



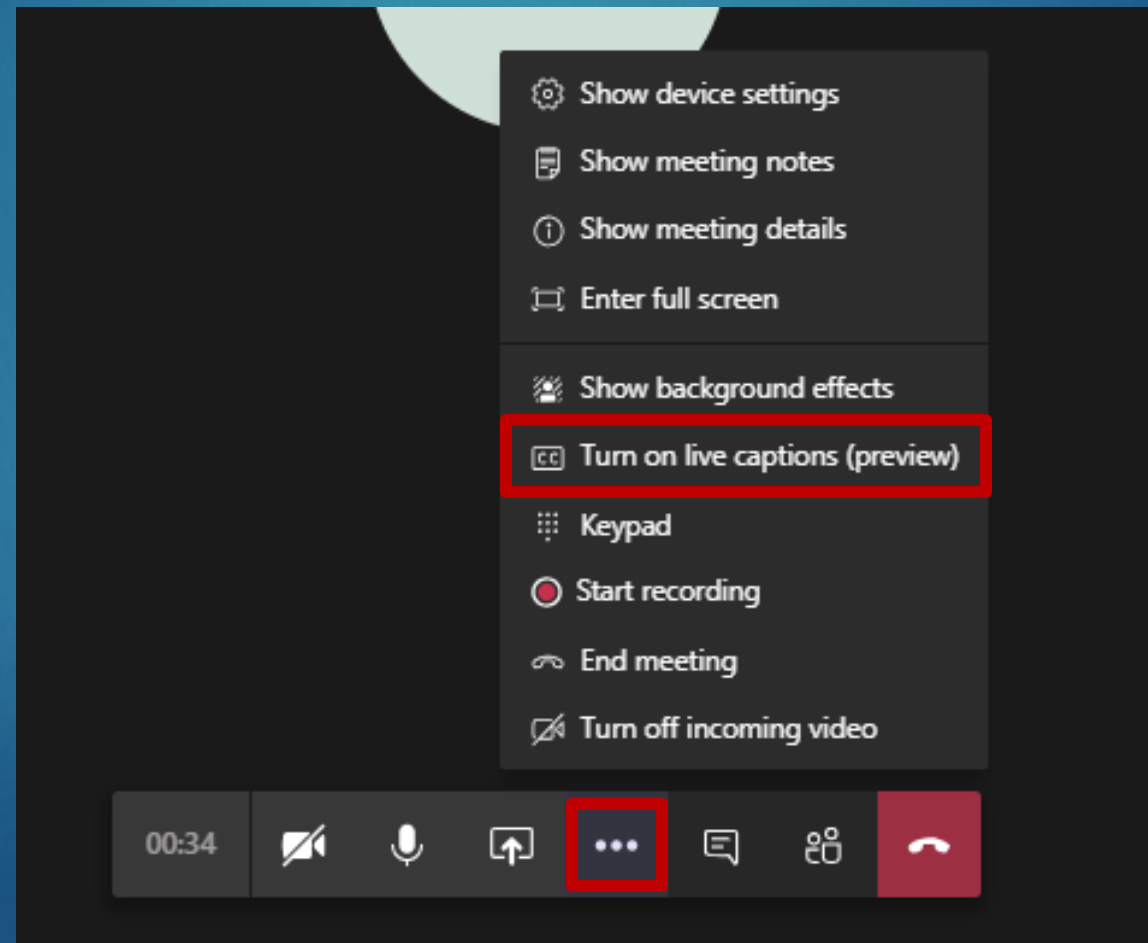
# Silicon Valley Clean Water Commission Meeting

MARCH 14, 2022

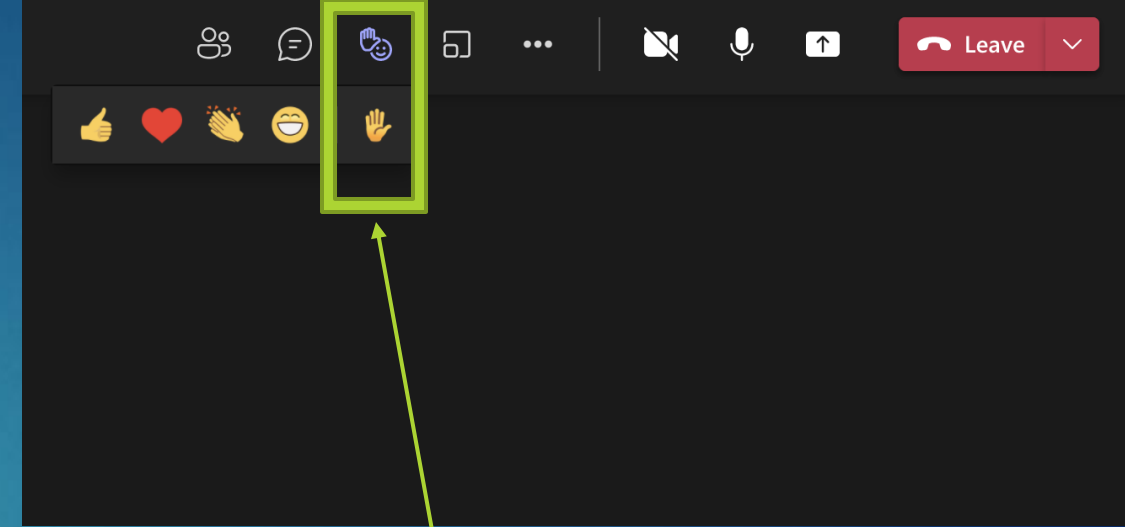


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# Public Comment



- ▶ To provide public comment during the meeting:
  - ▶ Click on raise hand button
  - ▶ SVCW will unmute member of the public
  - ▶ State your name and make your comment
  - ▶ Three minutes is provided for comment
- ▶ If joined via phone:
  - ▶ Unmute yourself and state what item you want to comment on







# Agenda Item 5C

## Investment Update

# Silicon Valley Clean Water

## Investment Update

March 14, 2022

814-599-6818

**pfmam.com**

Lesley Murphy

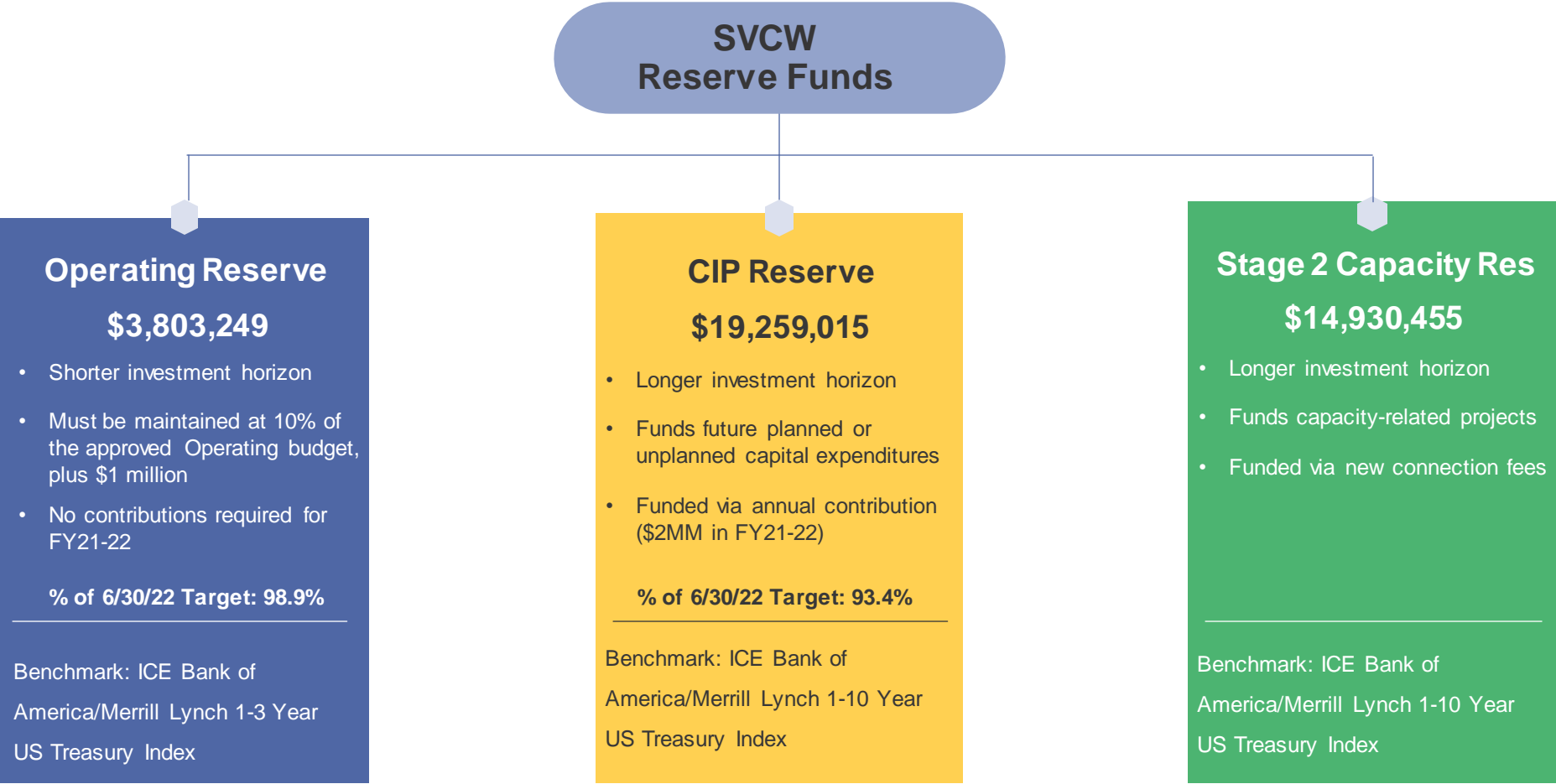
Senior Managing Consultant  
PFM Asset Management LLC

*PFM Asset Management LLC*

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# SVCW's Reserve Fund Investment Program



Market values of portfolio holdings plus accrued interest and money market fund balances as of February 28, 2022.



# Current Market Themes



- Drop in COVID-19 caseloads, widespread deployment of vaccines, and the rollback of masking mandates are expected to bolster consumer activity



- The U.S. economy is characterized by:
  - Rapidly increasing inflation
  - Improved labor market conditions
  - Depressed consumer confidence



- The Federal Reserve is reducing monetary policy accommodation
  - Accelerated pace of asset purchase tapering
  - Fed expects three rate hikes in 2022
  - Changing composition of FOMC leadership



- The U.S. Treasury yield curve is experiencing “bear-flattening”
  - Short-term yields shift higher amid rate hike expectations
  - Longer-term yields adjust to evolving inflation and economic growth uncertainties

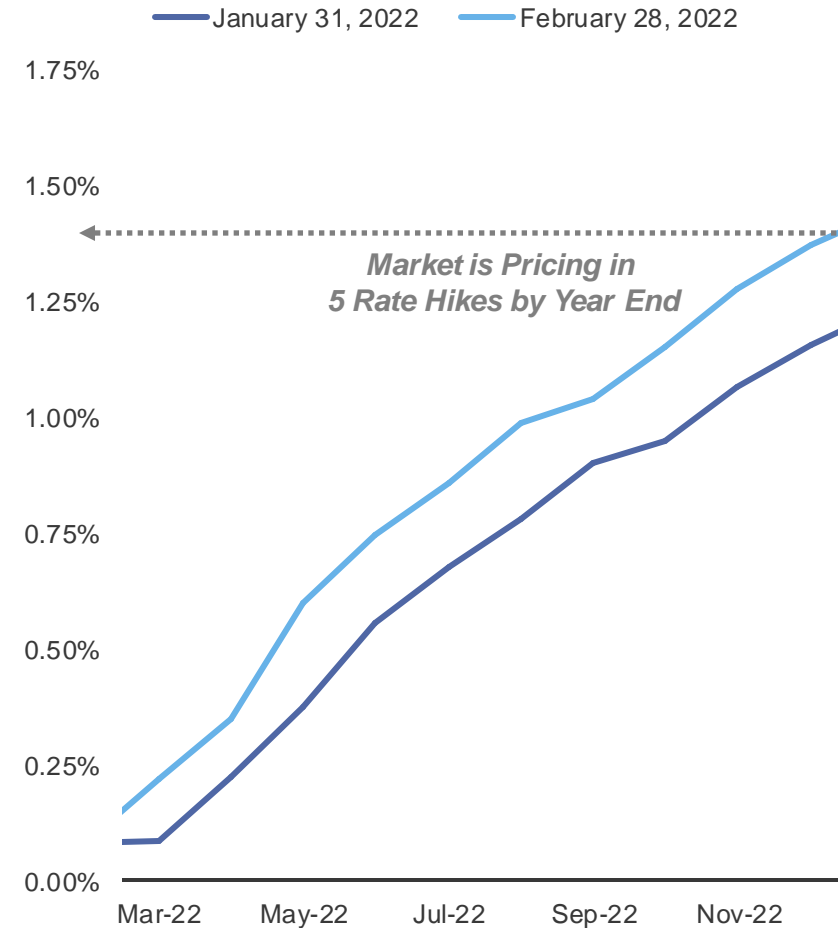


# All Eyes on the Fed

## Federal Reserve's Changing Stance on Inflation and Monetary Policy

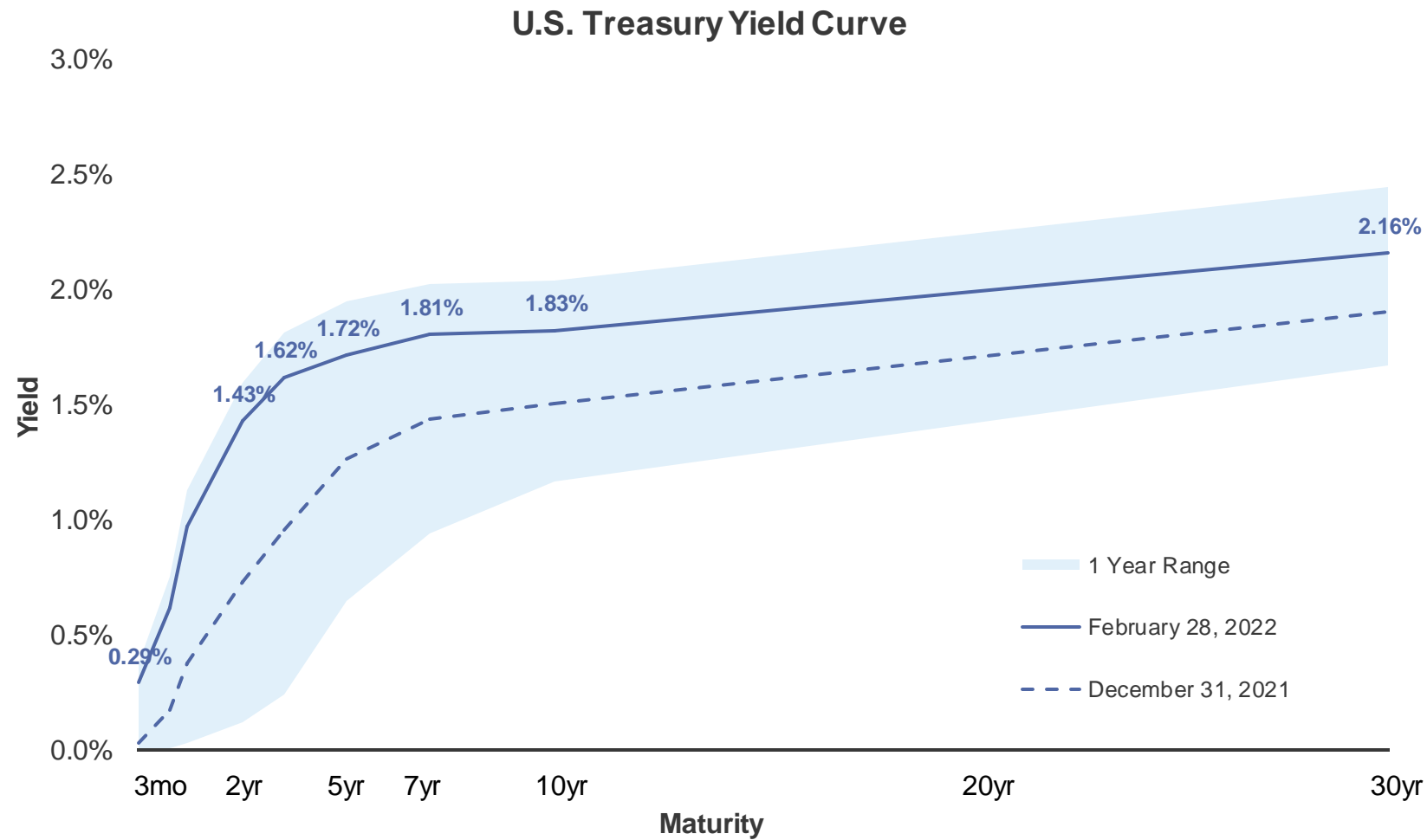
- ▶ **April 2021:** Fed characterizes inflationary pressure as “transitory”
- ▶ **June 2021:** Widening dispersion between Fed participants’ views on monetary policy as economy improves; more officials indicate rate lift-off is expected by end of 2023
- ▶ **September 2021:** Signals tapering of asset purchases could begin later in the year, but rates will remain near zero
- ▶ **November 2021:** Retires the term “transitory,” announces tapering of bond purchases; signals 2-3 rate hikes in 2022
- ▶ **December 2021:** Announces accelerated tapering; sees three rate hikes in 2022
- ▶ **March 2022:** Expected completion of tapering; likely first rate hike
- ▶ **2022 Q2:** Expectation for more rate hikes; possible reduction in Fed balance sheet

## Implied Fed Funds Rate



Source: Federal Reserve and Bloomberg, WIRP as of 2/28/2022. Rate hikes are based on an assumed rate move of 25 basis points (0.25%).

# U.S. Treasury Yield Curve Shifts Higher



Source: Bloomberg, as of 2/28/2022.

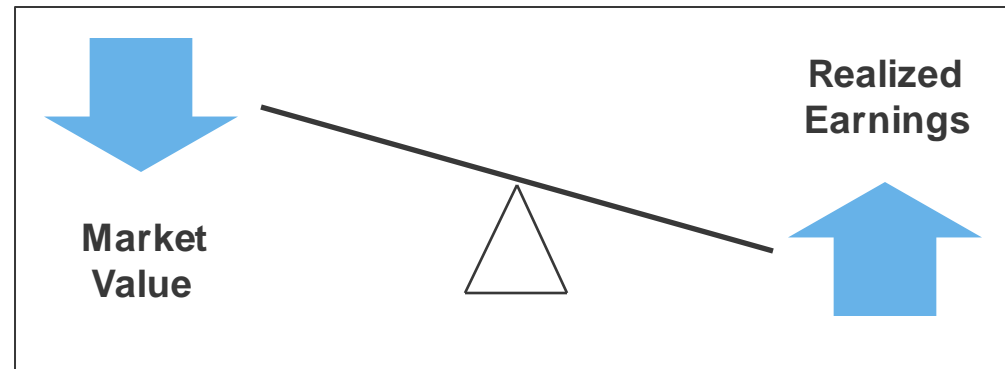
# What Does This Mean for SVCW's Investment Portfolio?

- ▶ For fixed income holdings, when interest rates rise:
  - ▶ Market values of existing holdings will decrease, resulting in unrealized market value losses;

## HOWEVER

- ▶ Realized earnings will increase over time as new securities are added at higher interest rates.

As Interest Rates Increase . . .



# A Closer Look: Earnings Analysis

## Earnings Analysis

### CIP Reserve Fund Earnings Analysis As of December 31, 2021

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Past Year
Interest Earned	\$99,940	\$97,465	\$96,626	\$98,465	\$392,496
+ Change in Value	(\$323,407)	(\$4,756)	(\$101,968)	(\$252,701)	(\$682,832)
= Portfolio Earnings	(\$223,467)	\$92,709	(\$5,342)	(\$154,236)	(\$290,336)
<b>Total Return %</b>	<b>-1.24%</b>	<b>0.52%</b>	<b>-0.02%</b>	<b>-0.81%</b>	<b>-1.55%</b>
<b>Quarter-over-Quarter Change in 5-Year U.S. Treasury Yield</b>	<b>+0.58%</b>	<b>-0.05%</b>	<b>+0.08%</b>	<b>+0.29%</b>	<b>+0.90%</b>



# Thank You

Questions / Discussions

*PFM Asset Management LLC*

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# Agenda Item 8A

## Remote Commission Meetings

# Commission Meetings Attendance



- ▶ Remote Meetings Allowable
- ▶ Make a Finding that:
  - ▶ In-Person Meetings pose Imminent Risk to Health and Safety of Attendees
- ▶ Reconsider / Make Findings every 30 Days

# Recommendation

Adopt Resolution Allowing for Remote  
Teleconference Meetings under Emergency  
Conditions related to Covid-19





# Agenda Item 8B

## Proposed FY22-23 Budget



# Budget-to-Budget Highlights

Total Increase of \$1.46 million (2.88%) from FY 21-22 Budget

## Year-over-year Budgeted Member Entity Contributions

Description	2021-22 Adopted Budget	2022-23 Proposed Budget	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Gross Operating Expenses	\$ 28,467,513	\$ 30,058,179	\$ 1,590,666	5.59%
Less: Miscellaneous Revenue	(855,000)	(956,600)	101,600	11.88%
<b>Contributions, Net Operating Expenses</b>	<b>\$ 27,612,513</b>	<b>\$ 29,101,579</b>	<b>\$ 1,489,066</b>	<b>5.39%</b>
Add: Revenue-Funded Capital Projects	1,497,500	1,404,000	(93,500)	(6.24%)
<b>Contributions, Before Reserves &amp; Debt Service</b>	<b>\$ 29,110,013</b>	<b>\$ 30,505,579</b>	<b>\$ 1,395,566</b>	<b>4.79%</b>
Add: Reserve Designations	2,000,000	2,595,418	595,418	29.77%
Add: Debt Service, Participating members	19,394,786	18,860,826	(533,960)	(2.75%)
<b>Contributions, Total</b>	<b>\$ 50,504,799</b>	<b>\$ 51,961,823</b>	<b>\$ 1,457,024</b>	<b>2.88%</b>

# Proposed Budget vs. 2021 LRFP

Required Cash Flow 1.96% less than January 2021 Estimates

## Budgeted Member Entity Contributions, versus Long-Range Financial Plan

Description	FY 2022-23 (2021 LRFP)	2022-23 Proposed Budget	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Gross Operating Expenses	\$ 29,417,149	\$ 30,058,179	\$ 641,030	2.18%
Less Miscellaneous Revenue	(1,166,460)	(956,600)	(209,860)	(17.99%)
<b>Net Operating Expenses</b>	<b>\$ 28,250,689</b>	<b>\$ 29,101,579</b>	<b>\$ 850,890</b>	<b>3.01%</b>
Add: Revenue-Funded Capital Projects	1,500,000	1,404,000	(96,000)	(6.40%)
<b>Contributions before Reserves, Debt Service:</b>	<b>\$ 29,750,689</b>	<b>\$ 30,505,579</b>	<b>\$ 754,890</b>	<b>2.54%</b>
Add: Reserve Designations	2,526,380	2,595,418	69,038	2.73%
Add: Debt Service, Participating members	20,722,579	18,860,826	(1,861,753)	(8.98%)
<b>Total Member Contributions</b>	<b>\$ 52,999,648</b>	<b>\$ 51,961,823</b>	<b>\$ (1,037,825)</b>	<b>(1.96%)</b>



# Current Operating Expense Forecast

Line Item	Forecast to Budget	Notes
Personnel	Below Budget	Vacancies during the year
Utilities	Above Budget	Late Billing from PG&E
Chemicals	Below Budget	Dewatering Process OOS
Professional Fees	Below Budget	Legal Fees less than Anticipated

Silicon Valley Clean Water Expenditure Summary - By Objective				
Description	2021-22 Forecast	2021-22 Budget	\$	%
			Higher/(Lower) v. Budget	Higher/(Lower) v. Budget
Personnel	\$ 17,810,358	\$ 18,280,601	\$ (470,243)	(2.6%)
Utilities	1,744,228	1,576,620	167,608	10.6%
Administrative Expenses	626,719	631,843	(5,124)	(0.8%)
Equipment & Supplies Expense	2,802,279	2,738,854	63,425	2.3%
Chemicals	1,733,040	1,928,592	(195,552)	(10.1%)
Professional & Contractual Services	2,806,447	2,947,492	(141,045)	(4.8%)
Training, Memberships, Travel	284,830	363,511	(78,681)	(21.6%)
<b>TOTAL</b>	<b>\$ 27,807,901</b>	<b>\$ 28,467,513</b>	<b>\$ (659,612)</b>	<b>(2.3%)</b>

# Proposed Budget vs. 2021-22 Forecast

Line Item	Budget Inputs
Personnel	Filling Vacancies; Merit & Step Salary Increases; Add 1 Operator
Utilities	Electricity Use Increase at New Headworks
Chemicals	Significant Market Price Increase
Training	Pandemic Deferral Ending; Training on New Facilities/Equipment

Silicon Valley Clean Water Expenditure Summary - By Objective						
Description	2020-21	Adopted	2021-22	Proposed	\$	%
	Actual	Budget	Forecast	Budget	Incr/(Decr) v. Forecast	Incr/(Decr) v. Forecast
Personnel	\$ 18,227,600	\$ 18,280,601	\$ 17,810,358	\$ 18,867,311	\$1,056,953	5.9%
Utilities	1,619,814	1,576,620	1,744,228	2,047,966	303,738	17.4%
Administrative Expenses	688,173	631,843	626,719	744,875	118,156	18.9%
Equipment & Supplies Expense	2,632,740	2,738,854	2,802,279	2,842,483	40,204	1.4%
Chemicals	1,254,370	1,928,592	1,733,040	2,179,380	446,340	25.8%
Professional & Contractual Services	2,696,528	2,947,492	2,806,447	2,939,562	133,115	4.7%
Training, Memberships, Travel	131,658	363,511	284,830	436,602	151,772	53.3%
<b>TOTAL</b>	<b>\$ 27,250,883</b>	<b>\$ 28,467,513</b>	<b>\$ 27,807,901</b>	<b>\$ 30,058,179</b>	<b>\$2,250,278</b>	<b>8.1%</b>

# Potential Amendment for Chemicals

- ▶ Draft Budget already includes a 26% increase in chemicals
- ▶ Subsequently, suppliers advised of further price increases
  - ▶ Driven by higher cost of oil, wages, and transportation
  - ▶ Compounded by geopolitical uncertainty
- ▶ SVCW anticipates \$147 thousand more (8%) may be needed
- ▶ Will return in April with clarity re potential budget adjustment

# How Budget is Allocated

2022-23 Budget Revenue Allocation to Member Agencies - Proposed									
				Belmont	Redwood City	San Carlos	West Bay San District	TOTAL	
Allocation Factors									
Flow				11.30%	53.24%	13.65%	21.81%	100%	
Biochemical Oxygen Demand (BOD)				11.31%	52.55%	12.05%	24.09%	100%	
Suspended Solids (SS)				10.61%	55.52%	11.80%	22.07%	100%	
Operating Expenditures	Weightings								
	Flow	BOD	SS						
	Operations	26.5%	33.5%	40.0%	\$ 1,311,996	\$ 6,415,316	\$ 1,472,216	\$ 2,698,126	\$ 11,897,654
	Maintenance	26.5%	33.5%	40.0%	743,405	3,635,055	834,189	1,528,816	6,741,464
	Laboratory	26.5%	33.5%	40.0%	203,478	994,955	228,327	418,454	1,845,213
	Environmental Services	26.5%	33.5%	40.0%	116,443	569,374	130,663	239,465	1,055,945
	Engineering	26.5%	33.5%	40.0%	191,799	937,847	215,221	394,436	1,739,303
	Safety	100.0%	0.0%	0.0%	58,467	275,467	70,626	112,846	517,406
	Information Services	26.5%	33.5%	40.0%	258,660	1,264,778	290,247	531,935	2,345,620
	Administrative Services	100.0%	0.0%	0.0%	442,460	2,084,651	534,476	853,986	3,915,573
Total Operating Expenditures				\$ 3,326,707	\$ 16,177,443	\$ 3,775,964	\$ 6,778,064	\$ 30,058,179	
Subtract Miscellaneous Income				\$ 105,488	\$ 515,807	\$ 118,370	\$ 216,936	\$ 956,600	
2021-22 Net Operating Revenue Required				\$ 3,221,219	\$ 15,661,637	\$ 3,657,594	\$ 6,561,128	\$ 29,101,579	
2020-21 Net Operating Revenue Required				3,056,516	14,859,965	3,471,004	6,225,028	27,612,513	
\$ Increase / (Decrease)				164,703	801,672	186,590	336,100	1,489,066	
% Increase / (Decrease)				5.39%	5.39%	5.38%	5.40%	5.39%	

# Revenue-Funded Capital Projects

## Proposed 2022-23 Revenue-Funded Capital Expenditures

Project Name	Estimated Cost
Track Loader to clean / maintain Drying Beds	\$ 145,000
Vapex Units at primary influent & effluent channels	\$ 235,000
Replace Uninterruptible Power Supply (UPS)	\$ 30,000
Replace Network Field Switches	\$ 144,000
Biosolids Shunt Truck, used to move Biosolids*	\$ 160,000
Replace Quincy Compressors	\$ 90,000
Replace Chillers in Thickener Gallery	\$ 400,000
Rotary Drum Thickeners - Piping Upgrades	\$ 200,000
TOTAL	<hr/> \$ 1,404,000 <hr/>



# Policy-driven Cash Reserves

## Operating Reserve:

- ▶ \$1 million +10% of Operating Budget
- ▶ \$95k contribution to meet target

## CIP Reserve:

- ▶ Adds \$2.5 million, per Policy

Reserve Designations - 2022-23 Budget					
Description	Estimated		Target		Proposed
	June 30, 2022		June 30, 2023		2022-23
	Balance		Balance		Contributions
Operating Reserve	\$	3,910,400	\$	4,005,818	\$ 95,418
CIP Reserve		20,196,037		22,696,037	2,500,000
TOTAL	\$	24,106,437	\$	26,701,855	\$ 2,595,418

# Debt: Updated for 2021 activity

- ▶ SRF Loans, WIFIA Loans, 2021 Notes, and 2021 Refunding Bonds
- ▶ Slightly Improved from LRFP, as one SRF Loan is restructured

## SVCW Aggregate Debt Service Cost

Fiscal Year End	Belmont	Redwood City	San Carlos	West Bay	Total
2023	\$ 178,425	\$ 10,334,733	\$ 3,268,999	\$ 5,078,669	\$ 18,860,826
2024	178,425	10,326,519	3,273,353	5,076,034	18,854,331
2025	821,376	13,628,984	4,304,894	6,910,197	25,665,451
2026	821,376	13,627,402	4,291,737	6,905,915	25,646,429
2027	821,376	13,627,103	4,289,415	6,899,685	25,637,580
2028	1,282,895	19,023,281	5,973,266	9,885,894	36,165,336
2029	1,282,895	19,013,928	5,971,852	9,880,096	36,148,771
2030	1,425,557	19,739,080	6,194,764	10,287,603	37,647,003
2031	1,425,557	19,381,189	6,100,912	10,125,008	37,032,666
2032	1,425,557	19,373,489	6,110,210	10,120,278	37,029,533
2033	1,425,557	19,363,157	6,104,782	10,117,079	37,010,576



# Budget Calendar

March 14

- Commission Reviews Budget
- Provides Direction

April 11

- Commission Adopts SVCW Budget

May/June

- Members Incorporate into Respective Budgets

# Recommendation

Receive Presentation

No Action to be taken at this meeting  
(Resolution to be adopted in April)





Thank You