Rates & Charges and Budget Update

Administrative and Finance Committee
October 22, 2020

Sandra L. Kerl/General Manager
Lisa Marie Harris/Director of Finance/Treasurer
Summary of Mid-term Budget Actions

- Capital Improvement Program
  - Savings of $31.9M from project deferrals

- Debt Service
  - Savings of $9.5M will be used to reduce outstanding debt obligations

- Operating Departments
  - Forecasted savings of 1.5%
  - Hiring freeze remains intact saving over $1.4M

- Equipment Replacement Fund
  - Savings of $1.3M from deferring equipment replacement purchases

- No supplemental pension payment
  - Savings of $2.0M
Summary of Implemented Debt Management Strategy

- Front-load Refunding savings in the near term over multiple years creating significant rate relief through calendar years 2022-2024

- Authorized issuance of Series 2020 and Series 2021 Water Revenue Refunding Bonds on taxable and forward delivery tax-exempt basis to generate significant savings

- Defeased (pay-off) high cost debt with cash (from PAYGO capital funding) over multiple year period creating further rate relief through calendar year 2024

- Fund future CIP with a combination PAYGO cash and debt
  - Single, larger issue, to coincide rolling our 5yr 2016-S1 Note
Summary of Approved CY 2021 Rates & Charges

- Rate and Charge Drivers
  - MWD rate increases
  - Reduction in Water sales

- Proactive & Strategic Financial Management
  - Cash Optimization | Refunding | New Issuance
  - Maximum rate relief and financial resilience
  - RSF use mitigate additional increases

- Rate and charge increases in-line with guidance
  - Additional savings resulting from updated rate assumptions
  - Untreated increase 4.8% | Treated increase 4.9%

- MWD Fall 2020 Rate Review
  - MWD rates increase = 94% of total SDCWA increase ($15.4M vs $16.4M)
  - Despite extensive efforts by Water Authority MWD Delegates, MWD decided not to adjust its adopted CY 2021 or CY 2022 rates. Even with additional identified savings, MWD cited lack of Member Agencies financial distress as reason not to adjust rates
Current Environment (June - Today)

- Continued Low Sales Environment
  - Actuals worsened from -4% to -10% (CY2020)

- $44.5 million Budget Savings
  - No additional budget savings identified

- $32 million RSF draw to support rates
  - Anticipate additional RSF draws in June ’21 & ’22

- Operating Revenue shortfall for FY2020
  - No additional non-rate revenues
  - No revenue windfalls

- Successful Debt Refunding and Defeasance
  - Realization of forecasted multi-year rate relief

- No rate relief from MWD
  - Accounts for 94% of the Water Authority approved increases
Summary & Next Steps

- Based on no MWD rate relief, no new revenues, and continued uncertainty, both economically and hydrologically, no further rate reductions are proposed.

- CY 2022 Rates and Charges will look to incorporate results many key planning documents:
  - 2021 Long Range Financing Plan
  - 2020 Urban Water Management Plan
  - Fiscal Years 2022 & 2023 Budget
  - Asset Management Planning efforts
Questions?
Pool of Financial Advisors

Administrative & Finance Committee
October 22, 2020

Lisa Marie Harris
Director of Finance/Treasurer
**Background**

- The Water Authority Debt Management Policy calls for the use of an external financial advisor to assist in the issuance and administration of debt and to advise the Water Authority on financial matters that are non-transactional related.

<table>
<thead>
<tr>
<th>Transactional</th>
<th>Non-transactional</th>
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<tbody>
<tr>
<td>• Supporting competitive and negotiated debt transactions</td>
<td>• Assisting with the development of financial plans and policies</td>
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<tr>
<td>• Investor outreach</td>
<td>• Monitoring capital markets</td>
</tr>
<tr>
<td>• Acting as a credit rating agency liaison</td>
<td>• Supporting the management of existing debt</td>
</tr>
<tr>
<td>• Evaluating market conditions</td>
<td></td>
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<tr>
<td>• Optimizing bond pricing</td>
<td></td>
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</table>
Request for Proposal Process

- Staff issued request for proposal on August 20, 2020
- Seven proposals were received on September 10, 2020
- Five financial advisors were invited to interview
- Financial Advisors were evaluated based on:
  - Expertise
  - Experience working with local governments
  - Successful experience working with the Water Authority
  - Competitive pricing
- Selected financial advisors:
  - Acacia Financial Group, Inc.
  - Clean Energy Capital Securities, LLC
  - Montague DeRose and Associates, LLC
Staff Recommendation

- Authorize the General Manager to award professional service contracts to Financial Advisors for a total base amount not-to-exceed $300,000 for the three-year period from December 1, 2020 to December 1, 2023. The contracts will have two one-year renewal options.
Questions?
DETACHMENT UPDATE

October 22, 2020

Sandra L. Kerl, General Manager
Rainbow and Fallbrook filed applications to leave San Diego County and annex to Eastern in Riverside County. The Water Authority filed a detailed Response addressing major issues with the applications.

MWD submitted a report to LAFCO and claimed that it is an interested party in the proceedings.

Various member agencies submitted letters, so LAFCO is well aware the matter has widespread interest.
Rainbow and Fallbrook responded to their own applications with a cost report in which a real estate consultant claims that their agencies are subsidizing all other members. The Water Authority will be responding, as we believe the report has no merit.

LAFCO is hiring expert consultants to review certain issues. LAFCO has chosen Dr. Michael Hanemann’s team to address water supply, water rate, and potential exit fee issues. That work should start soon.

The advisory committee at LAFCO on which the Water Authority has three members is scheduled to meet again in November.
Asset Management Program Briefing

Board of Directors
October 22, 2020

Martin Coghill
Operations & Maintenance Manager
Throwback Thursday

Asset Management Technology Showcase 2018
Agenda

- WHAT ...the program is
- WHERE ...the assets are
- WHEN ...we perform asset management activities
- WHICH ...tools we use
- WHY ...we do what we do
- WHO ...is dedicated to the management of assets
Definition...

- “...to derive the most value from an asset through its life cycle.”
Major Assets

- 310 Miles of Large-Diameter Pipelines
- 98 Flow Control Facilities
Major Assets - Pipelines

- Prestressed Concrete Cylinder Pipe
- Welded Steel Pipe
- Bar-wrapped Pipe
- Reinforced Concrete Pipe
Agenda

- WHAT  ...the program is
- WHERE ...the assets are
- WHEN  ...we perform asset management activities
- WHICH ...tools we use
- WHY   ...we do what we do
- WHO   ...is dedicated to the management of assets
Geographic Location

- **First Aqueduct**
  - 1947 - 1954

- **Second Aqueduct**
  - 1959 - 1983

- **East-West Pipelines**
  - 8 Pipelines:
    - 1964 - 2014
Agenda

- WHAT ...the program is
- WHERE ...the assets are
- WHEN ...we perform asset management activities
- WHICH ...tools we use
- WHY ...we do what we do
- WHO ...is dedicated to the management of assets
Condition Assessment Timing

People

Pipelines

Elementary

Comprehensive
Agenda

- WHAT ...the program is
- WHERE ...the assets are
- WHEN ...we perform asset management activities
- WHICH ...tools we use
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- WHO ...is dedicated to the management of assets
Asset Management Toolbox

- **Cathodic Protection**
  - 42 Impressed-Current Systems
  - 93 Sacrificial Anode Systems
  - 1,371 Monitoring Test Stations

- **Visual Inspections**
  - Pipelines: 10-15 Years
  - 25-35 miles per year
  - Facilities: 4-6 years

- **Inspection Technologies**
  - Electromagnetic devices
  - Acoustic wire-break detection
  - Leak detection
Asset Management Toolbox

Prestressed Concrete Cylinder Pipe (PCCP)
Asset Management Toolbox

Welded Steel Pipe

- 40 miles - Magnetic Flux Leakage
Asset Management Toolbox

Welded Steel Pipe (First Aqueduct)
- 3 miles - LASER Profilometry and EM Acoustic Transfer
Asset Management Toolbox

Bar Wrapped Pipe

- 5 miles - Remote Field Technology
Asset Management Toolbox

- Reinforced Concrete Pipe (First Aqueduct)
  - 27 miles in 16 months - Remote and Near-Field Technologies
Agenda

- WHAT  ...the program is
- WHERE ...the assets are
- WHEN  ...we perform asset management activities
- WHICH  ...tools we use
- WHY   ...we do what we do
- WHO   ...is dedicated to the management of assets
A Safe and Reliable Supply of Water
A Safe and Reliable Supply of Water

- **SAFETY**
  - Minimizing the risk of failure
  - Supporting water quality objectives

- **RELIABILITY**
  - Maintaining service levels for our Member Agencies
  - Assets perform when needed

- **COST-EFFECTIVENESS**
  - Repair & rehabilitate before failure
  - Maximize the value obtained from an asset
Asset Management Process

1. Inspections
   - Plan (5-year rolling)
   - Visual
   - Technology Scan

2. Data Analytics
   - Visualize
   - Analyze
   - Prioritize

3. Recommendations
   - CIP Project Packet
   - AM Committee
   - Board Approval
Agenda

- WHAT  ...the program is
- WHERE ...the assets are
- WHEN  ...we perform asset management activities
- WHICH ...tools we use
- WHY   ...we do what we do
- WHO   ...is dedicated to the management of assets
Asset Management Team (Extended)

Member Agencies

Innovating Asset Management
A Regional Collaboration

For more information, please contact Martin Coghill at: mcoghill@sdcwa.org
Colorado River Salinity Control

- Improves water quality and reduces economic damages
- Recent updates to Paradox Valley Unit project
- Continued funding is important for future goals
- Water quality of blended supplies from MWD
Background

- Program created in the 1970s
- Controls natural and human salt sources
- Water quality criteria established including deliveries to Mexico
- Authorized salinity control projects
Salinity Control Projects

- Currently control >1.2M tons of salt annually
- USDA EQIP and Reclamation Basinwide and Basin States Programs implement agricultural measures

Agricultural measures
1.1M tons/year

Non-agricultural measures
0.1-.2M tons/year

Paradox Valley Unit
Paradox Valley Unit

~100,000 tons/year of salt injected into deep saline aquifer

Shut down in 2019 due to seismic activity

6-month test at reduced rate could resume soon

Environmental process for replacement project underway, Final EIS expected soon
Funding

- Program funded by cost-share between Basin States and federal appropriations
- Basin States 30% share sourced from hydropower generation
- Working with Congress to ensure continued funding
Colorado River water is much saltier than SWP

Salinity levels depend on blend of SWP and Colorado River water

Current salinity levels (TDS) averaging 575 mg/L
Regional Salinity Reduction Study

Board of Directors Meeting
October 22, 2020

Nathan Faber
Principal Engineer
Water Authority Sources (Treated Water)

- Skinner (1976)
- Twin Oaks (2007)
- Carlsbad (2015)

Imported Water
- Colorado River
- Bay Delta
- Pacific Ocean
Treated Water Source Locations

1. Skinner - MWD
2. Twin Oaks
3. Carlsbad
2018 Water Research Foundation Study

Research analyzed regional water quality data from 2014 to 2016.
Report Conclusions

Desal blends in the region are highly variable, have regional impacts, and require careful management.
Water Supply - State Water Project Blends

Previous Research

- 2014
- 2015
- 2016

New Research

- 2017
- 2018
- 2019
Salinity Reduction from Local Supplies

Salinity loading data assists agencies with required salt and nutrient management plans.
Agency Participation

- City of Carlsbad
- SD
- Escondido
- Helix Water District
- Olivenhain Municipal Water District
- Otay Water District
- Southern California Salinity Coalition
- Sweetwater Authority
- Poseidon Water
- Vallecitos Water District
Next Steps

The study will occur over the next two years and will conclude with a report in September 2022.
Sacramento Update

Board of Directors
October 22, 2020

Glenn Farrel, Director of Government Relations
Legislature

- 2020 legislative session
  - Adjourned on August 31

- December 7: Legislature will convene to organize for 2021-22 legislative session
2020 Legislative Recap

- Sept 30 - Conclusion of Governor’s action on bills
  - Considered 428 bills passed by the Legislature during 2020
  - Signed 372 bills into law
  - Vetoed 56 bills
    - Veto rate of 13.1%

2011: 870 bills sent to Governor
2012: 996 bills sent to Governor
2013: 896 bills sent to Governor
2014: 1,074 bills sent to Governor
2015: 941 bills sent to Governor
2016: 1,059 bills sent to Governor
2017: 977 bills sent to Governor
2018: 1,217 bills sent to Governor
2019: 1,042 bills sent to Governor
2020: 428 bills sent to Governor
Gubernatorial Veto Rates

*2011-2018: Governor Jerry Brown
2019-2020: Governor Gavin Newsom
## At-A-Glance Scorecard - 2020 Legislative Session

<table>
<thead>
<tr>
<th>Water Authority Board Position</th>
<th># of Bills</th>
<th>Amendments Taken?</th>
<th>Chaptered</th>
<th>Vetoed</th>
<th>Failed Passage</th>
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<td>Support if Amended</td>
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<td>Oppose</td>
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<td></td>
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<tr>
<td>Oppose Unless Amended</td>
<td>4</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td><strong>4</strong></td>
<td><strong>5</strong></td>
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<td><strong>34</strong></td>
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Sponsored Legislation - SB 1386 (Moorlach)

- Water Authority co-sponsored 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
- Governor Newsom signed SB 1386 into law on September 28, 2020
  - Chapter 240, Statutes of 2020
- Broad support from water agencies, municipalities, fire districts, professional fire fighter organizations
Outcomes on Additional Key Bills of Interest

- COVID-19 legislation
  - Workers’ compensation
    - AB 196 (Gonzalez) - Would have extended a rebuttable conclusive presumption to all essential employees that COVID-19 is an industrial injury - Failed passage
    - SB 1159 (Hill) - Would create a rebuttable presumption that illness or death related to COVID-19 is an occupational injury and therefore eligible for workers’ compensation benefits - Chaptered
  - AB 685 (Reyes) - Would require employers to provide written notice to employees who may have been exposed to COVID-19 at their worksite - Chaptered
  - SB 275 (Pan) - Would require the CA Department of Public Health to establish a PPE stockpile for health care workers and essential workers - Chaptered
Pumped Hydropower Storage Briefing

- October 21 - Briefing for Assemblymember Chris Holden
  - Chair - Assembly Utilities and Energy Committee
  - Ongoing effort to pursue legislative or administrative opportunity to advance toward procurement
QUESTIONS?
Legislative Policy Guidelines

Board of Directors
October 22, 2020

Glenn Farrel,
Director of Government Relations
Annual update for 2021 under way

Legislative Policy Guidelines provide guidance on policy issues of importance and a framework to evaluate legislative and regulatory issues

Input solicited from Water Authority staff, Water Authority Board members, and member agencies
Proposed Substantive Content Changes to LPGs

- Under Energy, provide clarifying text regarding pursuit of energy cost relief and the role of pumped hydropower storage within the context of the state’s renewable energy goals

- Under Water Facilities and Facility Operations, add new LPGs to reflect asset management concepts proposed to be added to the guidelines
Proposed Substantive Content Changes to LPGs

- Under Water Facilities and Facility Operations, add new LPGs to reflect the Board’s policy guidance relative to Public Safety Power Shutoff legislation during the 2020 legislative session.

- Under Water Facilities and Facility Operations, add new LPGs regarding workforce development and creating pathways for transitioning military service members toward employment in the water and wastewater treatment industries.
Next Steps on Legislative Policy Guidelines

- Staff is requesting suggestions for revisions from Board members and member agencies
- Please return to Glenn Farrel by November 4
- Final proposed Legislative Policy Guidelines to be presented for Board’s consideration of approval on November 19
QUESTIONS?
Claude “Bud” Lewis Carlsbad Desalination Plant Operations for Fiscal Year 2020

Board of Directors
October 22, 2020

Jeremy Crutchfield
Water Resources Manager
FY 2020 - A Challenging Year for Contract Ops

- **Plant Performance Challenges:**
  - Regulatory permit operations constraints (first two months only)
  - Integration of Interim Operating Period Improvements (fish-friendly dilution pumps)
  - Challenging source water quality (*partial performance relief*)
  - Pretreatment filter backwash frequency (Improvement project nearly completed at the Plant)

- **Delivery Challenges:**
  - Overall wet year impacted Water Authority’s ability to order water
    - Extraordinarily heavy rainfall in April significantly impacted planned CDP orders
Water Delivery

- Water Authority Order: 46,399 AF
- Poseidon Supply Shortfalls: 7,743 AF
  - Unscheduled Outage Units (1,630 AF)
- Total Delivered Water 38,656 AF
- Water Authority Demand Shortfalls: 2,414 AF
  - Impacted by significant rain events in March and April
Water Purchase Costs

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<th>Cost</th>
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<tr>
<td>Water Purchase Cost</td>
<td>$101.7 M</td>
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<tr>
<td>Conveyance Pipeline Cost</td>
<td>$9.9 M</td>
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<td><strong>SubTotal</strong></td>
<td><strong>$111.6 M</strong></td>
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<tr>
<td>Poseidon Penalties</td>
<td>($0.8 M)</td>
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<tr>
<td><strong>Total 2019/2020 Cost</strong></td>
<td><strong>$110.8 M</strong></td>
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- **Actual 2019/2020 Unit Cost** $2,866/AF
  - Includes eleven months of TSOP rate, one month of IOP rate, and increases in electrical rates

- **Projected 2020/2021 Unit Cost** $2,752/AF
  - Includes full year of IOP rate
Faces of the Water Industry
Highlights Our Water & Wastewater Pros
Highlights Career & Training Opportunities

• 100 water and wastewater pros in engineering, operations, finance, public affairs, human resources, administration and information technology
• New careers website - SDWaterWorks.org
Adam Calm - Olivenhain MWD
Rebecca Abbott - Padre Dam MWD
Juan Tamayo - Otay Water District
Small Contractor Outreach and Opportunities Program
FY20 Annual Report

Legislation and Public Outreach Committee
October 22, 2020

Craig Balben, APR
Public Affairs Representative II
SCOOP Overview

- Goal: Increase awareness of bidding opportunities for small businesses in public contracting bids
  - Communicate and provide opportunities
  - Track and report small-business participation
  - Current annual goal: 20% (Established 2016)
Outreach and Training

- July 2019 - June 2020
  - 17 Regional/Southern California events
  - Small business, water and tech

- Major events
  - July 2019
    - ABA Roundtable - San Diego
    - CalCon Expo - Anaheim
  - October 2019
    - Veterans in Business - San Diego
    - CalTrans Procurement Fair - San Diego
## SCOOP Annual Report - Fiscal Year 2020

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<tr>
<td>$ Awarded</td>
<td>$78,022,430</td>
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Next Steps

- Continue to participate in virtual outreach events.
- Support educational opportunities to help small businesses be competitive.
- Look for opportunities for small business participation in the Innovation Program.
- Review and update program goal to reflect market conditions.