“THE REGION’S WATER AGENCIES ARE COLLABORATING IN COMPLETE SOLIDARITY TO PERFORM OUR VITAL MISSION OF PROVIDING SAFE AND RELIABLE WATER SUPPLIES.”

SANDRA L. KERL
GENERAL MANAGER OF THE SAN DIEGO COUNTY WATER AUTHORITY

"PUBLIC WATER SUPPLIES IN THE SAN DIEGO REGION REMAIN SAFE TO DRINK DUE TO ROBUST STANDARD TREATMENT PROCESSES BY LOCAL AND REGIONAL WATER PROVIDERS."

JIM MADAFFER, BOARD CHAIR OF THE SAN DIEGO COUNTY WATER AUTHORITY
COVID-19 EMERGENCY RESOLUTION

Board of Directors
March 26, 2020

Sandy Kerl
General Manager
The federal, state, and local governments have all declared emergencies based on the COVID-19 virus, which is affecting the entire world and can be fatal.

San Diego County’s virus count, like most American urban areas, is rising exponentially. To try and limit danger to the citizenry, health and safety instructions were issued by various governments to keep apart, telecommute if possible, and stay home unless being out was absolutely required.

As General Manager, and after consulting the Officers and General Counsel, I took action to follow health and safety instructions and to protect our workforce:
COVID-19 RESOLUTION (cont’d)

1. On March 16 I instructed that the Water Authority offices be shut to public access. This allowed fewer personal contacts, and “social distancing.”

2. On March 18 I instructed that staff be grouped into three categories: those needed to work on site; those able to telecommute; and the few remaining who would need administrative leave. Staff was instructed to work per these groupings. This was similar to other agencies such as MWD.
COVID-19 (Cont’d)

- Staff have been diligently working through these new circumstances, and our IT Department has been laboring around the clock to facilitate the changes.

- The Emergency Resolution before the Board would ratify these actions, and would establish our emergency status to conform with other agencies, but would also note that this is not a water quality issue, as the water supply is safe. The General Manager and General Counsel recommend that the Board pass the agendized Resolution.
DETACHMENT UPDATE

Board of Directors
March 26, 2020

Mark Hattam
General Counsel
Detachment

- Both Fallbrook and Rainbow filed for detachment last week.

- Both applications contain what we believe to be misleading data, all of which will be addressed at LAFCO in due course.

- Once we are notified LAFCO has accepted the applications we will have a short window of time to then file the application the Board previously approved: to ask LAFCO to allow a service area vote, and to address certain procedural issues in LAFCO law. We expect COVID-19 to delay the process.
San Diego County Water Authority
Flight to Quality Bias in Treasury Yields

- The outlook for Treasury yields has pivoted with the outbreak of the coronavirus in the US. The market is digesting a strong flight-to-quality bias across the US Treasury Yield Curve.

- In recent days the market has started to price in some of the consequences of the large scale fiscal stimulus expected domestically and globally with yields moving off the lows further out the Treasury curve.

Source: Bloomberg
• Investment Grade and High Yield spreads have moved dramatically wider thus far in March.

• The liquidity issues throughout the capital markets are exacerbating the widening and risk off mindset.

Source: Bloomberg
Recent Municipal Market Performance

- Consistent with other risk assets the Municipal Market has experienced material total return underperformance relative to the historical experience with the escalation of COVID-19.

- Issuing debt is likely to remain expensive in the near term.

### Municipal Bond Indices as of March 23, 2020

<table>
<thead>
<tr>
<th>Municipal Bond Indices</th>
<th>Modified Duration</th>
<th>Index Value</th>
<th>MTD Total Return</th>
<th>YTD Total Return</th>
<th>Total Return 3 Month</th>
<th>Total Return 6 Month</th>
<th>Total Return 12 Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Bond Index</td>
<td>6.17</td>
<td>1,174.65</td>
<td>(10.41)</td>
<td>(7.62)</td>
<td>(7.57)</td>
<td>(6.88)</td>
<td>(3.06)</td>
</tr>
<tr>
<td>1 Year (1-2)</td>
<td>1.30</td>
<td>200.32</td>
<td>(2.79)</td>
<td>(2.25)</td>
<td>(2.22)</td>
<td>(1.59)</td>
<td>(0.58)</td>
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<tr>
<td>3 Year (2-4)</td>
<td>2.49</td>
<td>304.35</td>
<td>(5.44)</td>
<td>(4.48)</td>
<td>(4.44)</td>
<td>(3.58)</td>
<td>(2.14)</td>
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<tr>
<td>5 Year (4-6)</td>
<td>3.82</td>
<td>440.58</td>
<td>(8.46)</td>
<td>(6.80)</td>
<td>(6.74)</td>
<td>(5.77)</td>
<td>(3.53)</td>
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<tr>
<td>7 Year (6-8)</td>
<td>4.77</td>
<td>440.84</td>
<td>(10.27)</td>
<td>(8.01)</td>
<td>(7.94)</td>
<td>(7.06)</td>
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<tr>
<td>10 Year (8-12)</td>
<td>5.43</td>
<td>1,161.81</td>
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<td>(7.73)</td>
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<td>15 Year (12-17)</td>
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<td>574.28</td>
<td>(11.72)</td>
<td>(8.23)</td>
<td>(8.18)</td>
<td>(7.54)</td>
<td>(2.87)</td>
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<tr>
<td>20 Year (17-22)</td>
<td>7.92</td>
<td>1,528.50</td>
<td>(12.08)</td>
<td>(8.53)</td>
<td>(8.48)</td>
<td>(7.90)</td>
<td>(2.87)</td>
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<tr>
<td>Long Bond (22+)</td>
<td>10.71</td>
<td>1,560.29</td>
<td>(14.11)</td>
<td>(10.14)</td>
<td>(10.10)</td>
<td>(9.59)</td>
<td>(4.05)</td>
</tr>
<tr>
<td>GO Bond Index</td>
<td>5.79</td>
<td>1,024.61</td>
<td>(10.03)</td>
<td>(7.31)</td>
<td>(7.26)</td>
<td>(6.51)</td>
<td>(2.83)</td>
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</table>

### Municipal Bond Indices as of February 28, 2020

<table>
<thead>
<tr>
<th>Municipal Bond Indices</th>
<th>Modified Duration</th>
<th>Index Value</th>
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<th>YTD Total Return</th>
<th>Total Return 3 Month</th>
<th>Total Return 6 Month</th>
<th>Total Return 12 Month</th>
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<tbody>
<tr>
<td>Municipal Bond Index</td>
<td>4.96</td>
<td>1,311.10</td>
<td>1.29</td>
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<td>5 Year (4-6)</td>
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<td>5.88</td>
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<tr>
<td>7 Year (6-8)</td>
<td>4.82</td>
<td>491.31</td>
<td>0.85</td>
<td>2.52</td>
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<tr>
<td>10 Year (8-12)</td>
<td>5.22</td>
<td>1,299.62</td>
<td>1.18</td>
<td>3.14</td>
<td>3.54</td>
<td>2.94</td>
<td>9.29</td>
</tr>
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<td>15 Year (12-17)</td>
<td>5.76</td>
<td>650.55</td>
<td>1.64</td>
<td>3.96</td>
<td>4.33</td>
<td>3.65</td>
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<tr>
<td>20 Year (17-22)</td>
<td>5.70</td>
<td>1,738.51</td>
<td>1.78</td>
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<tr>
<td>Long Bond (22+)</td>
<td>6.65</td>
<td>1,816.71</td>
<td>2.15</td>
<td>4.63</td>
<td>4.90</td>
<td>4.40</td>
<td>14.00</td>
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<tr>
<td>GO Bond Index</td>
<td>4.85</td>
<td>1,138.80</td>
<td>1.22</td>
<td>3.02</td>
<td>3.35</td>
<td>3.00</td>
<td>9.10</td>
</tr>
</tbody>
</table>

Source: Bloomberg Barclays Indices
US Financial Conditions

- The move higher in the index is unprecedented compared to recent bouts of market volatility.
- The liquidity issues throughout the capital markets are exacerbating the widening and risk off mindset.

Source: Bloomberg
• The velocity and magnitude of the sell-off in March has been severe.
Domestic Data Prior to the COVID-19

Unemployment and Average Hourly Earnings

US Personal Saving as a % of Disposable Personal Income

Non Farm Payrolls

Weekly Jobless Claims

Source: Bureau of Labor Statistics and Department of Labor
• The impact of the COVID-19 on the domestic and global economy is going to be severe in the first half of 2020.

• The Federal Reserve has responded aggressively thus far to address the acute liquidity issues in the market.
  • The Fed Funds rate was lowered 1.50% in March to a range of 0.00% to 0.25%.
  • Quantitative Easing is being reintroduced to support economic growth.
  • Unconventional liquidity tools are being introduced to support functioning markets.

• The Chandler team expects a large fiscal response – both domestically and globally – to help combat the impact of COVID-19.

• The fixed income and equity markets will remain volatile for the next several weeks until more clarity on the impact of the Coronavirus is provided to market participants.
  • Will the actions taken by the State of California help to slow the spread of the virus?
  • Will the fatality rate remain low?

Source: Bloomberg
Disclosures

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Performance results are presented gross-of-fees and represent CSAC EIA and CSAC EIO’s investment returns for the period 8/31/18. These results include the reinvestment of dividends and other earnings. Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Economic factors, market conditions or changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio. Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index.
Comprehensive Debt Management Strategy

Board of Directors
March 26, 2020

Lisa Marie Harris
Director of Finance/Treasurer
COVID-19 has disrupted global financial markets, including the municipal bond market

On March 9, 2020, the 30-year Municipal Market Data (MMD) yield reached its all-time low

However, over the past few weeks, MMD yields moved higher as investors have chosen to buy Treasury bonds or stay in cash in the face of an uncertain economic picture

The 30-year MMD yield has improved significantly this week from its recent peak and is currently well below its 10-year average
Short-term markets began to show signs of stress in early March with commercial paper ("CP") and variable rate bonds ("VRDBs") being especially affected.

Institutional investors have put large amounts of CP and VRDBs back to dealers.

Dealer inventories got as high as $30 billion (3x its highest level in the last year).

SDCWA’s CP overnight rolls were as high as 7.00% late last week.

Fed liquidity programs appear to be providing effective support as dealer inventories, VRDB rates and CP rates have declined significantly this week.
Overview of Outstanding Debt

- The Water Authority has $2.35 billion of outstanding debt obligations
  - Fixed rate - $2.05 billion
  - Variable rate - $345 million

Note: Subordinate Lien Debt includes Series 2016 S-1 amortized over 20 years at 5.0%
Series 1 ECP, Series 9 CP and Series 10 CP amortized over 20 years at 5.0%
Subordinate Lien Debt Obligations

- $432 million of variable rate and medium-term debt is on a subordinate lien

- Includes Commercial Paper ("CP"), Extendible CP, and Medium-Term Notes
- Historically has provided a lower average cost of funds than fixed rate bonds
- Increased flexibility of debt portfolio
- Helps senior lien debt service coverage
Summary of Refunding Opportunities

- The 2017 Tax Act eliminated tax-exempt advance refundings
- However, there are alternative refundings that are still permissible:
  - A taxable advance refunding of the Series 2013A Bonds
  - A tax-exempt forward delivery refunding of the Series 2011A&B Bonds
- There are a number of maturities that currently produce savings that meet the Water Authority’s debt policy requirements
- The total transaction could generate aggregate present value savings in excess of $20 million:

<table>
<thead>
<tr>
<th>Series</th>
<th>2011A&amp;B</th>
<th>2013A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Outstanding</td>
<td>$181,210,000</td>
<td>$285,100,000</td>
</tr>
<tr>
<td>Amount Callable</td>
<td>$145,315,00</td>
<td>$270,475,000</td>
</tr>
<tr>
<td>Callable Maturities</td>
<td>2022-2027</td>
<td>2022-2031</td>
</tr>
<tr>
<td>Call Date</td>
<td>May 1, 2021</td>
<td>November 1, 2022</td>
</tr>
</tbody>
</table>
Series 2016S-1 Bonds

- The 2016S-1 Bonds are five-year bonds that mature May 1, 2021 and are redeemable beginning March 15, 2021
- Staff plans to provide a final recommendation for addressing the maturing bonds closer to the call date
  - Currently expect to refinance with a new medium-term fixed rate
  - Will require an updated disclosure document
  - Timing aligns with the call date of the 2011A&B Bonds so there may be economies of scale if a forward delivery refunding is used
Tax-Exempt Commercial Paper

- The Water Authority has three series of tax-exempt commercial paper ("CP") outstanding
  - Series 9 - $135 million, Bank of America liquidity support
  - Series 10 - $110 million, Bank of the West liquidity support
  - Series 1 - $100 million, SDCWA self-liquidity

- Recent financial market disruption caused by the COVID-19 pandemic has caused a short-term liquidity issue for CP programs
  - Investors have liquidated their CP positions in favor of cash and U.S. Treasuries
  - CP dealers have been required to inventory CP that couldn’t be sold
  - Interest rates have risen dramatically

- Staff has determined that it is prudent to reduce the Water Authority’s exposure to variable rate debt
  - Working to immediately refinance some or all CP to an interim fixed rate (e.g., six months or one year)
  - May eventually convert some or all to long-term fixed rate through refundings
Financing of Future Capital Project Costs

- If long-term borrowing costs are favorable this summer when the Water Authority sells refunding bonds, staff will evaluate whether to sell bonds to fund up to $150 million of future capital project costs rather than funding those costs on a Pay-As-You-Go basis.

- Freed-up PAYGO budget could be used to:
  - Redeem a portion of the Water Authority’s long-term, short-term and/or variable rate debt
  - Provide additional stability to water rates
Today’s Board Actions

- Authorize the issuance of Water Revenue Refunding Bonds
  - Series 2020A&B (Taxable) to refund for savings certain outstanding Series 2013A Bonds
  - Series 2021A&B (Tax-Exempt Forward Delivery) to refund for savings certain outstanding Series 2011A&B Bonds
  - Approve underwriting team for both transactions

- Authorize the issuance of Subordinate Lien Water Revenue Refunding Bonds
  - Series 2021S-1 to refund maturing Series 2016S-1 Bonds
  - Approve underwriting team

- Authorize the issuance of Water Revenue Refunding Notes and authorize staff to negotiate the conversion of some or all of the outstanding Commercial Paper to short-term fixed rate bank loans
Pipeline 5 Repair at Moosa Creek

Engineering and Operations Committee
March 26, 2020

Neena Kuzmich
Engineering Manager
Pipeline 5 Repair Location

Pipelines 3, 4, and 5

Camino Del Rey

PIPELINE 5 REPAIR

PIPELINE 5 AREA OF DISTRESS
# Completed Activities

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 27</td>
<td>Board approval for General Manager to take all actions to repair Pipeline 5</td>
</tr>
<tr>
<td>March 2</td>
<td>Issued Notice to Proceed to SGH for carbon fiber design</td>
</tr>
<tr>
<td>March 4</td>
<td>Completed bulk head design</td>
</tr>
<tr>
<td>March 16</td>
<td>Completed carbon fiber design</td>
</tr>
<tr>
<td>March 17</td>
<td>Issued Notice to Proceed to J.F. Shea Construction, Inc. (bulkhead)</td>
</tr>
<tr>
<td>March 18</td>
<td>Water Authority staff transitioned to working from home</td>
</tr>
<tr>
<td>March 18</td>
<td>Completed bulkhead fabrication</td>
</tr>
<tr>
<td>March 19</td>
<td>California Governor issued Stay-at-Home order</td>
</tr>
<tr>
<td>March 23</td>
<td>Received bid proposals from carbon fiber contractors</td>
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Carbon Fiber Design

PIPELINE PLAN

GROUND PROFILE (NOTE 1)

CFRP STRENGTHENING SCOPE = 156 FT (@ CENTERLINE) ± VIF

4 LAYERS OF CARBON FIBER
6 LAYERS OF CARBON FIBER
7 LAYERS OF CARBON FIBER
Contract Summary

- J.F. Shea Construction, Inc. $515,000
- Simpson Gumpertz & Heger, Inc. $223,000
- PURE Technologies, U.S. Inc. $79,667
Future Activities

- Shutdown pipeline (Begin March 30\textsuperscript{th})
- Install bulkheads
- Install carbon fiber repair (Begin April 6\textsuperscript{th})
- Resume normal operation (early May)
Sacramento Update

Legislation and Public Outreach Committee
March 26, 2020

Glenn Farrel, Director of Government Relations
Legislature - Coronavirus Response

- Legislature recessed on March 17, with plans to return from recess on April 13
- Legislature also approved emergency legislation
  - $500 M for Coronavirus response
    - Leasing hospitals
    - Local government response support
    - Cleaning childcare facilities
    - Protecting homeless
- Authorizes the Governor to ultimately spend up to $1 B for Coronavirus response
- $100 M for schools to purchase protective equipment and cleaning supplies
- Statutory changes to ensure schools continue receiving funding despite the closures
Given constrained timelines for legislative action, the regular business of the Legislature remains uncertain for 2020

- Will the Legislature return on April 13?
- If not, how will legislative and Constitutional deadlines affect the disposition of legislation?

Ongoing discussions among legislative leadership

- Imposition of Coronavirus-related bill limits - 5 bills for each legislator
- Essential vs. non-essential legislation

Election year overlay increases pressure on action and activity
## Primary Election Results

### California State Assembly

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>TOP 2 CANDIDATES</th>
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<tbody>
<tr>
<td>AD 71</td>
<td>Randy Voepel (R)* Liz Lavertu (D)</td>
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<tr>
<td>AD 75</td>
<td>Marie Waldron (R)* Karen Schwartz (D)</td>
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<tr>
<td>AD 76</td>
<td>Tasha Boerner Horvath (D)* Melanie Burkholder (R)</td>
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<tr>
<td>AD 77</td>
<td>Brian Maienschein (D)* June Yang Cutter (R)</td>
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<tr>
<td>AD 78</td>
<td>Chris Ward (D) Sarah Davis (D)</td>
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<td>AD 79</td>
<td>Shirley Weber (D)* John Moore (R)</td>
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<td>AD 80</td>
<td>Lorena Gonzalez (D)* John Vogel (R)</td>
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### California State Senate

<table>
<thead>
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<th>DISTRICT</th>
<th>TOP 2 CANDIDATES</th>
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<tbody>
<tr>
<td>SD 39</td>
<td>Toni Atkins (D)*</td>
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## Primary Election Results

### U.S. House of Representatives

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<td>Mike Levin (D)*</td>
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<tr>
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<td>Brian Maryott (R)</td>
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<tr>
<td>CD 50</td>
<td>Darrell Issa (R)</td>
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<td></td>
<td>Ammar Campa-Najjar (D)</td>
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<tr>
<td>CD 51</td>
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<td>Juan Hidalgo, Jr. (R)</td>
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<td>Scott Peters (D)*</td>
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<td></td>
<td>Jim DeBello (R)</td>
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<tr>
<td>CD 53</td>
<td>Sara Jacobs (D)</td>
</tr>
<tr>
<td></td>
<td>Georgette Gomez (D)</td>
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</table>
Water Authority and the City of San Diego co-sponsoring new legislation in 2020

Objectives are:
- To create a path for procurement of energy storage services for the proposed San Vicente Energy Storage Facility
- To reduce the financing costs associated with the project
- Post-Coronavirus economic stimulus project
Sponsored Legislation - SB 1386 (Moorlach)

- Water Authority co-sponsoring SB 1386 (Moorlach) during 2020 with Irvine Ranch Water District

- Objective is to clarify existing law (and Prop 218 compliance) regarding the imposition of fire-related water service charges across the customer base
Two legislative resources bonds in play for November 2020 ballot
- SB 45 (Allen) - $5.5 B resources/resiliency bond
- AB 3256 (E. Garcia) - $6.98 B resources/resiliency bond
- Uncertainty in wake of Proposition 13 defeat on primary election ballot

Water Authority’s proposed resources bond request reflects a total statewide funding request of $3.4 B
- Water reuse, recycling, stormwater management, and advanced water treatment - $1 B
- Infrastructure resiliency - $850 M
- Environmental resiliency - $600 M
- Inter-regional resiliency - $950 M

Water Authority’s proposed resources bond request also includes three non-funding statutory improvement requests relating to:
- Eligibility of public-private-partnership projects for bond funding
- IRWM advanced payment clean-up language
- Prioritization in funding allocations for multi-benefit projects
Resources/Resiliency Bond

- Water Authority’s bond request package was developed over a multi-month process involving member agency working groups and was shaped and informed by:
  - Member agency priorities and program/project interests
  - Water Authority Board’s policy direction on resources bond proposals initially introduced during the 2019 legislative session
  - Governor’s water resilience portfolio
  - Governor’s proposed climate resilience bond outlined in the proposed State Budget
  - Industry association and outside agency bond requests

- Next steps
  - Interest in determining whether the bond request can be turned into a regional coalition effort - adding member agency logos
  - Broad distribution among the SD legislative delegation and legislative leadership to launch advocacy effort
QUESTIONS?
Public Safety Power Shutoff Legislation
Board’s Consideration of Bill Positions

- Bill position recommendations consistent with the Board’s adopted Legislative Policy Guidelines are presented as “Consent” items on the LPO Committee agenda.

- Bill position recommendations without prior legislative policy guidance are presented as traditional “Action” items on the LPO Committee agenda.

- The LPGs don’t reflect any prior Board policy guidance regarding the issue of Public Safety Power Shutoffs.
  - Six bills related to PSPS issues for the Board’s consideration.
Public Safety Power Shutoffs

- PSPS events leave many critical facilities - including water and wastewater treatment facilities - without power from the grid
  - Most water/wastewater agencies are prepared for short-term planned power outages
  - Preparing for more frequent, longer-lasting power outages, presents challenges

- During PSPS events, water and wastewater treatment agencies are still responsible for providing essential public health and safety services - drinking water, wastewater treatment, water for fire suppression

- Several bills dealing with PSPS events have been introduced in the State Legislature
## PSPS Legislation

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Adopt the following staff recommended positions on PSPS legislation:

- Support if Amended on AB 1936 (Rodriguez), relating to price gouging during public safety power shutoff events
- Support on AB 2178 (Levine), relating to declarations of local emergency during public safety power shutoff events
- Support and Seek Amendments on AB 2182 (Rubio), relating to emergency backup generators
- Support on SB 952 (Nielsen), relating to sales and use tax exemptions during public safety power shutoff events
- Support on SB 1099 (Dodd), relating to emergency backup generators
- Support if Amended on SB 1185 (Moorlach), relating to emergency backup generators