 131,540,256</b>	<b>\$ 118,110,915</b>	<b>\$ -</b>	<b>\$ (2,368,539)</b>	<b>\$ 247,282,632</b>

**LONG TERM DEBT**

Including a Line of Credit but excluding Unamortized Premium on outstanding Bonds, SVCW had total long-term debt outstanding of \$314.1 million as of June 30, 2019, a \$4.2 million decrease from June 30, 2018. Components of SVCW's long-term debt liability as of June 30, 2019 include \$262.7 million of Wastewater Revenue Bonds (excluding unamortized premiums of \$24.7 million), and Notes Payable obligations to the California Clean Water State Revolving Fund for approximately \$51.4 million.

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When SVCW credit ratings were assigned in January 2018, Moody's maintained its Wastewater Revenue Bonds rating of Aa2, and Standard & Poor's (S&P) Ratings Services separately affirmed its 'AA' long-term rating with a stable outlook. More recently, in June 2019 Moody's assigned a Aa2 rating to SVCW's Water Infrastructure Finance and Innovation Act (WIFIA) loan and a Aa3 to its Wastewater Revenue Notes Series 2019A. For the same transaction, S&P assigned an A+ rating.

*Wastewater Revenue Bonds*

SVCW has \$262.7 million outstanding in Wastewater Revenue Bonds par value, the proceeds for which were used to acquire and construct wastewater system improvements. These Bonds are limited obligations of SVCW, payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Table 6 below shows the total bonds outstanding for the fiscal years ended June 30, 2018 and 2019:

**TABLE 6**  
**Wasterwater Revenue Bonds**

<b>Bond</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Original Issue</b>	<b>Bonds Outstanding July 01, 2018</b>	<b>Issued (Redeemed)</b>	<b>Bonds Outstanding June 30, 2019</b>
2009 Revenue Bond	2009	8/1/2039	1.74-8.1%	\$ 55,855,000	\$ 2,555,000	\$ (1,250,000)	\$ 1,305,000
2014 Revenue Bond	2014	2/1/2044	3.0-5.0%	60,000,000	56,135,000	(1,115,000)	55,020,000
2015 Revenue Bond	2015	8/1/2045	2.0-5.0%	70,200,000	68,650,000	(795,000)	67,855,000
2018 Revenue Bond	2018	8/1/2049	3.125-5%	140,955,000	140,955,000	(2,460,000)	138,495,000
<b>Total Wastewater Revenue Bonds</b>				<b>\$327,010,000</b>	<b>\$268,295,000</b>	<b>\$ (5,620,000)</b>	<b>\$262,675,000</b>

*State Water Resources Control Board Loan*

SVCW has financed three projects by entering into separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, the principal due on these agreements totaled \$51.4 million as of June 30, 2019. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The outstanding liability was \$8.6 million as of June 30, 2019 and is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35.4 million for certain improvements to the wastewater treatment plant. The total outstanding balance as of June 30, 2019 totaled \$28.8 million and the final payment is scheduled October 31, 2036.

In May 2018, SVCW entered a third SWRCB agreement for up to \$14 million to plan improvements to its conveyance system. As of June 30, 2019, SVCW had incurred the full \$14 million in expenditures under this project. SVCW intends to consolidate this loan into a subsequent construction loan associated with conveyance projects in 2020.

**Silicon Valley Clean Water**  
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June 30, 2019

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*Line of Credit*

On May 29, 2018, SVCW secured a \$35 million line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had no borrowings outstanding on the line of credit at June 30, 2019.

More detailed information about SVCW's long-term debt, Notes Payable, and Line of Credit is presented in Note 6 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The approved Operating Budget for fiscal year 2019-20 recommends expenditures based on a prioritization of needs, goals and objectives; it also anticipates external cost pressures and provides a roadmap to meet the needs of the community in the coming fiscal year. The Budget considered ordinary inflationary pressures, and incorporated savings from operational improvements. Personnel costs are relatively unchanged in terms of staffing levels, though adjusted to incorporate terms of a Memorandum of Understanding (MOU) between SVCW and the International Union of Operating Engineers Stationary Local 39, AFL-CIO. A new MOU was ratified in October 2018 and expires on June 30, 2023.

Each Member Agency has proactively raised sewer rates to support its allocable share of funding requirements for SVCW's operations and Capital Improvement Program, as well to meet their own operating and capital needs.

Table 7 compares the fiscal year 2019-20 Operating Fund Budget to the fiscal year 2018-19 actual results. Total 2019-20 Operating Revenues are anticipated to increase \$1.3 million (5.5%) from prior year actual revenues as Member Contributions increase to cover operating costs. Additionally, Other Revenues as SVCW implemented a stormwater program, recognized increased deliveries of food grease, and raised its rates charged for laboratory and source control services.

Total 2019-20 Operating Expenses are anticipated to increase \$796.2 thousand (2.3%) from prior year actual expenditures. The largest increase over 2018-19 actual expenditures is from inflationary pressures on wages and other personnel costs, price hikes by chemical providers, and increased costs associated with hauling biosolids.

**Silicon Valley Clean Water**  
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**TABLE 7**  
**FY 2019-2020 Budget vs FY 2018-2019 Actual**

	<b>FY 2019-2020 Budget</b>	<b>FY2018-2019 Actual</b>	<b>\$ Increase / (Decrease)</b>	<b>% Increase / (Decrease)</b>
Member Contributions	\$ 25,209,277	\$ 24,197,664	\$ 1,011,613	4.2%
Source Control Revenue	87,500	51,206	36,294	70.9%
Other Revenues	697,000	397,330	299,670	75.4%
<b>Total Operating Revenue</b>	<b>25,993,777</b>	<b>24,646,200</b>	<b>1,347,577</b>	<b>5.5%</b>
Operations	9,780,104	8,487,280	1,292,824	15.2%
Maintenance	6,474,578	6,373,299	101,279	1.6%
Laboratory	1,770,665	1,710,575	60,090	3.5%
Environmental Services	1,240,862	1,147,991	92,871	8.1%
Engineering	809,095	903,887	(94,792)	(10.5%)
Information Systems	1,813,120	1,585,728	227,392	14.3%
Safety	483,627	421,319	62,308	14.8%
Administration	3,896,727	4,842,475	(945,748)	(19.5%)
Depreciation	8,986,961	8,986,961	-	-
<b>Total Operating Expenses</b>	<b>35,255,739</b>	<b>34,459,515</b>	<b>796,224</b>	<b>2.3%</b>
<b>Operating Income/(Loss)</b>	<b>\$ (9,261,962)</b>	<b>\$ (9,813,315)</b>	<b>\$ 551,353</b>	<b>5.6%</b>

**CONTACTING SILICON VALLEY CLEAN WATER MANAGEMENT**

This financial report is designed to provide SVCW officers, investors, stakeholders, and other interested parties with a general overview of SVCW's financial condition. If you have any questions about this report or need additional financial information, please contact the offices of the Manager or the Chief Financial Officer at Silicon Valley Clean Water, (650) 832-6224, 1400 Radio Road, Redwood City, CA, 94065.



## **BASIC FINANCIAL STATEMENTS**

**Silicon Valley Clean Water**  
Statement of Net Position  
June 30, 2019  
(With Comparative Totals as of June 30, 2018)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Current Assets:</b>		
Cash and investments	\$ 71,812,930	\$ 125,837,918
Cash restricted for debt service	7,823,426	7,693,222
Accounts receivable	1,937,298	712,420
Interest receivable	517,075	513,042
Employee notes receivable	19,850	16,523
Inventory	2,095,290	1,854,529
Prepaid expenses	423,325	98,445
<b>Total Current Assets</b>	<b>84,629,194</b>	<b>136,726,099</b>
<b>Noncurrent Assets:</b>		
Property held for resale	3,289,065	2,552,962
Cash and investments	-	24,857,025
<b>Capital assets:</b>		
Depreciable capital assets - net	142,851,406	150,304,507
<b>Non depreciable capital assets:</b>		
Land	1,282,081	1,282,081
<b>Construction in progress:</b>		
Stage 2	2,934,618	2,934,618
General	244,348,014	128,605,638
<b>Total capital assets - net</b>	<b>391,416,119</b>	<b>283,126,844</b>
<b>Total Noncurrent Assets</b>	<b>394,705,184</b>	<b>310,536,831</b>
<b>Total Assets</b>	<b>\$ 479,334,378</b>	<b>\$ 447,262,930</b>
<b>Deferred Outflows of Resources</b>		
Pension related	\$ 4,421,241	\$ 5,046,304
OPEB related	841,064	763,957
Deferred Loss on Defeasance	348,829	425,798
<b>Total Deferred Outflows of Resources</b>	<b>\$ 5,611,134</b>	<b>\$ 6,236,059</b>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 17,856,836	\$ 5,581,300
Accrued payroll and employee benefits	882,309	892,491
Accrued interest payable	6,391,797	6,227,056
Unearned revenue	271,903	287,447
Noncurrent liabilities due within one year	9,302,782	8,292,753
<b>Total Current Liabilities</b>	<b>34,705,627</b>	<b>21,281,047</b>
Noncurrent liabilities due in more than one year	344,231,578	351,308,306
<b>Total Liabilities</b>	<b>\$ 378,937,205</b>	<b>\$ 372,589,353</b>
<b>Deferred inflows of Resources</b>		
Pension related	\$ 1,207,125	\$ 1,243,778
OPEB related	39,733	-
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,246,858</b>	<b>\$ 1,243,778</b>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 87,049,556	\$ 61,254,055
<b>Restricted for:</b>		
Debt service	7,823,426	7,693,222
Unrestricted	9,888,467	10,718,581
<b>Total Net Position</b>	<b>\$ 104,761,449</b>	<b>\$ 79,665,858</b>

*The notes to basic financial statements are an integral part of this statement*

**Silicon Valley Clean Water**  
Statement of Activities and Changes in Net Position  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)

	2019	2018
<b>Operating Revenues:</b>		
Member contributions for services	\$ 24,439,039	\$ 23,412,008
Member contributions for cash reserves	5,232,796	3,676,896
Member contributions for debt service	38,700,687	17,438,142
Sources control charges	51,206	73,859
Miscellaneous revenues	404,146	491,017
Total operating revenues	<u>68,827,874</u>	<u>45,091,922</u>
<b>Operating Expenses:</b>		
Operations	8,669,851	8,286,120
Maintenance	6,424,080	6,276,632
Laboratory	1,723,215	1,610,107
Environmental services	1,147,991	1,023,191
Engineering	1,320,911	830,765
Information systems	1,585,728	1,560,575
Safety	421,319	366,455
Administration	4,922,808	4,215,423
Depreciation	8,986,961	8,836,703
Total operating expenses	<u>35,202,864</u>	<u>33,005,971</u>
<b>Operating Income (Loss)</b>	<u>33,625,010</u>	<u>12,085,951</u>
<b>Nonoperating Revenues (Expenses):</b>		
Grants	273,678	262,635
Other revenue (expense)	793,208	-
Interest by fund:		
Operations fund	40,104	40,696
Stage 2 capacity fund	191,304	135,533
Capital improvement reserve fund	317,406	231,573
Capital improvement fund	-	2,405
Self insurance fund	-	57
Operating reserve fund	59,403	50,445
Recycled water fund	-	50
Capital improvement fund	2,597,917	242,910
Net increase (decrease) in fair value of investments	524,261	(236,196)
Interest expense	(14,508,313)	(11,941,492)
Premium amortization	941,868	941,868
Gain (loss) on disposal of fixed assets	(12,576)	(142,592)
Total nonoperating revenues (expenses)	<u>(8,781,740)</u>	<u>(10,412,108)</u>
Change in Net Position	24,843,270	1,673,843
Beginning Net Position	79,665,858	81,678,628
Prior Period Adjustments	252,321	(3,686,613)
Ending Net Position	<u>\$ 104,761,449</u>	<u>\$ 79,665,858</u>

*The notes to basic financial statements are an integral part of this statement*

**Silicon Valley Clean Water**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019  
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)

	2019	2018
<b>Cash Flows from Operating Activities:</b>		
Cash received from member agencies	\$ 67,510,155	\$ 44,331,023
Cash paid to suppliers for goods and services and employees for services	(14,021,279)	(23,937,654)
Other cash received (paid)	455,352	491,017
Net Cash Provided (Used) by Operating Activities	<u>53,944,228</u>	<u>20,884,386</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Cash received from member agencies other than for services	793,208	427,442
Cash received from grants	273,678	262,635
Proceeds from capital debt	-	177,319,484
Interest paid on capital debt	(14,508,313)	(9,799,025)
Principal paid on capital debt	(5,124,831)	(28,342,054)
Cash received on the sale of capital assets	83,101	41,996
Purchases and construction of capital assets	(118,108,016)	(38,525,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(136,591,173)</u>	<u>101,384,578</u>
<b>Cash Flows from Investing Activities:</b>		
Noncash equivalent investments	-	(126,001,716)
Investment income	3,895,136	469,038
Net Cash Provided (Used) by Investing Activities	<u>3,895,136</u>	<u>(125,532,678)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(78,751,809)	(3,263,714)
Cash and Cash Equivalents Beginning	158,388,165	35,650,163
Cash and Cash Equivalents Ending	<u>\$ 79,636,356</u>	<u>\$ 32,386,449</u>
<b>Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ 33,625,010	\$ 12,085,951
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	8,986,961	8,836,703
OPEB expense adjustment - GASB 75	-	(3,686,613)
Net change in:		
Accounts receivable	(1,228,911)	(265,267)
Employee notes receivable	(3,327)	5,218
Inventory	(240,761)	(26,337)
Prepaid expenses	(324,880)	100,539
Net OPEB asset	-	2,641,436
Deferred outflows of resources for benefits	624,925	(2,201,005)
Accounts payable	12,527,857	68,083
Accrued payroll and employee benefits	(10,182)	210,391
Unearned revenue	(15,544)	(9,833)
Deferred inflows of resources for benefits	3,080	(109,126)
Net pension liability	-	2,225,236
Net OPEB liability	-	1,000,631
Accrued compensated absences	-	8,379
Net Cash Provided (Used) by Operating Activities	<u>\$ 53,944,228</u>	<u>\$ 20,884,386</u>
<b>Reconciliation of Cash and Cash Equivalents:</b>		
Cash and investments	\$ 79,636,356	\$ 158,388,165
Less: investments with original maturities in excess of three months	-	(126,001,716)
Cash and Cash Equivalents	<u>\$ 79,636,356</u>	<u>\$ 32,386,449</u>

*The notes to basic financial statements are an integral part of this statement*

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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**NOTE 1 - NATURE OF ORGANIZATION**

Silicon Valley Clean Water (SVCW, or “the Authority”), formerly South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities constructed by the Strategic Consolidation Sewerage Plan. In addition, SVCW has constructed and is operating sewerage treatment plant facilities. The members of SVCW are the Cities of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Accounting*

All activities of SVCW are accounted for within enterprise funds. SVCW's financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of SVCW's assets (including capital assets, as well as infrastructure assets), deferred outflows of resources, liabilities, deferred inflows of resources, and long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Deferred outflows of resources is a consumption of net assets by SVCW that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by SVCW that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

SVCW applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

*Statement of Net Position*

The statement of net position is designed to display the financial position of SVCW. SVCW's net position is classified into three categories as follows:

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Notes to Financial Statements  
June 30, 2019

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- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. SVCW first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

*Statement of Revenues, Expenses, and Changes in Net Position*

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues in the enterprise funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

*Budgets and Budgetary Accounting*

SVCW adopted a one year budget which provides for the general operations of SVCW. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for all capital projects.

*Cash and Cash Equivalents*

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for deposits and investment risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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***Investments***

SVCW participates in various investments, including an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

***Receivables***

Receivables include amounts due from member assessments, services performed for other agencies, and from the state of California. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2019.

***Inventories***

Inventories are valued using the average cost method. Inventories are recorded as expenses when consumed rather than when purchased.

***Capital Assets***

Property, plant and equipment purchased after June 30, 1992 are stated at cost. Prior acquisitions are stated at their appraised value as of June 30, 1992. Property, plant and equipment contributed to SVCW are stated at estimated fair value at the time of contribution. SVCW policy has set the capitalization threshold for reporting capital assets at \$20,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets generally as outlined by the State Controller's Report on Fixed Assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

SVCW has assigned the useful lives listed below to plant and equipment:

Buildings and Structures	50-70
Pipelines	35
Pump Stations	7-25
Machinery and Equipment	5-10

***Compensated Absences***

SVCW has a policy whereby an employee can accumulate unused vacation. Compensated absences are recorded as a liability when accrued. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. SVCW does not offer payment for sick leave at termination or retirement.

***Pensions***

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

***Other Postemployment Benefits Other Than Pensions (OPEB)***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of SVCW's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

***Accounting Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

***Subsequent Events***

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.



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***New Accounting Pronouncements***

***GASB Statement No. 83, Certain Asset Retirement Obligations***

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. This statement had no impact on the Authority's financial statements for the fiscal year 2019.

***GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Authority has implemented this GASB in the fiscal year 2019. See footnote disclosure in Note 6.

***Upcoming New Accounting Pronouncements***

***GASB Statement No. 84, Fiduciary Activities***

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

***GASB issued Statement No. 87, Leases***

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

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***GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period***

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

***GASB Statement No. 90, Majority Equity Interests***

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This statement is effective for reporting periods beginning after December 15, 2018. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

***GASB Statement No. 91, Conduit Debt Obligation***

GASB Statement No. 91 – In May 2019, GASB Issued Statement No. 91, Conduit Debt Obligation. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. This Statement is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Authority has not yet determined its effect on the financial statements.

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**NOTE 3 - CASH AND INVESTMENTS**

***Credit Risk***

SVCW's cash and investments consisted of the following as of June 30, 2019 and 2018:

Cash and Investments	June 30, 2019	June 30, 2018	Investment Rating	Input Level
Cash:				
Demand deposits	\$ 264,182	\$ (243,580)	n/a	n/a
Cash on hand	1,000	1,000	n/a	n/a
Total Cash	265,182	(242,580)		
Investments:				
US Treasuries	7,193,462	81,115,604	Aaa	1
US Government Agencies	24,351,957	28,600,304	AA+	1
Commercial paper/Corp bonds	1,493,658	12,716,610	BBB-/AA+	1
Municipal bonds/notes	399,192	2,328,770	AA-/AA+	1
Money Market/Certificates of Deposit	35,394,772	32,801,075	n/a	2
Local Agency Investment Fund	10,538,133	1,068,382	Not rated	n/a
Total Investments	79,371,174	158,630,745		
Total Cash and Investments	<u>\$ 79,636,356</u>	<u>\$ 158,388,165</u>		

***Interest Rate Risk***

The following is a summary of the Authority's investments by maturity as of June 30, 2019:

Maturity	June 30, 2019	June 30, 2018
0-1 years	\$ 61,814,839	\$ 128,912,881
1-2 years	7,961,197	12,801,244
2-3 years	7,122,689	6,529,172
2-5 years	2,472,449	10,387,448
Total Investments	<u>\$ 79,371,174</u>	<u>\$ 158,630,745</u>

***Cash Deposits***

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). SVCW's cash in bank did not exceed the insured limit as of June 30, 2019. All of SVCW's deposits with financial institutions were held in collateralized accounts.

**Silicon Valley Clean Water**  
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***Fair Value Measurements***

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

***Collateral and Categorization Requirements***

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

***Restricted Cash***

SVCW's restricted cash consisted of \$7,823,426 in cash and investments as of June 30, 2019 held by trustees or fiscal agent, all of which was pledged for the payment or security of bonds.

***Local Agency Investment Fund***

LAIF allows local agencies such as SVCW to participate in a Pooled Money Investment Account managed by the State Treasurer's Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. The Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2019, was approximately \$105.7 billion. Of that amount, 99.26% is invested in non-derivative financial products and 0.74% in structured notes and asset-backed securities.

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Notes to Financial Statements  
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***Investment Policy***

SVCW's investment guidelines as defined by its written investment policy were approved by the Commission, who also establishes its implementation and direction. Monthly, the Board ratifies the investments that have been made. SVCW's investment policy follows the California Government Code which authorizes SVCW to invest in the following:

Authorized Investment Type	Maximum Maturity	SVCW Maximum Investment in Single Issuer
U.S. Treasury Obligations on mortgage-backed/mortgage backed	11 years/10 years*	100%
U.S. Federal Agency and Government-Sponsored Enterprise Obligations non mortgage-backed/mortgage backed	11 years/10 years*	100%
California State and Local Agency Obligations	11 years*	5%
Other State Obligations	11 years*	5%
Medium-Term Notes (Includes corporate and depository institution debt securities)	5 years	5%
Bank (non-time) Deposit	5 years	100%
California Local Agency Investment Fund (LAIF)	N/A	\$65 million
Money Market Funds	N/A	20%
Shares of Joint Powers Authority	N/A	100%

*\*U.S. Treasuries, U.S. Agencies, and State/Local Agency obligations measure maximum maturity as average remaining maturity at time of purchase.*

***Risk Disclosures***

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments.
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, SVCW's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of SVCW's investments were subject to custodial credit risk.

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- *Concentration of Credit Risk* - See the chart above for SVCW's limitations on the amount that can be invested in any one issuer. As of June 30, 2019, 13% of SVCW's cash was invested in LAIF, 31% in agencies, 2% in commercial paper and corporate bonds, 1% in municipal bonds and notes, 44% in money market accounts, and 9% in U.S. treasuries.

**NOTE 4 - EMPLOYEE NOTES RECEIVABLE**

All full-time and part-time SVCW employees are eligible to obtain an interest-free loan to purchase a computer or certain tools. All requests for loans must be approved by the Department Manager and Human Resources Director. Repayment of these loans is handled through payroll deductions which are amortized over a two year period. Employees must pay off any outstanding balance of their loans upon ending employment with SVCW. As of June 30, 2019 and 2018, outstanding balances for notes receivable were \$19,850 and \$16,523, respectively.

**NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)**

SVCW's capital assets consisted of the following as of June 30, 2019:

Capital Assets	Balance July 01, 2018	Additions	Deletions	Adjustments/ Transfer	Balance June 30, 2019
<b>Non-depreciable:</b>					
Land	\$ 1,282,081	\$ -	\$ -	\$ -	\$ 1,282,081
Construction in Progress					
Stage 2	2,934,618	-	-	-	2,934,618
General	128,605,638	118,110,915	-	(2,368,539)	244,348,014
Total Non-Depreciable	132,822,337	118,110,915	-	(2,368,539)	248,564,713
<b>Depreciable:</b>					
Buildings and structures	84,599,149	-	-	163,804	84,762,953
Pipelines	55,151,004	-	-	307,200	55,458,204
Pump station	7,175,591	-	-	298,362	7,473,953
Machinery and equipment	92,427,359	-	(113,260)	860,170	93,174,269
Total Depreciable	239,353,103	-	(113,260)	1,629,536	240,869,379
<b>Less Accumulated Depreciation for:</b>					
Buildings and structures	(38,278,144)	(2,601,768)	-	-	(40,879,912)
Pipelines	(9,872,100)	(1,711,732)	-	-	(11,583,832)
Pump station	(5,663,883)	(167,771)	-	-	(5,831,654)
Machinery and equipment	(35,234,469)	(4,545,167)	16,607	40,454	(39,722,575)
Total Accumulated Depreciation	(89,048,596)	(9,026,438)	16,607	40,454	(98,017,973)
Total Depreciable PPE - Net	150,304,507	(9,026,438)	(96,653)	1,669,990	142,851,406
Total PPE - Net	\$ 283,126,844	\$ 109,084,477	\$ (96,653)	\$ (698,549)	\$ 391,416,119

Depreciation expense for the year ended June 30, 2019 and 2018 was \$9,026,438 and \$8,836,703, respectively.

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**NOTE 6 - NONCURRENT LIABILITIES**

SVCW's noncurrent liabilities consisted of the following as of June 30, 2019:

**Debt Note Disclosure:**

Description	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Wastewater Revenue Bonds	\$ 268,295,000	\$ -	\$ 5,620,000	\$ 262,675,000	\$ 5,540,000
Unamortized Premium	25,653,176	-	941,868	24,711,308	941,868
Note Payable (Direct Borrowing)	50,013,131	3,268,635	1,850,520	51,431,246	1,887,871
Line of Credit	55,000	-	55,000	-	-
Net OPEB Liability	1,000,631	-	724,060	276,571	-
Net Pension Obligation	13,762,187	-	254,995	13,507,192	-
Compensated Absences	821,934	111,109	-	933,043	933,043
Total Noncurrent Liabilities	\$ 359,601,059	\$ 3,379,744	\$ 9,446,443	\$ 353,534,360	\$ 9,302,782

**Wastewater Revenue Bonds**

SVCW's Wastewater revenue bonds consisted of the following as of June 30, 2019:

Wastewater Revenue Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2018	Redeemed	Bonds Outstanding June 30, 2019
2009 Bond	2009	2039	1.74-8.1%	\$ 55,855,000	\$ 2,555,000	\$ 1,250,000	\$ 1,305,000
2014 Bond	2014	2044	3-5%	60,000,000	56,135,000	1,115,000	55,020,000
2015 Bond	2015	2045	2-5%	70,200,000	68,650,000	795,000	67,855,000
2018 Bond	2018	2049	3.125-5%	140,955,000	140,955,000	2,460,000	138,495,000
Total Wastewater Revenue Bonds				\$ 327,010,000	\$ 268,295,000	\$ 5,620,000	\$ 262,675,000

**2009 Wastewater Revenue Bonds**

In July 2009, SVCW issued \$55,855,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system; fund the debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

**2014 Wastewater Revenue Bonds**

In March 2014, SVCW issued \$60,000,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

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***2015 Wastewater Revenue Bonds***

Wastewater Revenue Bonds in the amount of \$70,200,000 were executed on November 24, 2015. The funds were used to refund the Authority's current outstanding Wastewater Revenue Bonds captioned 2008 Wastewater Revenue Bonds and 2009 Build America Bonds, and to finance certain improvements to the Authority's wastewater treatment system. In conjunction with the issuance of the 2015 Wastewater Revenue Bonds and in accordance with the Authority's refunding plan, \$53,246,823 was deposited with an escrow agent to provide for payment when due of all principal and interest with respect to the 2008 and 2009 refunded Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$703,660. The difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized over the useful life of the refunded bonds using the straight-line method. For financial reporting purposes, the refunded portion of the debt is considered defeased and therefore removed as a liability from these financial statements. As of June 30, 2019 there was \$44,765,000 of defeased 2009 bonds outstanding, both to be paid from escrow funds. Interest is payable semi-annually on February 1<sup>st</sup> and August 1<sup>st</sup> of each year while principal payments are made on August 1<sup>st</sup> of each year commencing 2016, with interest rates ranging from 2% to 5%. These wastewater revenue bonds are secured by a pledge of Member revenues.

***2018 Wastewater Revenue Bonds***

In February 2018, SVCW issued \$140,955,000 in Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

The 2009, 2014, 2015 and 2018 Wastewater Revenue Bonds are general obligations of SVCW, payable solely from pledges of wastewater revenues from participating SVCW member agencies. The bond covenants contain events of default that require the revenue of SVCW to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure of SVCW to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by SVCW; or if any court or competent jurisdiction shall assume custody or control of SVCW. No such events occurred during the fiscal year ending June 30, 2019.



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***Wastewater Revenue Bonds Debt Service***

The debt service requirements for the bonds as of June 30, 2019 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 5,540,000	\$ 13,456,840	\$ 18,996,840
2021	5,610,000	11,405,619	17,015,619
2022	5,890,000	11,119,619	17,009,619
2023	6,185,000	10,819,369	17,004,369
2024	6,500,000	10,503,869	17,003,869
2025-2029	37,720,000	47,203,969	84,923,969
2030-2034	45,285,000	36,996,894	82,281,894
2035-2039	55,420,000	26,014,384	81,434,384
2040-2044	55,660,000	13,923,237	69,583,237
2045-2049	38,865,000	3,537,363	42,402,363
Total	\$ 262,675,000	\$ 184,981,163	\$ 447,656,163

***Wastewater Revenue Bonds - Build America Bonds Refundable Credit***

SVCW elected to treat the 2009 Wastewater Revenue Bonds as Build America Bonds under section 54AA of the Tax Code, which entitles it to a refundable credit from the United States Treasury equal to 35% of the interest payable on the bonds. Since March 2013, the Internal Revenue Service has reduced the refundable credit amounts by imposing sequestration rates. The sequestration rate from October 1, 2018 to September 30, 2019, the sequestration rate was 6.2%. The credit is reported as member contributions. The 2019 credit received by SVCW totaled \$1,198,925.

***Notes Payable (Direct Borrowing)***

SVCW has financed multiple projects by entering into three separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, these notes payable totaled \$51,431,246 as of June 30, 2019. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The SWRCB reimbursed SVCW for project-related expenditures as incurred, and the outstanding liability was \$8,620,700 as of June 30, 2019. This amount is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35,385,953 for certain improvements to the wastewater treatment plant. The SWRCB reimbursed SVCW for project-related expenditures as incurred, and the outstanding liability was \$28,810,546 as of June 30, 2019. This amount will be repaid by October 2036.

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In February 2016, SVCW entered a similar agreement with the SWRCB for up to \$14,000,000 to plan and design certain improvements to the conveyance system. As of June 30, 2019, SVCW had incurred \$14,000,000 in expenditures. This planning is scheduled to be completed in fiscal year 2018-19 and the total incurred expenditures will either be repaid by September 2028 or combined into a subsequent construction loan. The SWRCB has not established the debt service payments for the entirety of the expenditures incurred by SVCW. The following summarizes the scheduled future debt service requirements for the SWRCB loans as of June 30, 2019:

Notes Payable

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 1,887,870	\$ 742,728	\$ 2,630,599
2021	1,925,999	704,599	\$ 2,630,599
2022	1,964,922	665,677	\$ 2,630,599
2023	2,004,656	625,943	\$ 2,630,599
2024	2,045,218	585,380	\$ 2,630,599
2025-2029	10,864,810	2,288,183	\$ 13,152,993
2030-2034	11,271,439	1,139,052	\$ 12,410,491
2035-2039	5,466,333	197,958	\$ 5,664,291
Total	\$ 37,431,246	\$ 6,949,521	\$ 44,380,767

***Line of Credit***

SVCW has a \$35,000,000 line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had zero outstanding on the line of credit at June 30, 2019.

**NOTE 7 - INTERFUND TRANSACTIONS**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

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***Interfund Due-to/from***

Interfund receivables and payables as of June 30, 2019 were as follows:

Fund Description	Due From	Due To
Operations	\$ 953,045	\$ 4,516,700
Capital Improvement Program	4,658,944	-
Recycled Water	-	11,126
Self Insurance	186,780	-
Construction Stage 2	886,168	-
Capital Improvements	6,308,747	-
Capital Improvement Program Reserve	-	11,700,932
Operating Reserve	3,235,074	-
Totals	<u>\$ 16,228,758</u>	<u>\$ 16,228,758</u>

***Interfund Transfers***

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended and transfers of capital assets upon completion of construction. Interfund transfers for the June 30, 2019 fiscal year were as follows:

Fund Description	Transfers In	Transfers Out
Operations	\$ 1,629,537	\$ -
Capital Improvement Program	-	740,905
Capital Improvements	-	888,632
Totals	<u>\$ 1,629,537</u>	<u>\$ 1,629,537</u>

**NOTE 8 - DEFINED BENEFIT PENSION PLAN**

***General Information about the Pension Plans***

**Plan Description** - All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plans (the Plans); cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous</b>		
	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
Hire date	Prior to 7/1/11	7/1/11 to 12/31/12	On/After 1/1/13
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.42%	2.000%	2.000%
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	17.800%	7.821%	7.183%

**Employees Covered** - At June 30, 2019, the following employees were covered by the benefit terms for the Plans:

	<b>Miscellaneous</b>
Active	82
Transferred	22
Separated	24
Retired	76
Total	<u>204</u>

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

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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For the year ended June 30, 2019, SVCW contributed \$1,612,511 into the Plans.

*Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2019, the Agency reported net pension liabilities for its proportionate shares of the net pension liability was \$13,507,192.

The Agency's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plan are measured as of June 30, 2018, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plans as of June 30, 2018 and 2019 was as follows:

	<b>Miscellaneous</b>	<b>Safety</b>	<b>Total</b>
Proportion - June 30, 2018	0.34911%	0.00000%	0.13877%
Proportion - June 30, 2019	0.37832%	0.00000%	0.14170%
Change - Increase/(Decrease)	0.02921%	0.00000%	0.00293%

For the year ended June 30, 2019, the Agency recognized pension expense of \$1,945,925. At June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of Assumptions	\$ 1,539,860	\$ (377,390)
Differences between Expected and Actual Experience	518,247	(176,356)
Differences between Projected and Actual Investment Earnings	66,776	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	(653,379)
Change in Employer's Proportion	683,847	
Pension Contributions Made Subsequent to Measurement Date	1,612,511	-
<b>Total</b>	<b>\$ 4,421,241</b>	<b>\$ (1,207,125)</b>

The Agency reported \$1,612,511 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Annual Amortization
2020	\$ 1,319,385
2021	772,524
2022	(368,815)
2023	(121,489)
<b>Total</b>	<b>\$ 1,601,605</b>

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.65%
Payroll Growth	2.75%
Projected Salary Increase	3.2%-12.2% (2)
Investment Rate of Return	7.5
	Derived using CalPERS Membership Data for all Funds (4)
Mortality	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.50% thereafter
Post Retirement Benefit Increase	thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier 1, Classic Tier II, and PEPRA)

(2) Depending on age, service and type of employment

(3) Net of pension plan investment expenses, including inflation

(4) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS December 2017 experience study report available on CalPERS website.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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**Discount Rate** - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class (a)	Current Target Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.90%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

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

(b) An expected inflation of 2.0% used for this period.

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

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount*

**Rate** - The following presents the Agency's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 22,151,373
Current	7.15%
Net Pension Liability	\$ 13,507,192
1% Increase	8.15%
Net Pension Liability	\$ 6,371,562

**Pension Plan Fiduciary Net Position** - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

***Plan Description***

SVCW's Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by SVCW. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between SVCW, its management employees, and unions representing SVCW employees.

***Benefits***

Following is a description of the current retiree benefit plan. The following table describes benefits available to those hired prior to January 30, 2011. Employees hired on or after this date are entitled only to statutory minimum benefits under sections of the Government Code collectively known as PEMHCA (Public Employees' Medical and Hospital Care Act).

	<u>All Non- Represented Employees</u>	<u>Operating Engineers</u>
<b>Benefits Provided:</b>	Medical Only	Medical Only
<b>Duration of Benefits:</b>	Lifetime	Lifetime
<b>Required Services:</b>	Retirement under CalPERS	Retirement under CalPERS
<b>Minimum Age:</b>	Retirement under CalPERS	Retirement under CalPERS
<b>Dependent Coverage:</b>	Yes	Yes
<b>Contribution Percentage:</b>	100% to cap	100% to cap
<b>Cap:</b>	Bay Area Kaiser Rate	Bay Area Kaiser Rate



**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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***Employees Covered by Benefit Terms***

At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	82
Inactive employees	37
<b>Total employees</b>	<b>119</b>

***Contributions***

The Authority makes contributions based on an actuarially determined rate and are approved by the authority of the Authority's Board. Total contributions during the year were \$841,064. Total contributions included in the measurement period were \$763,957. The actuarially determined contribution for the measurement period was \$74,614. The Authority's contributions were 6.86% of payroll during the fiscal year ended June 30, 2019. Employees are not required to contribute to the plan.

***Actuarial Assumptions***

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

<b>Valuation Date:</b>	June 30, 2017
<b>Measurement Date:</b>	June 30, 2018
<b>Actuarial Cost Method:</b>	Entry-Age Normal Cost Method
<b>Amortization Period:</b>	20 years
<b>Asset Valuation Method:</b>	Level percentage of payroll, closed
<b>Actuarial Assumptions:</b>	
<b>Discount Rate</b>	7.00%
<b>Inflation</b>	2.75%
<b>Salary Increases</b>	2.75%
<b>Healthcare Trend Rate</b>	4.00%
<b>Investment Rate of Return</b>	7.00%
<b>Mortality</b>	2014 CalPERS Active Mortality for Misc.
<b>Retirement</b>	Rx PA Misc 2% @ 55 Rx PA Misc 2% @ 60 Rx PA Misc 2% @ 62 min age 52

***Discount Rate***

The projection of cash flows used to determine the discount rate assumed that the Authority contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set to be equal to the long-term expected rate of return which was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

***Long-Term Expected Rate of Return***

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
US Large Cap	43.00%	7.795%
US Small Cap	23.00%	7.795%
Long-Term Corporate Bonds	12.00%	5.290%
Long-Term Government Bonds	6.00%	4.500%
Treasury Inflation-Protected Securities (TIPS)	5.00%	7.795%
US Real Estate	8.00%	7.795%
All Commodities	3.00%	7.795%
<b>Total</b>	<b>100.00%</b>	

***Net OPEB Liability***

The Authority's net OPEB liability was measured as of June 30, 2018 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2019 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2019:

Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2018)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
<b>Balance at June 30, 2018</b>	\$ 6,910,635	\$ 5,910,004	\$ 1,000,631
Service cost	37,428	-	37,428
Interest in Total OPEB Liability	473,085	-	473,085
Employer contributions	-	763,957	(763,957)
Expected investment income	-	477,679	(477,679)
Administrative expenses	-	(11,080)	11,080
Benefit payments	(341,991)	(341,991)	-
Other	-	4,017	(4,017)
<b>Net changes</b>	<b>168,522</b>	<b>892,582</b>	<b>(724,060)</b>
<b>Balance at June 30, 2018</b>	<b>\$ 7,079,157</b>	<b>\$ 6,802,586</b>	<b>\$ 276,571</b>
Covered Employee Payroll at Measurement Date	\$ 11,176,980		
Total OPEB Liability as a % of covered Employee payroll	63.34%		
Plan Fid. Net Position as a % of Total OPEB Liability	96.09%		
Service cost as a % of covered Employee payroll	0.33%		
Net OPEB Liability as a % of covered payroll	2.47%		

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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***Deferred Inflows and Outflows of Resources***

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between actual and expected experience	\$ -	\$ -
Difference between actual and expected earnings	-	(39,733)
Change in assumptions	-	-
OPEB contribution subsequent to measurement date	841,064	-
<b>Totals</b>	<b>\$ 841,064</b>	<b>\$ (39,733)</b>

The total \$841,064 reported as deferred outflows of resources related to OPEB was from Authority contributions subsequent to the measurement date and before the end of the fiscal year and will be included as a reduction of the net OPEB liability in the year ended June 30, 2020.

***OPEB Expense***

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	\$ 37,428
Interest in TOL	473,085
Expected investment income	(428,012)
Difference between actual and expected earnings	(9,933)
Other (PPA of FNP, Per Actuary)	(4,017)
Administrative expenses	11,080
<b>OPEB Expense</b>	<b>\$ 79,631</b>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Net OPEB liability ending	\$ 276,571
Net OPEB liability beginning	(1,000,631)
Change in net OPEB liability	(724,060)
Employer contributions and implicit subsidy	763,958
<b>OPEB Expense</b>	<b>\$ 79,631</b>

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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***Sensitivity to Changes in the Discount Rate***

The net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

		<b>Discount Rate</b>		
		<b>6.0%</b>	<b>7.0%</b>	<b>8.0%</b>
		<b>(1% Decrease )</b>	<b>(Current Rate)</b>	<b>(1% Increase )</b>
Net OPEB Liability (Asset)	\$	1,208,121	\$ 276,571	\$ (478,547)

***Sensitivity to Changes in the Healthcare Cost Trend Rates***

The net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

		<b>Trend Rate</b>		
		<b>3.0%</b>	<b>4.0%</b>	<b>5.0%</b>
		<b>(1% Decrease )</b>	<b>(Current Rate)</b>	<b>(1% Increase )</b>
Net OPEB Liability (Asset)	\$	(566,411)	\$ 278,537	\$ 1,305,792

**NOTE 10 - RISK MANAGEMENT**

SVCW is a member of the California Sanitation Risk Management Authority (CSRMA) which covers the general liability claims up to \$15,500,000 and provides coverage of Employment Practices Liability (EPL) up to \$15,500,000. Excess public entity general liability insurance of \$10,000,000 is obtained by CSRMA commercially, resulting in a total coverage of \$25,500,000. SVCW has a self-insured retention of \$10,000 per general liability claim and \$25,000 per EPL claim. Once SVCW's self-insured retention is met, CSRMA becomes responsible for payment of all claims up to the limit.

SVCW also has workers' compensation insurance with CSRMA which covers workers' compensation claims up to \$750,000. Excess public entity workers' compensation and third party liability insurance are obtained by CSRMA commercially up to statutory limit and \$25,500,000 respectively. SVCW has a self-insured retention of \$750,000 per claim.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after retrospective rating. CSRMA's audited financial statements may be obtained by writing them at c/o Alliant Insurance Services, 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, CA 94111.

**Silicon Valley Clean Water**  
Notes to Financial Statements  
June 30, 2019

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**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

SVCW is at risk to be a defendant in various lawsuits which arise in the normal course of business. The final disposition of these legal actions and claims was not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the SVCW.

SVCW had outstanding construction contract commitments on capital projects totaling \$251,177,566 at June 30, 2019.

SVCW has a month to month operating lease with San Mateo County for use of real property to facilitate construction activities for the 63" Forcemain Reliability Improvement Project. The monthly rent is \$97,300 per month with five option years totaling \$5,838,000. SVCW also has a lease with West Bay Sanitary District for \$300,000 per year subject to annual CPI increases, for a Flow Equalization facility. Rent expense was \$1,505,233 during the year for two lease agreements.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**Silicon Valley Clean Water  
Cost Sharing Multiple Employers Plan  
Schedule of Contributions -CalPERS  
Last 10 Fiscal Years**

Fiscal Year Ended	2019	2018	2017	2016	2015
Contractually Required Contributions	\$ 1,612,511	\$ 1,470,709	\$ 1,251,217	\$ 1,130,159	\$ 1,033,248
Contributions in Relation to Contractually Required Contributions	1,612,511	1,470,709	1,251,217	1,130,159	1,033,248
<b>Contribution Deficiency (Excess)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Covered Payroll</b>	<b>\$ 11,073,314</b>	<b>\$ 11,882,052</b>	<b>\$ 10,137,714</b>	<b>\$ 9,454,067</b>	<b>\$ 9,115,492</b>
<b>Contributions as a Percentage of Covered Payroll</b>	<b>14.56%</b>	<b>12.38%</b>	<b>12.34%</b>	<b>11.95%</b>	<b>11.34%</b>

**Notes to Schedule:**

Valuation Date: June 30, 2017  
Assumptions Used: Entry Age Method used for Actuarial Cost Method  
Level Percentage of Payroll and Direct Rate Smoothing  
3.8 Years Remaining Amortization Period  
Inflation Assumed at 2.50%  
Investment Rate of Returns set at 7.15%  
CalPERS mortality table using 15 years of membership data for all funds

\*\* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.



**Silicon Valley Clean Water  
Cost Sharing Multiple Employers Plan  
Schedule of Proportionate Share of Net Pension Liability  
Last 10 Fiscal Years**

<b>Miscellaneous Plan</b>					
Fiscal Year Ended	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Proportion of Net Pension Liability	0.35840%	0.34911%	0.33211%	0.30498%	0.32474%
Proportionate Share of Net Pension Liability	\$ 13,507,192	\$ 13,762,187	\$ 11,536,951	\$ 8,367,040	\$ 8,025,843
Covered Payroll	\$ 11,882,052	\$ 10,137,714	\$ 9,454,067	\$ 9,115,492	\$ 8,842,027
<b>Proportionate Share of NPL as a % of Covered Payroll</b>	<b>113.68%</b>	<b>135.75%</b>	<b>122.03%</b>	<b>91.79%</b>	<b>90.77%</b>
<b>Plan's Fiduciary Net Position as a % of the TPL</b>	<b>76.53%</b>	<b>77.31%</b>	<b>78.40%</b>	<b>83.30%</b>	<b>83.03%</b>

\*\* Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

**Silicon Valley Clean Water**  
Single Employer Plan  
Schedule of OPEB Contributions  
For the Fiscal Year Ended June 30, 2019

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	<b>Fiscal Year Ended June 30,</b>	
	<b>2018</b>	<b>2019</b>
Actuarially determined contribution (ADC)	\$ 135,456	\$ 74,614
Less: actual contribution in relation to ADC	(763,957)	(841,064)
Contribution deficiency (excess)	<u>\$ (628,501)</u>	<u>\$ (766,450)</u>
Covered payroll for the fiscal year	\$ 11,176,980	\$ 12,259,105
Contributions as a percentage of covered payroll	6.84%	6.86%

**Notes to Schedule:**

*Assumptions and Methods*

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed

Actuarial Assumptions:

Discount Rate	7.00%
Inflation	2.75%
Salary Increases	2.75%
Healthcare Trend Rate	4.00%
Investment Rate of Return	7.00%
Mortality	2014 CalPERS Active
Retirement	Rx PA Misc 2% @ 55 Rx PA Misc 2% @ 60 Rx PA Misc 2% @ 62

*Other Notes*

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

**Silicon Valley Clean Water**  
Single Employer Plan  
Schedule of Net OPEB Liability  
For the Fiscal Year Ended June 30, 2019

	<b>Fiscal Year Ended June 30,</b>	
	<b>2018</b>	<b>2019</b>
<b>Total OPEB liability</b>		
Service cost	\$ 36,426	\$ 37,428
Interest	461,630	473,085
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments	(328,838)	(341,991)
Implicit subsidy fulfilled	-	-
Net change in Total OPEB Liability	169,218	168,522
Total OPEB Liability - beginning	6,741,417	6,910,635
Total OPEB Liability - ending	<u>\$ 6,910,635</u>	<u>\$ 7,079,157</u>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 748,838	\$ 763,957
Employer implicit subsidy	-	-
Employee contributions	-	-
Net investment income	547,183	477,679
Difference between estimated and actual earnings	-	-
Benefit payments	(328,838)	(341,991)
Implicit subsidy fulfilled	-	-
Other	-	4,017
Administrative expense	(4,578)	(11,080)
Net change in plan fiduciary net position	962,605	892,582
Plan fiduciary net position - beginning	4,947,399	5,910,004
Plan fiduciary net position - ending	<u>\$ 5,910,004</u>	<u>\$ 6,802,586</u>
Net OPEB liability (asset)	\$ 1,000,631	\$ 276,571
Plan fiduciary net position as a percentage of the total OPEB liability	85.52%	96%
Covered employee payroll for the plan	\$ 10,877,839	\$ 11,176,980
Net OPEB Liability as a percentage of covered Employee payroll	9.20%	2.47%
Total OPEB Liability as a percentage of covered Employee payroll	63.53%	63.34%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

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## **SUPPLEMENTARY INFORMATION**

**Silicon Valley Clean Water**  
Combining Schedule of Net Position  
Enterprise Funds  
June 30, 2019

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
<b>Assets</b>				
Current Assets:				
Cash and investments	\$ 3,614,865	\$ 16,094,697	\$ -	\$ 12,023,851
Cash restricted for debt service	-	2,630,598	-	-
Accounts receivable	-	-	-	862,367
Interest receivable	-	-	-	-
Employee notes receivable	-	-	-	-
Due from other funds	3,235,074	-	6,308,747	886,168
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Total Current Assets	6,849,939	18,725,295	6,308,747	13,772,386
Noncurrent Assets:				
Property held for resale	-	-	-	-
Capital assets:				
Depreciable capital assets - net	-	-	-	-
Non depreciable capital assets:				
Land	-	-	-	-
Construction in progress:				
Stage 2	-	-	-	2,934,618
General	-	-	2,863,071	-
Total capital assets - net	-	-	2,863,071	2,934,618
Total Noncurrent Assets	-	-	2,863,071	2,934,618
Total Assets	\$ 6,849,939	\$ 18,725,295	\$ 9,171,818	\$ 16,707,004
<b>Deferred Outflows of Resources</b>				
Pension adjustments	\$ -	\$ -	\$ -	\$ -
OPEB adjustments	-	-	-	-
Deferred Loss on Defeasance	-	-	-	-
Total Deferred Outflows of Resources	\$ -	\$ -	\$ -	\$ -
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ 84,902	\$ -
Accrued payroll and employee benefits	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other funds	-	11,700,932	-	-
Unearned revenue	414	7,875	13,264	-
Noncurrent liabilities due within one year	-	-	-	-
Total Current Liabilities	414	11,708,807	98,166	-
Noncurrent liabilities due in more than one year	-	-	-	-
Total Liabilities	\$ 414	\$ 11,708,807	\$ 98,166	\$ -
<b>Deferred inflows of Resources</b>				
Pension adjustments	\$ -	\$ -	\$ -	\$ -
OPEB adjustments	-	-	-	-
Total Deferred Inflows of Resources	\$ -	\$ -	\$ -	\$ -
<b>Net Position</b>				
Net Investment in Capital Assets	\$ -	\$ -	\$ 2,863,071	\$ 2,934,618
Restricted for:				
Debt service	-	2,630,598	-	-
Capital projects	-	-	-	-
Retiree health benefits	-	-	-	-
Unrestricted	6,849,525	4,385,890	6,210,581	13,772,386
Total Net Position	\$ 6,849,525	\$ 7,016,488	\$ 9,073,652	\$ 16,707,004

(Continued)

**Silicon Valley Clean Water**  
Combining Schedule of Net Position  
Enterprise Funds  
June 30, 2019

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
<b>Assets</b>					
Current Assets:					
Cash and investments	\$ -	\$ -	\$ 29,258,163	\$ 10,821,354	\$ 71,812,930
Cash restricted for debt service	-	-	5,192,828	-	7,823,426
Accounts receivable	-	61,375	610,000	403,556	1,937,298
Interest receivable	-	-	495,390	21,685	517,075
Employee notes receivable	-	-	-	19,850	19,850
Due from other funds	186,780	-	4,658,944	953,045	16,228,758
Inventory	-	-	-	2,095,290	2,095,290
Prepaid expenses	-	-	-	423,325	423,325
Total Current Assets	186,780	61,375	40,215,325	14,738,105	100,857,952
Noncurrent Assets:					
Property held for resale	-	-	3,289,065	-	3,289,065
Capital assets:					
Depreciable capital assets - net	-	-	-	142,851,406	142,851,406
Non depreciable capital assets:					
Land	-	-	-	1,282,081	1,282,081
Construction in progress:					
Stage 2	-	-	-	-	2,934,618
General	-	-	241,484,943	-	244,348,014
Total capital assets - net	-	-	241,484,943	144,133,487	391,416,119
Total Noncurrent Assets	-	-	244,774,008	144,133,487	394,705,184
Total Assets	\$ 186,780	\$ 61,375	\$ 284,989,333	\$ 158,871,592	\$ 495,563,136
<b>Deferred Outflows of Resources</b>					
Pension adjustments	\$ -	\$ -	\$ -	\$ 4,421,241	\$ 4,421,241
OPEB adjustments	-	-	-	841,064	841,064
Deferred Loss on Defeasance	-	-	348,829	-	348,829
Total Deferred Outflows of Resources	\$ -	\$ -	\$ 348,829	\$ 5,262,305	\$ 5,611,134
<b>Liabilities</b>					
Current Liabilities:					
Accounts payable	\$ -	\$ 22,791	\$ 16,987,571	\$ 761,572	\$ 17,856,836
Accrued payroll and employee benefits	-	20	-	882,289	882,309
Accrued interest payable	-	-	6,391,797	-	6,391,797
Due to other funds	-	11,126	-	4,516,700	16,228,758
Unearned revenue	-	-	-	250,350	271,903
Noncurrent liabilities due within one year	-	-	8,369,739	933,043	9,302,782
Total Current Liabilities	-	33,937	31,749,107	7,343,954	50,934,385
Noncurrent liabilities due in more than one year	-	-	330,447,815	13,783,763	344,231,578
Total Liabilities	\$ -	\$ 33,937	\$ 362,196,922	\$ 21,127,717	\$ 395,165,963
<b>Deferred inflows of Resources</b>					
Pension adjustments	\$ -	\$ -	\$ -	\$ 1,207,125	\$ 1,207,125
OPEB adjustments	-	-	-	39,733	39,733
Total Deferred Inflows of Resources	\$ -	\$ -	\$ -	\$ 1,246,858	\$ 1,246,858
<b>Net Position</b>					
Net Investment in Capital Assets	\$ -	\$ -	\$ (62,881,620)	\$ 144,133,487	\$ 87,049,556
Restricted for:					
Debt service	-	-	5,192,828	-	7,823,426
Capital projects	-	-	-	-	-
Retiree health benefits	-	-	-	-	-
Unrestricted	186,780	27,438	(19,169,968)	(2,374,165)	9,888,467
Total Net Position	\$ 186,780	\$ 27,438	\$ (76,858,760)	\$ 141,759,322	\$ 104,761,449

(Concluded)

**Silicon Valley Clean Water**  
Combining Schedule of Activities and Changes in Net Position  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2019

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
<b>Operating Revenues:</b>				
Member contributions for services	\$ -	\$ -	\$ -	\$ -
Member contributions for cash reserves	-	1,000,008	1,485,504	2,747,284
Member contributions for debt service	-	-	-	-
Sources control charges	-	-	-	-
Miscellaneous revenues	-	-	6,816	-
Total operating revenues	-	1,000,008	1,492,320	2,747,284
<b>Operating Expenses:</b>				
Operations	-	-	-	-
Maintenance	-	-	22,601	-
Laboratory	-	-	-	-
Environmental services	-	-	-	-
Engineering	-	-	87	-
Information systems	-	-	-	-
Safety	-	-	-	-
Administration	6,005	30,139	-	18,705
Depreciation	-	-	-	-
Total operating expenses	6,005	30,139	22,688	18,705
<b>Operating Income (Loss)</b>	(6,005)	969,869	1,469,632	2,728,579
<b>Nonoperating Revenues (Expenses):</b>				
Grants	-	-	-	-
Other revenue (expense)	-	-	-	-
Interest Income:				
Operations fund	-	-	-	-
Stage 2 capacity fund	-	-	-	191,304
Capital improvement reserve fund	-	317,406	-	-
Operating reserve fund	59,403	-	-	-
Capital improvement fund	-	-	-	-
Net increase (decrease) in fair value of investments	65,278	324,174	-	220,091
Interest expense	-	-	-	-
Premium amortization	-	-	-	-
Gain (loss) on disposal of fixed assets	-	-	-	-
Total nonoperating revenues (expenses)	124,681	641,580	-	411,395
Income (Loss) Before Transfers	118,676	1,611,449	1,469,632	3,139,974
Transfers In	-	-	-	-
Transfers Out	-	-	(888,632)	-
Change in Net Position	118,676	1,611,449	581,000	3,139,974
Beginning Net Position	6,730,849	5,405,039	8,492,652	13,567,030
Prior Period Adjustment	-	-	-	-
Ending Net Position	\$ 6,849,525	\$ 7,016,488	\$ 9,073,652	\$ 16,707,004

(Continued)



**Silicon Valley Clean Water**  
Combining Schedule of Activities and Changes in Net Position  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2019

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
<b>Operating Revenues:</b>					
Member contributions for services	\$ -	\$ 241,375	\$ -	\$ 24,197,664	\$ 24,439,039
Member contributions for cash reserves	-	-	-	-	5,232,796
Member contributions for debt service	-	-	38,700,687	-	38,700,687
Sources control charges	-	-	-	51,206	51,206
Miscellaneous revenues	-	-	-	397,330	404,146
Total operating revenues	-	241,375	38,700,687	24,646,200	68,827,874
<b>Operating Expenses:</b>					
Operations	-	172,600	9,971	8,487,280	8,669,851
Maintenance	-	28,180	-	6,373,299	6,424,080
Laboratory	-	12,640	-	1,710,575	1,723,215
Environmental services	-	-	-	1,147,991	1,147,991
Engineering	-	-	416,937	903,887	1,320,911
Information systems	-	-	-	1,585,728	1,585,728
Safety	-	-	-	421,319	421,319
Administration	25,270	-	214	4,842,475	4,922,808
Depreciation	-	-	-	8,986,961	8,986,961
Total operating expenses	25,270	213,420	427,122	34,459,515	35,202,864
<b>Operating Income (Loss)</b>	(25,270)	27,955	38,273,565	(9,813,315)	33,625,010
<b>Nonoperating Revenues (Expenses):</b>					
Grants	-	-	-	273,678	273,678
Other revenue (expense)	-	-	-	793,208	793,208
Interest Income:					
Operations fund	-	-	-	40,104	40,104
Stage 2 capacity fund	-	-	-	-	191,304
Capital improvement reserve fund	-	-	-	-	317,406
Operating reserve fund	-	-	-	-	59,403
Capital improvement fund	-	-	2,597,917	-	2,597,917
Net increase (decrease) in fair value of investments	-	-	(105,326)	20,044	524,261
Interest expense	-	-	(14,508,313)	-	(14,508,313)
Premium amortization	-	-	941,868	-	941,868
Gain (loss) on disposal of fixed assets	-	-	-	(12,576)	(12,576)
Total nonoperating revenues (expenses)	-	-	(11,073,854)	1,114,458	(8,781,740)
Income (Loss) Before Transfers	(25,270)	27,955	27,199,711	(8,698,857)	24,843,270
Transfers In	-	-	-	1,629,537	1,629,537
Transfers Out	-	-	(740,905)	-	(1,629,537)
Change in Net Position	(25,270)	27,955	26,458,806	(7,069,320)	24,843,270
Beginning Net Position	212,050	(517)	(103,569,887)	148,828,642	79,665,858
Prior Period Adjustment	-	-	252,321	-	252,321
Ending Net Position	\$ 186,780	\$ 27,438	\$(76,858,760)	\$ 141,759,322	\$ 104,761,449

(Concluded)

**Silicon Valley Clean Water**  
Combining Schedule of Cash Flows  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2019

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
<b>Cash Flows from Operating Activities:</b>				
Cash received from member agencies	\$ -	\$ 1,000,008	\$ 1,485,504	\$ 1,884,917
Cash paid to suppliers for goods and services and employees for services	(5,591)	(17,522)	56,227	(18,705)
Other cash received (paid)	-	-	6,816	-
Net Cash Provided (Used) by Operating Activities	(5,591)	982,486	1,548,547	1,866,212
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Cash received from member agencies other than for services	-	-	-	-
Cash received from grants	-	-	-	-
Contributions (to) from other funds	(413)	(12,624)	(710,429)	64
Interest paid on capital debt	-	-	-	-
Principal paid on capital debt	-	-	-	-
Cash received on sale of capital assets	-	-	-	-
Purchases and construction of capital assets	-	-	(838,118)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(413)	(12,624)	(1,548,547)	64
<b>Cash Flows from Investing Activities:</b>				
Investment income	124,681	641,580	-	411,395
Net Cash Provided (Used) by Investing Activities	124,681	641,580	-	411,395
Net Increase (Decrease) in Cash and Cash Equivalents	118,677	1,611,442	-	2,277,671
Cash and Cash Equivalents Beginning	3,496,188	17,113,853	-	9,746,180
Cash and Cash Equivalents Ending	\$ 3,614,865	\$ 18,725,295	\$ -	\$ 12,023,851
<b>Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:</b>				
Operating Income (Loss)	\$ (6,005)	\$ 969,869	\$ 1,469,632	\$ 2,728,579
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	-	-
Net change in:				
Accounts receivable	-	12,617	33,773	(862,367)
Employee notes receivable	-	-	-	-
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Deferred outflows of resources for benefits	-	-	-	-
Accounts payable	-	-	43,576	-
Accrued payroll and employee benefits	-	-	-	-
Unearned revenue	414	-	1,566	-
Deferred inflows of resources for benefits	-	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ (5,591)	\$ 982,486	\$ 1,548,547	\$ 1,866,212
<b>Noncash Transactions:</b>				
Changes in fair values of investments	\$ 65,278	\$ 324,174	\$ -	\$ 220,091
Noncash transfers of capital assets	\$ -	\$ -	\$ (888,632)	\$ -

(Continued)

**Silicon Valley Clean Water**  
Combining Schedule of Cash Flows  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2019

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
<b>Cash Flows from Operating Activities:</b>					
Cash received from member agencies	\$ -	\$ 241,375	\$ 38,700,687	\$ 24,197,664	\$ 67,510,155
Cash paid to suppliers for goods and services and employees for services	(25,619)	(317,972)	11,652,026	(25,344,123)	(14,021,279)
Other cash received (paid)	-	-	-	448,536	455,352
Net Cash Provided (Used) by Operating Activities	(25,619)	(76,597)	50,352,713	(697,923)	53,944,228
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Cash received from member agencies other than for services	-	-	-	793,208	793,208
Cash received from grants	-	-	-	273,678	273,678
Contributions (to) from other funds	25,619	76,597	(9,785,100)	10,406,286	-
Interest paid on capital debt	-	-	(14,508,313)	-	(14,508,313)
Principal paid on capital debt	-	-	(4,201,885)	(922,946)	(5,124,831)
Cash received on sale of capital assets	-	-	-	83,101	83,101
Purchases and construction of capital assets	-	-	(117,269,898)	-	(118,108,016)
Net Cash Provided (Used) by Capital and Related Financing Activities	25,619	76,597	(145,765,196)	10,633,327	(136,591,173)
<b>Cash Flows from Investing Activities:</b>					
Investment income	-	-	2,657,332	60,148	3,895,136
Net Cash Provided (Used) by Investing Activities	-	-	2,657,332	60,148	3,895,136
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	(92,755,151)	9,995,552	(78,751,809)
Cash and Cash Equivalents Beginning	-	-	127,206,142	825,802	158,388,165
Cash and Cash Equivalents Ending	\$ -	\$ -	\$ 34,450,991	\$ 10,821,354	\$ 79,636,356
<b>Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:</b>					
Operating Income (Loss)	\$ (25,270)	\$ 27,955	\$ 38,273,565	\$ (9,813,315)	\$ 33,625,010
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	8,986,961	8,986,961
Net change in:					
Accounts receivable	-	(61,375)	(550,175)	198,616	(1,228,911)
Employee notes receivable	-	-	-	(3,327)	(3,327)
Inventory	-	-	-	(240,761)	(240,761)
Prepaid expenses	-	-	-	(324,880)	(324,880)
Deferred outflows of resources for benefits	-	-	76,969	547,956	624,925
Accounts payable	(349)	(24,473)	12,559,342	(50,239)	12,527,857
Accrued payroll and employee benefits	-	20	(6,988)	(3,214)	(10,182)
Unearned revenue	-	(18,724)	-	1,200	(15,544)
Deferred inflows of resources for benefits	-	-	-	3,080	3,080
Net Cash Provided (Used) by Operating Activities	\$ (25,619)	\$ (76,597)	\$ 50,352,713	\$ (697,923)	\$ 53,944,228
<b>Noncash Transactions:</b>					
Changes in fair values of investments	\$ -	\$ -	\$ (105,326)	\$ 20,044	\$ 524,261
Noncash transfers of capital assets	\$ -	\$ -	\$ (740,905)	\$ 1,629,537	\$ -

(Concluded)

# Silicon Valley Clean Water

Analysis of Net Position  
Supplemental Schedule (Unaudited)  
For the Year Ended June 30, 2019

<b>Fund / Location</b>	<b>Belmont</b>	<b>Redwood City</b>	<b>San Carlos</b>	<b>West Bay Sanitary District</b>	<b>Total</b>
<b>Operations (Fund 18)</b>					
Balance at June 30, 2018	\$ 13,199,044	\$ 74,045,634	\$ 21,810,920	\$ 39,863,073	\$ 148,918,671
Member Agency Contributions	2,971,800	11,237,544	3,065,580	6,922,740	24,197,664
Other Miscellaneous Revenue	52,793	222,519	66,473	106,752	448,536
Grant Revenue	32,212	135,772	40,559	65,135	273,678
Unrealized Gain / (Loss) on Investments	2,359	9,944	2,971	4,770	20,044
Interest Income	4,913	18,540	4,985	11,666	40,104
Capitalized Projects Transferred from other Funds	153,991	791,466	246,712	437,368	1,629,536
Gain / (Loss) on Asset Disposal	(1,188)	(6,108)	(1,904)	(3,375)	(12,576)
Operating & Maintenance Costs	(2,961,558)	(12,414,276)	(3,514,015)	(6,503,074)	(25,392,922)
Depreciation Expenditures	(849,268)	(4,364,967)	(1,360,626)	(2,412,100)	(8,986,960)
Balance at June 30, 2019	<u>\$ 12,605,098</u>	<u>\$ 69,676,067</u>	<u>\$ 20,361,655</u>	<u>\$ 38,492,955</u>	<u>\$ 141,135,774</u>
<b>Retiree Medical Health Benefits Reserve (Fund 12)</b>					
Balance at June 30, 2018	\$ (4,026)	\$ (73,360)	\$ 53,759	\$ (66,404)	\$ (90,031)
Contributions to Fund 12	93,361	393,511	117,553	188,784	793,208
Expenditures	(9,372)	(39,504)	(11,801)	(18,952)	(79,630)
Balance at June 30, 2019	<u>\$ 79,962</u>	<u>\$ 280,646</u>	<u>\$ 159,511</u>	<u>\$ 103,428</u>	<u>\$ 623,548</u>
<b>Capital Improvement Program Reserve (Fund 13)</b>					
Balance at June 30, 2018	\$ 510,768	\$ 2,625,217	\$ 818,332	\$ 1,450,722	\$ 5,405,039
Member Contributions - Replacement Reserve	94,500	485,700	151,404	268,404	1,000,008
Change in Fair Value, Unrealized Gain/(Loss)	30,634	157,451	49,080	87,008	324,174
Fees	(2,848)	(14,638)	(4,563)	(8,089)	(30,139)
Interest Income	29,995	154,164	48,055	85,192	317,406
Balance at June 30, 2019	<u>\$ 663,049</u>	<u>\$ 3,407,894</u>	<u>\$ 1,062,308</u>	<u>\$ 1,883,237</u>	<u>\$ 7,016,488</u>
<b>Construction Stage 2 (Fund 15)</b>					
Balance at June 30, 2018	\$ 529,038	\$ 7,154,350	\$ 2,082,073	\$ 3,801,569	\$ 13,567,030
Member Purchases of Capacity	-	2,048,946	698,338	-	2,747,284
Interest Income	18,078	92,916	28,963	51,346	191,304
Interest / (Unrealized Loss) Investments	20,799	106,898	33,322	59,072	220,091
Fees	(1,768)	(9,085)	(2,832)	(5,020)	(18,705)
Capitalized Projects Transferred to Fund 18	-	-	-	-	-
Balance at June 30, 2019	<u>\$ 566,147</u>	<u>\$ 9,394,025</u>	<u>\$ 2,839,865</u>	<u>\$ 3,906,967</u>	<u>\$ 16,707,004</u>
<b>Self Insurance (Fund 16)</b>					
Balance at June 30, 2018	\$ 22,613	\$ 88,168	\$ 37,855	\$ 63,413	\$ 212,050
Expenses / Claims	(2,974)	(12,537)	(3,745)	(6,014)	(25,270)
Balance at June 30, 2019	<u>\$ 19,639</u>	<u>\$ 75,631</u>	<u>\$ 34,110</u>	<u>\$ 57,399</u>	<u>\$ 186,780</u>
<b>Operating &amp; Capital Reserve (Fund 17)</b>					
Balance at June 30, 2018	\$ 758,137	\$ 3,314,915	\$ 862,410	\$ 1,795,387	\$ 6,730,849
Member Contributions	-	-	-	-	-
Unrealized Gain / (Loss) on Investment	7,683	32,385	9,674	15,536	65,278
Fees	(707)	(2,979)	(890)	(1,429)	(6,005)
Interest Income	6,992	29,470	8,803	14,138	59,403
Balance at June 30, 2019	<u>\$ 772,105</u>	<u>\$ 3,373,790</u>	<u>\$ 879,998</u>	<u>\$ 1,823,632</u>	<u>\$ 6,849,525</u>

# Silicon Valley Clean Water

Analysis of Net Position  
Supplemental Schedule (Unaudited)  
For the Year Ended June 30, 2019

Fund / Location	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Total
<b>Revenue-Funded Capital Improvements (Fund 14)</b>					
Balance at June 30, 2018	\$ 860,743	\$ 4,210,257	\$ 1,047,363	\$ 2,374,290	\$ 8,492,653
Member Contributions - Pay go capital projects	140,380	721,509	224,905	398,709	1,485,504
Miscellaneous Revenue	644	3,311	1,032	1,830	6,816
Project Expenditures not yet transferred to Fund 18	(2,144)	(11,020)	(3,435)	(6,090)	(22,689)
Capitalized Projects transferred to Fund 18	(83,976)	(431,609)	(134,539)	(238,509)	(888,632)
Balance at June 30, 2019	\$ 915,647	\$ 4,492,448	\$ 1,135,326	\$ 2,530,230	\$ 9,073,652
<b>Recycled Water (Fund 19)</b>					
Balance at June 30, 2018	\$ -	\$ (517)	\$ -	\$ -	\$ (517)
RWC Recycled Water O&M Contributions	-	241,375	-	-	241,375
RWC Recycled Water O&M Expenditures	-	(213,420)	-	-	(213,420)
Balance at June 30, 2019	\$ -	\$ 27,438	\$ -	\$ -	\$ 27,438
<b>Plant Capital Improvement Program (Fund 20)</b>					
Balance at June 30, 2018	8,184,201	(54,089,588)	(20,567,391)	(37,097,108)	\$ (103,569,886)
Member Contributions	10,758,841	11,841,520	3,689,899	12,410,427	38,700,687
Unrealized Gain (Loss)	-	(61,423)	(19,160)	(24,743)	(105,326)
Interest on Trustee Reserves	-	1,515,030	472,587	610,299	2,597,917
Capitalized Projects Transferred to Fund 18	(70,015)	(359,857)	(112,173)	(198,859)	(740,905)
Interest Expense, Direct	(19,706)	(7,484,401)	(2,335,037)	(3,639,055)	(13,478,198)
Interest Expense, Allocated	(51,295)	(492,839)	(154,596)	(254,415)	(953,145)
Amortization of Bond Premium	-	538,565	156,844	246,459	941,868
Other Expenses	(47,637)	(244,838)	(76,320)	(135,299)	(504,093)
Prior Period Adjustment	23,844	122,552	38,201	67,723	252,321
Balance at June 30, 2019	\$ 18,778,233	\$ (48,715,278)	\$ (18,907,145)	\$ (28,014,570)	\$ (76,858,760)
<b>TOTAL NET POSITION - June 30, 2019</b>	<b>\$ 34,399,880</b>	<b>\$ 42,012,663</b>	<b>\$ 7,565,628</b>	<b>\$ 20,783,277</b>	<b>\$ 104,761,449</b>
CY %	32.84%	40.10%	7.22%	19.84%	100.00%

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## **OTHER INDEPENDENT AUDITOR'S REPORT**

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

To the Commission  
Silicon Valley Clean Water

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Silicon Valley Clean Water (SVCW) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements, and have issued our report thereon dated November 25, 2019.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in dark ink that reads "Maze & Associates". The script is cursive and fluid, with the ampersand being particularly stylized.

November 25, 2019  
Pleasant Hill, California

**SILICON VALLEY CLEAN WATER  
MEMORANDUM ON INTERNAL CONTROL  
FOR THE YEAR ENDED JUNE 30, 2019**

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**SILICON VALLEY CLEAN WATER  
MEMORANDUM ON INTERNAL CONTROL**

**For The Year Ended June 30, 2019**

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## MEMORANDUM ON INTERNAL CONTROL

To the Commission of  
Silicon Valley Clean Water  
Redwood City, California

In planning and performing our audit of the basic financial statements of Silicon Valley Clean Water for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Commission and others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads 'Maze & Associates' in a cursive, flowing script.

Pleasant Hill, California  
November 25, 2019

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## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### 2019-01: Accounting Department Super-User Rights

**Criteria:** A system administrative user (Super user) is an individual who has full access over the financial system including all modules and all functions. This type of access should be limited to as few people as possible. If possible, Super-users' rights should be removed from Accounting Department Staff.

**Condition:** We noted that both the CFO and Accounting Supervisor have full access to process invoices, create/update purchase orders, add or delete vendors, maintains vendor database and print checks. In addition, they also have access to the blank check stocks and signature plates.

**Cause:** It appears that such access is granted to the Accounting Department Staff for convenience due to the limited staffing availability.

**Potential Effect:** This condition does not permit for good checks and balances to be performed by multiple employees. Good internal control dictates that one employee who reviews should not have access to process the related assets. Good internal control further dictates that another employee who does not involve in the full financial operating process should perform any changes to the database and perform top to bottom review of system privileges to maintain good check and balance.

**Recommendation:** The District should review the necessity of granting any employee the privilege rights to the financial system. For any module within the financial system that these employees do not need to edit, their access should be limited to either read-only, or have a 2nd staff to review vendor database update monthly at the minimum.

#### **Management's Response:**

Silicon Valley Clean Water successfully implemented its new financial system beginning July 01, 2018. Prior to implementation there was a discovery period when workflows and authorization processes were agreed upon that endeavor to make SVCW disbursements accurately, on time, and with appropriate approval. These workflows:

- Departmental administrative staff receive invoices, obtain appropriate signatures, and make the initial entry into the financial system. Documentation is forwarded to Accounting.
- There is an Accounting Technician as well as two Accountants dedicated to assisting with invoice entry or reviewing activity already entered.
- Once satisfied that entries are accurate, an Accountant will post the batch of invoices for approval by the Accounting Supervisor.
- The Accounting Supervisor is notified electronically when a payment batch needs approval.
- The Chief Financial Officer is notified electronically when a payment batch is approved.
- The risk of fraudulent vendors is mitigated by a review process, whereby the Chief Financial Officer and Accounting Supervisor routinely review transaction logs that describe any changes made to vendor records.
- Separately, a comprehensive list of disbursements is generated into a Warrant Register by a Financial Analyst and reviewed by SVCW's Chief Financial Officer and its Manager. Each Warrant Register is forwarded to the Redwood City Finance Manager in his/her capacity as SVCW Controller and, after signature, is presented to the Commission.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### 2019-01: Accounting Department Super-User Rights, (Continued)

After receiving the auditor's comments, SVCW reassessed its super-user rights and made the following adjustments:

- Removed super-user rights from Chief Financial Officer, Accounting Supervisor, and Financial Analyst
- Began the process to extend the system administrator role to Information Technology Analysts to further segregate super-user rights from Accounting. We anticipate this transition to be completed by end of the 2019-20 fiscal year.

#### 2019-02: Internal Controls over Check, EFT, and ACH Receipts

**Criteria:** Check, EFT, and ACH receipts reconciliations should have audit trails of reviewer's sign off and date to ensure proper approval are conducted in a timely manner.

**Condition:** During our review of internal control, we noted that although the Accounting Department Staff cross-check each other's work, the reviewer does not leave an audit trail of sign off and date.

**Cause:** Staff was not aware that such audit trail was necessary.

**Potential Effect:** There is increased risk of errors or unauthorized transaction without audit trail for proper review and signoff.

**Recommendation:** Staff performing the reviews should leave an audit trail of sign off and date to ensure the review are done timely.

**Management's Response:**

SVCW agrees with the recommendation to strengthen evidence of its review process; Signatures and dates are now being applied during reviews.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **2019-03: Timeliness of Invoice Payments**

**Criteria:** Vendor invoices should be processed in a timely manner, within 30-45 days upon receiving the billing, to avoid any potential late fee charges, transaction errors or negative impact on credit ratings.

**Condition:** During our interim testing, we noted:

1. Check#101786 to Detection Instruments Corp: The invoice dated 5/11/18 wasn't paid till 3/8/19, almost 10 months later.
2. Check#101357 to Power Engineering Construction: The invoice dated 10/5/18 wasn't paid till 12/28/18, more than three months later.
3. Check#102029 to R&B Company The invoice dated 1/16/19 wasn't paid till 4/5/19, almost three months later.

**Cause:** It appears that these invoices were not received by the Accounting Department until much later, resulted in the delay of payment.

**Potential Effect:** Delay in payment could incur unnecessary late fees or penalty, and potentially impact the Authority's credit ratings. In addition, it could increase the risk of errors and other misstatements being undetected.

#### **Management's Response:**

SVCW processed over 5,400 invoices in fiscal year 2018-19 with a cumulative disbursement of nearly \$110 million. Each invoice undergoes a workflow review process that requires responsible person(s) to verify the goods and/or services were received before forwarding for approval by an authorized supervisor, director, or manager.

In reviewing the above items it was noted that, for certain operating expenditures, SVCW workflows were dependent on a single employee. As an example, whereas one of three supervisors could have shared this responsibility, certain invoices were directed through a sole supervisor for review and, afterwards, approved by Directors. Inevitably, when personnel are absent, such documents may sit idle on desks or not prioritized. SVCW has since created a new workflow following this shared approach to the invoice review process.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **2019-04: Compliance with Purchasing Policy**

**Criteria:** SVCW's purchasing policy states that any purchase of supplies and equipment, regardless of amount, requires a purchase order.

**Condition:** During our interim testing, we noted two disbursements did not have purchase orders.

**Cause:** Per staff, it is the practice to not have purchase order for every single purchase. However, an approval at the appropriate level is required for every purchase.

**Potential Effect:** Although the practice appeared practical, SVCW does not appear to be following its current Purchasing Policy.

**Recommendation:** We recommend that SVCW either adhere to its purchasing policy or revise the policy to reflect the practical situations, taking proper internal control into consideration.

#### **Management's Response:**

This issue stems from general language in SVCW's purchasing guidelines. SVCW does not require all purchases be made via a purchase order. Rather, the guidelines intend that all purchases must be approved via at least one of the following: Purchase Order, Receipt, Invoice, Reimbursement Form, or Stock Replenishment Form.

SVCW has since revised its purchasing guidelines to clarify this distinction.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE**

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

##### **EFFECTIVE FISCAL YEAR 2019/20:**

##### ***GASB Statement No. 84, Fiduciary Activities***

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

##### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 90 – Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61**

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### EFFECTIVE FISCAL YEAR 2020/21:

##### **GASB 87 – Leases**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

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**SILICON VALLEY CLEAN WATER  
REQUIRED COMMUNICATIONS  
FOR THE YEAR ENDED  
JUNE 30, 2019**

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**SILICON VALLEY CLEAN WATER**  
**REQUIRED COMMUNICATIONS**  
**For the Year Ended June 30, 2019**

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## REQUIRED COMMUNICATIONS

To the Commission of  
Silicon Valley Clean Water  
Redwood City, California

We have audited the basic financial statements of the Silicon Valley Clean Water for the year ended June 30, 2019. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

### **Significant Audit Findings**

#### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Authority are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

The following pronouncements became effective, but did not have a material effect on the financial statements:

***GASB 83 – Certain Asset Retirement Obligations***

***GASB 88 – Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements***

#### ***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

- ***Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:*** Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Authority. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

- *Estimated Net OPEB Obligation:* Management's estimate of the net OPEB obligation is disclosed in Note 9 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the Authority. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimated Fair Value of Investments:* As of June 30, 2019, the Authority held approximately \$79.6 million of cash and investments as measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2019. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2019.
- *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- *Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 10 to the financial statements and is based on the claims experience of the Authority. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Commission.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated November 25, 2019.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Information Accompanying the Financial Statements**

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

\*\*\*\*\*

This information is intended solely for the use of Commission and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maze & Associates*

Pleasant Hill, California  
November 25, 2019



## AGENDA ITEM 7F

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**SALE OF REAL PROPERTY**

**ISSUE**

Approve Sale of Real Property Owned by Silicon Valley Clean Water

**BACKGROUND**

In 2010, SVCW purchased a residential property at 379 Greendale Avenue in Redwood City pursuant to an employment agreement with SVCW's previous Manager. In June, 2019, the Commission determined the property was no longer needed by SVCW and authorized retaining the services of a real estate broker who then offered the property for sale in the open market. On November 18, 2019, two offers within the market value range were received for the property, which were presented to the Commission during closed session. The Commission authorized the Manager to enter into a purchase and sale agreement for either of the two offers. Consistent with the authority provided by the Commission, the higher of the two offers was accepted on November 18, 2019 in the amount of \$3.55 million and a purchase and sale agreement was negotiated and executed.

**DISCUSSION**

Escrow opened on November 18, 2019 and is scheduled to close forty days after acceptance of the offer. The buyers are motivated to close early and it is anticipated that the sale will be complete on December 17, 2019. This agenda item will ratify the acceptance of the offer/purchase and sale agreement and authorize conveyance of title to the property.

**RECOMMENDATION**

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)

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## AGENDA ITEM 8A

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**RESCU PROGRAM  
PRESENTATION ON PROGRAM STATUS**

ISSUE

Receive Presentation on RESCU Program Status Including Potential Project Changes

BACKGROUND

One of the highest priority programs for Silicon Valley Clean Water is upgrades to the conveyance system facilities. Conveyance facilities include the influent force main, all pump stations, and preliminary treatment. Replacement of the conveyance facilities was identified in the original 2008 Capital Improvement Program (CIP) and work on a replacement program began almost immediately upon approval of the 2008 CIP. It is not uncommon for comprehensive infrastructure replacement programs to take 10 to 15 years to complete. Indeed, SVCW's Regional Environmental Sewer Conveyance Upgrades (RESCU) program is slated for completion in 2023 which will have been a 15-year program life.

The program has undergone several iterations since its inception and has now reached the point where all projects are advanced into contracts with design-builders. Two of the three major projects are in construction and the third major project is scheduled to begin construction in Spring 2020. With a RESCU completion date in 2023, SVCW will cap a 15-year effort for the conveyance system upgrades, ensuring that SVCW will protect public health and the environment for the next 50 to 100 years.

The Commission has supported the needs to upgrade and ensure a robust infrastructure, making the hard decisions necessary to meeting the financial needs of the agency. Staff continues to ensure that SVCW service area ratepayers are receiving a high level of service with quality facilities designed and constructed with capital and life cycle costs at the most efficient levels possible.

DISCUSSION

Staff's responsibilities are to ensure that projects being undertaken meet the primary mission of the agency, that they are carried out efficiently, that the Commission remain apprised of project status and that full transparency is followed. To this end, staff will make a presentation on the status of the RESCU program and will provide information known at this time on necessary project changes.

The presentation content will support the upcoming CIP Update that will be presented to the Commission at its January 2020 meeting. Some of the potential changes to the RESCU program are 100% certain while others are less certain. For example, changes related to sales tax increases are certain while a possible change due to lack of sites for tunneling muck disposal is less certain. To the extent possible, staff will inform the Commission of potential project changes keeping in context the inherent uncertainties.

RECOMMENDATION

Receive PRESENTATION ON RESCU PROGRAM STATUS INCLUDING POTENTIAL  
PROJECT CHANGES



## AGENDA ITEM 8B

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**RESCU PROGRAM - FRONT OF PLANT PROJECT (CIP #9502)  
APPROVAL OF CHANGE ORDER****ISSUE**

Approve Contract Change Order to the RESCU Program Front of Plant Project

**BACKGROUND**

The Commission has previously approved Stage 2 amendments to the Design-Build Agreement for the RESCU Program Front of Plant Project with Shea-Parsons Joint Venture (SPJV). There were several Stage 2 Amendments to this project to allow early work packages to begin while other aspects of the designs were being completed. In December 2018, the Commission approved the Front of Plant (FoP) Project Stage 2D Amendment and authorized the SVCW Manager to approve Contract Change orders and Allowances up to ten percent (10%) of the Contract Price for said Amendment. This Amendment covered the work to complete design and construction for the project. It was negotiated as a lump sum contract amount. SVCW held back on inclusion of two specific elements to the lump sum amount as the opportunity to reduce costs via value engineering of these elements was high. Staff continued working with SPJV to value engineer the two items to reduce costs: 1) the electrical, instrumentation and controls scope, and 2) SPJV Project Management beyond December 2021.

This project is scheduled to last over five years; as with any multi-year project, there are factors that arise during the course of implementation that can necessitate changes to the contract amounts. They can be classified as “discretionary” or “non-discretionary”. Discretionary changes may result from value engineering or requests for scope changes by the Authority, while non-discretionary changes typically result from “unforeseen conditions” found during construction or that arise as a result of authorities having jurisdiction over SVCW’s operations instituting new regulations or laws.

During the May 2019 SVCW Commission Meeting, SVCW staff reported that the Bay Area Air Quality Management District (BAAQMD) had instituted new emission limits for Precursor Organic Compounds (POCs) on the Front of Plant Project’s Odor Control System. BAAQMD is instituting this new requirement across the entire wastewater industry, presenting a complex challenge for wastewater facilities. For the FoP project, meeting POC limits requires a different type of air pollution control technology than was developed and contractually agreed to in the Stage 2D Amendment, resulting in a non-discretionary change order to design and construct a new odor control system.

**DISCUSSION**

SPJV has completed the design and developed a cost estimate for supplying and installing the new Odor Control System. During the time period whereby changes to the odor system were being developed, additional discretionary and non-discretionary items have been identified that require adjustments to the contract cost. A change order has been negotiated with SPJV that includes four items:

- 1) Electrical, Instrumentation, and Controls Scope Progression
- 2) Removal of 48-inch Pipeline
- 3) Odor Control Technology Change
- 4) Project Management beyond December 2021

Below is a brief description of each element of the Change Order.

### **1) Electrical, Instrumentation, and Controls Scope Progression**

During Stage 2D final negotiations, SPJV estimated the cost to finalize the design and construct the electrical, instrumentation and controls scope to be \$3 million, lump sum. SVCW believed there was opportunity to identify savings by working with SPJV to value engineer the scope as it progressed from the Stage 2D to final design. In the Amendment Scope of Work, it was mutually agreed that SVCW would carry these costs, value engineer the scope and come to mutual agreement on costs via a future Change Order. With input from SVCW staff and project representatives, SPJV completed the 100% design and construction cost estimate for a lump sum amount of \$1.34 million; a \$1.66 million reduction from the previous estimate. Savings were derived from a reduction in the estimated number of input/output (I/O) points, along with a reduction in the number and total length of power and instrumentation conduits runs, wiring and connections. SVCW's Owner's Advisor and Quality Assurance consulting teams independently reviewed and negotiated the costs and concluded that the final net increase was reasonable.

### **2) Removal of 48-Inch Pipeline**

As part of the value engineering process, SVCW and SPJV continued to evaluate the necessity of a new 48-inch pipeline originally included to facilitate plant commissioning of the headworks facilities. As design progressed from 60% to 100%, SPJV finalized its equipment selection, utilizing products that SVCW staff possess significant experience operating and troubleshooting. With this increased confidence, SVCW and SPJV mutually agreed that the new pipeline was an unnecessary discretionary cost. SPJV prepared and issued a deductive Change Order for \$395,000. SVCW's Owner's Advisor and Quality Assurance consulting teams independently reviewed and negotiated the credit and concluded that the final net deduction was reasonable.

### **3) Odor Control Technology Change**

SPJV and the SVCW FoP Team evaluated various types of air pollution control technologies and vendors to determine the preferred solution that will reliably meet the new POC limits. This included Bio-Trickling Filter (BTF) / Granular Activated Carbon (GAC) and Chemical odor scrubber technologies to determine their ability to reliably meet the POC requirements. It was determined that a biological trickling filter system with radial activated carbon adsorption scrubbers and mist/degrease filters provided the necessary redundancy to reliably meet the BAAQMD air permit requirements during maximum flows.

The introduction of the POC requirements required significant work by SPJV, including additional technical research and evaluation, redesign of the odor control system and ancillary systems, solicitation of proposals from qualified vendors, supplementary

technical resources, and time. Additionally, SPJV will need to accelerate its construction to complete the headworks so it may receive wastewater from the Gravity Pipeline. The costs of all of these impacts are incorporated into the Change Order amount.

SCVW's Owner's Advisor and Quality Assurance consulting teams independently reviewed the revised design drawings, cost estimates, vendor/subcontractor quotes, and schedule to assess the additional costs, in addition to the credits that were due to SVCW. Credits were associated with scope no longer necessary due to design efficiencies or replaced with redesign of the new Odor Control system. This included, but was not limited to, the original chemical odor control system, and related chemical storage tanks, electrical equipment and conduits, piping, valves and controls. Both firms independently confirmed that the net increase of \$2.33 million (\$1.65 million credit plus \$3.98 million increase for the new system) was appropriate and reasonable, and that SPJV would be able to complete the project as originally scheduled.

#### **4) SPJV Project Management Costs beyond December 2021**

As part of its original lump sum proposal, SPJV estimated the monthly Project Management and Construction Administration cost to be \$391,000 over the project's entire duration. SVCW felt this monthly average rate was appropriate for the bulk of the project but should be reduced during the project's final 11 months (i.e., Jan 2022 through November 2022). Specifically, SVCW felt that the level of resources required to reach substantial completion, commission the facilities and complete final punch list would be significantly less. As such, both Parties agreed to carrying Project Management and Construction Administration costs through December 2021 as part of the Stage 2D Amendment and re-assess this item as both parties become more confident in the actual costs. At this time, both parties have estimated that the final 11-months should cost approximately \$2.1 million (\$190,900 monthly) for Project Management and Construction Administration. This is a significant reduction from the \$4.3 million (\$391,000 monthly) lump sum budget originally proposed. SVCW's Owner's Advisor and Quality Assurance consulting teams independently reviewed this revised estimate. Both concluded that the final net deduction was reasonable, but it should be processed as an Allowance Change Order (i.e., reimbursed based on actual expenses), affording SVCW the ability to recognize additional savings.

#### **FINANCIAL IMPACT**

There are additional costs in the amount of \$5,375,000 to the Front of Plant Project associated with value engineering of the electrical and pipeline scopes and project management costs, in addition to the unforeseen impacts resulting from BAAQMD's new POC permit requirements. This Change Order would utilize 4.4% of the 10% Change Order and Allowance Contingency previously authorized by the Commission in December 2018. CIP budget amounts will require updating to account for these additional costs, which will occur as part of the CIP Update occurring in January 2020.

RECOMMENDATION

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.