Board members and guests learned more about relining activities and visited Portal 5 of the Lake Murray to Sweetwater Reservoir Pipeline 3 Relining Project during the Nov. 9 Engineering and Operations Committee tour.
NOTICE TO THE PUBLIC

BOARD OF DIRECTORS’ AND STANDING COMMITTEES’
REGULAR MEETING
DECEMBER 7, 2017
BOARD ROOM
WATER AUTHORITY HEADQUARTERS BUILDING
4677 OVERLAND AVENUE, SAN DIEGO, CALIFORNIA

1. **UNIFIED AGENDA:** This unified agenda provides a brief description of each item to be considered by the Board and its Administrative and Finance, Engineering and Operations, Imported Water, Legislation, Conservation and Outreach, and Water Planning Committees. For convenience, the agenda for each of the Committees and for the formal Board meeting are stated separately; however, all agendas shall be considered as a single agenda and any item listed on the agenda of any Committee may be acted upon by the Board. All items on the agenda of any Committee, including information items, may be deliberated and become subject to action by the Board.

2. **DOCUMENTS:** Staff reports and any other public information provided to the Board or Committee before the meeting relating to items on the agenda are available for public review at the San Diego County Water Authority 4677 Overland Avenue San Diego, CA 92123 during normal business hours. Additional documents may be distributed at the meeting. Copies of individual items, including the background information, are available through the Clerk of the Board at (858) 522-6614.

3. **MEETING TIMES:** The morning session of Standing Committees will commence at 9:00 a.m. on December 7, 2017 the afternoon session of Standing Committees may commence at the conclusion of the morning session and earlier than 1:00 p.m. Please see the meeting schedule. The meeting of the full Board may begin as early as 3:00 p.m. or as soon thereafter as the last Committee meeting is completed.

4. **ACTION AT COMMITTEE MEETINGS:** Committee meetings are also noticed as meetings of the Board because a quorum of the Board may be present. Members of the Board who are not members of the Committee may participate in the meeting, but only members of the Committee may make, second or vote on any motion or other action of the Committee unless the Board determines to convene for consideration of action on an item or items on the Committee agenda. Items receiving substantive review by a standing committee are generally included on the Consent Calendar for action at the meeting of full Board. Persons interested in an item and wishing to hear the staff report, present oral or written comments, and hear the deliberations should attend the Committee meeting. Closed Sessions also occur at Committee meetings and may not be repeated at the formal Board meeting.

5. **CONSENT CALENDAR:** The agenda contains items listed on a consent calendar which is for matters considered routine or otherwise not requiring further deliberation. A committee or the Board will take action as recommended by one motion. There will be no individual discussion on such items prior to the vote unless an item is removed for discussion. If a member of the public
wishes to talk about a consent calendar item, please notify the Chair before the calendar is called. Persons who wish to be heard on an item are encouraged to speak before the assigned committee.

6. **PUBLIC HEARINGS**: It is not necessary to notify the Chair if a member of the public wishes to speak on items listed on the agenda as public hearings. Public hearings will begin at the time stated in the notice, or as soon thereafter as the matter can be heard. When the Chair opens the hearing, upon invitation of the Chair, step to the podium and begin by giving your name and address for the record. Each speaker has 3 minutes to address the Board.

7. **PUBLIC COMMENT ON MATTERS NOT ON THE AGENDA**: The agenda provides an opportunity for members of the public to address the Committees and Board on matters of interest within the jurisdiction of the Committee or Board that are not listed on the agenda. The Brown Act does not allow any discussion or action by the Board or staff on matters raised during public comment except: 1) to briefly respond to statements made or questions posed; 2) ask a question for clarification; 3) receive and file the matter; 4) if it is within staff's authority, refer it to them for a reply; or, 5) direct that it be placed on a future board agenda for a report or action.

   A reasonable amount of time will be allocated by the Chair for public comment. Persons wishing to speak should notify the Chair before the meeting by filling out a "Speaker Request Form" and give it to the secretary. Individual speakers are requested to be as brief as possible and are encouraged to address the appropriate committee who is best able to respond. When the Chair calls, please immediately step to the podium and begin by giving your name and address for the record. Each speaker has 3 minutes to address the Board.

8. **PUBLIC COMMENT ON AGENDA ITEMS**: Persons wishing to speak to an item that is listed on the agenda should notify the Chair before the meeting by filling out a speaker request form and giving it to the secretary. Step to the lectern when asked to do so by the Chair and begin by giving your name and address for the record. Remarks should be limited to three minutes.

9. **INFORMATION ITEMS**: Items are listed on the agenda as information based on staff's judgment. Circumstances or the committee's or Board's judgments may require deliberation or, if necessary, action on these items. Any member of the public with an interest in one of these items should review the background material and request information on the possible action that could be taken.

10. **ASSISTANCE FOR THE DISABLED**: If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Clerk of the Board at (858) 522-6614 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.

11. **RULES GOVERNING MEETINGS**: The Water Authority’s Administrative Code Chapter 2.00 governs conduct of meetings of the Board and the Committees. The Administrative Code is available online at [www.sdcwa.org](http://www.sdcwa.org) or at the Water Authority Headquarters.
# MEETING SCHEDULE

**DECEMBER 7, 2017**

<table>
<thead>
<tr>
<th>Session</th>
<th>Time</th>
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<tbody>
<tr>
<td><strong>MORNING SESSION</strong></td>
<td>9:00 a.m. to 12:00 p.m.</td>
</tr>
<tr>
<td>Water Planning Committee</td>
<td>Estimated time: 1 hour 5 minutes</td>
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<tr>
<td>Legislation &amp; Public Outreach Committee</td>
<td>Estimated time: 35 minutes</td>
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<tr>
<td>Engineering &amp; Operations Committee</td>
<td>Estimated time: 1 hour 10 minutes</td>
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| **LUNCHEON FOR DIRECTORS**                 | 12:00 p.m. to 1:00 p.m. |

| **AFTERNOON SESSION**                      | 1:00 p.m. to 3:00 p.m. |
| Imported Water Committee                   | Estimated time: 1 hour 15 minutes |
| Administrative & Finance Committee         | Estimated time: 35 minutes |

| **FORMAL BOARD MEETING**                   | 3:00 p.m. |

*Time estimates are for convenience only and do not constitute part of the schedule. The first morning session will commence at 9:00 a.m., and the following morning sessions may start at any time after 9:00 a.m. The first afternoon session will commence at 1:00 p.m., and the following afternoon sessions may start at any time after 1:00 p.m. The Board meeting will start no earlier than 3:00 p.m., or following the conclusion of the last committee meeting.*
AGENDA FOR
DECEMBER 7, 2017

1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

4. Chair’s report.
4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION/PRESENTATION

1. Adopt Updated Water-Use Efficiency Policy Principles and Program Focus Areas.

   Staff recommendations:

   a) Approve the updated Water-Use Efficiency Policy Principles as presented in Attachment 2 to guide staff in evaluating and implementing water-use efficiency initiatives.

   b) Approve the following as the core focus areas for the Water Authority’s portfolio of water-use efficiency programs:

      1) Residential Surveys and Landscape Audits
      2) K-12 Education Programs
      3) MWD Device-Based Programs
      4) How-to Resource Tools
      5) Grants and Partnerships (Action)
2. **Water Conservation Garden Operation Agreement.**
   Staff recommendation: Approve a new, five-year Operation Agreement between the Water Conservation Garden Authority and Friends of the Water Conservation Garden (IRS 501(c)(3)) for the continued operation and maintenance of the Water Conservation Garden through June 30, 2023. (Action)

   Jason Foster / Betty Evans

3. **Update on water supply conditions and drought response activities.** (Presentation)
   Tim Bombardier

4. **State Water Resources Control Board Proposed Regulation on Prohibited Water Uses.** (Presentation)
   Dana Friehauf

### III. INFORMATION

1. **Water Resources Report.**
   Dana Friehauf

2. **Fiscal Year 2017 Annual Water Supply Report.**
   Jeff Stephenson

### IV. CLOSED SESSION

### V. ADJOURNMENT

Melinda Nelson
Clerk of the Board

**NOTE:** This meeting is called as a Water Planning Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
November 29, 2017

Attention: Water Planning Committee

Adopt Updated Water-Use Efficiency Policy Principles and Program Focus Areas. (Action)

Staff recommendations
1. Approve the updated Water-Use Efficiency Policy Principles as presented in Attachment 2 to guide staff in evaluating and implementing water-use efficiency initiatives.

2. Approve the following as the core focus areas for the Water Authority’s portfolio of water-use efficiency programs:
   1. Residential Surveys and Landscape Audits
   2. K-12 Education Programs
   3. MWD Device-Based Programs
   4. How-to Resource Tools
   5. Grants and Partnerships

Alternative
Do not approve the updated policy principles or program focus areas and provide staff with feedback on desired modifications.

Fiscal impact
There is no rate impact from approving the Water-Use Efficiency Policy Principles or core program focus areas.

Background
Enhancing the region’s water-use efficiency has been a core component of the Water Authority’s water supply diversification strategy since the early 1990s. The Water Authority is a long-time leader in water-use efficiency, as evidenced by its regional programs, outreach campaigns, partnerships with member agencies and stakeholders, involvement in regulatory advocacy, and sponsorship of legislation.

In April 2012, the Board adopted a set of Water Use Efficiency Policy Principles to provide long-term, strategic direction to staff to guide the prioritization, development, implementation and evaluation of projects, programs and other water-use efficiency efforts affecting the Water Authority, its member agencies, and/or regional water use. Over the last five years, many strategic factors and circumstances related to advancing water-use efficiency have changed. As a result, the Water Planning Committee included updating the Water-Use Efficiency Policy Principles in its 2017-2018 work plan, with a deadline to complete the process by the end of calendar year 2017.

The Water Authority also has periodically re-evaluated the strategic focus of its water-use efficiency programs to ensure its program portfolio adapts to changing conditions (droughts, state mandates,
evolving market conditions, rising water rates, etc.), which ultimately impact the needs of the region’s member agencies and water users.

The most recent strategic program review occurred in 2010. At that time, the Water Authority sought feedback from member agencies to identify what long-term “core” programs were needed to help them achieve a new state mandate to reduce urban per capita water consumption 20 percent by 2020. With input from member agency staff and managers, in December 2010 the Board directed staff to implement programs and support efforts in the following five core areas:

1. Residential Surveys and Landscape Audits
2. K-12 Educational Programs
3. MWD Device-Based Incentive Programs
4. How-To Resource Tools
5. Grants and Partnerships

The Water Authority subsequently re-sized its program portfolio and budget to match these priorities. Over the last seven years, the scope of regional water use efficiency program offerings has aligned with these core priorities, while specific programs have evolved over time (programs added or discontinued) due to factors such as fluctuations in grant availability, changing market conditions or evolving customer needs. Highlights of the Water Authority’s current water-use efficiency programs that support these core priorities are provided in Attachment 1. In early 2017, the Water Authority launched a new strategic review of its program areas in collaboration with its member agencies and scheduled the review to coincide with the update of the policy principles.

Discussion
The process to review and update the policy principles and program focus areas began in March 2017, when the Water Planning Committee reviewed the purpose and schedule for the updates. Since then the review process has continued on schedule. From May through July, staff reviewed with member agency staff and managers the water supply, market, and regulatory conditions that have significantly changed in recent years, and they began to identify policy and program areas that needed to be refined or updated.

In August, the Water Planning Committee held a special meeting focused on reviewing proposed updates to the policy principles and program focus areas. Staff reviewed the evolving conditions and forces impacting member agencies and water users, and shared feedback received during the initial review with member agency managers and staff. The committee also reviewed and provided feedback on a draft updated set of Water-Use Efficiency Policy Principles and draft recommendations related to the Water Authority’s portfolio of programs.

Following the Board’s review and input, staff conducted a review of the draft updated policy principles and program focus areas with member agency managers and staff at the November meetings of the Joint Public Information Council/Conservation Coordinators and member agency managers.
Final Recommendations for Updated Policy Principles

The updated Water-Use Efficiency Policy Principles will guide staff’s efforts to evaluate and implement water-use efficiency programs and outreach as part of its overall water supply reliability strategy. The final draft of the updated principles is provided in redline-strikeout form in Attachment 2.

Feedback on the proposed updates has been fairly consistent throughout this review process, with recommended updates following these general themes:

- Broaden and simplify language to maximize the principles’ flexibility and long-term relevance
- Help member agencies and their customers comply with new regulatory requirements
- Promote a balanced, adaptable approach to water efficiency programs, funding, and benefits

Additional updates to the policy principles reflect several specific issues, including clarifying the difference in outreach efforts between ongoing water efficiency and extraordinary conservation in response to shortages, facilitating member agency access to external funding sources, and supporting participation in research studies that can help direct future water-efficiency efforts.

Final Recommendations for Program Focus Areas

Input received from member agencies and the Board thus far has indicated that the Water Authority’s water-use efficiency core focus areas established in 2010 (residential surveys and landscape audits; K-12 educational programs; promoting MWD device-based incentives; how-to resource tools; and grants and partnerships) continue to be relevant and appropriate. While many regulatory, market and other conditions have changed considerably over the past seven years, member agency feedback has indicated continuing the current balanced approach as the best, most flexible way to promote water-use efficiency.

While the overall priorities remain unchanged, staff collected suggestions for several refinements to the core focus areas. For example, member agencies expressed support for tailoring water-use survey and audit programs to also meet the needs of commercial, industrial and institutional (CII) customers.

Member agencies also supported continuing ongoing regional program support activities, including program research and evaluations, providing community outreach, and facilitating member agency grant and partnership opportunities.

Based on this feedback, the Water Authority’s approach to water-use efficiency programs will continue to align with the five core priorities. Within those parameters, the Water Authority will continue to adjust the exact portfolio and budgets of these programs to reflect the changing needs of member agencies and their customers, market conditions, grant availability, or other related factors.
### Attachment 1. Highlights of the Water Authority’s Current Water Use Efficiency Programs

#### Supporting Core Activities

<table>
<thead>
<tr>
<th>Programs</th>
<th>Surveys &amp; Audits</th>
<th>K-12 Education Programs</th>
<th>MWD Device-Based Incentive Programs</th>
<th>“How-To” Resource Tools</th>
<th>Grants &amp; Partnerships</th>
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<tbody>
<tr>
<td>WaterSmart Field Services</td>
<td>★</td>
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<td>Agricultural Water Management Program</td>
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<td>School Assembly Theatrical Program</td>
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<td>Splash Science Mobile Lab</td>
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<tr>
<td>Socal WaterSmart Incentives (residential and commercial devices)</td>
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<td>Water Saving Incentive Program</td>
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<td>Qualified Water Efficient Landscaper Training (QWEL)</td>
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<tr>
<td>WaterSmart Landscape Makeover Program</td>
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<tr>
<td>SDG&amp;E Water-Energy Partnership</td>
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<tr>
<td>Home Depot Plant Fairs (and other partnerships)</td>
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<tr>
<td>Sustainable Landscapes Program</td>
<td></td>
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<tr>
<td>Artificial Turf Discount Program</td>
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<td>★</td>
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<tr>
<td>WaterSmart Landscape Efficiency Program</td>
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The San Diego County Water Authority is the regional wholesale water supplier for the San Diego region, serving 24 member retail water agencies. In this capacity, the Water Authority administers a slate of water-use efficiency programs and initiatives and advocates for related policies supporting the region’s, and its member agencies’, long-term water supply reliability, is implementing the Best Management Practices required by California Urban Water Conservation Council (CUWCC), as required by the State’s Urban Water Management Planning Act (Water code section 10630-10634).

The CUWCC’s Memorandum of Understanding outlines that the signatory wholesale water agencies are responsible for the implementation and reporting of the Foundational best management practices (BMPs), which include utility operations programs, public outreach and education. When mutually agreeable and beneficial to a wholesaler and its retail agencies, the wholesaler may provide financial investments and build partnerships that expedite implementation of reasonable water conservation measures in urban areas.

The Water Authority Board of Directors has unanimously approved a strategy to enhance regional water supply reliability and reduce dependence on imported water supplies by diversifying its water resources, including water-use efficiency strategies. The Board’s 2010-2015 Urban Water Management Plan includes a goal of reducing in member agency demands by-of 13-11 percent (103,000/74,141 acre-feet) through water-use efficiency by 2020. This regional goal estimate was developed using the Alliance for Water Efficiency Water Conservation Tracking Tool and includes estimated residential outdoor savings associated with implementation of the Model Water Efficient Landscape Ordinance (MWELO) reflects the 20x2020 water-use efficiency mandates for each of the Water Authority’s 24 member retail agencies set by the State of California under SBX 7-7.

Water-use efficiency will continue to play an important role for the Water Authority and its member agencies in planning for future droughts and managing the region’s long-term water demand beyond 2020. Changes in water supply conditions along with evolving legislative and regulatory requirements necessitate an adaptive and flexible approach to water-use efficiency. Implementation of the state’s new long-term water efficiency framework will eventually replace the mandates under SBX 7-7. Executive Order B-37-16 sets a framework for long-term efficient water use that includes four goals: using water more wisely, eliminating water waste, strengthening local drought resilience and improving agricultural water use efficiency and drought planning. The framework includes prohibitions on wasteful practices and a requirement for urban water suppliers to meet new water-use targets. Consequently, water-use efficiency will continue to play an important role in planning for future droughts and managing the region’s long-term water demand beyond 2020.

To guide the Water Authority on how to most effectively assist its member agencies in meeting future water-use efficiency goals, the Water Authority Board of Directors has established policy principles for increasing water efficiency in the San Diego region. The Water Authority’s policy principles provide staff direction, when mutually agreeable and beneficial to a wholesaler and its retail member agencies, the wholesaler may on actions that provide financial investments and build partnerships that expedite implementation of reasonable water conservation use efficiency measures in urban areas. The policy principles include how the Water Authority may implement and administer regional water-use efficiency projects and programs where economies of scale, geographic considerations or other member agency circumstances make a regional
program more efficient or cost-effective. The principles also provide additional direction to Water Authority staff for the evaluation, prioritization, development and implementation of water-use efficiency projects or programs affecting the Water Authority, its member agencies, and/or regional water management and use. All policy principles are intended to be consistent with those positions advocated by the Water Authority’s delegates at MWD.

SAN DIEGO COUNTY WATER AUTHORITY WATER-USE EFFICIENCY POLICY PRINCIPLES

I. MEMBER AGENCY SUPPORT – The Water Authority shall:

   a. Work cooperatively with its member agencies to provide regional programs and consistent messaging that support the efforts of member agency retail water efficiency programs where appropriate, to assist retail member agencies to meet their water-use efficiency targets for 2020 established by SBX 7-7 and to help member agencies meet any applicable regulatory requirements, or targets or goals.

   b. Implement and administer regional water-use efficiency projects and programs where economies of scale, geographic considerations or other member agency circumstances make a regional program more efficient or cost-effective.

   c. Implement and develop and administer a slate of water-use efficiency programs that ensures proportional benefits for all member agencies.

   d. Provide opportunities for the member agencies and the Water Authority to discuss water-use efficiency practices, programs, policies and other related information; facilitate member agency access to resources from industry associations, state and federal agencies, and other external sources.

II. FUNDING/RESOURCES – The Water Authority shall:

   a. Continue to recognize that water-use efficiency offsets the need for providing additional water supplies, and therefore reflect water-use efficiency programs as a supply cost through its rate structure.

   b. Pursue a broad, cost-effective strategy for water-use efficiency that takes into account legislative and regulatory action, consumer member agencies’ customer response to water rates, and programmatic approaches that minimize member agency ratepayer impacts.

   c. Ensure broad regional benefit of water-use efficiency programs funded and administered by the Water Authority.

   d. Ensure that the Water Authority and its member agencies receive an equitable share of all water-use efficiency programs funded by the Metropolitan Water District of Southern California.
e. Market and promote the availability of MWD water-use efficiency programs that help meet the water management goals of the Water Authority and its member agencies.

e.f. Advocate for water-use efficiency programs that provide broad regional benefits funded and administered by MWD, including compliance with Proposition 26 and all other legal requirements.

f.g. Seek grants from external organizations and other external funding where practical to offset or supplement operational funding of support water-use efficiency projects and programs consistent with these policies; use grant funding to leverage or offset ratepayer investments in these programs when possible.

g.h. Pursue collaborative partnerships with compatible agencies or organizations to maximize program benefits and potential for cost-sharing and development of water-use efficiency programs with member agencies, which offset the demand for imported water.

h.i. Facilitate member agency efforts to access water efficiency grant funding opportunities from state and federal agencies and other sources.

III. PROGRAM PERFORMANCE – The Water Authority shall:


ba. Encourage Facilitate market transformation and behavioral changes among regional member agencies’ water users that lead to sustainable, long-term improvements in regional water-use efficiency.

cb. Promote cost-effective water-use efficiency programs in all water-use sectors.

dc. Provide technical expertise support to maximize success of Water Authority and member agency water-use efficiency efforts.

ed. Evaluate and report to the Board, member agencies and other pertinent stakeholders on Water Authority water-use efficiency program performance.

fe. Support the research, development and testing of innovative water-use efficiency programs that have potential to help the Water Authority or its member agencies meet water-use efficiency requirements or goals.

f. Advocate for and participate in research studies (i.e., saturation, end-use) that help direct benefit regional water-use efficiency efforts.
IV. OUTREACH AND EDUCATION – The Water Authority shall:

a. Bring awareness to the region’s water users that long-term water supplies are vulnerable and using water efficiently is a permanent and ongoing responsibility to help the region manage its available water supplies, not just an action in response to drought or other temporary supply constraints. Promote consistent regional messaging that using water efficiently is a permanent responsibility of the Water Authority, member agencies and all water users.

b. Promote water conservation when extraordinary actions or behaviors are needed to save water during times of emergency or supply shortages.

bc. Enhance outreach and communications tools for member agencies to help the region’s water users understand why water rates continue to increase despite lowering demands.

cd. Promote and provide the tools necessary for member agencies to increase awareness and demand for “WaterSmart” landscapes and other water-efficient products and services.

de. Promote and increase awareness of the use of alternative water supplies, such as recycled water, greywater and stormwater that can enhance the San Diego region’s regional water supply reliability.

ef. Provide regional communication tools for member agencies and residential, commercial and other water users all water-use sectors to educate help them learn more about how they can and improve their water-use efficiency, and directing them to available resources to help them achieve it.

fg. Participate at the state and national level to facilitate and advance improved water-use efficiency standards and products.

V. REGULATION/LEGISLATION – The Water Authority shall:

a. Sponsor and support appropriate water-use efficiency-related legislation in accordance with the Water Authority’s current Legislative Policy Guidelines.

b. Update the Legislative Policy Guidelines related to water-use efficiency as necessary to reflect changing water supply or other circumstances.

c. Advocate for national, state, and regional water-use efficiency policies and regulations that are compatible with the needs of the Water Authority and its member agencies and support the economic productivity of San Diego County and the quality of life of its residents.
d. Advocate for and facilitate improved resources and education for those responsible for implementing and enforcing compliance with water-efficiency regulations.
November 29, 2017

Attention: Water Planning Committee

Water Conservation Garden Operation Agreement (Action)

Recommendation
Approve a new, five-year Operation Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)) for the continued operation and maintenance of the Water Conservation Garden through June 30, 2023.

Alternative
Do not approve the extension of the Operation Agreement between the Garden Authority and the Friends of the Water Conservation Garden, and recommend the Water Authority’s Garden Authority representative pursue any preferred modifications before the current agreement expires on June 30, 2018.

Fiscal impact
Funds in the amount of $273,560 are available in the General Manager’s adopted operating budget for fiscal years 2018 and 2019 in Public Outreach and Conservation Department to cover the Water Authority’s share of Water Conservation Garden operations through June 30, 2019. Funds to cover the Water Authority’s share of Garden operation costs in future years would be included in future operating budgets and contingent upon Board approval. The rate category is Customer Service.

Background
The Water Authority has been a member of the Water Conservation Garden Joint Powers Authority and supported the Garden’s efforts to promote outdoor water efficiency since 2001. For years, the Garden operated essentially as a public agency under the auspices of the JPA, with the JPA responsible for the ongoing maintenance and administration of its programs and assets.

In September 2009, the Garden finished development of a Strategic Plan. It concluded the Garden would benefit by reorganizing as a non-profit entity organized under IRS Code Section 501(c)(3). At that time, the Garden received approximately two-thirds of its operating expenses from JPA member dues and the other third from private donations. The primary reason to have a non-profit run the Garden was to encourage even greater fiscal sustainability through increased funding from private sources.

In the fall of 2010, the Water Authority and other Water Conservation Garden JPA agencies (city of San Diego, Helix Water District, Otay Water District, Sweetwater Authority and Cuyamaca College) negotiated and approved a five-year Operation Agreement for the non-profit Friends of the Water Conservation Garden to operate the Garden as an independent contractor. The Friends of the Water Conservation Garden was a significant contributor to the Garden’s private fund-raising efforts and participated in the Strategic Plan process. The parties also agreed to a multi-year funding plan to help support fiscal stability at the Garden during this period.
The Friends of the Water Conservation Garden has operated the Garden in accordance with the agreement since it took effect on Jan. 1, 2011. During this time the Friends have taken steps to broaden the Garden’s sources of financial support and reduce long-term reliance on JPA funds. These steps include establishing a Garden Endowment Fund to support operations, creating a new structure for corporate sponsorships and increasing educational contracts and facility rentals. In Fiscal 2017 the Friends raised approximately $528,000 through educational program contracts, memberships, sales, unrestricted donations and events. The Garden also secured $365,000 in local and state grants to help fund educational and capital projects in future years.

In August 2016, the JPA agencies and the Friends began discussions regarding updating and extending the Operating Agreement. Both parties expressed interest in amending the agreement to better define how JPA dues and other funds are to be used and facilitate more-efficient operations of the Garden. They also discussed developing a new multi-year funding plan as part of this agreement that would continue to reduce the Garden’s reliance on JPA dues. In May 2017, the Friends and the JPA agreed to extend the current agreement until June 30, 2018 to allow the continued operation of the Garden while both parties negotiated terms of the new agreement. The Friends and the JPA also set a voluntary goal to complete negotiations for a new multi-year operating agreement by November 2017.

Previous Board Action: On May 25, 2017, the Board approved a one-year extension of the current Operation Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)) for the continued operation and maintenance of the Water Conservation Garden through June 30, 2018.

On December 8, 2016, the Board approved a six-month extension of the current Operation Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)) for the continued operation and maintenance of the Water Conservation Garden through June 30, 2017.

On December 9, 2010, the Board Approved the key components of Operation Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)), approved the inclusion of $368,871 in the Fiscal Years 2012 and 2013 budget and indicate support for future funding levels when the Board establishes the budget for Fiscal Years 2014 and 2015.

Discussion

In May 2017, a Governance Committee selected by the JPA Board began meeting to work out proposed terms for a new operating and funding agreement. The committee consisted of JPA Board representatives from the Water Authority (Betty Evans), Helix Water District (DeAna Verbeke) and Otay Water District (Mark Robak), along with the Garden’s Executive Director (Elyssa Robertson) and the president of the Friends of the Water Conservation Garden (Harold Bailey).

The JPA Board supported development of a proposal that called for the Friends to continue to operate the Garden as an independent contractor. Other basic objectives for the new operating and funding agreement, based on feedback received from the JPA agencies, included:
• Achieving specific, binding reductions in JPA dues contributions to the Garden.
• Scheduling these reductions over time to minimize impacts to Garden operations as the Friends’ fund-raising and other income-generating efforts continue to mature.
• Limiting the JPA agencies’ financial role to funding ongoing operations and maintenance of “core” exhibits and facilities directly related to outdoor water-use efficiency and water supplies.
• Dedicating a portion of JPA dues funding to help address related deferred maintenance needs at the Garden over the next five years.
• Specifying that funds raised by the Friends through donations, educational contracts and other income sources would support educational programming and other “non-core” operational needs.
• Improving communication and coordination by establishing clearer and more consistent reporting practices between the Friends and the JPA agencies.

The Governance Committee met frequently between May and September to work out terms for a new operating and funding agreement that met these criteria. On October 16, 2017, ahead of its voluntary November 2017 goal, the JPA Board approved terms for a new agreement to take back to their respective agency boards if needed for final review and approval.

The full Amended and Restated Water Conservation Garden Operation Agreement, in redline/strikeout form with changes highlighted, is included in Attachment 1. The new agreement achieves all the basic objectives listed above, including specific funding reductions that are listed in Table 1. The Garden’s current annual budget is approximately $1 million, with JPA agencies currently providing slightly less than half of the Garden’s revenue at $484,000. By fiscal year 2023, dues from the JPA agencies will be capped at $320,000, or slightly less than one third of the Garden’s current annual budget.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total JPA Funding</th>
<th>Water Authority Share*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2019</td>
<td>$484,000</td>
<td>$137,632</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$459,800</td>
<td>$130,750</td>
</tr>
<tr>
<td>FY 2021</td>
<td>$413,820</td>
<td>$117,675</td>
</tr>
<tr>
<td>FY 2022</td>
<td>$372,440</td>
<td>$105,907</td>
</tr>
<tr>
<td>FY 2023</td>
<td>$320,000</td>
<td>$91,080</td>
</tr>
</tbody>
</table>

*Based on terms in current JPA agreement.

In addition, the new agreement specifies JPA agency funding will be used for asset management, supporting the operation and maintenance of 10 key exhibits related to outdoor water-use efficiency and water supplies. The specific exhibits are listed in Table 2. These costs include related labor and half of the Garden’s utilities.
The new agreement also includes a revenue-sharing component, in which the Friends have agreed to make contributions from several of its own revenue sources into the Garden Endowment Fund to help cover long-term operations and maintenance costs. Beginning July 2019, 5 percent of the Friends’ revenue derived from corporate memberships, overall sales and unrestricted donations will be deposited into the fund. Based on the Garden’s income levels from the 2017 fiscal year, these sources collectively would contribute more than $10,000 annually toward these costs. Contributions could increase to 10% in fiscal year 2022 if certain fund-raising or other fiscal sustainability conditions are met.

The new agreement also establishes a more formalized reporting schedule and modifies several other coordination terms between the Friends and the JPA agencies. The Friends will provide the JPA agencies with written quarterly reports detailing financial information (including fund-raising and other income-generation efforts), Garden and program attendance, efforts to address regular and deferred maintenance, and updates on proposed new exhibits or major changes to existing exhibits. The Friends will also share its Annual Report and any updates to its Strategic Plan by December 15 of each year. The Friends will make these reports in person to any JPA agency if requested.

The Friends also will need to seek JPA approval before making any significant change to any core exhibit or adding any new exhibit to the Garden that has a cost of more than $100,000.

Prepared by: Jason Foster, Director, Administrative Services  
Reviewed by: Betty Evans, Board representative, Water Conservation Garden JPA  
Approved by: Dennis A. Cushman, Assistant General Manager

Attachment: 1. Amended and Restated Water Conservation Garden Operation Agreement
AMENDED AND RESTATED
WATER CONSERVATION GARDEN OPERATION AGREEMENT
(Cuyamaca College Water Conservation Garden)

THIS AMENDED AND RESTATED WATER CONSERVATION GARDEN OPERATION AGREEMENT (Cuyamaca College Water Conservation Garden) (this “Agreement”) is dated as of __________, for reference purposes only, and is entered into by and between the WATER CONSERVATION AUTHORITY, a Joint Powers Agency (the “Authority”), and FRIENDS OF THE WATER CONSERVATION GARDEN, a California nonprofit public benefit corporation (the “Operator”) (collectively the “Parties”), with reference to the following recited facts:

RECITALS

A. The Grossmont-Cuyamaca Community College District (“GCCCD”), a California community college district and the Authority have entered into that certain License Agreement for Operation of a Water Conservation Garden, dated August 1, 2006 (“License Agreement”), attached hereto as Exhibit C and incorporated herein by reference, with respect to certain real property specifically described in the License Agreement for operation of a water conservation demonstration garden (“Garden”); and

B. The Authority and the Operator entered into that certain Water Conservation Garden Operation Agreement, dated October 13, 2010, to provide for the Operator to assume all responsibility for operation and maintenance of the Garden in accordance with the License Agreement and the terms and conditions of this Agreement.

C. The Authority and Operator now desire to amend and restate the Agreement to clarify responsibilities and obligations associated with the operation of the Garden including, but not limited to:

1. Committing that the Authority will continue and increase involvement with the Garden as specified within this Agreement;

2. Authority member dues shall decrease over time to the Base Contribution amount as defined herein;

3. Authority dues shall be based upon the maintenance of Core Exhibits, as that term is defined herein; and

4. Operator shall increase and improve communication with Authority member agencies, including clarifying the lines of communication between the constituent parties.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION AND THE PROMISES OF THE AUTHORITY AND THE OPERATOR SET FORTH IN THIS AGREEMENT, THE AUTHORITY AND THE OPERATOR AGREE, AS FOLLOWS:

1. DEFINITIONS. The following definitions apply in this Agreement:
1.1 “Application” means any agreement, application, certificate, document, or submission (or amendment of any of the foregoing): (a) necessary or appropriate for any activity regarding the Garden that this Agreement requires or allows, including any application for any building permit, certificate of occupancy, utility service or connection, easement, covenant, condition, restriction or such other instrument as the Operator may from time to time reasonably request in performing its obligations under this Agreement; (b) to enable the Operator from time to time to seek any Approval or to use or operate the Garden in accordance with this Agreement; or (c) otherwise reasonably necessary and appropriate to permit the Operator to perform its obligations under this Agreement.

1.2 “Approvals” means any and all licenses, permits, approvals, consents, certificates (including certificate(s) of occupancy), rulings, variances, authorizations, or amendments to any of the foregoing as shall be necessary or appropriate under any Law to commence, perform, or complete any use, maintenance, repair or operation of the Garden.

1.3 “Authority” means the Water Conservation Authority, a California joint powers authority.

1.4 “Authority Activity” shall have the meaning ascribed to the term in Section 5.13.

1.5 “Authority Parties” means, collectively, the Authority, its governing board, officers, employees, agents and legal representatives.

1.6 “Authority Party” means, individually, the Authority and each of its officers, employees, agents and legal representatives.

1.7 “Authority Representative” means an employee or agent of the Authority designated, from time to time by the Authority through Notice to the Operator. As of the Effective Date, the Authority Representative is the President of the Authority.

1.8 “Automobile Liability Insurance” means insurance coverage against claims of personal injury (including bodily injury and death) and property damage covering all owned, leased, hired and non-owned vehicles used by the Operator, with minimum limits for bodily injury and property damage of ONE MILLION DOLLARS ($1,000,000) each occurrence and TWO MILLION DOLLARS ($2,000,000) aggregate. Such insurance shall be provided by a business or commercial vehicle policy.

1.9 “Bankruptcy Law” means Title 11, United States Code, and any other or successor state or federal statute relating to assignment for the benefit of creditors, appointment of a receiver or trustee, bankruptcy, composition, insolvency, moratorium, reorganization, or similar matters.

1.10 “Bankruptcy Proceeding” means any proceeding, whether voluntary or involuntary, under any Bankruptcy Law.

1.11 “Casualty” means any damage or destruction of any kind or nature, ordinary or extraordinary, foreseen or unforeseen, affecting all or any part of the Garden Improvements, whether or not insured or insurable.
1.12 “Casualty Termination” means a termination of this Agreement because of a Substantial Casualty, when and as this Agreement expressly allows such a termination pursuant to Section 13.3.

1.13 “Construction” means any alteration, construction, demolition, development, expansion, reconstruction, redevelopment, repair, restoration, or other work affecting any Garden Improvements, including new construction.

1.14 “County” means the County of San Diego, California.

1.15 “Core Exhibits” means Irrigation Exhibit , Backyard Retrofit House, Turf Exhibit , Tree Exhibits and Care, Watershed/Water Capture, Soils, Erosion, California Water Story, Seven Steps of Xeriscape, and Water Supply Towers.

1.16 “Default” means any Monetary Default or Non-Monetary Default.

1.17 “Deferred Maintenance Projects” shall mean DG pathway stabilizer, irrigation upgrades, electrical upgrades, re-stucco/paint, and mature tree replacement.

1.18 “GCCCD” means the Grossmont-Cuyamaca Community College District, a California community college district.

1.19 “Educational Programming” means those certain demonstration and educational programs and activities approved by the Authority to be provided to the public by the Operator at the Garden in accordance with the terms and conditions of this Agreement.

1.20 “Effective Date” means the first date on or after January 1, 2011 on which all of the following events have occurred: (1) the Authority has received three (3) counterpart originals of this Agreement executed by the authorized representative(s) of the Operator; (2) the Authority has received a certified copy of the Operator Official Action executed by the authorized representative(s) of the Operator; (3) this Agreement has been approved by the governing board of the Authority; (4) this Agreement has been signed by the authorized representative(s) of the Authority and a fully signed original of this Agreement has been delivered to the Operator by the Authority.

1.21 “Environmental Law” means any Law regarding any of the following at, in, under, above, or upon the Garden: (a) air, environmental, ground water, or soil conditions; or (b) clean-up, control, disposal, generation, storage, release, transportation, use of, or liability or standards of conduct concerning, Hazardous Substances.

1.22 “Expiration Date” means the date when this Agreement terminates or expires in accordance with its terms, whether on the Scheduled Expiration Date, by the Authority’s exercise of remedies for an Event of Default, termination of the License Agreement, or otherwise, whichever is earlier.

1.23 “FF&E” means all movable furniture, furnishings, equipment, and personal property that may be removed without material damage to the Garden and without adversely affecting: (a) the structural integrity of the Garden Improvements; (b) any electrical, plumbing, mechanical, or other system of the Garden; (c) the present or future operation of any such system; (d) the present or future provision of any utility service to the Garden; or (e) the
elements of any exhibit within the Garden. FF&E includes items such as furniture, movable equipment, telephone, telecommunications and facsimile transmission equipment, point of sale equipment, televisions, radios, network racks, and computer systems and peripherals.

1.24 “Garden” is defined in Recital A to this Agreement.

1.25 “Garden Endowment Fund” means a non-wasting investment fund held by The San Diego Foundation or its successor with bi-annual payments of interest paid to Operator for maintenance of The Garden.

1.26 “Garden Expenses” means all costs of operating and maintaining the Garden pursuant to the terms and conditions of this Agreement incurred after the Effective Date.

1.27 “Garden Improvements” means those certain improvements in existence at the Garden as of the Effective Date and all improvements to or located at the Garden from time to time after the Effective Date.

1.28 “Garden Maintenance Standards” means the standards, specifications, protocols and conditions for maintenance of the Garden.

1.29 “Government” means each and every governmental agency, authority, bureau, department, quasi-governmental body, or other entity or instrumentality having or claiming jurisdiction over the Garden (or any activity this Agreement requires or allows), including the United States government, the State of California, the County and their subdivisions and Municipalities, including the Authority and all other applicable governmental agencies, authorities, commissions, boards, department and subdivisions thereof.

1.30 “Group Function” means use by a Third Person of the Garden for a private event.

1.31 “Hazardous Substance” includes flammable substances, explosives, radioactive materials, asbestos, asbestos-containing materials, polychlorinated biphenyls, chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, medical wastes, toxic substances or related materials, explosives, petroleum and petroleum products, and any “hazardous” or “toxic” material, substance or waste that is defined by those or similar terms or is regulated as such under any Law, including any material, substance or waste that is: (i) defined as a “hazardous substance” under Section 311 of the Water Pollution Control Act (33U.S.C. § 1317), as amended; (ii) substances designated as “hazardous substances” pursuant to 3 3.U.S.C. § 1321; (iii) defined as a “hazardous waste” under Section 1004 of the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901, et seq., as amended; (iv) defined as a “hazardous substance” or “hazardous waste” under Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Reauthorization Act of 1986, 42 U.S.C. § 9601 et seq. or any so-called “superfund” or “super lien” law; (v) defined as a “pollutant” or “contaminant” under 42 U.S.C.A. § 9601(33); (vi) defined as “hazardous waste” under 40 C.F.R. Part 260; (vii) defined as a “hazardous chemical” under 29 C.F.R. Part 1910; any matter within the definition of “hazardous substance” set forth in 15 U.S.C. § 1262; (viii) any matter, waste or substance regulated under the Toxic Substances Control Act (“TSCA”) (15 U.S.C. Sections 2601 et seq.); any matter, waste or substance regulated under the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801, et seq.; any matter, waste or substance regulated under the
Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901, et seq.; those substances listed in the United States Department of Transportation (DOT) Table (49 CFR 172.101), or designated by the EPA, or any successor authority, as a hazardous substance [40 CFR Part 302]; and those substances defined as “hazardous waste” in Section 25117 of the California Health and Safety Code or, as a “hazardous substance” in Section 25316 of the California Health and Safety Code; (ix) subject to any other Law regulating, relating to or imposing obligations, liability or standards of conduct concerning protection of human health, plant life, animal life, natural resources, property or the enjoyment of life or property free from the presence in the environment of any solid, liquid, gas, odor or any form of energy from whatever source; or (x) other substances, materials, and wastes that are, or become, regulated or classified as hazardous or toxic under federal, state, or local laws or regulations and in the regulations adopted pursuant to said laws, and shall also include manure, asbestos, polychlorinated biphenyl, flammable explosives, radioactive material, petroleum products.

1.32 “Hazardous Substance Discharge” means any deposit, discharge, generation, release, or spill of a Hazardous Substance that occurs at or from the Garden, or into the Garden, or that arises at any time from the use or operation of the Garden or any activities conducted at the Garden or any adjacent or nearby real property, or resulting from seepage, leakage, or other transmission of Hazardous Substances from other real property to the Garden, whether or not caused by a Party to this Agreement and whether occurring before or after the Effective Date.

1.33 “Indemnify” means, where this Agreement states that the Parties shall “indemnify” each other from, against, or for a particular matter, that the Parties shall indemnify the other and defend and hold each other harmless from and against any and all loss, claims, liability, penalties, judgments, damages, and other injury, detriment, or expense that each Party suffers or incurs: (a) from, as a result of, or on account of the particular matter; or (b) in enforcing the other Party’s indemnity obligation.

1.34 “Law” means all laws, ordinances, requirements, orders, proclamations, directives, rules, and regulations of any Government affecting the Garden or this Agreement in any way, including any use, maintenance, taxation, operation, or occupancy of, or environmental conditions affecting the Garden or otherwise relating to this Agreement or any Party’s rights or remedies under this Agreement, or any Transfer of any of the foregoing, whether in force on the Effective Date or passed, enacted, or imposed at some later time, subject in all cases, however, to any applicable waiver, variance, or exemption.

1.35 “Legal Costs” of any Person means all reasonable costs and expenses such Person incurs in any legal proceeding (or other matter for which such Person is entitled to be reimbursed for its Legal Costs), including reasonable attorneys’ fees, court costs and expenses.

1.36 “Liability Insurance” means commercial general liability insurance against claims for personal injury, death, or property damage occurring upon, in, or about the Garden or adjoining streets or passageways, providing coverage for a combined single limit of Two Million Dollars ($2,000,000) for any one occurrence.

1.37 “License Agreement” is defined in Recital A to this Agreement.

1.38 “Maintenance and Repair” means all routine and ordinary maintenance and repairs to the Garden required to preserve and operate the Garden in first-class condition during
the Term, in accordance with the Garden Maintenance Standards, including any required Renovation.

1.39 “Modification” means any abandonment, amendment, cancellation, discharge, extension, modification, rejection, renewal, replacement, restatement, substitution, supplement, surrender, termination, or waiver of a specified agreement or document, or of any of its terms or provisions, or the acceptance of any cancellation, rejection, surrender, or termination of such agreement, document, or terms.

1.40 “Modify” means agree to, cause, make, or permit any Modification.

1.41 “Monetary Default” means the Operator’s failure to pay or deposit any money (including insurance premiums) when and as this Agreement requires.

1.42 “Non-Monetary Default” means the Operator’s: (a) failure to comply with any affiliate or negative covenant or obligation in this Agreement, except a Monetary Default; or (b) breach of any representation or warranty (as of the date made or deemed made).

1.43 “Notice” means any consent, demand, designation, election, notice, or request relating to this Agreement, including any Notice of Default.

1.44 “Notify” means give a Notice.

1.45 “Notice of Default” means any Notice claiming or giving Notice of a Default or alleged Default.

1.46 “Operating Inventory” means consumable items used or held in storage for use in the operation of the Garden, including bathroom supplies, paper towels, cleaning materials, supplies, gardening supplies and equipment and other similar items.

1.47 “Operator” means the Friends of the Water Conservation Garden, a California nonprofit public benefit corporation.

1.48 “Operator Official Action” means the official action of the Operator’s governing body authorizing the Operator’s entry into and performance of this Agreement, in substantially the form attached to this Agreement as Exhibit “B,” signed by the authorized representative(s) of the Operator.

1.49 “Operator Parties” means, collectively, the Operator, its directors, officers, employees, agents and legal representatives.

1.50 “Operator Party” means, individually, the Operator and each of its directors, officers, employees, agents and legal representatives.

1.51 “Parties” means, collectively, the Authority and the Operator.

1.52 “Party” means, individually, either the Authority or the Operator, as applicable.
1.53 “Person” means any association, corporation, Government, individual, joint venture, joint-stock company, limited liability company, partnership, trust, unincorporated organization or other entity of any kind.

1.54 “Prohibited Lien” means any mechanic’s, vendor’s, laborer’s, or material supplier’s statutory lien or other similar lien arising from work, labor, services, equipment, or materials supplied, or claimed to have been supplied, to the Operator (or anyone claiming through the Operator).

1.55 “Property Insurance” means insurance providing coverage against loss, damage, or destruction of the Garden and all Garden Improvements by fire and other hazards encompassed under the broadest form of property insurance coverage then customarily used for like properties in the County (except earthquake or war risk) from time to time during the Term, in an amount equal to 100% of the replacement value (without deduction for depreciation) of all of the Garden Improvements (excluding excavations and foundations) and in any event sufficient to avoid co-insurance, with “ordinance or law” coverage. Such insurance may contain a deductible clause not exceeding Five Thousand Dollars ($5,000). To the extent customary for like properties in the County at the time, such insurance shall include coverage for explosion of steam and pressure boilers and similar apparatus located at the Garden; coverage for terrorism; an “increased cost of Construction” endorsement; and an endorsement covering demolition and cost of debris removal.

1.56 “Property Insurance Proceeds” means net proceeds (after reasonable costs of adjustment and collection, including Legal Costs) of Property Insurance, when and as received by the Authority or the Operator.

1.57 “Renovation” means the replacement, major repair, renewal or reconstruction of all or any portion of the Garden Improvements, including building roofs, slabs, foundations or walls; heating, ventilation, air conditioning, plumbing, sewer, utility, irrigation or drainage systems; lighting; paved areas, including circulation walkways; signage, windows, awnings, patio covers and exterior facade components and coverings.

1.58 “Restoration” means, after a Casualty, the alteration, clearing, rebuilding, reconstruction, repair, replacement, restoration and safeguarding of the damaged or remaining Garden Improvements, substantially consistent with their condition before the Casualty, subject to any changes in Law that would limit any such activities.

1.59 “Restoration Funds” means any Property Insurance Proceeds (and deposits by the Operator) to be applied to Restoration.

1.60 “Restore” means accomplish a Restoration.

1.61 “Scheduled Expiration Date” means 11:59 p.m. on June 30, 2023.

1.62 “Substantial Casualty” means a Casualty that: (a) renders 40% (forty percent) or more of the Garden not capable of being used or occupied for more than one hundred eighty (180) days; (b) requires Restoration whose cost the Authority reasonably estimates in writing would exceed Two Hundred Thousand Dollars ($200,000); or (c) pursuant to Law, prevents the...
Garden from being Restored to substantially the same bulk, and for the same use(s), as before the Casualty.

1.63 “Term” is defined in Section 4.

1.64 “Third Person” means any Person that is not a Party or an elected official, officer, director, manager, shareholder, member, principal, partner, employee or agent of a Party.

1.65 “Unavoidable Delay” means delay in performing any obligation under this Agreement, except payment of money, arising from or on account of any cause whatsoever beyond the obligor’s reasonable control, despite such obligor’s reasonable diligent efforts, including industry-wide strikes, labor troubles or other union activities, the obligor’s inability to obtain required labor or materials after commercially reasonable efforts to do so, litigation (unless caused by the obligor), Casualty, accidents, Laws, governmental preemption, war, or riots. Unavoidable Delay shall exclude delay caused by the obligor’s financial condition, illiquidity, or insolvency. Any Party claiming Unavoidable Delay shall Notify the other Party: (a) within ten (10) days after the claiming Party knows of any such Unavoidable Delay; and (b) within ten (10) days after such Unavoidable Delay ceases to exist. To be effective, any such Notice must describe the Unavoidable Delay in reasonable detail. Where this Agreement states that performance of any obligation is subject to Unavoidable Delay(s) or words of similar import, such Unavoidable Delay(s) shall extend the time for such performance only by the number of days by which such Unavoidable Delay(s) actually delayed such performance.

1.66 “Waiver of Subrogation” means a provision in, or endorsement to, any insurance policy, by which the carrier agrees to waive rights of recovery by way of subrogation against either Party to this Agreement for any loss such policy covers.

1.67 “Workers Compensation Insurance” means worker’s compensation insurance complying with the provisions of California law and an employer’s liability insurance endorsement with commercially standard limits covering all employees of the Operator, its contractors and vendors.

2. INCORPORATION OF LICENSE AGREEMENT. This Agreement is expressly subject to all of the terms and conditions of the License Agreement and this Agreement shall automatically terminate on the termination of the License Agreement in its entirety. The Authority shall have the right to modify or amend the License Agreement with the reasonable consent of the Operator. All of the terms and conditions of the License Agreement are incorporated into this Agreement by reference.

3. ASSUMPTION OF LICENSE OBLIGATIONS. The Operator hereby acknowledges and assumes all obligations of the Authority under and pursuant to the terms and conditions of the License Agreement regarding use and operation of the Garden.

4. TERM. The “Term” of this Agreement shall: (a) commence, if at all, on the Effective Date; and (b) continue until the Scheduled Expiration Date, unless terminated sooner.

5. GARDEN OPERATION AND MAINTENANCE.

5.1 Operation and Maintenance Covenant. The Authority hereby contracts with the Operator to maintain and operate the Garden pursuant to the terms of this Agreement, and the
Operator covenants and agrees to continuously maintain and operate the Garden pursuant to the terms of this Agreement, throughout the entire Term.

5.2 **Operation and Maintenance License.** The Authority hereby licenses the Operator to enter the Garden to perform Maintenance and Repair and to operate the Garden as provided in this Agreement, without further consent or approval from the Authority, except as otherwise provided in this Agreement.

5.3 **Permits, Licenses, Etc.** The Operator shall, for the full Term, at the Operator’s sole cost and expense, maintain all franchises, permits, contractual arrangements, licenses, and registrations necessary for the Operator to conduct all operations, Maintenance and Repair, Educational Programming and other activities relating to the Garden to be undertaken by the Operator pursuant to this Agreement.

5.4 **Abandonment.** The Operator shall not abandon or surrender the operation of all or any part of the Garden during the Term, except as otherwise expressly provided in Section 14 or Section 17.

5.5 **General Operational Responsibilities.** The Operator shall have the following described general responsibilities regarding operation of the Garden, in which the Operator shall perform at Operator’s sole expense:

5.5.1 enter into and pay any costs associated with contracts for the furnishing of utilities, maintenance, telecommunications, repair and other services to the Garden;

5.5.2 incur and pay such expenses as shall be reasonably necessary for the proper operation of the Garden;

5.5.3 maintain a level of Operating Inventory reasonably appropriate for supplying the needs of the Garden and its users;

5.5.4 apply for, obtain and maintain all licenses and permits required of the Operator in connection with the operation of the Garden. The Authority shall reasonably cooperate with the Operator in the application for, obtaining and maintenance of such licenses and permits; provided that such cooperation by the Authority is legally permitted and does not result in any direct or indirect cost to the Authority;

5.5.5 exercise reasonable efforts to do, or cause to be done, all acts in and about the Garden as shall be reasonably necessary to comply with any applicable insurance policies or Law;

5.5.6 maintain FF&E and purchase new FF&E as necessary to perform Maintenance and Repair and operate the Garden, including replacing worn out, damaged, destroyed, lost or stolen FF&E;

5.5.7 in accordance, as applicable, with defense and indemnification rights contained in contracts of insurance procured and maintained by the Operator, defend and settle claims, lawsuits and demands relating to the Garden and retain legal counsel (and pay legal fees and costs) who, under the direction of the Operator or the insurance carrier, will defend any claims or actions brought against the Operator Parties relating to the Garden and will institute
and defend any and all legal actions or proceedings as shall be reasonably necessary to collect charges, fees or other income for the Garden, or to cancel or terminate any license, vendor or concession agreement or other contract on the grounds of default. The Operator shall notify the Authority of any claims or lawsuits relating to the Garden on a timely basis. Legal counsel to the Operator’s insurance carrier that is providing a defense to the Authority Parties shall be deemed satisfactory to the Authority, subject to any conflict of interest or incompetency of such legal counsel; and

5.5.8 hire, train, and supervise all employees necessary for operation of the Garden, including providing Educational Programming to the public;

5.5.9 make reasonable good faith marketing and outreach efforts to market the Garden and Educational Programming to the public, including maintenance of the current website marketing the Garden;

5.5.10 establish accounting and payroll procedures and functions for the Garden; and

5.5.11 continue to operate the Garden on the days and at hours consistent with the Authority’s practices as of the Effective Date, or greater, subject to closure due to inclement weather, Casualty, or Unavoidable Delay.

5.6 Maintenance and Repair: Except to the extent that this Agreement otherwise expressly provides or allows, the Operator shall, during the Term, keep and maintain the Garden in good order, condition, and repair, at Operator’s sole cost and expense, subject to Casualty, reasonable wear and tear, and any other condition that this Agreement does not require the Operator to repair or Restore. The Operator’s obligation to maintain the Garden includes the obligation to make all repairs and Restorations that the Garden may require (including plumbing, heating, air conditioning, ventilating, electrical, lighting, fixtures, walls, any required Renovation, building systems, ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, site improvements, curb cuts, parking lots, fences and signs located in, on or at the Garden, together with any sidewalks and streets adjacent to the Garden) by Law, pursuant to applicable insurance policies or pursuant to the Garden Maintenance Standards, from time to time during the Term, whether structural or nonstructural, foreseen or unforeseen, capital or operating. The Operator shall remove trash, snow, mud, sand and debris from the Garden and the adjoining sidewalks and maintain them in a reasonably clean condition. Notwithstanding the foregoing and as a way of clarification, the Parties agree to assign and share costs as set forth in Exhibit D.

5.7 Contracts and Agreements. All equipment leases, financing agreements, contracts and agreements relating to the Garden (including without limitation contracts for utility services, telecommunications services, Maintenance and Repair, pest control, supplies, landscaping services, and agreements for Group Functions), entered into during the Term shall be entered into by the Operator as the contracting party. The Operator shall not have any authority to enter into any equipment lease, financing agreement, contract or agreement that extends beyond the Term of this Agreement or that is secured by all or any part of the Garden or the Garden Improvements. All contracts entered into by the Operator regarding the Garden shall automatically expire on the Expiration Date.
5.8  **No Discrimination or Segregation.** Developer covenants by and for itself and all Persons claiming under or through it that there shall be no discrimination against or segregation of any Person or group of Persons, on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the use, occupancy, tenure, or enjoyment of the Garden nor shall the Operator or any Person claiming under or through the Operator establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of users or vendors of the Garden.

5.9  **Noise.** The Operator shall not use or permit the use of the Garden in any manner that creates or maintains any noise or sound that, when measured at any place along the boundary line of the Garden, exceeds the applicable sound level standard established by any Government for the Garden.

5.10 **Nuisance.** The Operator shall not itself and shall not allow any other Person to use the Garden for any unlawful purpose and shall not itself and shall not allow any other Person to perform, permit or suffer any act or omission upon or about the Garden that would result in a nuisance or a violation of any Law, as the same may now or hereafter be in force and effect.

5.11 **Signage.**

5.11.1 All signs on or in the Garden will be maintained by the Operator in good condition during the Term.

5.11.2 At the Authority’s request, the Operator will remove signs identified by the Authority that are installed on or in the Garden by the Operator on or before the Expiration Date, except as otherwise agreed between the Operator and the Authority, and repair and restore any damage caused by installation or removal of such signs. All signs on or in the Garden shall comply with all applicable Laws.

5.11.3 The Operator shall not cause or allow the display of any advertising of alcohol, tobacco products or adult entertainment on, in or about the Garden.

5.12  **Group Functions.** The Operator shall be responsible for administration of Group Functions at the Garden, including approving applications for Group Functions, entering into Group Function agreements and charging fees for Group Functions.

5.13  **Authority Activities.** The Authority shall have the right to use the Garden for Authority initiated special events that are scheduled with the prior approval of the Operator, in the Operator’s reasonable discretion (each, an “Authority Activity”). The Garden shall be available for each Authority Activity free of any facility rental or admission charge to the Authority.

5.14  **Payment of Prevailing Wages.**

5.14.1 When so required by California law, the Operator agrees that not less than “prevailing wages,” as that term is defined in California Labor Code Sections 1770, et seq., shall be paid by the Operator, its contractors, and any sub-contractors to all laborers employed in connection with the Construction or installation of any improvements or Maintenance and...
Repair related to the Garden. The Operator shall maintain and shall cause each of its contractors to maintain certified payroll records, pursuant to California Labor Code Section 1776, relative to all work performed relating to the Garden. The Authority shall have the right, but not the obligation, to inspect and copy all of the Operator’s payroll records and the payroll records of each of the Operator’s contractors and subcontractors relating to the Garden. The Authority shall also have the right to exercise the remedies provided in the California Labor Code, in addition to all other remedies available to the Authority at law, under contract, or in equity, in the event of a breach or Default by the Operator of its obligations under this Section 5.14.

5.14.2 THE OPERATOR, ON BEHALF OF ITSELF, ITS SUCCESSORS, AND ASSIGNS, WAIVES AND RELEASES THE AUTHORITY FROM ANY RIGHT OF ACTION THAT MAY BE AVAILABLE TO ANY OF THEM PURSUANT TO CALIFORNIA LABOR CODE SECTION 1781. THE OPERATOR ACKNOWLEDGES THE PROTECTIONS OF CALIFORNIA CIVIL CODE SECTION 1542 RELATIVE TO THE WAIVER AND RELEASE CONTAINED IN THIS SECTION 5.14, WHICH READS AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.


5.14.4 ADDITIONALLY, THE OPERATOR SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS THE AUTHORITY, PURSUANT TO THE PROVISIONS OF SECTION 13, AGAINST ANY CLAIMS PURSUANT TO CALIFORNIA LABOR CODE SECTION L781 ARISING FROM THIS AGREEMENT OR THE CONSTRUCTION OR INSTALLATION OF ANY IMPROVEMENTS OR MAINTENANCE AND REPAIR RELATING TO THE GARDEN, UNDERTAKEN BY OR ON BEHALF OF THE OPERATOR.

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Initials of Authorized Operator Representative

5.15 Independent Contractor. The Operator shall at all times be an independent contractor under this Agreement. Nothing contained in this Agreement shall be construed to be or create a partnership or joint venture between the Authority and the Operator or its successors or assigns.

5.16 Shared Resources. To the extent allowed by and consistent with Authority member agencies rules, regulations, and policies, the Authority, through its member agencies, and Operator shall use their best efforts to share resources and work cooperatively to advance the
Garden. No later than June 30, 2018, if necessary the Authority and Operator shall develop a policy designed to increase cooperation in the following areas:

5.16.1 Donation of in kind services and support including donation of surplus furniture, fixtures and equipment; and

5.16.2 Evaluation and census data collection efforts; and

5.16.3 Outreach and membership drives; and

5.16.4 Marketing development and efforts.

5.17 Naming Rights. The naming or renaming of the Garden, any facilities at the Garden, or Core Exhibits shall be done by mutual consent of the Authority and the Operator.

6. OPERATOR ACCEPTANCE OF CONDITION OF GARDEN. The Operator agrees to accept the Garden on the Effective Date in an “as-is” condition, subject to any and all physical, legal or other faults. The Operator acknowledges that the Operator will be accepting the Garden based upon the Operator’s own investigations of the Garden’s condition. Except as otherwise specifically stated in this Agreement, the Operator also agrees to accept the Garden based on the Operator’s knowledge that neither the Authority nor any agent of the Authority, has made any representation or warranty whatsoever, express or implied, with regard to the physical condition of the Garden or the suitability of the Garden for any particular purpose or use, including, without limitation, any representations or warranties regarding the applicability or non-applicability of any Law, the soil or subsoil, surface or subsurface conditions, topography, possible Hazardous Substance contamination, fill, drainage, access to public roads, availability of utilities, existence of underground storage tanks, applicability of or compliance with any Environmental Laws, environmental impact report requirements or any other matter of any nature whatsoever.

7. GARDEN EXPENSES

7.1 Operator to Pay All Garden Expenses. Except as expressly provided in Section 7.3, the Operator shall pay all Garden Expenses. The Operator shall pay and discharge, as and when due, each and every item of expense, of every kind and nature whatsoever, related to or arising from the Garden, or by reason of or in any manner connected with or arising from the operation, management, maintenance, repair, use or any other matter affecting the Garden and attributable to the Term. The Operator further acknowledges and agrees that the Operator will be solely responsible for operating losses or deficits arising in the operation of the Garden during the Term and that any such losses or deficits shall not abate any obligations of the Operator under this Agreement.

7.2 Acknowledgment of Possessory Interest Tax. The Operator acknowledges that, if and to the extent that this Agreement gives rise to assessment of a possessory interest tax under Revenue and Taxation Code Section 107 or any other tax, the Operator shall be obligated to pay such tax.

7.3 Authority Contribution and Annual Budget Process.
7.3.1 The Authority has and shall continue to make an annual financial contribution (“Authority Contribution”) to the Operator. As of the date of this Agreement, Authority’s Contribution for FY 2018/2019 is $484,000. The Authority’s Contribution shall decrease annually, pursuant to the schedule below, until it reaches $320,000 (the “Base Contribution”). Each subsequent fiscal year the Authority Contribution shall be the Base Contribution.

(a) FY 2018/2019 Contribution: $484,000
(b) FY 2019/2020 Contribution: $459,800 (5% reduction)
(c) FY 2020/2021 Contribution $413,820 (10% reduction)
(d) FY 2021/2022 Contribution $372,440 (10% reduction)
(e) FY 2022/2023 and forward annual Contribution $320,000 (14% reduction)

7.3.2 By FY 2022/2023 At least $20,000 of the Authority’s Contribution shall be allocated annually to Deferred Maintenance annually.

(a) $300,000 for operations including maintenance staff, supplies and utilities; and
(b) $20,000 for Deferred Maintenance Projects.

(c) Any additional funding provided by the Authority shall be allocated by mutual consent of the Parties.

(d) Any reallocation of the Base Contribution shall be by mutual consent of the Parties.

7.3.3 On or before each May 15 during the Term, Operator shall prepare and submit to Authority for the Authority’s information an annual operating budget for the Garden for the fiscal year beginning on the immediately following July 1 showing, at a minimum, projected income from Garden operations for such fiscal year (including the specific amounts of fees or charges to be assessed for Garden use during such fiscal year), projected Operator fundraising revenue for Garden Expenses for such calendar year and the projected amount of Garden Expenses for such fiscal year, each on a semi-annual and annual basis. The proposed annual budget shall show assumptions and anticipated significant events during the subject fiscal year. Within thirty (30) calendar days following the Authority’s receipt of the proposed annual budget for the Garden for a particular fiscal year, Authority shall provide any comments on the proposed annual budget for Operator’s consideration.

7.4 Fundraising. The Operator shall at all times during the term maintain its non-profit status with both the federal government of the United States and the government of the State of California. The Operator shall at all times during the Term make good faith fundraising efforts for the collection of charitable donations of funds from Persons other than the Authority to pay Garden Expenses in accordance with the then current annual budget for the Garden approved reviewed by the Authority in accordance with Section 7.3.
7.5 **Utilities.** The Operator shall arrange and pay for all fuel, gas, light, power, water, sewage, garbage disposal, telephone and other utility charges, and the expenses of installation, maintenance, use, and service in connection with the foregoing, for the Garden during the Term. The Authority shall have absolutely no liability or responsibility for any utilities or other services for the Garden during the Term. Notwithstanding the foregoing, one half of all utility costs shall be paid from the Authority contribution as set forth in Section 7.3.

7.6 **Garden Endowment Contribution.** The Parties agree that with the Authority Contribution decreasing annually until reaching the Base Contribution in 2022/2023, the Operator will need to increase fundraising and endowment growth efforts. The Operator shall commence in FY 2019/2020 depositing five percent (5%) of revenue received from corporate membership funds, overall sales onsite and online, and unrestricted donations into the Garden Endowment Fund. In FY 2021/2022, the Parties shall conduct a fiscal assessment of the Garden finances to determine if the this annual endowment contribution can be increased to a maximum of ten percent (10%) of the above identified revenues. Any increase shall be at a mutually agreed upon amount.

8. **RECORDS, REPORTS AND AUDITS**

8.1 **Sales Recording and Records.** The Operator shall record at the time of sale, in the presence of the customer, receipts from sales or other transactions, whether cash or credit, in a cash register or registers, or a point of sale terminal or terminals, having a tape that accumulates and consecutively numbers all transactions. A receipt from any transaction showing the correct amount of purchase shall be offered to the customer at the time of any transaction, including any cash sale. Transactions not ordinarily recorded in a cash register or point of sale terminal shall be noted on and kept in a ledger format.

8.2 **Retention of Books and Records.** The Operator shall, for a period of five (5) years following the end of the Term, keep and maintain, safe and intact, all of the records, books and accounts required to be maintained by the Operator regarding the Garden pursuant to this Agreement, and shall from time to time, upon request, make these records available to the Authority, the Authority’s auditor, representative or agent for examination at any reasonable time, on ten (10) calendar days advance Notice. The Authority shall also have the right to make abstracts from the records or make copies of any or all of the records. In addition, on request of the Authority or the Authority’s representative, the Operator shall furnish copies of the Operator’s State of California and local sales and use tax returns.

8.3 **Annual Update to Strategic Plan.** Annually, Operator will review the Strategic Plan with the Authority.

8.4 **Operator and Annual Reports.**

8.4.1 Operator shall provide to each Authority member agency Board no later than March 15, June 15, September 15, and December 15 of each year, in writing, or in person if requested by the Authority member agency Board, a quarterly report which shall address:

(a) **Financials:** Financial reporting will include summary of fundraising efforts, educational income, grants and earned revenue and expenses.
(b) Attendance: Attendance through turnstiles, classes, field trips, assemblies and outreach.

(c) Garden Renewal: Update on renewal efforts of Deferred Maintenance Projects and continued maintenance of Core Exhibits.

(d) Exhibits: Consultation regarding any new exhibits over $100,000 or major overhaul of Core Exhibits consistent with Section 10 below.

8.4.2 By December 15 each year, Operator shall provide to each Authority member agency Board in writing, or in person if requested by the Authority member agency Board, the Operator’s Annual Report and updates to the Strategic Plan.

8.5 Communication. To facilitate open, effective, and efficient communication the Parties shall utilize the following communication process:

8.5.1 Member agencies shall communicate to and through the Authority Board;

8.5.2 Authority may provide direction to the Executive Director regarding the Core Exhibits and the Section 8.3 Reports. The Authority shall not provide direction to the Executive Director regarding day to day operational issues;

8.5.3 Authority and Operator shall share information regularly, including holding not less than one joint meeting annually. Authority may provide direction to the Operator regarding Core Exhibits and the Section 8.3 Reports;

8.5.4 The Operator and Executive Director shall share information regularly. The Operator Board may provide direction to the Executive Director regarding policy and operational issues;

8.5.5 The Executive Director shall be responsible for all communication with Garden staff.

9. LEGAL COMPLIANCE. The Operator shall during the Term, at the Operator’s sole cost and expense, in all material respects: (a) comply with all Laws; and (b) procure and comply with all Approvals required by Law.

10. ALTERATIONS TO GARDEN. Operator shall not do any of the following without the prior written approval of Authority: (a) construct any new buildings or exhibits within the Garden with a value in excess of One Hundred Thousand Dollars ($100,000.00); (b) remove any exhibits; or (c) construct an exhibit so significant as to change the focus or purpose of the Core Exhibit. Operator may make new plantings, modify existing exhibits or maintain existing buildings and exhibits as reasonably required or desirable in the normal operation of the Garden in accordance with its obligations under this Agreement, without any further consent of Authority.

11. PROHIBITED LIENS

11.1 Operator’s Covenant. If a Prohibited Lien is filed, then the Operator shall, within fifteen (15) days after receiving notice of such filing, cause such Prohibited Lien to be
released. If the Authority receives notice of any such filing, then the Authority shall promptly Notify the Operator.

11.2 Protection of the Authority. NOTICE IS HEREBY GIVEN THAT THE AUTHORITY SHALL NOT BE LIABLE FOR ANY LABOR OR MATERIALS FURNISHED OR TO BE FURNISHED TO THE OPERATOR UPON CREDIT AND THAT NO MECHANIC’S OR OTHER LIEN FOR ANY SUCH LABOR OR MATERIALS SHALL ATTACH TO OR AFFECT THE FEE ESTATE. NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR CONSTRUED IN ANY WAY TO CONSTITUTE THE AUTHORITY’S CONSENT OR REQUEST, EXPRESS OR IMPLIED, BY INERENCE OR OTHERWISE, TO ANY CONTRACTOR, SUBCONTRACTOR, LABORER, EQUIPMENT OR MATERIAL SUPPLIER FOR THE PERFORMANCE OF ANY LABOR OR THE FURNISHING OF ANY MATERIALS OR EQUIPMENT, NOR AS GIVING THE OPERATOR ANY RIGHT, POWER OR AUTHORITY TO CONTRACT FOR, OR PERMIT THE RENDERING OF, ANY SERVICES, OR THE FURNISHING OF ANY MATERIALS OR EQUIPMENT THAT WOULD GIVE RISE TO THE FILING OF ANY LIENS AGAINST THE FEE ESTATE. THE OPERATOR SHALL INDEMNIFY THE AUTHORITY AGAINST ANY ACTION UNDERTAKEN BY THE OPERATOR OR ANYONE CLAIMING THROUGH THE OPERATOR, AND AGAINST ALL PROHIBITED LIENS, PURSUANT TO SECTION 13.

11.3 Garden Not Subject to Mechanic’s Liens. The Garden is owned by the GCCCD, which is a public entity, and as a result, the Garden is not subject to the imposition of mechanic’s liens. The Operator agrees to notify, in writing, each provider of labor, material or services on or to the Garden of such fact and that neither the GCCCD, the Authority nor the Garden shall be responsible for payment of any claims by any such providers of labor, material or services. The Authority shall have the right at all reasonable times to post and keep posted on the Garden any notices that the Authority may deem necessary for the protection of the Authority or the Garden from mechanic’s liens or other claims. The Operator shall give the Authority, at least, ten (10) calendar days prior Notice of the commencement of any work on the Garden with a reasonably anticipated cost exceeding Ten Thousand Dollars ($10,000) and that could otherwise give rise to a mechanic’s lien or other similar claim or lien, but for the Authority’s ownership of the Garden, to enable the Authority to post any notices that the Authority may deem appropriate.

12. HAZARDOUS SUBSTANCES

12.1 Restrictions. The Operator shall not cause or permit to occur on, under or at the Garden during the Term: (a) any violation of any Environmental Law; or (b) the use, generation, release, manufacture, refining, production, processing, storage, or disposal of any Hazardous Substance, or transportation to or from the Garden of any Hazardous Substance, unless both: (i) reasonably necessary and customary to operate and maintain the Garden for uses this Agreement permits; and (ii) in compliance with all Environmental Law.

12.2 Compliance; Clean-Up. The Operator shall, at the Operator’s sole expense: (a) comply with all Environmental Laws applicable to the Garden and, to the extent Environmental Law requires, clean up any Hazardous Substance Discharge; (b) make all submissions to, deliver all information required by, and otherwise fully comply with all requirements of any Government under Environmental Law; (c) if any Government requires any clean-up plan or clean-up because of a Hazardous Substances Discharge, prepare and submit the...
required plans and all related bonds and other financial assurances; (d) promptly and diligently carry out all such clean-up plans; and (e) Indemnify the Authority Parties against any Hazardous Substances Discharge or violation of Environmental Law, in accordance with Section 13.

13. INDEMNIFICATION; LIMIT ON LIABILITY OF AUTHORITY

13.1 Operator Indemnification of Authority Parties. The Operator shall Indemnify the Authority Parties against any: (a) wrongful act, wrongful omission, or negligence of the Operator (and anyone claiming by or through the Operator) or its or their shareholders, directors, officers, elected officials, partners, attorneys, agents or employees; (b) breach or Default by the Operator under this Agreement; or (c) breach of any representation or warranty the Operator makes in this Agreement; (d) any Application made at the Operator’s request; (e) use, occupancy management or operation of the Garden; (f) any agreements that the Operator (or anyone claiming through the Operator) makes regarding the Garden; (g) the condition of the Garden or any street, curb or sidewalk adjoining the Garden, or of any vaults, tunnels, passageways or space under, adjoining or appurtenant to the Garden; and (h) any accident, injury or damage whatsoever caused to any Person in or on the Garden or upon or under the sidewalks adjoining the Garden.

13.2 Authority Indemnification of Operator. The Authority shall Indemnify the Operator against any: (a) wrongful act, wrongful omission, or negligence of the Authority (and anyone claiming by or through the Authority) or its or their shareholders, directors, officers, elected officials, partners, attorneys, agents or employees; (b) breach or Default by the Authority under this Agreement; or (c) breach of any representation or warranty the Authority makes in this Agreement; (d) any Application made at the Authority’s request; and (e) any agreements that the Authority (or anyone claiming through the Authority) makes regarding the Garden.

13.3 Limitation on Liability of the Authority. During the Term: (a) the Operator is and shall be responsible for operation of the Garden; and (b) the Authority shall not be liable for any injury or damage to any property (of the Operator or any other Person) or to any Person occurring on or about the Garden, except to the extent caused by the Authority’s intentional or negligent act or omission. Provisions of this Agreement or the License Agreement regarding the Authority’s rights or obligations with respect to the Garden shall not impose upon the Authority any liability to Third Persons. Nothing in this Agreement shall be construed to exculpate, relieve, or Indemnify the Authority from or against any liability of the Authority: (i) to Third Persons existing on or before the Effective Date; or (ii) arising from the Authority’s wrongful intentional act or negligence.

13.4 Strict Liability. The indemnification obligations of the Operator under this Agreement shall apply regardless of whether liability without fault or strict liability is imposed or sought to be imposed on one or more of the Authority Parties.

13.5 Independent of Insurance Obligations. The Operator’s indemnification obligations under this Agreement shall not be construed or interpreted as in any way restricting, limiting, or modifying the Operator’s insurance or other obligations under this Agreement and is independent of the Operator’s insurance and other obligations under this Agreement. The Operator’s compliance with its insurance obligations and other obligations under this Agreement shall not in any way restrict, limit, or modify the Operator’s
indemnification obligations under this Agreement and are independent of the Operator’s
indemnification and other obligations under this Agreement.

13.6 **Survival of Indemnification and Defense Obligations.** The indemnification and
defense obligations of the Operator under this Agreement shall survive the expiration or earlier
termination of this Agreement, until all claims against any of the Authority Parties involving any
of the indemnified matters are fully, finally, and absolutely and completely barred by the
applicable statutes of limitations.

14. **INSURANCE**

14.1 **Operator to Insure.** The Operator shall, during the Term, maintain the following
insurance (or its then reasonably available equivalent): (a) Property Insurance; (b) Liability
Insurance; (c) Automobile Liability Insurance; (d) Worker’s Compensation Insurance; and (e)
Director and Officers Insurance.

14.2 **Nature of Insurance Program.** All Property Insurance and Liability Insurance
policies this Agreement requires will be procured by the Operator through GCCCD or otherwise
shall be issued by carriers that: (a) are listed in the then current “Best’s Key Rating Guide-
Property/Casualty-United States & Canada” publication (or its equivalent, if such
publication ceases to be published) with a minimum financial strength rating and a minimum
financial s i z e c a t e g o r y equivalent to that of GCCCD; and (b) are admitted to do business
in the State by the State Department of Insurance. The Operator may provide any Property
Insurance or Liability Insurance coverage under a “blanket” or “umbrella” insurance policy,
provided that: (i) such policy specifies the amount(s) of the total insurance allocated to the
Garden, which amount(s) shall, when combined with the underlying policy liability limits, equal
or exceed the amount(s) required by this Agreement and shall not be reduced for claims made for
other properties; and (ii) such policy otherwise complies with this Agreement.

14.3 **Policy Requirements and Endorsements.** All insurance policies this Agreement
requires shall contain (by endorsement or other policy provision) the following provisions:

14.3.1 Insured. Liability Insurance policies shall name both the Authority and
the GCCCD as an “additional insured.” Property Insurance policies shall name both the
Authority and the GCCCD as loss payee, as their respective interests may appear.
Notwithstanding anything to the contrary in this Section 14.3.1, all Property Insurance
Proceeds shall be paid and applied as this Agreement provides.

14.3.2 **Primary Coverage.** All policies shall be w r i t t e n as primary policies,
not contributing to or in excess of any coverage that the Authority may carry.

14.3.3 **Contractual Liability.** Liability Insurance policies shall contain
contractual liability coverage, for the Operator’s indemnity obligations under this Agreement.
The Operator’s obtaining or failure to obtain such contractual liability coverage shall not relieve
the Operator from nor satisfy any indemnity obligation of the Operator under this Agreement.

14.3.4 **Notice to the Authority.** Each insurance policy shall require the carrier
to give the Authority no less than thirty (30) calendar days’ advance written notice of any
cancellation, non-renewal, material change in coverage or available limits of liability under
any insurance policy required by this Agreement; provided, however, only ten (10) calendar days’ advance written notice shall be required for cancellation of any insurance policy for non-payment of the premium.

14.4 Deliveries to the Authority. On the Effective Date, and no later than twenty (20) days before any Liability Insurance, Automobile Liability Insurance or Property Insurance expires, is cancelled or its liability limits are materially reduced or exhausted, the Operator shall deliver to the Authority policies of insurance evidencing the Operator’s maintenance of all Liability Insurance, Automobile Liability Insurance and Property Insurance this Agreement requires, in each case providing coverage for, at least, twelve (12) months from the date delivered.

14.5 Waiver of Certain Claims. Policies of Liability Insurance or Property Insurance shall include a Waiver of Subrogation, by endorsement or other policy provision. The Parties release each other, and their respective authorized representatives, from any claims for damage to any Person or property that are caused by or result from risks insured against under such insurance policies.

14.6 No Representation. Neither Party makes any representation that the limits, scope, nor are forms of insurance coverage this Agreement requires adequate or sufficient.

15. CASUALTY

15.1 Notice. If either Party becomes aware of any Casualty, such Party shall promptly Notify the other Party.

15.2 Effect of Casualty. If any Casualty occurs, then: (a) this Agreement shall not terminate or be impaired; and (b) the Operator shall Restore with reasonable promptness regardless of cost. If, however, the Casualty is a Substantial Casualty, then the Operator may, by Notice to the Authority, given within thirty (30) days after the occurrence of the Casualty, terminate this Agreement effective sixty (60) days after such Notice, provided that the Operator assigns to the Authority all of the Operator’s right, title and interest in and to any Property Insurance Proceeds (and rights thereto) arising from the Casualty.

15.3 Obligation to Restore. If the Operator does not timely elect to terminate this Agreement or is required to Restore the Garden Improvements pursuant to this Agreement, the Operator shall immediately deposit with the Authority either an amount equal to the deficiency in insurance proceeds actually available for Restoration and the cost of Restoration, or security reasonably satisfactory to the Authority for such deficiency. If the Operator is required or elects to Restore, the Operator shall, as soon as is reasonable under the circumstances, commence and continue thereafter diligently and without interruption, at the Operator’s sole cost and expense (but the Operator may use any insurance proceeds available for such purpose), Restore the Garden Improvements as nearly as possible to the condition they were in immediately prior to the Casualty, or with such changes or alterations as may be approved by the Authority.

15.4 Adjustment of Claims; Use of Property Insurance Proceeds. Unless the Operator has validly elected a Casualty Termination, the Operator shall have the sole right and authority to adjust any insurance claim. Property Insurance Proceeds shall be disbursed to the Operator, to
be held in trust for the benefit of the Authority, and released by the Operator in installments based on progress of completion of work of Restoration.

16. ASSIGNMENT. The Operator may not assign this Agreement, without the Authority’s prior written consent, which may be given or withheld in the Authority’s sole and absolute discretion. Any approved assignee of the Operator shall assume all obligations and liabilities of the Operator under this Agreement in a writing reasonably satisfactory to the Authority, on the effective date of any such assignment. After the Operator assigns this Agreement and the assignee assumes the Operator’s obligations under this Agreement, in accordance with this Agreement, the assignor shall have no obligation or liability under this Agreement, except: (a) any obligation to hold and apply Restoration Funds held by the assignor at the date of the assignment (unless transferred to the assignee in a form acceptable to the Authority); and (b) any unperformed obligations that arose before the assignment (unless assumed in writing by the assignee in a form acceptable to the Authority). If the Operator assigns this Agreement, then as between the Authority and the Operator, the Operator shall be deemed to have assigned to the assignee all claims against the Authority then existing, and the assignee shall be deemed, by assuming this Agreement, to have assumed all liabilities and obligations of the Operator then existing or thereafter arising under this Agreement (except as this Agreement otherwise expressly states).

17. AUTHORITY AND GCCCD ACCESS TO GARDEN. Notwithstanding anything to the contrary in this Agreement, the Authority, its agents, representatives or designees may enter the Garden to: (a) ascertain whether the Operator is complying with this Agreement; (b) cure the Operator’s Defaults; (c) inspect the Garden; or (d) perform such tests, borings, and other analyses as the Authority determines may be necessary or appropriate relating to (non)compliance with any Law or possible Hazardous Substances Discharge. In addition, the GCCCD shall retain all rights of access to the Garden reserved to it in the License Agreement. In entering the Garden, the Authority or its designees shall not unreasonably interfere with operation of the Garden.

18. NO PROPERTY ESTATE OR INTEREST CONVEYED. Notwithstanding any provision of this Agreement to the contrary, the Parties do not intend to convey any interest or estate in real or personal property between them and nothing in this Agreement shall be construed or interpreted as a grant of any interest or estate in any property, except to the extent that Operator agrees to assignment of rights in License Agreement, which provides that property of Authority shall go to Operator in the event of Authority dissolution. If this Agreement or any provision of this Agreement is construed or interpreted by a court of competent jurisdiction as conveying an estate or interest in property between the Parties (excepting FF&E on the Expiration Date), then any Party not then in Default of this Agreement may, in such Party’s sole and absolute discretion, terminate this Agreement, without liability to the other Party or any other person for such termination, by delivering Notice of termination to the other Party within thirty (30) calendar days following notice of such court determination. Without limiting the right of either Party to terminate this Agreement, pursuant to the immediately preceding sentence, if neither Party has exercised its contractual right to terminate this Agreement within thirty (30) calendar days following notice of such court determination, then upon the expiration of such thirty (30) calendar day period, the Parties’ respective rights to terminate this Agreement pursuant to this Section 18 shall be extinguished.

19. EVENTS OF DEFAULT; REMEDIES
19.1 Definition of “Event of Default.” An “Event of Default” means the occurrence of any one or more of the following:

19.1.1 Monetary Default. If a Monetary Default occurs and continues for ten (10) calendar days after Notice from the Authority, specifying in reasonable detail the amount of money not paid and the nature and calculation of each such payment.

19.1.2 Prohibited Liens. If the Operator fails to cause any Prohibited Lien to be released within fifteen (15) calendar days after Notice from the Authority of such lien.

19.1.3 Bankruptcy or Insolvency. If the Operator ceases to do business as a going concern, ceases to pay its debts as they become due or admits in writing that it is unable to pay its debts as they become due, or becomes subject to any Bankruptcy Proceeding (except an involuntary Bankruptcy Proceeding dismissed within sixty (60) calendar days after commencement), or a custodian or trustee is appointed to take possession of, or an attachment, execution or other judicial seizure is made with respect to, substantially all of the Operator’s assets or the Operator’s interest in this Agreement (unless such appointment, attachment, execution, or other seizure was involuntary and is contested with diligence and continuity and vacated and discharged within sixty (60) calendar days).

19.1.4 Non-Monetary Default. If any Non-Monetary Default, other than those addressed in Sections 19.1.2 and 19.1.3, occurs and the Operator does not cure such Non-Monetary Default within thirty (30) calendar days after Notice from the Authority describing the Default in reasonable detail, or, in the case of a Non-Monetary Default that cannot with reasonable due diligence be cured within thirty (30) calendar days from such Notice, if the Operator shall not: (i) within thirty (30) calendar days after the Authority’s Notice, advise the Authority of the Operator’s intention to take all reasonable steps to cure such Non-Monetary Default; (ii) duly commence such cure within such period, and then diligently prosecute such cure to completion; and (iii) complete such cure within a reasonable time under the circumstances.

19.2 Remedies. If an Event of Default occurs, then the Authority shall, in the Authority’s sole discretion, have any or all of the following described remedies, all cumulative (so exercise of one remedy shall not preclude exercise of another remedy), in addition to such other remedies as may be available at Law or in equity or under any other terms of this Agreement. The Authority’s remedies shall include:

19.2.1 Termination of Agreement. Either Party may initiate termination of this Agreement if the other party fails to act in good faith under this Agreement and/or breaches any of the terms herein. To initiate termination, either party may provide the other with a Notice of Intent to Terminate or by any other lawful means. Within thirty (30) days of delivery and receipt of such Notice, either party may elect for the parties to proceed to mediation with a mutually agreed upon mediator. The cost of mediation will be equally divided by the parties. If no request for mediation is made by either party within thirty (30) days, the Agreement shall terminate immediately. If the parties participate in mediation and at the completion of such mediation either party still seeks to terminate the Agreement, the Agreement shall terminate immediately. Upon termination of the Agreement, such date of termination shall be the Expiration Date, and the Operator shall immediately vacate the Garden. Additionally, the either Party may bring an
action to recover any amount necessary to compensate itself for all detriment proximately caused by the other Party’s failure to perform their obligations under this Agreement.

19.2.2 Receipt of Moneys. No receipt of money by the Authority from the Operator after Notice of Default, the Expiration Date, or the giving of any Notice of termination of this Agreement, shall reinstate, continue, or extend this Agreement or affect any Notice previously given to the Operator, or waive the Authority’s right to enforce payment of any amount payable or later falling due, or the Authority’s right to enter the Garden, except as this Agreement expressly states otherwise, it being agreed that after service of Notice of Default or Notice of termination of this Agreement or the commencement of suit or proceedings, or after final order or judgment, the Authority may demand, receive, and collect any moneys due or thereafter falling due, without in any manner affecting any such Notice, proceeding, order, suit or judgment, all such moneys collected being deemed payments on account of use of the Garden or, at the Authority’s election, on account of the Operator’s liability to the Authority.

19.2.3 No Waiver. No failure by the Authority to insist upon strict performance of any covenant, agreement, term or condition of this Agreement or to exercise any right or remedy upon a Default, and no acceptance of full or partial payment during continuance of any such Default, shall waive any such Default or such covenant, agreement, term or condition. No covenant, agreement, term or condition of this Agreement to be performed or complied with by the Operator, and no Default, shall be Modified, except by a written instrument executed by the Authority. No waiver of any default shall modify this Agreement. Each and every covenant, agreement, term and condition of this Agreement shall continue in full force and effect with respect to any other then-existing or subsequent Default of such covenant, agreement, term or condition of this Agreement.

19.2.4 Security Devices. The Authority may change the locks and other security devices providing admittance to the Garden.

19.2.5 Damages. Subject to Section 26.2, the Authority may recover from the Operator all damages the Authority incurs by reason of the Operator’s Default, including reasonable costs of removing the Operator’s personnel or property from the Garden, and any and all other damages legally recoverable by the Authority, and reimbursement of the Authority’s reasonable out of pocket costs. The Authority may recover such damages at any time after the Operator’s Default, including after the Expiration Date.

19.2.6 Injunction of Breaches. Whether or not an Event of Default has occurred, the Authority may obtain a court order enjoining the Operator from continuing any Default or from committing any threatened Default. The Operator specifically and expressly acknowledges that damages would not constitute an adequate remedy to the Authority for any Non-Monetary Default.

19.2.7 Continue Agreement. The Authority may, in the Authority’s sole discretion, maintain the Operator’s right to operate the Garden pursuant to this Agreement. In that case, this Agreement shall continue and the Authority may continue to enforce it.

19.2.8 Restoration Funds. Upon any termination of this Agreement, to the extent that the Authority then holds any Restoration Funds, they shall be the sole property of the Authority and may be applied solely as the Authority directs.
19.3  **Authority’s Right to Cure.** 30 days after a request to Operator by Authority to cure Operator’s Default under this Agreement, the Authority, without waiving or releasing the Operator from any obligation or Default and without waiving the Authority’s right to take such action as this Agreement may permit as a result of such Default, may (but need not) make any payment or take any action on behalf of the Operator to cure any Default of the Operator. The Operator shall reimburse the Authority for an amount equal to all reasonable sums paid, and reasonable costs and expenses incurred, by the Authority in exercising its cure rights under this Section 19.3. Pursuant to paragraph 17, the Authority may enter the Garden to cure said Default.

19.4  **Failure to Vacate.** If for any reason or no reason the Operator does not vacate the Garden (removal of all of the Operator’s personnel and property) on or before the Expiration Date, then the Authority will suffer injury that is substantial, difficult, or impossible to measure accurately. Therefore, if the Operator remains in the Garden after the Expiration Date, either by its personnel or its property or both, for any reason or no reason, then in addition to any other rights or remedies of the Authority, the Operator shall pay to the Authority, as liquidated damages and not as a penalty, for each day during which the Operator remains in the Garden after the Expiration Date, a sum equal to One Thousand Dollars ($1,000.00).

19.5  **Survival.** No entry into or onto the Garden by the Authority shall relieve the Operator of its liabilities and obligations under this Agreement, all of which shall survive such entry. Termination of this Agreement shall not relieve the Operator of any liabilities or obligations of the Operator arising under this Agreement prior to the date of termination.

20.  **END OF TERM.** Upon any Termination Date: (a) the Operator shall vacate the Garden (removal of all of the Operator’s personnel), in the condition this Agreement requires, subject to any Casualty that this Agreement does not require the Operator to Restore, and all Garden Improvements and FF&E used in the operation of the Garden shall be the sole and exclusive property of the Authority; (b) the Operator shall deliver the Garden free and clear of all claims except claims that the Authority or any of its agents caused; (c) all unspent income or other consideration due or becoming due for use of the Garden associated with unused Authority dues or fundraised specifically for maintenance of the Core Exhibits as of the Expiration Date shall be immediately transferred to the Authority; (d) all unspent income associated with educational programming, weddings, third party events or funds raised to support educational program shall remain with the Operator as of the Expiration Date; (e) all intellectual property associated with the educational programming shall remain with the Operator as the exclusive owner thereof, including but not limited to the Ms. Smarty Plants program; and (d) the Parties shall cooperate to achieve an orderly transition of operation of the Garden from the Operator to the Authority or a designee of the Authority, without interruption, including delivery of such books and records (or copies thereof) as the Authority reasonably requires.

21.  **NO INTENDED THIRD PARTY BENEFICIARIES.** This Agreement does not, and shall not be deemed or construed to, confer upon or grant to any Third Person (excepting permitted successors or assigns of the Operator or the Authority pursuant to the terms of this Agreement) any right to claim damages or to bring any suit, action or other proceeding against either the Authority or the Operator because of any breach of this Agreement or to enforce any term, covenant, condition, restriction, reservation, provision or agreement contained in this Agreement.
22. **NOTICES.** All Notices shall be in writing and addressed to the Authority or the Operator (and their designated copy recipients) as set forth in Exhibit “A.” Notices (including any required copies) shall be delivered personally or by Federal Express, United Parcel Service or other nationally or regionally recognized overnight (one business day) courier service to the addresses set forth in Exhibit “A,” in which case they shall be deemed delivered on the date of delivery (or when delivery has been attempted twice, as evidenced by the written report of the courier service) to such address(es). Either Party may change its address for delivery of Notices by Notice in compliance with this Agreement. Notice of such a change shall be effective only upon receipt. Any Party giving a Notice may request the recipient to acknowledge receipt of such Notice. The recipient shall promptly comply with any such request, but failure to do so shall not limit the effectiveness of any Notice. Any attorney may give any Notice on behalf of its client.

23. **NO BROKER.** Each Party: (a) represents and warrants that it did not engage or deal with any broker or finder in connection with this Agreement and no Person is entitled to any commission or finder’s fee on account of any agreement or arrangement made by such Party; and (b) shall indemnify the other Party against any breach of such representation.

24. **MODIFICATION.** Any Modification of this Agreement must be in writing and signed by the Party to be bound.

25. **SUCCESSIONS AND ASSIGNS.** This Agreement shall bind and benefit the Authority and the Operator and their successors and assigns, but this Section 25 shall not limit or supersede any Transfer restrictions contained in this Agreement. Nothing in this Agreement confers on any Person (except the Authority and the Operator) any right to insist upon, or to enforce against the Authority or the Operator, the performance or observance by either Party of its rights or obligations under this Agreement.

26. **MISCELLANEOUS**

26.1 **Waiver of Non-Disturbance.** Notwithstanding anything to the contrary in this Agreement, Operator expressly agrees that this Agreement shall terminate and expire in the event that the License Agreement terminates or expires during the Term. To that end, Operator expressly waives any claim of any right to non-disturbance upon expiration of the License Agreement.

26.2 **No Consequential Damages.** Whenever either Party may seek or claim damages against the other Party (whether by reason of a breach of this Agreement by such Party, in enforcement of any indemnity obligation, for misrepresentation or breach of warranty, or otherwise), neither the Authority nor the Operator shall seek, nor shall there be awarded or granted by any court, arbitrator, or other adjudicator, any speculative, consequential, collateral, special, punitive, or indirect damages, whether such breach shall be willful, knowing, intentional, deliberate, or otherwise. The Parties intend that any damages awarded to either Party shall be limited to actual, direct damages sustained by the aggrieved Party. Neither Party shall be liable for any loss of profits suffered or claimed to have been suffered by the other.

26.3 **No Waiver by Silence.** Failure of either Party to complain of any act or omission on the part of the other Party shall not be deemed a waiver by the non-complaining Party of any of its rights under this Agreement. No waiver by either Party at any time, express or
implied, of any breach of this Agreement shall waive the same such breach at another time or
any other breach.

26.4  **Survival.** All rights and obligations that by their nature are to be performed after
any termination of this Agreement shall survive any such termination.

26.5  **Unavoidable Delay.** Each Party’s obligation to perform or observe any
nonmonetary obligation under this Agreement shall be suspended during such time as such
performance or observance is prevented or delayed by Unavoidable Delay.

26.6  **Authority Contract Administration.** The Authority Representative shall
administer this Agreement on behalf of the Authority. Except as otherwise expressly provided in
this Agreement, the Authority Representative has the authority to approve or consent to those
matters in this Agreement requiring the Authority’s approval or consent and to make all other
decisions on behalf of the Authority, subject to the Authority Representative’s retained and
reserved sole and absolute discretion to seek approval of the Authority’s governing board of any
such matter. The Authority may revoke the authorization provided to the Authority
Representative in this Section 26.6, at any time, by Notice of such revocation to the Operator.

27.  **INTERPRETATION, EXECUTION, AND APPLICATION OF AGREEMENT**

27.1  **Captions.** The captions of this Agreement are for convenience and reference only
and in no way affect this Agreement.

27.2  **Counterparts.** This Agreement may be signed in counterpart originals, each of
which shall constitute an original of this Agreement and that, collectively, shall constitute one
and the same agreement.

27.3  **Entire Agreement.** This Agreement contains all of the terms, covenants,
conditions and agreements between the Parties regarding the Garden. The Parties have no other
understandings or agreements, oral or written, regarding the Garden.
27.4 Governing Law. This Agreement, its interpretation and performance, the relationship between the Parties, and any disputes arising from or relating to any of the foregoing, shall be governed, construed, interpreted, and regulated under the laws of the State of California, without regard to principles of conflicts or choice of laws.

27.5 Partial Invalidity. If any term or provision of this Agreement or its application to any Person or circumstance shall to any extent be invalid or unenforceable, then the remainder of this Agreement, or the application of such term or provision to Persons or circumstances, except those as to which it is invalid or unenforceable, shall not be affected by such invalidity. All remaining provisions of this Agreement shall be valid and be enforced to the fullest extent Law allows.

27.6 Principles of Interpretation. No inference in favor of or against any Party shall be drawn from the fact that such Party has drafted any part of this Agreement. The Parties have both participated substantially in the negotiation, drafting, and revision of this Agreement, with advice from counsel and other advisers of their own selection. A term defined in the singular in this Agreement may be used in the plural, and vice versa, all in accordance with ordinary principles of English grammar, which also govern all other language in this Agreement. The words “include” and “including” shall be construed to be followed by the words: “without limitation.” Each collective noun in this Agreement shall be interpreted as if followed by the words “(or any part of it),” except where the context clearly requires otherwise. Every reference to any document, including this Agreement, refers to such document as Modified from time to time (except any Modification that violates this Agreement), and includes all exhibits, schedules, and riders to such document. The word “or” includes the word “and.”

27.7 Reasonableness. Wherever this Agreement states that a Party’s approval shall be “reasonable” or not unreasonably withheld: (a) such approval shall not be unreasonably delayed or conditioned; (b) no withholding of approval shall be deemed reasonable, unless withheld by Notice specifying reasonable grounds, in reasonable detail, for such withholding, and indicating specific reasonable changes in the proposal under consideration that would make it acceptable; and (c) if a Party grants its consent to any matter, this shall not waive its rights to require such consent for any further or similar matter.

27.8 Time of Essence. Time is of the essence with respect to the performance of each term, provision, covenant or agreement contained in this Agreement.

27.9 Exhibits. All of the exhibits attached to this Agreement are as follows and are incorporated into this Agreement by reference:

Exhibit “A” = Notice Addresses
Exhibit “B” = Form of Operator Official Action
Exhibit “C” = License Agreement
Exhibit “D” = Operation and Maintenance Obligations

[Signatures on next page]
SIGNATURE PAGE
TO
AMENDED AND RESTATED
WATER CONSERVATION GARDEN OPERATION AGREEMENT

IN WITNESS WHEREOF, the Authority and the Operator have signed this Agreement by and through the signatures of their authorized representatives set forth below:

AUTHORITY:
WATER CONSERVATION AUTHORITY, a California joint powers authority

By: ___________________________
   Board President

OPERATOR:
FRIENDS OF THE WATER CONSERVATION GARDEN, a California nonprofit public benefit corporation

By: ___________________________
   Name: _______________________
   Title: ________________________

ATTEST:

By: ___________________________
   Board Secretary

By: ___________________________
   Name: _______________________
   Title: ________________________

APPROVED AS TO FORM:

Best Best & Krieger LLP

By: ___________________________
   Authority General Counsel

ACKNOWLEDGEMENT AND CONSENT TO ASSIGNMENT OF RIGHTS UNDER LICENSE AGREEMENT

The undersigned hereby acknowledges and consents to the assignment of rights and obligations by the Authority to the Operator under the License Agreement pursuant to the terms and conditions of this Agreement.

GROSSMONT-CUYAMACA COMMUNITY COLLEGE DISTRICT, a California community college district:

By: ___________________________
   Name: _______________________
   Title: ________________________
## EXHIBIT “A”

### NOTICE ADDRESSES

<table>
<thead>
<tr>
<th>Party</th>
<th>Notice Address</th>
<th>With a copy to</th>
</tr>
</thead>
</table>
| Authority      | Water Conservation Authority
12122 Cuyamaca College Drive West
El Cajon, CA 92019
Attention: Executive Director | Best Best & Krieger LLP
655 West Broadway
15th Floor
San Diego, California 92101
Attention: Paula C.P. de Sousa |
| Operator       | Friends of Water Conservation Garden        |                                                    |
EXHIBIT “B”

FORM OF OPERATOR OFFICIAL ACTION

[Attached behind this cover page]
RESOLUTION OF THE BOARD OF DIRECTORS OF
FRIENDS OF THE WATER CONSERVATION GARDEN,
A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION

At a meeting of the board of directors of Friends of the Water Conservation Garden, a California nonprofit public benefit corporation (the “Corporation”), duly held on ____________, 20__, at which meeting all of the directors of the Corporation were in attendance, the following resolutions were unanimously adopted:

WHEREAS, the Corporation is about to enter into that certain Amended and Restated Water Conservation Garden Operation Agreement with the Water Conservation Authority, a California joint powers authority (“the Authority”), dated as of ______________, 20___ (the “Agreement”), to maintain and operate certain real property and improvements specifically described in the Agreement (the “Garden”); and

WHEREAS, the Board of Directors of the Corporation has reviewed the Agreement and all documents executed or to be executed in connection with the Agreement and considers the transaction to be in the best interest of the Corporation.

NOW, THEREFORE, BE IT RESOLVED that the Corporation execute the Agreement and all documents previously presented to, reviewed, and approved by the Board of Directors of the Corporation.

RESOLVED, FURTHER, that the following officers of the Corporation acting alone be, and they hereby are, authorized, empowered, and directed on behalf of the Corporation to execute and deliver the Agreement and all other documents to be executed in connection with it, and to take all actions that may be necessary to exercise the Corporation’s rights and perform the Corporation’s obligations under the Agreement and any such other documents:

President
[Name]
Secretary
[Name]

The authority conferred by this Resolution shall be considered retroactive and any and all acts authorized in this Resolution that were performed before the passage of this Resolution are hereby approved and ratified by the Corporation. The authority conferred by this Resolution shall continue in full force and effect until the Authority shall have received notice in writing, certified by the Secretary of the Corporation, of the revocation of this authority by a separate resolution duly adopted by the Board of Directors of the Corporation.

The undersigned, ______________________________, Secretary of the Corporation, certifies that the foregoing is a true copy of the Resolution duly adopted by the Board of Directors of the Corporation at a meeting held on ______________, 20__.

IN TESTIMONY WHEREOF, I have executed this Resolution and affixed the corporate seal of the Corporation, as of ______________, 20__.

Date:

[Seal]

Name

Secretary
September 23, 2017

EXHIBIT “C”

LICENSE AGREEMENT

[Attached behind this cover page]
LICENSE AGREEMENT FOR
OPERATION OF A WATER CONSERVATION GARDEN

THIS AGREEMENT is made and entered into this First day of August, 2006, by and between the GROSSMONT-CUYAMACA COMMUNITY COLLEGE DISTRICT, on behalf of CUYAMACA COLLEGE (hereinafter, "the District"), and the WATER CONSERVATION GARDEN AUTHORITY, a Joint Powers Agency formed pursuant to Government Code section 6500 (hereinafter, "the Authority"), with reference to the following facts:

A. The parties have previously entered into an Agreement dated April 6, 1993, for the establishment of a Water Conservation Garden at Cuyamaca College for public educational purposes and to assist in reducing the demand for imported water in the San Diego region. Pursuant to that Agreement, the Authority has operated a Water Conservation Garden at Cuyamaca College since 1999.

NOW, THEREFORE, the parties hereby agree as follows:

1. LICENSE TO USE LAND. The District hereby grants to the Authority the right to use the approximate 4.28-acre portion of the Cuyamaca College campus, commonly known as the existing Water Conservation Garden and located at 12122 Cuyamaca College Drive West, El Cajon, California (more particularly described in Exhibits A and B attached hereto and incorporated by this reference herein), for purposes of operating a water conservation demonstration garden for public educational purposes.

2. LICENSE TO USE ADDITIONAL PARCELS OF LAND. The District hereby grants to the Authority the right to use the approximate .20-acre portion of the Cuyamaca College campus, commonly known as the Future Parcel "A" located at 12122 Cuyamaca College Drive West, El Cajon, California (more particularly described in Exhibits A and B attached...
hereto and incorporated by this reference herein), subject to the District and the Authority signing an agreement defining the terms and conditions for the use of the future parcel. Additionally, the District hereby grants to the Authority the right to use the approximate 0.37-acre portion of the Cuyamaca College campus, commonly known as the Future Parcel "B" located at 2122 Cuyamaca College Drive West, El Cajon, California (more particularly described in Exhibits A and B attached hereto and incorporated by this reference herein), subject to the District and the Authority signing an agreement defining the terms and conditions for the use of the future parcel.

3. TERM. The term of this Agreement shall be from August 1, 2006 to and including July 31, 2033. This Agreement may be renewed for an additional ten-year period by mutual agreement of the parties. This Agreement shall supersede all previous agreements between the parties hereto, provided that it shall not supersede the Joint Powers Agreement Creating the Water Conservation Authority.

4. OPERATION AND MAINTENANCE. The Authority shall operate the Garden and shall make it accessible for visitation by members of the general public for a reasonable number of hours each week. The Authority will maintain the Garden on a continuing basis at a level consistent with its condition at the time of execution of this License Agreement. In the event that the Authority fails to adequately maintain the Garden at such level, or fails to use and maintain the land for a demonstration garden, the District may give written notice of default of this obligation. If the default is not remedied within sixty (60) days, from the date such notice is delivered, the District may then elect to terminate this Agreement without any further obligation to the Authority. Operation and maintenance of the Garden shall be at no cost to the District, and Authority shall pay for all required utilities.

5. INSURANCE. The District shall obtain and keep in force a policy of Commercial General Liability Insurance, Automobile Liability Insurance and Property Insurance in amounts acceptable to Authority insuring the District and naming the Authority as additional insured. The District shall also obtain and keep in force a policy of Workers' Compensation Insurance covering District's employees.
Authority will obtain and keep in force Comprehensive Commercial General Liability
and Automobile Insurance, in an amount of $1,000,000 per occurrence, $1,000,000 aggregate,
and additional Property and Casualty Insurance covering the Authority and the Garden naming
the District as additional insured. The Authority shall also obtain and keep in force a policy of
Workers' Compensation Insurance covering Authority's employees.

6. INDEMNIFICATION. The District agrees to protect, save, defend and hold
harmless the Authority and its agents, officers and employees from any and all claims, liabilities,
expenses or damages of any nature, including attorneys’ fees, for injury or death of any person,
or damage to property, or interference with use of property, arising out of or in any way
connected with District's use of the Garden, including negligent acts, errors or omissions or
willful misconduct by the District, District's agents, officers, or employees. The only exception
to the District's responsibility to protect, save, defend and hold harmless the Authority is for those
claims arising from the sole negligence, willful misconduct or active negligence of the Authority.

The Authority agrees to protect, save, defend and hold harmless the District and its
Governing Board members, agents, officers and employees from any and all claims, liabilities,
expenses or damages of any nature, including attorneys' fees, for injury or death of any person,
damage to property, or interference with use of property, arising out of its use of the licensed
property. The only exception to the Authority's responsibility to protect, save, defend and hold
harmless the District is for those claims arising from the sole negligence, willful misconduct or
active negligence of the District.

7. APPLICATION OF HOLD HARMLESS CLAUSES. The hold harmless
provisions set forth in Section 5 shall apply to all liability regardless of whether any insurance
policies are applicable. The policy limits do not act as a limitation on the amount of
indemnification to be provided by either party.

8. ALCOHOLIC BEVERAGES. Both parties understand that California law
generally prohibits the possession or use of alcoholic beverages on a community college campus
except under certain specified conditions. The Authority agrees that it shall not allow alcoholic
beverages to be brought into or consumed in the Garden, except under the conditions set forth in Business and Professions Code section 25608. The parties recognize that legislation has been introduced that would allow alcoholic beverages to be served in the Garden; if such legislation is enacted into law, the parties agree to be governed by the law as amended by the legislation.

9. WATER GARDEN EMPLOYEES. The Authority shall be responsible for the hiring, retention, discipline, and termination of the Garden employees.

10. DISTRICT’S RIGHT TO USE THE GARDEN. The District shall have the right to utilize the Garden at reasonable times for District and College events and for College classes. Prior arrangements for such use shall be made with the Executive Director of the Garden.

11. OBLIGATIONS UPON TERMINATION. Upon expiration or termination of this Agreement for any reason, the Authority will leave the Water Conservation Garden in its then-current condition on the date of expiration, and any remaining improvements and equipment shall become the property of the District.

12. NOTICES. All notices permitted or required under this Agreement shall be given to the respective parties at the following address, or such other address as the respective parties may provide in writing for this purpose:

The District: Vice Chancellor, Business Services
Grossmont-Cuyamaca Community College District
8800 Grossmont College Drive
El Cajon, California 92020

The Authority: Executive Director
Water Conservation Garden
12122 Cuyamaca College Drive West
El Cajon, CA 92019

13. SUCCESSORS AND ASSIGNS. This Agreement shall be binding on the successors and assigns of the party and shall not be assigned by either party without the prior written consent of the other party.
14. GOVERNING LAW. This Agreement shall be governed by the laws of the State of California. Any action brought to enforce the terms of this Agreement shall be brought in a state or federal court located in the County of San Diego, State of California.

15. SEVERABILITY. If any section, subsection, sentence, clause, or phrase of this Agreement or the application thereof to any of the parties is for any reason held invalid or unenforceable, the validity of the remainder of the Agreement shall not be affected thereby and may be enforced by the parties to this Agreement.

16. AMENDMENTS. This Agreement may not be amended except by a writing signed by the District and the Authority.

17. INTERPRETATION. In interpreting this Agreement, it shall be deemed that it was prepared jointly by the parties with full access to legal counsel of their own. No ambiguity shall be resolved against any party on the premise that it or its attorneys were solely responsible for drafting this Agreement or any provision thereof.

18. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior negotiations, understandings, or agreements.

WATER CONSERVATION GARDEN
AUTHORITY

GROSSMONT-CVYAMACA COMMUNITY
COLLEGE DISTRICT

By: ___________________________ By: ___________________________

[Signature]

President
WATER CONSERVATION GARDEN
AUTHORITY

VP:

WATER CONSERVATION GARDEN
AUTHORITY

Approved by the Board of Directors on
July 12, 2006

Approved by the Board of Trustees on
EXHIBIT 'A'

LEGAL DESCRIPTION

WATER GARDEN PARCEL

EXISTING PARCEL

Those portions of Tract "E," and Tract "F" of RANCHO JAMACHA in the County of San Diego, State of California, according to Partition Map thereof, filed in the Office of the County Clerk of San Diego County, Case No. 13, Superior Court, Entitled William M. Keighler, Et Al, VS. Mary H Eddy, Et Al, Being more particularly described as follows:

Commencing at a 2" pipe with disk stamped WRCE 13782", marking a point on the Northerly line of County of San Diego Tract 4032-4, according to Map thereof No 11285 in the County of San Diego, State of California, filed in the Office of the County Recorder July 11, 1985 as File No. 85-247463 of Official Records, said 2" pipe bears North 58°23'07" East, 928.98 feet (North 57°54'39" East, 928.52) from a 2" pipe with disk stamped "RCE 13782, also marking a point on the Northerly line of said Map No. 11285; thence retracing along said Northerly line South 58°23'07" West, 346.14 feet to a point of intersection with the Northeasterly right-of-way of Cuyamaca College Drive West (60 feet wide), said intersection being the TRUE POINT OF BEGINNING; thence North 31°36'10" West, 150.35 feet; thence South 58°23'50" West, 36.89 feet to the beginning of a non tangent curve concave Southerly having a radius of 240.00 feet and to which a radial bears North 19°50'25" East; thence Westerly 78.97 feet along said curve through a central angle of 18°51'11"; thence North 40°34'04" West, 5.58 feet; thence South 82°24'56" West, 138.87 feet to a point herein designated as Point 'A'; thence North 03°22'30" West, 67.95 feet; thence North 75°27'37" East, 66.50 feet; thence West 82°15'22" East, 21.09 feet to the beginning of a non tangent curve concave Northwesterly having a radius of 200.93 feet and to which a radial bears North 80°51'46" West, 15.06 feet; thence North 82°15'22" East, 21.09 feet to the beginning of a non tangent curve concave Southwesterly having a radius of 166.50 feet and to which a radial bears South 89°03'30" East; thence Northwesterly 233.40 feet along said curve through a central angle of 80°18'59"; thence South 58°11'04" West, 11.19 feet; thence North 87°14'33" West, 13.10 feet; thence North 39°29'11" West, 12.06 feet to the beginning of a non tangent curve concave Northeastwardly having a radius of 42°49'54"; thence North 42°57'41" West, 34.59 feet; thence South 84°24'56" West, 57.59 feet to a point herein designated as Point 'B'; thence North 41°21'32" East, 92.86 feet; thence South 04°12'25" West, 66.14 feet; thence South 06°55'30" West, 23.80 feet; thence South 86°54'9" East, 44.08 feet; thence South 42°24'51" East, 66.14 feet; thence South 03°31'01" West, 87.49 feet to a point on the Northerly line of said Map No. 11285; thence along said Northerly line South 58°23'07" West, 256.54 feet to the TRUE POINT OF BEGINNING.
EXHIBIT 'A'

TOGETHER WITH: (PROPOSED PARCEL "A")

BEGINNING at the hereinabove described Point 'A'; thence South 72°57'56" West, 30.28 feet to the beginning of a non tangent curve concave Northeasterly having a radius of 245.00 feet to which a radial bears South 03°36'02" East; thence Westerly 108.59 feet along said curve through a central angle of 25°23'38" to the beginning of a compound curve concave Northeasterly having a radius of 20.00 feet to which a radial bears South 21°47'36" West; thence Northwesterly 23.88 feet along said curve through a central angle of 68°24'15"; thence North 00°11'Sl'' East, 19.14 feet to a point herein referenced at Point 'C', said point also being the beginning of a curve concave Southeasterly having a radius of 10.00 feet; thence Northeasterly 13.58 feet along said curve through a central angle of 77°48'05"; thence North 77°59'56" East, 38.33 feet; thence South 63°21'1" East, 18.77 feet; thence North 88°18'34" East., 37.29 feet; thence North 75°27'37" East, 45.81 feet; thence South 03°22'30" East, 67.95 feet to the point of BEGINNING.

TOGETHER WITH: (PROPOSED PARCEL "B")

BEGINNING at the hereinabove described Point 'B'; thence South 41°21'32" East, 92.86 feet; thence South 06°55'30" West, 23.80 feet; thence South 86°54'19" East, 44.08 feet; thence South 42°24'51" West, 66.14 feet; thence North 40°21'20" East, 94.57 feet; thence North 61°39'21" West, 65.11 feet; thence North 47°25'43" West, 101.29 feet; thence North 71°24'33" West, 25.56 feet; thence South 84°06'49" West, 19.79 feet; thence South 44°32'14" West, 46.41 feet to the point of BEGINNING.

Containing 211,796 or 4.86 Acres.

All as shown on map attached herewith and made a part hereof.

Prepared By: Nolle Associates, Inc.

Paul G. Robotta Date
L. S. 5334

Page 2 of 5
NOTE:
EXHIBIT D

OPERATION AND MAINTENANCE COSTS

[ATTACHED BEHIND COVER PAGE]
On-going Operations and Maintenance Costs – Operator Responsibility paid from Authority’s Annual Contribution

1. Horticulture staff and benefits
2. Maintenance and supplies
   a. Irrigation
   b. Exhibit maintenance
   c. Plants (includes annuals, perennials, and box trees as necessary)
   d. Tools
3. Percentage of Utilities

Deferred Maintenance Costs – Authority Responsibility: paid from Annual Contribution
Deferred Maintenance set aside (see Section 7.3.2) over 5 years

1. Core Exhibit Repair
2. DG pathway stabilizer
3. Fence painting
4. Irrigation upgrade
5. Outside light bulbs (street lamps)
6. Upgrade electrical in plaza and replace GFR throughout Garden
7. Wall re-stucco and painting all buildings

Deferred Maintenance Costs – Operator Responsibility: Paid from Annual Contribution and other funds raised by Operator

1. Amphitheater Bench Repair
2. Meeting Room Carpet
3. Parking Lot Asphalt Sealer
4. Path Edging
5. Water Feature Pumps

Deferred Maintenance Costs – shared responsibility

1. Mature Tree and Shrub Replacement
<table>
<thead>
<tr>
<th>Changes</th>
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</thead>
<tbody>
<tr>
<td>Add</td>
<td>28</td>
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<tr>
<td>Delete</td>
<td>30</td>
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<tr>
<td>Move From</td>
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</tr>
<tr>
<td>Move To</td>
<td>0</td>
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<tr>
<td>Table Insert</td>
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</tr>
<tr>
<td>Table moves from</td>
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</tr>
<tr>
<td>Embedded Graphics (Visio, ChemDraw, Images etc.)</td>
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</tr>
<tr>
<td>Embedded Excel</td>
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<td>Format changes</td>
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<td><strong>Total Changes:</strong></td>
<td><strong>58</strong></td>
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</table>
November 29, 2017

Attention: Water Planning Committee

Update on water supply conditions and drought response activities (Presentation)

Purpose
To provide a report on current water supply conditions and outlook for the 2017-2018 winter.

Background
Water year 2017 ended September 30, 2017 and was recorded as one of the wettest for the state – with the Northern Sierra 8-Station Index reaching a new record of 94.7 inches of precipitation for northern California. Snowpack levels for the Northern Sierra region totaled 199 percent of normal and the entire Sierra Nevada region reached 192 percent of normal. Water year 2017 runoff in the Sacramento River amounted to 38 million acre-feet, or 213 percent of average runoff, and the San Joaquin River recorded almost 18 million acre-feet of runoff, or 258 percent of average.

As a result of dramatically improved supply conditions, on April 26, 2017 the State Water Resources Control Board (Water Board) repealed its emergency conservation regulation for almost the entire state of California, excluding the counties of Fresno, Kings, Tulare and Tuolumne. However, the Water Board left in place temporary regulation requiring monthly water use reporting requirements and prohibition of wasteful water use. On November 7, 2017, the Water Board stated it would repeal all remaining temporary regulation requirements effective November 25, 2017. Currently the Water Board is conducting a regulatory rulemaking process to adopt permanent water waste prohibitions in response to Governor Brown’s Executive Order B-37-16 - Making Water Conservation a California Way of Life. The requirement for continued monthly reporting is currently included in proposed water use efficiency legislation for consideration in the 2017/2018 legislative session.

Discussion
On November 9, 2017, the U.S. Climate Prediction Center (CPC) issued a La Niña Advisory indicating that for the fall and winter 2017-2018 a weak La Niña is favored in the Northern Hemisphere due to cooler than normal eastern and central equatorial Pacific Ocean temperatures. The advisory projects a 65-75% chance of La Niña conditions this winter, which may result in drier than normal conditions across the American Southwest, including Southern California.

State Water Project
October 2017, the first month of water year 2018, was dry in the northern Sierra Nevada, with no recorded precipitation. On average, October rainfall in this region totals roughly 3 three inches of rain. In November 2017, a series of storms including an “atmospheric river” boosted rainfall totals in northern California. As of November 27, 2017, the Northern Sierra 8-Station Index totaled 11.8 inches of precipitation or 134% normal for this date.
The November “atmospheric river” event registered 3 inches of rainfall in a single day and resulted in moderate snowfall - with the Mammoth Mountain ski resort reporting 22 inches of snow. Official California Department of Water Resources (DWR) snowpack measurements will commence in December 2017.

Table 1 shows storage levels for Lake Oroville and San Luis Reservoir as of November 26, 2017.

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Storage in Million Acre-Feet</th>
<th>Percent of Capacity</th>
<th>Percent of Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oroville</td>
<td>1.255</td>
<td>35%</td>
<td>59%</td>
</tr>
<tr>
<td>San Luis*</td>
<td>1.489</td>
<td>73%</td>
<td>124%</td>
</tr>
<tr>
<td><strong>Combined</strong></td>
<td><strong>2.744</strong></td>
<td><strong>49%</strong></td>
<td><strong>82%</strong></td>
</tr>
</tbody>
</table>

*San Luis storage includes SWP and Central Valley Project. SWP share in San Luis was approximately 707 thousand acre-feet.

Storage in Lake Oroville has remained below average since April 2017 due to significant repair work to fix major damage to its main and emergency spillways sustained in late February 2017 from flood control due to heavy rainfall. DWR announced on November 1, 2017 that it had completed reconstruction of the main spillway, to accommodate flows of up to 100,000 cubic feet per second, and has adopted an operations plan for the upcoming winter that includes maintaining lower reservoir elevations and continued repairs to the emergency spillway. To achieve its November 1, 2017 completion date, DWR expended more than 720,000 labor hours since May 2017, and poured over 350,000 cubic yards of roller-compacted concrete to the middle section of the main spillway - at a preliminary cost of approximately $500 million.

Colorado River
The Colorado Basin River Forecast Center (CBRFC), which models runoff for the Bureau of Reclamation, projects the most probable unregulated inflow into Lake Powell for water year 2018 will be 8.90 million acre-feet (MAF), or 82% of the 1981-2010 average. However, CBRFC also states that there remains wide uncertainty as to the Upper Colorado River Basin snowpack and runoff this water year. Reclamation’s latest 24-month study projects the annual release volume from Lake Powell to total 9.0 MAF in water year 2018 under minimum and most-probable inflow forecasts. Table 2 shows storage levels for Lakes Powell and Mead as of November 26, 2017.

In August 2017, the Bureau of Reclamation released its lower basin shortage projection. For calendar year 2018, Reclamation anticipates no shortage condition on the Colorado River, and a low 15 percent shortage probability in 2019.
Table 2 - Reservoir Storage Levels (November 26, 2017)

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Storage in Million Acre-Feet</th>
<th>Percent of Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Powell</td>
<td>14.36</td>
<td>59%</td>
</tr>
<tr>
<td>Lake Mead</td>
<td>10.10</td>
<td>39%</td>
</tr>
<tr>
<td>Combined</td>
<td>24.46</td>
<td>48%</td>
</tr>
</tbody>
</table>

For water year 2018 to-date, Upper Colorado River Basin rainfall is at 64 percent of average and snowpack is at 72 percent of its median for November 27, 2017.

Metropolitan Water District
As of November 19, 2017, Metropolitan Water District had 154,000 acre-feet of additional storage in Diamond Valley Reservoir compared to this time last year, and expects to add up to 1.0 MAF to system-wide storage during calendar year 2017. Based on current conditions, MWD estimates demands for calendar year 2017 to total 1.45 MAF.

Local Conditions
Local reservoir storage as of November 20, 2017 was at 52 percent of capacity, or approximately 387,400 acre-feet. This total includes “dead storage,” or capacity that is physically inaccessible or restricted by agency operating or emergency storage policies. It also includes Water Authority carryover and emergency storage in Lake Hodges, Olivenhain Reservoir and San Vicente Reservoir. A breakdown of Water Authority storage for October 2017 is contained in Exhibit D of this month’s Water Resources Report.

Above-average temperatures in the San Diego region continued through the summer and into the fall, with an average daily maximum temperature at Lindbergh Field 5.8 degrees Fahrenheit over normal for October 2017. Figure 1 shows the departure from normal maximum monthly temperatures at Lindbergh Field for the past two water years, with only January 2017 registering a below-normal average maximum temperature.
Unlike northern California, precipitation in the San Diego region has been limited to trace amounts this water year. Table 3 contains cumulative rainfall totals since October 2017 for Lindbergh Field and Ramona Airport. These locations are geographically representative of coastal and inland regions of the Water Authority service area.

**Table 3 – 2018 Water Year Rainfall Totals** (October 1 – November 26, 2017)

<table>
<thead>
<tr>
<th>Station</th>
<th>Precipitation (Inches)</th>
<th>Percent of Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lindbergh Field</td>
<td>0.00</td>
<td>0%</td>
</tr>
<tr>
<td>Ramona Airport</td>
<td>0.00</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Outlook**

On November 16, 2017, the National Oceanic and Atmospheric Administration’s Climate Prediction Center (CPC) issued its three-month outlook for temperature and precipitation across the country. The outlooks show above-average temperature and below-normal precipitation probabilities for a large swath of the continental southern United States, including much of California, through February 2018. The precipitation outlook (Figure 2, left-side image) also shows much of northern and central California, which encompasses the Sierra Nevada region, having “equal chances” of normal precipitation through February 2018.
The CPC temperature outlook (Figure 2, right-side image) indicates warmer conditions for a majority of the state, with a 40 percent probability of above normal temperatures for southern California.

Figure 2 - Precipitation and Temperature Outlook (December 2017–February 2018)

Based on current supply levels, even under dry winter conditions this year, the Water Authority and its member agencies will meet anticipated demands through a combination of drought-resilient local and regional water resources including the Claude “Bud” Lewis Carlsbad Desalination Plant, conserved agricultural water transfers, savings from canal lining projects, and continued water-use efficiency measures.

Prepared by: Stu Williams, Water Resources Specialist
Tim Bombardier, Principal Water Resources Specialist
Reviewed by: Robert R. Yamada, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager
Attention: Water Planning Committee

State Water Resources Control Board Proposed Regulation on Prohibited Water Uses (Presentation)

Background
During California’s recent drought, the State Water Resources Control Board (SWRCB) adopted an emergency regulation, which included, among other requirements, provisions that prohibited certain wasteful water practices. While other requirements of the emergency regulation where eliminated in early 2017, these continued and are set to expire on November 25, 2017.

On May 9, 2016, Governor Brown issued Executive Order B-37-16 to *Make Conservation a California Way of Life*. The Executive Order directs the state agencies to take actions designed to ensure water is used more wisely, eliminate water waste and strengthen drought resilience. To eliminate water waste, the Executive Order includes a proposed list of prohibitions, similar to what was contained in the SWRCB emergency regulation. Under the Executive Order, the SWRCB was directed to adopt a regulation that would make these water use prohibitions permanent.

Discussion
As directed under Executive Order B-37-16, the SWRCB, on November 1, 2017, released a proposed regulation to permanently prohibit certain wasteful water uses. The proposed wasteful water use practices that would apply to all Californians include the following:

- The application of water to outdoor landscapes in a manner that causes runoff such that water flows onto adjacent property, non-irrigated areas, private and public walkways, roadways, parking lots or structures;
- The use of a hose to wash an automobile except where the hose is equipped with a shut-off nozzle;
- The application of potable water directly to driveways and sidewalks;
- The use of potable water in non-recirculating ornamental fountains or other decorative water features;
- The application of water to outdoor landscapes during and within 48-hours after measurable rainfall of at least one-tenth of one inch of rain;
- Serving drinking water other than upon request in eating or drinking establishments; and
- The irrigation of turf on public street medians and parkways (landscaped area between street and sidewalk), unless the turf serves a community or neighborhood function.

The proposed regulation expressly states that the use of water is not prohibited under the following circumstances:

- To the extent necessary to address an immediate health and safety need. This may include, but is not limited to, street sweeping and pressure washing of public sidewalks.
- To the extent necessary to comply with a term or condition in a permit issued by a state or federal agency.
• When the water is used exclusively for commercial agricultural use meeting the definition of Government Code section 51201, subdivision (b). This code section states that agricultural use means use of land, including but not limited to greenhouses, for the purpose of producing an agricultural commodity for commercial purposes.

The proposed regulation would also require operators of hotels and motels to offer patrons the option of not having their towels and linens washed daily. In addition, the regulation authorizes penalties for homeowners’ associations that will not allow homeowners to reduce or eliminate outdoor watering during a declared drought emergency, or are forced to remove water-efficient landscaping, in violation of existing law. The proposed regulation similarly prevents any city or county from imposing fines for a failure to water a lawn or for having a brown lawn during a drought emergency.

The proposed regulation states that taking any of the prohibited actions is an infraction punishable by a fine of up to five hundred dollars ($500) for each day in which the violation occurs. During a public conference call held by the SWRCB on October 30, 2017, the SWRCB staff stated that legislative language is proposed in AB 1668 (Friedman, Water management planning) that would allow the retail urban water supplier the ability to enforce the prohibitions. In follow-up conversations with SWRCB staff, they have stated that suppliers will be allowed to enforce the prohibitions based on their local progressive enforcement mechanism.

The following are the major milestones in the SWRCB rulemaking process:
  • Public comment period: November 10, 2017 – December 26, 2017
  • SWRCB Workshop: November 21, 2017
  • Revised final draft regulation: week of January 22, 2018
  • Board adoption hearing: February 2018 (no later than February 21, 2018)

Staff is coordinating with the member agencies to prepare a comment letter and plans to attend the November 21, 2017 SWRCB workshop to provide testimony. Several of the member agencies already have permanent water waste prohibitions in place like those included in the proposed regulation. Some of the initial comments discussed by water agencies statewide regarding the regulations include removing the prohibition on irrigation of turf in parkways, providing state funding and adequate time to replace turf medians, allowing recycled water irrigation of turf in medians, removing the one tenth of one inch of rain as a specific quantity for measurable rainfall, and allowing local agencies to utilize their own progressive enforcement mechanisms. Staff will provide an update to the Committee on the SWRCB rulemaking process and development of the final regulation in either January or February 2018, depending upon the SWRCB public release of the documents.

Prepared by: Dana L. Friehauf, Water Resources Manager
Reviewed by: Robert R. Yamada, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager
November 29, 2017

Attention: Water Planning Committee

Water Resources Report

Purpose
This report includes the following exhibits for October 2017:

- Rainfall totals for the month and for water year 2018 (WY 2018) to date
- Deliveries to Member Agencies (Exhibit A)
- Water Use by Member Agencies (Exhibit B)
- Potable M&I Water Use (Exhibit C)
- Storage Available to Member Agencies (Exhibit D)
- Firm Water Deliveries to Member Agencies (Exhibit E)
- Summary of Water Authority Member Agency Operations (Exhibit F)

<table>
<thead>
<tr>
<th>Station</th>
<th>October 2017</th>
<th>2017-2018 WATER YEAR (October 2017 through September 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Normal</td>
</tr>
<tr>
<td>Lindbergh Field (N.O.A.A.)</td>
<td>0.00</td>
<td>0.57</td>
</tr>
<tr>
<td>Ramona Airport (N.O.A.A.)</td>
<td>0.00</td>
<td>0.72</td>
</tr>
<tr>
<td>Lake Cuyamaca (Helix W.D.)</td>
<td>0.14</td>
<td>1.88</td>
</tr>
<tr>
<td>Lake Henshaw (Vista I.D.)</td>
<td>0.03</td>
<td>1.09</td>
</tr>
</tbody>
</table>

Sources: National Weather Service, Helix Water District, Vista Irrigation District.
# Monthly Water Resources Report

## Water Deliveries to Member Agencies (acre-feet)

### October 2017

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>1,870.0</td>
<td>1,461.6</td>
<td>15,202.3</td>
<td>14,407.4</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>92.1</td>
<td>80.6</td>
<td>948.9</td>
<td>944.6</td>
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<tr>
<td>Escondido, City of</td>
<td>2,011.1</td>
<td>2,027.0</td>
<td>15,133.2</td>
<td>19,198.4</td>
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<tr>
<td>Fallbrook P.U.D.</td>
<td>824.3</td>
<td>881.0</td>
<td>8,788.0</td>
<td>9,970.2</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>3,374.3</td>
<td>3,389.2</td>
<td>23,739.2</td>
<td>27,879.4</td>
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<tr>
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<td>269.3</td>
<td>252.5</td>
<td>2,640.0</td>
<td>2,565.7</td>
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<tr>
<td>National City, City of</td>
<td>0.2</td>
<td>389.2</td>
<td>1,974.9</td>
<td>2,873.8</td>
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<tr>
<td>Oceanside, City of</td>
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<td>1,990.0</td>
<td>21,846.4</td>
<td>20,896.1</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>1,905.4</td>
<td>1,777.2</td>
<td>17,698.1</td>
<td>17,546.7</td>
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<tr>
<td>Otay W.D.</td>
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<td>2,617.6</td>
<td>27,352.2</td>
<td>26,964.8</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
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<td>878.4</td>
<td>9,391.9</td>
<td>9,196.6</td>
</tr>
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<td>Pendleton M.C.B.</td>
<td>2.7</td>
<td>3.3</td>
<td>66.8</td>
<td>60.1</td>
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<td>Poway, City of</td>
<td>1,235.0</td>
<td>899.6</td>
<td>8,898.2</td>
<td>8,684.8</td>
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<td>Rainbow M.W.D.</td>
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<td>1,610.0</td>
<td>17,135.4</td>
<td>18,202.5</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>498.2</td>
<td>503.1</td>
<td>4,350.7</td>
<td>5,275.5</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>515.0</td>
<td>509.9</td>
<td>5,008.8</td>
<td>5,055.7</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>14,247.4</td>
<td>20,824.5</td>
<td>189,747.9</td>
<td>249,080.0</td>
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<tr>
<td>San Dieguito W.D.</td>
<td>223.4</td>
<td>464.5</td>
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<td>4,264.7</td>
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<td>Santa Fe I.D.</td>
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<td>917.6</td>
<td>5,815.6</td>
<td>7,637.8</td>
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<tr>
<td>South Bay I.D. 1</td>
<td>3.2</td>
<td>1,260.4</td>
<td>7,841.7</td>
<td>10,970.7</td>
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<td>1,393.0</td>
<td>14,817.9</td>
<td>13,966.5</td>
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<td>2,230.4</td>
<td>20,089.0</td>
<td>21,445.8</td>
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<td>Vista I.D.</td>
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<td>1,650.9</td>
<td>13,945.5</td>
<td>15,745.8</td>
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<tr>
<td>Yuima M.W.D.</td>
<td>640.8</td>
<td>522.2</td>
<td>4,582.1</td>
<td>4,606.2</td>
</tr>
<tr>
<td>Deliveries To SDCWA Agencies 1</td>
<td>42,225.6</td>
<td>48,533.7</td>
<td>439,962.4</td>
<td>517,439.8</td>
</tr>
<tr>
<td>Less: Deliveries to SDCWA Storage 1</td>
<td>528.6</td>
<td>3,901.7</td>
<td>36,787.5</td>
<td>86,615.9</td>
</tr>
<tr>
<td>TOTAL MEMBER AGENCY DELIVERIES</td>
<td>41,698.8</td>
<td>44,632.0</td>
<td>403,174.9</td>
<td>430,823.9</td>
</tr>
<tr>
<td>Deliveries to South Coast Water District</td>
<td>7.7</td>
<td>8.4</td>
<td>82.2</td>
<td>118.8</td>
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<tr>
<td>Deliveries From SDCWA Storage</td>
<td>2,430.7</td>
<td>-</td>
<td>32,562.0</td>
<td>15,076.9</td>
</tr>
</tbody>
</table>

1 Member agency deliveries may include puts into Water Authority storage accounts. For October 2017, storage account deliveries totaled 251 AF to San Vicente Reservoir and 276 AF to Lower Otay Reservoir, respectively, through city of San Diego connections. October 2016 storage account deliveries totaled 3,750 AF and 152 AF to San Vicente and Lower Otay Reservoirs, respectively, through city of San Diego connections.
<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>1,629.0</td>
<td>1,188.5</td>
<td>-</td>
<td>-</td>
<td>459.5</td>
<td>364.5</td>
<td>208.3</td>
<td>208.3</td>
<td>2,296.6</td>
<td>1,761.3</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>92.1</td>
<td>80.6</td>
<td>-</td>
<td>-</td>
<td>9.9</td>
<td>9.6</td>
<td>-</td>
<td>-</td>
<td>102.0</td>
<td>90.2</td>
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<td>1,805.7</td>
<td>42.7</td>
<td>-</td>
<td>52.2</td>
<td>46.8</td>
<td>-</td>
<td>-</td>
<td>2,251.2</td>
<td>1,852.5</td>
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<td>Fallbrook P.U.D.</td>
<td>1,000.1</td>
<td>914.0</td>
<td>-</td>
<td>7.0</td>
<td>75.1</td>
<td>65.1</td>
<td>-</td>
<td>-</td>
<td>1,082.2</td>
<td>987.3</td>
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<td>-</td>
<td>10.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,773.8</td>
<td>2,697.4</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
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<td>252.5</td>
<td>-</td>
<td>74.9</td>
<td>61.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>344.2</td>
<td>313.7</td>
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<tr>
<td>National City, City of 2</td>
<td>0.2</td>
<td>383.9</td>
<td>34.3</td>
<td>-</td>
<td>343.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>378.4</td>
<td>383.9</td>
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<td>-</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
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<td>61.7</td>
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<td>-</td>
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<td>-</td>
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<td>52.5</td>
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<td>-</td>
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<td>1,030.1</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
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<td>1,443.6</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>291.7</td>
<td>291.7</td>
<td>1,542.7</td>
<td>1,393.3</td>
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<td>-</td>
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<td>1,650.9</td>
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<td>19.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,702.6</td>
<td>1,670.2</td>
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<tr>
<td>Yuima M.W.D.</td>
<td>640.8</td>
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<td>-</td>
<td>-</td>
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<td>534.4</td>
<td>-</td>
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<td>1,294.8</td>
<td>1,056.6</td>
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<tr>
<td><strong>TOTAL USE</strong></td>
<td><strong>41,295.7</strong></td>
<td><strong>42,402.0</strong></td>
<td><strong>3,122.6</strong></td>
<td><strong>125.1</strong></td>
<td><strong>2,098.3</strong></td>
<td><strong>1,491.7</strong></td>
<td><strong>2,840.9</strong></td>
<td><strong>2,644.2</strong></td>
<td><strong>500.0</strong></td>
<td><strong>500.0</strong></td>
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<td><strong>PERCENT CHANGE</strong></td>
<td>-3%</td>
<td>41%</td>
<td>7%</td>
<td>0%</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1. De Luz figures included in Fallbrook P.U.D. total.
2. Brackish groundwater use included in groundwater totals.
3. Pendleton’s imported water use includes water delivered by South Coast Water District.
4. Poway recycled use is reported quarterly.

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<table>
<thead>
<tr>
<th>AGENCY</th>
<th>October 2017</th>
<th>October 2013</th>
<th>29 Months Ended October 2017</th>
<th>CY 2013</th>
</tr>
</thead>
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<td>Carlsbad M.W.D.</td>
<td>1,837.3</td>
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<td>43,559.9</td>
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<td>92.1</td>
<td>88.8</td>
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<td>2,819.5</td>
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<tr>
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<td>1,885.2</td>
<td>1,818.7</td>
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<td>53,539.4</td>
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<td>Fallbrook P.U.D.</td>
<td>701.9</td>
<td>740.9</td>
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<td>2,773.8</td>
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<td>85,543.9</td>
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<td>Lakeside W.D.</td>
<td>344.2</td>
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<td>10,587.9</td>
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<td>2,877.3</td>
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<td>931.4</td>
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<td>Pendleton Military Reservation</td>
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<td>937.5</td>
<td>1,100.1</td>
<td>22,701.9</td>
<td>30,829.4</td>
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<tr>
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<td>1,054.9</td>
<td>963.8</td>
<td>23,950.8</td>
<td>27,995.3</td>
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<tr>
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<td>360.0</td>
<td>383.8</td>
<td>8,531.9</td>
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<td>592.0</td>
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<td>404,054.9</td>
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<tr>
<td>San Dieguito W.D.</td>
<td>575.3</td>
<td>578.9</td>
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<td>16,300.5</td>
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<tr>
<td>Santa Fe I.D.</td>
<td>1,003.0</td>
<td>1,003.6</td>
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<tr>
<td>Sweetwater Authority</td>
<td>1,559.1</td>
<td>1,818.1</td>
<td>42,906.5</td>
<td>52,675.2</td>
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<tr>
<td>Vallecitos W.D.</td>
<td>1,450.8</td>
<td>1,384.0</td>
<td>32,999.2</td>
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<td>Valley Center M.W.D.</td>
<td>820.0</td>
<td>749.0</td>
<td>18,203.5</td>
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<td>41,304.0</td>
<td>48,333.6</td>
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<td>766.3</td>
<td>717.4</td>
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<td>24,377.5</td>
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<td><strong>TOTALS</strong></td>
<td><strong>43,052.9</strong></td>
<td><strong>44,826.0</strong></td>
<td><strong>1,035,520.6</strong></td>
<td><strong>1,278,952.2</strong></td>
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</table>

**PERCENT CHANGE**

-4% -19%

**NOTES:**

1. SWRCB emergency regulation went into effect June 2015.
2. The 2013 baseline is utilized to be consistent with the May 2015 SWRCB emergency drought regulation, which was partially rescinded on April 26, 2017.
3. Excludes recycled water use and Transitional Special Agricultural Water Rate program deliveries. TSAWR deliveries are estimated for months where agencies have not reported.
4. Baseline includes January-December 2013 twice, and June-October 2013 three times, in order to establish a base period of 29 months.

 Generated:
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### Monthly Water Resources Report

**Reservoir Storage**  
*(acre-feet)*  

**October 2017**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
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<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>600</td>
<td>393</td>
<td>66%</td>
<td>119</td>
<td>20%</td>
<td>306</td>
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<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>2,606</td>
<td>2,495</td>
<td>96%</td>
<td>2,359</td>
<td>91%</td>
<td>0</td>
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<tr>
<td></td>
<td>Wohlford</td>
<td>6,506</td>
<td>2,264</td>
<td>35%</td>
<td>2,474</td>
<td>38%</td>
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</tr>
<tr>
<td>Subtotal</td>
<td>9,112</td>
<td>4,759</td>
<td>52%</td>
<td>4,833</td>
<td>53%</td>
<td>-</td>
<td>(215)</td>
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<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>1,335</td>
<td>204</td>
<td>15%</td>
<td>369</td>
<td>28%</td>
<td>-</td>
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<tr>
<td>Helix W.D.</td>
<td>Cuyamaca</td>
<td>8,195</td>
<td>598</td>
<td>7%</td>
<td>506</td>
<td>6%</td>
<td>(48)</td>
</tr>
<tr>
<td></td>
<td>Jennings</td>
<td>9,790</td>
<td>8,449</td>
<td>86%</td>
<td>8,027</td>
<td>82%</td>
<td>601</td>
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<tr>
<td>Subtotal</td>
<td>17,985</td>
<td>9,047</td>
<td>50%</td>
<td>8,533</td>
<td>47%</td>
<td>-</td>
<td>(552)</td>
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<td>2,543</td>
<td>76%</td>
<td>171</td>
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<td>Morro Hill</td>
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<td>465</td>
<td>100%</td>
<td>60</td>
<td>13%</td>
<td>180</td>
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<td>Ramona M.W.D.</td>
<td>Ramona</td>
<td>12,000</td>
<td>2,275</td>
<td>19%</td>
<td>2,486</td>
<td>21%</td>
<td>(73)</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>Barrett</td>
<td>34,806</td>
<td>12,094</td>
<td>35%</td>
<td>1,850</td>
<td>5%</td>
<td>(247)</td>
</tr>
<tr>
<td></td>
<td>El Capitan</td>
<td>112,807</td>
<td>39,681</td>
<td>35%</td>
<td>23,426</td>
<td>21%</td>
<td>(577)</td>
</tr>
<tr>
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<td>Hodges</td>
<td>10,633</td>
<td>11,524</td>
<td>108%</td>
<td>3,070</td>
<td>29%</td>
<td>(591)</td>
</tr>
<tr>
<td></td>
<td>Lower Otay</td>
<td>47,067</td>
<td>33,669</td>
<td>72%</td>
<td>33,976</td>
<td>72%</td>
<td>(2,209)</td>
</tr>
<tr>
<td></td>
<td>Miramar</td>
<td>6,682</td>
<td>4,897</td>
<td>73%</td>
<td>5,370</td>
<td>80%</td>
<td>(724)</td>
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<tr>
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<td>Morena</td>
<td>50,694</td>
<td>3,961</td>
<td>8%</td>
<td>1,059</td>
<td>2%</td>
<td>(86)</td>
</tr>
<tr>
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<td>Murray</td>
<td>4,684</td>
<td>4,075</td>
<td>87%</td>
<td>4,083</td>
<td>87%</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>San Vicente</td>
<td>91,695</td>
<td>62,182</td>
<td>68%</td>
<td>43,868</td>
<td>48%</td>
<td>(1,015)</td>
</tr>
<tr>
<td></td>
<td>Sutherland</td>
<td>29,508</td>
<td>13,368</td>
<td>45%</td>
<td>2,104</td>
<td>7%</td>
<td>(195)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>388,576</td>
<td>185,451</td>
<td>48%</td>
<td>118,806</td>
<td>31%</td>
<td>(5,570)</td>
<td></td>
</tr>
<tr>
<td>San Dieguito WD/Santa Fe ID</td>
<td>San Dieguito</td>
<td>883</td>
<td>298</td>
<td>34%</td>
<td>332</td>
<td>38%</td>
<td>(106)</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Loveland</td>
<td>25,400</td>
<td>13,765</td>
<td>54%</td>
<td>6,983</td>
<td>27%</td>
<td>(142)</td>
</tr>
<tr>
<td></td>
<td>Sweetwater</td>
<td>28,079</td>
<td>8,723</td>
<td>31%</td>
<td>2,806</td>
<td>10%</td>
<td>(1,157)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>53,479</td>
<td>22,488</td>
<td>42%</td>
<td>9,789</td>
<td>18%</td>
<td>(1,299)</td>
<td></td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>Turner</td>
<td>1,612</td>
<td>1,200</td>
<td>74%</td>
<td>1,092</td>
<td>66%</td>
<td>(38)</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>Henshaw</td>
<td>51,774</td>
<td>3,560</td>
<td>7%</td>
<td>2,450</td>
<td>5%</td>
<td>(1,705)</td>
</tr>
<tr>
<td>Member Agency Total Water in Storage</td>
<td>541,151</td>
<td>232,710</td>
<td>43%</td>
<td>151,411</td>
<td>28%</td>
<td>(7,806)</td>
<td></td>
</tr>
</tbody>
</table>

| Water Authority | Olivenhain | 24,774 | 18,021 | 73% | 19,147 | 77% | (277) |
| | San Vicente - Comprised of: | | | | | | |
| | Emergency | 157,663 | 125,088 | 80% | 137,947 | 81% | (2,777) |
| | Carryover | 29,170 | 16,303 | 55% | 37,584 | 56% | (2,023) |
| | Operating | 95,910 | 94,794 | 98% | 99,260 | 99% | (226) |
| | Hodges | 20,000 | 5,643 | 28% | 8,292 | 41% | (12) |
| Subtotal | 202,437 | 148,752 | 73% | 165,386 | 82% | (2,766) |

| Water Authority Storage Accounts | El Capitan | 9,082 | 2,679 | 29% | 2,806 | 37% | (108) |
| | Lower Otay | 2,606 | 619 | 24% | 619 | 24% | 0 |
| | Sweetwater (Temporary) | 2,537 | - | - | - | - | - |
| Subtotal | 12,225 | 3,368 | 28% | 3,434 | 28% | (66) |

| TOTAL WATER IN STORAGE | 743,588 | 393,080 | 53% | 319,476 | 43% | (10,393) |

**Other Agencies**

| Metropolitan Water District | 44,264 | 38,675 | 87% | 38,190 | 86% | 137 |
| | Diamond Valley | 810,000 | 695,645 | 86% | 562,790 | 69% | 6,128 |
| State Water Project | 3,537,577 | 1,217,912 | 34% | 1,559,166 | 44% | (113,679) |

| TOTAL OTHER WATER IN STORAGE | 4,391,841 | 1,952,232 | 44% | 2,160,146 | 49% | (107,414) |

---

1. Excludes storage allocated to Escondido Mutual Water Co. or its rights to a portion of the unallocated water in Lake Henshaw.
2. Includes reserves subject to city’s outstanding commitments to San Dieguito WD, and California American Mutual Water Co. (Cal-Am).
3. Water Authority carryover, emergency and operating pools in San Vicente Reservoir were established in June 2015. City of San Diego presently states total capacity in San Vicente at 249,358 AF, with the Water Authority portion being 157,663 AF and the remaining capacity, 91,695 AF, allocable to the city. Figures for October 2017 include evaporation/seepage estimates.
4. No defined capacities for storage accounts in El Capitan, Lower Otay and Sweetwater Authority reservoirs. Figures for October 2017 include evaporation/seepage estimates.
### Tier 1 Estimated Deliveries to Member Agencies  
*Figures in acre-feet*

**Calendar Year 2017 to Date (October)**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>CY2017 Tier 1 Threshold</th>
<th>CYTD Firm Deliveries</th>
<th>% of Tier 1 Threshold (Pre-QSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>12,376.0</td>
<td>10,948.4</td>
<td>88.5%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>935.0</td>
<td>819.2</td>
<td>87.6%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>17,859.0</td>
<td>12,327.3</td>
<td>69.0%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>10,325.0</td>
<td>7,602.2</td>
<td>73.6%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>25,519.0</td>
<td>18,761.5</td>
<td>73.5%</td>
</tr>
<tr>
<td>Lakeside M.W.D.</td>
<td>3,168.0</td>
<td>2,287.3</td>
<td>72.2%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>19,383.0</td>
<td>18,734.5</td>
<td>96.7%</td>
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<tr>
<td>Olivenhain M.W.D.</td>
<td>13,071.0</td>
<td>15,378.3</td>
<td>117.7%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>21,390.0</td>
<td>23,310.5</td>
<td>109.0%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>9,939.0</td>
<td>8,045.9</td>
<td>81.0%</td>
</tr>
<tr>
<td>Pendleton M.C.B./South Coast W.D.</td>
<td>758.0</td>
<td>114.2</td>
<td>15.1%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>9,348.0</td>
<td>7,075.6</td>
<td>75.7%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>19,018.0</td>
<td>15,016.5</td>
<td>79.0%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>8,052.0</td>
<td>3,653.6</td>
<td>45.4%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>5,482.0</td>
<td>4,336.4</td>
<td>79.1%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>144,555.0</td>
<td>125,680.9</td>
<td>86.9%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>3,116.0</td>
<td>2,252.5</td>
<td>72.3%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>5,226.0</td>
<td>4,731.6</td>
<td>90.5%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>9,650.0</td>
<td>7,182.3</td>
<td>74.4%</td>
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<tr>
<td>Vallecitos W.D.</td>
<td>10,557.0</td>
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<td>93.2%</td>
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<tr>
<td>Valley Center M.W.D.</td>
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<td>17,655.9</td>
<td>59.3%</td>
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<tr>
<td>Vista I.D.</td>
<td>11,876.0</td>
<td>11,431.0</td>
<td>96.3%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>2,165.0</td>
<td>4,118.2</td>
<td>190.2%</td>
</tr>
</tbody>
</table>

**MEMBER AGENCY TOTALS**

<table>
<thead>
<tr>
<th>CY2017 Tier 1 Threshold</th>
<th>CYTD Firm Deliveries</th>
<th>% of Tier 1 Threshold (Pre-QSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>393,542.0</td>
<td>331,302.0</td>
<td>84.2%</td>
</tr>
</tbody>
</table>

Less: QSA deliveries-calendar year 2017  
Deliveries to CWA storage-calendar year 2017  
MWD Under-10% Flows-calendar year 2017  
Deliveries from CWA storage-calendar year 2017  
Water Authority WPA desalination deliveries-calendar year 2017

| Estimated Tier 1 deliveries calendar year to date | 162,470.0 | 41.3% |
| Invoiced Tier 1 deliveries calendar year to date | 159,789.0 | 40.6% |

1 Tier 1 threshold is 60% of a member agency's historic maximum year firm demand.

2 Carlsbad MWD and Vallecitos WD deliveries exclude local desalination supply transported via Water Authority system.

3 Includes storage puts to San Vicente Reservoir, forced deliveries or deliveries to Olivenhain Reservoir.

4 Includes sales from Water Authority storage accounts, including Olivenhain Reservoir.

5 Estimated Tier 1 deliveries are based on member agency deliveries net of QSA deliveries, seawater desalination and storage puts/takes. Invoiced deliveries are as reported on Metropolitan's invoice. Difference between Estimated and Invoiced Deliveries is explained by storage puts or takes of pre-deliveries in Twin Oaks Valley Water Treatment Plant (TOVWTP) or member agency treatment plants.
MONTHLY WATER RESOURCES REPORT
Summary of Water Authority Member Agency Operations

OCTOBER 2017

Member Agency Deliveries (AF)

- October 2017: 41,699
- October 2016: 44,632
- Previous 12 Months:
  - 2017: 403,175
  - 2016: 430,824

Member Agency Water Use

- October 2017:
  - Imported & Desal: 83%
  - Surface: 6%
  - Well & Brackish Recovery: 4%
  - Recycled & Local Desal: 7%

- Previous 12 Months:
  - Imported & Desal: 81%
  - Surface: 9%
  - Well & Brackish Recovery: 4%
  - Recycled & Local Desal: 6%

Member Agency Storage (AF)

- October 2017:
  - 2017: 232,710
  - 2016: 151,411

- Previous 12 Months:
  - 2017: 231,617
  - 2016: 160,036

Generated:
11/15/17 2:50 PM
November 29, 2017

Attention: Water Planning Committee

Fiscal Year 2017 Annual Water Supply Report (Information)

Background
The Water Authority’s Administrative Code (Section 8.00.050) requires the Water Authority to provide its member agencies, the County of San Diego, and each city in the county of San Diego an annual statement regarding the Water Authority’s water supplies and implementation of its plans and programs to meet the future water supply needs. The attached Fiscal Year 2017 Annual Water Supply Report (Report) satisfies the requirements of the Administrative Code.

Discussion
The Report serves as the means to annually track implementation of the projected local and regional supplies identified in the Water Authority’s 2015 Urban Water Management Plan (UWMP). The UWMP serves as the Water Authority’s long-term water supply planning document. It identifies the diverse mix of water resources to be developed over the next 25 years to ensure the region’s long-term water supply reliability. The next update of the projected resource mix will occur with preparation of the 2020 UWMP.

The Report focuses on both the verifiable and additional planned supplies identified in the 2015 UWMP. Verifiable supplies are those supplies with substantial evidence and adequate documentation regarding implementation and supply utilization. They were identified by the Water Authority or member agencies as having achieved a level of certainty in their planning and implementation. Additional planned supplies are supplies that the Water Authority or member agencies are actively pursuing and currently funding, but do not rise to the level of verifiable for implementation. The categorization of member agency local supplies into the appropriate supply type was based on member agency input during preparation of the 2015 UWMP.

The Report is organized into five sections. Section 1 discusses the purpose of the Report. Section 2 provides an overview of the region’s current and projected supply portfolio. Section 3 provides a summary on progress to implement the supplies identified in the Water Authority’s 2015 UWMP. Section 4 provides a discussion on member agency per capita water use and member agency local water supply development. The final section, Section 5, contains an update on the Water Authority’s water supply programs and projects. The Report was distributed to the member agencies for their review and the attached Report takes into account the comments received.

Prepared by:  Jeff Stephenson, Principal Water Resources Specialist
Reviewed by: Dana L. Friehauf, Water Resources Manager
Reviewed by: Robert R. Yamada, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager

Attachment: Fiscal Year 2017 Annual Water Supply Report
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Section 1 Introduction

The Fiscal Year 2017 (FY 17) Annual Water Supply Report (Report) satisfies the San Diego County Water Authority’s Administrative Code (Section 8.00.050) requirement to provide the Water Authority’s member agencies, the County of San Diego, and each city in the county of San Diego an annual statement regarding the Water Authority’s water supplies and implementation of its plans to meet future water supply needs.

The Report also provides updated information on the development of member agency local water supplies that are included in the Water Authority’s 2015 Urban Water Management Plan (2015 UWMP). The 2015 UWMP is the Water Authority’s long-term planning document to ensure a reliable water supply for the region. A copy of the 2015 UWMP can be found on the Water Authority’s website at www.sdcwa.org. The next update to the Water Authority’s UWMP will be in 2020.

The focus of the Report is long-term planning and water supply reliability. The Report is organized into five sections. This section provides an introduction that describes the purpose of the Report. Section 2 provides an overview of the San Diego region’s current and projected water resource mix. Section 3 provides a summary on the progress to implement the supplies identified in the 2015 UWMP. Section 4 provides discussion on per capita water use and member agency local water supply development. The final section, Section 5, contains an update on the Water Authority’s water supply programs and projects.
Section 2  Supply Overview

The Water Authority is a regional wholesale water agency, serving 24 member agencies within its service area (Figure 1). The Water Authority serves 97 percent of San Diego County’s population and provides approximately 80 to 90 percent of the water used within the region, depending upon the amount of local supply utilized. The County Water Authority Act, adopted by the California State Legislature, states that the Water Authority shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs, as far as practicable.

Total water demand within the Water Authority’s service area for FY 17 reached 477,022 acre-feet (AF). This represents a five percent increase over the previous year and a break from the two-year decline in water use since FY 14. With the state’s lifting of mandatory water use restrictions and continuing economic growth in San Diego County, water use is anticipated to increase from emergency drought levels - with a gradual upward trend in annual water consumption. The rate of the recovery from drought response demands does remain uncertain. In addition, the new urban water supplier use targets beyond 2020, currently being proposed in state legislation, coupled with Water Authority and member agency long-term water use efficiency efforts, could further cause demands to decrease below the 2015 UWMP projections. Water Authority staff is currently evaluating alternative demand scenarios that would take into account these uncertainties.

The Water Authority and member agency water supplies utilized in FY 17 are shown in Table 1. A summary discussion on the status of these projects and current supply yields is included in Section 3.

The current projected mix of supplies to be developed over the next 25 years to ensure continued long-term supply reliability for the region is included in the 2015 UWMP. In the 2015 UWMP, supplies are separated into one of the following three categories for purposes of analysis:

- Verifiable Projects - Those projects with substantial evidence and adequate documentation regarding implementation and supply utilization. They have been identified by the Water Authority or member agencies as having achieved a level of certainty in their planning and implementation. Verifiable supplies are included in water supply assessments and verifications prepared by retail water agencies and used by the

<table>
<thead>
<tr>
<th>Table 1: San Diego Region Fiscal Year 2017 Utilized Water Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Authority Supplies</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>IID Water Transfer</td>
</tr>
<tr>
<td>AAC and CC Lining Projects</td>
</tr>
<tr>
<td>Seawater Desalination</td>
</tr>
<tr>
<td>Sub-Total</td>
</tr>
<tr>
<td>Member Agency Supplies</td>
</tr>
<tr>
<td>Surface Water</td>
</tr>
<tr>
<td>Water Recycling</td>
</tr>
<tr>
<td>Seawater Desalination</td>
</tr>
<tr>
<td>Potable Reuse</td>
</tr>
<tr>
<td>Groundwater</td>
</tr>
<tr>
<td>Brackish Groundwater</td>
</tr>
<tr>
<td>Sub-Total</td>
</tr>
<tr>
<td>MWD Supplies</td>
</tr>
<tr>
<td>Amount of MWD supply is determined after accounting for Water Authority and member agency utilized supplies.</td>
</tr>
<tr>
<td>2 MWD supplies available to the Water Authority under preferential rights total 661,100 AF, based on a preferential right to 24.04 percent (derived from the 2017 court decision) of MWD’s total 2017 supply of 2.75 million AF.</td>
</tr>
<tr>
<td>Total Supplies</td>
</tr>
</tbody>
</table>

1
cities and county in their land use decisions regarding available water supplies for growth under Senate Bills 221 and 610.

- Additional Planned Projects - Those projects that the Water Authority or member agencies are actively pursuing and currently funding, but do not rise to the level of verifiable for implementation. The feasibility phase for these projects is complete and funding of advanced planning efforts continues.

- Conceptual Projects - Those projects considered to be in the pre-planning and pre-feasibility analysis phase, where the projects have not progressed to a point where the project yield can be factored into reliability assessments or uncertainty planning.

Categorizing member agency local projects into the appropriate project type was based on member agency input during preparation of the 2015 UWMP. This Report focuses on verifiable and additional planned supply targets identified in the 2015 UWMP.

Section 3 Summary of Local and Regional Supply Development

As noted in the 2015 UWMP, this Report serves as an annual update on implementation of the projected supply mix in years when an urban water management plan is not prepared. A complete evaluation and update of the resource mix occurs every five years with the update of the urban water management plan.

Table 2 contains a summary of the implementation status of member agency local supply development as compared with the actual water supply yield identified in Table 1 and the 2015 UWMP targets. Specific information on the supplies and 2015 UWMP targets is included in Section 4.

<table>
<thead>
<tr>
<th>Water Resource Action</th>
<th>Implementation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface Water</td>
<td>Surface water yields remain below normal due to multi-year drought conditions. The significant rainfall in FY 17 helped increase storage levels from 30 percent capacity at the end of FY 16, to 49 percent of capacity at the end of FY 17. Surface water yields remain below the member agency normal year projections of approximately 51,000 AF.</td>
</tr>
<tr>
<td>Water Recycling</td>
<td>In FY 17, recycled water use was nearly 26,000 AF, an increase of 13 percent when compared to FY 16. The near-term 2020 recycled water target is not likely to be met due to a decline in recycled water use as the result of several factors, including construction delays and an overall reduction in water use in response to drought conditions. The long-term targets are achievable as member agencies expand their existing facilities and demand for recycled water increases.</td>
</tr>
<tr>
<td>Seawater Desalination</td>
<td>The Carlsbad Seawater Desalination Project began operation in December 2015. Vallecitos Water District started taking its commitment of 3,500 Acre-Feet/Year (AF/YR) in January 2016, and Carlsbad Municipal Water District started taking its commitment of 2,500 AF/YR in July 2016, consistent with the 2020 target for local seawater desalination.</td>
</tr>
<tr>
<td>Potable Reuse</td>
<td>Potable reuse will be a new, critical supply for the San Diego region. The 2020 target, taking into account planned and verifiable targets, is an estimated 7,700 AF. A number of agencies are working towards development of this new supply. One example is Pure Water San Diego which is currently in the design stage for Phase 1, with construction expected to begin in late 2018. A second example, the East County Advanced Water Purification Program, is currently in its second phase of work, which includes additional engineering, planning, environmental, regulatory compliance, financial and project outreach studies and activities, with construction anticipated to be completed in 2024 to 2025.</td>
</tr>
<tr>
<td>Groundwater</td>
<td>Brackish groundwater yield was down in FY 17 due to maintenance activities at the Mission Basin Desalter Facility and expansion-related construction at the Richard A. Reynolds Desalination Facility. With work completed at these facilities, it is anticipated that brackish groundwater production will rebound in FY 18, and is on track to reach forecasted normal year production levels. Traditional groundwater yields were also down due to multi-year drought conditions.</td>
</tr>
</tbody>
</table>

Table 3 provides a summary of the implementation status of the Water Authority’s supplies as compared with the actual supply yields (Table 1) and the 2015 UWMP targets. Detailed information on the supplies and targets is included in Section 5.
Table 3
Status of Water Authority Supplies

<table>
<thead>
<tr>
<th>Water Resources Action</th>
<th>Implementation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Colorado River Transfers</td>
<td>In FY 17, the Water Authority received 100,000 AF of transfer water in accordance with the delivery schedule contained in the Imperial Irrigation District transfer agreement. In addition, the Water Authority received 78,728 AF of conserved water from projects that lined portions of the All American and Coachella Canals. These amounts are consistent with the 2015 UWMP targets.</td>
</tr>
<tr>
<td>Seawater Desalination</td>
<td>The Carlsbad Seawater Desalination Project began operation in December 2015, and is capable of supplying up to 50,000 AF/YR for use throughout the region. In FY 17, seawater desalination accounted for approximately 34,400 AF of the Water Authority’s supply (not counting contract deliveries to Carlsbad and Vallecitos). The 2015 UWMP target is 50,000 AF/YR. Shortfalls in FY 17 were due primarily to source water challenges.</td>
</tr>
<tr>
<td>Carryover Storage Program</td>
<td>Construction of the San Vicente Dam Raise Carryover Storage Project was completed in 2014. The carryover pool of 100,000 AF was full as of June 2016. At the end of FY 17, the carryover storage pool was at 97,375 AF, reflecting evaporative losses. In addition, at the end of FY 17, the Water Authority’s out-of-region banking program had approximately 16,000 AF in storage.</td>
</tr>
</tbody>
</table>

Section 4  Update on Member Agency Per Capita Water Use and Member Agency Local Supply Projects

The 2015 UWMP includes estimated regional potable gallon per-capita per-day (GPCD) targets that are based on aggregated member agency targets. It also contains local supply targets provided by the member agencies for water recycling, potable reuse, groundwater, surface water, and seawater desalination. The following sub-sections provide a status update on per capita water use and the development of these local supplies.

4.1  Per Capita Water Use

Under legislation adopted by the California Legislature, known as the Water Conservation Act of 2009, or SBX7-7, retail water suppliers are required to reduce per capita water use by 20 percent by the year 2020. As a wholesale agency, the Water Authority is not subject to these requirements. To reflect retail compliance, the Water Authority utilizes urban water use targets calculated by each of the member agencies to determine the regional demand reduction. Member agency water use efficiency targets can be achieved through a combination of recycled water supplies and additional conservation savings, consistent with SBX7-7 guidelines.
Figure 2 shows historic regional GPCD estimates and a projected aggregated member agency potable GPCD target to comply with SBX7-7. The 2020 GPCD target is 167. Regional FY 17 potable per capita use was 124 gallons, well below the target of 167 gallons.

Per capita use is affected by a combination of short and long-term variables, including weather, conservation, water rates, and the economy. Overall, per capita water use has dropped since the 1990s, reflecting a long-term trend towards greater water use efficiency. Variability in annual historic per capita water use is reflective of differences in weather. For example, 1990 and 2000 both were dry years, with higher overall per capita water use. The slight increase shown in per capita use from FY 16 to FY 17 may be attributed to a gradual increase in normal demands following the lifting of statewide emergency conservation standards in early 2017, and sustained economic recovery in the San Diego region. Continued implementation of water use efficiency programs and recycled water development, along with a growing water use efficiency ethic, will help to ensure that the 2020 SBX7-7 target is met.

Beyond 2020, the State is developing a long-term framework for water use efficiency. In contrast to SBX7-7 that calculated water savings as a percent reduction from a baseline, the proposed target would be based on efficiency standards for indoor residential, outdoor irrigation, and water loss from leaks. If implementing legislation is passed, the new standards are expected to be adopted by the State Water Resources Control Board by 2021, with water agencies reporting annually on compliance starting in 2022.
4.2 Water Recycling

Implementation of water recycling is an essential component to diversifying the region’s water supplies. Recycled water development helps relieve pressure on the region’s potable water supplies by providing a drought-resilient, locally controlled water supply source. Recycled water may be used for non-potable purposes, including filling ponds and ornamental fountains, irrigating parks, golf courses, freeway medians, community greenbelts, school athletic fields, and food crops, and controlling dust at construction sites.

Figure 3 shows the historical and projected verifiable and additional planned recycled water use in the region for 1990 through 2040. The projected use figures were provided by the member agencies for inclusion in the 2015 UWMP.

As shown in Figure 3, non-potable recycled water use increased steadily from FY 90 to FY 15. In FY 15, recycled water use reached over 29,000 AF. In FY 16, recycled water use dropped by 21 percent to approximately 23,000 AF, and then rebounded to nearly 26,000 AF in FY 17, an increase of 13 percent when compared to FY 16. Despite the increase in recycled water use in FY 17, several of the same factors that impacted recycled water use in prior years will make it difficult for the region to achieve its near-term 2020 target for recycled water use. Those factors include construction delays, reductions in water use due to drought response and an increase in the price of recycled water to customers. It should be noted, however, that the price of recycled water is generally lower than the price of potable water.

In the long-term, the verifiable yield of recycled water supplies is projected to increase due to the expansion of existing facilities. Examples include an expansion of the City of Oceanside’s recycled water system with a tertiary treatment capacity upgrade to serve 3,500 AF/YR of additional recycled water by 2040. Another member agency, the Carlsbad Municipal Water
District (Carlsbad), will increase its water recycling facility’s capacity to more than 5,000 AF/YR. It is anticipated that by 2020, one-third of Carlsbad’s total water demand will be met by recycled water. In addition, the City of Escondido’s Advanced Water Treatment for Agriculture Project will construct a new microfiltration/reverse osmosis advanced treatment facility that will produce 4,400 AF/YR of recycled water for agricultural customers in the northern and eastern areas of Escondido. Other member agencies have identified additional planned recycled water projects that could result in a projected yield of approximately 11,000 AF/YR by 2040 from these projects.

### 4.3 Potable Reuse

The next increment of major water supply development for the San Diego region will come from potable reuse projects being implemented by the Water Authority’s member agencies. Potable reuse uses multi-barrier treatment processes to treat recycled water to drinking water standards. Several member agencies are pursuing potable reuse through groundwater recharge or reservoir augmentation. The Pure Water San Diego Program is the City of San Diego’s phased, multi-year program, to provide one-third of its water supply by 2035. Phase 1 would convey 30 million-gallon-per-day (mgd) to Miramar Reservoir in 2021. From Miramar Reservoir, purified water would be blended with imported and local supplies and treated again before distribution and delivery to customers. A draft Environmental Impact Report was released in September 2017, with comments due in November 2017.

The East County Advanced Water Purification Program (ECAWPP), led by the Padre Dam Municipal Water District (Padre Dam MWD), will create a new, local, sustainable and drought-resilient drinking water supply using state-of-the-art technology to meet 25 to 30 percent of East County’s current water demands. The program received concept approval from the Division of Drinking Water to augment water supply to Lake Jennings. A Mitigated Negative Declaration was adopted in July 2015 for the first phase expansion of the Ray Stoyer Water Reclamation

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**Figure 4**

Projected Verifiable\Additional Planned Potable Reuse Projections in Normal Year

![Graph showing projected potable reuse](image-url)
Facility from 2 mgd to 6 mgd, construction of a 2.2 mgd advanced water purification facility, and upgrades at Padre Dam MWD’s influent pump station. A Program Environmental Impact Report was adopted in May 2017 for Padre Dam MWD’s Comprehensive Facilities Master Plan, of which the ECWPMP is a key component. In addition to the member agencies mentioned above, there are at least five other member agencies with potable reuse project concepts, including the City of Escondido and Olivenhain Municipal Water District.

To support these efforts, the Water Authority is providing regional coordination in three key areas: public outreach and messaging; engaging with regulatory agencies and the State’s Expert Panel; and helping to secure funding. The Water Authority is a staunch supporter and an active participant in advancing implementation of potable reuse projects in the San Diego region. Figure 4 shows the future verifiable and planned potable reuse project yields in the San Diego region.

4.4 Groundwater

Groundwater supplies in the San Diego region are a component of the region’s diverse resource mix. Once treated, groundwater is suitable for drinking and can be delivered directly into an agency’s potable water distribution system. And while supplies are limited due to geology and the semi-arid hydrologic characteristics of the region, local agencies are taking actions to develop and manage available supplies.

Figure 5 shows the reported historical and projected verifiable and additional planned groundwater yield for the region. The historic yields can vary since they are linked to hydrologic...
cycles. In FY 17, groundwater yields were low due to the recent multi-year drought. In future years, the implementation of groundwater sustainability plans under the Sustainable Groundwater Management Act could potentially result in a reduction in groundwater extraction. The projected yields are the expected normal year yields provided by the member agencies for the 2015 UWMP.

Figure 6 shows the historic and projected brackish groundwater yield for the region. The projected long-term increase in yield is based on normal year yield and planned expansions to existing projects. In FY 17, brackish groundwater production by the member agencies dropped to approximately 1,900 AF. The drop was due to drought conditions and maintenance activities at the Mission Basin Desalter Facility and expansion-related construction at the Richard A. Reynolds Desalination Facility. With work completed on these facilities, brackish groundwater production is on track to meet normal year production levels.

![Figure 6](image)

Figure 6
Historical and Projected Verifiable\Additional Planned Brackish Groundwater Yield

4.5 Surface Water

Surface water was the primary source of the region’s water supply until imported water was made available in 1947. It is still considered an essential supply for the San Diego region. Surface water yields are highly variable since they are linked to fluctuations in local weather patterns. Runoff from rainfall is captured in local reservoirs, which is then treated to provide a water supply suitable for potable use. Since 1980, annual surface water yields have ranged from a low of 18,000 AF to a high of nearly 150,000 AF. In FY 17, the region used approximately 25,750 AF of local surface water to meet its needs. Surface water yield in a normal year is approximately 52,000 AF, based on member agency estimates provided during preparation of the 2015 UWMP.
4.6 Seawater Desalination

In FY 17, the Carlsbad Municipal Water District and Vallecitos Water District received 2,500 AF and 3,500 AF respectively, of supply from the Claud “Bud” Lewis Carlsbad Desalination Plant. Both member agencies entered into contracts with the Water Authority to continue to purchase desalinated seawater from the plant as a local supply in those same volumes. The Otay Water District (Otay) is pursuing delivery of desalinated seawater from the proposed Rosarito Desalination Project. The project consists of a potential 100 million-gallon-per-day (mgd)

seawater reverse osmosis desalination plant, together with a pump station and pipeline to convey the water to Tijuana and potentially excess production water to the United States border with Mexico. The desalination plant and the conveyance system south of the border are under development. The conveyance and disinfection project on the United States side of the border has completed its environmental review and secured a Presidential Permit. The project is considered an additional planned supply in the 2015 UWMP, with an online date of 2024 and a potential delivery of up to 16,800 AF/YR by 2040.
Section 5  Update on Implementation of Water Authority Programs and Projects

5.1 Imperial Irrigation District (IID) Water Conservation and Transfer Agreement

The Quantification Settlement Agreement (QSA) was signed in October 2003, and resolved long-standing disputes regarding priority and use of Colorado River water and created a baseline for implementing water transfers in California. With approval of the QSA, the Water Authority and IID implemented their Water Conservation and Transfer Agreement, providing reliability for the San Diego region and assisting California in reducing its use of Colorado River water to its legal allocation.

Deliveries began in 2003 with an initial transfer of 10,000 AF of conserved water into San Diego County. Transfer volumes have increased according to a water delivery schedule contained in the transfer agreement. Deliveries will ramp-up to 200,000 AF/YR by CY 2021, and then remain fixed for the duration of the transfer agreement. The initial term of the Transfer Agreement is 45 years, with a provision that either agency may extend the agreement for an additional 30-year term. In FY 17, the Water Authority received 100,000 AF of transfer water, in accordance with the delivery schedule contained in the agreement.

5.2 All American Canal (AAC) and Coachella Canal (CC) Lining Projects

As part of the QSA and related contracts, the Water Authority contracted with the United States and others for 77,700 AF/YR of conserved water from projects that lined portions of the AAC and CC. The projects reduce the loss of water that occurred through seepage, and the conserved water is delivered to the Water Authority. This conserved water will provide the San Diego region with an additional 8.5 million AF over the 110-year life of the agreement. In accordance with the contracts, the Water Authority received 78,728 AF of conserved water in FY 17, which included approximately 1,000 AF of additional supply based on environmental requirements.

5.3 Claude “Bud” Lewis Carlsbad Desalination Plant

The Claude “Bud” Lewis Carlsbad Desalination Plant (CDP) started commercial operations in December 2015. The project is a result of a long-term Water Purchase Agreement (WPA) executed between the Water Authority and Poseidon Resources, a private company that develops water and wastewater infrastructure. Under the WPA, the Water Authority agreed to purchase the entire output of the CDP – a minimum of 48,000 AF/YR and up to 56,000 AF/YR. The Water Authority has the option to buy the CDP beginning 10 years after the date of commercial operation and through the end of the 30-year term of the WPA. Since commercial operation began, the plant has produced over 23 billion gallons of desalinated water. In FY 17, the total output of the plant was 40,419 AF, representing almost 9 percent of the region’s total demand over that period. This includes approximately 34,419 AF of Water Authority supplies and 6,000 AF of member agency supplies delivered to the Vallecitos Water District and Carlsbad Municipal Water District.
5.4 Metropolitan Water District of Southern California

Formed in 1928 to develop, store and distribute supplemental water in Southern California for domestic and municipal purposes, the Water Authority’s imported water sources include purchases from MWD. The Water Authority, one of 26 member agencies, is the largest member agency in terms of water purchases, purchasing approximately 193,000 AF in FY 17, after accounting for Water Authority and member agency utilized supplies. MWD supplies available to the Water Authority under preferential rights total 661,100 AF, based on a preferential right to 24.04 percent (derived from the 2017 court decision) of MWD’s total 2017 supply of 2.75 million AF.

MWD obtains its water from two sources - the Colorado River Aqueduct, which it owns and operates, and the State Water Project (SWP), with which MWD has a water supply contract through the State of California. To meet emerging challenges from dry hydrologic conditions and regulatory restrictions that limit supplies from the SWP, MWD’s strategy also includes utilizing its storage programs to maximize available supplies in wet years for use in dry years.

5.5 Carryover Storage Program

In addition to Water Authority supplies expected during a normal water year, the Water Authority has also invested in carryover storage supplies to assist in achieving reliability in dry years. The Water Authority’s carryover storage program includes both in-region surface water storage and out-of-region groundwater storage in California’s Central Valley. The following is a summary on the status of the two carryover storage projects.

*San Vicente Dam Raise Carryover Storage Project*

The San Vicente Dam Raise CSP provides approximately 100,000 AF of local storage capacity, facilitating the reliable and efficient delivery of water to residents of the Water Authority service area. It is located in the San Vicente Reservoir above the reservoir expansion for the Emergency Storage Project, increasing water storage reliability for the region. Construction was completed in 2014, and in June 2016, the carryover pool of 100,000 AF was full. The carryover storage pool level in FY 17 was 97,375 AF. The decrease in the carryover pool storage was due to evaporative losses.

*Water Authority’s Out-Of-Region Groundwater Program*

In 2008, the Water Authority acquired a total of 70,000 AF of permanent storage allocation in the Semitropic-Rosamond Water Bank Authority and the Semitropic Water Bank (40,000 AF and 30,000 AF, respectively) located in Kern County. Due to its location near the California Aqueduct, the Kern River and the Friant-Kern Canal, the location was ideally suited for groundwater banking. In 2008, the Water Authority acquired approximately 16,000 AF of water, which continues to be stored in the Water Authority’s out-of-region banking program.
LEGISLATION AND PUBLIC OUTREACH COMMITTEE

AGENDA FOR

DECEMBER 7, 2017

Christy Guerin – Chair
Matt Hall – Vice Chair
Yen Tu – Vice Chair
Gary Arant
Jerry Butkiewicz
Gary Croucher
Betty Evans
Ed Gallo

Kristin Gaspar
Frank Hilliker
Jim Madaffer
Ron Morrison
Mark Muir
Joel Scalzitti
Fern Steiner

1. Roll call – determination of quorum.
2. Additions to agenda (Government Code Section 54954.2(b)).
3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
4. Chair’s report.
   4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION/PRESENTATION

1. Legislative issues.
   1-A Washington report by Ken Carpi. (Written report only) (Supplemental Materials)
   1-B Sacramento Report.
   1-C Proposed 2018 Legislative Policy Guidelines. Staff recommendation: Adopt the proposed 2018 Legislative Policy Guidelines. (Action)
1-D Water Authority Sponsorship of Legislation in the 2018 State Legislative Session. 
Staff recommendations:

a) Legislative Proposal #1 to advance consensus landscape water use efficiency recommendations developed by the DWR Independent Technical Panel.

b) Legislative Proposal #2 to improve IRWM grant award cashflow for nonprofit organizations and disadvantaged communities.

c) Legislative Proposal #3 to develop a workable governance and administrative structure for implementation of the 10-year Salton Sea Management Program. (Action)

2. Quarterly report on Public Outreach and Conservation activities. (Presentation)

Denise Vedder

III. INFORMATION

1. Government Relations Update. 

Glenn Farrel

IV. CLOSED SESSION

V. ADJOURNMENT

Melinda Nelson
Clerk of the Board

NOTE: This meeting is called as a Legislation and Public Outreach Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
November 29, 2017

Attention: Legislation and Public Outreach Committee


Staff Recommendation
 Adopt the proposed 2018 Legislative Policy Guidelines

Alternatives
 1. Direct staff to make additional modifications to the Legislative Policy Guidelines as determined by the Board.

 2. Do not adopt the proposed 2018 Legislative Policy Guidelines.

Purpose
This memo presents proposed 2018 Legislative Policy Guidelines to the Board for consideration and adoption.

Fiscal Impact
There is no fiscal impact.

Background
The Water Authority maintains a set of legislative policy guidelines to direct staff and legislative advocates on issues of importance to the Water Authority, its member agencies, and the San Diego region. The proposed modifications to the Water Authority’s Legislative Policy Guidelines, identified in the attached draft 2018 Legislative Policy Guidelines (Attachment), represent policy positions adopted by the Board during the course of the 2017 calendar year and recommendations from staff, member agencies, and Board members.

The Board approved an original set of Legislative Policy Guidelines in December 1993. They are reviewed and updated annually. The guidelines provide a useful framework for staff and legislative advocates to evaluate the potential impact of state and federal legislation on the Water Authority and its member agencies. The guidelines also permit staff and the Water Authority’s legislative advocates to act in a timely fashion between Board meetings on issues that are clearly within the guidelines. Such actions are then reported to the Board during the next regular monthly Board meeting.

Staff and legislative advocates consult the guidelines to determine recommended positions on legislation. Irrespective of whether a staff recommended position on legislation meets, or fails to meet the principles set forth in the guidelines, staff brings those recommendations before the Board for consideration of adopting a formal position in support or opposition, accordingly. Prior to each Board meeting, staff provides a written report on recommended positions, an analysis of each bill, and a discussion of the measure’s relevance to the Legislative Policy Guidelines and other Board policies.
Discusson
This report presents an updated version of the Water Authority’s Legislative Policy Guidelines for the 2018 calendar year. Updates, revisions, and added guidelines reflect new positions and policy principles the Board discussed and adopted during the course of the 2017 calendar year, as well as new changes recommended by staff, member agencies, and Board members.

In the proposed 2018 Legislative Policy Guidelines presented to the Board at its October 26 meeting, staff identified proposed updates to sections related to:

- Energy
- Fiscal Policy and Rates
- Jurisdictional Authority
- Local Autonomy
- Local Water Resources
- State Administrative and Regulatory Agencies
- Water Facilities and Facility Operations
- Water Quality Issues
- Water Use Efficiency

Additional modifications have been made to the proposed Legislative Policy Guidelines at the request of Board members and member agencies since the October 26 Board meeting, and those modifications can be found in the following sections

- Bay-Delta
- Climate Change
- Drought Response
- Fiscal Policy and Water Rates
- Local Water Resources
- Metropolitan Water District
- Water Facility and Facility Operations
- Water Quality
- Water Supply

The proposed 2018 Legislative Policy Guidelines are attached. Revisions, updates, and recommended additions are underlined, while deletions are represented by strike-throughs. When the Board adopts the updated Guidelines, staff will incorporate changes into the final document.

Prepared by: Glenn A. Farrel, Government Relations Manager
Ivy Ridderbusch, Assistant Management Analyst
Approved by: Dennis A. Cushman, Assistant General Manager

Attachment: Proposed 2018 Legislative Policy Guidelines
DRAFT

2018 LEGISLATIVE POLICY GUIDELINES

Government Relations Program
San Diego County Water Authority
2018 Legislative Policy Guidelines

Purpose

The San Diego County Water Authority’s legislative policy guidelines reflect policy positions adopted by the Board of Directors through 2017. The guidelines provide direction to staff and the legislative advocates when they evaluate proposed legislation that may affect the Water Authority, its member agencies, or regional water management and use. Legislation that meets, or fails to meet, the principles set forth in the guidelines may be supported or opposed accordingly. The guidelines permit staff and the Water Authority’s legislative advocates to act in a timely fashion between Board meetings on issues that are clearly within the guidelines. Such actions are then reported to the Board during the next regular monthly Board meeting.

While the title of this document suggests these policy guidelines are applicable solely to state and federal legislative issues reviewed by the Water Authority, increasingly state and federal regulatory and administrative bodies are developing rules, guidelines, white papers, and regulations that can significantly affect the Water Authority and its member agencies. Water Authority staff, including the Water Authority’s legislative team, often utilize these Legislative Policy Guidelines to provide guidance on emerging and active regulatory and administrative issues.

Legislation that does not meet the principles set forth in the guidelines or that has potentially complicated or varied implications will not be acted upon by staff or the legislative advocates in between Board meetings and will instead be presented to the Board directly for guidance in advance of any position being taken.
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Bill Positions Considered by the Water Authority Board of Directors

The following represent active bill positions that may be recommended by the Water Authority staff for consideration by the Water Authority’s Board of Directors in providing guidance to the Water Authority staff and legislative advocates. Once adopted by the Board of Directors, the bill position will be communicated with the author of the legislation and may be communicated with other legislators, legislative staff, the Administration, member agencies, and the public. Advocacy strategies and activities will be directed toward implementation of the Board’s policies through advancement of the Water Authority adopted bill position.

- **SUPPORT:** This position reflects the Water Authority’s unconditional interests to see the legislation become law. Water Authority staff and legislative advocates will work for passage of the bill in its present form.

- **SUPPORT AND SEEK AMENDMENTS:** This position reflects the similar level of unconditional support for a bill as the SUPPORT position. However, this position connotes that the Water Authority would prefer specific amendments to be considered that would improve the measure. Water Authority staff and legislative advocates will communicate and advocate in support of the legislation even if amendments proffered by the Water Authority are not included in the measure.

- **SUPPORT IF AMENDED:** This is an affirmative position that connotes conditional support for a measure, but only if it is amended to incorporate specific amendments approved by the Water Authority Board. Water Authority staff and legislative advocates will not advocate in support of the legislation unless it is amended as requested by the Water Authority.

- **OPPOSE:** This position reflects the Water Authority’s unconditional interests to defeat the legislation. Water Authority staff and legislative advocates will work for defeat of the measure in its present form, and will not pursue amendments to address the measure’s shortcomings.

- **OPPOSE UNLESS AMENDED:** This is a position that connotes conditional opposition to a measure, unless it is amended to incorporate specific amendments approved by the Water Authority Board. Water Authority staff and legislative advocates will actively work to defeat the legislation until and unless it is amended as requested by the Water Authority. If legislation is amended as requested by the Water Authority, the Water Authority staff and legislative advocates will cease working to defeat the legislation, but will not advocate in support of the measure unless further directed by the Water Authority Board.

All other bills that are of potential interest or concern to the Water Authority are monitored by the staff and legislative advocates, as reflected on the monthly bill matrix provided to the Board. If any of those measures are amended, they are reevaluated to determine if a formal position should be recommended for Board consideration.
Binational Issues

Policy Category: Binational Issues
Binational Issues

The Water Authority generally supports initiatives that fund and encourage cooperative projects that serve the San Diego/Baja California area. The Water Authority opposes initiatives that take away local control over binational water supply and infrastructure projects.

The Water Authority’s policy principles support initiatives that:

1. Provide funding for development of Board-approved water supply and infrastructure projects to serve the San Diego/Baja California region while protecting local interests.

2. Encourage enhanced cooperation between entities in San Diego and Baja California in development of supply and infrastructure projects that will benefit the entire border region.

The Water Authority’s policy principles oppose initiatives that:

1. Would usurp local control over the financing and construction of water supply and infrastructure projects in the San Diego/Baja California region.
Biological and Habitat Preservation

Policy Category: Biological and Habitat Preservation
Environmental & Conservation Planning
Funding
Species & Habitats
**Biological and Habitat Preservation**

The Water Authority generally supports the preservation of biological and habitat values through comprehensive approaches that provide the necessary regulatory certainty for long lead time water supply projects. The Water Authority also believes that water storage and conveyance facilities provide inherent long-term habitat values that should be recognized in the regulatory process.

The Water Authority supports regulatory exemption of emergency activities when the emergency threatens the continued delivery of safe and clean water. The Water Authority also supports efforts to provide state and federal funding for habitat conservation efforts in San Diego County, on the Salton Sea, Colorado River, and at the Bay-Delta.

The Water Authority generally opposes regulations that reduce or limit the use of existing water rights or supplies, restrict the development of future water supplies, or interfere with the operation, maintenance, or repair of existing water conveyance and storage facilities.

**Environmental & Conservation Planning**

The Water Authority’s policy principles support initiatives that:

1. Support development of comprehensive multi-species habitat conservation plans that anticipate and mitigate project development impacts while preserving representative ecosystems, rather than individual species.

2. Exempt operation, maintenance, and repair of water system facilities from endangered species and other habitat conservation regulations because they provide beneficial cyclical habitat values to declining species and foster biological diversity in California.

3. Provide environmental regulatory certainty for implementation of existing and proposed long-term water supply programs.

4. Consolidate wetlands regulations to alleviate multi-agency jurisdiction over the same environmental resource.

5. Streamline filing of CEQA notices of determination for multi-county water projects by making those notices available on the CEQAnet website through the Governor’s Office of Planning and Research.
Funding
The Water Authority’s policy principles support initiatives that:

1. Authorize federal and state funding to develop and implement regional or subregional conservation programs, including but not limited to property acquisition, revegetation programs, and watershed plans.

2. Provide state and/or federal funding for the restoration of the Salton Sea.

3. Provide federal and/or state funding to implement actions that address the ecological and water supply management issues of the Lower Colorado River from Lee’s Ferry to the southerly international border with Mexico.

4. Provide federal and/or state funding to implement actions that address the ecological and water supply management issues of the Sacramento-San Joaquin River Delta.

The Water Authority’s policy principles oppose initiatives that:

1. Provide for after-the-fact reduction in quantity or quality of a public water supply due to new restrictions on the operation or use of water supply facilities unless funding for alternate sources of water is provided.

2. Impose a “utility user fee” or “surcharge” on water for the purposes of financing open space/habitat preservation, restoration, or creation.

Species & Habitats
The Water Authority’s policy principles support initiatives that:

1. Incorporate an emergency exemption for “take” of a listed species listed under the state or federal Endangered Species Acts when necessary to mitigate or prevent loss of or damage to life, health, property, or essential public services.

2. Encourage species listings, critical habitat designation, and recovery plans developed pursuant to the state or federal Endangered Species Acts to be consistent with existing interstate compacts, tribal treaties, and other state and federal agreements.

3. Facilitate implementation of the Conserved Water Transfer Agreement with the Imperial Irrigation District and other Quantification Settlement Agreement programs with impacts or potential impacts to species and habitat along the lower Colorado River and at the Salton Sea.

4. Designate feral pigs as a noxious invasive animal species in the San Diego region, or authorizes actions, including eradication, to protect the region’s waters and natural landscapes from damage by feral pigs.
The Water Authority’s policy principles oppose initiatives that:

1. Impose endangered species or habitat conservation requirements that restrict the operation, maintenance, or repair of public water supply, conveyance, treatment, or storage facilities.
Drought Response

The Water Authority and its member agencies have made significant investments in supply, storage and infrastructure to avoid or minimize water shortages during drought periods and ensure a reliable supply of water for the residents and businesses of San Diego County. The Water Authority generally supports emergency drought regulations that ensure the Water Authority and its member agencies receive the water supply benefits of the investments made in reliability. The Water Authority generally supports drought regulations that recognize variations among communities, regions, and counties with respect to their abilities to withstand the impacts and effects of drought. The Water Authority generally opposes initiatives that create a disincentive to water agencies to invest in drought-resilient supplies and creates a “one-size-fits-all” approach to emergency drought declarations.

Drought Response

The Water Authority’s policy principles support initiatives that:

1. **Ensure the Water Authority and its member agencies receive the dry-year water supply benefits of its investment in local water supply sources.**

2. **Allow local agencies to achieve compliance with emergency or non-emergency drought regulations or objectives through a combination of water conservation measures and development and implementation of local water supply sources that are not derived from the Delta.**

3. **Allow for local agencies to account for all water supplies available during droughts and other events when calculating the water supply shortage level.**

4. **Create a process for development and implementation of emergency drought declarations and regulations that recognizes variations among communities, regions, and counties with respect to their abilities to withstand the impacts and effects of drought.**

5. **Recognize variations among communities, regions, and counties with respect to their abilities to withstand the impacts and effects of droughts, and ensure that any temporary or permanent statutory or regulatory direction for improving water use efficiency to meet statutory or regulatory goals or standards is focused on regional achievement of objectives rather than a one-size-fits-all approach.**

The Water Authority’s policy principles oppose initiatives that:

1. **Disincentivize or impede water agencies from making investments to maximize the potential for recycled water, potable reuse, desalination and other drought-resilient local water supplies.**
2. Create a “one-size-fits-all” approach to emergency drought declarations and regulations that ignores variations among communities, regions, and counties with respect to their ability to withstand the impacts and effects of drought.
Energy

Electricity for moving, treating and delivering water is a major cost to the Water Authority. Generally, the Water Authority supports initiatives that help to lower the cost of electricity. The Water Authority has some capacity to generate electricity and has acquired federal preferential power, so it and therefore supports legislation that helps it to utilize or market the electricity it produces and acquires. The Water Authority also supports actions related to energy creation that will reduce the overall cost of water. The Water Authority’s goal is to ensure that existing and planned facilities are built and operated in a manner that is environmentally sensitive, reliable, and energy efficient. This section outlines the Water Authority’s policies toward initiatives that affecting renewable energy, energy consumption, and efficiency and conservation related to existing or planned facilities.

The Water Authority generally supports initiatives that will facilitate the development of renewable and alternative energy sources. The Water Authority also supports initiatives that will provide funding for projects to increase energy efficiency, reliability, and reduce peak demands.

The Water Authority generally opposes legislation that would increase the cost of its power supply. The Water Authority also opposes initiatives that would interfere with its ability to produce electricity, buy or sell, and deliver electrical power or natural gas.

Energy Costs
The Water Authority’s policy principles support initiatives that:

1. Provide opportunities for reduced energy rates under tariff schedules for the Water Authority and its member agencies.

2. Provide protection to water agencies in San Diego County from energy rate increases and provides rate relief for member agencies.

3. Provide funding, including state and federal grants, for in-line hydro-electric, solar, wind, battery storage, biogas cogeneration, nanogrids, microgrids, and closed-loop pumped storage facilities as well as other renewable energy generation or storage technology as a means of reducing greenhouse gas emissions.

4. Promote funding for use of renewable energy in the operation of water agency facilities in San Diego County.

5. Prohibit investor-owned utilities from implementing rate changes that undercut the financial viability of renewable energy facilities obligated under long-term Power Purchase Agreements.

The Water Authority’s policy principles oppose initiatives that:
1. Adversely affect the cost of energy needed to operate MWD’s facilities, State Water Project facilities, or the facilities of the Water Authority and its member agencies.

2. Impose greenhouse gas reduction obligations on a public water agency for electricity purchased or produced for the sole purpose of operating its system.

Energy Independence

The Water Authority’s policy principles support initiatives that:

1. Provide greater flexibility in the utilization of Water Authority and its member agencies’ facilities for generation and acquisition of electrical and natural gas power.

2. Provide the Water Authority and its member agencies with greater flexibility in the licensing, permitting, interconnection, construction, and operation of its existing and potential in-line hydroelectric, solar, wind, battery, nanogrid, microgrid, and closed-loop pumped-storage projects, and other renewable energy generation or storage technology.

3. Make SWP power available for all water projects.

4. Promote the classification of electricity generated by in-line hydroelectric and closed-loop pumped storage facilities as a clean, environmentally sound, and renewable energy resource.

5. Promote the expansion of closed-loop pumped storage facilities to provide a clean and environmentally sound energy resource.

6. Promote the expansion of in-line hydroelectric energy recovery systems at treatment facility discharge systems.

7. Promote the production, purchase, delivery, and use of alternative sources of energy on a wholesale basis.

8. Facilitate the Water Authority’s opportunities to exercise the authorities granted by the County Water Authority Act, Section 45-5.1.

9. Promote large-scale (greater than 50 MW) pumped storage as counting toward energy storage procurement targets.

10. Provide clear statutory, regulatory, or administrative authority for the Water Authority to wheel acquired or produced power to itself, its member agencies, or entities with which the Water Authority is under contract for the purchase, treatment, transport, or production of water.
11. Recognize all grid services that energy storage provides, and supports fair compensation in the wholesale energy market for such services.

40.12. Provides timely, efficient, and cost effective interconnection of new energy resources such as solar, inline hydroelectric, pumped storage, and other renewable energy generation or storage technologies to the electric distribution and transmission grid.

The Water Authority’s policy principles oppose initiatives that:

1. Adversely affect the ability of the Water Authority or its member agencies to own, operate, and/or construct work for supplying its member public agencies, or its own facilities with natural gas and electricity.

2. Impede the Water Authority’s or its members agencies’ ability to contract for, deliver, and use the purchase of natural gas and electricity from the United States, the State of California, and any other public agency or private entity and sell the gas and electricity to any public agency or private entity engaged in retail sales of electricity and gas.

3. Reduce the Water Authority or its member agencies’ ability to maintain high operational efficiency at all times.

4. Restrict the Water Authority or its member agencies’ ability to expand or improve infrastructure or facilities.

5. Restrict or caps future energy demands needed for possible expansion of recycled water, potable reuse, and desalination projects.

6. Adversely affect the Water Authority or its member agencies’ ability to expand cogeneration or polygeneration at planned or existing facilities.

7. Inhibit the scientific advancement of energy and water efficient/conserving technologies that may be implemented at Water Authority and member agency facilities.

8. Prevent the Water Authority and its member agencies from enhancing energy reliability and independence for their facilities.

9. Do not count or credit qualified renewable energy projects toward accomplishment and satisfaction of the California Renewables Portfolio Standard objectives.

10. Prohibit the Water Authority from wheeling – or securing statutory, regulatory, or administrative authority necessary to wheel – acquired or produced power to itself, its member agencies, or entities with which the Water Authority is under contract for the purchase, treatment, transport, or production of water.
40.11. Result in a lengthy, more complicated, or more costly interconnection of new energy resources, such as solar, inline hydroelectric, pumped storage, and other renewable energy generation or storage technologies to the electric distribution and transmission grid.
Financial Issues

Policy Category: Fiscal Policy and Water Rates
  Fees, Taxes, and Charges
  Financial Management
  Funding
  Rates

Policy Category: Water Bonds
Fiscal Policy and Water Rates

The Water Authority generally supports initiatives that improve the Water Authority’s ability to obtain cost-effective financing for the construction, operation, and maintenance of public facilities. The Water Authority supports initiatives that are consistent with the Board’s policy principles adopted in 2006, regarding user fees and statewide water infrastructure funds. The Water Authority supports initiatives that promote local control over water rates, but ensure that rate-making is undertaken pursuant to a clearly defined cost-of-service basis and foundation.

The Water Authority generally opposes unfunded federal or state mandates that are not accompanied by subventions. The Water Authority opposes initiatives that reallocate the Water Authority’s revenues or reserves to statewide purposes. The Water Authority opposes imposition by the state of a “public goods charge,” or excise tax on water for statewide purposes. The Water Authority opposes state-imposed user fees on water imposed by the state unless the fee is restricted to paying for specific projects and programs with identified costs and clearly identified benefits. The Water Authority opposes the imposition of a state water user fee to pay the interest or principal on a statewide water bond. The Water Authority opposes initiatives that would interfere with public agencies’ ability to set their own rates and manage their own finances.

Fees, Taxes & Charges

The Water Authority’s policy principles support initiatives that:

1. Are consistent with the policy principles adopted by the Board of Directors on February 23, 2006, regarding a proposed Water Resources Investment Fund.

The Water Authority’s policy principles oppose initiatives that:

1. Impose mandated costs or regulatory constraints on local governments without providing subventions to reimburse local governments for such costs.

2. Pre-empt the Water Authority’s or its member agencies’ ability to impose or change rates, charges, fees, or assessments.

3. Weaken the protections afforded the Water Authority or its member agencies under California’s Proposition 1A (November 2, 2004).

4. Impose a water user fee on water agencies or water users that does not provide a commensurate and directly linked benefit in the local area or region from which the water user fee is collected.

5. Impose a water user fee for statewide projects or programs, for which the projects or programs are not clearly defined, the beneficiaries identified, and the reasonable costs identified.
6. Impose a water user fee in order to create a state fund that can be used to finance undefined future projects and programs.

7. Allow the state to retain more than five percent of water user fees for administrative costs.

8. Do not restrict the use of water user fees to only the specific purposes for which they are imposed, without any possibility of diversion to meet other fiscal needs of the state.

9. Impose a “public goods charge” or “water tax” on public water agencies or their ratepayers.

10. Impose a fee on water users to repay the principal and interest on a statewide general obligation bond.

11. Establish regulatory or permit fees that lack a nexus to the costs of oversight.

12. Establish a broad-based user fee that does not support a specific program activity; any fee must provide a clear nexus to the benefit the fee would provide.

**Financial Management**

**The Water Authority’s policy principles oppose initiatives that:**

1. Are inconsistent with the Water Authority’s and its member agencies’ current investment policies and practices.

2. Make any unilateral reallocation of Water Authority or its member agencies’ revenues by the state unless the state takes compensatory measures to restore those funds.

3. Reduce the Water Authority’s or its member agencies’ revenues without giving the Water Authority and its member agencies a commensurate public benefit that is clearly identifiable and separate from a general statewide benefit.

4. Restructure the Water Authority’s or its member agencies’ responsibilities without also providing the commensurate restructuring of revenues.

5. Require the expenditure of Water Authority or member agency funds to accomplish federal water supply commitments such as may be required in national treaties.

6. Reduce or eliminate the tax-exempt status on municipal financings.
**Funding**

The Water Authority’s policy principles support initiatives that:

1. Require the federal and state governments to provide subvention to reimburse local governments for all mandated costs or regulatory actions.

2. Provide the Water Authority and its member agencies with additional forms of cost-effective financing for public facilities.

3. Revitalize the Title XVI federal funding program by converting new authorizations to a competitive grant program with congressional oversight while protecting existing Title XVI authorizations for the San Diego region.

4. Provide the Water Authority and its member agencies with grant funding for public facilities.

The Water Authority’s policy principles oppose initiatives that:

1. Impose additional administrative requirements and/or restrict the Water Authority’s or its member agencies' ability to finance public facilities through the issuance of long-term debt.

2. Interfere with the responsibility of a region, operating under an Integrated Regional Water Management Plan, for setting priorities and generating projects to be paid from any IRWM accounts and grants.

3. Interfere with the control exercised by the San Diego funding subregion over the use and expenditure of any water user fee revenues that may be dedicated to the region.

**Rates**

The Water Authority’s policy principles support initiatives that:

1. Maintain the authority of water agencies to establish water rates locally, consistent with cost-of-service requirements of the law.

2. Maximize the ability of water agencies to design rate structures to meet local water supply goals and that conform to cost-of-service requirements of the law.

The Water Authority’s policy principles oppose initiatives that:

1. Impair the Water Authority’s or its member agencies’ ability to provide reasonable service at reasonable costs to member agencies or to charge all member agencies the same rate for each class of service consistent with cost-of-service requirements of the law.
2. Undermine or weaken cost-of-service rate-making requirements in existing law.

3. Impair the Water Authority’s or its member agencies’ ability to maintain reasonable reserve funds and obtain and retain reasonable rates of return on its reserve accounts.

4. Mandate a specific rate structure for retail water agencies.

5. **Prescribe mandatory conservation-based rate structures that override the authority of the boards of directors of local water agencies to set rate structures according to the specific needs of the water agencies.**
**Water Bonds**

The Water Authority generally supports water bond legislation that provides an equitable share to the San Diego region, focuses on statewide priorities that achieve the coequal goals of improving water supply reliability and restoring ecosystems in the Delta. The Water Authority also supports bond legislation that ensures the grant application is not unduly burdensome and is open and transparent.

However, the Water Authority generally opposes water bond legislation that does not provide equitable funding for the San Diego region. The Water Authority also opposes water bond legislation that does not result in real improvements in water supply and water supply reliability and resolve statewide conflicts over water supply.

**It shall be the Water Authority’s policy to support water bond legislation or an initiative that:**

1. Provides an equitable share of funding to San Diego County, with major funding categories being divided by county and funded on a per-capita basis to ensure bond proceeds are distributed throughout the state in proportion to taxpayers’ payments on the bonds.

2. Focuses on statewide priorities, including restoration of fish and wildlife habitat, construction of an improved method of conveyance of water through or around the Delta that provides water supply reliability to Delta water users, promotion of greater regional and local self-sufficiency, surface storage, and promotion of water use efficiency.

3. Provides the states’ share of funding for projects that advance the achievement of the co-equal goals of water supply reliability and Delta ecosystem restoration.

4. Provides funding for water infrastructure that resolves conflicts in the state’s water system and provides long-term benefits to water supply, water supply reliability, water quality, and ecosystem restoration.

5. Defines the “San Diego sub-region” and “San Diego county watersheds” as “those portions of the westward-flowing watershed of the South Coast hydrologic region situated within the boundaries of San Diego County.”

6. Includes within IRWM funding money that a region may use over time to develop and refine its plan and to develop institutional structures necessary to establish and implement the plan.

7. Gives primary consideration to funding priorities established by local and regional entities through their IRWM planning process.

8. Ensures that the application process for funding is not unnecessarily burdensome and costly, with an emphasis on streamlining the process.
9. Limits state overhead to no more than five percent of bond funding amounts.

10. Places as much emphasis and provides at least as much funding for surface storage as for groundwater storage.

11. Funds emergency and carryover storage projects such as the San Vicente dam raise project.

12. Consolidates administration of all voter-approved water-related bond funding in one place, preserves existing expertise within the state bureaucracy to manage bond funding processes, and provides consistent application and evaluation of bond funding applications.

It shall be the Water Authority’s policy to oppose water bond legislation or an initiative that:

13. Does not provide an equitable share of funding to San Diego County, based on San Diego County taxpayers’ proportional contribution to repayment of the bond.

14. Does not provide funding for infrastructure that resolves statewide or regional conflicts over water supplies.

15. Does not provide funding that results in net increases in real water supply and water supply reliability.

16. Commits a significant portion of its funding to projects that do not result in net increases in real water supply or water supply reliability.
Imported Water Issues

Policy Category: Bay-Delta

Policy Category: Metropolitan Water District Board of Directors

Policy Category: Imported Water Supply
  Colorado River
  State Water Project
  Water Transfers
Bay-Delta

Generally, the Water Authority has supported an implementable and affordable solution to the conflicts between water supply exports and Delta ecosystem protection. These long-standing Delta conflicts have made water supply less reliable. Irrespective of whether a proposed Delta fix is the Bay-Delta Conservation Plan, California WaterFix, or some other conveyance-related proposal, the Water Authority is also interested in ensuring that the solution to Delta conflicts be cost-effective, and that the water contractors who finance the solution be capable of financing and maintaining improvements to the Delta. The Water Authority supports Delta solution costs being shared equitably among beneficiaries of the improvements, and that MWD member agencies be required to make firm commitments to pay their share of MWD’s State Water Project contract obligations. These policy principles reflect the Board’s multi-year engagement on issues related to the Bay-Delta Conservation Plan, California WaterFix, and other Delta fix proposals.

The Water Authority’s policy principles support initiatives that:

1. Require the Delta Stewardship Council or DWR to provide periodic analyses of the cost of proposed Delta improvements to the Legislature and the public.

2. Provide conveyance and storage facilities that are cost-effective for the San Diego region’s ratepayers, improve the reliability and quality of the San Diego region’s water supplies, and protect the Bay-Delta’s ecosystem.

3. Require water agencies and other entities that contract to pay the costs of improvements in the Delta to obtain take-or-pay contracts with their member agencies to pay the fixed costs of the improvements.

4. Implement a long-term, comprehensive solution for the Bay-Delta that:
   a) Achieves the co-equal goals of water supply reliability and environmental restoration embodied in the 2009 Delta bill package.
   b) Provides deliberative processes that are designed to ensure a meaningful dialogue with all stakeholders in order to reduce future conflicts and challenges to implementation of a Bay-Delta solution.
   c) Provides regulatory certainty and predictable supplies to help meet California’s water needs in the long-term.
   d) Provides a Bay-Delta solution that acknowledges, integrates and supports the development of water resources at the local level including water use efficiency, seawater and brackish water desalination, groundwater storage and conjunctive use, and recycled water including direct and indirect potable reuse.
   e) Improves the ability of water-users to divert water from the Delta during wet periods, when impacts on fish and ecosystem are lower and water quality is higher.
f) Develops a statewide water transfer market that will improve water management.
g) Improves coordination of Central Valley Project and State Water Project operations.
h) Restores the Bay-Delta ecosystem to a point where species listed under the state and federal Endangered Species Acts are no longer threatened or endangered, taking into account all factors that have degraded Bay-Delta habitat and wildlife.
i) Ensures a meaningful dialogue with all stakeholders and that ecosystem restoration issues are addressed in an open and transparent process.
j) Provides a Bay-Delta solution and facilities that are cost-effective when compared with other water supply development options for meeting Southern California’s water needs.
k) Identifies the total cost of any Bay-Delta solution before financing and funding decisions are made, which must include the cost of facilities, mitigation and required or negotiated ecosystem restoration.
l) Allocates costs of the Bay-Delta solution to stakeholders in proportion to benefits they receive.
m) Requires a firm commitment and funding stream by all parties to pay for the proportional benefits they will receive from a Bay-Delta solution, through take-or-pay contracts or the legal equivalent.
n) Conditions financial support on provisions allowing access to any water conveyance or storage facilities that are included in the Bay-Delta solution.
o) Uses public funds to support specific projects and actions with identified costs that protect and restore the environment and provide broad-based public benefits.
p) Provides “right-sized” facilities to match firm commitments to pay for the Bay-Delta solution.
q) Provides SWP contractors and their member agencies access to all SWP facilities to facilitate water transfers.
r) Continues state ownership and operation of the SWP as a public resource.
s) Improves efficiency and transparency of all SWP operations.

5. Authorize and appropriate the federal share of funding for the long-term Bay-Delta solution.

6. Provide the ongoing state share of funding for the long-term Bay-Delta solution.

7. Provide state funding for aquatic toxicity monitoring in the Bay-Delta. Such legislation should not place a surcharge on water supply exports nor should it substantively reduce funding for other measures that protect the environment and public health.

The Water Authority's policy principles oppose initiatives that:
1. Impose water user fees to fund ecosystem restoration and other public purpose, non-water-supply improvements in the Delta that benefit the public at large.

2. Transfer operational control of the SWP or any of its facilities to MWD, the State Water Project Contractors, Central Valley Project Contractors, the State and Federal Contractors Water Agency, any entity comprised of MWD or other water project contractors, or any other special interest group.
The Water Authority supports initiatives that require MWD to treat its member agencies equitably in proportion to their financial contributions. The Water Authority supports the protection of the Water Authority’s preferential rights at MWD, and supports initiatives requiring MWD to enter into contractual financial agreements with its member agencies, before it embarks on major capital investments, under which the member agencies would pay an equitable portion of MWD’s fixed costs of capital development and operations regardless of the amount of water the member agencies purchase in any particular year.

The Water Authority’s policy principles support initiatives that:

1. Provide an appropriate level of accountability and cost control over MWD spending.
2. Protect and safeguard the Water Authority’s Preferential Rights in the Metropolitan Water District Act.
3. Require MWD to refund or credit to its member agencies revenues collected from them that result in reserve balances greater than the maximum reserve levels established pursuant to state legislation.
4. Require MWD to enter into take-or-pay contracts with its member agencies to assure MWD’s long-term financial viability to pay for major capital investments, including the State Water Project, regardless of whether a member agency buys water from MWD in any particular year, before MWD commits to paying for its share of the costs of a Delta conveyance project.
5. Amend the Metropolitan Water District Act to change voting allocation on its Board of Directors based on a member agency’s total financial contribution to MWD, and in a manner similar to the voting allocation method of the County Water Authority Act.

The Water Authority’s policy principles oppose initiatives that:

1. Return the Metropolitan Water District to its membership structure prior to the enactment of SB 1885 (Ayala) in 1998.
Imported Water Supply

The Water Authority relies on imported water from the Sacramento-San Joaquin Delta and from the Colorado River for a significant portion of its water supply. This section details the Water Authority’s policies toward initiatives that affect the imported water supply. Policies specifically relating to the Sacramento-San Joaquin Delta are listed in the section entitled “Bay-Delta.”

The Water Authority supports funding and other incentives for ecosystem restoration and other improvements to the Colorado River that improve water supply and water supply reliability. The Water Authority also supports a robust and effective means of transferring water from one part of the state to another as needed, either year-by-year or longer term.

The Water Authority supports initiatives that require MWD to treat its member agencies equitably in proportion to their financial contributions. The Water Authority supports the protection of the Water Authority’s preferential rights at MWD, and supports initiatives requiring MWD to enter into contractual financial agreements with its member agencies, before it embarks on major capital investments, under which the member agencies would pay an equitable portion of MWD’s fixed costs of capital development and operations regardless of the amount of water the member agencies purchase in any particular year.

The Water Authority opposes initiatives that would transfer control of the State Water Project from the state to MWD, the State Water Contractors, the Central Valley Project Contractors, the State and Federal Water Contractors Authority, or to any entity comprised of MWD and other water contractors.

Colorado River

The Water Authority’s policy principles support initiatives that:

1. Supports implementation and funding of the California Colorado River Water Use Plan, including the Lower Colorado River Multi-Species Conservation Program.

2. Provide funding for Colorado River salinity control projects and other water quality management efforts.

3. Provide for state and federal authorizations and appropriations of non-fee- based funds to implement Salton Sea mitigation and restoration solutions, consistent with its obligations under Chapters 611, 612, and 613 of the Statutes of 2003.

4. Revise the Quantification Settlement Agreement mitigation measures for the Salton Sea to limit the costs imposed on the funding parties to the amount committed in accordance with the QSA legislation.

The Water Authority’s policy principles oppose initiatives that:
1. Impose additional mitigation costs or obligations for the Salton Sea on the non-state parties to the Quantification Settlement Agreement.

**State Water Project**

**The Water Authority’s policy principles support initiatives that:**

1. Provide for development of a comprehensive state water plan that balances California’s competing water needs and results in a reliable and affordable supply of high-quality water for the San Diego region.

2. Amend the Metropolitan Water District Act to change voting allocation on its Board of Directors based on a member agency’s total financial contribution to MWD, and in a manner similar to the voting allocation method of the County Water Authority Act.

3. Provide an appropriate level of accountability and cost control over MWD spending.

4. Protect and safeguard the Water Authority’s Preferential Rights in the Metropolitan Water District Act.

5. Require MWD to refund or credit to its member agencies revenues collected from them that result in reserve balances greater than the maximum reserve levels established pursuant to state legislation.

6. Require MWD to enter into take-or-pay contracts with its member agencies to assure MWD’s long-term financial viability to pay for major capital investments, including the State Water Project, regardless of whether a member agency buys water from MWD in any particular year, before MWD commits to paying for its share of the costs of a Delta conveyance project.

**The Water Authority’s policy principles oppose initiatives that:**

1. Make urban water supplies less reliable or substantially increases the cost of imported water without also improving the reliability and/or quality of the water.

2. Revise the Central Valley Project Improvement Act to jeopardize the Act’s environmental integrity, compromise State Water Project supply reliability and/or limit the ability of urban agencies to transfer and/or bank CVP water for use both within and outside the CVP service area.

3. Transfer operational control of the State Water Project or any of its facilities to MWD, the State Water Project contractors, Central Valley Project contractors, the State and Federal Contractors Water Agency, any entity comprised of MWD or other water project contractors, or any other special interest group.
Water Transfers

The Water Authority’s policy principles support initiatives that:

1. Encourage and facilitate voluntary water transfers consistent with other Water Authority policies and agreements.

2. Provide appropriate protection or mitigation for the environment, groundwater basins, water-rights holders and third-party impacts within the district transferring water.

3. Create a water transfer clearinghouse that serves as a neutral information resource that focuses on the collection, assembly and dissemination of information on water transfers.

4. Streamline the permitting and approval process for implementing transfers that will improve water management consistent with other Water Authority policies and agreements.

5. Encourage efficient use of existing facilities to advance voluntary transfers of water consistent with other Water Authority policies and agreements.

6. Provide that any water transfer between users within counties, watersheds or other areas of origin shall be deemed not to operate to the injury of any use of water with a point of diversion that is not located within the same hydrologic area as the transferor of the water.

The Water Authority’s policy principles oppose initiatives that:

1. Adversely affect water management efforts by granting property rights status for the right to use or receive water and requires compensation for federal actions that impact users of water from federal projects.

2. Create a water transfer clearinghouse that is anything other than a neutral information resource.

3. Increase regulatory or procedural impediments to water transfers at the local or state level.
Jurisdictional Authority

It shall be the Water Authority’s policy to refer all such legislation to the Board of Directors.
Local Autonomy

Policy Category:  Local Autonomy
Local Autonomy

The Water Authority generally opposes initiatives that interfere with the Water Authority’s Board of Directors’ ability to govern the Water Authority’s affairs or govern relations with its employees, or that would similarly impede the ability of the Water Authority’s member agencies to exercise local authority.

The Water Authority’s policy principles oppose initiatives that:

1. Diminish the power of the Water Authority Board of Directors to govern the Water Authority’s affairs.

2. Modify the committee or board voting structure or member agency board representation unless such changes have been expressly authorized by the Water Authority Board of Directors.

3. Diminish the power or rights of the Water Authority to govern relations with its employees.

3.4. Diminish the power or rights of the Water Authority’s member agency governing bodies to govern their own affairs.
Local Water Resources

Policy Category: Local Water Resources
- Alternative Sources
- Desalination
- Drought Response
- Funding
- Water Recycling & Potable Reuse
Local Water Resources

In recent years, the Water Authority and its member agencies have made great progress in diversifying and improving the reliability of the region’s water supply and developing local water resources to reduce reliance on increasingly unreliable imported water supplies. This section details the Water Authority’s policies toward initiatives that affect local water resources.

Generally, the Water Authority supports initiatives that provide funding for the development of local water supplies. The Water Authority supports initiatives that fund, promote, or facilitate the development of groundwater, potable reuse, recycling, and seawater desalination facilities. The Water Authority supports initiatives that provide local agencies with regulatory flexibility with respect to local water supplies that may raise water quality concerns, such as recycled water, potable reuse, graywater, and storm water runoff.

The Water Authority supports initiatives that provide local decision-making authority for potable reuse, stormwater, conservation, recycling, seawater desalination, and other alternative sources of water. The Water Authority has been very active in shaping state laws that promote water conservation, both indoor and landscape.

The Water Authority generally opposes initiatives that impose unreasonable regulations on local water supplies, or that interfere with the authority of local agencies to regulate the discharge of contaminants into local water sources. The Water Authority opposes initiatives that restrict the ability of local water agencies to capture and manage stormwater runoff, or diminish the water rights of downstream water users through the capture or management of stormwater runoff upstream.

Alternative Sources
The Water Authority’s policy principles support initiatives that:

1. Facilitate and encourage the use of rainwater-capture systems (e.g. rain barrels and cisterns) and alternative water sources (e.g. air conditioner condensate) for use in irrigation.

2. Ensure that decision-making with regard to stormwater management and recapture is kept at the local or regional level through local water agencies, stormwater districts, cities, counties, and regional water management groups.

3. Recognize that stormwater management and recapture are important tools in a diversified water portfolio that can help to achieve improved water quality in local surface and groundwater supplies, augment surface and groundwater supplies for local water agencies, and promote landscape conservation from a water runoff perspective.

4. Promote and encourage the use of stormwater management to reduce pollutant
loading, increase local municipal water supplies, and improve water quality through low-impact development and watershed-based stormwater treatment systems.

5. Provide incentives for the local or regional use of stormwater management, nutrient management, and recapture.

6. Reduce or remove regulatory hurdles that hinder the use of stormwater management and recapture.

7. Encourage land use practices that promote efficient landscape design, groundwater recharge, and reduce runoff of pollutants into local water supplies.

8. Provide broad local autonomy and flexibility—within the existing Sustainable Groundwater Management Act framework—for local entities to manage and utilize local groundwater resources for local and regional needs.

The Water Authority’s policy principles oppose initiatives that:

1. Restrict the ability of the Water Authority or its member agencies to manage, store, or distribute water supplies through actions to manage or recapture stormwater.

2. Diminish the water rights or legal historical uses of downstream water users through actions to manage or recapture stormwater.

Desalination
The Water Authority’s policy principles support initiatives that:

1. Provide funding for seawater and brackish groundwater desalination studies and facilities, including concentrate disposal facilities.

2. Recognize and support the development of seawater desalination as a critical new water supply for the state and especially San Diego County.

3. Encourage seawater desalination facilities to co-locate with existing coastal power stations. Streamline permitting of desalination facilities.

4. Preserve and protects potential seawater desalination sites and existing coastal facilities including intake and discharge infrastructure that could be used or reused by a seawater desalination facility.

5. Ensure that desalination intake and discharge regulations are science-based, considering site-specific conditions and recognizing that not all technologies or mitigation strategies are feasible or cost-effective at every site.
Drought Response
The Water Authority’s policy principles support initiatives that:

1. Ensure the Water Authority and its member agencies receive the dry-year water supply benefits of its investment in local water supply sources.

2. Preserve the local water agency’s ability to establish local priorities for water resources planning decisions.

3. Allow local agencies to achieve compliance with emergency or non-emergency drought regulations or objectives through a combination of water conservation measures and development and implementation of local water supply sources that are not derived from the Delta.

4. Recognize local control in determining water use efficiency criteria, such as impact of recycled water salinity on irrigation use and efficiency for the application of non-potable recycled water.

5. Allow for local agencies to account for all water supplies available during droughts and other events when calculating the water supply shortage level.

The Water Authority’s policy principles oppose initiatives that:

1. Limit the local water agency’s ability to establish local priorities for water resources planning decisions.

2. Create stranded assets by establishing long-term demand management water use efficiency and water supply requirements that are inconsistent with the Urban Water Management Planning Act.

3. Disincentivize or impede water agencies from making investments to maximize the potential for recycled water, potable reuse, desalination and other drought-resilient local water supplies.

Funding
The Water Authority’s policy principles support initiatives that:

1. Provide funding or other incentives for conservation, peak management programs, water recycling, potable reuse, groundwater recovery and recharge, surface water development and management projects, including reservoir management, source water protection and watershed planning studies and facilities that sustain long-term reliable water resources.

2. Provide financial incentives to assist in the disposal of concentrate, sludge, and other byproducts created in the water treatment process.
3. Provide for the interchangeability of funding for groundwater and surface water enhancements to best fit the hydrogeologic attributes of a particular region.

4. Authorize, promote, and provide incentives or credits for development of local drought-resilient water supply projects such as desalination, non-potable recycling and potable reuse projects.

5. Provide funding for potable reuse demonstration projects and studies.

Water Recycling & Potable Reuse

The Water Authority’s policy principles support initiatives that:

1. Recognize and support the development of potable reuse as a critical new water supply for the State and especially San Diego County.

2. Authorize and facilitate expanded use of local water resources including water recycling, potable reuse, graywater, and rainwater harvesting (e.g., cisterns and rain barrels), and brackish groundwater.

3. Authorize local governmental agencies to regulate the discharge of contaminants to the sewer collection system that may adversely affect water recycling and reuse.

4. Encourage dual plumbing in new development where non-potable recycled water is likely to be available to enable utilization of recycled water.

5. Encourage the use of recycled water in commercial, industrial, institutional, and residential settings.

6. Promote uniform regulatory interpretation of state recycled water system standards.

7. Support beneficial revisions to the California Plumbing Code that facilitate recycled water systems.

8. Streamline regulatory processes and requirements to encourage and support the development of potable reuse and non-potable reuse as a municipal water supply.

9. Define purified recycled water as a source of water supply, and not as a waste.

10. Recognize the entire interconnected urban water cycle, as well as public health and safety, must be taken into consideration in long-term water use efficiency policies, particularly including the unintended consequences of declining flows on water, wastewater, potable reuse and recycled water systems.
The Water Authority’s policy principles oppose initiatives that:

1. Limit the ability of local governmental agencies to regulate the discharge of contaminants to the sewer collection system that may adversely affect water recycling and reuse.

2. Establish unreasonable regulatory requirements or fees relative to the safe use of recycled water which may unreasonably impede or create a disincentive to its further development.

3. Mandate the reduction of wastewater discharges to the ocean absent inclusion of funding to offset the significant costs of implementation.
Right of Way and Property

Policy Category:  Right of Way and Property
Right of Way and Property

The Water Authority generally supports initiatives that improve its ability to maintain and protect its property, rights of way, easements, pipelines, and other facilities. The Water Authority generally opposes initiatives that interfere with or increase the cost of obtaining, maintaining, and protecting property and rights of way.

The Water Authority’s policy principles support initiatives that:

1. Improve the Water Authority’s and its member agencies’ efforts to maintain and protect its property, rights of way, easements, pipelines, and related facilities and minimizes liability to the Water Authority.

2. Protect the Water Authority’s and its member agencies’ properties from restrictions when surrounding properties are incorporated into preservation areas.

The Water Authority’s policy principles oppose initiatives that:

1. Impair the Water Authority’s or its member agencies’ efforts to acquire property or property interests required for essential capital improvement projects or acquisition of property to meet pipeline water drain-down needs for existing facilities.

2. Increase the cost of property and right of way acquisition.

3. Restrict the Water Authority’s or its member agencies’ use of public rights of way or increases the cost of using public rights of way.

4. Restrict the transfer of property acquired for purposes of environmental mitigation or environmental mitigation credits to other public or private entities for long-term management.
State Administrative and Regulatory Agencies

Policy Category: State Administrative and Regulatory Agencies
State Administrative and Regulatory Agencies

In recent years, there has been considerable discussion of reorganizing the state government. One proposal that keeps recurring is the elimination of the Colorado River Board. The board is funded entirely by the California public agencies that take water from the river, and it is important because it serves as a liaison to other states and the federal government. The Water Authority generally supports initiatives that preserve the Colorado River Board.

The Water Authority supports initiatives that make the Regional Water Quality Control Boards more consistent in their application of state water quality laws. The Water Authority also supports initiatives that allow non-state water contractors to access the SWP system to convey transferred water.

The Water Authority generally opposes initiatives that would eliminate the Colorado River Board or the regional water quality control boards without creating other bodies that carry out their functions.

The Water Authority’s policy principles support initiatives that:

1. Preserve the California Colorado River Board.

2. Ensure the interests of the members of the California Colorado River Board continue to be addressed in any state government reorganization.

3. Ensure consistent application of the law by the State Water Resources Control Board and the nine Regional Water Quality Control boards.

4. Provide for continued certification by the state of urban water agency conservation efforts and achievements as reported to the CUWCC by signatories to the CUWCC Memorandum of Understanding.

5. Ensure that any reorganization of the State Water Project, including operations and management, preserves the ability for non-State Water Project contractors to access the facility for transportation of water to a non-State Water Project contractor.

The Water Authority’s policy principles oppose initiatives that:

1. Eliminate the California Colorado River Board without providing a comparable structure or forum that ensures the Water Authority’s interests in the Colorado River are preserved.

2. Eliminate the State Water Resources Control Board and/or the nine Regional Water Quality Control boards without ensuring that the functions and expertise of the boards is maintained in any reorganized entity.
Water Facility and Facility Operations

Policy Category: Water Facility and Facility Operations
Construction
Funding
Water System Operations
Water Facilities and Facility Operations

The construction, maintenance, and operation of water facilities is an essential activity of the Water Authority. This section details the Water Authority’s policies toward initiatives that affect water facilities and facility improvement.

Generally, the Water Authority supports initiatives that provide state and federal funding for water storage, watershed protection, treatment and delivery facilities, groundwater recharge, canal lining, and other water infrastructure development, security, maintenance, and rehabilitation. The Water Authority also supports initiatives that prevent the spread of dreissenid mussels and other non-native aquatic species. The Water Authority supports the protection of habitats and cultural resources connected with water facilities or water facility improvements.

The Water Authority generally opposes initiatives that restrict local control and discretion over water facilities and facility operations. The Water Authority also generally opposes initiatives that shift the risks of legal liability from contractors to public agencies. The Water Authority opposes initiatives that restrict the Water Authority from using its own employees on construction projects, and initiatives that interfere with public agencies’ ability to respond to emergencies that would disrupt water service.

Construction

The Water Authority’s policy principles support initiatives that:

1. Provide incentives that encourage contractors to recycle or reduce waste associated with the construction of water facilities.

2. Provides flexibility to a project owner in the awarding of a construction contract to consider factors in addition to the bid price, including but not limited to the contractor’s safety record, overall experience, track record of building quality projects, on-time completion of projects and financial performance according to bid price.

The Water Authority’s policy principles oppose initiatives that:

1. Limit the Water Authority’s and/or its member agencies’ sole jurisdiction over the planning, design, routing, approval, construction, operation, or maintenance of water facilities.

2. Shift the risks of indemnity for damages and defense of claims from contractors to the Water Authority and/or its member agencies.

3. Impair the Water Authority’s and/or its member agencies’ ability to execute construction projects using its own employees.
4. Prohibit the use of alternative contract procurement methods that can be utilized in the construction of water facilities.

**Funding**

*The Water Authority’s policy principles support initiatives that:*

1. Fund or otherwise facilitate construction and/or maintenance of public water storage, watershed areas, and treatment and delivery facilities and facilitates maintenance and/or enhancement of groundwater recharge spreading areas and groundwater basin rehabilitation that benefit San Diego County.

2. Fund or otherwise facilitate the operation and maintenance of canal lining projects that enhance water supplies.

3. Provide funding for water infrastructure development, infrastructure security, and infrastructure rehabilitation and replacement projects that benefit San Diego County.

4. Fund enhancements to water treatment, recycling, and potable reuse facilities to meet increased regulations.

5. Fund improvements to water treatment facilities that allow greater use of State Water Project water.

6. Provide funding for the preservation of cultural resources affected by construction or operation of water conveyance and storage facilities.

7. Provide funding for habitat preservation programs that address impacts resulting from construction or operation of water system facilities.

8. Provide funding for projects that enhance security against terrorist acts or other criminal threats to water operations, facilities, or supplies.

9. Provide funding for the control, prevention, or eradication of non-indigenous aquatic species, including dreissenid mussels.

10. Provide incentives that encourage the optimization, expansion, and cooperative use of existing surface reservoirs.

11. Provide funding for projects that improve the security of the facilities and operations of the Water Authority and its member agencies.

12. Provide funding to water agencies for the voluntary retrofit of facilities for on-site generation of chlorine.
13. Permit the use of grant funding for projects implemented under public-private partnerships where the grant provides funding for a public benefit.

Water System Operations
The Water Authority’s policy principles support initiatives that:

1. Recognize water agencies as emergency responders in the event of a sudden, unexpected occurrence that poses a clear and imminent danger, requiring immediate action to prevent and mitigate the loss or impairment of life, health, property or essential public services due to natural disasters (e.g., wildfires, earthquakes), power outages as well as terrorist and other criminal activities.

2. Authorize state and federal wildlife agencies to provide assistance to local water agencies in the control, prevention, and eradication of non-indigenous aquatic species, including dreissenid mussels.

3. Exempt owners and operators of water supply facilities from criminal and civil liabilities associated with dreissenid mussel infestations if due diligence requirements are being met.

4. Require mandatory inspections of boats for evidence of potential dreissenid mussel infestation before allowing boat launching in reservoirs.

The Water Authority’s policy principles oppose initiatives that:

1. Impose or mandate recreational activities on drinking water reservoirs and reservoir property where such activities have been determined to be inappropriate by the reservoirs’ owners and operators.

2. Impair the Water Authority's and/or its member agencies’ ability to provide and operate the necessary facilities for a safe, reliable, and operationally flexible water system.

3. Restrict the Water Authority's and/or its member agencies’ ability to respond swiftly and decisively to an emergency that threatens to disrupt water deliveries or restricts the draining of pipelines or other facilities in emergencies or for repairs or preventive maintenance.

4. Authorize state and federal wildlife agencies to control, prevent, or eradicate invasive species in a way that excessively interferes with the operations or water supplies of local water agencies.

5. Prohibit or in any way limit the ability of the Water Authority or its member agencies from making full beneficial use of any water, wastewater, or recycling facility and resource investments.
Water Planning

Policy Category: Climate Change
  Funding
  Local Planning

Policy Category: Integrated Regional Water Management Planning
  San Diego County IRWM
  Statewide IRWM
  Funding

Policy Category: Land Use and Water Management
  Local Conditions
  Use of Public Lands
  Water Supply Planning
Climate Change

The potential effects of climate change are an important concern in water management planning. The Water Authority generally supports initiatives that incorporate considerations of climate change into water management planning, as long as the climate change information is developed and provided by the state. The Water Authority also supports initiatives that allow water agencies to partner with energy providers to improve energy efficiency in the conveyance and use of water. The Water Authority supports initiatives that encourage innovation in developing responses to climate change, with maximum control at the local level.

The Water Authority generally opposes initiatives that do not allow local control over responses to climate change. The Water Authority also opposes initiatives that prohibit water agencies from entering into the carbon credits market.

Funding

The Water Authority's policy principles support initiatives that:

1. Incorporate state provided climate change information into statewide, regional, and local water management planning, and provides funding for projects that assist in adapting to effects of climate change on the state’s water supply.

2. Provide financial support to local projects designed to mitigate or adapt to potential negative impacts of climate change on water supply reliability.

3. Encourage water agencies to partner with energy providers to help fund water conservation and other programs that result in reduction of greenhouse gas emissions and/or provides opportunities and incentives for voluntary implementation of local water and renewable energy projects that directly or indirectly reduce greenhouse gas emissions.

4. Provides incentive, funding, and assistance to water agencies so that they can comply with AB 32 (2006) requirements, and updated statutory requirements imposed pursuant to SB 32 (2016) that even further increase greenhouse gas emission reduction targets by 2030.

5. Investigate and provides financial support to projects designed to mitigate potential negative impacts of climate change on water supply reliability.

The Water Authority’s policy principles oppose initiatives that:

1. Do not allow water agency participation in the carbon credits market.
Local Planning

The Water Authority’s policy principles support initiatives that:

1. Promote public-private partnerships, encourages innovation, and focuses on quantifiable performance goals as opposed to top-down, “one size fits all” mandates.

2. Promote continued development and deployment of more sophisticated and integrated hydrological, water quality, and meteorological water monitoring for the purpose of assessing water supply conditions resulting from climate change.

3. Promote the coordination and integration of local, state and federal climate change policies and practices to the greatest extent feasible.

The Water Authority’s policy principles oppose initiatives that:

1. Require incorporation of climate change considerations into statewide, regional, and local water management planning that does not provide flexibility to the local and regional water agencies in determining the climate change impact and identification of adaptation and mitigation measures, unless climate change information is provided by the state.

2. Impose top-down, “one size fits all” climate change mandates that fail to account for hydrological, meteorological, economic, and social variation across the state and/or that fail to incorporate local and regional planning and implementation priorities and protocols.

3. Establish a “loading order” for the development of local water supplies based on embedded energy.
Integrated Regional Water Management Planning

The Water Authority, along with the City of San Diego and the County of San Diego, developed the San Diego Integrated Regional Water Management Plan. The Water Authority generally supports initiatives that provide equitable funding for IRWM plans, based on population, and that allow the regions to set their own priorities for funding. The Water Authority also supports initiatives that allow for binational funding for projects along the border.

The Water Authority generally opposes initiatives that establish state criteria and mandate for IRWM plans. The Water Authority also opposes initiatives that exclude or reduce participation by water agencies in local IRWM plans.

San Diego County IRWM

The Water Authority’s policy principles support initiatives that:

1. Define the “San Diego sub-region” and “San Diego county watersheds” as “those portions of the westward-flowing watersheds of the South Coast hydrologic region situated within the boundaries of San Diego County."

2. Allow for creation of sub-area plans that enhance, but do not duplicate or replace, a larger recognized integrated regional water management plan.

3. Require the state to rely on the local process for selection and ranking of projects included in an approved integrated regional water management plan.

Statewide IRWM

The Water Authority’s policy principles support initiatives that:

1. Require the state agencies responsible for preparing the integrated regional water management grant program guidelines to conduct a comprehensive public outreach process that ensures stakeholders have an opportunity to provide adequate input on preparation of the guidelines and that the state agencies consider and respond to comments received through the outreach process.

2. Establish a task force to provide recommendations to the state on improving the integrated regional water management planning process in California.

3. Ensure discretion for Regional Water Management Groups to determine the composition and structure of their organization, rather than through the imposition of a “one size fits all” mandated structure applied statewide.

The Water Authority’s policy principles oppose initiatives that:

1. Mandate a specific composition and management structure of the regional water management group that oversees integrated regional water management
planning efforts within a region.

2. Preclude water wholesalers from serving on a regional water management group.

3. Dilute public water agency participation on the regional water management group.

**Funding**

The Water Authority’s policy principles support initiatives that:

1. Provide for population-based distribution of funds to ensure adequate distribution of grant funding throughout the state.

2. Provide for the use of state grant funds for binational projects where the projects benefit water supply or water quality in the San Diego region.

3. Improve and streamline the state’s reimbursement process to ensure timely remittance of IRWM funds.

4. Promote the ability of the Regional Water Management Group to more directly administer state grant funds specifically identified for IRWM Programs.

The Water Authority’s policy principles oppose initiatives that:

1. Establish funding criteria that limits local discretion in project selection.
Land Use and Water Management Planning

The Water Authority generally supports initiatives that coordinate land use planning with water management planning. The Water Authority also supports initiatives that protects flood plains and water recharge basins.

The Water Authority generally opposes initiatives that interfere with the Water Authority’s ability to forecast demand and plan for water management.

Local Conditions

The Water Authority’s policy principles support initiatives that:

1. Promote enhanced coordination and linkage of general plans and water management plans.

2. Recognize regional efforts to coordinate land use planning and water management planning in a manner consistent with the goals and objectives established by regional growth management strategies, affordable housing mandates, and local general plans.

3. Discourage piecemeal or uncoordinated land use and water management planning.

4. Require that projected population and other demographic factors utilized in forecasting future water demands in accordance with the Urban Water Management Planning Act and SB 610 and SB 221, be consistent with the regional growth management plans and general plans applicable to the territory within the service area of the supplier.

5. Provide funding for, or otherwise facilitates, development of groundwater management plans pursuant to AB 3030.

The Water Authority’s policy principles oppose initiatives that:

1. Restrict or limit the effectiveness of the Water Authority or its member agencies in its continuing efforts to meet its obligations under SANDAG’s Regional Comprehensive Plan and develop demand forecasts based on SANDAG regional growth forecasts and general plan use information.

Use of Public Lands

The Water Authority’s policy principles support initiatives that:

1. Allow and fund land exchanges between local public agencies and federal or state agencies when mutually beneficial to all agencies and enhances water resources for the region.

2. Designate public lands that are tributary to drinking source water reservoirs as
wilderness, habitat preserve, open space, or other protected status, provided such designation does not impede current or reasonable future use of those water resources.

3. Protect floodplains and lands over prime groundwater recharge zones for stormwater catchment and bioremediation.

**The Water Authority’s policy principles oppose initiatives that:**

1. Impose land use designations that preclude the use of such lands for public water infrastructure determined necessary to ensure a cost-effective, safe, and reliable water supply.

**Water Supply Planning**

**The Water Authority’s policy principles support initiatives that:**

1. Considers the multiple local variables and priorities that are associated with water supply planning and selection of water resources for implementation.

2. **Preserve the local water agency’s ability to establish local priorities for water resources planning decisions.**

**The Water Authority’s policy principles oppose initiatives that:**

1. Restrict the Water Authority’s or its member agencies’ ability to utilize a demand forecasting methodology that is best suited for the region.

2. Require the use of specific evaluation criteria in water supply planning and selection of potential water supply projects that fails to take into account or conflicts with existing local and regional planning policies and implementation priorities.

3. Impose mandates requiring specific water resources be developed by water agencies that fail to take into account local factors, such as water reliability, hydrologic and geographic characteristics, and the economic, political, public acceptance, and social environment, which can influence selection of resources and/or fails to take into account or conflicts with existing local and regional planning policies and implementation priorities.

4. **Limit the local water agency’s ability to establish local priorities for water resources planning decisions.**
Water Quality Issues

Policy Category: Water Quality Issues
Contaminants
Funding
Source Water Protection
Water Quality Issues

Water quality is a major concern of the Water Authority. The Water Authority generally supports initiatives that assist in providing high-quality water to the San Diego region through cleanup and remediation of contaminants and protection of water sources.

The Water Authority generally opposes initiatives that regulate the conveyance, storage, and distribution of water supplies under the Clean Water Act.

Contaminants

The Water Authority’s policy principles support initiatives that:

1. Assure cost-effective remediation and cleanup of contaminants of concern that have impacted groundwater and surface water.

2. Incorporate sound scientific principles in adopting drinking water standards for drinking water contaminants.

3. Exempt the conveyance, storage, or release of water supplies from regulation as a discharge under the Clean Water Act and other water quality control laws.

4. Revise NPDES standards and procedures to facilitate inland discharge of recycled water.

5. Establish appropriate quality standards, testing procedures, and treatment processes for emerging contaminants.

6. Alter the definition of “lead free” to reduce the permissible amount of lead in fixtures, plumbing, and pipe fittings to be installed for the delivery of drinking water.

7. **Exempt purified wastewater from regulation as a discharge under the Clean Water Act.**

8. **Protect child public health by requiring schools to regularly undertake lead testing in school drinking water systems.**

The Water Authority’s policy principles oppose initiatives that:

1. Regulate the conveyance, storage, or release of water supplies as a discharge under the Clean Water Act and other water quality control laws.

2. **Make water suppliers financially and legally responsible for mitigation of pollution contamination by third parties.**
Funding
The Water Authority’s policy principles support initiatives that:

1. Provide the necessary funding for research on the occurrence, treatment, health effects, and environmental clean-up related to contamination of drinking water sources.

2. Implement and fund the San Diego Regional Water Quality Control Board’s triennial review of water quality standards.

3. Provide funding and support for Colorado River salinity control projects and other water quality management efforts.

Source Water Protection
The Water Authority’s policy principles support initiatives that:

1. Assist in achieving a year-round blend of imported water supplies that achieve Board-adopted water quality objectives from MWD that allows member agencies comply with drinking water standards and the region to maximize development of recycled water and reduce financial costs to the customer due to high levels of total dissolved solids in imported water supplies.

2. Provide for the protection of source water such as reservoirs and groundwater basins so that the waters can be beneficially used for consumptive purposes.

3. Appropriately protect drinking source water reservoirs as special-purpose, man-made water bodies different in character than natural waterways, rivers, lakes, and coastal waters, while allowing maximum flexibility for operations as part of a managed water supply system.

4. Exempt terminal reservoirs with no significant nexus to the watershed from regulation under the federal Clean Water Act.

5. Direct the state’s participation or assistance in water quality issues related to or threatening the Colorado River water source.

6. Provide for watershed planning, watershed signage, and actions to protect source water - including reservoirs - such as land acquisition around reservoirs, limited land use, and increased buffer areas.

7. Reduce the water quality impacts caused by runoff into local reservoirs using a watershed based approach.

8. Streamline permitting of facilities constructed for the purpose of improving water quality.
The Water Authority’s policy principles oppose initiatives that:

1. Contribute to the degradation of source water quality around reservoirs and groundwater basins.
Water Use Efficiency

Policy Category: Water Use Efficiency
- Drought Response
- Fixtures
- Funding
- Irrigation
- Long-Term Water Use Efficiency
- Reporting
Water Use Efficiency

The Water Authority has been a statewide leader in sponsoring legislation to improve water use efficiency. The Water Authority championed statewide requirements for ultra-low-flow toilets, high-efficiency clothes washers, water meters, and sponsored legislation that created a statewide task force on outdoor landscape water use efficiency. The Water Authority’s legacy as a leader in advancing statewide water use efficiency initiatives has continued through today, as the Water Authority has sponsored legislation in recent years to improve demand management measure reporting in urban water management plans, allow for installation of synthetic grass in common interest developments, and require the state to undertake regular updates of the model water efficient landscape ordinance.

The Water Authority generally supports water saving measures, such as graywater use, rainwater capture, submetering, plumbing retrofits, and others. The Water Authority has supported implementation and coordination of Best Management Practices as defined by the California Urban Water Conservation Council and Demand Management Measures under the Urban Water Management Planning Act.

The Water Authority generally opposes statewide requirements for conservation-based water rates that override the rate-setting authority of local agencies. The Water Authority also opposes the promulgation of conservation practices or standards that override the authority of local agencies.

Drought Response

The Water Authority’s policy principles support initiatives that:

1. Create a process for development and implementation of emergency drought declarations and regulations that recognizes variations among communities, regions, and counties with respect to their abilities to withstand the impacts and effects of drought.

2. Recognize variations among communities, regions, and counties with respect to their abilities to withstand the impacts and effects of droughts, and ensure that any temporary or permanent statutory or regulatory direction for improving water use efficiency to meet statutory or regulatory goals or standards is focused on regional achievement of objectives rather than a one-size-fits-all approach.

The Water Authority’s policy principles oppose initiatives that:

1. Prescribe statewide mandatory urban and agricultural water conservation management practices, including, but not limited to, methods, measures, programs, budget allocation, and designation of staff dedicated to water conservation programs, that override the authority of the boards of directors of local water agencies to adopt management practices that are most appropriate for the specific needs of their water agencies.
2. Prescribe mandatory conservation-based rate structures that override the authority of the boards of directors of local water agencies to set rate structures according to the specific needs of the water agencies.

3. Mandate regulation of the CII Sector in a manner that is discriminatory, or sets unachievable Best Management Practices or compliance targets, or would otherwise impair economic activity or the viability of the CII sector.

4. Create a “one-size-fits-all” approach to emergency drought declarations and regulations that ignores variations among communities, regions, and counties with respect to their ability to withstand the impacts and effects of drought.

Fixtures
The Water Authority’s policy principles support initiatives that:

1. Encourage the use of graywater where it complies with local guidelines and regulations and is cost-effective.

2. Establish standards for the utilization of high-efficiency commercial coin-operated and residential clothes washers.

3. Require submetering connections to be built in new construction of multiple unit commercial or residential buildings.

4. Encourage plumbing fixture retrofit upon real property resale.

5. Restrict Property Owner Associations from forbidding retrofits of multiple unit facilities for the purpose of submetering, if feasible.

6. Ensure plumbing codes and standards that facilitate the installation and/or retrofit of water efficient devices.

The Water Authority’s policy principles oppose initiatives that:

1. Repeal cost-effective efficiency standards for water-using devices.

Funding
The Water Authority’s policy principles support initiatives that:

1. Provide loans and grants to fund incentives for water efficient devices, practices, and demonstration projects and studies.

2. Provide incentives, funding, and other assistance where needed to facilitate market transformation and gain wider implementation of water-efficient indoor and outdoor technologies and practices.
3. Provide incentives, funding, and assistance to water agencies so that they can meet the water demand management measure requirements in the Urban Water Management Planning Act.

4. Provide incentives, funding, and other assistance to facilitate water use efficiency partnerships with the energy efficiency sector.

5. Provide for federal tax exempt status for water use efficiency rebates, consistent with income tax treatment at the state level.

**Irrigation**

The Water Authority’s policy principles support initiatives that:

1. Encourage implementation of effective water management practices for urban landscape and agricultural irrigation.

2. Encourage stakeholders to implement statewide landscape water conservation standards and regulations.

3. Restrict Property Owner Associations from forbidding the use of California native plants, other low water use plants, or artificial turf in well-maintained landscapes.

**Long-Term Water Use Efficiency**

The Water Authority’s policy principles support initiatives that:

1. Recognize local control in determining water use efficiency criteria, such as impact of recycled water salinity on irrigation use and efficiency for the application of non-potable recycled water.

The Water Authority’s policy principles oppose initiatives that:

1. Create stranded assets by establishing long-term demand management water use efficiency and water supply requirements that are inconsistent with the Urban Water Management Planning Act.

2. Prescribe statewide mandatory urban and agricultural water use efficiency practices, including, but not limited to, methods, measures, programs, budget allocation, and designation of staff dedicated to water conservation programs, that override the authority of the boards of directors of local water agencies to adopt management practices that are most appropriate for the specific needs of their water agencies.
3. Mandate regulation of the CII Sector in a manner that is discriminatory, or sets unachievable Best Management Practices or compliance targets, or would otherwise impair economic activity or the viability of the CII sector.

**Reporting**

The Water Authority’s policy principles support initiatives that:

1. Further the statewide goal of a 20 percent reduction in per capita water use by 2020 as set forth in SBX7-7, enacted in November 2009, and preserves water agency discretion and options for achieving this objective, or any subsequent state mandated water use efficiency goals or standards.

2. Ensure accurate and meaningful reporting of implementation of water conservation measures.

3. Encourage reasonable tracking of water use and improved efficiency in the Commercial, Industrial, and Institutional (CII) sector.

4. Promote statewide implementation of foundational water use efficiency Best Management Practices (BMPs) as defined by the California Urban Water Conservation Council (CUWCC) and Demand Management Measures (DMMs) as defined in the Urban Water Management Planning Act.

5. Designate the CUWCC or other entity representing stakeholder interests as being responsible for developing a framework for determining water agency compliance with water conservation BMPs. This framework should promote water agency incentives for BMP compliance and avoid prescriptive regulations.

The Water Authority’s policy principles oppose initiatives that:

1. Mandate that water agencies include an embedded energy calculation for their water supply sources in the Urban Water Management Plan or any other water resource planning or master planning document.
November 29, 2017

Attention: Legislation and Public Outreach Committee

Water Authority Sponsorship of Legislation in the 2018 State Legislative Session. (Action)

Staff recommendation
Sponsor or co-sponsor the following Legislative Proposals:

- Legislative Proposal #1 to advance consensus landscape water use efficiency recommendations developed by the DWR Independent Technical Panel
- Legislative Proposal #2 to improve IRWM grant award cashflow for nonprofit organizations and disadvantaged communities
- Legislative Proposal #3 to develop a workable governance and administrative structure for implementation of the 10-year Salton Sea Management Program

Alternatives
1. Do not sponsor or co-sponsor one or more of the recommended legislative proposals.

Fiscal Impact
There is no direct fiscal impact.

Discussion
Staff has considered and evaluated three legislative proposals for possible sponsorship or co-sponsorship of legislation during the 2018 state legislative session. The process to solicit legislative proposals for consideration of possible bill sponsorship in 2018 has involved the solicitation of concepts and proposals from Water Authority staff, member agency General Managers, member agency legislative liaisons, and Board members. Staff is recommending Water Authority sponsorship of all three proposals identified in the chart below, during the 2018 state legislative session. The legislative proposals are identified below and evaluated in more detail in Attachment 1.

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<tr>
<th>LEGISLATIVE PROPOSAL</th>
<th>RECOMMENDED FOR BILL SPONSORSHIP IN 2018?</th>
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<tr>
<td>1. Advancing consensus landscape water use efficiency recommendations developed by</td>
<td>YES – Staff recommends the Board sponsor</td>
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<td>the DWR Independent Technical Panel</td>
<td>or co-sponsor legislation in this area in</td>
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<td>2018, and pursue opportunities to partner</td>
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<td>with a non-governmental organization to</td>
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<td>advance the bill through the Legislature.</td>
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<tr>
<th>LEGISLATIVE PROPOSAL</th>
<th>RECOMMENDED FOR BILL SPONSORSHIP IN 2018?</th>
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<tr>
<td>2. Improving IRWM grant award cashflow for nonprofit organizations and disadvantaged communities</td>
<td>YES - Staff recommends the Board sponsor or co-sponsor legislation in this area in 2018, and pursue opportunities to partner with nonprofit and disadvantaged community organizations to advance the bill through the Legislature.</td>
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<td>3. Developing a workable governance and administrative structure for implementation of the 10-year Salton Sea Management Program</td>
<td>YES - Staff recommends the Board approve co-sponsorship of legislation – with Imperial Valley and nongovernmental organization interests – to develop a sound and workable governance and administrative structure to facilitate implementation of the 10-year Salton Sea management program.</td>
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Prepared by: Glenn A. Farrel, Government Relations Manager  
Ivy Ridderbusch, Assistant Management Analyst  
Approved by: Dennis A. Cushman, Assistant General Manager

Attachment 1: State Legislative Proposals – 2018
STATE LEGISLATIVE PROPOSALS – 2018

PROPOSAL #1 – ADVANCING CONSENSUS LANDSCAPE WATER USE EFFICIENCY RECOMMENDATIONS DEVELOPED BY THE DWR INDEPENDENT TECHNICAL PANEL

Background on Issue
In 2007, AB 1420 (Laird) was signed into law, and among other provisions, it directed the Department of Water Resources (DWR) to convene an Independent Technical Panel (ITP) to provide information and recommendations to DWR and the Legislature on new demand management measures, technologies, and approaches. The ITP was comprised of seven members selected to reflect knowledge of demand management measures, geographic variation, and balance of organizational interests. The Water Authority’s Jeff Stephenson (Principal Water Resources Specialist) was one of the seven representatives on the ITP.

The ITP met 15 times over a two-year period to discuss and complete their recommendations, which were included in the May 2016 final draft report: Independent Technical Panel on Demand Management Measures: Recommendations Report to the Legislature on Landscape Water Use Efficiency. The purpose of the report was to provide a comprehensive and complementary set of recommendations for adoption of the policies and practices that will make landscape water use more sustainable than today. The final draft report contains 19 recommendations in a variety of different categories, some of which would require legislative action to memorialize and others that could be accomplished through regulatory or administrative actions. Among the 19 recommendations embodied within the ITP final draft report are proposals related to:

- Voluntary turf replacement
- Improvements in existing landscapes
- State Model Water Efficient Landscape Ordinance revisions and process updates
- Product standards and labeling
- Water conservation professionals
- Public perceptions and social norms
- Research needs and support

In 2016, the Water Authority sponsored AB 2515 (Weber) – which was signed into law – that advanced Recommendation 6-2 from the ITP final draft report. As signed into law, AB 2515 synchronizes the Model Water Efficient Landscape Ordinance update process with the CALGreen Building Code revision process. While a handful of ITP recommendations have
moved forward legislatively over the past year, there remain many ITP recommendations for improving landscape water use efficiency that have not yet been advanced.

Water conservation is a core element of the Water Authority’s long-term strategy to improve the reliability of the region’s water supply by diversifying water sources. Since 1991, the Water Authority’s water use efficiency programs and initiatives cumulatively have conserved more than 1 million acre-feet of water, and the region has reduced per-capita water use by 50 percent since 1990. These savings have been achieved through measures ranging from incentives on water-efficient devices, to legislative efforts, to outreach campaigns and programs. This conservation has been sustained even in the face of the worst drought in generations and a multi-year string of hotter-than-normal temperatures in San Diego County. In fact, the region is already below the state’s mandate to reduce per capita water use 20 percent by 2020, as required by legislation passed in 2009 (SBX7-7).

Among the ITP recommendations that could be packaged together for legislative advancement in 2018 are the following:

- **Item 1: Require Irrigation System Evaluations as Part of Home Inspections for Single-Family Residential Properties (ITP Rec. 5-1)**

  Each year, roughly 400,000 existing homes are put up for sale in California. Home inspections offer an excellent opportunity to inform homeowners and home buyers of material defects in landscape irrigation systems. Legislation could ensure that purchasers of existing homes are informed of significant deficiencies in landscape irrigation systems by requiring home inspections to include a very basic assessment of the landscape irrigation system. The inspection would identify gross deficiencies in the turf portion of the landscape, rather than an in-depth analysis of irrigation schedules and the water-efficient equipment needed to improve irrigation efficiency at the site.

- **Item 2: State Facility Leadership for New Landscapes (ITP Rec. 6-3)**

  Legislation applying to new State facilities and State facilities that undergo major renovations could strengthen the requirements for sustainable landscape design and maintenance policies to make them commensurate with Energy Section 2.0 of the Green Building Action Plan for Zero Net Energy Approach. Under this approach, new and renovated state buildings would be designed with landscaping requiring no supplemental potable irrigation beyond the maximum two-year establishment period. Legislation could also require the installation of demonstration/educational signage to show that the State is leading by example.

- **Item 3: Plant Labeling (ITP Rec. 7-5)**

  To ensure that landscape water use goals will be met, living plant material must be properly identified and categorized by water use. This information is needed at both point of sale for “Do-It-Yourself” projects, and point of installation for contractor-installed projects. Current plant labeling requirements are inconsistent and inadequate. Legislation could require that all plant taxa sold in California be identified at the point of sale by water use classification (e.g., low, medium,
high) by an approved process (Water Use Classification of Ornamental Species, science-based research, or a DWR-approved process). Legislation could also require that representative plants (a minimum two plants per taxa per plan) delivered to a landscape job site remain labeled until the project is inspected and signed off.

- **Item 4: C-27 Examination Questions Covering Water Use Efficiency and Sustainable Practices (ITP Rec. 8-2)**

In 2005, the AB 2717 Landscape Task Force recommended “a common foundation for the education, training, and certification of landscape professionals across the disciplines involved in designing, installing, maintaining, and managing water-efficient landscapes.” In California, there are three license classifications able to provide landscape installations:

- General contracting A class (general engineering contractor)
- General contracting B class (general building contractor)
- Specialty license C-27 class (specifically for landscape contractors)

Landscaping practices are changing, and will soon change even more as a result of the drought and recent actions taken by DWR to update the Model Water Efficient Landscape Ordinance. Therefore, it follows that the trade exam should be updated to be consistent with changing landscape practices and updates to building codes. Legislation could direct the Department of Consumers Affairs to require the Contractors State License Board to formally work with the California Landscape Contractors Association and DWR to revise sections of the existing exams for General contracting classes A and B (specific to landscaping) and the specialty C-27 license.

- **Item 5: Water Use Classification of Landscape Species IV Enhancement (ITP Rec. 10-2)**

The publication *Water Use Classification of Landscape Species* (WUCOLS) is a guide to the water needs of landscape plants in California. Since 2010, this publication has become a standard reference to select the most water-efficient plants and is the de facto reference source for the Model Water Efficient Landscape Ordinance. Legislation could ensure that WUCOLS is made more useful to the general public and is kept up to date to accommodate new varieties of water-efficient plants. To enhance the consumer utility of the database and to ensure that a stale list does not inadvertently prevent the introduction and installation of new water-efficient plants, legislation could authorize and direct DWR, no less than once every three years, to review, update, and improve the WUCOLS online database.

**Recommended Approach**

Staff recommends the following course of action:

- Sponsorship of legislation in 2018 that includes the four outdoor water efficiency components reflected in the ITP recommendations and identified above.

- Pursue a bill co-sponsorship arrangement with one or more non-governmental organizations or water agency partners.
PROPOSAL #2 – IMPROVING IRWM GRANT AWARD CASHFLOW FOR NONPROFIT ORGANIZATIONS AND DISADVANTAGED COMMUNITIES

Background on Issue
In 2015, the Water Authority successfully sponsored SB 208 (Lara), which allows the Department of Water Resources to provide advanced funding of up to 50 percent of an Integrated Regional Water Management (IRWM) grant award (not exceeding $1 million) when the project proponent is a nonprofit organization or disadvantaged community, or the project benefits a disadvantaged community. SB 208 was signed into law and has been utilized in grant awards under Proposition 84 and Proposition 1 IRWM funding programs.

As the law is presently structured, DWR is required to provide advanced payment of 50 percent of an IRWM grant award for those projects that request it and that satisfy both of the following conditions:

- The project proponent is a nonprofit organization or a disadvantaged community, or the project benefits a disadvantaged community
- The grant award for the project is less than $1 million

Under the law, once the project is 50 percent complete and the advanced funds are depleted, the project proponent must then complete the remaining 50 percent of the project on a more traditional reimbursement basis, wherein the work is completed and invoices are presented to DWR for reimbursement payment upon invoice approval and verification of the completed work. There is no statutory authority for DWR to provide another 50 percent advance payment for the remainder of the project to satisfy the project proponent’s cash-flow issues.

The grant payment advance provisions of SB 208 provide great assistance in many situations where the project proponent is a small nonprofit organization or disadvantaged community with minimal ability to manage the cashflow of a project costing up to $1 million through project completion. However, there continue to be situations where the reimbursable payment model for the second-half of a project creates a precarious situation for these organizations relative to their continued ability to participate in the IRWM program. The traditional reimbursement process can represent a significant financial hardship for such organizations that have limited cash reserves.

The advanced payment policy should be revised to address this situation. Once a project sponsor documents that it has accurately and appropriately spent the first 50 percent of its grant funds, DWR should provide the remaining 50 percent as advanced funds. Such a structure would help to ensure a balance between providing the necessary financial assistance and flexibility to smaller nonprofit organizations and disadvantaged communities, while protecting the state’s interest in ensuring that the project is fully completed as originally proposed.
### Recommended Approach

Staff recommends the following course of action:

- Sponsorship of legislation in 2018 that provides an advanced grant award for the remainder of the IRWM project under the following conditions:
  - Full completion of milestones for the first half of the project
  - Demonstration of responsibility and accountability by the project proponent in completion of the first half of the project under an advanced payment award
  - Acceptance of a 10 percent retention fund by the project proponent to be released upon final approval of the completed project

- Pursue a bill co-sponsorship arrangement with one or more non-governmental organizations or coalitions representing disadvantaged communities.

### PROPOSAL #3 – DEVELOPING A WORKABLE GOVERNANCE AND ADMINISTRATIVE STRUCTURE FOR IMPLEMENTATION OF THE 10-YEAR SALTON SEA MANAGEMENT PROGRAM

#### Background on Issue

In 2014, Proposition 1 was approved by California voters, authorizing the issuance of $7.545 billion in general obligation bonds to finance a variety of water projects. Among the various funding chapters of Proposition 1, Chapter 6 – Protecting Rivers, Lakes, Streams, Coastal Waters, and Watersheds – included a specific allocation of $475 million to fulfill the obligations of the state in complying with the terms of various state settlement obligations, including:

- Intrastate or multiparty water quantification settlement agreement provisions, including ecosystem restoration projects, as set forth in Chapters 611, 612, 613, and 614 of the Statutes of 2003 (the 2003 Colorado River Quantification Settlement Agreement and Salton Sea Restoration Act)

The statutory text of Proposition 1 did not specify how much, if any, of the $475 million amount should be allocated to each state obligation. However, within the 2016 State Budget, the Salton Sea restoration program received an $80 million appropriation, representing its share of the total $475 million Proposition 1 allocation.

In early 2017, the Administration released the *Salton Sea Management Program Phase I: 10-Year Plan*, which outlined projected costs of $383 million to implement a 10-year restoration plan at the Salton Sea. With $80 million already appropriated by the Legislature from Proposition 1 funds during 2016, approximately $300 million is still necessary to fully fund the state’s 10-year restoration plan. During the 2017 legislative session, the Legislature approved and the Governor signed SB 5 (De Leon), which would place a $4 billion parks, resources, and
water bond measure on the June 2018 primary election ballot. SB 5 contains an allocation of $200 million toward implementation of the Administration’s 10-year Salton Sea management program. If approved by the voters in 2018, SB 5 would provide robust funding toward full implementation of the 10-year management program.

At this time, the previously-appropriated funding from Proposition 1 and the SB 5 funding allocation (if approved by voters in 2018) would be appropriated to the California Natural Resources Agency for implementation of the 10-year Salton Sea management program. There is concern that there may be insufficient governance and administrative infrastructure in place to appropriately handle a significant investment of funding and management of contracts, consultants, and contractors to effectively implement an annual workplan for the project. Additionally, there is uncertainty regarding the prioritization of actions to implement the 10-year management program, and whether the implementation of that program is satisfactorily involving local interests.

During 2017, a significant amount of work was undertaken to begin the process of outlining a governance and administrative framework – modeled after the highly successful mitigation joint powers authority that has been implementing water transfer mitigation activities for more than a decade. However, the issue of pursuing robust funding for the Salton Sea restoration effort was the priority activity during the 2017 legislative session, and the work on a governance framework did not gain momentum. Given the opportunity for a greater investment in restoration funding through SB 5 in 2018, there is renewed momentum and interest to ensure that a governance framework and process is in place to adequately handle and manage funds to efficiently implement realistic and prioritized annual workplans to advance progress toward accomplishment of the 10-year management program.

Recommended Approach
Staff recommends the Board approve co-sponsorship of legislation – with Imperial Valley and nongovernmental organization interests – to develop a sound and workable governance and administrative structure to facilitate implementation of the 10-year Salton Sea management program.

Depending on the outcome of the June 2018 primary election relative to SB 5, there may be an opportunity to pursue the development of an acceptable governance structure that could be placed into statute during the upcoming legislative session. Senator Ben Hueso has indicated a strong interest in retaining a leadership role on Salton Sea issues, and his staff has discussed the possibility of engaging stakeholders in a governance-related discussion early in 2018 with the anticipation that a legislative framework could be developed and potentially amended into a bill during the 2018 legislative session.

It does not appear that this issue is ripe for independent Water Authority bill sponsorship. However, given the Water Authority’s and the San Diego region’s strong and ongoing interests in Salton Sea restoration and protection of the QSA water transfers, the Water Authority should actively engage with Imperial Valley interests, nongovernmental organizations, and Senator Hueso to pursue a coalition co-sponsorship of legislation in this area.
November 29, 2017

Attention: Legislation and Public Outreach Committee

Quarterly report on Public Outreach and Conservation activities (Presentation)

Background
From September 2017 through November 2017, the Public Outreach and Conservation Department supported Water Authority outreach programs and projects to promote water-use efficiency, assisted member agencies, worked with communities directly affected by Water Authority construction projects, conducted media relations activities, worked on education programs, and supplied information through various means, including publications and online communications.

Discussion
During the quarter, the Water Authority was recognized for public service outreach by the San Diego-Imperial Counties Chapter of the Public Relations Society of America with an award for the WaterSmart Landscape Makeover Program. In addition, staff gave presentations at the 10th annual WaterSmart Innovations Conference and Exposition, was awarded a grant for enhancing educational materials and launched a new social media outreach campaign to promote the value provided to the region by the Water Authority and its member agencies.

Highlights of department activities during the quarter are listed below.

Local Legislative Relations and Civic Engagement
Staff attended 28 monthly meetings of business and civic organizations across San Diego County, providing regional leaders with updates on Water Authority projects, such as the completion of the Sustainable Landscaping Demonstration Garden, and soliciting participation in the fall Citizens Water Academy.

In addition, staff made 15 presentations to civic groups, public agencies and other organizations, including La Mesa Lions Club, the American Public Works Association and the public policy committee of the Downtown Partnership. A list of presentations is in Exhibit 1.

Staff also attended or provided outreach materials for 11 community events during the quarter. Those outreach efforts included hosting a booth at the San Diego Brewers Guild Festival in November to discuss the importance of a safe and reliable water supply to the beer industry, and co-hosting an exhibit about potable reuse at the Industrial Environmental Association’s annual conference in October with the San Diego WaterReuse Committee. Those events also are listed in Exhibit 1.

The fall 2017 class of the Citizens Water Academy concluded in late October, bringing the total number of alumni since the academy’s inception to 446. Enhancements to the alumni program, including an increased number and variety of communications and events, were developed to increase engagement by graduates. Improvements will be implemented during the next quarter and assessed in late 2018.
Media Relations

The Water Authority distributed seven news releases during the period. The topics of these releases are listed in Exhibit 1.

Throughout the quarter, staff assisted TV, print and online media covering issues such as the California WaterFix and the state Supreme Court’s decision not to review the Water Authority’s petition against the Metropolitan Water District of Southern California (MWD).

Staff also facilitated the publication of commentaries by Board Chair Mark Muir in The Coast News on Sept. 22, Oct. 20 and Nov. 10. The columns addressed the Water Authority’s concerns with state water tax legislation (Senate Bill 623), the benefits produced by the Water Authority’s lawsuits over MWD’s rates, and the value of the Citizens Water Academy to emerging leaders in San Diego County.

Staff also facilitated the Oct. 21 placement of a letter to the editor by Water Resources Director Bob Yamada in the San Diego Union-Tribune. The letter, “In Response: Setting the record straight on desal,” corrected factual errors in a guest opinion article published by the paper and clarified the important role desalinated seawater plays in the region’s supply diversification strategy.

Staff also coordinated with the Union-Tribune to highlight the Sustainable Landscaping Demonstration Garden in a guest commentary by Principal Water Resources Specialist Carlos Michelon. The commentary, “Sustainable Landscapes on Display,” was published in the Oct. 28 Home + Garden section, generating a significant number of visitors to the demonstration garden.

Water-Use Efficiency Programs

WaterSmart Landscape Makeover Program
This quarter, the Water Authority began WaterSmart Landscape Makeover Series No. 37 at the SDG&E Energy Innovation Center. Thirty homeowners from around the county enrolled in this four-class, hands-on series that includes one-on-one coaching with a landscape professional. In addition, 11 three-hour Design for Homeowners workshops were co-sponsored by our member agencies and attracted 460 participants. This design workshop is a condensed version of the four-class makeover series.

On October 12, the WaterSmart Landscape Makeover Program won a “Silver Bernays Award of Excellence” in the Public Service campaign category from the San Diego-Imperial Counties Chapter of the Public Relations Society of America. Director Yen Tu attended the ceremony and accepted the award on behalf of the Water Authority, along with Principal Water Resource Specialist Carlos Michelon and the program manager, Water Resource Specialist Joni German.

Garden Friendly Plant Fairs
The Water Authority and several of its member agencies participated in two fall plant fairs in early October. The fairs took place at The Home Depot stores in Carmel Mountain and Encinitas and piloted the promotion of mulch and compost in association with the Water Authority’s Sustainable Landscaping Program partners.
San Diego Union-Tribune Home + Garden Partnership
The Water Authority continues to partner with the Union-Tribune to produce a monthly feature in the Home + Garden section showcasing local landscape makeover success stories. During this reporting period, the Union-Tribune featured the new water-efficient landscape of Lilia Valeeva and Thomas Aleksander in the Mission Hills area of San Diego. As noted, the new Water Authority demonstration garden was highlighted in the Oct. 28 edition, generating substantial foot traffic to the garden and demand for the informational materials about the SLP.

WaterSmart Checkup Program
The WaterSmart Checkup Program provides free residential evaluations, irrigation checkups for small commercial sites and large landscape audits. During the last three months (August – October), the program provided 653 services. These services are performed by member agency staff or their consultants, or the Water Authority’s contractor Mission Resource Conservation District.

Agricultural Water Management Program
The San Diego County Partnership for Agricultural Sustainability, a regional conservation partnership that includes 10 Water Authority member agencies, has executed an agreement needed to secure $800,000 in funding from the U.S. Department of Agriculture. In September, the funding contract was finalized between USDA and Mission Resource Conservation District, which serves as the local lead agency for the program. Federal funds will help improve irrigation system efficiency and conservation practices on 120 agricultural properties in San Diego County. The Water Authority helped secure federal funds by pledging some of its state grant funds to serve as a local match.

Qualified Water Efficiency Landscaper (QWEL) Program
Staff supported the QWEL college-affiliated class series, which started in conjunction with the fall semester at Mira Costa and Cuyamaca community colleges. The Board authorized the General Manager to enter into a new three-year contract with the selected program vendor, WSA Marketing. Staff anticipates the contract will be executed in November. New QWEL class series are expected to begin in winter 2017-2018.

WaterSmart Landscape Efficiency Program (WSLEP)
The Board authorized the General Manager to enter into a three-year contract with Signature Control Systems, Inc., to administer a second round of the WSLEP Program. Staff anticipates the contract will be executed in November.

Sustainable Landscapes Program (SLP)
As of the end of October, approximately $320,000 in incentives have been approved for payment to 117 customers who successfully converted grass areas of their yards to sustainable landscapes. Approximately $700,000 of the $1.19 million in grant funded incentives are in the application review and/or implementation process. The remainder of the incentive funding is expected to be reserved by early 2018.

The new SLP Demonstration Garden located at the Water Authority’s Kearny Mesa headquarters was completed during the quarter with the installation of signage, publication of informational brochures, and updates to the Water Authority’s SLP website. The Board participated in a
dedication ceremony of the garden during its September 28 regular meeting. Staff provided several tours of the garden to various external groups during the reporting period.

Presentations
In October, staff gave presentations at the 10th annual WaterSmart Innovations Conference and Exposition. Water Authority presentations covered: 1) the award-winning WaterSmart Landscape Makeover Program, which educates and empowers homeowners to upgrade their turf areas to WaterSmart landscapes; 2) results from the first round of WSLEP, an energy- and water-efficiency pilot program that provided water management services for large commercial properties to improve landscape irrigation; 3) the QWEL Program, a training program for landscape professionals that provides a proactive, localized approach to reducing landscape water demand; and 4) the Agricultural Water Management Program, which includes agricultural audits and research results on irrigating avocado crops using tertiary treated recycled water to offset potable water supplies. Staff also participated in a panel presentation at the Fall Landscape Expo Conference at the Long Beach Convention Center in October.

Education Programs
The Water Authority’s K-12 education program reached 9,625 students and 321 teachers this quarter, including pilot performances of the new quiz show format program that was designed to complement the long-running musical theater programs. The Water Authority also hosted about 50 students and parents from a science and technology club at Adobe Bluffs Elementary in Rancho Peñasquitos to showcase the education assembly program during the Board’s regular meeting in October.

In addition, staff secured a $12,000 grant from the Hans and Margaret Doe Charitable Trust to produce two new educational posters highlighting the region’s water supply reliability successes and careers in the water industry. Staff also partnered with the San Diego County Office of Education to distribute 600 posters about the water cycle and 600 posters about the major water delivery systems in California to more than three dozen school districts in San Diego County.

Publications and Online Communications
This quarter, staff compiled the Fiscal Year 2017 Annual Report for publication in early December with the theme “Pioneering. Visionary. Agile. Driven.” For the first time in at least a decade, the agency has produced two annual reports in one calendar year to more closely align the publication of future reports with the end of fiscal years. The FY 2017 edition once again is web-based, with text, photos, videos and graphics that recap the agency’s top accomplishments. It is again accompanied by a high-quality, full-color brochure summarizing the year’s highlights for distribution to the Board and regional stakeholders.

Staff also continued to create engaging campaigns for Facebook, Twitter and Instagram to grow the agency’s social media audience. In September, for example, staff worked with member agencies and other stakeholders to develop and share the “Help Your Trees Weather the Weather” graphics and messages about tree watering.
In October, staff launched the “Brought to You by Water” social media outreach campaign at the start of the new water year to promote the value of water and the agencies that deliver it. Staff worked with member agencies and partners such as the San Diego Brewers Guild to promote the series of graphic “memes” across social media platforms.

In October, the Water Authority also participated in the first statewide outreach efforts for California Water Professionals Appreciation Week by highlighting staff on social media. Photos of recent Water Authority employees of the quarter along with short statements about their roles at the agency were shared on Facebook and Instagram.

Followers on social media continued to grow during the quarter. On Facebook, the Water Authority has 8,715 followers, up from 8,687 at the start of the quarter. On Twitter, the Water Authority has 3,536 followers, up from 3,377. On Instagram, the Water Authority has 697 followers, up from 612.

Staff distributed eight issues of the WaterSource e-newsletter, providing updates on key water-related issues to 7,100 subscribers.

**Member Agency Outreach Coordination**

The Water Authority hosted three meetings of the Joint Public Information Council during the quarter to maintain dialogue with member agencies about a range of conservation and outreach issues, including updates on the water-use policy principles and core activities, the QWEL Program, WSLEP and regulatory issues.

**CIP Projects**

**Carlsbad 6 Flow Control Facility**
Staff distributed a doorhanger to project neighbors notifying them of the upcoming shutdown work and extended hours. Staff also provided a copy of the notice to staff at San Marcos High School, the City of San Marcos and Vallecitos Water District.

**Lake Murray to Sweetwater Reservoir Pipeline 3 Relining Project**
Staff continued to deliver signs and banners to the manager of Sprouts Farmers Market, near Portal 10, that provide project information and inform customers that Sprouts is open during construction. Staff also provided a project briefing to Sprouts’ cashiers on Oct. 5 to aid them in answering basic questions about the project. Staff also delivered doorhangers on Sept. 15 to nearly 400 neighbors within 350 feet of Portals 1, 2, 3, 5, and 10 to provide two-week notice in advance of construction activities. A construction notice was mailed on Oct. 5 to more than 4,000 addresses within 500 feet of the pipeline.

Additionally, staff provided project presentations to the following groups:
- East County Chamber of Commerce – Sept. 26
- La Mesa Chamber of Commerce – Sept. 27
- La Mesa Lions – Oct. 24
Staff also provided project information at the following events:

- Project Open House – Sept. 7
- Project Open House – Sept. 14
- La Mesa Farmers Market – Oct. 13

Lastly, staff planned and hosted the Engineering and Operations Committee tour at Portal 5 while continuing to update the project webpage and responding to 22 inquiries from project stakeholders.

Prepared by: Mike Lee, Senior Public Affairs Representative
Carlos Michelon, Principal Water Resources Specialist
Teresa Penunuri, Public Affairs Supervisor

Reviewed by: Denise Vedder, Acting Director of Public Outreach and Conservation

Approved by: Dennis A. Cushman, Assistant General Manager

Attachment:
Exhibit 1 – Public Outreach and Conservation Activities
EXHIBIT 1
Public Outreach and Conservation Activities
September 2017 through November 2017

<table>
<thead>
<tr>
<th>NEWS RELEASES/STATEMENTS ISSUED</th>
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<tbody>
<tr>
<td>Water Authority Applauds Renewed State Commitment to Restoring the Salton Sea</td>
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<td>Live WaterSmart by Adjusting Irrigation Systems When it’s Time to “Fall Back”</td>
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<td>Award-Winning WaterSmart Landscape Makeover Program Holding Free Workshops in October</td>
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<td>Water Authority Launches Online Educational Resources to Support Potable Reuse</td>
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<td>Reliable Supplies and Continued Water-Use Efficiency Make San Diego Region Well-Prepared</td>
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<td>for Water Year 2018</td>
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<td>Water Authority’s New Demonstration Garden Puts Sustainable Landscape Practices on Display</td>
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<td>State Supreme Court Denies Review of Rate Case, Confirms Important Victories</td>
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<thead>
<tr>
<th>COMMUNITY EVENTS ATTENDED</th>
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<tr>
<td>San Diego Asian Pacific Islander Culinary Fusion Festival</td>
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<tr>
<td>I Love a Clean San Diego Coastal Clean Up Day</td>
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<td>Sharp Healthcare Disaster Preparedness Expo</td>
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<td>South Bay Sustainability Fair</td>
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<td>Port of San Diego – Health and Sustainability Fair</td>
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<td>Creation Care Week – Point Loma Nazarene University</td>
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<td>2nd Annual Vim &amp; Vigor Arts and Wellness Festival</td>
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<td>Head Start Resource Fair</td>
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<td>Industrial Environmental Association Annual Conference</td>
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<td>San Diego Brewers Guild Festival</td>
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<td>Water for Children Festival</td>
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<tr>
<th>PRESENTATIONS</th>
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<tr>
<td>Malibu Area Conservation Coalition</td>
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<tr>
<td>First Lego League – Solana Ranch Elementary School</td>
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<td>American Water Works Association SDSU</td>
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<td>East County Chamber of Commerce</td>
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<tr>
<td>First Lego League – Hydrodynamics Competition Kickoff</td>
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<td>Water Education for Latino Leaders</td>
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<td>Community Housing Works – Kalos Apartments</td>
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<td>Downtown Partnership – Public Policy Committee</td>
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<td>Deer Canyon Middle School</td>
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<td>American Public Works Association</td>
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<td>La Mesa Lions Club</td>
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<td>Local Agency Formation Commission</td>
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<tr>
<td>Utility Management and Conservation Association’s Annual Fall Meeting</td>
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<tr>
<td>Swedish American Chamber</td>
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<td>Leonardo da Vinci Health Sciences Charter School</td>
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November 29, 2017

Attention: Legislation and Public Outreach Committee

Government Relations Update. (Information)

Purpose
This report is an update of the Water Authority’s government relations program.

Discussion

The Legislature
The Legislature remains on Interim Recess through the end of 2017, and is scheduled to reconvene on January 3, 2018 to begin the second year of the 2017-2018 two-year legislative session.

Sponsored Legislation

• AB 1323 (Weber) would create a stakeholder workgroup process through the Department of Water Resources for development of long-term water use efficiency standards. AB 1323 was held on the Senate Appropriations Committee suspense file, and is now a two-year bill.

• SB 701 (Hueso), on which the Water Authority is a partner with other stakeholders, including Imperial Valley interests, would authorize the issuance of a general obligation bond in the amount of $500 million to help fulfill the state’s funding obligations related to Salton Sea restoration. SB 701 was held on the Assembly Appropriations Committee suspense file, and is now a two-year bill.

Legislative Roundtable
A Legislative Roundtable event is scheduled for Tuesday, December 12 from 9 a.m. to 11 a.m. in the Water Authority’s Boardroom. The keynote guest for this Legislative Roundtable event will be Assemblymember Todd Gloria.

Upcoming Legislative Briefings
The Board officers and LPO Committee leadership will be engaged in a series of in-district legislative briefings with the San Diego state legislative delegation during early December. The briefings will be valuable in sharing information with the Water Authority’s legislative delegation regarding the following topics:

• Update on long-term water use efficiency legislative activities and the Water Authority’s perspective

• Update on water tax legislation and issues
Update on QSA and Salton Sea restoration activities

Preview of Water Authority sponsored legislation for 2018

**Lobbyist Activities**

Steve Cruz of Gonzalez, Quintana, Hunter & Cruz reports that he performed the following lobbying activities on behalf of the Water Authority over the past month:

- Provided strategic advice and information regarding the Water Authority’s legislative interests.
- Participated in legislative and Administration briefings involving Water Authority sponsored and priority legislation.
- Represented the Water Authority in a variety of venues on Water Authority issues.
- Coordinated with Bob Giroux and Water Authority staff on various legislative issues of importance to the Water Authority.

Bob Giroux of Lang, Hansen, O’Malley & Miller reports that he performed the following lobbying activities on behalf of the Water Authority over the past month:

- Provided strategic advice and information regarding the Water Authority’s legislative interests.
- Coordinated with Steve Cruz and Water Authority staff on various legislative issues of importance to the Water Authority, including preparation for the November 27 Water Authority Legislative Team meeting.

Audra Hartmann of Smith, Watts & Hartmann reports that she performed the following regulatory advocacy activities on behalf of the Water Authority over the past month:

- Coordinated meetings with SWRCB members and staff relative to the issue of the Carlsbad Desalination facility intake modifications.
- Participated in SWRCB meetings regarding emerging water quality issues of interest to the Water Authority.
- Provided strategic advice and information regarding the Water Authority’s regulatory interests.
- Coordinated with Water Authority staff on various regulatory issues of interest to the Water Authority.
Washington, D.C.
Ken Carpi of Carpi & Clay will submit a separate written report of the firm’s monthly activities in Washington, D.C..

Prepared by: Glenn A. Farrel, Government Relations Manager
            Ivy Ridderbusch, Assistant Management Analyst
Approved by: Dennis A. Cushman, Assistant General Manager
ENGINEERING AND OPERATIONS COMMITTEE

AGENDA FOR

DECEMBER 7, 2017

Tony Heinrichs – Chair
Frank Hilliker – Vice Chair
Marty Miller – Vice Chair
Brian Boyle
Brian Brady
Jerry Butkiewicz
Lois Fong-Sakai

Michael Hogan
Ron Morrison
Ken Olson
Jose Preciado
John Simpson
Tim Smith
Ron Watkins


2. Additions to Agenda (Government Code Section 54954.2(b)).

3. Public Comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

   4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION/PRESENTATION

   Selection Panel recommendations:
   a) Authorize the General Manager to enter into Project Delivery Agreement negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture.
   b) Authorize the General Manager to enter into Project Delivery Agreement negotiations with Brookfield US Generation LLC if negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture are unsuccessful.

   Additional staff recommendation:
   c) Authorize the General Manager to execute Amendment 1 to the legal services contract with Allen Matkins LLP for a period of seven months, in the amount of $350,000,
increasing the authorized cumulative contract amount from $50,000 to $400,000. (Action)

2. **Contracts with Adams Valves, Inc. and Cascade Consultants LLC to purchase butterfly valves.**
   
   **Staff recommendation:**

   a) Authorize the General Manager to award a contract to Adams Valves, Inc. in the amount of $734,342 to purchase 56 stainless steel metal seated triple offset flanged butterfly valves of various sizes between 4 and 24 inches in diameter in support of capital improvement projects and system maintenance.

   b) Authorize the General Manager to award a contract to Cascade Consultants LLC in the amount of $745,481 to purchase 10 cast steel metal seated triple offset fusion bonded epoxy lined and coated butterfly valves of various sizes between 30 and 66 inches in diameter in support of capital improvement projects. (Action)

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**III. INFORMATION**

**IV. CLOSED SESSION**

1. **Conference with Real Property Negotiator**
   
   **Government Code §54956.8**
   
   
   **Agency Negotiators:** Black & Veatch Corporation on behalf of the San Diego County Water Authority and City of San Diego
   
   **Negotiating Parties:** Brookfield US Generation LLC and Tenaska, Inc. – Diamond Generating Corporation Joint Venture
   
   **Under Negotiation:** Price and terms
2. Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   Shimmick Construction Co., Inc./Obayashi Corp., joint venture
   v. San Diego County Water Authority, Riverside Superior Court
   Case No. RIC 1609196

3. Conference with Legal Counsel – Anticipated Litigation
   Government Code §54956.9(d)(4)
   Deciding to Initiate Litigation – One Case

V. ADJOURNMENT

Melinda Nelson
Clerk of the Board

NOTE: This meeting is called as an Engineering & Operations Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
November 29, 2017

Attention: Engineering and Operations Committee

San Vicente Energy Storage Facility Project Actions (Actions)

Selection Panel recommendations
a. Authorize the General Manager to enter into Project Delivery Agreement negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture.
b. Authorize the General Manager to enter into Project Delivery Agreement negotiations with Brookfield US Generation LLC if negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture are unsuccessful.

Additional staff recommendation
c. Authorize the General Manager to execute Amendment 1 to the legal services contract with Allen Matkins LLP for a period of seven months, in the amount of $350,000, increasing the authorized cumulative contract amount from $50,000 to $400,000.

Alternatives
a. Do not authorize the General Manager to enter into Project Delivery Agreement negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture and direct staff to re-evaluate next steps and return to the Engineering and Operations Committee with an update.
b. Do not authorize the General Manager to enter into Project Delivery Agreement negotiations with Brookfield US Generation LLC if negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture are unsuccessful and direct staff to re-evaluate next steps and return to the Engineering and Operations Committee with an update.
c. Do not authorize the General Manager to execute Amendment 1 to the legal services contract with Allen Matkins LLP and direct staff to solicit new proposals. This could delay the schedule by two to four months.

Fiscal Impact
Funds in the amount of $350,000 are available in the approved project budget and fiscal years 2018 and 2019 Capital Improvement Program appropriation. Costs will be shared between the City and Water Authority per the Agreement Between the City of San Diego and the San Diego County Water Authority for Phase 3 Work for The San Vicente Energy Storage Facility. The rate category is customer service.

Background
Raising the San Vicente Dam and more than doubling the reservoir size not only provided additional emergency and carryover water storage capacity for the region, but also provided an opportunity to serve as the lower reservoir for an up to 500 megawatt energy storage facility with
eight hours of storage. The energy storage facility would provide a means to generate revenue for
the Water Authority, owner of the additional water storage capacity, and City of San Diego,
owner and operator of the dam and reservoir. This revenue would help to offset operational costs
and sustain water rates. The Water Authority and City are joint project Owners and permittees
with the Federal Energy Regulatory Commission, the regulator of power projects. The Owners,
through various cost-sharing agreements, have been studying this potential project and are
collaborating on various project activities in incremental steps as follows.

In February 2014, an initial study (Phase 1 Work) found that the project appeared technically and
economically viable and recommended a deeper analysis. In September 2015, the Board
authorized a professional services contract for an analysis to expand upon the initial study to
provide more detail regarding technical, economic, financial, risk, and business model aspects of the
project (Phase 2 Work). At the September 8, 2016 Special Engineering and Operations
Committee meeting, the Committee indicated they had received sufficient data to conclude that
the project is technically and economically feasible, and directed staff to shift focus to project
marketability.

Staff subsequently conducted a Request for Letters of Interest solicitation process, which
concluded on April 4, 2017 and yielded 18 interested parties. On April 27, 2017, based on the
significant interest from potential project partners, the Board approved the Task Force’s
recommendation for staff to conduct two concurrent solicitation processes: (1) for a Full-Service
Team that could fully implement the project, and (2) an Owners’ Representative that would
assist with Full-Service Team evaluations and negotiations (Phase 3 Work).

On July 17, 2017, staff advertised a Request for Proposals requiring proposers, if not already a
Full-Service Team, to partner up with other entities to create a Full-Service Team. Proposers
were required to submit substantial information regarding the team’s qualifications and project
approach. They were asked to propose on a business model that focused on compensation to the
Owners for use of their water, land, and civil assets. Proposers were also given the opportunity to
submit project optimization ideas that could maximize the project value, efficiencies, and
additional benefits to the Owners.

On September 12, 2017, staff received five proposals. A Selection Panel was comprised of Water
Authority and City staff; members of the San Vicente Energy Storage Task Force; and Black &
Veatch, the Owners’ Representative. The Selection Panel reviewed the proposals according to
evaluation criteria outlined in the RFP. The proposals that moved on to the scoring portion of the
evaluation had to first meet the three-initial pass/fail criteria: (1) proposer qualifications and
experience, (2) knowledge of the Project and Owners’ requirements, and (3) risk mitigation
strategies. There were numerous scoring criteria which generally fell into three categories; (1)
best value/terms and conditions/financing plan, (2) optimization plan, and (3) offtaker strategy.
The Selection Panel evaluation yielded a shortlist of Proposers that were selected to participate in
oral interviews.

At the October 11, 2017 Task Force meeting, Water Authority and City staff and Black &
Veatch provided an update regarding this solicitation process, results of the Section Panel
evaluation, and an overview of the interview format. On October 31, 2017, the Selection Panel interviewed the shortlist of Proposers. The Proposers were asked to present on preselected topics provided to them prior to the interviews and answer prepared and follow-up questions from the Selection Panel. A presentation at the November 16, 2017 Special Engineering and Operations Committee meeting provided additional details regarding the Full-Service Team solicitation process; the outcome of the interviews; and next steps, including the Task Force and staff’s recommendations.

Discussion
Full-Service Team Finalist Negotiations
As presented at the November 16, 2017 Special Engineering and Operations Committee meeting, based on the results of the interviews with the shortlisted Proposers, the Selection Panel unanimously selected two Full-Service Team Finalists - Brookfield US Generation LLC and Tenaska, Inc. - Diamond Generating Corporation Joint Venture – to participate in the final phase of the solicitation process. The final phase entailed Black & Veatch obtaining clarifying information from the two Finalists based on information provided during the interviews. Black & Veatch received the Finalists’ responses and subsequently normalized the information so it could be compared easily. Black & Veatch also conducted independent financial modeling and risk analysis to determine the Best Value Proposal for the Owners.

Black & Veatch provided the Selection Panel the normalized results, financial modeling, and risk analysis. Based on their responsiveness to the request for additional information, plan for mitigating/eliminating risk to the Owners, knowledge of energy market, and best upside revenue sharing, the Selection Panel unanimously agreed that Tenaska, Inc. - Diamond Generating Corporation Joint Venture was ranked the top Finalist. As such, the Selection Panel recommends authorizing the General Manager to enter into Project Delivery Agreement negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture. In the event, that negotiations are unsuccessful with Tenaska, Inc. - Diamond Generating Corporation Joint Venture, the Selection Panel also recommends authorizing the General Manager to enter into Project Delivery Agreement negotiations with Brookfield US Generation LLC.

The recommendation at this time is to only enter into good faith negotiations to assess the potential for a possible project; not to commit to actually developing a project. There will be subsequent opportunities for the Owners to consider whether to proceed with steps in the development process. Before any decision that commits the Owners to proceed with construction or otherwise commits the Owners to proceed with the project, environmental review must be completed and considered by the Board.

Contract Amendment
The Owners currently have a legal services contract with Allen Matkins LLP to prepare the draft Project Delivery Agreement terms and conditions. These draft terms and conditions will be the basis for negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture. However, an amendment to the original contract is required for drafting the Project Delivery Agreement that will solidify the results of the negotiations. Therefore, staff recommends authorizing the General Manager to execute Amendment 1 to the legal services contract with...
Allen Matkins LLP for a period of seven months, in the amount of $350,000, increasing the authorized cumulative contract amount from $50,000 to $400,000. The associated cost for this work was anticipated as part of the Phase 3 Work cost-sharing agreement with the City, and is included in the approved project budget of $7 million. Of this budget, approximately $3 million has been expended since Fiscal Year 2016 on Phase 1 and 2 Work, as shown in Table 1 below. Approximately $1 million of this amount was reimbursed by the City for shared costs. The Water Authority and City each fund their respective staff and independent professional and legal services costs.

Table 1 - Phase 1 and Phase 2 Costs

<table>
<thead>
<tr>
<th>Activity</th>
<th>Total Cost</th>
<th>Water Authority Share</th>
<th>City Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial technical, financial, and environmental studies, FERC Preliminary License Application Preparation</td>
<td>$540,000</td>
<td>$270,000</td>
<td>$270,000</td>
</tr>
<tr>
<td>Reimbursement to City for half of Reservoir Modeling costs ($420,000)</td>
<td>$210,000</td>
<td>$210,000</td>
<td>City paid its share to consultant</td>
</tr>
<tr>
<td><strong>Phase 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners' Advisor technical, financial and business model study, regulatory fees</td>
<td>$1,400,000</td>
<td>$700,000</td>
<td>$700,000</td>
</tr>
<tr>
<td><strong>Phase 1 and 2 Total</strong></td>
<td>$2,150,000</td>
<td>$1,180,000</td>
<td>$970,000</td>
</tr>
<tr>
<td>Water Authority staff resources and special legal counsel</td>
<td>$840,000</td>
<td>$840,000</td>
<td>City funds its respective staff, consultant, and legal costs</td>
</tr>
</tbody>
</table>

Next Steps
The Owners’ objective is to complete negotiations and present the final Project Delivery Agreement to the Board for consideration in March 2018, to allow the Finalist to assist the Owners with the upcoming project activities. One of these activities is preparing an interconnection application request to the California Independent System Operator, the operator of California’s transmission grid. This application is required for CAISO to perform studies and determine requirements for the Project’s connection to the grid. The next window for submitting a CAISO interconnection request application is April 2018.

In the event the Project Delivery Agreement cannot be finalized by March 2018, Black & Veatch could complete the CAISO application and coordinate with CAISO on interconnection requirements. However, Black & Veatch’s contract would need to be amended to add this scope and associated fee. Additionally, the Owners’ FERC preliminary permit expires in May 2018, and a permit extension will be required to allow for completion of the FERC licensing application package. Staff could complete this work and the Owners’ external FERC legal counsel could provide guidance and review of this work. This contract is currently in place and
could accommodate this work. The cost for both the CAISO and FERC activities could possibly be recouped via the Project Development Agreement, pending the outcome of negotiations.

Staff will return to the Engineering and Operations Committee in January or February 2018 to provide an update on Project Delivery Agreement negotiations. If negotiations are anticipated to extend beyond March 2018, then staff may also be requesting approval of an amendment to the Black & Veatch contract to complete the CAISO work. The Task Force Chair will continue to provide monthly progress updates to the Engineering and Operations Committee as well.

Prepared by: Kelly Rodgers, Energy Program Manager
Reviewed by: Sandra L. Kerl, Deputy General Manager
Approved by: Maureen A. Stapleton, General Manager
November 29, 2017

Attention: Engineering and Operations Committee

Contracts with Adams Valves, Inc. and Cascade Consultants LLC to purchase butterfly valves. (Action)

Staff recommendations

a. Authorize the General Manager to award a contract to Adams Valves, Inc. in the amount of $734,342 to purchase 56 stainless steel metal seated triple offset flanged butterfly valves of various sizes between 4 and 24 inches in diameter in support of capital improvement projects and system maintenance.

b. Authorize the General Manager to award a contract to Cascade Consultants LLC in the amount of $745,481 to purchase 10 cast steel metal seated triple offset fusion bonded epoxy lined and coated butterfly valves of various sizes between 30 and 66 inches in diameter in support of capital improvement projects.

Alternative
Do not award these contracts and direct staff to solicit new bids. This will result in delays to facility rehabilitations and increased project costs.

Fiscal Impact
Funds in the amount of $1,479,823 are available and appropriated in the capital improvement program and operating department budgets for fiscal years 2018 and 2019. The affected rate categories are Customer Service and Transportation.

Background
Butterfly valves are installed throughout the Water Authority’s aqueduct system to isolate facilities for operations and maintenance. Manufacturers typically design and fabricate these valves when they are purchased and do not keep them stocked in a warehouse. It takes approximately one year to manufacture and deliver a valve. Historically, the Water Authority’s larger Capital Improvement Program projects have had long construction durations with ample time to accommodate valve procurements. However, construction projects scheduled within the next two years do not have these long durations and would be delayed if valve procurements began with the construction contracts.

The upcoming projects require replacing a significant number of valves, since they are past their service life. Some of these valves were installed with the original First Aqueduct piping as far back as the 1940s. To realize cost savings from bundled valve procurements and time savings on construction schedules, staff combined the valve procurements for projects scheduled over the next two years. Procuring the valves prior to construction will save approximately $200,000 from
avoided contractor material markup, construction management savings resulting from shorter construction durations, valve supplier efficiencies, and reduced in-plant inspection costs.

**Discussion**
Due to differing material requirements and manufacturing processes, staff advertised the butterfly valve procurements in two separate Notices Inviting Bids on October 18, 2017. Bids were received on November 13, 2017 and summarized in the attached bid summary table.

Due to limited subcontracting opportunities for this type of service, SCOOP outreach was not required. Staff reviewed the bids and determined Adams Valves, Inc. was the lowest, responsive, and responsible bidder for the 56 stainless steel valves; and Cascade Consultants, LLC was the lowest, responsive, and responsible bidder for the 10 cast steel valves.

Staff recommends the Board authorize the General Manager to award a contract to Adams Valves, Inc. in the amount of $734,342 to purchase 56 stainless steel metal seated triple offset flanged butterfly valves of various sizes between 4 and 24 inches in diameter. Staff also recommends the Board authorize the General Manager to award a contract to Cascade Consultants LLC in the amount of $745,481 to purchase 10 cast steel metal seated triple offset fusion bonded epoxy lined and coated butterfly valves of various sizes between 30 and 66 inches in diameter.

Prepared by:  Kirk Whitaker, Engineer P.E.
Reviewed by:  Jerry Reed, Director of Engineering
Approved by:  Sandra L. Kerl, Deputy General Manager

Attachments:

Attachment 1 – Bid Summary
## BID SUMMARY

**STAINLESS STEEL METAL SEATED TRIPLE OFFSET FLANGED BUTTERFLY VALVES**  
NIB 17-02

<table>
<thead>
<tr>
<th>NO.</th>
<th>SUPPLIER</th>
<th>TOTAL BID PRICE</th>
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<tbody>
<tr>
<td></td>
<td>COST ESTIMATE</td>
<td>$700,000 – $775,000</td>
</tr>
<tr>
<td>1.</td>
<td>Adams Valves, Inc.</td>
<td>$734,341.95</td>
</tr>
<tr>
<td>2.</td>
<td>Southwest Valve &amp; Equipment</td>
<td>$737,847.39</td>
</tr>
<tr>
<td>3.</td>
<td>Cascade Consultants LLC</td>
<td>$978,460.68</td>
</tr>
<tr>
<td>4.</td>
<td>Emerson Automation Solutions Final Control US LP</td>
<td>$1,053,495.17</td>
</tr>
</tbody>
</table>

**CAST STEEL METAL SEATED TRIPLE OFFSET FUSION BONDED EPOXY LINED AND COATED BUTTERFLY VALVES**  
NIB 17-05

<table>
<thead>
<tr>
<th>NO.</th>
<th>SUPPLIER</th>
<th>TOTAL BID PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COST ESTIMATE</td>
<td>$800,000 - $860,000</td>
</tr>
<tr>
<td>1.</td>
<td>Cascade Consultants LLC</td>
<td>$745,480.50</td>
</tr>
<tr>
<td>2.</td>
<td>Southwest Valve &amp; Equipment</td>
<td>$994,467.38</td>
</tr>
<tr>
<td>3.</td>
<td>Adams Valves, Inc.</td>
<td>$1,089,904.14</td>
</tr>
<tr>
<td>4.</td>
<td>Emerson Automation Solutions Final Control US LP</td>
<td>$1,192,470.70</td>
</tr>
</tbody>
</table>
November 29, 2017

Attention: Engineering and Operations Committee

CLOSED SESSION:
Conference with Real Property Negotiator
Government Code §54956.8


Agency Negotiators: Black & Veatch Corporation on behalf of the San Diego County Water Authority and City of San Diego

Negotiating Parties: Brookfield US Generation LLC and Tenaska, Inc. – Diamond Generating Corporation Joint Venture

Under Negotiation: Price and terms

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.8, to meet with and provide initial instructions to the Authority’s designated negotiators at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Mark J. Hattam, General Counsel
November 29, 2017

Attention: Engineering and Operations Committee

CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: Shimmick Construction Co., Inc./Obayashi Corp., joint venture v. San Diego County Water Authority, Riverside Superior Court
Case No. RIC 1609196

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(1), to discuss the above-referenced matter at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Mark J. Hattam, General Counsel
November 29, 2017

Attention: Engineering and Operations Committee

CLOSED SESSION:
Conference with Legal Counsel – Anticipated Litigation
Government Code §54956.9(d)(4)
Deciding to Initiate Litigation – One Case

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(4), to discuss the above-referenced matter at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Mark J. Hattam, General Counsel
IMPORTED WATER COMMITTEE

AGENDA FOR

DECEMBER 7, 2017

Mark Weston – Chair
Lois Fong-Sakai – Vice Chair
Tom Kennedy – Vice Chair
David Barnum
Kristin Gaspar
Michael Hogan
Keith Lewinger
Jim Madaffer

Marty Miller
Jim Murtland
Ken Olson
Elsa Saxod
Joel Scalzitti
Fern Steiner
Doug Wilson

1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

4. Chair’s report.
   4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION/PRESENTATION

1. MWD issues and activities update.
   1-A Metropolitan Water District Delegates’ Report. (Supplemental Materials) (Discussion)
   MWD Delegates

2. Colorado River Program.
   2-A Colorado River Board Representative’s report. (Discussion)
   Doug Wilson

   2-B State Water Resources Control Board’s adoption of revisions to Water Rights Order 2002-0013. (Discussion)
   Dan Denham
2-C 2017 Transfer and Exchange Agreement decision.  Dan Denham
Staff recommendation: Authorize the General Manager
to provide written notice by December 31, 2017, to the
Metropolitan Water District of Southern California
(MWD) to extend the term of the Amended and Restated
Agreement between MWD and the San Diego County
Water Authority for the Exchange of Water (exchange
agreement) from 35 to 45 years (2037 to 2047).  (Action)

III. INFORMATION

1. Metropolitan Water District Program Report.  Amy Chen

IV. CLOSED SESSION

1. Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   SDCWA v. Metropolitan Water District of Southern California;
   Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004;
   CPF-16-515282; CPF-16-515391; A146901; A148266;
   BS169881; and CA Supreme Court Case No. S243500
   Mark Hattam / Scott Slater

2. Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   California Department of Water Resources v. All Persons
   Interested; Sacramento Superior Court Case No. 34-2017-
   00215965-CU-MC-GDS
   Mark Hattam

V. ADJOURNMENT

Melinda Nelson
Clerk of the Board

NOTE: This meeting is called as an Imported Water Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
November 29, 2017

Attention: Imported Water Committee

Colorado River Board Representative’s report (Discussion).

Purpose
The Colorado River Board (CRB) Representative’s report summarizes monthly activities of the Colorado River Board of California.

Discussion
This report covers activities from the November 15, 2017 CRB meeting in Ontario, California.

Agency Updates
The following CRB agencies provided updates:

- Department of Water Resources (DWR) – DWR stated northern California will be having its first atmospheric river storm of the year this month and two new atmospheric river weather monitoring stations are in the process of being installed for improved precipitation forecasting.
- Metropolitan Water District of Southern California (MWD) – MWD stated water use has increased and been above average for the past couple months.

Colorado River Basin Water Report
Water supply and storage conditions as of the November 13, 2017¹ Reclamation Weekly Water Supply Report are shown in Table 1.

<table>
<thead>
<tr>
<th>Conditions as of November 13</th>
<th>Volume (million acre-feet)</th>
<th>Percent of Capacity</th>
<th>Elevation (feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Powell</td>
<td>14.45</td>
<td>59%</td>
<td>3,626</td>
</tr>
<tr>
<td>Lake Mead</td>
<td>10.15</td>
<td>39%</td>
<td>1,082</td>
</tr>
<tr>
<td>Total System Storage</td>
<td>32.52</td>
<td>55%</td>
<td></td>
</tr>
</tbody>
</table>

Water Year 2018 Precipitation 58% of average
Forecasted Inflows to Lake Powell in Water Year 2017 110% of average

Drought Contingency Plan (DCP) and Intentionally Created Surplus (ICS)
A Lower Basin states drafting group is continuing its work on refining the Lower Basin DCP Terms Sheet. Their goal is to complete the review and clarification process and re-engage with representatives of the Upper Basin states to address concerns in early 2018. Intra-state discussions are on-going in Arizona and California among potential Lower Basin DCP agencies. The discussions may lead to specific agreements regarding ICS storage and allocation of intra-state DCP contribution obligations.

¹ These hydrologic conditions are updated from those reviewed at the CRB meeting.
Status of Minute 323
The U.S. and Mexican sections of the International Boundary and Water Commission have reached out to stakeholders in both countries regarding work group participation to execute the minute signed on September 21. Work groups include: salinity, projects, environmental, flow variability, hydrology, desalination, and – if necessary – All-American Canal turnout and systems operation. The environmental and desalination work groups are scheduled to meet in late November and early December.

Salinity Control Program
The Colorado River Basin Salinity Control Forum, Advisory Council and Work Group met October 23-26 in Sacramento, California to adopt the 2017 Triennial Review. The state water quality agencies are now expected to adopt and incorporate the standards, which would then be submitted to the U.S. Environmental Protection Agency for concurrence and adoption.

This year the Forum has recommended $8.7 million for Reclamation’s Basin-wide salinity control program, $1.5 million for salinity-specific funding for the Bureau of Land Management’s Soil, Water, and Air Program, and $13.9 million through the Natural Resource Conservation Service’s EQIP Program for fiscal year 2018. These programs support ongoing Title II salinity control projects that to date have controlled over 1.33 million tons of salt annually, and the current program funding levels could allow for the control of up to 1.66 million tons annually by 2035.

Lower Colorado River Multi-Species Conservation Program (LCR MSCP)
The LCR MSCP Steering Committee met October 25 in Las Vegas, NV. It was reported that the U.S. Fish and Wildlife Service (USFWS) regional and headquarter offices have approved the permit amendment for the northern Mexican gartersnake, clearing it for publication in the Federal Register. The permit amendment will have a 30-day comment period before being returned to the Steering Committee for final approval.

An update was given on the August fish mortality event at the Lake Mead Fish Hatchery, where approximately 3,500 bonytail and 4,400 razorback suckers were lost during an unexpected 14-hour water outage caused by a lightning strike. The fish loss is not expected to have an impact on fiscal years 2018-20 stocking targets. The LCR MSCP, Nevada Department of Wildlife, and USFWS are working to establish emergency protocols to avoid similar events in the future.

Six Agency Committee (SAC) Meeting
The SAC approved $600,000 in funding for the second installment of CRB expenses for fiscal year 2018. Funding was also approved at $239,900 for Upper Basin weather modification programs in Wyoming, Colorado, and Utah for the 2017-18 season under the condition that future funding allocations would be based on either a long-term funding contract or a 50 percent cost-share limit.

Prepared by:  Kimberlyn Velasquez, Assistant Water Resources Specialist
Reviewed by:  Doug Wilson, CRB Representative
State Water Resources Control Board’s adoption of revisions to Water Rights Order 2002-0013. (Discussion).

Purpose
This report provides an update and background on the State Water Resources Control Board’s (State Water Board) adoption of revisions to Water Rights Order (WRO) 2002-0013, an order that provides state approval for the change in place of use and point of diversion for the Imperial Irrigation District (IID)/Water Authority conserved transfer water. The Order confirms that mitigation water to the Salton Sea will terminate on December 31, 2017 and outlines critical Salton Sea state restoration obligations.

Discussion
The State Water Board issued Order WRO 2002-0013 on October 28, 2002 (revised on December 20, 2002 via WRO 2002-16), approving the long-term transfer of water from IID to the Water Authority, Coachella Valley Water District, and the Metropolitan Water District of Southern California. In November 2014, IID petitioned the State Water Board to modify its 2002 Order to condition the QSA transfers on the state satisfying its restoration obligations at the Salton Sea. In response to IID’s petition and a recommendation by the Water Authority, the State Water Board held a series of stakeholder-driven public workshops which resulted in the creation of the Salton Sea Task Force comprised of representatives from the California Natural Resources Agency (CNRA), the California Environmental Protection Agency and the Governor’s Office. Over the course of two years the task force worked with stakeholders to gather information and produce recommendations to expedite restoration projects at the Sea via the state’s Salton Sea Management Program (SSMP). CNRA released the SSMP Phase I 10-Year Plan in March 2017 which focuses on the creation of habitat and dust-suppression restoration projects for a smaller but sustainable Salton Sea.

On March 15, 2017, IID filed a motion with the State Water Board seeking an evidentiary hearing to address its November 2014 petition. As a result of the motion, a stipulated order was developed, which was the subject of a State Water Board public workshop on September 7, 2017. Parties involved in drafting the order include: CNRA, IID, the Water Authority, Imperial County, Audubon California, Defenders of Wildlife California, Sierra Club California, the Pacific Institute, and the Governor’s Office. The stipulated order was revised following comments at the September 7, 2017 workshop and subsequent negotiations amongst the parties with final adoption occurring at the State Water Board public hearing on November 7, 2017.

The adopted stipulated order acknowledges agreements and commitments reached among key stakeholders related to the SSMP, accepts the schedule of activities and milestones for SSMP Phase I, establishes a timeline to develop a long-term plan for restoration, sets a schedule for information collection and future workshops before the State Water Board, establishes the State Water Board’s continuing jurisdiction over the milestones, and clearly provides that the
conditions pertinent to restoration are independent of the water transfer mitigation obligations. In other words, the stipulated order does not impose conditions on the QSA water transfers, contains no mandatory directives to the QSA water transfer parties, and imposes no obligations on the QSA water transfer parties to make any financial or in-kind contributions of land or water to the SSMP or the specific restoration projects identified.

Under the order, the State shall develop and manage the SSMP to carry out restoration obligations and begin implementation of the Phase I 10-Year Plan, including:

- Carrying out annual acreage milestones in the form of construction of habitat and dust-suppression projects totaling 29,800 acres over the first 10 years (Table 1),
- Coverage of 50 percent of acreage with habitat restoration projects,
- Being held accountable to meet annual acreage milestones, and
- Having the SSMP under continuing jurisdiction of the State Water Board.

<table>
<thead>
<tr>
<th>Date</th>
<th>Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2018</td>
<td>500</td>
</tr>
<tr>
<td>12/31/2019</td>
<td>1,300</td>
</tr>
<tr>
<td>12/31/2020</td>
<td>1,700</td>
</tr>
<tr>
<td>12/31/2021</td>
<td>3,500</td>
</tr>
<tr>
<td>12/31/2022</td>
<td>1,750</td>
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<tr>
<td>12/31/2023</td>
<td>2,750</td>
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<tr>
<td>12/31/2024</td>
<td>2,700</td>
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<tr>
<td>12/31/2025</td>
<td>3,400</td>
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<tr>
<td>12/31/2026</td>
<td>4,000</td>
</tr>
<tr>
<td>12/31/2027</td>
<td>4,000</td>
</tr>
<tr>
<td>12/31/2028</td>
<td>4,200</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>29,800</strong></td>
</tr>
</tbody>
</table>

The stipulated order confirms that “the delivery of mitigation water” to the Salton Sea will terminate on December 31, 2017. Accordingly, the Water Authority’s water transfer with IID will continue as scheduled into 2018, with no change of circumstance warranting the possible continued delivery of mitigation water to the Salton Sea or additional funding from non-state parties for mitigation or restoration responsibilities. For the past 15 years nearly 800,000 acre feet of mitigation water has been delivered to the Salton Sea, which has offset potential impacts of the QSA and has provided time to enable the state to develop a long-term restoration strategy (the SSMP). With the adoption of the restoration milestones mentioned above, the stage is set for a seamless transition from providing mitigation water to the sea to implementing a robust, multi-pronged QSA Joint Powers Authority (JPA) air quality mitigation program that can work hand-in-hand with the state’s restoration program.
The State’s adoption of the stipulated order reaffirmed the State of California’s continued support for the Water Authority/IID transfer, the broader 2003 Colorado River QSA, and the ongoing mitigation program outlined in the QSA and water transfer environmental documents. This action combined with the $80 million previously secured for the Salton Sea as part of Proposition I, and the potential for an additional $200 million tied to Senate Bill 5 going to voters in June 2018, are crucial steps in prioritizing the Salton Sea and providing certainty for the QSA.

Prepared by: Kimberlyn Velasquez, Assistant Water Resources Specialist
Reviewed by: Dan Denham, Assistant General Manager
Approved by: Maureen Stapleton, General Manager
November 29, 2017

Attention: Imported Water Committee

2017 Transfer and Exchange Agreement decision. (Action)

Staff recommendation
Authorize the General Manager to provide written notice by December 31, 2017, to the Metropolitan Water District of Southern California (MWD) to extend the term of the Amended and Restated Agreement between MWD and the San Diego County Water Authority for the Exchange of Water (exchange agreement) from 35 to 45 years (2037 to 2047).

Alternative
Authorize the General Manager to provide written notice by December 31, 2017, to the Imperial Irrigation District (IID) for early termination of the Agreement between IID and San Diego County Water Authority for Transfer of Conserved Water (transfer agreement) to shorten the term from 45 to 35 years (2047 to 2037).

Fiscal Impact
There is no fiscal impact as a result of this action through 2037. Impacts beyond 2037, depending on the Board decision, will vary based on future IID supply and MWD transportation costs that are currently unknown.

Background
At the December 7, 2017 Water Authority Board meeting, the Board of Directors must decide how best to align the mismatched terms of the transfer and exchange agreements. These agreements have allowed for the conservation and delivery of water to the Water Authority since 2003, as part of the historic Colorado River Quantification Settlement Agreement (QSA). While the initial term of the transfer agreement is 45 years, the exchange agreement with MWD to transport the conserved water to the Water Authority has an initial term of 35 years. There are provisions in both agreements that give the Water Authority the ability to sync the timing of both the transfer and exchange by either: (1) extending the exchange with MWD an additional 10 years to coincide with the 45-year term of the transfer agreement; or (2) terminating the IID water transfer 10 years early to match the existing 35-year exchange agreement term. Either option is a unilateral Water Authority Board decision, which may be made at its complete discretion and does not require the consent of IID, MWD or any other party. Both agreements stipulate that notice is required by December 31, 2017.

Discussion
The QSA is a complex array of agreements that was the product of eight years of negotiations. At the Federal level, it has enabled the Bureau of Reclamation the means to manage Colorado River supplies and ushered in a period of relative peace between the seven Colorado River Basin States. For the State, it represents resolution of longstanding disputes among the California parties with water rights on the Colorado River, provides substantial long-term benefits to urban and agricultural water users throughout southern California, and commits the State of California to a restoration path for the environmentally sensitive Salton Sea. The transfer agreement is often credited as the
I lynchpin of this effort and a foundation from which many significant benefits have been realized across a broad array of constituencies over the past 15 years. Although the QSA agreements and terms are complex, the core benefits they have provided the San Diego region since 2003 cannot be overlooked. Acquisition of highly reliable, senior priority Colorado River water from IID was the Water Authority’s primary objective in negotiating the water transfer. The transfer has: materially improved diversification and reliability of the region’s overall supplies; dampened recent supply reductions imposed by MWD from 2009-2011; and served as a key supply component towards successfully passing the State’s “stress test” during the last drought, which resulted in the lifting of conservation mandates imposed on member agencies. Once the water transfer volume is fully ramped-up to 200,000 acre-feet (AF) annually in 2021, it will represent more than thirty percent of the Water Authority’s total annual supplies. When combined with the additional 80,000 AF of canal lining water that was concurrently approved with the transfer, the two sources will represent nearly half of the region’s water supply.

MWD’s water supply reliability is subject to ongoing climatic and regulatory uncertainty. The fate of the California WaterFix is unknown as of this writing. The impact of projected changes in climatic conditions may cause increased risk of shortages in State Water Project and Colorado River supplies. IID’s senior water rights provide improved protection against the future risk of such shortages.

Along with the reliability benefit of the QSA supplies, the price paid for QSA conserved water is currently competitive with what the Water Authority pays for each acre-foot of MWD untreated water and is projected to cost less in the next several years. In 2018 MWD’s melded supply rate is $393/AF (not including transportation), an amount that reflects the Tier 1 Untreated Supply Rate and payments for the Readiness-to-Serve (RTS) and the Capacity Charges. By comparison, the “all-in” cost of QSA supplies is projected to be $470/AF, which is: inclusive of a supply rate paid to IID; canal lining debt service and operations and maintenance (O&M) costs; environmental mitigation commitments; and all other financial requirements tied to 210,000 AF the Water Authority will receive in 2018 (not including transportation costs). While projected to be $77/AF higher, QSA supply costs as a whole are anticipated to escalate at a significantly lower rate than the combined cost of Tier 1 Untreated water and other fixed charges tied to the purchase of MWD water (such as the RTS and Capacity Charges).

Price stability of the QSA supplies is due in part to the Water Authority and IID’s execution of a Fifth Amendment to the transfer agreement that set prices through 2034 to a relatively stable index from which to base future price increases. According to the agreement, for calendar years 2016-2034 the price per acre-foot will be based on the annual increase in the Gross Domestic Product Implicit Price Deflator (GDPIPD) as published by the Bureau of Economic Analysis of the United States Department of Commerce. The Compound Annual Growth Rate of the GDPIPD over the most recent ten-year period has been 1.8 percent. By comparison, the most recent ten-year increases for MWD’s Tier 1 Untreated Supply Rate, RTS and Capacity Charges have been 11.1 percent, 5.6 percent, and 11.9 percent respectively.

1 Water transferred to the Water Authority has a higher priority (Priority 3a) than MWD’s Colorado River priorities (4 and 5). Similarly, water conserved through the All American and Coachella Canal Lining Projects is conserved Priority 3 water.
2 $393 = Untreated Tier 1 Supply Rate: $209 + (RTS Charge: $29.014 million/186,000 acre-feet of projected MWD purchases) + (Capacity Charge: $9.935 million)/351,000 acre-feet of total MWD projected deliveries).
3 $470 = Estimated cost of 2018 IID Supply: ($653/AF*130,000 AF) + socioeconomic/environmental mitigation obligations of $10.2 million + canal debt service and O&M ($3.6 million) / 210,000 AF of QSA supplies.
Beginning in 2035, the transfer supply price will be based on a complex formula that considers both MWD rates and charges and the comparable cost of water transfer transactions to the IID/Water Authority transfer (“market-based pricing”). It is anticipated that the price of IID supply in 2035 will reflect the weighted average cost of water market transfers throughout the State of California and the Lower Colorado River Basin, the cost of local water supply development projects, and will include a favorable discount equal to the full MWD transportation rate applied as a reduction to the supply cost in the price formula.

Future transportation costs tied to both MWD and QSA supplies, however remain less predictable. While in September 2017, the California Supreme Court denied a petition by the Water Authority to review an Appellate Court ruling which allows MWD to include State Water Project (SWP) supply costs in the rates it charges to transport the Water Authority’s independent Colorado River supplies, the magnitude of future cost increases as a result of this decision remains unknown. MWD’s final cost share of California WaterFix and/or future costs that could be added to the transportation rate -- such as the pipeline portion of the Los Angeles County Sanitation Districts’ recycled water project⁴ -- are directly applicable in this instance. As reported to the Water Authority Board at its October 26 meeting, a significant funding gap currently exists for WaterFix; none of the Central Valley Project (CVP) contractors have agreed to participate financially,⁵ making future cost assumptions speculative. As part of the same litigation, however, the courts found based on the record before it that water supply development costs charged as part of the Water Stewardship Rate should not be applied to transportation, thus potentially lowering the cost to transport QSA water by an estimated $1 billion over the initial 45-year term of the transfer agreement. If applied to MWD’s 2018 rates, this would reflect a reduction in the transportation rate from $486/AF to $431/AF. If at any point during the 35- or 45-year term of the exchange agreement, the Water Authority chooses to seek alternative conveyance, such as a pipeline from the Imperial Valley or Mexico, it must provide MWD written notice five years prior.

Another issue that has recently found new clarity involves the Salton Sea, and the commitment on the part of the State to carry out a restoration program. Mitigation of environmental impacts and the State’s responsibility for restoration have always been a core component of successful QSA implementation. QSA-enabling legislation and extensive mitigation requirements mandated by the State Water Resources Control Board (SWRCB) under Water Rights Revised Order 2002-13 have withstood that test of time and ten years’ worth of litigation challenging all aspects of the water transfer and canal lining projects. A major component of the water transfer mitigation program has been the delivery of bucket-for-bucket mitigation water to the Salton Sea for the first fifteen years of the transfer (through 2017), followed by a transition to the approved four-step air quality mitigation plan. California legislation established the QSA Joint Powers Authority (JPA), made up of the Water Authority, IID, Coachella Valley Water District, and the California Department of Fish and Wildlife, to fund environmental mitigation related to the QSA water transfers. The amount to be paid by the three water agencies was capped at $133 million (in 2003 dollars) with most of the funds earmarked for the Salton Sea. Restoration, which was

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⁴ MWD’s 2016 feasibility study identified the project’s cost at $2.7 billion, a 2015 draft study placed its capital cost at $3.5 billion.
⁵ As of November 2017, the $16.7 billion California WaterFix Project funding commitments are short by $2.2 billion from SWP contractors and short by $7.5 billion from CVP contractors.
not addressed by the SWRCB Water Rights Order, is separate from mitigation and contemplated by QSA legislation that placed restoration as a State responsibility. While no long-term restoration program has been enacted or funded since the signing of the QSA, over the past year the State made positive progress on Salton Sea restoration issues through the development of the Salton Sea Management Program’s (SSMP) Phase I 10-Year Plan.

Building upon this momentum, the Water Authority, IID, Imperial County, the Governor’s Office, and non-governmental organizations collaborated on a Stipulated Order recently adopted by the SWRCB at its November 7, 2017 hearing that establishes a set of milestones for the initial 10 years of the SSMP. The adoption of the Stipulated Order, $80 million previously secured as part of Prop. 1, and the potential for an additional $200 million tied to Senate Bill 5 (a June 2018 water bond measure) are crucial steps in prioritizing the Salton Sea and providing certainty for the QSA. Through the Stipulated Order, the SWRCB has reinforced its support for the water transfer.

When the transfer reaches its maximum annual volume of 200,000 AF in 2021, it will comprise approximately one-third of the San Diego region’s annual supply portfolio and continue at that level for the remainder of the agreement term. Early termination of the transfer agreement with IID would result in the loss of two million acre-feet of water over the decade dropped from the term. In a normal year, the loss of QSA water transfers could be made up with additional purchases from MWD, almost doubling its share of total water supply to the Water Authority. However, in a dry year, the forfeit of QSA water transfers could result in a supply shortage between 149,000 and 224,000 acre-feet in 2035. The range is based on the dry-year demand and supply projections provided in the Water Authority’s 2015 Urban Water Management Plan (2015 UWMP) assuming 1.4 million AF in available MWD supplies and a Water Authority preferential right of 24.0 percent and 18.6 percent, respectively. One mechanism to reduce, but not eliminate, the supply gap is to develop the Additional Planned Projects identified in the 2015 UWMP. To secure all the supply needs in a 2035 dry-year analysis, the Water Authority or its member agencies would also need to explore new water supply projects beyond those already considered as Additional Planned Projects in the 2015 UWMP. Extension of the exchange agreement would provide an additional 10 years for these projects to be approved and developed.

Extending the exchange agreement to 2047 has a variety of benefits, including: supply reliability and maintaining a diversified portfolio; comparable, long-term supply costs over the extension period; realization of wheeling cost reduction from rate case results over the extension period; additional time to consider and plan for local supply projects; and additional time to consider the alternative conveyance project. Additionally, recent decisions related to the Salton Sea provide certainty on the environmental aspects of the QSA. For these reasons, staff recommends authorizing the General Manager to submit a written notice to MWD by December 31, 2017, to extend the term of the exchange agreement from 35 to 45 years (from 2037 to 2047) to align with the initial term of the transfer agreement.

Prepared by: Kara Mathews, Senior Water Resources Specialist
Dan Denham, Assistant General Manager
Approved by: Maureen Stapleton, General Manager
Attention: Imported Water Committee

Metropolitan Water District Program Report (Information)

Purpose
This report summarizes activities of interest associated with the Metropolitan Water District of Southern California (MWD) and MWD Member Agencies.

Discussion
This section provides a summary of key issues at the November 13 and 14, 2017 meetings of the MWD Board of Directors. The MWD Board will meet next on December 11 and 12, 2017.

Water Conservation Campaign
The MWD Board appropriated $14.7 million for a three-year, multi-media water conservation campaign and authorized staff to initiate request for proposals for a consultant for the campaign. Staff anticipates returning to the Board in early 2018 with the recommended firm for the conservation campaign. The contract term is anticipated to start in February 2018 and go through January 2021. To fund the $14.7 million appropriation, $700,000 is to be reallocated from the current fiscal year 2018 authorized amount, $11 million will be designated from the fiscal years 2019-20 proposed biennial budget, and remaining $3 million is to come from the fiscal years 2020-21 biennial budget.

Due to the historic drought conditions and the need to increase awareness about water conservation, in March 2015 the Board authorized staff to enter into a one-year contract for advertising and community outreach campaign for an amount not to exceed $5.5 million. In February 2016, the Board added $2.2 million to the campaign and extended the contract by one year. In January 2017, despite the improved water supply conditions, the Board approved another contract extension and increased the amount payable under contract by $4.8 million (to a new not to exceed amount of $12.5 million). This new conservation campaign appropriation of $14.7 million is almost 20 percent more than what was approved during the historic drought.

The MWD Committees and Board also:
• Approved MWD’s salary schedule pursuant to CalPERS regulations;
• Approved compensation\(^1\) recommendations for General Manager, General Counsel, and General Auditor; their new salaries will be $390,162, $287,241, and $234,057, respectively;
• Heard oral reports on:
  o Compliance with fund requirements and bond indenture provisions;
  o 2017 department head salary survey;

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\(^1\) The Board approved a three percent merit increase and a three percent cost of living adjustment for both the General Manager and the General Counsel. For the General Auditor, the Board approved a three percent cost of living adjustment.
Presentation by Matt Goss, CalPERS: California Employer’s Retiree Benefit Trust annual update;
2018 State Water Project Charges update;
Bard Seasonal Fallowing Pilot Program update;
MWD’s approach to seismic resilience;
Presentation by Dr. Kurt Schwabe, UC Riverside and University of Adelaide, on Conservation and Gallons per Capita per Day: Some Unresolved Issues;
Conservation programs and 2015 Integrated Resources Plan update targets;
Follow up on the Alliance for Water Efficiency Peer Review recommendation; and
Quarterly update on Diamond Valley Lake.

In closed session, received reports on:
The rate litigation and authorized contract increase for legal services with Manatt, Phelps & Phillips, LLP, by $2.5 million (new total amount not to exceed $2.9 million);
Existing litigation Shimmick Construction Company, Inc./Obayashi Corporation, a joint venture v. Metropolitan Water District (LASC Case No. BC559603) and authorized $1.1 million contract increase for legal services with Hunt Ortmann Palffy Darling & Mah, Inc., (new total amount not to exceed $2.1 million); and
Report on existing litigation challenging the purchase of property from Delta Wetlands Properties in Contra Costa and San Joaquin Counties (San Joaquin County Superior Case No. STK-CV-UWM-2016-3597 and Contra Costa County Superior Court Case No. C16-01022) and authorized contract increase for legal services with Best, Best & Krieger, LLP, by $400,00 to a maximum amount payable of $800,000.

Prepared by: Suki Chhokar, Assistant Management Analyst
Reviewed by: Amy Chen, Director of MWD Program
Approved by: Dennis A. Cushman, Assistant General Manager

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2 As of June 30, 2017, MWD’s Other Post-Employment Benefits (OPEB) is 45% funded with estimated liabilities of $464,800,603 and assets of $207,442,383.
November 29, 2017

Attention: Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: SDCWA v. Metropolitan Water District of Southern California;
Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004;
CPF-16-515282; CPF-16-515391; A146901; A148266; BS169881; and
CA Supreme Court Case No. S243500

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(1), to discuss the above-referenced matter at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

For a portion of this closed session, the General Counsel’s office will not be in attendance and it will be conducted by outside Special Counsel.

Prepared by: Mark J. Hattam, General Counsel
November 29, 2017

Attention: Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: California Department of Water Resources v. All Persons Interested;
Sacramento Superior Court Case No. 34-2017-00215965-CU-MC-GDS

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(1), to discuss the above-referenced matter at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Mark J. Hattam, General Counsel
ADMINISTRATIVE AND FINANCE COMMITTEE

AGENDA FOR

DECEMBER 7, 2017

Elsa Saxod – Chair
Gary Arant – Vice Chair
Doug Wilson – Vice Chair
Jimmy Ayala
David Cherashore
Gary Croucher
Ed Gallo

Christy Guerin
Matt Hall
Kathleen Coates Hedberg
Tony Heinrichs
Jim Murtland
John Simpson
Ron Watkins

1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

   4-A Directors’ comments.

I. CONSENT CALENDAR

   Staff recommendation: Note and file monthly Treasurer’s Report.
   (Action)
   Lisa Marie Harris

2. Adopt the Vote Entitlements Resolution for Calendar Year 2018.
   Staff recommendation: Adopt Resolution No. 2017-___ establishing the vote and representative entitlements of each member agency effective January 1, 2018. (Action)
   Lisa Marie Harris

II. ACTION/DISCUSION/PRESENTATION

1. Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.
   Lisa Marie Harris
Staff recommendation:

a) Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.

b) Approve the amendment to Chandler Asset Management to implement the updated Water Authority Investment Strategy. (Action)

III. INFORMATION

2. Reimbursements to Board Members and Staff. Lisa Marie Harris
3. Board calendar.

IV. CLOSED SESSION

1. Conference with Legal Counsel – Anticipated Litigation
   Government Code §54956.9(d)(2)
   Significant Exposure – One Case
   Mark Hattam

V. ADJOURNMENT

Melinda Nelson
Clerk of the Board

NOTE: This meeting is called as an Administrative and Finance Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
November 29, 2017

Attention: Administrative and Finance Committee

Monthly Treasurer’s Report on Investments and Cash Flow

Purpose
The purpose of the Treasurer’s Report is to provide monthly financial information to the Board of Directors.

Attached for review by the Administrative and Finance Committee and the Board of Directors is the Treasurer’s Report as of October 31, 2017. The reports are formatted to provide information as required by the California Government Code and the San Diego County Water Authority’s Annual Statement of Investment Policy, which was last adopted by the Board on December 8, 2016. In December of this year, the Board will review and adopt the amended Statement of Investment Policy for calendar year 2018. A brief description of each report follows:

Portfolio Master Summary: This one-page report summarizes all cash and investments held by the Water Authority.

Portfolio Characteristics: This one-page snapshot shows the Water Authority’s portfolio holdings by type and percentage; the maturity distribution of the portfolio; the portfolio yield for the past twelve months, compared to a rolling average yield of the Board adopted benchmark; the credit quality of the portfolio’s holdings; the cash flow projections for the next six months; and relevant market information.

Chandler Portfolio Summary: This one-page snapshot shows the Chandler Asset portfolio holdings including average duration, coupon, yield and ratings; account summary; top issuers; issuer allocation; maturity distribution; and the managed portfolio yield compared to the benchmark.

Portfolio Details - Investments: This report takes the summary information listed in the Portfolio Master Summary and provides details of active investments.

Activity Summary: This one-page report produces a thirteen-month rolling summary of portfolio investment activity.

The Water Authority’s portfolio is diversified among investment types, with a current concentration toward short-term maturities. This concentration is the result of cash flow needs, as well as the current historic low interest rate environment. The portfolio is comprised of high quality investments, with 79 percent currently invested in AAA rated or AAA/AA+ split-rated securities. In October 2017, the Water Authority’s overall portfolio yield increased slightly from 1.41 percent to 1.43 percent and continues to exceed the investment benchmark of 1.05 percent.
All investments have been made in accordance with the San Diego County Water Authority Statement of Investment Policy. This report provides documentation that the Water Authority has sufficient funds to meet the financial obligations for the next six months. The market value information is provided by Bloomberg L.P. and is as of the report date.

________________________________________________
Lisa Marie Harris, Director of Finance/Treasurer
## PORTFOLIO PERCENTAGES

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Permitted By Board Policy</th>
<th>Portfolio Percentage</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>$65 Million</td>
<td>5.85%</td>
<td>$20,309,806</td>
</tr>
<tr>
<td>Banker's Acceptances</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Treasury Securities</td>
<td>15% - Minimum</td>
<td>17.29%</td>
<td>60,084,102</td>
</tr>
<tr>
<td>Agency Securities</td>
<td>85%</td>
<td>43.61%</td>
<td>151,507,430</td>
</tr>
<tr>
<td>Supranational Securities</td>
<td>10%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Placement Service Certificates of Deposit</td>
<td>15%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>15%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>25%</td>
<td>6.83%</td>
<td>23,763,552</td>
</tr>
<tr>
<td>Medium Term Notes/Corporates*</td>
<td>30%</td>
<td>9.84%</td>
<td>34,189,203</td>
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<tr>
<td>Municipal Securities*</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>JPA Pools (CAMP)</td>
<td>25%</td>
<td>16.43%</td>
<td>57,069,257</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>15%</td>
<td>0.15%</td>
<td>504,812</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100.00%</td>
</tr>
<tr>
<td>Accrued Interest (unavailable for investing)</td>
<td></td>
<td></td>
<td>14,361</td>
</tr>
<tr>
<td>Checking/Petty Cash/Available Funds (unavailable for investing)</td>
<td>$108,696</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal for Pooled Funds:</strong></td>
<td></td>
<td></td>
<td>$347,551,219</td>
</tr>
</tbody>
</table>

**Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:**

| Trinity Plus - Reserve (GIC) - Series 1998A COPs | $12,240,775 |

**Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):**

| $12,240,775 |

**Total Cash and Investments:**

| $359,791,994 |

## PORTFOLIO INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>Pooled Funds ***</th>
<th>Debt Service Reserve</th>
<th>Total **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Yield to Maturity - 365 Days</td>
<td>1.28%</td>
<td>5.55%</td>
<td>1.43%</td>
</tr>
<tr>
<td>Average Term</td>
<td>758</td>
<td>1</td>
<td>732</td>
</tr>
<tr>
<td>Average Days to Maturity (730 Days Maximum)</td>
<td>393</td>
<td>1</td>
<td>380</td>
</tr>
</tbody>
</table>

* Investments are managed by an outside investment advisor.

** "The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity" per Water Authority Investment Policy.

*** Pooled Funds include Operating, Pay Go, RSF, Equipment and Stored Water funds.
Portfolio Characteristics as of October 31, 2017

**Asset Allocation**

- Commercial Paper: 6.8%
- JPA Pools (CAMP): 16.4%
- Medium Term Notes/Corporates: 9.8%
- FNMA: 8.3%
- FHLMC: 17.7%
- FHLB: 16.2%
- LAIF: 5.9%
- Money Market: 0.2%
- Treasuries: 17.3%
- Agencies: 41.6%

**Credit Quality**

- US Treasury (AAA/AA+): 17.3%
- Agency (AAA/AA+): 43.6%
- Other (AAA)*: 18.3%
- AA**: 13.8%
- A ***: 1.2%
- not rated ****: 5.8%

* Includes money market funds, JPA pools (CAMP) and medium-term notes/corporates
** Includes commercial paper and medium-term notes/corporates
*** Includes medium-term notes/corporates; the Water Authority's Investment Policy does not permit investments with a rating below A-
**** Includes LAIF, which is part of the state investment pool, and is not rated

**Portfolio Yield: November 2016 - October 2017**

- JPA Pools (CAMP): 16.4%
- LAIF: 5.9%
- Money Market: 0.2%
- Treasuries: 17.3%
- FCHB: 1.4%
- FHLB: 16.2%
- FHLMC: 17.7%
- FNMA: 8.3%

**Credit Quality**

- US Treasury (AAA/AA+): 17.3%
- Agency (AAA/AA+): 43.6%
- Other (AAA)*: 18.3%
- AA**: 13.8%
- A ***: 1.2%
- not rated ****: 5.8%

* Includes money market funds, JPA pools (CAMP) and medium-term notes/corporates
** Includes commercial paper and medium-term notes/corporates
*** Includes medium-term notes/corporates; the Water Authority's Investment Policy does not permit investments with a rating below A-
**** Includes LAIF, which is part of the state investment pool, and is not rated

**Projected Cash Flows in Millions**

<table>
<thead>
<tr>
<th>Month End</th>
<th>Investment Maturities</th>
<th>Projected Receipts</th>
<th>Projected Disbursements</th>
<th>Reinvestment/(Use) of Liquid Funds</th>
<th>Projected Cash &amp; Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 17</td>
<td>$347.55</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov 17</td>
<td>4.00</td>
<td>58.67</td>
<td>49.97</td>
<td>12.70</td>
<td>356.25</td>
</tr>
<tr>
<td>Dec 17</td>
<td>4.00</td>
<td>57.00</td>
<td>55.35</td>
<td>5.65</td>
<td>357.90</td>
</tr>
<tr>
<td>Jan 18</td>
<td>4.00</td>
<td>54.54</td>
<td>45.13</td>
<td>13.40</td>
<td>367.30</td>
</tr>
<tr>
<td>Feb 18</td>
<td>2.00</td>
<td>38.61</td>
<td>40.16</td>
<td>0.45</td>
<td>365.75</td>
</tr>
<tr>
<td>Mar 18</td>
<td>2.00</td>
<td>44.23</td>
<td>45.39</td>
<td>0.84</td>
<td>364.59</td>
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<tr>
<td>Apr 18</td>
<td>76.00</td>
<td>53.50</td>
<td>132.69</td>
<td>(3.19)</td>
<td>285.40</td>
</tr>
</tbody>
</table>

* Numbers may not foot due to rounding

**Market Notes**

On November 1st the FOMC maintained the federal funds range of 100-125 basis points. The next FOMC meeting is December 13th.
SDCWA - Fiscal Year 2018
Portfolio Management

Page 1

Portfolio Details - Investments
October 31, 2017
CUSIP

Investment #

Issuer

Average
Balance

Purchase
Date

Par Value

Market Value

Book Value

57,069,256.84
0.00
0.00
504,812.42
20,309,805.99
0.00
12,240,775.00
0.00

57,069,256.84
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0.00
504,812.42
20,309,805.99
0.00
12,240,775.00
0.00

57,069,256.84
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0.00
504,812.42
20,309,805.99
0.00
12,240,775.00
0.00

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90,124,650.25

90,124,650.25

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2,000,000.00
2,000,000.00
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2,000,000.00
2,000,000.00
2,000,000.00

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1,997,420.00
2,000,500.00
2,012,680.00
2,015,020.00
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2,015,260.00
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2,005,260.00
1,999,860.00
2,002,060.00
2,008,260.00
2,022,300.00
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2,008,920.00
2,008,920.00
2,009,000.00

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2,030,500.00
1,998,340.00
1,999,820.00
2,028,380.00
2,024,720.00
1,993,880.00
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2,011,200.00
2,038,660.00

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34,074,036.61

34,203,563.61

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4,000,000.00
4,000,000.00
5,000,000.00
4,000,000.00

6,932,160.28
3,961,502.22
3,956,848.88
4,950,872.22
3,962,168.89

6,932,160.28
3,961,502.22
3,956,848.89
4,950,872.22
3,962,168.89

Stated
Rate

S&P

YTM Days to
365 Maturity

Maturity
Date

Managed Pool Accounts
CASH35
CASH45
CASH43
CASH11
CASH13
CASH41
CASH17
CASH33

73
4004
4001
0002
72
4002
204
208

CAMP - OPERATING/POOLED
CAMP - 2010B BONDS-BABS
GOLDMAN - 2010B BONDS-BABS
GOLDMAN - OPERATING/POOLED
LAIF - OPERATING
LAIF - 2010B BONDS-BABS
TRINITY PLUS - 1998A
US BANK MONEY MARKET FUND
Subtotal and Average

07/01/2017

07/01/2017

108,548,540.72

1.160
0.770
0.310
0.930
1.150
0.730
5.550
0.001

AAA
AAA
AAA
AAA

AA+
AAA

1.160
0.770
0.310
0.930
1.150
0.730
5.550
0.001

1
1
1
1
1
1
1
1

1.753

1

1.686
1.137
1.238
1.966
2.708
1.474
1.876
2.154
1.414
1.336
1.852
1.578
2.343
1.966
1.983
1.963
1.395

551
183
100
651
1,559
235
744
1,656
499
125
833
730
1,569
1,254
726
726
409

1.768

738

1.440
1.471
1.514
1.534
1.378

175
29
51
163
69

Medium Term Notes
037833AQ3
037833AJ9
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084670BL1
06406RAA5
166764AE0
166764AN0
532457BQ0
30231GAD4
30231GAL6
594918AY0
742718EG0
69353RFB9
89236TCZ6
90331HML4
90331HML4
931142DJ9

20001
20004
20002
20009
20015
20000
20007
20017
20005
20008
20011
20003
20016
20014
20012
20013
20006

APPLE INC.
APPLE INC.
BERKSHIRE HATHAWAY INC.
BERKSHIRE HATHAWAY INC.
Bank of New York Mellon Corp
CHEVRON CORP.
CHEVRON CORP.
Eli Lilly & Co.
EXXON MOBIL
EXXON MOBIL
MICROSOFT CORP.
PROCTER & GAMBLE
PNC BANK NA
TOYOTA MOTOR CREDIT CORP.
US Bank NA
US Bank NA
WAL-MART STORES
Subtotal and Average

02/20/2015
04/28/2015
03/19/2015
06/18/2015
03/21/2017
02/18/2015
05/15/2015
08/29/2017
04/28/2015
06/18/2015
08/31/2015
03/30/2015
06/23/2017
05/27/2016
01/27/2016
03/18/2016
05/15/2015

34,203,563.61

2.100
1.000
1.550
2.100
2.600
1.718
2.193
2.350
1.819
1.305
1.850
1.900
2.625
1.900
2.125
2.125
1.950

AA+
AA+
AA
AA
A
AA
AA
AAAAA
AAA
AAA
AAA
AAAAAAAA

05/06/2019
05/03/2018
02/09/2018
08/14/2019
02/07/2022
06/24/2018
11/15/2019
05/15/2022
03/15/2019
03/06/2018
02/12/2020
11/01/2019
02/17/2022
04/08/2021
10/28/2019
10/28/2019
12/15/2018

Commercial Paper - Discount
36164KDR9
46640PYW7
46640PZN6
46640QDD0
89233HA95

10211
10199
10200
10212
10201

GENERAL ELECTRIC CAPITAL CORP.
JP MORGAN SECURITIES LLC
JP MORGAN SECURITIES LLC
JP MORGAN SECURITIES LLC
TOYOTA MOTOR CREDIT CORP.

08/17/2017
03/31/2017
03/31/2017
08/17/2017
04/28/2017

1.390
1.420
1.460
1.480
1.330

AA+
A+
A+
A+
AA-

04/25/2018
11/30/2017
12/22/2017
04/13/2018
01/09/2018

Portfolio CWA2
CC
Run Date: 11/07/2017 - 10:11

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Report Ver. 7.3.3b


SDCWA - Fiscal Year 2018
Portfolio Management

Page 2

Portfolio Details - Investments
October 31, 2017
CUSIP

Investment #

Average
Balance

Issuer

Subtotal and Average

Purchase
Date

31,079,991.21

Par Value

Market Value

Book Value

24,000,000.00

23,763,552.49

23,763,552.50

3,500,000.00
1,350,000.00
1,500,000.00
6,000,000.00
3,500,000.00
3,500,000.00
5,000,000.00
5,000,000.00
8,000,000.00
1,855,000.00
8,145,000.00
10,000,000.00
3,500,000.00
5,000,000.00
4,000,000.00
2,000,000.00
8,500,000.00
6,500,000.00
5,000,000.00
5,000,000.00
5,000,000.00
20,000,000.00
4,000,000.00
10,900,000.00
4,040,000.00
10,000,000.00

3,488,030.00
1,344,451.50
1,500,390.00
5,996,280.00
3,483,515.00
3,497,690.00
4,995,200.00
4,995,200.00
7,992,320.00
1,849,676.15
8,137,180.80
9,990,400.00
3,487,995.00
5,151,750.00
4,121,400.00
1,985,280.00
8,479,515.00
6,460,220.00
4,969,400.00
4,960,500.00
4,960,500.00
19,842,000.00
3,985,960.00
10,861,741.00
4,071,714.00
9,841,200.00

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1,511,358.00
5,997,114.00
3,496,885.00
3,534,020.00
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5,028,200.00
8,009,360.00
1,855,278.25
8,182,304.10
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4,309,704.00
2,006,026.00
8,481,980.00
6,520,800.00
4,979,185.00
4,974,075.00
4,974,150.00
19,910,600.00
3,974,460.00
10,880,925.00
4,101,763.52
9,905,600.00

150,790,000.00

150,449,508.45

151,507,429.87

10,000,000.00
6,000,000.00
4,000,000.00
10,000,000.00
5,000,000.00

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4,005,000.00
9,924,220.00
4,932,420.00

9,930,859.38
6,098,906.25
4,038,125.00
10,082,812.50
4,993,750.00

Stated
Rate

S&P

YTM Days to
365 Maturity
1.467

110

1.091
1.405
1.247
1.137
1.076
1.241
1.000
0.895
1.076
0.993
0.918
0.830
1.358
1.213
1.373
1.160
1.172
1.221
1.360
1.564
1.567
1.552
1.358
1.245
1.512
1.440

516
532
167
167
356
492
175
175
175
166
175
175
544
511
511
700
159
530
530
901
901
901
352
352
911
722

1.245

476

0.856
1.154
1.340
1.164
1.162

180
545
545
911
911

Maturity
Date

Federal Agency - Coupon
3133EEWG1
3133EHFK4
3130A0QT0
3130A4Q88
3130A53Z0
3133782M2
3130A4GJ5
3130A4GJ5
3130A4GJ5
313382LJ0
3130A4GJ5
3130A4GJ5
3130ABBV7
3137EACA5
3137EACA5
3137EADM8
3137EAEA3
3137EADZ9
3137EADZ9
3137EAEF2
3137EAEF2
3137EAEF2
3135G0E58
3135G0E58
3136G0EC1
3135G0R39

10183
10207
10145
10150
10154
10155
10157
10161
10165
10175
10176
10180
10204
10162
10166
10184
10186
10187
10208
10209
10210
10214
10170
10202
10205
10213

FEDERAL FARM CREDIT BANK
FEDERAL FARM CREDIT BANK
FEDERAL HOME LOAN BANK
FEDERAL HOME LOAN BANK
FEDERAL HOME LOAN BANK
FEDERAL HOME LOAN BANK
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FEDERAL HOME LOAN BANK
FEDERAL HOME LOAN BANK
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL HOME LOAN MORTGAGE COR
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
Subtotal and Average

04/28/2016
06/28/2017
12/18/2014
03/18/2015
04/29/2015
04/29/2015
05/21/2015
10/30/2015
11/23/2015
01/28/2016
01/28/2016
02/24/2016
05/31/2017
10/30/2015
11/23/2015
04/28/2016
05/18/2016
05/18/2016
06/28/2017
06/28/2017
07/17/2017
09/20/2017
12/31/2015
04/28/2017
05/31/2017
08/17/2017

168,709,516.75

1.300
1.320
1.480
1.125
1.050
1.500
1.125
1.125
1.125
1.000
1.125
1.125
1.375
3.750
3.750
1.250
0.750
1.125
1.125
1.375
1.375
1.375
1.125
1.125
2.050
1.000

AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
AA+
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AA+
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AA+
AA+
AA+

04/01/2019
04/17/2019
04/17/2018
04/17/2018
10/23/2018
03/08/2019
04/25/2018
04/25/2018
04/25/2018
04/16/2018
04/25/2018
04/25/2018
04/29/2019
03/27/2019
03/27/2019
10/02/2019
04/09/2018
04/15/2019
04/15/2019
04/20/2020
04/20/2020
04/20/2020
10/19/2018
10/19/2018
04/30/2020
10/24/2019

Treasury Securities - Coupon
912828UZ1
912828D23
912828D23
912828K58
912828VA5

10153
10160
10167
10181
10190

UNITED STATES TREASURY
UNITED STATES TREASURY
UNITED STATES TREASURY
UNITED STATES TREASURY
UNITED STATES TREASURY

04/15/2015
09/29/2015
11/23/2015
04/21/2016
11/10/2016

0.625
1.625
1.625
1.375
1.125

AA+
AA+
AA+
AA+
AA+

04/30/2018
04/30/2019
04/30/2019
04/30/2020
04/30/2020

Portfolio CWA2
CC
Run Date: 11/07/2017 - 10:11

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PM (PRF_PM2) 7.3.0


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<th>CUSIP</th>
<th>Investment #</th>
<th>Issuer</th>
<th>Average Balance</th>
<th>Purchase Date</th>
<th>Par Value</th>
<th>Market Value</th>
<th>Book Value</th>
<th>Stated Rate</th>
<th>S&amp;P</th>
<th>YTM</th>
<th>Days to Maturity</th>
<th>Maturity Date</th>
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<tr>
<td>912828Q52</td>
<td>10191</td>
<td>UNITED STATES TREASURY</td>
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<td>11/10/2016</td>
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<td>4,989,062.50</td>
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<td>5,006,250.00</td>
<td>5,027,343.75</td>
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<td>545</td>
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<td>4,950,000.00</td>
<td>1.375</td>
<td>AA+</td>
<td>1.684</td>
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<td>AA+</td>
<td>1.209</td>
<td>364</td>
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<td>AA+</td>
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Subtotal and Average  

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<th>Par Value</th>
<th>Market Value</th>
<th>Book Value</th>
<th>Stated Rate</th>
<th>S&amp;P</th>
<th>YTM</th>
<th>Days to Maturity</th>
<th>Maturity Date</th>
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<tr>
<td>64,880,472.54</td>
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<td>60,084,101.57</td>
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Total and Average  

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<th>Book Value</th>
<th>Stated Rate</th>
<th>S&amp;P</th>
<th>YTM</th>
<th>Days to Maturity</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
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<td>358,864,650.25</td>
<td>358,122,882.80</td>
<td>359,683,297.80</td>
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<td>CUSIP</td>
<td>Investment #</td>
<td>Issuer</td>
<td>Average Balance</td>
<td>Purchase Date</td>
<td>Par Value</td>
<td>Market Value</td>
<td>Book Value</td>
<td>Stated Rate</td>
</tr>
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<td>-------</td>
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<td>--------</td>
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<td>-----------</td>
<td>--------------</td>
<td>------------</td>
<td>-------------</td>
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<tr>
<td>CASH1</td>
<td>48</td>
<td>PETTY CASH</td>
<td>0.00</td>
<td>07/01/2017</td>
<td>2,500.00</td>
<td>0.00</td>
<td>2,500.00</td>
<td>0.000</td>
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<tr>
<td>CASH2</td>
<td>1000</td>
<td>WELLS FARGO - OPERATING/POOLED</td>
<td>0.00</td>
<td>07/01/2017</td>
<td>118,314.07</td>
<td>118,314.07</td>
<td>118,314.07</td>
<td>0.001</td>
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<td>CASH3</td>
<td>1001</td>
<td>WELLS FARGO - PAYROLL ZBA</td>
<td>0.00</td>
<td>07/01/2017</td>
<td>-12,117.77</td>
<td>-12,117.77</td>
<td>-12,117.77</td>
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<td>CASH39</td>
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<td>0.00</td>
<td>07/01/2017</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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Average Balance: 0.00

Total Cash and Investments: 408,387,256.31
358,973,346.55
358,231,579.10
359,791,994.10
1.428
380
## SDCWA - Fiscal Year 2018
### Portfolio Management
### Activity Summary
#### October 2016 through October 2017

<table>
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<tr>
<th>Month End</th>
<th>Year</th>
<th>Number of Securities</th>
<th>Total Invested</th>
<th>Yield to Maturity</th>
<th>Managed Pool Rate</th>
<th>Number of Investments Purchased</th>
<th>Number of Investments Redeemed</th>
<th>Average Term</th>
<th>Days to Maturity</th>
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<tbody>
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<td>2016</td>
<td>72</td>
<td>363,573,712.37</td>
<td>1.117</td>
<td>1.219</td>
<td>0</td>
<td>6</td>
<td>769</td>
<td>374</td>
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<td>2016</td>
<td>75</td>
<td>377,233,445.31</td>
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<td>1.237</td>
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<td>0</td>
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<td>2016</td>
<td>77</td>
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<td>1.172</td>
<td>1.455</td>
<td>2</td>
<td>0</td>
<td>823</td>
<td>386</td>
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<td>January</td>
<td>2017</td>
<td>78</td>
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<td>1.409</td>
<td>2</td>
<td>1</td>
<td>787</td>
<td>351</td>
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<tr>
<td>February</td>
<td>2017</td>
<td>77</td>
<td>395,798,305.13</td>
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<td>0</td>
<td>1</td>
<td>761</td>
<td>321</td>
</tr>
<tr>
<td>March</td>
<td>2017</td>
<td>81</td>
<td>404,602,430.59</td>
<td>1.202</td>
<td>1.454</td>
<td>5</td>
<td>1</td>
<td>768</td>
<td>319</td>
</tr>
<tr>
<td>April</td>
<td>2017</td>
<td>68</td>
<td>340,922,757.33</td>
<td>1.283</td>
<td>1.500</td>
<td>2</td>
<td>15</td>
<td>713</td>
<td>375</td>
</tr>
<tr>
<td>May</td>
<td>2017</td>
<td>70</td>
<td>342,564,985.08</td>
<td>1.300</td>
<td>1.549</td>
<td>3</td>
<td>1</td>
<td>729</td>
<td>373</td>
</tr>
<tr>
<td>June</td>
<td>2017</td>
<td>75</td>
<td>347,798,134.11</td>
<td>1.340</td>
<td>1.717</td>
<td>5</td>
<td>0</td>
<td>756</td>
<td>384</td>
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<tr>
<td>July</td>
<td>2017</td>
<td>76</td>
<td>356,290,512.27</td>
<td>1.349</td>
<td>1.730</td>
<td>6</td>
<td>0</td>
<td>752</td>
<td>366</td>
</tr>
<tr>
<td>August</td>
<td>2017</td>
<td>79</td>
<td>366,235,679.75</td>
<td>1.372</td>
<td>1.816</td>
<td>4</td>
<td>1</td>
<td>768</td>
<td>371</td>
</tr>
<tr>
<td>September</td>
<td>2017</td>
<td>79</td>
<td>377,843,462.19</td>
<td>1.388</td>
<td>1.873</td>
<td>1</td>
<td>1</td>
<td>791</td>
<td>386</td>
</tr>
<tr>
<td>October</td>
<td>2017</td>
<td>70</td>
<td>359,683,297.80</td>
<td>1.408</td>
<td>1.753</td>
<td>0</td>
<td>9</td>
<td>732</td>
<td>380</td>
</tr>
</tbody>
</table>

| Average   | 75   | 367,913,990.61       | 1.260%          | 1.278%           | 1.541            | 3                             | 3                             | 763          | 366              |
November 29, 2017

Attention: Administrative and Finance Committee

Adopt the Vote Entitlements Resolution for Calendar Year 2018. (Action)

Staff recommendation
Adopt Resolution 2017-__ establishing the vote and representative entitlements of each member agency effective January 1, 2018.

Alternative
None.

Purpose
The purpose of this action is to adopt the vote entitlement percentage and to establish the representative entitlement for each member agency for Calendar Year 2018.

Fiscal Impact
None.

Background
In 1997, an amendment to the County Water Authority Act (Act) changed the basis for calculating member agency vote entitlements from the assessed value of all properties within the Water Authority service area to the total financial contribution by each member agency. The vote entitlement of each member agency is calculated as one vote for each $5 million of total financial contribution.

Total financial contribution includes all amounts in taxes, assessments, fees, and charges paid directly by or on behalf of the member agency to the Water Authority and the Metropolitan Water District with respect to properties located within the boundaries of each member agency. These amounts include standby charges, capacity charges, infrastructure access charges, readiness-to-serve charges, maintenance fees, annexation fees, and charges for water delivered and sold to member agencies by the Water Authority. Total financial contribution excludes surcharges for water treatment.

Each year on January 1, the Board of Directors reestablishes the vote entitlements of member agencies based on data from the most recently completed fiscal year.

The Act also provides for each member agency to have at least one representative on the Board of Directors. Each member agency may also designate and appoint one additional representative for each full five percent of total Water Authority assessed value of all properties within the member agency service area.
Each year on January 1, the Board of Directors reestablishes the numbers of member representatives based on the most recent assessed values certified by the County of San Diego Auditor and Controller.

*Previous Board action: Adopted the Vote Entitlements Resolution for Calendar Year 2017 on December 8, 2016.*

**Discussion**

The cumulative total financial contribution as of June 30, 2017 was $12,815,686,182 and the total vote entitlement for the Calendar Year 2018 is 2,563.137. The cumulative total financial contribution is calculated by adding the total member agency financial contribution for the fiscal year ended June 30, 2017 to the cumulative total member agency financial contribution as of June 30, 2016. The total vote entitlement is the cumulative total financial contribution divided by $5 million.

Attachment A of the Resolution lists the cumulative total financial contribution by member agency as of June 30, 2017 and the vote entitlements by member agency for Calendar Year 2018.

The total member agency representative entitlement for Calendar Year 2018 is thirty-six (36). The member agency representative entitlements are based on assessed values certified by the County of San Diego, Auditor and Controller, as of June 30, 2017. The number of Carlsbad representative remains with two representatives based on the Calendar Year 2018 calculation.

Attachment B of the Resolution lists the representative entitlement of each member agency. In summary, the City of San Diego has ten representatives; Carlsbad, Helix Water District and Otay Water District each have two representatives and the remaining member agencies each have one representative.

Prepared by: Priscilla Tam, Accounting Technician
Reviewed by: Christopher Woidzik, Controller
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments: Resolution No. 2017-___Vote and Member Representative Entitlements Resolution for Calendar Year 2018
- Attachment A: Vote Entitlements Effective January 1, 2018
- Attachment B: Representative Entitlements Effective January 1, 2018
RESOLUTION NO. 2017- ___

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
SAN DIEGO COUNTY WATER AUTHORITY
ESTABLISHING THE NUMBER OF VOTES BY REPRESENTATIVES
OF MEMBER AGENCIES FOR CALENDAR YEAR 2018 AS DETERMINED BY TOTAL
FINANCIAL CONTRIBUTION FOR THE FISCAL YEAR ENDING 2017 AND THE NUMBER
OF MEMBER REPRESENTATIVES AS DETERMINED BY TOTAL ASSESSED VALUES AS
OF JUNE 30, 2017

WHEREAS, pursuant to subdivision (i) of section 6 of the County Water
Authority Act, the Board of Directors is required annually to determine the total
financial contribution of each member agency and the number of member
representatives; and

WHEREAS, the Finance Department has calculated and reported to the Board of
Directors the total financial contribution and corresponding votes of each member
agency of the Water Authority; and

WHEREAS, the number of member representatives to which a member agency is
entitled is determined by percentage of assessed valuation in accordance subdivision (d)
of section 6 of the County Water Authority Act and the Finance Department has
calculated and reported to the Board of Directors the percentage of assessed valuation of
each member agency.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the
Water Authority, that the number of votes allocated to each member public agency is
shown in Attachment A and the number of member representatives for each public
agency to the Water Authority Board of Directors is shown in Attachment B.

227 of 503
PASSED, APPROVED AND ADOPTED, on this 7th day of December, 2017.

Ayes:

Noes:

Abstain:

Absent: ____________________________

Mark Muir, Chair

ATTEST: ____________________________

Gary Croucher, Secretary

I, Melinda Nelson, Clerk of the Board of Directors of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2017-____ was duly adopted at the meeting of the Board of Directors on the date stated above.

________________________
Melinda Nelson
Clerk of the Board
## ATTACHMENT A

**Vote Entitlement**

**Effective January 1, 2018**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Total Cumulative Financial Contribution*</th>
<th>Vote Entitlement</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>$458,237,841</td>
<td>91.648</td>
<td>3.58%</td>
</tr>
<tr>
<td>Del Mar</td>
<td>$37,902,439</td>
<td>7.580</td>
<td>0.30%</td>
</tr>
<tr>
<td>Escondido</td>
<td>$458,754,357</td>
<td>91.751</td>
<td>3.58%</td>
</tr>
<tr>
<td>Fallbrook</td>
<td>$296,928,623</td>
<td>59.386</td>
<td>2.32%</td>
</tr>
<tr>
<td>Helix</td>
<td>$869,449,548</td>
<td>173.890</td>
<td>6.78%</td>
</tr>
<tr>
<td>Lakeside</td>
<td>$95,353,192</td>
<td>19.071</td>
<td>0.74%</td>
</tr>
<tr>
<td>National City</td>
<td>$97,177,694</td>
<td>19.436</td>
<td>0.76%</td>
</tr>
<tr>
<td>Oceanside</td>
<td>$656,986,846</td>
<td>131.397</td>
<td>5.13%</td>
</tr>
<tr>
<td>Olivenhain</td>
<td>$411,603,017</td>
<td>82.321</td>
<td>3.21%</td>
</tr>
<tr>
<td>Otay</td>
<td>$732,468,042</td>
<td>146.494</td>
<td>5.71%</td>
</tr>
<tr>
<td>Padre Dam</td>
<td>$344,526,951</td>
<td>68.905</td>
<td>2.69%</td>
</tr>
<tr>
<td>Pendleton</td>
<td>$12,161,262</td>
<td>2.432</td>
<td>0.09%</td>
</tr>
<tr>
<td>Poway</td>
<td>$271,195,280</td>
<td>54.239</td>
<td>2.12%</td>
</tr>
<tr>
<td>Rainbow</td>
<td>$512,677,067</td>
<td>102.535</td>
<td>4.00%</td>
</tr>
<tr>
<td>Ramona</td>
<td>$192,701,244</td>
<td>38.540</td>
<td>1.50%</td>
</tr>
<tr>
<td>Rincon</td>
<td>$186,760,530</td>
<td>37.352</td>
<td>1.46%</td>
</tr>
<tr>
<td>San Diego</td>
<td>$5,101,362,929</td>
<td>1020.273</td>
<td>39.81%</td>
</tr>
<tr>
<td>San Dieguito</td>
<td>$137,784,168</td>
<td>27.557</td>
<td>1.07%</td>
</tr>
<tr>
<td>Santa Fe</td>
<td>$203,480,826</td>
<td>40.696</td>
<td>1.59%</td>
</tr>
<tr>
<td>South Bay</td>
<td>$263,496,443</td>
<td>52.699</td>
<td>2.06%</td>
</tr>
<tr>
<td>Vallecitos</td>
<td>$351,400,333</td>
<td>70.280</td>
<td>2.74%</td>
</tr>
<tr>
<td>Valley Center</td>
<td>$674,077,947</td>
<td>134.816</td>
<td>5.26%</td>
</tr>
<tr>
<td>Vista</td>
<td>$397,540,777</td>
<td>79.508</td>
<td>3.10%</td>
</tr>
<tr>
<td>Yuima</td>
<td>$51,658,824</td>
<td>10.332</td>
<td>0.40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12,815,686,182</strong></td>
<td><strong>2563.137</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

# Attachment B
## Representative Entitlement
### Effective January 1, 2018

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Secured</th>
<th>Unsecured</th>
<th>Total</th>
<th>Percent</th>
<th>Member Representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>$24,313,889,864</td>
<td>$963,841,807</td>
<td>$25,277,731,671</td>
<td>5.09%</td>
<td>2</td>
</tr>
<tr>
<td>Del Mar</td>
<td>3,483,903,540</td>
<td>21,779,886</td>
<td>3,505,683,426</td>
<td>0.71%</td>
<td>1</td>
</tr>
<tr>
<td>Escondido</td>
<td>8,148,329,983</td>
<td>257,813,036</td>
<td>8,406,143,019</td>
<td>1.69%</td>
<td>1</td>
</tr>
<tr>
<td>Fallbrook</td>
<td>3,815,842,562</td>
<td>38,181,279</td>
<td>3,854,023,841</td>
<td>0.78%</td>
<td>1</td>
</tr>
<tr>
<td>Helix</td>
<td>25,087,940,678</td>
<td>666,034,755</td>
<td>25,753,975,433</td>
<td>5.18%</td>
<td>2</td>
</tr>
<tr>
<td>Lakeside</td>
<td>2,514,800,108</td>
<td>114,669,855</td>
<td>2,629,469,963</td>
<td>0.53%</td>
<td>1</td>
</tr>
<tr>
<td>National City</td>
<td>3,863,154,117</td>
<td>213,539,289</td>
<td>4,076,693,406</td>
<td>0.82%</td>
<td>1</td>
</tr>
<tr>
<td>Oceanside</td>
<td>22,077,207,148</td>
<td>512,847,104</td>
<td>22,590,054,252</td>
<td>4.54%</td>
<td>1</td>
</tr>
<tr>
<td>Olivenhain</td>
<td>22,325,974,503</td>
<td>299,955,295</td>
<td>22,625,929,798</td>
<td>4.55%</td>
<td>1</td>
</tr>
<tr>
<td>Otay</td>
<td>29,439,798,273</td>
<td>636,302,225</td>
<td>30,076,100,498</td>
<td>6.05%</td>
<td>2</td>
</tr>
<tr>
<td>Padre Dam</td>
<td>10,815,572,630</td>
<td>266,694,846</td>
<td>11,082,267,476</td>
<td>2.23%</td>
<td>1</td>
</tr>
<tr>
<td>Pendleton*</td>
<td>31,975,590</td>
<td>22,455,214</td>
<td>54,430,804</td>
<td>0.01%</td>
<td>1</td>
</tr>
<tr>
<td>Poway</td>
<td>10,040,291,856</td>
<td>378,143,522</td>
<td>10,418,435,378</td>
<td>2.10%</td>
<td>1</td>
</tr>
<tr>
<td>Rainbow</td>
<td>4,380,952,564</td>
<td>28,408,213</td>
<td>4,409,360,777</td>
<td>0.89%</td>
<td>1</td>
</tr>
<tr>
<td>Ramona</td>
<td>4,173,398,261</td>
<td>42,744,607</td>
<td>4,216,142,868</td>
<td>0.85%</td>
<td>1</td>
</tr>
<tr>
<td>Rincon</td>
<td>9,160,352,651</td>
<td>246,013,576</td>
<td>9,406,366,227</td>
<td>1.89%</td>
<td>1</td>
</tr>
<tr>
<td>San Diego</td>
<td>232,883,135,900</td>
<td>10,197,439,844</td>
<td>243,080,575,744</td>
<td>48.89%</td>
<td>10</td>
</tr>
<tr>
<td>San Dieguito</td>
<td>9,728,720,083</td>
<td>159,514,665</td>
<td>9,888,234,748</td>
<td>1.99%</td>
<td>1</td>
</tr>
<tr>
<td>Santa Fe</td>
<td>10,897,837,504</td>
<td>70,278,848</td>
<td>10,968,116,352</td>
<td>2.21%</td>
<td>1</td>
</tr>
<tr>
<td>South Bay</td>
<td>10,266,120,147</td>
<td>317,242,033</td>
<td>10,583,362,180</td>
<td>2.13%</td>
<td>1</td>
</tr>
<tr>
<td>Valleceitos</td>
<td>14,663,654,062</td>
<td>370,119,207</td>
<td>15,033,773,269</td>
<td>3.02%</td>
<td>1</td>
</tr>
<tr>
<td>Valley Center</td>
<td>4,440,877,233</td>
<td>27,277,659</td>
<td>4,468,154,892</td>
<td>0.90%</td>
<td>1</td>
</tr>
<tr>
<td>Vista</td>
<td>13,732,004,863</td>
<td>535,333,088</td>
<td>14,267,337,951</td>
<td>2.87%</td>
<td>1</td>
</tr>
<tr>
<td>Yuima</td>
<td>373,794,032</td>
<td>5,144,964</td>
<td>378,938,996</td>
<td>0.08%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$480,659,528,152</strong></td>
<td><strong>$16,391,774,817</strong></td>
<td><strong>$497,051,302,969</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

5% of Total Assessed Valuation is $24,852,565,148

Note: County of San Diego – 1 Special Representative

*Pendleton Military Reservation is entitled to only one member representative notwithstanding total assessed valuation.

Source: Report from County of San Diego Auditor/Controller - Property tax services dated 7/04/2017. Report ID: Val Mail-01 PSVVP70@
November 29, 2017

Attention: Administrative and Finance Committee

Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.  

(Action)

**Recommendation**
Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.

a) Adopt the Annual Statement of Investment Policy as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.

b) Approve the amendment to Chandler Asset Management to implement the updated Water Authority Investment Strategy.

**Alternative**
Adopt the Annual Statement of Investment Policy, without amendments, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.

**Fiscal impact**
The cost of the investment manager will be calculated on the average market value of the Water Authority’s portfolio. The average monthly cost for 2018 is estimated to be $7,663 and will be offset by investment earnings on the portfolio.

**Background**
It is the policy of the Board to review and approve the Annual Statement of Investment Policy (Policy) and to delegate the investment authority to the Treasurer on an annual basis. Annual statements of investment policy and quarterly updates to the legislative body are optional per California Government Code (Code) section 53646. However, the Water Authority annually reviews, updates and adopts its Policy and submits a monthly Treasurer’s Report to the Board. Staff believes that the annual review and adoption of the Policy by the Board, along with submission of the monthly Treasurer’s Report to the Board, is central to a transparent portfolio management process.

Also, each year staff review changes to the Code to ensure the Water Authority’s Policy in kept current with the Code. As a part of the annual review, Chandler Asset Management a private investment advisor under contract with the Water Authority, also conducted a review of the Policy. Also, each year the staff reviews market conditions and evaluates the Water Authority Investment Strategy.
Previous Board Action
On September 25, 2014, the Board approved the investment management strategy and the utilization of an external investment manager to manage investments in medium term corporate notes and municipal securities and on November 29, 2017, the Board adopted the updated Annual Statement of Investment Policy.

Current Investment Strategy
Water Authority staff, as part of day-to-day portfolio management, maintain on-going surveillance of the capital markets and the interest rate environment. The current investment strategy prioritizes cash flow needs but maintains a portfolio performance metric target. With debt service payments representing the primary outflow of operating funds over time, investments are purchased to fund the scheduled payments. Ensuring cash flow requirements are met is the primary goal. The Water Authority currently maintains a target duration\(^1\) for the portfolio of approximately 1.0 years.

Discussion
Through past market events such as the historical low-interest rate environment, the Water Authority invested in a prudent and conservative manner, which emphasized preservation of principal to ensure sufficient liquidity for unforeseen expenditures. As interest rates have increased the Water Authority continues to move toward more normalized operating conditions. Funds not needed for liquidity purposes can be structured to safely enhance earnings and long-term capital appreciation through investments in high quality longer-maturity investments that have historically offered higher returns.

As such, staff has worked to identify and evaluate opportunities to enhance the investment portfolio’s performance. One of the key findings is that portfolio performance could be enhanced through further diversification of investment types. Currently the internally-managed portfolio investments held by the Water Authority are predominantly invested in government agency securities with the remainder invested in California’s LAIF and CAMP programs. The proposed investment strategy will take full advantage of all investment types permitted by California Government Code.

The recommended 2018 investment policy statement governing the goals and objectives of the portfolio has been developed with the investment manager and a performance benchmark selected to gauge performance over time. Staff will continue to internally manage liquidity and the core longer term investments will be largely managed by the external investment manager that will add value to the Water Authority’s investment program. As such, staff recommends the amendment to the Chandler contract from the management of investments in medium term corporate notes and municipal securities to the management of the Water Authority core portfolio utilizing the asset classes within the recommended investment policy. The potential for increased investment earnings would offset the investment management fee which is anticipated to be between 6 and 15 basis points (100 basis points equals 1 percent) for assets under management.

\[^1\] A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.\(^1\)
Attachment A summarizes the recommendations for the Policy’s permitted investments and the maximum percentage of the portfolio that can be held at the time of investment. The proposed changes to the investment policy align more consistently with California Government State Code and public agency investment best practices. Taking full advantage of the investment types permitted by California Government Code can increase overall diversification and safety for the portfolio while providing additional opportunities to enhance long-term return and value to the Water Authority’s investment program. In addition, staff with consultation with the external investment advisor recommends language permitting one additional investment instrument, **Asset-Backed Securities (“ABS”)**, which will provide opportunities to enhance the diversification of the portfolio, and further promote the Water Authority’s long-term objectives.

By implementing the strategies listed above with a well-diversified investment approach that emphasizes high credit quality, the Water Authority’s portfolio could be repositioned from its current position to limit risk, provide liquidity, and enhance return. For a more detailed summary of the proposed Policy recommendations, see attachment B: Annual Statement of Investment Policy for Calendar Year 2018.

Prepared by: Liana M. Whyte, Budget & Analysis Manager
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:
Attachment A: Proposed Authorized Investments Summary
Attachment B: Annual Statement of Investment Policy for Calendar Year 2018
Attachment C: Amendment to Chandler Asset Management Contract
### Existing San Diego County Water Authority Investment Policy

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum % of Portfolio</th>
<th>% Issuer</th>
<th>Minimum Rating Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund</td>
<td>Maximum permitted by program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banker's Acceptances</td>
<td>180 days</td>
<td>20%</td>
<td>5%</td>
<td>A or higher by one NRSRO</td>
</tr>
<tr>
<td>US Treasury</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Repurchase Agreement</td>
<td>1 year</td>
<td>20%</td>
<td></td>
<td>A or higher by one NRSRO</td>
</tr>
<tr>
<td>Reverse Repurchase Agreement</td>
<td>92 days</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Negotiable CD</td>
<td>5 years</td>
<td>15% all CDs</td>
<td>5%</td>
<td>A or higher by one NRSRO</td>
</tr>
<tr>
<td>CDARS</td>
<td>5 years</td>
<td>15% all CDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiable CD</td>
<td>5 years</td>
<td>15% all CDs</td>
<td>5%</td>
<td>AA or higher by one NRSRO</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>25%</td>
<td>5%</td>
<td>A-1, A by one NRSRO</td>
</tr>
<tr>
<td>Corporate Medium Term Notes</td>
<td>5 years</td>
<td>30%</td>
<td>5%</td>
<td>A or higher by three NRSROs</td>
</tr>
<tr>
<td>Municipal Bonds</td>
<td>5 years</td>
<td>20%</td>
<td>5%</td>
<td>A or higher by one NRSRO</td>
</tr>
<tr>
<td>Federal Agency Obligations</td>
<td>5 years</td>
<td>85%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Supranational</td>
<td>5 years</td>
<td>10%</td>
<td>5%</td>
<td>AA or higher by one NRSRO</td>
</tr>
<tr>
<td>ABS, MBS, &amp; CMO</td>
<td>Not authorized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>Not authorized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>N/A</td>
<td>15%</td>
<td>15%</td>
<td>AAA or higher by two NRSROs</td>
</tr>
<tr>
<td>LGIP</td>
<td></td>
<td>25%</td>
<td></td>
<td>AAA or higher by one NRSRO</td>
</tr>
</tbody>
</table>

### Proposed San Diego County Water Authority Investment Policy

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum % of Portfolio</th>
<th>% Issuer</th>
<th>Minimum Rating Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund</td>
<td>Maximum permitted by program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banker's Acceptances</td>
<td>180 days</td>
<td>40%</td>
<td>5%</td>
<td>A-1, A by one NRSRO</td>
</tr>
<tr>
<td>US Treasury</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Repurchase Agreement</td>
<td>1 year</td>
<td>20%</td>
<td></td>
<td>A by one NRSRO</td>
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<tr>
<td>Reverse Repurchase Agreement</td>
<td>92 days</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Negotiable CD</td>
<td>5 years</td>
<td>30% all CDs</td>
<td>None</td>
<td>Limited to insured amount</td>
</tr>
<tr>
<td>CDARS</td>
<td>5 years</td>
<td>30% all CDs</td>
<td>N/A</td>
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</tr>
<tr>
<td>Negotiable CD</td>
<td>5 years</td>
<td>30% all CDs</td>
<td>5%</td>
<td>A-1, A by one NRSRO</td>
</tr>
<tr>
<td>Commercial Paper</td>
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<td>Highest by 2 NRSROs</td>
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<td>LGIP</td>
<td></td>
<td>25%</td>
<td>25%</td>
<td>AAA or higher by one NRSRO</td>
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</tbody>
</table>

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2. Asset Backed Securities (ABS) supported by pools of installment loans or leases or by pools of revolving lines of credit.
SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 2018

INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of the Water Authority while protecting its funds.

The Board of Directors and, upon formal delegation, the Treasurer for the San Diego County Water Authority, duly authorized to invest Water Authority monies by California Government Code, are trustees of Water Authority funds and therefore fiduciaries subject to the prudent investor standard.

SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the San Diego County Water Authority, except for the employee’s retirement and deferred compensation funds. For investment purposes, the Water Authority manages the Operating Fund, Rate Stabilization Fund, Pay-As-You-Go Fund, Equipment Replacement Fund and Stored Water Fund together as the Pooled Operating Fund. The funds under the direct authority of the San Diego County Water Authority are accounted for in the Comprehensive Annual Financial Report and include:

Operating Fund – Holds the Water Authority’s working capital and emergency operating reserve.

Rate Stabilization Fund – Established to mitigate future water rate increases.

Pay-As-You-Go Fund (PAYGO) – Funds are dedicated for construction outlays and debt service.

Equipment Replacement Fund – Used to purchase minor capital equipment such as computer systems, vehicles, etc.

Stored Water Fund – Used to purchase water to fill Water Authority reservoirs.

Construction (CIP) Fund – Holds the proceeds of long-term debt and commercial paper to be expended for construction.

Debt Service Reserve Fund – Holds the required legal reserve for Water Authority debt issues.
OBJECTIVES

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer.
2. To protect the principal monies entrusted to this organization.
3. To generate the maximum amount of investment income within the parameters of this Annual Statement of Investment Policy.

These goals are enhanced by the following objectives in order of importance.

A. **Safety**: It is the primary duty and responsibility of the Treasurer to protect and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. Diversification of the portfolio will be used in order to reduce exposure to principal loss.

B. **Liquidity**: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. **Return on Investments Yield**: Yield should become a consideration only after the basic requirements of safety and liquidity have been met. The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

D. **Public Trust**: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio’s investment return, provided that adequate diversification has been implemented.

PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the “prudent investor standard”, California Government Code (Section 53600.3), which obligates a fiduciary to insure that
“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

DELEGATION OF AUTHORITY

The investment, per this policy, of Water Authority idle monies is annually delegated to the Treasurer by the Board of Directors who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. A memorandum will be forwarded to the General Manager indicating the individual who is acting on the behalf of the Treasurer which details the period of time the designee will be responsible for the investment function. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Annual Statement of Investment Policy.

The Water Authority may engage the services of one or more external investment adviser(s), who are registered under the Investment Advisers Act of 1940, to assist in the management of the Water Authority’s investment portfolio in a manner consistent with the objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Water Authority’s portfolio. Employee shall disclose any large personal financial positions that could be related to the performance of the Water Authority’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Water Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence. All officers and employees involved in the investment of public funds are required to comply with the Water Authority’s Conflict of Interest Code.

AUTHORIZED INVESTMENT INSTRUMENTS - POOLED OPERATING FUND

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

Local Agency Investment Fund (LAIF): The Water Authority may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1(b)). In order to ensure that LAIF is purchasing securities that comply with the Government Code, the monthly LAIF report shall be reviewed by the Treasurer. The fund must have twenty-four hour liquidity. The maximum permitted investment will be governed by State Law.
Bankers’ Acceptances: The Water Authority may invest in Banker’s Acceptances, provided that they are issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO. No more than 40% of the portfolio may be invested in Banker’s Acceptances, and no more than 5% of the portfolio may be invested in any single issuer. The maximum maturity shall not exceed 180 days. Prime self-liquidating bankers’ acceptances (Government Code Section 53601(g)) limited to banks rated a minimum of “A” by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings; institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO. The maximum investment maturity will be restricted to 180 days. Maximum portfolio exposure will be limited to 2040 percent and single-issuer holdings to no more than 5 percent per issuer.

Treasury Securities: The Water Authority may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). The purchase of zero-coupon, or strips, is not permitted. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five years.

Repurchase Agreements: The Water Authority may invest (Government Code Section 53601(j)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New York and have rated “A” or better by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings, and a long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Securities Industry and Financial Markets Association (SIFMA)’s master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the San Diego County Water Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The Water Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counterparty. Maximum portfolio exposure will be limited to 20 percent and maturities that do not exceed one year.

Reverse Repurchase Agreements: The Water Authority may enter (Government Code Section 53601(j)) into reverse repurchase agreements only “with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency”, and when an unanticipated cash outflow can be met more advantageously by agreeing to a reverse repurchase agreement rather than selling securities outright.
In this situation, the reverse shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement.

The Water Authority may also enter into reverse repurchase agreements when proceeds obtained through the reverse can be reinvested at a higher rate. The spread and reverse must be reviewed by the Treasurer prior to the transaction taking place. Reverse repurchase agreements entered into may not exceed a maximum maturity of 92 days unless the minimum spread between the rate on the investment and cost of funds is guaranteed in writing, in which case the maximum maturity is limited to one year. In all cases, the transaction must be matched as to maturity and dollars invested with its corresponding reinvestment.

In both situations a master repurchase agreement modeled after the Securities Industry and Financial Markets Association (SIFMA) is required prior to the transaction taking place. In all cases, the security being reversed must have been held in the portfolio for a minimum of 30 days. Restrictions placed on repurchase agreements also apply to reverse repurchase agreements. Maximum portfolio exposure will be limited to 20 percent of the total portfolio value excluding the proceeds of reverses. This transaction requires written approval of the Treasurer.

Securities lending is not considered a reverse repurchase transaction and is not authorized under this section.

Certificates of Deposit: The Water Authority may invest in Time Deposits (Non-Negotiable Certificates of Deposit). They may invest in Federally Insured Time Deposits in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance, no more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits, and the maximum maturity does not exceed five (5) years. The Water Authority may invest in Collateralized Time Deposits in state or federally chartered bank, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with the securities in accordance with California law, provided that no more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits, and the maximum maturity does not exceed five (5) years. The maximum portfolio exposure, combined with placement services and Negotiable CDs, is limited to 30 percent and no more than 5 percent of the portfolio may be invested in any single issuer. certificates of deposits issued by a state or national bank, savings association or federal association, a state or federal credit union located in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. The Treasurer may waive collateral requirements for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Water Authority, even though they are permitted in Government Code Section 53651(m). As provided under Government Code Section 53660, the bank or agent of depository is required to provide the Water Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive Water Authority funds that has a long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO a long-term debt rating by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings less than “A”; however, deposits of up to the federal deposit insurance limit are allowable in any institution that insures its
deposits pursuant to federal law, regardless of the ratings by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings. The maximum deposited in any one institution without collateral shall not exceed the amount covered by federal deposit insurance.

All banks accepting Water Authority deposits are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of “satisfactory” as defined under the Community Reinvestment Act.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 1530 percent and no more than 5% of the portfolio may be invested in any single issuer. Maximum investment maturity will be restricted to five years.

**Placement Service Deposits:** The Water Authority may invest in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to deposits placed pursuant to this section, Certificates of Deposits, and Negotiable Certificates of Deposit is limited to 1530 percent. Maximum investment maturity will be restricted to five years.

**Negotiable Certificates of Deposit:** The Water Authority may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank, provided that no more than 30 percent of the total portfolio is invested in NCDs (in combination with CDs and Placement Services), and no more than 5 percent may be invested in a single issuer, and the maximum maturity shall not exceed five (5) years. The amount of the NCD insured up to the FDIC limit does not require any credit ratings, and any amount above the FDIC insured limit must be issued by institutions which have short term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO, issued by a nationally or state-chartered bank or a state or federal association or by a state- or federally-licensed branch of a foreign bank (Government Code Section 53601(i)). Securities must have a minimum rating for long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO, of “AA” by at least one of the three credit rating agencies (Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings), and not rated lower than “A” by the other two.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

The combined maximum portfolio exposure to Negotiable Certificates of Deposit and deposits invested pursuant to a Placement Service Deposit entity is limited to 1530 percent and single-issuer holdings to no more than 5 percent per issuer. Maximum investment maturity is restricted to five years.

**Commercial Paper:** The Water Authority may invest in the highest grade of commercial paper
are rated “A-1” or its equivalent or better by at least one NRSRO as rated by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings (“A1/P1/F1”), issued only by general corporations that are organized and operating within the United States and having total assets in excess of $500 million. If the general corporation has long term ratings, they must also have long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO minimum rating of “A” or higher by all three credit rating agencies referenced in this policy (Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings). Purchases shall not exceed ten percent of the outstanding paper of the issuing general corporation. Maximum investment maturity will be restricted to 270 days. Maximum portfolio exposure is limited to 25 percent and single-issuer holdings to no more than 5 percent per issuer.

Medium-Term Notes: The Water Authority may invest in corporate and depository institution debt securities provided that the issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (Government Code Section 53601(k)). Securities must have long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO minimum rating of “A” or higher by all three credit rating agencies referenced in this policy (Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings). Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to five years. Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer.

Municipal Securities: The Water Authority may invest in: (i) Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state (Government Code Section 53601(c)(d)); and (ii) Bonds, notes, warrants, or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency (Government Code Section 53601(a)(e)). Securities must have long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO, a minimum rating of “A” as rated by Moody’s Investors Service, Standard and Poor’s, or Fitch Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 3020 percent and single-issuer holdings to no more than 5 percent per issuer.

Agencies: The Water Authority may invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (Government Code Section 53601(f)). Permissible types of securities include discount, coupon and variable rate security issues. Agency Callable securities are limited to a minimum of one-time call only, with a maximum allocation of 20 percent of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

Supranational: The Water Authority may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Securities must be eligible for purchase and sale within the United States and have a minimum rating of “AA” as rated by Moody’s Investors Service, Standard and Poor’s, or Fitch.
Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 10 percent and single-issuer holdings to no more than 5 percent per issuer.

**Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations:** The Water Authority may invest in these securities, given that the securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO, they are issued by an issuer having long-term debt obligations rated in a rating category of “A” or its equivalent or better by one NRSRO. No more than 20% of the total portfolio may be invested in these securities, and no more than 5% of the portfolio may be invested in any single Asset-backed or mortgage security issuer. There is no issuer limitation on any mortgage security where the issuer is the US Treasury or Federal Agency/GSE. The maximum legal final maturity does not exceed five (5) years.

**Money Market Funds:** The Water Authority may invest in funds authorized under Government Code Section 53601(l)(2) that have a minimum asset size of $500 million. Composition of the fund is limited to investments that are authorized by this Annual Statement of Investment Policy. Funds must have the highest rating by two of the three largest nationally recognized statistical rating organizations, or have an investment adviser registered with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by this investment policy. Any fund shares purchased will not include any type of commission. Maximum portfolio exposure is limited to 15 percent.

**Mutual Funds and Money Market Mutual Funds:** Must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

a. **Mutual Funds:** invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
   1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.
   3. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

b. **Money Market Mutual Funds:** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
   1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of $500 million.
   3. No more than 20% of the total portfolio may be invested in shares of any one Money Market Mutual Fund.

c. No more than 20% of the total portfolio may be invested in these securities.

**Local Government Investment Pools:** The Water Authority may invest in local government
investment pools created by a joint powers authority authorized under Government Code Section 53601(p). Pools must have the highest rating by at least one of the three largest nationally recognized statistical rating organizations. The pool must have twenty-four hour liquidity. Maximum portfolio exposure is limited to 25 percent.

<table>
<thead>
<tr>
<th>Authorized Investments Summary</th>
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**AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS AND DEBT SERVICE RESERVE FUNDS AND OTHER AFFILIATED ENTITIES**

All investment types listed above are authorized investments for bond proceeds and debt service, and other affiliated entities reserve funds with the addition of the following:

Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements:
Investment of funds in GICs is permitted, as per Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

**Initially Uncollateralized Guaranteed Investment Contracts (GICs):** Investment of funds in GICs which are not initially collateralized is permitted, as per Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by both Moody’s Investors Service and Standard & Poor’s (or whose payment obligations under such GIC are insured or guaranteed by an entity the unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty’s rating is downgraded below the highest long-term rating category by either Moody’s Investors Service or Standard & Poor’s.

**Local Agency Investment Fund (LAIF):** The Water Authority may also invest bond proceeds in the Local Agency Investment Fund (Government Code Section 16429.1(d)). There is a $175M limit on the amount of bond proceeds that may be deposited into the fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a 90-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Annual Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Annual Statement of Investment Policy is more conservative than the bond covenants, the Annual Statement of Investment Policy will prevail; if the bond covenants are more conservative than the Annual Statement of Investment Policy, the bond covenants will prevail. All future debt transaction reinvestment guidelines will incorporate the current Annual Statement of Investment Policy into the bond covenants.

The Board of Directors has granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, and municipal securities with maturities exceeding 5 years if it is considered to be in the best interest of the Water Authority and if the maturity of such investments does not exceed the expected use of funds.

**PORTFOLIO LIMITATIONS**

It is the Water Authority’s goal to maintain a minimum of 50 percent of the Water Authority portfolio in Treasury Bills or Notes; however, based on market conditions a combination of 50 percent Agencies and Treasury Bills or Notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury Bills or Notes. The balance of the portfolio may be invested in any of the other permissible investments within the guidelines previously established.

The total dollar amount of bond proceeds and debt service reserve funds invested are to be excluded from the total used to calculate percentages for investment types.

The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity.
Percentage limitations, where listed, are applicable at the date of purchase. In the event that the percentage limits attributable to a security type is exceeded due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and, as such, a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the occurrence in the Treasurer’s Report at the next regularly scheduled Administrative and Finance Committee meeting of the Board, with detail of the strategy determined to address the imbalance, for Board ratification.

Credit requirements listed in this policy indicate the minimum credit rating (or its equivalent) required at the time of purchase without regard to modifiers (e.g., +/- or 1, 2, 3). In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Administrative and Finance Committee meeting of the Board. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

INELIGIBLE INVESTMENTS

State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
Purchasing or selling securities on margin is prohibited.
The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
The purchase of foreign currency denominated securities is prohibited.
Investments not described herein, including, but not limited to common stocks, futures and the writing of options are prohibited from use in this portfolio. The use of short positions is also prohibited.

DERIVATIVES

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

SWAPS

A swap is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, or to increase investment quality. In
no instance shall a swap be used for speculative purposes. Any such swap shall be simultaneous (same
day execution of sale and purchase), and requires the written approval of the Treasurer.

INTERNAL CONTROLS

A system of internal controls has been established and documented in writing in the Water
Authority’s Financial Services Policies and Procedures Manual. The controls shall be designed to
prevent losses of public funds arising from fraud, employee error, and misrepresentation of third
parties, unanticipated changes in financial markets or imprudent action by employees and officers of
the Water Authority. Controls deemed most important include: control of collusion, separation of
duties and administrative controls, separating transaction authority from accounting and record
keeping, custodial safekeeping, clear delegation of authority, management review and approval of
investment transactions, specific limitations regarding securities losses and remedial action, written
confirmation of telephone transactions, minimizing the number of authorized Investment Officials,
documentation of transactions and strategies, and code of ethics standards. The Treasurer has
established an annual process of independent review by an external audit firm. This review provides
assurance of strong internal controls by reviewing compliance with previously established policies and
procedures.

REPORTING

Monthly Reports
Monthly transaction reports will be submitted by the Treasurer to the Governing Body within
30 days of the end of the reporting period in accordance with California Government Code Section 53607.

Quarterly Reports
At a minimum frequency of quarterly, the Water Authority will submit an investment report to
the Governing Body which provides full disclosure of the Water Authority’s investment
activities within 30 days after the end of the period. These reports will disclose, at a minimum,
the following information about the Water Authority’s portfolio:

1. An asset listing showing par value, cost and independent third-party fair market value of
each security as of the date of the report, the source of the valuation, type of investment,
issuer, maturity date, interest rate and interest rate.

2. Transactions for the period.

3. A description of the funds, investments and programs (including lending programs)
managed by contracted parties (i.e. LAIF; investment pools, outside money managers and
securities lending agents)

4. A one-page summary report that shows:
   a. Average maturity of the portfolio and modified duration of the portfolio;
   b. Maturity distribution of the portfolio;
   c. Percentage of the portfolio represented by each investment category;
   d. Average portfolio credit quality; and,
   e. Time-weighted total rate of return for the portfolio for the prior one month, three
months, twelve months and since inception compared to the Water Authority’s market
benchmark returns for the same periods;
5. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.

6. A statement that the Water Authority has adequate funds to meet its cash flow requirements for the next six months.

The Treasurer will submit a monthly investment report to the Board of Directors, the General Manager’s office, and the internal auditor (if applicable). This report will include: a list of portfolio transactions, type of investment, issuer, date of maturity, amount of deposit/par amount, current market value of all securities (with the source of the market valuation), rate of interest, statement that there are or are not sufficient funds to meet the next 6 month’s obligations and a statement indicating compliance or noncompliance with this Annual Statement of Investment Policy. Additional items listed will also include average weighted yield, average days to maturity, accrued interest earned during the period and fiscal year to date, percent distribution to each type of investment and any funds under management by contracted parties, including lending programs.

QUALIFIED BANKS AND SECURITIES DEALERS

A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. For any investment transaction not conducted directly with the issuer, the Water Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Water Authority’s staff will investigate all institutions that wish to conduct business with the Water Authority. All institutions must sign the appropriate Information Request Form, and agree to abide by the conditions set forth in the Water Authority’s Annual Statement of Investment Policy. A list will be maintained by the cash management staff of approved institutions and securities broker/dealers. This will be done annually by having the financial institutions complete and return the Broker Dealer Information Request Form and an audited financial statement within 90 days of the institution’s fiscal year-end. Previous Board approved substitute certification language may be offered to primary dealers of the Federal Reserve at the discretion of the Treasurer. In the event the substitute language is not accepted by the primary dealer, the Treasurer may return to the Water Authority’s Board for approval of alternative language proposed by the primary dealer. If the Water Authority is utilizing the services of an investment advisor, the investment advisor may use their own list of approved issuers and financial institutions for executing transactions.

RISK TOLERANCE MANAGEMENT AND DIVERSIFICATION

The Water Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost-effective basis.
Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Water Authority will mitigate credit risk by adopting the following strategies:

The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.

No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.

The Water Authority may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or Agency’s risk preferences.

Mitigating Market Risk in the Portfolio:

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Water Authority recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Water Authority will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The Water Authority further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Water Authority, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

The maximum percent of callable securities (does not include “make whole call” securities as defined in the Glossary) in the portfolio will be 20%.

The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.

The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the Water Authority based on the Water Authority’s investment objectives, constraints and risk tolerances.

PERFORMANCE BENCHMARK

Controlling and managing risk is the foremost portfolio management objective. The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. The Water Authority shall monitor and evaluate the portfolio’s performance relative to the chosen market benchmark(s), which will be included in the quarterly report. The Water Authority shall select an appropriate, readily available index to use as a market benchmark. An appropriate benchmark consistent with the Water Authority’s investment objectives and liquidity requirements has been established against which the portfolio’s performance
is compared on a regular basis. The selected benchmark is the 2-Year U.S. Treasury constant maturity. Any significant deviation of the portfolio’s performance to the benchmark should be reviewed in order to ensure that such investments meet the criteria previously specified.

SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of security dealer(s), all book-entry securities owned by the Water Authority, including repurchase agreement collateral, shall be kept in safekeeping with “perfected interest” by a third party bank trust department, acting as agent for the Water Authority under the terms of a custody agreement executed by the bank and by the Water Authority. All securities will be received and delivered using standard delivery-versus-payment procedures. The only exception to the foregoing shall be certificates of deposit and investments in: (i) LAIF; (ii) local government investment pools; and (iii) money market funds, since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

DIVERSIFICATION

The investment portfolio will be diversified by security type, institution and maturity date to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

STATEMENT OF INVESTMENT POLICY

This Annual Statement of Investment Policy shall be reviewed and submitted annually to the Board of Directors in order to incorporate any changes necessary to ensure consistency and its relevance to current law, and financial and economic trends. This Annual Statement of Investment Policy shall be reviewed at a public meeting and voted on prior to the start of each calendar year.

Glossary of Investment Terms

**AGENCIES.** Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

- **FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.
- **FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.
- **FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.
- **FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMac,” issues discount notes, bonds and mortgage pass-through securities.
- **GNMA.** The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.
- **PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.
TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor’s cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.
**Delivery vs. Payment (DVP).** A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser’s agent.

**Derivative.** Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components (“Stripped” coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

**Discount.** The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker’s acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

**Diversification.** Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

**Duration.** The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

**Federal Funds Rate.** The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

**Federal Open Market Committee.** A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

**Leverage.** Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

**Liquidity.** The speed and ease with which an asset can be converted to cash.

**Local Agency Investment Fund (LAIF).** A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer’s Office.

**Local Government Investment Pool.** Investment pools that range from the State Treasurer’s Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

**Make Whole Call.** A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

**Margin.** The difference between the market value of a security and the loan a broker makes using that security as collateral.

**Market Risk.** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

**Market Value.** The price at which a security can be traded.

**Marking to Market.** The process of posting current market values for securities in a portfolio.

**Maturity.** The final date upon which the principal of a security becomes due and payable.

**Medium Term Notes.** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.
MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified
duration is the best single measure of a portfolio’s or security’s exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes,
commercial paper, and banker’s acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash
flows from a specified pool of mortgages. Principal and interest payments made on the
mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating
expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of
securities which is specifically defined in the fund’s prospectus. Mutual funds can be invested
in various types of domestic and/or international stocks, bonds, and money market instruments,
as set forth in the individual fund’s prospectus. For most large, institutional investors, the costs
associated with investing in mutual funds are higher than the investor can obtain through an
individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).
A credit rating agency that the Securities and Exchange Commission in the United States uses
for regulatory purposes. Credit rating agencies provide assessments of an investment’s risk.
The issuers of investments, especially debt securities, pay credit rating agencies to provide
them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody’s.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or
federal association, state or federal credit union, or state-licensed branch of a foreign bank.
Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or
initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is
above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on
mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve
in its execution of market operations to carry out U.S. monetary policy, and (2) that participates
for statistical reporting purposes in compiling data on activity in the U.S. Government securities
market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to
fiduciaries. In California, the rule is stated as “Investments shall be managed with the care,
skill, prudence and diligence, under the circumstances then prevailing, that a prudent person,
acting in a like capacity and familiar with such matters, would use in the conduct of an
enterprise of like character and with like aims to accomplish similar purposes.”

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and
realized gains and losses. It does not give effect to changes in market value on securities, which
have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its
customers without maintaining substantial inventories of securities and that is not a primary
dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell
the securities back at a higher price. From the seller’s point of view, the same transaction is a
reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer’s
name.
**Structured Note.** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**Supranational.** A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

**Total Rate of Return.** A measure of a portfolio’s performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

**U.S. Treasury Obligations.** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Treasury Bills.** All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues “cash management” bills as needed to smooth out cash flows.

**Treasury Notes.** All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

**Treasury Bonds.** All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

**Volatility.** The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

**Yield to Maturity.** The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

**Glossary of Investment Terms**
Contract Amendment No. 1

The contract between Chandler Asset Management, Inc. and the San Diego County Water Authority for non-discretionary investment management services, which was executed by the parties on December 15, 2014, is amended as follows:

1. Under Section 4(a), the Water Authority exercises the option to extend the contract. The term of the contract is extended for one year for continued services as described in Attachment A, and the termination date is changed from November 20, 2017 to November 20, 2018. Section 4(a) is amended to reflect this change.

2. Attachment A, Scope of Work, is amended to revise Task 1.0, as provided in Attachment A-1.

   Each Calendar Year, the Water Authority’s Investment Policy is reviewed and subject to change based on Board approval. Attachment A shall be updated to reflect any change to the Investment Policy.

3. Attachment B, Payment and Fee Schedule, is amended as provided in Attachment B-1.

4. Section 29, Valuation, is amended as follows:

   29. VALUATION:
   Contractor will value securities held in portfolios managed by Contractor no less than monthly. Securities or investments in the portfolio will be valued using the Bloomberg Excel Function, Bloomberg Data Point (BDP), with the field PX-BID, after 4:00 p.m. EST, on the last business day of the month. If a PX-BID is unavailable from Bloomberg, Contractor shall determine, in good faith, a fair market price and shall detail and submit the methods and sources used in calculating the price.

5. Section 32, ADMINISTRATION, paragraphs (b) and (d), are amended, to update the Water Authority representative, as provided below. Contractor’s representative remains unchanged.

   (b) Water Authority’s Representative. The Water Authority’s representative for administration of this contract is Melody Parker, who is the designated Contract Manager. Lisa Marie Harris is designated as the Project Manager. Contractor shall receive all instructions, directions, and other communications on the Water Authority’s behalf with respect to the Water Authority’s account from the Project Manager. Contractor is hereby authorized to rely and act upon all such instructions, directions, and communications from the Project Manager. The Water Authority may change the Contract and/or Project Manager at any time upon notice to the Contractor.

   (d) Notices. Any notice or instrument required to be given or delivered by law or this contract shall be effective upon receipt thereof and shall be by personal service or delivered by depositing the same in any United States Post Office, registered or certified, postage prepaid, addressed to:
6. All other terms, covenants, and conditions in the original contract as amended shall remain in full force and effect and shall be applicable to this amendment.

The individuals executing this amendment to the contract represent and warrant that they have the legal capacity and authority to do so on behalf of their respective legal entities.

IN WITNESS WHEREOF, the parties have executed this First Amendment to contract on the following date.

DATED: ___________________________, 2017

San Diego County Water Authority                      Chandler Asset Management, Inc.

By: ____________________________________________  By: ________________________________
    Lisa Marie Harris                                Kay Chandler
    Director of Finance/Treasurer                     President

Approved as to form:

By: ____________________________________________
    Rosann Gallien
    Assistant General Counsel
Task 1.0 of Attachment A is amended, as follows:

1. Actively manage a non-discretionary core portfolio which may include any of the Authorized Investment Instruments in the Water Authority’s Pooled Fund (see Attachment D – Annual Statement of Investment Policy). A core portfolio is defined as longer-term investments, usually with a maturity between one and five years.
Contractor will be paid monthly an amount calculated on the average market value of the Water Authority’s portfolio, including accrued interest, in accordance with the following schedule:

<table>
<thead>
<tr>
<th>Assets Under Management</th>
<th>Annual Investment Management Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $25 million</td>
<td>0.10 of 1% (10 basis points)</td>
</tr>
<tr>
<td>Next $25 million</td>
<td>0.08 of 1% (8 basis points)</td>
</tr>
<tr>
<td>Next $100 million</td>
<td>0.07 of 1% (7 basis points)</td>
</tr>
<tr>
<td>Assets in excess of $150 million</td>
<td>0.05 of 1% (5 basis points)</td>
</tr>
</tbody>
</table>

The fees expressed above do not include any custody fees that may be charged by the Water Authority’s bank or other third-party custodian.

Fees shall be prorated to the effective date of termination on the basis of actual days elapsed, and any unearned portion of prepaid fees shall be refunded.

There are no start-up fees, closing fees, or penalty fees.

Fees shall be invoiced monthly in arrears directly to the Water Authority.
ATTACHMENT D
Calendar Year 2017 Investment Policy

See Investment Policy in the following link: Investment Policy 2017.pdf
SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 2017

INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of the Water Authority while protecting its funds.

The Board of Directors and, upon formal delegation, the Treasurer for the San Diego County Water Authority, duly authorized to invest Water Authority monies by California Government Code, are trustees of Water Authority funds and therefore fiduciaries subject to the prudent investor standard.

SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the San Diego County Water Authority, except for the employee’s retirement and deferred compensation funds. For investment purposes, the Water Authority manages the Operating Fund, Rate Stabilization Fund, Pay-As-You-Go Fund, Equipment Replacement Fund and Stored Water Fund together as the Pooled Operating Fund. The funds under the direct authority of the San Diego County Water Authority are accounted for in the Comprehensive Annual Financial Report and include:

Operating Fund – Holds the Water Authority’s working capital and emergency operating reserve.

Rate Stabilization Fund – Established to mitigate future water rate increases.

Pay-As-You-Go Fund (PAYGO) – Funds are dedicated for construction outlays and debt service.

Equipment Replacement Fund – Used to purchase minor capital equipment such as computer systems, vehicles, etc.

Stored Water Fund – Used to purchase water to fill Water Authority reservoirs.

Construction (CIP) Fund – Holds the proceeds of long-term debt and commercial paper to be expended for construction.

Debt Service Reserve Fund – Holds the required legal reserve for Water Authority debt issues.
OBJECTIVES

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer.
2. To protect the principal monies entrusted to this organization.
3. To generate the maximum amount of investment income within the parameters of this Annual Statement of Investment Policy.

These goals are enhanced by the following objectives in order of importance.

A. Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. Diversification of the portfolio will be used in order to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio’s investment return, provided that adequate diversification has been implemented.

PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the “prudent investor standard”, California Government Code (Section 53600.3), which obligates a fiduciary to insure that “When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of
the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

**DELEGATION OF AUTHORITY**

The investment, per this policy, of Water Authority idle monies is annually delegated to the Treasurer by the Board of Directors who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. A memorandum will be forwarded to the General Manager indicating the individual who is acting on the behalf of the Treasurer which details the period of time the designee will be responsible for the investment function. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Annual Statement of Investment Policy.

**ETHICS AND CONFLICT OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Water Authority’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Water Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence. All officers and employees involved in the investment of public funds are required to comply with the Water Authority’s Conflict of Interest Code.

**AUTHORIZED INVESTMENT INSTRUMENTS - POOLED OPERATING FUND**

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

**Local Agency Investment Fund (LAIF):** The Water Authority may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1(b)). In order to ensure that LAIF is purchasing securities that comply with the Government Code, the monthly LAIF report shall be reviewed by the Treasurer. The fund must have twenty-four hour liquidity. The maximum permitted investment will be governed by State Law.

**Bankers’ Acceptances:** The Water Authority may invest in prime self-liquidating bankers’ acceptances (Government Code Section 53601(g)) limited to banks rated a minimum of “A” by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings. The maximum investment maturity will be restricted to 180 days. Maximum portfolio exposure will be limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer.
Treasury Securities: The Water Authority may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). The purchase of zero-coupon, or strips, is not permitted. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five years.

Repurchase Agreements: The Water Authority may invest (Government Code Section 53601(j)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New York rated “A” or better by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Securities Industry and Financial Markets Association (SIFMA)’s master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the San Diego County Water Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The Water Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counterparty. Maximum portfolio exposure will be limited to 20 percent and maturities that do not exceed one year.

Reverse Repurchase Agreements: The Water Authority may enter (Government Code Section 53601(j)) into reverse repurchase agreements only “with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency”, and when an unanticipated cash outflow can be met more advantageously by agreeing to a reverse repurchase agreement rather than selling securities outright. In this situation, the reverse shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement.

The Water Authority may also enter into reverse repurchase agreements when proceeds obtained through the reverse can be reinvested at a higher rate. The spread and reverse must be reviewed by the Treasurer prior to the transaction taking place. Reverse repurchase agreements entered into may not exceed a maximum maturity of 92 days unless the minimum spread between the rate on the investment and cost of funds is guaranteed in writing, in which case the maximum maturity is limited to one year. In all cases, the transaction must be matched as to maturity and dollars invested with its corresponding reinvestment.
In both situations a master repurchase agreement modeled after the Securities Industry and Financial Markets Association (SIFMA) is required prior to the transaction taking place. In all cases, the security being reversed must have been held in the portfolio for a minimum of 30 days. Restrictions placed on repurchase agreements also apply to reverse repurchase agreements. Maximum portfolio exposure will be limited to 20 percent of the total portfolio value excluding the proceeds of reverses. This transaction requires written approval of the Treasurer.

Securities lending is not considered a reverse repurchase transaction and is not authorized under this section.

Certificates of Deposit: The Water Authority may invest in certificates of deposits issued by a state or national bank, savings association or federal association, a state or federal credit union located in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. The Treasurer may waive collateral requirements for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Water Authority, even though they are permitted in Government Code Section 53651(m). As provided under Government Code Section 53660, the bank or agent of depository is required to provide the Water Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive Water Authority funds that has a long-term debt rating by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings less than “A”; however, deposits of up to the federal deposit insurance limit are allowable in any institution that insures its deposits pursuant to federal law, regardless of the ratings by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings. The maximum deposited in any one institution without collateral shall not exceed the amount covered by federal deposit insurance.

All banks accepting Water Authority deposits are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of “satisfactory” as defined under the Community Reinvestment Act.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 15 percent. Maximum investment maturity will be restricted to five years.

Placement Service Deposits: The Water Authority may invest in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to deposits placed pursuant to this section and Negotiable Certificates of Deposit is limited to 15 percent. Maximum investment maturity will be restricted to five years.
Negotiable Certificates of Deposit: The Water Authority may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association or by a state- or federally-licensed branch of a foreign bank (Government Code Section 53601(i)). Securities must have a minimum rating of “AA” by at least one of the three credit rating agencies (Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings), and not rated lower than “A” by the other two.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

The combined maximum portfolio exposure to Negotiable Certificates of Deposit and deposits invested pursuant to a Placement Service Deposit entity is limited to 15 percent and single-issuer holdings to no more than 5 percent per issuer. Maximum investment maturity is restricted to five years.

Commercial Paper: The Water Authority may invest in the highest grade of commercial paper (Government Code Section 53601(h)) as rated by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings (“A1/P1/F1”), issued only by general corporations that are organized and operating within the United States and having total assets in excess of $500 million. The general corporation must also have an “A” rating or higher for the issuers debentures, other than commercial paper, if any, as provided by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings. Purchases shall not exceed ten percent of the outstanding paper of the issuing general corporation. Maximum investment maturity will be restricted to 270 days. Maximum portfolio exposure is limited to 25 percent and single-issuer holdings to no more than 5 percent per issuer.

Medium-Term Notes: The Water Authority may invest in corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (Government Code Section 53601(k)). Securities must have a minimum rating of “A” or higher by all three credit rating agencies referenced in this policy (Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings). Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to five years. Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer.

Municipal Securities: The Water Authority may invest in: (i) Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state (Government Code Section 53601(c)(d)); and (ii) Bonds, notes, warrants, or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency (Government Code Section 53601(a)(e)). Securities must have a minimum rating of “A” as rated by Moody’s Investors Service, Standard and Poor’s, or Fitch Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer.
Agencies: The Water Authority may invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (Government Code Section 53601(f)). Permissible types of securities include discount, coupon and variable rate security issues. Callable securities are limited to a minimum of one-time call only, with a maximum allocation of 20 percent of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

Supranationals: The Water Authority may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Securities must be eligible for purchase and sale within the United States and have a minimum rating of “AA” as rated by Moody’s Investors Service, Standard and Poor’s, or Fitch Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 10 percent and single-issuer holdings to no more than 5 percent per issuer.

Money Market Funds: The Water Authority may invest in funds authorized under Government Code Section 53601(l)(2) that have a minimum asset size of $500 million. Composition of the fund is limited to investments that are authorized by this Annual Statement of Investment Policy. Funds must have the highest rating by two of the three largest nationally recognized statistical rating organizations, or have an investment adviser registered with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by this investment policy. Any fund shares purchased will not include any type of commission. Maximum portfolio exposure is limited to 15 percent.

Local Government Investment Pools: The Water Authority may invest in local government investment pools created by a joint powers authority authorized under Government Code Section 53601(p). Pools must have the highest rating by at least one of the three largest nationally recognized statistical rating organizations. The pool must have twenty-four hour liquidity. Maximum portfolio exposure is limited to 25 percent.

AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS AND DEBT SERVICE RESERVE FUNDS

All investment types listed above are authorized investments for bond proceeds and debt service reserve funds with the addition of the following:

Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements: Investment of funds in GICs is permitted, as per Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

Initially Uncollateralized Guaranteed Investment Contracts (GICs): Investment of funds in GICs which are not initially collateralized is permitted, as per Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by both Moody’s Investors Service and Standard & Poor’s (or whose payment obligations under such GIC are insured or guaranteed by an entity the
unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty’s rating is downgraded below the highest long-term rating category by either Moody’s Investors Service or Standard & Poor’s.

**Local Agency Investment Fund (LAIF):** The Water Authority may also invest bond proceeds in the Local Agency Investment Fund (Government Code Section 16429.1(d)). There is a $175M limit on the amount of bond proceeds that may be deposited into the fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a 90-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Annual Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Annual Statement of Investment Policy is more conservative than the bond covenants, the Annual Statement of Investment Policy will prevail; if the bond covenants are more conservative than the Annual Statement of Investment Policy, the bond covenants will prevail. All future debt transaction reinvestment guidelines will incorporate the current Annual Statement of Investment Policy into the bond covenants.

The Board of Directors has granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, and municipal securities with maturities exceeding 5 years if it is considered to be in the best interest of the Water Authority and if the maturity of such investments does not exceed the expected use of funds.

**PORTFOLIO LIMITATIONS**

It is the Water Authority’s goal to maintain a minimum of 50 percent of the Water Authority portfolio in Treasury Bills or Notes; however, based on market conditions a combination of 50 percent Agencies and Treasury Bills or Notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury Bills or Notes. The balance of the portfolio may be invested in any of the other permissible investments within the guidelines previously established.

The total dollar amount of bond proceeds and debt service reserve funds invested are to be excluded from the total used to calculate percentages for investment types.

The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity.

Percentage limitations, where listed, are applicable at the date of purchase. In the event that the percentage limits attributable to a security type is exceeded due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and, as such, a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the occurrence in the Treasurer’s Report at the next regularly scheduled Administrative and Finance Committee meeting of the Board, with detail of the strategy determined to address the imbalance, for Board ratification.
Credit requirements listed in this policy indicate the minimum credit rating (or its equivalent) required at the time of purchase without regard to modifiers (e.g., +/- or 1, 2, 3). In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Administrative and Finance Committee meeting of the Board. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

**INELEGIBLE INVESTMENTS**

Investments not described herein, including, but not limited to common stocks, futures and the writing of options are prohibited from use in this portfolio. The use of short positions is also prohibited.

**DERIVATIVES**

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

**SWAPS**

A swap is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, or to increase investment quality. In no instance shall a swap be used for speculative purposes. Any such swap shall be simultaneous (same day execution of sale and purchase), and requires the written approval of the Treasurer.

**INTERNAL CONTROLS**

A system of internal controls has been established and documented in writing in the Water Authority’s Financial Services Policies and Procedures Manual. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation of third parties, unanticipated changes in financial markets or imprudent action by employees and officers of the Water Authority. Controls deemed most important include: control of collusion, separation of duties and administrative controls, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, management review and approval of investment transactions, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and code of ethic standards. The Treasurer has established an annual process of independent review by an external audit firm. This review provides assurance of strong internal controls by reviewing compliance with previously established policies and procedures.

**REPORTING**
The Treasurer will submit a monthly investment report to the Board of Directors, the General Manager’s office, and the internal auditor (if applicable). This report will include: a list of portfolio transactions, type of investment, issuer, date of maturity, amount of deposit/par amount, current market value of all securities (with the source of the market valuation), rate of interest, statement that there are or are not sufficient funds to meet the next 6 month’s obligations and a statement indicating compliance or noncompliance with this Annual Statement of Investment Policy. Additional items listed will also include average weighted yield, average days to maturity, accrued interest earned during the period and fiscal year to date, percent distribution to each type of investment and any funds under management by contracted parties, including lending programs.

QUALIFIED BANKS AND SECURITIES DEALERS

A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. For any investment transaction not conducted directly with the issuer, the Water Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Water Authority’s staff will investigate all institutions that wish to conduct business with the Water Authority. All institutions must sign the appropriate Information Request Form, and agree to abide by the conditions set forth in the Water Authority’s Annual Statement of Investment Policy. A list will be maintained by the cash management staff of approved institutions and securities broker/dealers. This will be done annually by having the financial institutions complete and return the Broker Dealer Information Request Form and an audited financial statement within 90 days of the institution’s fiscal year-end. Previous Board approved substitute certification language may be offered to primary dealers of the Federal Reserve at the discretion of the Treasurer. In the event the substitute language is not accepted by the primary dealer, the Treasurer may return to the Water Authority’s Board for approval of alternative language proposed by the primary dealer. If the Water Authority is utilizing the services of an investment advisor, the investment advisor may use their own list of approved issuers and financial institutions for executing transactions.

RISK TOLERANCE

The Water Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost effective basis.

PERFORMANCE BENCHMARK

Controlling and managing risk is the foremost portfolio management objective. The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. An appropriate benchmark consistent with the Water Authority’s investment objectives and liquidity requirements has been established against which the portfolio’s performance
is compared on a regular basis. The selected benchmark is the 2-Year U.S. Treasury constant maturity. Any significant deviation of the portfolio’s performance to the benchmark should be reviewed in order to ensure that such investments meet the criteria previously specified.

SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of security dealer(s), all book-entry securities owned by the Water Authority, including repurchase agreement collateral, shall be kept in safekeeping with “perfected interest” by a third party bank trust department, acting as agent for the Water Authority under the terms of a custody agreement executed by the bank and by the Water Authority. All securities will be received and delivered using standard delivery-versus-payment procedures. The only exception to the foregoing shall be certificates of deposit and investments in: (i) LAIF; (ii) local government investment pools; and (iii) money market funds, since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

DIVERSIFICATION

The investment portfolio will be diversified by security type, institution and maturity date to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

STATEMENT OF INVESTMENT POLICY

This Annual Statement of Investment Policy shall be reviewed and submitted annually to the Board of Directors in order to incorporate any changes necessary to ensure consistency and its relevance to current law, and financial and economic trends. This Annual Statement of Investment Policy shall be reviewed at a public meeting and voted on prior to the start of each calendar year.

GLOSSARY OF INVESTMENT TERMS
November 29, 2017

Attention: Administrative and Finance Committee

Controller’s Report on Monthly Financial Reports. (Information)

Purpose
The purpose of the Controller’s Report is to provide monthly financial information to the Board of Directors.

Financial Reports
Attached for review by the Administrative and Finance Committee and the Board of Directors are the following financial reports:

1. Water Sales Volumes, in acre-feet
2. Water Sales Revenues, in millions
3. Water Purchases and Treatment Costs, in millions
4. Budget Status Report
5. Operating Departments Expenses, in millions
6. Schedule of Cash and Investments

The Budget Status Report (Attachment 4) compares actual revenues and expenses, on a budgetary basis, for the three-month period of July 1, 2017 through September 30, 2017, to the period-to-date adopted budget. Budgeted amounts for the three-month period are presented on a straight-line basis unless noted herein. Water sales and purchases are budgeted based on projected monthly volume in acre-feet. Period-to-date budgeted revenue categories were all adjusted to reflect the expected timing of receipt. In addition, certain period-to-date budgeted expense categories were adjusted for periodic items and include the following: debt service, QSA mitigation, annual insurance premiums, and contributions to the Six Agency Fund.

Net Water Sales Revenue
Net Water Sales Revenue is the Water Authority’s principal source of revenue and is the difference between the sale of water and the cost of that water. Sales include revenues from variable commodity charges for supply, treatment and transportation, as well as from fixed charges for customer service, emergency storage, infrastructure access charge, and supply reliability. Cost of water includes payments to water suppliers such as Metropolitan Water District (MWD), Imperial Irrigation District (IID), and Poseidon Resources (Channelside) LP.

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1 All information regarding water sales volumes, revenues and costs are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.
Net Water Sales Revenue for the three months ended September 30, 2017 was $48.5 million, $6.5 million or 15 percent higher than the period-to-date budgeted amount of $42.0 million. Water Purchase and Treatment Costs were below the anticipated amounts for the first quarter of FY18 due to lower than projected water sales as well as reduced purchases from the Lewis Carlsbad Desalination Plant resulting from unanticipated plant downtime for repairs. Detailed information relating to Net Water Sales Revenue is described below and shown on Attachments 1, 2, and 3.

Total acre-feet (AF) of water sold were budgeted to be 144,944 AF for the three months ended September 30, 2017. The actual water sales volume was 124,748 AF, 20,196 AF or 14 percent lower than budgeted (Attachment 1). Total Water Sales Revenue for the three months ended September 30, 2017 was $173.2 million, $24.5 million or 12 percent lower than the period-to-date budgeted amount of $197.7 million (Attachment 2). Lower Water Authority sales to member agencies for the first quarter of FY 18 are the result of 2 primary factors: 1) Total regional water demand for the first quarter of FY 2018 remained virtually flat compared to the same period last year (A slight increase in water demand was projected); 2) Greater than projected member agency use of local surface water supplies.

Total Water Purchases and Treatment costs were budgeted at $155.6 million for the three months ended September 30, 2017. Actual costs were $124.7 million, $30.9 million or 20 percent lower than budgeted (Attachment 3). This cost category included $16.0 million for the 25,000 AF of water purchased from IID, and $20.7 million for MWD’s conveyance charges related to IID, Coachella Canal and All-American Canal water. Also reflected in actual costs were water purchases from Poseidon Resources (Channelside) LP of approximately $17.3 million for the three months ended September 30, 2017.

Revenues and Other Income
As shown in Attachment 4, total Revenues and Other Income were budgeted at $13.3 million for the three-month period ended September 30, 2017. Actual revenues were $18.6 million, $5.3 million higher than budgeted. The variance is explained in detail below.

Categories of revenues in which actual revenues were higher than the three-month period-to-date budget included the following: Grant Reimbursements, Other Income, Investment Income, Capacity Charges, Hydroelectric Revenue, and Property Taxes and In-Lieu Charges. Actual Grant Reimbursements revenue for Integrated Regional Water Management Program (IRWMP) Grants was $4.4 million more than budgeted due to the timing of reimbursements received. Actual Other Income was $0.8 million more than budgeted due to miscellaneous revenue reimbursements. Actual hydroelectric revenues were higher than the period-to-date budget by $0.2 million for the sale of hydroelectric power generated by Hodges Hydro and Rancho Hydro. Actual Investment Income, Capacity Charges, and Property Taxes and In-Lieu Charges were higher than budgeted by $0.5 million, $0.3 million, and $0.1 million, respectively, for the three months ended September 30, 2017.
Categories of revenues in which actual revenues were less than the three-month period-to-date budget included Contributions in Aid of Capital Improvement Program (CIAC), Water Standby Availability Charges, Build America Bonds Subsidy, and Infrastructure Access Charges which were lower by $0.4 million, $0.3 million, $0.2 million, and $0.2 million, respectively, due to timing.

**Expenses**

As shown in Attachment 4, total Expenses were budgeted at $45.6 million for the three-month period ended September 30, 2017. Actual expenses were $42.4 million, $3.2 million lower than budgeted. The variance is explained in detail as follows.

Overall Operating Department expenses shown in Attachment 5 were less than budgeted by $3.2 million for the three-month period ended September 30, 2017 due to the timing of expenses. Actual Equipment Replacement and Other Expenses were lower than budget by $0.4 million and $0.3 million, respectively, due to timing.

Actual Grant Expenses were $0.8 million higher than the period-to-date budget resulting from the timing in expense recognition of pass-through IRWMP grants.

**CIP Expenses**

Attachment 4 shows that CIP Expenses were budgeted at $14.6 million for the three-month period ended September 30, 2017. Actual expenses were $6.3 million, $8.3 million lower than the period-to-date budgeted amount. The variance was primarily attributed to the timing of expenses. Contractor services performed for the period ending July and August were invoiced to the Water Authority in the month following the period of performance and subsequently paid in September and October, respectively. For this reason, CIP expenditures and most other categories are less than budget early in the fiscal year.

**Cash and Investments**

As of September 30, and August 31, 2017, the overall balance in the Water Authority’s cash and investments was $391.8 million and $378.9 million, respectively (Attachment 6). As of September 30, 2017, the cash and investments balance was approximately 57 percent unrestricted funds with the remaining 43 percent of funds restricted for specific purposes. To maximize investment returns, the Water Authority Treasurer pools the cash of the Pay As You Go Fund with total unrestricted funds. As of September 30, 2017, the Rate Stabilization Fund was funded at $135.2 million, approximately 97 percent of the maximum approved level of $139.9 million.

Prepared by: Jocelyn Matsuo, Senior Accountant
Reviewed by: Christopher W. Woidzik, Controller
Approved by: Lisa Marie Harris, Director of Finance/Treasurer
Attachments:

Attachment 1 – Water Sales Volumes
Attachment 2 – Water Sales Revenues
Attachment 3 – Water Purchases and Treatment Costs
Attachment 4 – Budget Status Report
Attachment 5 – Operating Departments Expenses
Attachment 6 – Schedule of Cash and Investments
**Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>50,172</td>
<td>100,133</td>
<td>144,944</td>
<td>183,572</td>
<td>214,851</td>
<td>242,655</td>
<td>266,443</td>
<td>288,214</td>
<td>315,331</td>
<td>348,044</td>
<td>386,055</td>
<td>431,353</td>
</tr>
<tr>
<td>Actual</td>
<td>41,812</td>
<td>85,217</td>
<td>124,748</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AF Difference (b)</td>
<td>(8,360)</td>
<td>(14,916)</td>
<td>(20,196)</td>
<td>(183,572)</td>
<td>(214,851)</td>
<td>(242,655)</td>
<td>(266,443)</td>
<td>(288,214)</td>
<td>(315,331)</td>
<td>(348,044)</td>
<td>(386,055)</td>
<td>(431,353)</td>
</tr>
<tr>
<td>Cum. Actual AF</td>
<td>-17%</td>
<td>-15%</td>
<td>-14%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
</tbody>
</table>

**Fiscal Year 2018 Cumulative Water Sales (AF)**

*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.*
*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.

Fiscal Year 2018 Cumulative Water Sales (in Millions $)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>*Budget (a) Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>$68.0</td>
<td>$135.9</td>
<td>$197.7</td>
<td>$253.0</td>
<td>$300.1</td>
<td>$343.5</td>
<td>$383.5</td>
<td>$421.3</td>
<td>$464.8</td>
<td>$514.8</td>
<td>$570.7</td>
<td>$635.1</td>
<td></td>
</tr>
<tr>
<td>58.2</td>
<td>117.8</td>
<td>173.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td></td>
</tr>
<tr>
<td>Difference (b)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>$-9.8</td>
<td>$-18.1</td>
<td>$-24.5</td>
<td>$-253.0</td>
<td>$-300.1</td>
<td>$-343.5</td>
<td>$-383.5</td>
<td>$-421.3</td>
<td>$-464.8</td>
<td>$-514.8</td>
<td>$-570.7</td>
<td>$-635.1</td>
<td></td>
</tr>
<tr>
<td>Cum. Actual</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>-14%</td>
<td>-13%</td>
<td>-12%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
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<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td></td>
</tr>
</tbody>
</table>
Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.

Fiscal Year 2018 Cumulative Cost of Water Purchases and Treatment (in Millions $)

<table>
<thead>
<tr>
<th></th>
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</thead>
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<tr>
<td>*Budget (a)</td>
<td>$53.9</td>
<td>$107.6</td>
<td>$155.6</td>
<td>$198.5</td>
<td>$233.8</td>
<td>$265.8</td>
<td>$296.6</td>
<td>$325.9</td>
<td>$359.4</td>
<td>$398.8</td>
<td>$443.1</td>
<td>$495.1</td>
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<tr>
<td>Actual</td>
<td>$44.9</td>
<td>$87.4</td>
<td>$124.7</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Difference (b)</td>
<td>$(9.0)</td>
<td>$(20.2)</td>
<td>$(30.9)</td>
<td>$(198.5)</td>
<td>$(233.8)</td>
<td>$(265.8)</td>
<td>$(296.6)</td>
<td>$(325.9)</td>
<td>$(359.4)</td>
<td>$(398.8)</td>
<td>$(443.1)</td>
<td>$(495.1)</td>
</tr>
<tr>
<td>Cum. Actual</td>
<td>-17%</td>
<td>-19%</td>
<td>-20%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td>% Difference (b/a)</td>
<td>-17%</td>
<td>-19%</td>
<td>-20%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
</tbody>
</table>
San Diego County Water Authority  
Fiscal Year 2018 Budget Status Report  
For the 3 Months Ended September 30, 2017

<table>
<thead>
<tr>
<th>[A]</th>
<th>[B] = [A * 25%]</th>
<th>[C]</th>
<th>Revenues = [B + C]</th>
<th>[C / A]</th>
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</thead>
<tbody>
<tr>
<td>FY 2018 Adopted Budget</td>
<td>3 Months (25%) Period-to-Date Adopted Budget</td>
<td>(a) Period-to-Date Actual</td>
<td>Variance Positive (Negative)</td>
<td>Actual to FY 2018 Adopted Budget</td>
</tr>
<tr>
<td>Net Water Sales Revenue</td>
<td>Water Sales $635,069,193</td>
<td>$197,653,616 (b)</td>
<td>$173,201,275</td>
<td>$24,452,341</td>
</tr>
<tr>
<td></td>
<td>Water Purchases &amp; Treatment 495,079,731</td>
<td>155,631,461 (b)</td>
<td>124,655,008</td>
<td>30,976,453</td>
</tr>
<tr>
<td>Total Net Water Sales Revenue</td>
<td>139,989,462</td>
<td>42,022,155</td>
<td>48,546,267</td>
<td>6,524,112</td>
</tr>
<tr>
<td>Revenues and Other Income</td>
<td>Infrastructure Access Charges 32,477,000</td>
<td>8,107,959 (l)</td>
<td>7,953,141</td>
<td>(154,818)</td>
</tr>
<tr>
<td></td>
<td>Property Taxes and In-Lieu Charges 12,555,000 (c)</td>
<td>731,154 (l)</td>
<td>816,144</td>
<td>86,990</td>
</tr>
<tr>
<td></td>
<td>Investment Income 5,175,000 (d)</td>
<td>- (l)</td>
<td>468,683</td>
<td>468,683</td>
</tr>
<tr>
<td></td>
<td>Hydroelectric Revenue 3,535,000 (e)</td>
<td>894,407 (l)</td>
<td>1,124,833</td>
<td>230,426</td>
</tr>
<tr>
<td></td>
<td>Grant Reimbursements 15,470,000</td>
<td>- (l)</td>
<td>4,427,735</td>
<td>4,427,735</td>
</tr>
<tr>
<td></td>
<td>Build America Bonds Subsidy 11,303,000</td>
<td>2,825,740 (l)</td>
<td>2,630,763</td>
<td>(194,977)</td>
</tr>
<tr>
<td></td>
<td>Other Income 489,000</td>
<td>- (l)</td>
<td>763,021</td>
<td>763,021</td>
</tr>
<tr>
<td>Capital Contributions:</td>
<td>Capacity Charges 16,629,000 (f)</td>
<td>- (l)</td>
<td>306,721</td>
<td>306,721</td>
</tr>
<tr>
<td></td>
<td>Water Standby Availability Charges 11,114,000 (g)</td>
<td>333,420 (l)</td>
<td>58,816</td>
<td>(274,604)</td>
</tr>
<tr>
<td>Improvement Program (CIAC)</td>
<td>1,570,000 (h)</td>
<td>392,439 (l)</td>
<td>-</td>
<td>(392,439)</td>
</tr>
<tr>
<td>Total Revenues and Other Income</td>
<td>110,317,000</td>
<td>13,285,119</td>
<td>18,551,857</td>
<td>5,266,738</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>250,306,462</td>
<td>55,307,274</td>
<td>67,098,124</td>
<td>11,790,850</td>
</tr>
<tr>
<td>Expenses</td>
<td>Debt Service 138,577,000 (i)</td>
<td>25,588,141 (l)</td>
<td>25,588,141</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>QSA Mitigation 10,165,000 (j)</td>
<td>1,850,000 (l)</td>
<td>1,850,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Equipment Replacement 2,292,000</td>
<td>573,000</td>
<td>124,957</td>
<td>448,043</td>
</tr>
<tr>
<td></td>
<td>Grant Expenses 15,720,000</td>
<td>3,930,000</td>
<td>4,722,065</td>
<td>(792,065)</td>
</tr>
<tr>
<td></td>
<td>Other Expenses 500,000</td>
<td>125,000</td>
<td>176,123</td>
<td>349,023</td>
</tr>
<tr>
<td>Operating Departments (see below)</td>
<td>51,370,917 (k)</td>
<td>13,522,891</td>
<td>10,294,888</td>
<td>3,228,003</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>218,624,917</td>
<td>45,589,032</td>
<td>42,355,928</td>
<td>3,233,104</td>
</tr>
<tr>
<td>Net Revenues Before CIP</td>
<td>$31,681,545</td>
<td>$9,718,242</td>
<td>$24,742,196</td>
<td>$15,023,954</td>
</tr>
<tr>
<td>CIP Expenses</td>
<td>$58,323,000</td>
<td>14,580,750</td>
<td>6,256,157</td>
<td>8,324,593</td>
</tr>
<tr>
<td>CIP Expenses by Funding Source</td>
<td>Pay As You Go Fund</td>
<td></td>
<td></td>
<td>$6,256,157</td>
</tr>
</tbody>
</table>

Operating Departments Detail (see Attachment 5)

| Administrative Services | $5,843,546 | $1,953,671 (l) | $1,602,859 | $350,812 | 27% |
| Colorado River Program | 1,669,583 | 604,772 (l) | 426,954 | 177,818 | 26% |
| Engineering | 3,532,727 | 883,182 | 761,787 | 121,395 | 22% |
| Finance | 2,437,485 | 609,371 | 529,779 | 79,592 | 22% |
| General Counsel | 3,480,151 | 870,038 | 571,238 | 298,800 | 16% |
| General Manager & Board of Directors | 4,877,034 | 1,219,259 | 889,991 | 329,268 | 18% |
| MWD Program | 2,238,155 | 559,539 | 383,252 | 176,287 | 17% |
| Operations & Maintenance | 19,642,917 | 4,910,729 | 3,626,591 | 1,284,138 | 18% |
| Public Outreach and Conservation | 3,882,715 | 970,679 | 753,347 | 217,332 | 19% |
| Water Resources | 3,766,604 | 941,651 | 749,090 | 192,561 | 20% |
| Total Operating Departments | $51,370,917 | $13,522,891 | $10,294,888 | $3,228,003 | 20% |
Notes to the Budget Status Report:

a) Period-to-date budgeted amounts are 3/12ths (25%) of Fiscal Year 2018 adopted budget unless noted.
b) Water sales and water purchases period-to-date budgeted amounts are based on projected acre-feet calculated per month.
c) Property taxes are primarily received in December and April. In-lieu charges in the amount of $559,402 for Fiscal Year 2018 are received quarterly from the City of San Diego.
d) Investment income excludes unrealized gains/losses, which are non-cash transactions.
e) Hydroelectric revenue budget amount includes Rancho Penasquitos Pressure Control and Hydroelectric Facility (Rancho Hydro) and Lake Hodges Pumped Storage Facility (Hodges Hydro). Power generating from both locations are sold to San Diego Gas and Electric.
f) Capacity charges are primarily received in July, October, January and April, after the quarterly period ends, and accrued revenue are recorded for the quarter ending June.
g) Water standby availability charges are primarily received in January and May.
h) Contributions in aid of capital improvement program include planned reimbursements for miscellaneous projects.
i) Bonds and Certificates of Participation debt service payments due semi-annually on November 1 and May 1. Pipeline Bonds, Series 2012 debt service payments due semi-annually on July 1 and January 1. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to long-term debt, such as discounts, premiums, and deferred loss on refunding are excluded because they are non-cash transactions.
j) The QSA mitigation payments includes: QSA JPA Fiscal Year 2018 contributions of $1,850,000 due July 2017 and $8,314,814 due December 2017; QSA JPA Fiscal Year 2019 contributions of $1,750,000 due July 2018 and $6,914,667 due December 2018.
k) Amounts include capital equipment purchases.
l) Period-to-date budgeted amounts adjusted based on items occurring on a periodic basis.
San Diego County Water Authority
Comparison of Adopted Budget and Period-to-Date Adopted Budget (25% Overall) to Actual Operating Expenses by Departments
For the 3 Months Ended September 30, 2017

Actual Operating Expenses to Adopted Budget in Percentages (%)
San Diego County Water Authority  
Schedule of Cash and Investments  
As of September 30, and August 31, 2017

<table>
<thead>
<tr>
<th>Fund</th>
<th>September</th>
<th>August</th>
<th>Target</th>
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</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td>$88,930,965</td>
<td>$74,509,329</td>
<td>$83,337,000</td>
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<tr>
<td>Stored Water Fund</td>
<td>794,496</td>
<td>895,433</td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>135,230,223</td>
<td>135,160,400</td>
<td>$97,400,000</td>
</tr>
<tr>
<td><strong>Total Unrestricted Funds</strong></td>
<td><strong>57% 224,955,684</strong></td>
<td><strong>56% 210,565,162</strong></td>
<td><strong>97,400,000</strong></td>
</tr>
<tr>
<td>Pay As You Go Fund</td>
<td>144,260,401</td>
<td>145,811,511</td>
<td></td>
</tr>
<tr>
<td>Debt Service Reserve Funds</td>
<td>22,552,638</td>
<td>22,541,987</td>
<td></td>
</tr>
<tr>
<td><strong>Total Restricted Funds</strong></td>
<td><strong>43% 166,813,039</strong></td>
<td><strong>44% 168,353,498</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash and Investments</strong></td>
<td><strong>$ 391,768,723</strong></td>
<td><strong>$ 378,918,660</strong></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(1) Total Unrestricted Funds and the Pay As You Go Fund represent the Pooled Funds in the Treasurer's Report.

(2) The Operating Fund is set to equal 45-days of operating expenses.

(3) In 2006, the Board adopted the current policy governing the Rate Stabilization Fund (RSF) balances. The policy created a target and a maximum RSF balance. The RSF target balance is equal to the financial impact of 2.5 years of wet weather or mandatory drought regulations and the RSF maximum balance is set equal to the financial impact of 3.5 years of wet weather or mandatory drought regulations. The effect of the current policy is to create a target for fund balances that is tied to the real financial impacts/risks that the fund is designed to protect against. The current balance in this fund represents approximately 139% of the targeted value of $97,400,000 and 97% of the maximum balance of $139,900,000.

(4) No cash balance is required in the Stored Water Fund (SWF) at this time. In December 2016, the Board directed the SWF to only hold a cash position if the cost to replace the 70,000 target acre feet of water is below the current value in the Fund. (The fund is comprised of water inventory and cash, if needed.)
November 29, 2017

Attention: Administrative and Finance Committee

Reimbursements to Board Members and Staff (Information)

Recommendation

Receive and file report of reimbursements to Board Members and Staff per Government Code 53065.5 for the period July 1, 2016 through June 30, 2017.

Summary

Government Code Section 53065.5 requires all Special Districts to disclose any reimbursements paid by the San Diego County Water Authority (SDCWA) within the preceding year of at least one hundred dollars ($100) or more for each individual charge for services or product received. The individual charge includes, but is not limited to, tuition reimbursement, meals, lodging, certificate or license reimbursement, transportation and registration fees reimbursed to any employee or member of the governing body of the SDCWA. The disclosure requirement shall be fulfilled by including the reimbursement information in a document published or printed at least annually by a date determined by that organization and shall be made available for public inspection.

Discussion / Analysis

Staff has reviewed all Board Members and employee reimbursements for the fiscal year from July 1, 2016 through June 30, 2017, and has identified those reimbursements where a single item met or exceeded the $100 threshold. All expenses incurred were for Water Authority approved business and within approved budget allocations. The annual disclosure for FY17 is attached.

For fiscal year 2017, nine (9) board members and seventy-four (74) employees had reportable expenses totaling $7,846.68 and $65,744.25 respectively. The majority of the reimbursements made were for employee training, seminars or conferences and related travel expenses, which include mileage and meals.

Prepared by: Monika Wojcik, Accounting Assistant II
Reviewed by: Chris Woidzik, Controller
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:

Attachment 1  Reimbursements to Water Authority Board Members
Attachment 2  Per Diem and Reimbursements to Water Authority Staff
<table>
<thead>
<tr>
<th>Board Member Name</th>
<th>Payment Date</th>
<th>Payment No.</th>
<th>Descriptions</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boyle, Brian C.</td>
<td>01/19/17</td>
<td>183058</td>
<td>MWD Board 12/13/16 hotel</td>
<td>183.09</td>
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<tr>
<td></td>
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JANUARY 2018
• 03  MWD Delegates meeting at 11:00 a.m.
• 11  State Required Ethics Training – 1:30 to 3:30 p.m.
• 25  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.

FEBRUARY 2018
• 07  MWD Delegates meeting at 11:00 a.m.
• 08  Tentative Special Board Meeting – 1:30 p.m.
• 22  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.

MARCH 2018
• 07  MWD Delegates meeting at 11:00 a.m.
• 08  Tentative Special Board Meeting – 1:30 p.m.
• 22  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.
November 29, 2017

Attention: Administrative and Finance Committee

CLOSED SESSION:
Conference with Legal Counsel – Anticipated Litigation
Government Code §54956.9(d)(2)
Significant Exposure – One Case

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(2), to discuss the above-referenced matter at the December 7, 2017 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Mark J. Hattam, General Counsel
REVISED AGENDA
FORMAL BOARD OF DIRECTORS’ MEETING

The mission of the San Diego County Water Authority is to provide a safe and reliable supply of water to its member agencies serving the San Diego region.

DECEMBER 7, 2017
3:00 p.m.

1. Call to Order.

2. Salute to the flag.

3. Roll call, determination of quorum.
   3-A Report on proxies received.

4. Additions to Agenda. (Government code Sec. 54954.2(b)).

5. Approve the minutes of the Special Board Meeting of October 12, 2017, the Formal Board of Directors’ meeting of October 26, 2017, and the Special Engineering and Operations Committee meeting of November 16, 2017.

6. Opportunity for members of the public who wish to address the Board on matters within the Board’s jurisdiction.

7. PRESENTATIONS & PUBLIC HEARINGS

   7-B Recognition of Liana Whyte, Budget & Analysis Manager, Employee of the 1st Quarter.

8. REPORTS BY CHAIRS
   8-A Chair’s Report: Chair Muir

   8-B Report by Committee Chairs
      Water Planning Committee
      Legislation and Public Outreach Committee
      Engineering and Operations Committee
      Imported Water Committee
      Administrative and Finance Committee
      Director Cherashore
      Director Guerin
      Director Heinrichs
      Director Weston
      Director Saxod
9. CONSENT CALENDAR

9 - 1. Adopt Updated Water-Use Efficiency Policy Principles and Program Focus Areas.
   a) Approve the updated Water-Use Efficiency Policy Principles as presented in Attachment 2 to guide staff in evaluating and implementing water-use efficiency initiatives.
   b) Approve the following as the core focus areas for the Water Authority’s portfolio of water-use efficiency programs:
      1) Residential Surveys and Landscape Audits
      2) K-12 Education Programs
      3) MWD Device-Based Programs
      4) How-to Resource Tools
      5) Grants and Partnerships

   Approve a new, five-year Operation Agreement between the Water Conservation Garden Authority and Friends of the Water Conservation Garden (IRS 501(c)(3)) for the continued operation and maintenance of the Water Conservation Garden through June 30, 2023.

   Adopt the proposed 2018 Legislative Policy Guidelines.

   a) Legislative Proposal #1 to advance consensus landscape water use efficiency recommendations developed by the DWR Independent Technical Panel.
   b) Legislative Proposal #2 to improve IRWM grant award cashflow for nonprofit organizations and disadvantaged communities.
   c) Legislative Proposal #3 to develop a workable governance and administrative structure for implementation of the 10-year Salton Sea Management Program.

   a) Authorize the General Manager to enter into Project Delivery Agreement negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture.
   b) Authorize the General Manager to enter into Project Delivery Agreement negotiations with Brookfield US Generation LLC if negotiations with Tenaska, Inc. - Diamond Generating Corporation Joint Venture are unsuccessful.
   c) Authorize the General Manager to execute Amendment 1 to the legal services contract with Allen Matkins LLP for a period of seven months, in the amount of $350,000, increasing the authorized cumulative contract amount from $50,000 to $400,000.
9 - 6. **Contracts with Adams Valves, Inc. and Cascade Consultants LLC to purchase butterfly valves.**
   a) Authorize the General Manager to award a contract to Adams Valves, Inc. in the amount of $734,342 to purchase 56 stainless steel metal seated triple offset flanged butterfly valves of various sizes between 4 and 24 inches in diameter in support of capital improvement projects and system maintenance.
   
b) Authorize the General Manager to award a contract to Cascade Consultants LLC in the amount of $745,481 to purchase 10 cast steel metal seated triple offset fusion bonded epoxy lined and coated butterfly valves of various sizes between 30 and 66 inches in diameter in support of capital improvement projects.

9 - 7. **2017 Transfer and Exchange Agreement decision.**
    Authorize the General Manager to provide written notice by December 31, 2017, to the Metropolitan Water District of Southern California (MWD) to extend the term of the Amended and Restated Agreement between MWD and the San Diego County Water Authority for the Exchange of Water (exchange agreement) from 35 to 45 years (2037 to 2047).

9 - 8. **Monthly Treasurer’s Report on Investments and Cash Flow.**
   Note and file monthly Treasurer’s Report.

9 - 9. **Adopt the Vote Entitlements Resolution for Calendar Year 2018.**
   Adopt Resolution No. 2017-___ establishing the vote and representative entitlements of each member agency effective January 1, 2018.

9-10. **Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.**
   a) Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for Calendar Year 2018.
   
b) Approve the amendment to Chandler Asset Management to implement the updated Water Authority Investment Strategy.

10. **ACTION / DISCUSSION**

10-A **Audit Committee Annual Report.**
    Audit Committee recommendation:
    a. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
    
10-B Public Hearing to consider adoption of a Resolution of Necessity and authorization of condemnation proceedings to acquire permanent and temporary property interests for the Northern First Aqueduct Structures and Lining Rehabilitation project on Assessor Parcel Numbers:

- 128-112-05 John B. Nugent, Jr. and Margaret I. Nugent, Trustee or Successor Trustee of the Nugent Revocable Trust dated July 29, 1991
- 187-450-43 Tommy Ly and Lan Xuan Thi Nguyen, trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016 and as to an undivided 50% interest, Minh Tran, a married man as his sole and separate property, as to an undivided 25% interest, and Jimmy Hien Nguyen, a married man as his sole and separate property as to an undivided 25% interest, all as tenants in common.

Staff recommendation:
1. That the Board of Directors:
   a) Receive public testimony;
   b) Determine that offers to acquire the necessary real property were made to the owners of the subject properties pursuant to Section 7267.2 of the Government Code;
   c) Adopt Resolution of Necessity No. 2017-____ (Attachment 1) pertaining to the acquisition of real property from the subject parcels in support of the Northern First Aqueduct Structures and Lining Rehabilitation project, and find that:
      1) the public interest and necessity require the project
      2) the project is planned or located in a manner that will be the most compatible with the greatest public good and least private injury; and
      3) the interest in the property sought to be acquired is necessary for the project;
   d) Authorize staff to proceed with condemnation proceedings necessary to acquire the right of way on the subject properties. (Action)

11. SPECIAL REPORTS
11-A GENERAL MANAGER’S REPORT – Ms. Stapleton
11-B GENERAL COUNSEL’S REPORT – Mr. Hattam
11-C SANDAG REPORT – Chair Muir
   SANDAG Subcommittees: Borders Committee – Director Croucher
                        Regional Planning Committee – Director Olson
11-D AB 1234 Compliance Reports – Directors
12. CLOSED SESSION(S)

12-A Conference with Real Property Negotiator
Government Code §54956.8
Agency Negotiators: Black & Veatch Corporation on behalf of the San Diego County Water Authority and City of San Diego
Negotiating Parties: Brookfield US Generation LLC and Tenaska, Inc. – Diamond Generating Corporation Joint Venture
Under Negotiation: Price and terms

12-B Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
Shimmick Construction Co., Inc./Obayashi Corp., joint venture v. San Diego County Water Authority, Riverside Superior Court Case No. RIC 1609196

12-C Conference with Legal Counsel – Anticipated Litigation
Government Code §54956.9(d)(4)
Deciding to Initiate Litigation – One Case

12-D Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
SDCWA v. Metropolitan Water District of Southern California; Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004; CPF-16-515282; CPF-16-515391; A146901; A148266; BS169881; and CA Supreme Court Case No. S243500

12-E Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
California Department of Water Resources v. All Persons Interested; Sacramento Superior Court Case No. 34-2017-00215965-CU-MC-GDS

12-F Conference with Legal Counsel – Anticipated Litigation
Government Code §54956.9(d)(2)
Significant Exposure – One Case
13. **ACTION FOLLOWING CLOSED SESSION**

14. **OTHER COMMUNICATIONS**

15. **ADJOURNMENT**

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**NOTE:** The agendas for the Formal Board meeting and the meetings of the Standing Committees held on the day of the regular Board meeting are considered a single agenda. All information or possible action items on the agenda of committees or the Board may be deliberated by and become subject to consideration and action by the Board.

Melinda Nelson
Clerk of the Board
MINUTES OF THE SPECIAL BOARD OF DIRECTORS’ MEETING
OCTOBER 12, 2017

1. **CALL TO ORDER** Chair Muir called the Special Board of Directors’ meeting to order at 8:24 a.m.

2. **SALUTE TO THE FLAG** Mark Watton led the salute to the flag.

3. **ROLL CALL, DETERMINATION OF QUORUM**
   Secretary Croucher called the roll. Directors present were Arant, Barnum, Boyle*, Brady, Butkiewicz*, Cherashore*, Croucher, Fong-Sakai, Gallo, Guerin*, Hall, Hedberg, Hilliker, Hogan, Kennedy, Lewinger, Madaffer, Miller, Muir, Murtland, Olson, Preciado*, Saxod, Scalzitti, Smith, Steiner, Tu, Watkins and Wilson. Directors absent were Ayala, Evans, Heinrichs, Morrison, Simpson, Weston, and Supervisor Gaspar.

   Staff present included General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Managers Cushman and Denham, Water Resources Director Yamada, MWD Program Director Chen, and Special Counsels Frahm and Hess.

3-A **Report on proxies received.** There were no proxies received.

4. **ADDITIONS TO AGENDA** There were no additions to the agenda.

5. **PUBLIC COMMENT** There were no members of the public who wished to speak.

6. **CLOSED SESSION(S)**
   Mr. Hattam took the Board into Closed Session at 8:27 a.m.

6-A Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   SDCWA v. Metropolitan Water District of Southern California; Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004; CPF-16-515282; CPF-16- 515391; A146901; A148266; BS169881; and CA Supreme Court Case No. S243500
*Directors Guerin and Cherashore arrived at 8:50 a.m., Director Boyle at 9:10 a.m., Director Butkiewicz at 9:32 a.m., and Director Preciado at 10:40 a.m.

Mr. Hattam brought the Board out of Closed Session at 3:39 p.m. and stated there was no reportable action.

7. **ACTION FOLLOWING CLOSED SESSION**
   There was no action following Closed Session.

8. **OTHER COMMUNICATIONS**
   There was no other communications.

9. **ADJOURNMENT**
   There being no further business to come before the Board, Chair Muir adjourned the meeting at 3:40 p.m.

______________________________________________________________
Mark Muir, Chair  Gary Croucher, Secretary

______________________________________________________________
Melinda Nelson, Clerk of the Board
MINUTES OF THE FORMAL BOARD OF DIRECTORS’ MEETING  
OCTOBER 26, 2017

ENGINEERING AND OPERATIONS COMMITTEE  
CALL TO ORDER / ROLL CALL  
Chair Heinrichs called the Engineering and Operations Committee meeting to order at 9:01 a.m. Committee members present were Chair Heinrichs, Vice Chairs Hilliker and Miller, and Directors Butkiewicz*, Fong-Sakai, Hogan, Smith, and Watkins. Committee members absent were Directors Boyle, Brady, Morrison, Olson, Preciado, and Simpson. Also present were Directors Arant, Ayala, Barnum, Cherashore, Evans, Guerin, Hedberg, Lewinger, Steiner, Tu, and Wilson. At that time, there was not a quorum of the Committee and Director Arant was appointed as temporary committee member per Administrative Code section 2.00.060(f). The meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Manager Cushman, Director of Operations and Maintenance Fisher, Senior Engineering Manager Bousquet, Energy Program Manager Rodgers, Operations and Maintenance Manager Meda, Principal Engineer Griffis, and Senior Engineer Conner.

ADDITIONS TO AGENDA  
There were no additions to the agenda.

PUBLIC COMMENT  
There were no members of the public who wished to speak.

DIRECTORS’ COMMENTS  
There were no Directors’ comments.

CHAIR’S REPORT  
Chair Heinrichs introduced Mr. Griffis who narrated a video and provided information regarding ongoing Oroville Spillway repairs. Mr. Griffis reported that repairs were scheduled to be complete November 1, 2017.

Chair Heinrichs reminded Board Members that the 2017 Engineering and Operations Board Tour was scheduled for Thursday, November 9, 2017. The tour would visit the Pipeline 3 Relining project in La Mesa. He asked that Board Members who had not yet provided their RSVP to complete and return the forms before the end of the day.
I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION/PRESENTATION
1. Professional services contract with CH2M HILL, Inc. for design of the Mission Trails Flow Regulatory Structure II and Flow Control Facility project.
   Staff recommendation: Authorize the General Manager to award a professional services contract to CH2M HILL, Inc., for a not-to-exceed amount of $1,870,629, to provide engineering services for the Mission Trails Flow Regulatory Structure II and Flow Control Facility project for a period of three and one-half years.

   Mr. Conner presented information regarding the Mission Trails Flow Regulatory Structure II and Flow Control Facility project including general location, project purpose, vent stack removal, and elements of the professional services contract.

   Director Smith moved, Director Fong-Sakai seconded, and the motion to approve staffs’ recommendation passed unanimously.

2. Services contract with Hydro Consulting and Maintenance Services, Inc., for specialized mechanical preventative and corrective maintenance, inspection, testing, and repair services for Lake Hodges Pumped Storage Hydroelectric Facility.
   Staff recommendation: Authorize the General Manager to execute a services contract with Hydro Consulting and Maintenance Services, Inc., for specialized mechanical preventative and corrective maintenance, inspection, testing, and repair services through November 20, 2019, with an option to extend the contract for an additional two years, for a total not-to-exceed amount of $1,300,000.

   Mr. Meda presented information regarding the contract for the Lake Hodges Pumped Storage Hydroelectric Facility including background on the previous maintenance contract, request for proposals process and results, and staffs’ recommendation.

   * Director Butkiewicz arrived at 9:22 a.m. during the presentation and prior to the vote. At that time, there was a quorum of the committee.

   Director Watkins moved, Vice Chair Miller seconded, and the motion to approve staffs’ recommendation passed unanimously.


   Director Hogan gave a verbal update from the San Vicente Energy Storage Task Force including information regarding proposals and interview schedules for the Full-Service Team. He also reported that, at the November 9, 2017 Special Engineering and Operations Committee meeting, staff would present interview results and a possible recommendation for consideration at the December Committee meeting.
III. INFORMATION
There were no Information items.

IV. CLOSED SESSION
1. Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: Shimmick Construction Co., Inc./Obayashi Corp.,
   Joint Venture v. San Diego County Water Authority, Riverside
   Superior Court Case No. RIC 1609196

   Mr. Hattam announced there would be no Closed Session.

V. ADJOURNMENT
There being no further business to come before the Engineering and Operations
Committee, Chair Heinrichs adjourned the meeting at 9:26 a.m.

WATER PLANNING COMMITTEE
CALL TO ORDER/ROLL CALL
Chair Cherashore called the Water Planning Committee meeting to order at 9:38 a.m.
Committee members present were Chair Cherashore, Vice Chair Evans and Directors Ayala,
Barnum, Hedberg, Kennedy*, Lewinger, Muir, Smith and Tu. Committee members absent were
Vice Chair Boyle and Directors Brady, Preciado and Weston. Also present were Directors
Arant, Butkiewicz, Fong-Sakai, Guerin, Heinrichs, Hilliker, Hogan, Miller, Murtland*, Steiner,
Watkins and Wilson. At that time, there was a quorum of the Board, and the meeting was
conducted as a meeting of the Board; however, only committee members participated in the
vote.

   Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General
Manager Kerl, Assistant General Manager Cushman, Director of Water Resources Yamada,
Director of Public Outreach and Conservation Foster, and Principal Water Resources Specialist
Dobalian.

ADDITIONS TO THE AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to speak.

CHAIR’S REPORT
Chair Cherashore welcomed everyone in attendance. He announced that the San Diego
Partnership for Agricultural Sustainability had executed agreements needed to secure $800,000 in
grant funds from the US Department of Agriculture. The USDA funding would help improve
irrigation system efficiency and conservation practices on 120 agricultural properties in San
Diego County. The Water Authority assisted the partnership in applying for federal money by pledging some state grant funds to serve as a local match.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
1. Professional services agreement with WSA Marketing to administer the Qualified Water Efficiency Landscape (QWEL) Program.
   Staff recommendation: Authorize the General Manager to award a three-year professional services contract with an option to renew for an additional two years to WSA Marketing for the administration of the QWEL program in an amount not to exceed $247,500.

2. Professional services agreement with Signature Control Systems, Inc., to administer the WaterSmart Landscape Efficiency Program.
   Staff recommendation: Authorize the General Manager to execute a three-year professional services agreement, with an option for a two-year extension, in an amount not to exceed $420,000 with Signature Control Systems, Inc., for program administration services related to the WaterSmart Landscape Efficiency Program.

3. Professional Services Contract for the Crossover Pipeline Study.
   Staff recommendation: Authorize the General Manager to award a professional services contract to Brown and Caldwell, in an amount not to exceed $215,162 to complete the Crossover Pipeline Study.

   Director Muir moved, Director Smith seconded and the motion to approve staffs’ recommendations passed unanimously.

II. ACTION/DISCUSSION/PRESENTATIONS
1. Update on Statewide Mercury Control Program for Reservoirs.

   Ms. Dobalian provided an update on the Statewide Mercury Control Program including background on the proposed program, sources of mercury to reservoirs, impaired reservoirs under the proposed program, key elements of the draft program and key issues, and next steps for the program.

   Staff responded to questions and comments posed by Directors.

* Director Kennedy arrived at 9:48 a.m. and Director Murtland arrived at 9:50 a.m.

III. INFORMATION
The following information item was received and filed:
IV. CLOSED SESSION
There were no Closed Session items.

V. ADJOURNMENT
There being no further business to come before Water Planning Committee, Chair Cherashore adjourned the meeting at 9:57 a.m.

IMPORTED WATER COMMITTEE CALL TO ORDER / ROLL CALL
Vice Chair Fong-Sakai called the Imported Water Committee meeting to order at 10:07 a.m. Committee members present were Vice Chairs Fong-Sakai and Kennedy, Directors Barnum, Hogan, Lewinger, Miller, Murtland, Scalzitti, Steiner, and Wilson. Committee members absent were Chair Weston, Directors Madaffer, Olson, Saxod and Supervisor Gaspar. Also present were Directors Arant, Butkiewicz, Cherashore, Guerin, Hedberg, Heinrichs, Muir, Smith, Tu, and Watkins. At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Managers Cushman and Denham, and MWD Program Director Chen.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to speak.

CHAIR’S REPORT
Vice Chair Fong-Sakai briefed the Board on the Water Authority hosted tour for Imperial Valley representatives. She stated the featured stops were the Carlsbad Desalination Plant, Padre Dam Advanced Water Purification demonstration facility, and San Vicente Dam. She attended the tour, along with Chair Muir and Director Wilson, and described it as a great way to build stronger relationships with Imperial Valley and to share information about critical projects in the San Diego region.

Vice Chair Fong-Sakai reported the cost to repair Oroville’s spillway could reach $500 million, which was almost double the original budget of $275 million. She announced DWR was hoping FEMA would pay for 75% of the repair costs, and said any remaining costs were expected to be covered by agencies that stored water in Oroville, which would be State Water Project contractors. She added that until the spillway was fully repaired, currently scheduled to be completed next year, Oroville would operate at a lower level to avoid spills. The change in operations would impact next year’s SWP allocation.
Vice Chair Fong-Sakai requested Ms. Chen brief the board on the funding status of the California WaterFix. Ms. Chen provided an update on California WaterFix assumptions and the contractor’s participation level.

Board members asked questions and staff provided answers.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION/PRESENTATION
1. MWD issues and activities update.
   1-A Metropolitan Water District Delegates’ Report.

   MWD Delegates Hogan, Lewinger, and Steiner briefed the Board on the most recent MWD Board Committee meetings and highlighted an ethics office review, CY 2017 supply conditions, and WaterFix update.

   2. Colorado River Program.
      2-A Colorado River Board Representative’s report.

   Director Wilson shared an update on Lake Mead elevation levels.

III. INFORMATION
The following information item was received and filed:
   1. Metropolitan Water District Program Report.

IV. CLOSED SESSION
Mr. Hattam took the Committee into Closed Session at 10:34 a.m.

   1. Conference with Legal Counsel – Existing Litigation
      Government Code §54956.9(d)(1)
      SDCWA v. Metropolitan Water District of Southern California;
      Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004;
      CPF-16-515282; CPF-16-515391; A146901; A148266;
      BS169881; and CA Supreme Court Case No. S243500

   2. Conference with Legal Counsel – Existing Litigation
      Government Code §54956.9(d)(1)
      California Department of Water Resources v. All Persons Interested; Sacramento Superior Court Case No. 34-20107-00215965-CU-MC-GDS
Mr. Hattam brought the committee out of Closed Session at 11:40 a.m. and reported that there was no reportable action.

V. **ADJOURNMENT**

There being no further business to come before the Imported Water Committee, Vice Chair Fong-Sakai adjourned the meeting at 11:40 a.m.

**ADMINISTRATIVE AND FINANCE COMMITTEE**

**CALL TO ORDER / ROLL CALL**

Vice Chair Arant called the Administrative and Finance Committee meeting to order at 1:00 p.m. Committee members present were Vice Chair Arant, and Directors Cherashore, Croucher, Gallo, Guerin, Hedberg, Heinrichs, Murtland, and Watkins. Committee members absent were Chair Saxod, Vice Chair Wilson and Directors Ayala, Hall, and Simpson. Also present were Directors Butkiewicz, Evans, Fong-Sakai, Hogan, Kennedy, Lewinger, Muir, Preciado, Scalzitti, Smith, Steiner, and Tu. At that time, there was a quorum of the Board and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Manager Cushman, Director of Finance/Treasurer Harris, Interim Director of Administrative Services Troche, Budget and Analysis Manager Whyte, Financial Planning Manager Shank, and Controller Woidzik.

**ADDITIONS TO AGENDA**

There were no additions to the agenda.

**PUBLIC COMMENT**

There were no members of the public who wished to speak.

**CHAIR’S REPORT**

There was no Chair’s report.

**DIRECTORS’ COMMENTS**

There were no Directors’ comments.

I. **CONSENT CALENDAR**

   Staff recommendation: Note and file the monthly Treasurer’s report.

2. Establish 2018 Board meeting dates.  
   Staff recommendation: Combine the November and December Board meeting dates to December 6, 2018 and approve the 2018 Board meeting dates calendar.
Director Heinrichs moved, Director Hedberg seconded, and the motion to approve staffs’ recommendation passed unanimously.

II. ACTION/DISCUSSION/PRESENTATION

Ms. Stapleton provided a presentation on the annual performance of the Business Plan. The presentation included a history of the Plan from 2004 to the present, and a review of the performance status of the current 2017-2021 Plan as of September 30, 2017.

Ms. Stapleton announced the Business Plan document and annual performance report were available online at sdcwa.org.

Director Muir and Ms. Stapleton discussed a 2018 update to the Board’s Strategic Plan.

Director Lewinger requested the identification of the top ten objectives, to be tracked as a group, as part of the development of the next Business Plan iteration.

Directors asked questions and Ms. Stapleton provided answers.

Vice Chair Arant thanked Ms. Stapleton for the presentation.

2. Approve the extension of the Bank of America liquidity facility supporting the Water Authority’s Commercial Paper Series 9.

Staff recommendation: Approve the extension of the Bank of America liquidity facility agreement and adopt Resolution 2017-19 authorizing the amendment of the Bank of America agreement.

Ms. Harris provided a presentation that included a snapshot of the debt portfolio, criteria and goals, and a review of the Bank of America renewal.

Director Watkins moved, Director Cherashore seconded, and the motion to approve staffs’ recommendation passed unanimously.

III. INFORMATION
The following items were received and filed:
2. Board Calendar.

IV. CLOSED SESSION
1. Conference with Legal Counsel – Anticipated Litigation
   Government Code §54956.9(d)(2)
   Significant Exposure – One Case
Mr. Hattam announced there would be no Closed Session.

**LEGISLATION AND PUBLIC OUTREACH COMMITTEE**

**CALL TO ORDER/ROLL CALL**

Chair Guerin called the Legislation and Public Outreach Committee to order at 1:53 p.m. Committee members present were Chair Guerin, Vice Chair Tu, and Directors Arant, Butkiewicz, Croucher, Evans, Gallo, Muir, Scalziotti and Steiner. Committee members absent were Vice Chair Hall, and Directors Hilliker, Madaffer, Morrison and Supervisor Gaspar. Also present were Directors Ayala, Cherashore, Fong-Sakai, Hedberg, Heinrichs, Hogan, Kennedy, Lewinger, Murtland, Preciado, Watkins and Wilson. At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Manager Cushman, Director of Public Outreach and Conservation Foster, Government Relations Manager Farrel, Senior Public Affairs Representative Lee, and Public Affairs Representative Jenkins. Also present was legislative representative Ken Carpi.

**ADDITIONS TO AGENDA**

There were no additions to the agenda.

**PUBLIC COMMENT**

There were no members of the public who wished to speak.

**CHAIR’S REPORT**

Chair Guerin reported that during the inaugural California Water Professionals Appreciation Week from October 7-15, the Water Authority used social media to highlight jobs performed by staff.

She announced that earlier in October the Water Authority’s WaterSmart Landscape Makeover Program won the Silver Bernays Award of Excellence in the Public Service campaign category from the San Diego-Imperial Counties Chapter of the Public Relations Society of America.

**I. CONSENT CALENDAR**

There were no Consent Calendar items.

**II. ACTION/DISCUSSION/PRESENTATION**

1. Legislative issues.
Mr. Carpi provided a Washington report including updates on Water Authority sponsored legislation.

1-B Sacramento Report.

Mr. Farrel provided a 2017 legislative session summary which included a look-ahead to possible issues for the 2018 state legislative session.


Mr. Farrel reviewed proposed changes to the guidelines and stated the final proposed legislative policy guidelines would be brought to the Board for approval at the December 7, 2017 Board meeting.


Director Evans and Mr. Foster provided an update of the Water Conservation Garden’s recent activities. They stated they were working on updating the operating agreement with JPA agencies and would bring it to the Board for consideration at the December 7, 2017 Board meeting.

4. Update on Education Program Activities.

Mr. Lee and Ms. Jenkins provided an overview of the Water Authority’s education program.

The Board viewed a live performance of the school assembly program in the training room of the Water Authority headquarters.

III. INFORMATION

The following information items were received and filed:

1. Government Relations Update.

IV. ADJOURNMENT

There being no further business to come before the Legislation and Public Outreach Committee, Chair Guerin adjourned the meeting at 3:02 p.m.

FORMAL BOARD OF DIRECTORS’ MEETING OF OCTOBER 26, 2017

1. CALL TO ORDER Chair Muir called the Formal Board of Directors’ meeting to order at 3:10 p.m.
2. **SALUTE TO THE FLAG** Director Butkiewicz led the salute to the flag.

3. **ROLL CALL, DETERMINATION OF QUORUM**
   Secretary Croucher called the roll. Directors present were Arant, Ayala, Butkiewicz, Cherashore, Croucher, Fong-Sakai, Gallo, Guerin, Hedberg, Heinrichs, Hogan, Kennedy, Lewinger, Miller, Muir, Murtland, Preciado, Scalzitti, Steiner, Tu, Watkins, and Wilson. Directors absent were Barnum, Boyle, Brady, Evans (p), Hall (p), Hilliker, Madaffer, Morrison, Olson, Saxod, Simpson, Smith (p), Weston, and Supervisor Gaspar.

   3-A **Report on proxies received.** Director Lewinger was the proxy for Director Hall, Director Croucher was the proxy for Director Smith, and Director Guerin was the proxy for Director Evans.

4. **ADDITIONS TO AGENDA**
   There were no additions to the agenda.

5. **APPROVAL OF MINUTES**
   Director Croucher moved, Director Murtland seconded, and the motion carried at 83.53% of the vote to approve the minutes of the Special Imported Water Committee meeting of September 14, 2017 and the minutes of the Formal Board of Directors’ meeting of September 28, 2017.

6. **OPPORTUNITY FOR MEMBERS OF THE PUBLIC WHO WISH TO ADDRESS THE BOARD ON MATTERS WITHIN THE BOARD’S JURISDICTION**
   There were no members of the public who wished to speak.

7. **PRESENTATIONS & PUBLIC HEARINGS**
   7-A **Retirement of Director.** Adopt Resolution honoring Halla Razak upon her retirement from the Board of Directors.

   The Board adopted Resolution No. 2017-18 honoring Halla Razak upon her retirement from the Board of Directors.

8. **REPORTS BY CHAIRS**
   8-A **Chairs report:** Chair Muir thanked all Board Members who attended the October 13, 2017 workshop and announced that a follow-up workshop would be scheduled in the first quarter of 2018. He reported on his attendance at the water diversification tour on October 19, 2017 and welcomed comments by Directors Fong-Sakai and Wilson who also attended the tour.

   Chair Muir reminded the Board of the Engineering and Operations Committee tour scheduled for November 9, 2017, and encouraged Board Members to attend and RSVP with Board Clerk Nelson. He added that there was no Board Meeting
scheduled for November and the next Formal Board meeting would take place on December 7, 2017.

In conclusion, he stated the CWA/MWD Task Force Working Group were scheduled to meet on November 6, 2017. Members of the Task Force included Directors Croucher, Steiner, Hogan, Butkiewicz, and Vice Chair Madaffer would serve as an alternate.

8-B Report by Committee Chairs:
Engineering and Operations Committee. Director Heinrichs reviewed the meeting and the action taken.
Water Planning Committee. Director Cherashore reviewed the meeting and the action taken.
Imported Water Committee. Director Fong-Sakai reviewed the meeting and stated that no action was taken.
Administrative and Finance Committee. Director Arant reviewed the meeting and the action taken.
Legislation and Public Outreach Committee. Director Guerin reviewed the meeting and stated that no action was taken.

9. CONSENT CALENDAR
Director Kennedy moved, Director Tu seconded, and the motion carried at 83.53% of the vote to approve the Consent Calendar. Directors voting no or abstaining are listed under the item.

9- 1. Professional services contract with CH2M HILL Inc. for design of the Mission Trails Flow Regulatory Structure II and Flow Control Facility project.
The Board authorized the General Manager to award a professional services contract to CH2M HILL, Inc., for a not-to-exceed amount of $1,870,629, to provide engineering services for the Mission Trails Flow Regulatory Structure II and Flow Control Facility project for a period of three and one-half years.

9- 2. Services contract with Hydro Consulting and Maintenance Services, Inc., for specialized mechanical preventative and corrective maintenance, inspection, testing, and repair services for Lake Hodges Pumped Storage Hydroelectric Facility.
The Board authorized the General Manager to execute a services contract with Hydro Consulting and Maintenance Services, Inc., for specialized mechanical preventative and corrective maintenance, inspection, testing, and repair services through November 20, 2019, with an option to extend the contract for an additional two years, for a total not-to-exceed amount of $1,300,000.
9-3. Professional services agreement with WSA Marketing to administer the Qualified Water Efficiency Landscape (QWEL) Program.
The Board authorized the General Manager to award a three-year professional services contract in an amount not to exceed $247,500, with an option to renew for an additional two years, to WSA Marketing for the administration of the QWEL program.

9-4. Professional services agreement with Signature Control Systems, Inc., to administer the WaterSmart Landscape Efficiency Program.
The Board authorized the General Manager to execute a three-year professional services agreement in an amount not to exceed $420,000, with an option for a two-year extension, with Signature Control Systems, Inc., for program administration services related to the WaterSmart Landscape Efficiency Program.

9-5. Professional Services Contract for the Crossover Pipeline Study.
The Board authorized the General Manager to award a professional services contract to Brown and Caldwell, in an amount not to exceed $215,162 to complete the Crossover Pipeline Study.

The Board noted and filed monthly Treasurer’s Report.

9-7. Establish 2018 Board meeting dates.
The Board combined the November and December Board meeting dates to December 6, 2018 and approved the 2018 Board meeting dates calendar.

The Board approved the extension of the Bank of America liquidity facility agreement and adopted Resolution 2017-19 authorizing the amendment of the Bank of America agreement.

10. ACTION/DISCUSSION

11. SPECIAL REPORTS
11-A GENERAL MANAGER’S REPORT – Ms. Stapleton reminded the Board of the Engineering and Operations tour on November 9, 2017, and the Special Engineering and Operations Committee Meeting on November 9, 2017. She added that the meeting was scheduled for 1:30 p.m. and lunch would be provided.

11-B GENERAL COUNSEL’S REPORT – Mr. Hattam announced that the San Diegans for Open Government had amended their complaint.
11-C SANDAG REPORT – Chair Muir reported on the recent SANDAG Board Meeting. 
SANDAG Subcommittees:
Borders Committee – Director Croucher - No report was given.
Regional Planning Committee – Director Gallo reported on the Regional Planning Committee Meeting.

11-D AB 1234 Compliance Reports – No reports were given.

12. CLOSED SESSION(S)
Mr. Hattam announced there was no need for Closed Session.

12-A Conference with Legal Counsel – Existing Litigation 
Government Code §54956.9(d)(1) 
Shimmick Construction Co., Inc./Obayashi Corp., joint venture v. San Diego County Water Authority, Riverside Superior Court 
Case No. RIC 1609196

12-B Conference with Legal Counsel – Existing Litigation 
Government Code §54956.9(d)(1) 
SDCWA v. Metropolitan Water District of Southern California; Case Nos. CPF-10-510830; CPF-12-512466; CPF-14-514004; CPF-16-515282; CPF-16-515391; A146901; A148266; BS169881; and CA Supreme Court Case No. S243500

12-C Conference with Legal Counsel – Existing Litigation 
Government Code §54956.9(d)(1) 
California Department of Water Resources v. All Persons Interested; Sacramento Superior Court Case No. 34-2017-00215965-CU-MC-GDS

12-D Conference with Legal Counsel – Anticipated Litigation 
Government Code §54956.9(d)(2) 
Significant Exposure – One Case

13. ACTION FOLLOWING CLOSED SESSION

14. OTHER COMMUNICATIONS

15. ADJOURNMENT 
There being no further business to come before the Board, Chair Muir adjourned the meeting at 3:24 p.m.
CALL TO ORDER / ROLL CALL

Chair Heinrichs called the Engineering and Operations Committee meeting to order at 1:32 p.m. Committee members present were Vice Chairs Hilliker and Miller, and Directors Arant, Brady, Butkiewicz, Hogan, Morrison*, Olson, Preciado*, and Watkins. Committee members absent were Directors Boyle, Fong-Sakai, Simpson, and Smith. Also present were Directors Arant, Barnum, Evans, Guerin, Kennedy, Lewinger, Muir, Saxod, Steiner, and Weston. At that time, there was a quorum of the Board.

Staff present was General Manager Stapleton, General Counsel Hattam, Deputy General Manager Kerl, Assistant General Manager Cushman, Senior Engineering Manager Bousquet, Energy Program Manager Rodgers. Guest speakers Lan Wiborg, Deputy Director from the City of San Diego and Kevin Davis, Project Director from Black & Veatch were also in attendance.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to speak.


Director Hogan, San Vicente Energy Task Force Chair, began the presentation with the meeting objectives, background information regarding the project and the economic study work, and the Request for Letters of Interest process. Ms. Rodgers continued the presentation with information regarding the two solicitation processes, the selection panel and outcome for both RFPs, Full-Service Team proposals, and rating criteria.

Mr. Davis, Project Director from Black & Veatch, reported information regarding the pre-interview follow up process for normalization of proposals and Federal Energy Regulatory Commission requirements, interview content, and information regarding the three proposers interviewed – Brookfield US Generation LLC, EDF Renewable Energy, and Tanaska, Inc. – Diamond Generating Corporation Joint Venture. Mr. Davis also reported the interview results and the two Full-Service Team finalists.

Ms. Wiborg, Deputy Director from the City of San Diego continued the presentation with information including key milestones and activities and resource allocation. Ms. Rodgers then concluded the presentation with a overview of the actions that were expected to be brought for consideration at the December 7, 2017 Engineering and Operations Committee meeting.
5. CLOSED SESSION
Mr. Hattam took the committee into closed session at 1:59 p.m.

5-A Conference with Real Property Negotiator
Government Code §54956.8

Agency Negotiators: Black & Veatch Corporation on behalf of the San Diego County Water Authority and City of San Diego
Negotiating Parties: Brookfield US Generation LLC and Tenaska, Inc. – Diamond Generating Corporation Joint Venture
Under Negotiation: Price and terms

Mr. Hattam brought the committee out of closed session at 2:35 p.m. and stated there was no reportable action.

ADJOURNMENT
There being no further business to come before the Engineering and Operations Committee, Chair Heinrichs adjourned the meeting at 2:35 p.m.
DATE: November 29, 2017
TO: Board of Directors
FROM: Mark J. Hattam, General Counsel
RE: Credentials of Marty Miller
    Vista Irrigation District

Transmitted herewith is notification submitted by Vista Irrigation District reappointing Marty Miller to the Water Authority’s Board of Directors. His term will expire on November 22, 2023.

The credentials furnished are sufficient for reappointment of Mr. Miller on the Water Authority Board.

Mark J. Hattam
General Counsel

Attachment
EXEMPLARY FROM THE MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF VISTA IRRIGATION DISTRICT

DATE OF MEETING: November 1, 2017
DIRECTORS PRESENT: Directors Miller, Vásquez, Dorey, Sanchez, and MacKenzie
DIRECTORS ABSENT: None

17-11-126 Upon motion by Director MacKenzie, seconded by Director Vásquez and unanimously carried (5 ayes: Miller, Vásquez, Dorey, Sanchez, and MacKenzie), the Board of Directors re-appointed Marty Miller as the District's representative to the San Diego County Water Authority Board of Directors for a six year term.

State of California )
County of San Diego )

I, Lisa R. Soto, Secretary of the Board of Directors of Vista Irrigation District, do hereby certify that the foregoing is a true and correct excerpt of the Minutes of the Regular Meeting of the Board of Directors of Vista Irrigation District.

Dated: November 15, 2017

Lisa R. Soto, Secretary
Board of Directors
VISTA IRRIGATION DISTRICT
November 29, 2017

Attention: Board of Directors

Audit Committee Annual Report (Action)

Audit Committee recommendation
1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.

Fiscal Impact
There is no fiscal impact associated with the recommended action.

Background
On August 27, 2009 the Board approved the establishment of an Audit Committee. The action was driven by the desire to separate oversight responsibilities for the audit function from the Administrative & Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges.

Previous Board action: On August 27, 2009 the Board adopted Ordinance No. 2009-05 establishing the Audit Committee.

Discussion
The Committee’s work during the year focused on oversight of the annual financial audit for fiscal year 2017. The Water Authority’s auditor, Davis Farr, LLP provided the Water Authority with an unqualified (or clean) opinion on the financial statements for the fiscal year ended June 30, 2017. No Management letter comments or instances of noncompliance or deficiencies in internal controls were reported.

Audit Committee Annual Report
In discharging its responsibilities, the Audit Committee held three public committee meetings and there was one independent telephonic meeting with Davis Farr, LLP partner Jennifer Farr. Following are descriptions of the business conducted at the various meetings.

- April 5, 2017: The FY2017 Audit Calendar was presented and a discussion on the audit and CAFR timeline was held. The future Audit Committee meeting dates were included in the calendar. Staff introduced the Davis Farr, LLP audit team, who introduced themselves and gave a brief history of Davis Farr, LLP. The main topics for the meeting included discussion regarding the 2017 work plan, audit process, roles & responsibilities, required auditor communications, and internal controls, as well as interim fieldwork and deliverables and future audit developments. The planned early adoption of the new Other Post Employment Benefits (OPEB) (GASB 75) pronouncement was discussed that dealt with standardizing the reporting and recording of the OPEB liability in the financial statements and footnotes.
October 26, 2017: Chair Cherashore shared the results of the independent phone call held on October 18, 2017 with Davis Farr, LLP partner Jennifer Farr, CPA with Vice Chair Barnum concurring with the results. Chair Cherashore announced that Director Smith was added to the Audit Committee to replace Director Olson, who resigned. The Draft Fiscal Year 2017 Comprehensive Annual Financial Report was presented to the Committee members so they could begin their review. Additionally, a brief discussion on the implementation and results of GASB 75 was conducted by Controller Woidzik.

November 14, 2017: Jennifer Farr, CPA, from Davis Farr, LLP gave a presentation on the Fiscal Year 2017 audit results and explained the different auditor reports. She stated that the Water Authority received an unmodified (clean) opinion for Fiscal Year 2017. Controller Woidzik gave a brief presentation on the Fiscal Year financial results, as well as offered comments on the status of the Water Authority’s pension and OPEB plans. The Committee then asked questions concerning the financial results and items in the Comprehensive Annual Financial Report (CAFR). The Committee further commented that they did a review of the CAFR and were appreciative of the responses to their review questions. The Committee expressed their appreciation for the work of Davis Farr and staff that went into completing the annual audit as well as the CAFR.

The Audit Committee also reviewed a draft of the Audit Committee Annual Report. Upon review and acceptance of both reports, the Committee directed staff to deliver the Audit Committee Annual Report along with the CAFR to the Board with a recommendation to accept and file.

Comprehensive Annual Financial Statements
The Audit Committee directed staff to deliver the Fiscal Year 2017 CAFR to the Board along with the Audit Committee Annual Report. The CAFR includes the Letter of Transmittal from the General Manager and Director of Finance/Treasurer, Auditor’s Opinion Letter, Management’s Discussion and Analysis, Financial Statements, Notes to the Financial Statements, Required Supplementary Information, Other Supplementary Information, Statistical Section, and Continuing Disclosure. A hard copy will be presented to the Board and an electronic copy will be posted on our website on December 7, 2017.

Prepared by: David Cherashore, Audit Committee Chair

Attachment 1 - 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
Attachment 2 - Independent Auditor’s Letter on Communication with Those Charged with Governance at the Conclusion of the Audit
Attachment 3 - Water Authority Comprehensive Annual Financial report for the Fiscal year ended June 30, 2017 in PDF format (physical copy to be provided at the Board meeting)
Board of Directors
San Diego County Water Authority
San Diego, California

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

Independent Auditor’s Report

We have audited, in accordance with the 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 San Diego County Water Authority ("Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’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 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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from 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.

[Irvine, California]
October 27, 2017
Board of Directors  
San Diego County Water Authority  
Irvine, California  

Communication with Those Charged with Governance at the Conclusion of the Audit  

We have audited the financial statements of San Diego County Water Authority ("Authority") for the year ended June 30, 2017. Professional standards require that we provide you with information under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 28, 2017. Professional standards also require that we communicate to you the following information related to our audit.  

Significant Audit Findings  

Qualitative Aspects of Accounting Practices  

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by San Diego County Water Authority are described in Note 1 to the financial statements. The Water Authority adopted Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Comprehensive Annual Financial Report. 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 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.  

Examples of significant judgments and estimates reflected in the Authority’s financial statements include:  

- Judgments involving the useful lives and depreciation methodology to use for capital assets  
- Judgments concerning which capital project expenditures should be capitalized and depreciated versus expensed in the financial statements and judgments concerning which projects should be placed in service  
- Estimates involving the calculation of the net pension liability and related transactions  
- Estimates involving the calculation of the other post employment benefit (OPEB) liability and related transactions
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of pensions in note 11 to the financial statements
- The disclosure of commitments and contingencies related to litigation in note 16 to the financial statements

**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. There was one significant adjustment made as a result of the audit process to record a liability for a probable litigation.

**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 the management representation letter dated October 27, 2017.

**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 San Diego County Water 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 San Diego County Water 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 Matters

We applied certain limited procedures to Management’s Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Pension Contributions, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of OPEB Contributions, which are required supplementary information (RSI) that 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Budgetary Comparison Schedule, which accompanies the financial statements but is not RSI. 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, Statistical, and Continuing Disclosure Sections which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Board of Directors and management of San Diego County Water Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Irvine, California
October 27, 2017
Cover photos (clockwise):
Olivenhain Dam and Reservoir,
2017 Award from the American Society of Civil Engineers,
Lake Hodges, San Vicente Reservoir, and San Vicente Dam Raise

Cover representation:
Emergency and Carryover Storage Project wins the
2017 Outstanding Civil Engineering Achievement Award
from the American Society of Civil Engineers
Emergency and Carryover Storage Project wins the 2017 Outstanding Civil Engineering Achievement Award from the American Society of Civil Engineers

San Diego, California 92123
Prepared by the Finance Department
## Introductory Section

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October 27, 2017

The Honorable Board of Directors  
San Diego County Water Authority  
4677 Overland Avenue  
San Diego, CA 92123

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Water Authority) for the fiscal year ended June 30, 2017 in accordance with Section 25253 of the California Government Code. The purpose of this report is to provide the Board of Directors (Board), member agencies, investors, the public, and other interested parties with reliable financial information about the Water Authority.

Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Water Authority policy requires that an independent certified public accounting firm, selected by the Board, audit the financial statements on an annual basis. Davis Farr, LLP has issued an unmodified (or clean) opinion on the Water Authority’s financial statements for the fiscal year ended June 30, 2017. The independent auditor’s report is presented as the first component of the Financial Section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report in the Financial Section and provides an overview, summary, and analysis of the financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.
Water Authority Profile

The Water Authority was organized on June 9, 1944 under the County Water Authority Act for the primary purpose of providing a safe and reliable supply of imported water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority’s service area encompasses roughly the western one-third of San Diego County or approximately 1,486 square miles. As a semi-arid region, local surface water and groundwater supplies met only eight percent of regional demand in Fiscal Year 2017. Fourteen percent of water supply is from Water Authority sources outside of the region. As a wholesale entity, the Water Authority has no retail customers; it serves only its 24 member agencies which deliver water to approximately 97 percent of San Diego County’s 3.3 million residents. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts, one public utility district, and one federal agency. The Water Authority is a member agency of, and obtains water from, the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the California State Water Project. The Water Authority also obtains water under long-term agreements from the Imperial Irrigation District (IID), which derives its supply from the Colorado River and through a water purchase agreement for water produced at the Claude “Bud” Lewis Carlsbad Desalination Plant.

Board of Directors

A 36-member board governs the Water Authority, with each of the 24 member agencies having at least one voting representative on the Board. Member agencies may also designate and appoint one additional representative for each full five percent of Water Authority assessed value within the member agency service area. Currently, the City of San Diego has ten directors; Carlsbad, Helix, and Otay Water District have two directors each; and the remaining member agencies have one director each. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the member agencies’ governing bodies. The voting rights of member agencies are weighted and based upon each agency’s total historical financial contribution to the Water Authority. Currently, all Board actions require an affirmative vote constituting at least 55 percent of the total weighted vote of the member agencies. In addition to the 36 voting members, the County of San Diego has one representative who may participate in certain Board deliberations and committee actions, but has no voting rights on Board actions. Officers of the Board begin two-year terms on October 1st of each even-numbered year.

Committees and Organizational Structure

To facilitate matters, most business coming before the Water Authority’s Board is first considered by one of its five standing committees, described below, which then makes recommendations to the full Board for formal action:

The Administrative and Finance Committee is responsible for administrative and finance matters including: rates, fees, charges, and other sources of revenue; budget; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business operations.

The Engineering and Operations Committee is responsible for matters of design, construction, replacement, maintenance and operation of the Water Authority’s facilities, property and equipment, including: administration of the Capital Improvement Program; administration of the Aqueduct Protection Program;
right of way acquisition and management; system and facility security; water quality; and other matters relating to facility operations.

The Imported Water Committee is responsible for imported water supply matters including: activities and issues as a member agency of MWD; administration of the Colorado River Quantification Settlement Agreement and related agreements; Colorado River Board; State Water Project; CalFed; and other matters relating to water supplies from sources outside San Diego County.

The Legislation and Public Outreach Committee is responsible for community and governmental outreach matters including: legislation, lobbying, and intergovernmental relations; community relations; media relations; social media; online communication; capital project outreach; and small-business contracting outreach.

The Water Planning Committee is responsible for water supply planning and supporting local supply development including: water supply and demand forecasting and reporting; shortage allocation planning and administration; seawater desalination; water recycling and potable reuse; groundwater and conjunctive use; local surface water; environmental management; regulatory compliance and policy; Urban Water Management Plans; water use efficiency programs; and other planning matters.

In addition, the Water Authority has one special purpose Board committee that is responsible for oversight of the audit and Comprehensive Annual Financial Report (CAFR) as follows:

The Audit Committee is responsible for independent oversight of the annual financial reporting process, including the selection of, and communication with, the Water Authority’s outside audit firms. The Audit Committee was established in 2009 driven by the Board’s desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee.

The Water Authority’s organizational structure as of June 30, 2017 can be found on page 16. The General Manager reports directly to the Board and manages the Water Authority’s day-to-day operations. The General Counsel also reports directly to the Board. Reporting directly to the General Manager is a Deputy General Manager, an Assistant General Manager, the Colorado River Program Director, a Chief Innovation Officer, the Energy Program Manager, and a Human Resources Manager. The remainder of the executive team consists of eight department and program directors, responsible for managing the Administrative Services, Engineering, Finance, Operations and Maintenance, Public Outreach and Conservation, and Water Resources Departments, and the MWD Program and Government Relations Programs.

Economic Conditions and Outlook

San Diego labor market fundamentals remain strong in 2017 with continuing job growth. According to the San Diego Economic Development Corporation’s Quarterly Economic Snapshot, the region added 29,600 jobs year-over-year, a 2.1 percent increase in total employment since 2016. The construction sector experienced the largest growth in employment, adding 5,700 jobs. San Diego County’s median home price reached $530,000 in May, its highest point in a decade and an 8.2 percent increase in a year, as reported by real estate tracker CoreLogic. However, the number of new residential building permits slowed approximately 15 percent with 1,929 residential building permits pulled in the first four months of 2017, as reported by the Construction Industry Research Board. Economist Dr. Alan Gin with the University of San Diego Burnham-Moores Center for Real Estate commented on this trend stating that building permits are an important indicator of future employment in the construction industry, as well as other professions and industries associated with real estate. In spite of the decline in building permits, Dr. Gin indicated the regional economic outlook shows positive growth for the rest of the year, but at a slower rate than what the county has seen in the past few months.
Stable economic conditions coupled with termination of statewide emergency water use restrictions in April 2017 culminated in the first year-over-year increase in total water use since 2014. San Diego area water use for fiscal year ending June 30, 2017 totaled just over 477,000 acre-feet, an increase of roughly five percent over 2016 consumptive use levels. A modest upward trend in water use is projected to continue as water demands recover from extraordinary conservation measures taken during the recent drought emergency. Additionally, improved local and regional surface storage supplies, continued implementation of long-term water use efficiency measures in the San Diego region and the Water Authority’s investments in highly reliable supplies (such as Colorado River transfers, local seawater desalination, and in-region carryover storage) will help to buffer San Diego’s exposure to supply shortages and support sustained growth in our local economy.

Long-Range Planning

The Government Finance Officers Association (GFOA) recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting. The Water Authority has developed a comprehensive Long-Range Financing Plan (LRFP) that is monitored and reviewed frequently to adapt to the ever-changing environment. The current LRFP was developed with member agency involvement and approved by the Board of Directors in January 2016. The LRFP codifies certain enhanced financial policies relating to debt service coverage, reserve levels, and financial risks. The current LRFP highlights the transition to an operations and asset management-focused agency from a construction-oriented agency. The LRFP also addresses the near-term financial impacts of state-wide demand regulations and provides additional information regarding key assumptions, sensitivity analysis, and non-bonded liabilities. More information about the LRFP can be found at: http://www.sdcwa.org/sites/default/files/files/finance-investor/FINAL_LRFP2015.pdf

Financial Policies

The Water Authority has adopted a comprehensive set of financial policies. During the current year, three of these policies were of most significance.

**Debt**

The Water Authority has a Debt Management Policy which sets forth comprehensive guidelines for the issuance and management of the Water Authority’s debt. Compliance with the policy is essential to ensure that the Water Authority maintains a sound debt position and that it protects the credit quality of its debt obligations. The Water Authority’s policy establishes guidelines for refinancing debt to achieve savings levels based on a call option pricing model.

**Investments**

Annually, the Board adopts an investment policy that is in compliance with California Government Code Section 53600 et seq. The investment of idle funds is delegated by the Board to the Water Authority’s Treasurer who assumes full responsibility for the transactions of the investment program, which includes the investment of bond proceeds and debt service reserves. The objectives of the investment policy are safety, liquidity, yield, and public trust. The Water Authority’s investments are in compliance with the adopted investment policy. Refer to Note 2 in the Notes to the Financial Statements for detailed investment information and the Continuing Disclosure Section for a more detailed overview of the policy.

**Funds**

The Board has an adopted policy that governs the Rate Stabilization Fund’s (RSF) balances. The policy established a minimum target balance and maximum target balance. The minimum RSF target balance is equal to the financial impact of 2.5 years of wet weather and the maximum target balance (cash reserve) is set equal to the financial impact of 3.5 years of wet weather. As a general rule, the Water Authority will transfer portions of its net water revenues exceeding its debt service coverage requirement into the RSF. From time to time, as needed, the Water Authority will transfer amounts from the RSF into water revenues to meet debt service coverage requirements, or to help provide adequate working capital to the Operating Fund.
Policies

In addition to the financial statements, the Water Authority includes a schedule in the Other Supplementary Information Section that compares the final budget to the actual amounts for fiscal year ended June 30, 2017. The schedule includes a reconciliation of adjustments from the budgetary basis to the Generally Accepted Accounting Principles (GAAP) basis.

This report also contains a Statistical Section, which provides both financial and non-financial trend data about the Water Authority and its operations, and a Continuing Disclosure Section, which provides both financial and non-financial information in compliance with the Water Authority’s Continuing Disclosure requirements.

Highlights of the Capital Improvement Program

The major Capital Improvement Program (CIP) activities include the following:

Emergency Storage Program

As highlighted on the CAFR cover, the American Society of Civil Engineers awarded the Water Authority’s Emergency and Carryover Storage Project the top engineering award for 2017 for the $1.5 billion system of dams, reservoirs, pump stations, pipelines and tunnels, that help protect the region’s 3.3 million people and $222 billion economy from extended dry periods or emergencies that could disrupt imported water deliveries. The Water Authority storage capacity is now approximately 202,400 acre-feet, between capacity secured in City of San Diego reservoirs at San Vicente and Lake Hodges, and Water Authority-owned capacity in Olivenhain Reservoir. Also, during Fiscal Year 2017, construction was completed on the San Vicente Marina and San Vicente Bypass Pipeline as these facilities were inundated as a result of the San Vicente Dam Raise and Carryover Storage Project.

Carlsbad Desalination

The Claude “Bud” Lewis Carlsbad Desalination Plant won two awards this past year with the first from the American Membrane Technology Association and the American Water Works Association for a national award recognizing its efficient and environmentally friendly technology, and the second from Association of California Water Agencies for managing and protecting water supplies in California.

Asset Management Program

Extending the efforts that have developed over the past two decades, the Water Authority continues to invest in its critical water conveyance infrastructure. The overall goal of the Asset Management Program is to manage a broad spectrum of risks while at the same time optimizing spending.

A rolling five-year Condition Assessment Plan outlines the methodology by which assets are assessed for performance and integrity; and schedules assessment needs over the medium and long term. Focused on ensuring the efficient rehabilitation, repair, or replacement of physical assets, the dedicated team of staff delivering the Asset Management Program uses the latest technological tools to perform comprehensive condition assessments of pipelines and associated facilities.
An important part of the Asset Management Program is the evaluation of the condition data as it relates to operational risk. By assessment every two-year budget cycle, staff ensures that probability of failure and consequence of failure are evaluated in the process of developing priority projects that are designed to extend the service life of the most critical assets. These projects then roll into the upcoming fiscal period for implementation. This year, 12 priority projects have been identified for implementation beginning in the Fiscal Year 2018 and 2019 budget cycle.

The Water Authority constantly scrutinizes its methodology through industry-specific peer review at an international level, and by self-monitoring its progress through its five-year scorecard evaluation. This ensures key areas of asset management are resourced, managed, and continually evaluated at an appropriate level.

Over the past year, the asset management program has completed the electromagnetic scanning and evaluation of five miles of a 70-year-old pipeline. This resulted in performing a proactive repair which prevented a pipe failure in the future.

More information about the Relining and Pipe Replacement Program can be found at the project web page at: http://www.sdcwa.org/pipeline-relining.

Major Initiatives

Energy Program

Energy is a significant cost in treating and delivering water to our member agencies. As such, the Energy Program was created to oversee agency-wide planning, regulatory, and operational energy-related issues regarding energy usage and production. The following initiatives are examples of the Energy Program’s pursuit of opportunities to reduce energy demands and costs, stabilize water rates and lessen greenhouse gas emissions by leveraging existing water infrastructure.

The Water Authority received a $1 million incentive from the California Public Utilities Commission to build and deploy an intelligent 1 megawatt industrial-sized battery system that will save ratepayers money and stretch the energy output potential of solar panels already installed at the Water Authority’s Twin Oaks Valley Water Treatment Plant. The storage system, through a public-private-partnership agreement and no capital cost investment to the Water Authority, is expected to save the Water Authority nearly $100,000 annually in energy costs by storing low-cost energy for use later during high energy demand periods when energy costs are higher, avoiding peak demand charges.

The Water Authority’s Board of Directors approved an action to move forward with negotiations for a proposed 6 megawatt array of solar panels over 20 acres of the Olivenhain Reservoir. If constructed it would produce an estimated 13,000 megawatt-hours of energy; enough to power approximately 1,500 single family homes annually. This project requires no capital investment by the Water Authority and its share of net revenues would be approximately $3.2 million over 25 years.
The Water Authority applied for and received approximately 1.6 megawatts of Federal preference Boulder Canyon power from the Western Area Power Administration. This clean source of power from hydroelectricity will help to diversify the Water Authority’s energy supply portfolio and lessen its impact on greenhouse gases.

The Water Authority and City of San Diego (Owners) are exploring a 500 megawatt energy storage project located at San Vicente Reservoir, which is owned by the City and where the Owners share water storage. The project would consist of a closed-loop pumping system between the existing lower reservoir and a new, smaller reservoir located uphill. It would be used during off-peak energy-use periods by pumping water uphill when renewable energy is plentiful to the new upper reservoir. This would create a bank of stored hydroelectric energy that would be released to the lower reservoir by gravity at times when renewable energy supplies are unavailable and energy demand and costs are higher. This potential project could lessen upward pressure on water rates and also increase opportunities for renewable energy penetration throughout the region.

Energy supply diversification, energy regulatory engagement, and public-private partnerships constitute a multifaceted strategy for effective energy management. Combined, this approach provides additional revenue and cost savings to the Water Authority that translates to savings for our member agencies, and supports energy reliability which is crucial to fulfilling our water supply driven mission.

**Prudent Financial Management**

**adopted fiscal year 2018 and 2019 budget highlights**

In June 2017 the Water Authority Board formally adopted the $1.58 billion Fiscal Years 2018 and 2019 Budget. Water purchases and treatment represent 66 percent or $1.05 billion of the total Water Authority budget. This includes the costs of water, treatment, transportation, and payments for groundwater storage. The CIP represents 7.5 percent or $118.6 million of the total budget, 15 percent less than the prior two-year budget as the Water Authority continues to shift from the construction of new infrastructure toward asset management. The operating departments’ budget represents 6.5 percent of the total budget or $103.2 million. The operating departments’ budget is increasing by 1.9 percent for the multi-year budget period and includes the additional cost of operating new facilities and increased funding for cyber security.

**adopted calendar year 2018 rates and charges**

In June 2017 the Water Authority Board approved adjustments to rates and charges for Calendar Year 2018. These adjustments amount to an increase of $47/acre foot (AF) or 3.7 percent for untreated water and $57/AF or 3.7 percent for treated water. These increases are mitigated by rate relief measures that included debt refundings during the prior year that have saved $78.3 million on a present value basis over the lifetime of the refunded bonds. The key rate and charge drivers were MWD’s supply and transportation rate increases, increased QSA water deliveries, and the reduced water sales environment.
Defined Benefit Pension Plan

In May 2017, the Water Authority made a supplemental payment to CalPERS and reduced its unfunded pension liability by $9.6 million. As a result of this payment, future interest costs of $6.3 million were also eliminated. The payment benefitted the Water Authority by also reducing the annual payment to CalPERS by approximately $1.1 million over the next eight years. The payment will mitigate the effect of CalPERS’ lowering of the discount rate from 7.50 percent to 7.00 percent which will cause pension liabilities for most CalPERS members to significantly increase starting next year.

Stored Water Fund Policy Revision

In December 2016, the Board approved the revision of the Stored Water Fund Policy ensuring that there will be working capital available to purchase water inventory to utilize the Water Authority’s storage facilities. The Stored Water Policy guidelines established a target 70,000 acre-feet for Carryover Storage inventory along with the requirement that the fund always have sufficient fund balance to maintain this target amount. An annual review of carryover storage called for by the Stored Water Fund Policy was completed in May 2017. No changes to carryover storage reserves were recommended through May 2018.

Five-Year Business Plan 2017-2021 Update and Focus Areas

In October 2016, a restructured 2017-2021 Business Plan was presented to the Board containing significant modifications from previous plans, including new emphasis on cybersecurity, energy management, and workforce development. Every two years the business plan is updated for the next five-year period. The plan highlights three key focus areas, Water Supply, Water Facilities, and Business Services, and broadened programs to reflect the Water Authority’s continued emphasis on water system management, system reliability, regulatory compliance, and financial stability.

Focus Area 1: Water Supply Portfolio

Programs in this area are designed to reach the Board’s adopted level of supply diversity:

- Bay-Delta
- Member Agency Supply
- Potable Reuse
- Water Management Planning
- Water Use Efficiency
- Colorado River
- Metropolitan Water District
- Seawater Desalination
- Water Shortage and Drought Response Management
**Focus Area 2: Water Facilities**

Programs in this area implement the Board’s cost effective asset management strategy by building, operating, and maintaining water facilities essential to meeting regional water demand.

- Asset Management
- Facilities Security and Emergency Response
- Energy Initiatives
- Infrastructure Planning
- Climate Change
- Operations and Maintenance
- Environmental Management
- New Facilities

**Focus Area 3: Business Services**

Programs within this area include the majority of the Water Authority’s business operations which are essential to execution of the previous two focus areas.

- Government Relations Outreach
- Regulatory Policy Support
- Cybersecurity
- IT Infrastructure and Operations
- IT Services and Applications
- Internal Communication
- Training and Development
- Public Outreach
- Accounting
- Debt and Investment Management
- Financial Planning
- Injury and Illness Prevention
- Recruitment and Retention

The Business Plan identifies management strategies necessary to achieve performance in each focus area. These strategies are directly tied to specific goals with estimated target completion dates. Achievement of these goals are tracked by management and updated biennially to adjust to the current environment, to establish new goals, and to incorporate other required changes as Board policy dictates.

The 2017-2021 Business Plan contains 102 goals. Based on the June 2017 performance report, all are underway with the following goals accomplished during Fiscal Year 2017:

- Worked with State Water Resources Control Board regarding adoption of statewide Mercury Plan.
- Completed Nob Hill improvements to avoid excessive hydraulic transient pressures in Pipelines 3 and 4.
- Completed Miramar Pump Station Rehabilitation Project to ensure remains fully operational after an emergency event.
- Secured business arrangement for Rancho Peñasquitos Hydroelectric Facility to maximize value of energy generated.
- Performed physical security assessments and developed improvement plans for critical facilities.
- Finalized partnership agreement with City of San Diego for the San Vicente Energy Storage Facility, Phase 3 work.
- Participated with stakeholders group to support development of amicus brief on court proceedings for Waters of the United States.
Developed a long-term strategic plan for anticipated bond transactions including Pipeline Plant bonds.
Completed the agreed-upon procedures report assessing the Desalination Billing financial models.
Completed a cost of service study covering annexation fees and capacity charges.
Compiled a comprehensive listing of capital assets and established procedures for year-end reconciliations.
Transitioned email, office applications and website to cloud based platforms to maximize resilience against loss of service.
Automated organization-wide business processes to increase staff productivity.
Completed training needs analysis model with training and development web portal for employees.

The Business Plan can be found at: https://www.sdcwa.org/sites/default/files/files/business_plan.pdf.

Innovation Program

The Water Authority is emerging from the most capital intensive construction phase in its history, placing increased emphasis on business operations and maintenance and replacement of our infrastructure. The implementation of an Innovation Program provides structure, organization, skills training, and encourages creative solutions to assist the Water Authority in meeting future challenges. The goal of the Water Authority’s Innovation Program, which began in November 2015, is to create a work environment that supports the identification and implementation of ideas, from optimizing existing business practices (core innovation) to implementing game-changing (transformative) innovation. The innovation process includes efforts across four focus areas: Culture, Capability, Creativity and Collaboration. During the past 18 months, the Innovation Program has resulted in 80 suggested “Big Ideas”. A total of 35 projects have been implemented and seven projects are currently in piloting phase. Our innovation efforts are aligned with our strategic direction, mission and vision, and will evolve over the next few years as we respond to challenges at the Water Authority and in our industry.

Metropolitan Water District (MWD) Litigation

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. The general status of these cases:

2010/2012 Rate Cases:
The Water Authority won a trial court award of $234,932,782 from MWD on rate overcharges, interest, and attorney’s fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal.App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court which was filed by the Water Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case will return to the trial court for further proceedings consistent with the Court of Appeal’s ruling.
2014 Rate Case:
This case challenges MWD’s rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2016 Rate Case:
This case challenges MWD’s rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2017 Rate Case:
This case challenges MWD’s rates adopted in 2017 for 2018 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority’s rate litigation, visit: http://www.sdcwa.org/mwdrate-challenge. For any other information, contact the General Counsel’s office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

Drought Response
Governor Brown issued a proclamation in January 2014 declaring a State of Emergency due to the driest year in recorded state history. In April 2015, he issued Executive Order (EO) B-29-15 mandating a 25 percent water-use reduction statewide. In May 2015, the State Water Resources Control Board (SWRCB) adopted its Emergency Regulation for Statewide Urban Water Conservation which required water suppliers to reduce their monthly water use compared to 2013 water-use levels.

In May 2016, Governor Brown issued EO B-37-16, which directed the SWRCB to adjust the emergency regulation to address differing water supply conditions across the state and to develop emergency water restrictions for 2017 if the drought persisted. Later that month, the SWRCB adopted an emergency regulation that replaced the prior percentage reduction-based water conservation standard with a localized “stress test” approach.

Utilizing the conservative stress test criteria, the Water Authority and its member agencies demonstrated the availability of adequate supplies to meet demands for the next three years should dry conditions continue. The ability to meet demands even under dry conditions is the result of approximately $3.5 billion in regional water supply reliability investments by the region’s ratepayers. Those investments include drought-resilient supplies such as seawater desalination, as well as new and expanded storage facilities. In addition, the member agencies have invested in drought-resilient supplies such as recycled water and brackish ground water recovery. As a result of these investments, in January 2017, the Water Authority’s board of directors adopted Resolution No. 2017-01, declaring an end to drought conditions in San Diego County. Adoption of the resolution was also supported and bolstered by improved statewide water supply conditions.

In April 2017, Governor Brown issued Executive Order B-40-17, which lifted the drought emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. The action ended the statewide emergency drought proclamation put in place by the Governor in January 2014. Through establishment of its drought awareness effort, the Water Authority continued its messaging and outreach to residents and businesses to ensure an ongoing community commitment to advance water-use efficiency across the region.
Water-Use Efficiency Outreach

The Water Authority coordinates with its member agencies on regional messaging and programs to promote water conservation in response to droughts or supply shortages, and to encourage efficient water use as a positive and permanent lifestyle. While the San Diego region was no longer under state-mandated water-use reductions due to statewide drought conditions in July 2016, the Water Authority launched its “Live WaterSmart” outreach campaign that month to ensure wise use of existing water supplies remained top-of-mind. The campaign shared lists of easy water-saving tips and encouraged greater participation by residents and businesses in programs such as WaterSmart Checkups, which provides free water-use surveys and irrigation audits complete with no-obligation recommendations for any potential water-saving opportunities found on site.

The Water Authority kept up the campaign’s visibility with additional program launches and promotions throughout the year. In October 2016, the Water Authority launched financial incentives as part of its innovative Sustainable Landscapes Program. Using more than $1.1 million in state grant funding, the pilot program provides a $1.75 per square foot incentive to homeowners who replace existing turfgrass areas with leading-edge landscapes that not only feature low-water-use plants and high-efficiency irrigation, but also aspire to create additional environmental benefits with improved soil conditions and rainwater capture features. While participants had to meet a more rigorous set of project requirements than commonly found in other turf replacement programs, interest in the program was high. By June 2017, customers had reserved nearly 60 percent of the funding, well ahead of the program’s schedule.

The Water Authority also engaged in several partnerships with businesses and other organizations throughout the year as part of the campaign to promote efficient water use. In November, the agency teamed with the Solana Center for Environmental Innovation, a local nonprofit group, to promote participation in a Southern California-wide rain barrel rebate program. The promotion was extremely popular, securing orders for more than 1,000 rain barrels just before the wet winter months set in.

The water-saving partnerships continued into 2017, even as the state’s five-year drought gave way to record-setting rain and snow levels. From February through April, the Water Authority and many of its member agencies teamed up with The Home Depot to host “San Diego County Garden Friendly Plant Fairs” featuring information and discounts on water-efficient plants. In March, the Water Authority partnered with the Plumbing-Heating-Cooling Contractors Association of San Diego County to promote discounted leak detection and repair services during national Fix A Leak Week. Finally, in April, the Water Authority and The San Diego Union-Tribune—the region’s major daily newspaper—launched their “WaterSmart Makeover” partnership. The partnership features a monthly profile of a successful and attractive home turf replacement project on the front page of the paper’s Home & Garden section. The articles, which feature homeowners who received instruction and coaching on how to implement their retrofits from the Water Authority’s WaterSmart Landscape Makeover Program, are further catalyzing the public’s interest in implementing WaterSmart landscapes that improve long-term outdoor water-use efficiency.
Regional water-saving programs and outreach succeeded in keeping San Diego County’s water use in check. Without any state mandates in place, regional potable water use over the year remained 18 percent below pre-drought levels. The Water Authority continues to coordinate outreach efforts with its member agencies, MWD, and the state Department of Water Resources when possible to ensure the largest possible impact.

The Water Authority also won the top public relations award in the region in October 2016 for the outreach campaign it had in place during the drought. The San Diego-Imperial Counties Chapter of the Public Relations Society of America gave its Silver Bernays award for Best Integrated Communications to the Water Authority for its “When in Drought: Save Every Day, Every Way” campaign.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Water Authority for its CAFR for the fiscal year ended June 30, 2016. This is the seventeenth consecutive year that the Water Authority has received this prestigious award. In order to be awarded a Certificate of Achievement, the Water Authority had to publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe the current CAFR continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA to determine its eligibility for another certificate.

We would like to thank the Board for its continued leadership in excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department with recognition to the Accounting Division. Special appreciation is extended to: Christopher Woidzik, Controller; Yollie Cerezol, Accounting Supervisor; Holly Judy and Jocelyn Matsuo, Senior Accountants; Monika Wojcik, Accounting Assistant II; and melody Parker, Management Analyst. We also wish to express our appreciation to all departments that assisted and contributed to the preparation of this report.

Respectfully submitted,

Maureen A. Stapleton
General Manager

Lisa Marie Harris
Director of Finance/Treasurer
Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County Water Authority
California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

[Signature]
Executive Director/CEO
San Diego County Water Authority Board of Directors

Mark Muir, Chair
Jim Madaffer, Vice Chair
Gary Croucher, Secretary
SAN DIEGUITO WATER DISTRICT
SANTA FE IRIGATION DISTRICT
CITY OF SAN DIEGO
OTAY WATER DISTRICT

Tom Kennedy
RAINBOW MUNICIPAL WATER DISTRICT
Keith Lewinger
CARLSBAD MUNICIPAL WATER DISTRICT
Marty Miller
VISTA IRRIGATION DISTRICT
Ron Morrison
CITY OF NATIONAL CITY
James Murtland
RINCON DEL DIABLO MUNICIPAL WATER DISTRICT
Ken Olson
CITY OF DEL MAR
Jose Preciado
SOUTH BAY IRRIGATION DISTRICT
Halla Razak
CITY OF SAN DIEGO
Elsa Saxod
CITY OF SAN DIEGO
Joel Scalzitti
HELIX WATER DISTRICT
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CAMP PENDLETON MARINE CORPS BASE
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Ron Watkins
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Doug Wilson
PADRE DAM MUNICIPAL WATER DISTRICT

Gary Arant
VALLEY CENTER MUNICIPAL WATER DISTRICT

Jimmy Ayala
CITY OF SAN DIEGO

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CITY OF OCEANSIDE

Brian J. Brady
FALLBROOK PUBLIC UTILITY DISTRICT

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CITY OF SAN DIEGO

David Cherashore
CITY OF SAN DIEGO

Kathleen Coates Hedberg
HELIX WATER DISTRICT

Betty Evans
VALLECITOS WATER DISTRICT

Lois Fong-Sakai
CITY OF SAN DIEGO

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CITY OF ESCONDIDO

Christy Guerin
OLIVENHAIN MUNICIPAL WATER DISTRICT

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Tony Heinrichs
CITY OF SAN DIEGO

Frank Hilliker
LAKESIDE WATER DISTRICT

Michael T. Hogan
SANTA FE IRIGATION DISTRICT

Mark Muir,
Chair
San Diego County Water Authority Board of Directors
Fiscal Year Ended June 30, 2017

San Diego County Water Authority Board of Directors
San Diego County Water Authority Organizational Structure

Board of Directors

- General Manager: Maureen A. Stapleton
- Exec. Assistant/Admin. Assistant
- General Counsel: Mark Hattam
- Clerk of the Board
- Deputy General Manager: Sandra L. Kerl
- Assistant General Manager: Dennis A. Cushman

- Operations & Maintenance Department: Jim Fisher
- Engineering Department: Jerry Reed
- Water Resources Department: Bob Yamada
- Finance Department: Lisa Marie Harris
- Human Resources Program: Gretchen Spaniol
- Energy Program: Kelly Rodgers
- Chief Innovation Officer: Gary Eaton
- Colorado River Program: Dan Denham
- MWD Program: Amy Chen
- Government Relations Program: Glenn Farrel
- Public Outreach & Conservation Department: Jason Foster
- Administrative Services Department: Matt Brown
FINANCIAL SECTION
Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego County Water Authority (the “Water Authority”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Water Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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 an opinion 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the entity’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 the entity'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 opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Authority, as of June 30, 2017, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in Note 17 to the financial statements, during the year ended June 30, 2017, the Water Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75. As a result of the implementation the Water Authority had a prior period adjustment as described further in Note 17 to the financial statements. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

The financial statements of the Water Authority for the year ended June 30, 2016 were audited by other auditors whose report dated November 8, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the defined benefit pension schedules, and the other post-employment benefits schedules 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Authority’s basic financial statements. The budgetary comparison schedule, introductory section, statistical section, and continuing disclosure section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying
accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section, statistical section, and continuing disclosure section have 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 October 27, 2017 on our consideration of the Water Authority’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 the Water Authority’s internal control over financial reporting and compliance.

Danie Taw

Irvine, California
October 27, 2017
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MANAGEMENT’S DISCUSSION AND ANALYSIS
Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2017. Please read it in conjunction with the Letter of Transmittal located in the Introductory Section, and the Water Authority’s Basic Financial Statements and accompanying Notes to the Financial Statements (Notes), which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The basic financial statements report information about the Water Authority’s financial position and changes in financial position using the accrual basis of accounting, similar to methods used by private sector companies. They are designed to provide readers with a broad overview of the finances, and also present changes in cash balances and information about both short-term and long-term activities. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes.

The Statement of Net Position present information on all of the Water Authority’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information on how the Water Authority’s net position changed during the fiscal year. All changes in net position are reported on the accrual basis of accounting, recognizing all revenues when earned and all expenses when incurred.

The Statement of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes provide additional information essential for a full understanding of the data provided in the Financial Statements. The Notes are located immediately following the Financial Statements.

Other Information

The Financial Statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997, and the San Diego County Water Authority Financing Agency, a Joint Powers Authority (JPA), established in December 2009. The accounts of these entities are blended into the Water Authority’s Financial Statements in accordance with Governmental Accounting Standards. See Note 1(a) of the Notes for further information regarding these entities.
Financial Analysis of the Water Authority

San Diego County Water Authority Condensed Statement of Net Position, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>$3,491.4</td>
<td>$3,490.9</td>
</tr>
<tr>
<td>Other assets</td>
<td>606.0</td>
<td>682.9</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$4,097.4</td>
<td>$4,173.8</td>
</tr>
<tr>
<td><strong>Deferred outflows of resources</strong></td>
<td>97.6</td>
<td>89.7</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2,170.5</td>
<td>2,228.3</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>451.4</td>
<td>492.9</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>2,621.9</td>
<td>2,721.2</td>
</tr>
<tr>
<td><strong>Deferred inflows of resources</strong></td>
<td>2.6</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,138.2</td>
<td>1,148.2</td>
</tr>
<tr>
<td>Restricted</td>
<td>147.5</td>
<td>156.9</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>284.8</td>
<td>232.0</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$1,570.5</td>
<td>$1,537.1</td>
</tr>
</tbody>
</table>

**Net Position**

Over time net position may serve as a useful indicator of an entity’s financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,570.5 million and $1,537.1 million as of June 30, 2017 and 2016, respectively. Of these amounts, $284.8 million and $232.0 million in unrestricted net position as of June 30, 2017 and June 30, 2016, respectively, were available for current approved services and construction projects, and for new programs for the regions’ citizenry. During Fiscal Year 2017, total net position increased by $33.4 million, or 2.2 percent. The largest portion of the Water Authority’s net position, 72.5 percent, reflected the investment in capital assets less any related outstanding debt and deferred outflows of resources used to acquire those assets.
Capital Assets

San Diego County Water Authority Capital Assets
(Net of Accumulated Depreciation and Amortization), in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Capital Assets - Non-Depreciable</td>
<td>$ 637.5</td>
</tr>
<tr>
<td>Capital Assets - Depreciable, net</td>
<td>2,853.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 3,491.4</strong></td>
</tr>
</tbody>
</table>

Capital assets are classified into two categories: non-depreciable and depreciable capital assets. Non-depreciable capital assets include land, easements, mitigation bank, storage rights, and construction in progress. Depreciable capital assets include pipelines and dams, facilities, equipment, computer systems software, and participation and capacity rights, net of accumulated depreciation and amortization. In accordance with the Water Authority’s capitalization policy, capital assets are capitalized when a project is substantially complete and has been issued a notice of operational acceptance. Additional information regarding capital assets can be found in the Notes 6 – 8 of the Notes.

During Fiscal Years 2017 and 2016, capital asset additions were $65.1 million and $293.2 million, respectively. Of those amounts, $60.3 million and $286.6 million were additions to construction in progress for the fiscal years ended June 30, 2017 and 2016, respectively. Included in capital asset additions were $4.9 million and $5.9 million of capitalized interest for Fiscal Years 2017 and 2016, respectively.

There were no material commitments under construction contracts existing at June 30, 2017. The following projects accounted for the majority of capital expenditures incurred during Fiscal Year 2017:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipeline 4 Relining Lake Murray to Alvarado</td>
<td>$8.1 million</td>
</tr>
<tr>
<td>Nob Hill Improvements</td>
<td>$7.2 million</td>
</tr>
<tr>
<td>San Vicente Dam Raise</td>
<td>$4.3 million</td>
</tr>
</tbody>
</table>
Debt Administration

Short-Term Debt

San Diego County Water Authority Outstanding Short-Term Debt, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Tax-Exempt Commercial Paper Program</td>
<td>$245.0</td>
<td>$245.0</td>
</tr>
<tr>
<td>Extendable Commercial Paper Program</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$345.0</strong></td>
<td><strong>$345.0</strong></td>
</tr>
</tbody>
</table>

The Water Authority has a short-term Tax-Exempt Commercial Paper (TECP) program and an Extendable Commercial Paper (ECP) program to provide financing for the capital improvement programs. More detailed information on short-term debt is presented in Note 9 of the Notes.

There was no change to the outstanding amount in the short-term debt program for Fiscal Year 2017; however, the Water Authority did extend its Series 8 Tax-Exempt Commercial Paper Notes for another two years. The Series 9 Tax-Exempt Commercial Paper Notes expire in July 2018 and the non-tax exempt Extendable Commercial Paper Notes, Series 1 do not expire. The Water Authority has a practice of extending its short-term debt borrowings to service its capital improvement program requirements.

Long-Term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>$1,808.9</td>
<td>$1,821.0</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td>74.6</td>
<td>104.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,883.5</strong></td>
<td><strong>$1,925.1</strong></td>
</tr>
</tbody>
</table>

Long-term debt consists of revenue bonds and certificates of participation used to fund the capital improvement programs. The Water Authority continues to hold long-term senior lien credit ratings of AAA, AA+, and Aa2 from Standard & Poor's, Fitch and Moody's, respectively. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Poor’s, Fitch, and Moody's, respectively. More detailed information on long-term debt is presented in Note 10 of the Notes.

As of June 30, 2017, the Water Authority had $1.9 billion in long-term debt outstanding, a 2.2 percent decrease compared to Fiscal Year 2016. As of June 30, 2017 and 2016, the total Revenue Bonds outstanding approximated $1.8 billion for both years. The total Certificates of Participation outstanding as of June 30, 2017 and 2016 was $74.6 million and $104.1 million, respectively. During Fiscal Year 2017, $12.1 million of revenue bond principal payments and $29.5 million of certificates of participation principal payments were made.
San Diego County Water Authority
Statement of Revenues, Expenses and Changes in Net Position, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017 (1)</td>
<td>2016</td>
</tr>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$579.1</td>
<td>$524.9</td>
</tr>
<tr>
<td>Other revenues</td>
<td>3.7</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>582.8</td>
<td>528.2</td>
</tr>
<tr>
<td><strong>Nonoperating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes and in-lieu charges</td>
<td>12.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Infrastructure access charges</td>
<td>31.1</td>
<td>30.4</td>
</tr>
<tr>
<td>Investment income</td>
<td>2.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Other income</td>
<td>11.4</td>
<td>13.7</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>11.5</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues</strong></td>
<td>69.1</td>
<td>74.4</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>651.9</td>
<td>602.6</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>430.6</td>
<td>387.1</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>19.1</td>
<td>18.2</td>
</tr>
<tr>
<td>Planning</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>General and administrative</td>
<td>14.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>62.0</td>
<td>59.5</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>535.2</td>
<td>487.8</td>
</tr>
<tr>
<td><strong>Nonoperating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>95.5</td>
<td>85.1</td>
</tr>
<tr>
<td>Debt issuance costs</td>
<td>0.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Other expenses</td>
<td>17.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Loss on sale/retirement of capital assets</td>
<td>0.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total nonoperating expenses</strong></td>
<td>113.8</td>
<td>102.0</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>649.0</td>
<td>589.8</td>
</tr>
<tr>
<td><strong>Income before capital contributions</strong></td>
<td>2.9</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Capital contributions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity charges</td>
<td>21.1</td>
<td>15.8</td>
</tr>
<tr>
<td>Water standby availability charges</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Contributions in aid of capital assets</td>
<td>0.2</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td>32.4</td>
<td>27.7</td>
</tr>
<tr>
<td><strong>Changes in net position</strong></td>
<td>35.3</td>
<td>40.5</td>
</tr>
<tr>
<td><strong>Net position, beginning of year, as restated (Note 17)</strong></td>
<td>1,535.2</td>
<td>1,496.6</td>
</tr>
<tr>
<td><strong>Net position, end of year</strong></td>
<td>$1,570.5</td>
<td>$1,537.1</td>
</tr>
</tbody>
</table>

Note:
(1) Beginning net position was restated by a decrease of $1,893,778 pursuant to GASB Statement No. 75 implementation in Fiscal Year 2017.
Revenues by Source

Total revenues (operating and nonoperating) and capital contributions for the Fiscal Years 2017 and 2016 were $684.3 million and $630.3 million, respectively. Operating revenues consist primarily of water sales. Nonoperating revenues include property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental revenue, gain on sale/retirement of capital assets, and other income. Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets. For Fiscal Year 2017, water sales and other operating revenues, nonoperating revenues, and capital contributions accounted for 85.2 percent, 10.1 percent and 4.7 percent, respectively, of the total revenues and capital contributions.

Operating Revenues

Water sales revenue is the principal source of revenue and totaled $579.1 million for Fiscal Year 2017, an increase of $54.2 million over the Fiscal Year 2016 total of $524.9 million. This increase in water sales revenue was attributed largely to the increase in water deliveries. In Fiscal Year 2017, total water deliveries increased to 420,271 acre-feet (AF) from 402,066 AF in Fiscal Year 2016. The 4.5 percent increase in water deliveries resulted from increased water consumption in the Water Authority’s service area from the lifting of the state-mandated water-use reductions. Other revenues increased by $0.4 million compared to Fiscal Year 2016 as a result of higher hydroelectric revenues from Rancho Hydro in Fiscal Year 2017.

Nonoperating Revenues

Nonoperating revenues were $5.3 million lower in Fiscal Year 2017 compared to Fiscal Year 2016. Investment income decreased by $3.8 million due to lower cash positions than in Fiscal Year 2016 and the other nonoperating revenues categories experienced modest changes during the year comprising the remaining $1.5 million decrease.
Revenues by Source (continued)

Capital Contributions

Capital contributions increased by $4.7 million in Fiscal Year 2017 compared to Fiscal Year 2016. The change was the result of $5.3 million increase in capacity charges revenue resulting from an increase in building permits being issued and a $0.6 million decrease in contributions in aid of capital assets due to reduced project donations that were recorded in the prior year.

Expenses by Function

Total expenses for Fiscal Years 2017 and 2016 were $649.0 million and $589.8 million, respectively. Operating expenses include the cost of water sales, operating department/program expenses, and depreciation and amortization expenses. Operating expenses were $535.2 million and $487.8 million for Fiscal Years 2017 and 2016, respectively. Nonoperating expenses, consisting of interest, debt issuance costs, loss on sale/retirement of capital assets and other expenses, were $113.8 million and $102.0 million for Fiscal Years 2017 and 2016, respectively. Interest expense, net of capitalized interest, was $95.5 million and $85.1 million for Fiscal Years 2017 and 2016, respectively.

Operating Expenses

Total operating expenses increased by $47.4 million in Fiscal Year 2017 compared to Fiscal Year 2016. The 9.7 percent increase in operating expenses in Fiscal Year 2017 was due to a $43.5 million increase in the cost of water sales due to purchasing higher water volumes to meet increased sales and due to higher costs relating to water purchased from the Carlsbad Desalination Plant. Total operating department expenses increased by $1.4 million in Fiscal Year 2017 compared to Fiscal Year 2016. The increase was attributed to operations and maintenance costs for various facilities. Depreciation and amortization expense increased by $2.5 million as a result of the full year of depreciation and amortization being recorded on prior year additions.
Expenses by Function (continued)

Nonoperating Expenses

Total nonoperating expenses, consisting primarily of interest expense, debt issuance costs and other expenses, totaled $113.8 million and $102.0 million in Fiscal Years 2017 and 2016, respectively. In Fiscal Year 2017, total interest expense was $95.5 million, net of $4.9 million in capitalized interest. In Fiscal Year 2016, total interest expense was $85.1 million, net of $5.9 million in capitalized interest. The higher amount of interest expensed in Fiscal Year 2017 was a result of (1) fewer projects in the construction phase with which to capitalize the interest costs to and (2) the additional effect of a full year’s worth of interest charges being incurred on the new debt issues during Fiscal Year 2016. Debt issuance costs amounted to $0.4 million in Fiscal Year 2017 compared to $6.4 million in Fiscal Year 2016 as a result of the refinancing activities completed in Fiscal Year 2016 with none being completed in Fiscal Year 2017. Other expenses increased by a net $6.7 million in Fiscal Year 2017 compared to Fiscal Year 2016 primarily attributable to the supplemental pension payment to CalPERS to reduce the outstanding pension liability.

Currently Known Facts, Conditions, or Decisions

GASB Statement No. 75 Implementation

The Water Authority implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits other than Pensions (OPEB) for the fiscal year ending June 30, 2017. Statement No. 75 contains requirements for measuring OPEB liability and expense, with enhancements to financial statement note disclosures and the presentation of Required Supplementary Information (RSI). Implementation of Statement No. 75 allows consistency for certain OPEB plan information among all governmental agencies. OPEB liability is now elevated to be reported on the Statement of Net Position. Investments in the plan are valued at fair value and the actuarial discount rate for calculating OPEB liability is based on long-term rate of return on investments.

Current California Drought

Record setting precipitation in Water Year (WY) 2017 brought an end to California’s latest multi-year drought. Accumulated rainfall, based on the Northern Sierra 8-Station Index, totaled just under 95 inches between October 1, 2016 through July 19, 2017 – surpassing the previous wettest year (WY 1983) by almost six inches. The abundant rainfall coupled with above average snowpack resulted in unimpaired statewide runoff at 223 percent of average through the spring of 2017. The vastly improved supply conditions in northern California prompted the Department of Water Resources to set State Water Project contractors’ Table A allocation at 85 percent of requested supplies, a 25 percent increase over the previous year.

The Water Authority’s water sales forecast for fiscal year ending June 30, 2018 takes into account termination of the emergency drought declaration, increased member agency local surface water supplies, positive local economic conditions and the region’s continuing efforts to advance long-term water use efficiency.
Water Authority staff will continue to closely monitor seasonal weather patterns and evolving hydrologic conditions to assess potential near-term impacts on the San Diego region’s water supplies and demands. Additionally, staff will remain engaged in the State’s long-term framework process to transition California from temporary, emergency water conservation measures to a more durable long-term water use efficiency approach customized to the unique conditions of each local water agency.

**Contacting the Water Authority’s Finance Department**

This financial report is designed to provide the Board of Directors, the Water Authority’s member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority’s accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123, via email at [www.sdcwa.org/contact-us](http://www.sdcwa.org/contact-us), or 858-522-6670.
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FINANCIAL STATEMENTS
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2017

Statement of Net Position
June 30, 2017
(with comparative data as of June 30, 2016)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (Note 2)</td>
<td>$56,840,335</td>
<td>$75,806,910</td>
</tr>
<tr>
<td>Restricted cash and investments (Note 2)</td>
<td>149,126,977</td>
<td>162,359,461</td>
</tr>
<tr>
<td>Water receivables</td>
<td>102,593,505</td>
<td>99,959,059</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>918,016</td>
<td>1,054,733</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>1,153,812</td>
<td>1,198,883</td>
</tr>
<tr>
<td>Other receivables</td>
<td>13,731,984</td>
<td>14,835,074</td>
</tr>
<tr>
<td>Inventories (Note 3)</td>
<td>96,983,153</td>
<td>100,630,252</td>
</tr>
<tr>
<td>Prepaid expenses (Note 4)</td>
<td>4,640,248</td>
<td>4,635,729</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>425,988,030</td>
<td>460,480,101</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (Note 2)</td>
<td>135,072,833</td>
<td>125,312,636</td>
</tr>
<tr>
<td>Restricted cash and investments (Note 2)</td>
<td>23,411,934</td>
<td>72,185,172</td>
</tr>
<tr>
<td>Advances to other agencies</td>
<td>650,477</td>
<td>214,436</td>
</tr>
<tr>
<td>Retention receivable</td>
<td>823,942</td>
<td>2,313,364</td>
</tr>
<tr>
<td>Long-term loan receivables (Note 5)</td>
<td>20,000,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Net OPEB asset (Note 12)</td>
<td>-</td>
<td>2,264,891</td>
</tr>
<tr>
<td>Capital assets (Note 6):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Depreciable</td>
<td>637,515,792</td>
<td>627,237,709</td>
</tr>
<tr>
<td>Depreciable, net</td>
<td>2,853,904,858</td>
<td>2,863,737,737</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>3,671,379,836</td>
<td>3,713,265,945</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>4,097,367,866</td>
<td>4,173,746,046</td>
</tr>
</tbody>
</table>

**DEFERRED OUTFLOWS OF RESOURCES**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred loss on refunding</td>
<td>72,294,728</td>
<td>83,475,740</td>
</tr>
<tr>
<td>Pension contributions subsequent to measurement date (Note 11)</td>
<td>16,163,814</td>
<td>6,198,142</td>
</tr>
<tr>
<td>OPEB contributions subsequent to measurement date (Note 12)</td>
<td>324,982</td>
<td>-</td>
</tr>
<tr>
<td>Deferred actuarial amounts related to pensions (Note 11)</td>
<td>8,560,959</td>
<td>-</td>
</tr>
<tr>
<td>Deferred actuarial amounts related to OPEB (Note 12)</td>
<td>275,965</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total deferred outflows of resources</strong></td>
<td>97,620,448</td>
<td>89,673,882</td>
</tr>
</tbody>
</table>

**LIABILITIES**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>85,111,259</td>
<td>128,024,234</td>
</tr>
<tr>
<td>Interest payable</td>
<td>20,806,003</td>
<td>19,462,367</td>
</tr>
<tr>
<td>Construction deposits</td>
<td>429,144</td>
<td>434,034</td>
</tr>
<tr>
<td>Short-term liabilities (Note 9)</td>
<td>345,000,000</td>
<td>345,000,000</td>
</tr>
<tr>
<td>Current portion of long-term liabilities (Note 10)</td>
<td>57,293,370</td>
<td>56,430,666</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>508,639,776</td>
<td>549,351,301</td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities (Note 10)</td>
<td>2,041,933,667</td>
<td>2,109,274,211</td>
</tr>
<tr>
<td>Net pension liability (Note 11)</td>
<td>71,135,027</td>
<td>62,547,589</td>
</tr>
<tr>
<td>Net OPEB liability (Note 12)</td>
<td>170,141</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>2,113,238,835</td>
<td>2,171,821,800</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>2,621,878,611</td>
<td>2,721,173,101</td>
</tr>
</tbody>
</table>

**DEFERRED INFLOWS OF RESOURCES**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred actuarial amounts related to pensions (Note 11)</td>
<td>2,561,555</td>
<td>5,178,446</td>
</tr>
</tbody>
</table>

**NET POSITION**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>1,138,160,938</td>
<td>1,148,155,974</td>
</tr>
<tr>
<td>Restricted for construction projects</td>
<td>147,352,064</td>
<td>156,718,296</td>
</tr>
<tr>
<td>Restricted for debt service</td>
<td>235,337</td>
<td>158,377</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>284,799,809</td>
<td>232,035,734</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$1,570,548,148</td>
<td>$1,537,068,381</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
## Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

(with comparative data for the Fiscal Year Ended June 30, 2016)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$579,057,028</td>
<td>$524,934,642</td>
</tr>
<tr>
<td>Other revenues</td>
<td>3,727,332</td>
<td>3,240,007</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>582,784,360</td>
<td>528,174,649</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>430,560,992</td>
<td>387,123,145</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>19,097,518</td>
<td>18,212,388</td>
</tr>
<tr>
<td>Planning</td>
<td>9,040,200</td>
<td>8,651,233</td>
</tr>
<tr>
<td>General and administrative</td>
<td>14,487,899</td>
<td>14,259,469</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>62,014,987</td>
<td>59,493,116</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>535,201,596</td>
<td>487,739,351</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>47,582,764</td>
<td>40,435,298</td>
</tr>
<tr>
<td><strong>NONOPERATING REVENUES (EXPENSES):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes and in-lieu charges</td>
<td>12,913,313</td>
<td>12,067,223</td>
</tr>
<tr>
<td>Infrastructure access charges</td>
<td>31,144,704</td>
<td>30,434,370</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,237,947</td>
<td>5,985,490</td>
</tr>
<tr>
<td>Other income</td>
<td>11,408,632</td>
<td>13,664,392</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>11,452,308</td>
<td>12,213,866</td>
</tr>
<tr>
<td>Gain (Loss) on sale/retirement of capital assets</td>
<td>727,294</td>
<td>27,580</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(95,533,730)</td>
<td>(85,112,986)</td>
</tr>
<tr>
<td>Debt issuance costs</td>
<td>(352,544)</td>
<td>(6,381,194)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(17,143,705)</td>
<td>(10,557,021)</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues (expenses)</strong></td>
<td>(44,600,369)</td>
<td>(27,658,280)</td>
</tr>
<tr>
<td><strong>Income before capital contributions</strong></td>
<td>2,962,395</td>
<td>12,777,018</td>
</tr>
<tr>
<td><strong>CAPITAL CONTRIBUTIONS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity charges</td>
<td>21,080,540</td>
<td>15,838,800</td>
</tr>
<tr>
<td>Water standby availability charges</td>
<td>11,091,285</td>
<td>11,088,377</td>
</tr>
<tr>
<td>Contributions in aid of capital assets</td>
<td>219,325</td>
<td>791,486</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td>32,391,150</td>
<td>27,718,663</td>
</tr>
<tr>
<td><strong>Changes in net position</strong></td>
<td>35,373,545</td>
<td>40,495,681</td>
</tr>
<tr>
<td><strong>NET POSITION AT BEGINNING OF YEAR, AS RESTATED (Note 17)</strong></td>
<td>1,535,174,603</td>
<td>1,496,572,700</td>
</tr>
<tr>
<td><strong>NET POSITION AT END OF YEAR</strong></td>
<td>$1,570,548,148</td>
<td>$1,537,068,381</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
San Diego County Water Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(with comparative data for the Fiscal Year Ended June 30, 2016)

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>$ 626,401,750</td>
</tr>
<tr>
<td>Payments to suppliers for purchases of water</td>
<td>(438,012,010)</td>
</tr>
<tr>
<td>Payments to suppliers for goods and services</td>
<td>(17,846,859)</td>
</tr>
<tr>
<td>Payments to employees for services</td>
<td>(50,800,832)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>119,742,049</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes and in-lieu charges received</td>
<td>12,958,384</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>11,452,308</td>
</tr>
<tr>
<td>Net cash provided by noncapital financing activities</td>
<td>24,410,692</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>(92,757,402)</td>
</tr>
<tr>
<td>Contributions and capital related revenues received</td>
<td></td>
</tr>
<tr>
<td>from other governments</td>
<td>29,795,740</td>
</tr>
<tr>
<td>Proceeds from disposition of capital assets</td>
<td>159,134</td>
</tr>
<tr>
<td>Proceeds from long-term debt issuance</td>
<td></td>
</tr>
<tr>
<td>Cost of debt issuance</td>
<td>(352,544)</td>
</tr>
<tr>
<td>Principal paid on long-term debt</td>
<td>(52,477,816)</td>
</tr>
<tr>
<td>Interest paid on debt</td>
<td>(102,106,617)</td>
</tr>
<tr>
<td>Net cash used for capital and related financing activities</td>
<td>(217,739,505)</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of investments</td>
<td>(107,913,747)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>145,358,522</td>
</tr>
<tr>
<td>Interest received on investments</td>
<td>4,275,322</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>41,720,097</td>
</tr>
</tbody>
</table>

Net decrease in cash and cash equivalents

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(31,866,667)</td>
</tr>
</tbody>
</table>

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</td>
<td>119,635,928</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH AND CASH EQUIVALENTS AT END OF YEAR</td>
<td>$ 87,769,261</td>
</tr>
</tbody>
</table>

Reconciliation of cash and cash equivalents at end of year to the Statement of Net Position:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and investments $ 56,840,335</td>
<td></td>
</tr>
<tr>
<td>Restricted cash and investments 149,126,977</td>
<td></td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and investments 135,072,833</td>
<td></td>
</tr>
<tr>
<td>Restricted cash and investments 23,411,934</td>
<td></td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Investments not meeting the definition of cash equivalents (276,682,818)</td>
<td></td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at end of year $ 87,769,261</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
Reconciliation of operating income to net cash provided by operating activities:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$47,582,764</td>
<td>$40,435,298</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>62,014,987</td>
<td>59,493,116</td>
</tr>
<tr>
<td>Infrastructure access charges</td>
<td>31,144,704</td>
<td>30,434,370</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(15,373,886)</td>
<td>(10,557,021)</td>
</tr>
<tr>
<td>Other income</td>
<td>11,408,632</td>
<td>13,664,392</td>
</tr>
<tr>
<td>(Increase) Decrease in assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water receivables</td>
<td>(2,634,446)</td>
<td>(9,845,169)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>3,698,500</td>
<td>862,364</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,647,099</td>
<td>(48,201,630)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(4,519)</td>
<td>1,086</td>
</tr>
<tr>
<td>Retention receivable</td>
<td>1,489,422</td>
<td>(588,603)</td>
</tr>
<tr>
<td>Net OPEB asset</td>
<td>92,104</td>
<td>(107,891)</td>
</tr>
<tr>
<td>(Increase) Decrease in deferred outflows of resources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension contributions subsequent to measurement date</td>
<td>(9,965,672)</td>
<td>(2,055,629)</td>
</tr>
<tr>
<td>OPEB contributions subsequent to measurement date</td>
<td>(45,973)</td>
<td>-</td>
</tr>
<tr>
<td>Deferred actuarial amounts related to pensions</td>
<td>(8,560,959)</td>
<td>-</td>
</tr>
<tr>
<td>Deferred actuarial amounts related to OPEB</td>
<td>(275,965)</td>
<td>-</td>
</tr>
<tr>
<td>Increase (Decrease) in liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>(10,841,052)</td>
<td>12,052,092</td>
</tr>
<tr>
<td>Construction deposits</td>
<td>(4,890)</td>
<td>(17,089)</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>230,511</td>
<td>(146,724)</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>8,587,438</td>
<td>4,704,052</td>
</tr>
<tr>
<td>Net OPEB liability</td>
<td>170,141</td>
<td>-</td>
</tr>
<tr>
<td>Increase (Decrease) in deferred inflows of resources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred actuarial amounts related to pensions</td>
<td>(2,616,891)</td>
<td>(4,632,280)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>72,159,285</td>
<td>45,059,436</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$119,742,049</td>
<td>$85,494,734</td>
</tr>
</tbody>
</table>

Noncash investing activities:

|                          |            |            |
| Change in fair value of investments | $ (1,900,658) | $ 6,009,885 |

See accompanying notes to the financial statements.
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## Notes to the Financial Statements

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<th>PAGE</th>
</tr>
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<td>17. Restatement of Net Position</td>
<td>80</td>
</tr>
</tbody>
</table>
1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (Water Authority) was organized on June 9, 1944 under the County Water Authority Act (Act). The Water Authority’s primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority’s Board of Directors (Board). The Water Authority is a member of the Metropolitan Water District of Southern California (MWD). Historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies.

The Water Authority has been in the process of diversifying its supply and adopted a Regional Water Facilities Master Plan in 2003 to identify capital facilities necessary to store, treat, and deliver a reliable water supply. Pursuant to the Colorado River Quantification Settlement Agreement (QSA), signed on October 10, 2003, and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and also receives water conserved by lining of the All-American and Coachella Canals. On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant. The plant became operational in December 2015 (see Note 16).

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula. Based on the formula, the Water Authority has a statutory preferential right to approximately 18.53 percent of MWD’s total supply as of June 30, 2017. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCWAFC) was incorporated on December 29, 1997. The SDCWAFC is a California non-profit public benefit corporation formed to assist the Water Authority as a financing entity and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCWFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority. The SDCWFA is a Joint Powers Authority (JPA) with statutory authority to issue revenue bonds and was formed by an agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into such JPA agreements. Under the JPA agreement, the Water Authority has control over all finance matters.

The SDCWFA’s sole purpose is to be a financing entity for the Water Authority and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWFA because its activities are blended with those of the Water Authority for financial reporting purposes.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and changes in financial position of a specific governmental activity. The activities of enterprise funds closely resemble those of private-sector businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as they are incurred. The Water Authority’s financial statements apply all effective pronouncements of the Governmental Accounting Standards Board (GASB).

(c) Cash and Investments

The Water Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, investments in money market mutual funds, pooled funds, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents includes both restricted and unrestricted cash and investments.

The Water Authority has the following legally restricted funds: Construction, Debt Service Reserve, and Pay-As-You-Go (PAYGO). The Construction Fund includes the proceeds from long-term and short-term debt and is restricted for use on capital project expenses. The Debt Service Reserve Fund holds the required amount for Water Authority debt issues. The Debt Service Reserve Fund is held for the purpose of making an issue’s annual debt service payments in the event that the Water Authority should be unable to make such payments. The PAYGO Fund consists of Capacity Charges and Water Standby Availability Charges and is restricted per Board adopted ordinances for the Capital Improvement Program (CIP). The funds are dedicated for capital project outlays, as well as debt service.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Note 2 contains additional information on permissible investments per the Water Authority’s Investment Policy.

Fair Value Measurements

The Water Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investments. The three levels of the fair value hierarchy are as follows:

**LEVEL 1:** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

**LEVEL 2:** Inputs are significant other observable inputs for the asset or liability.

**LEVEL 3:** Inputs are significant unobservable inputs for the asset or liability.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(c) Cash and Investments (continued)

Fair Value Measurements (continued)

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured as an exit price for financial investments.

The Water Authority utilizes valuation techniques consistent with market, cost, or income approaches to determine fair value. The most appropriate technique is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Water Authority owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

(d) Inventories and Prepaid Expenses

The Water Authority’s inventories consist of water, valves, and materials in storage and are valued using the average cost method. Prepaid expenses represent benefits prepayments and purchases of prepaid water stored in Northern California outside the Water Authority’s service area, and in a long-term groundwater storage facility. Both inventory and prepaid items use the consumption method whereby they are reported as an asset and expensed as they are consumed.

(e) Reserves

The Water Authority established other designated funds in alignment with best practice guidance:

Rate Stabilization Fund (RSF) - The RSF was established for the purpose of collecting the excess amount of net revenues in years when operating revenues exceeded operating expenses. These monies are to be used to mitigate “rate shock” in years of weak water sales and/or to manage debt service coverage ensuring coverage ratios remain above the legally required minimum.

Equipment Replacement Fund - The Equipment Replacement Fund was established to ensure monies were available to replace equipment that has reached the end of its useful life including small capital equipment purchases such as computers, vehicles, the Supervisory Control and Data Acquisition (SCADA) system, etc. It is funded through scheduled draws from the Operating Fund per the Board approved budget.

Stored Water Fund - The Stored Water Fund was established to support the purchase of water to fill the various Water Authority reservoirs. The majority of the monies have been used to fill San Vicente Reservoir for the Emergency and Carryover Storage projects.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are reported at acquisition value. The Water Authority capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least three years as the Water Authority does not have any capital assets with less than a three-year useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.


Depreciation and amortization is computed utilizing the straight-line method over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipelines and Dams</td>
<td>60 to 100 years</td>
</tr>
<tr>
<td>Facilities</td>
<td>5 to 50 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>3 to 8 years</td>
</tr>
<tr>
<td>Computer Systems Software</td>
<td>4 years</td>
</tr>
<tr>
<td>Participation and Capacity Rights</td>
<td>10 to 110 years</td>
</tr>
</tbody>
</table>

Intangible Assets

In addition to computer systems software intangible assets, the Water Authority also participates in various storage and water management programs, or builds capital assets that by agreement entitle it to certain participation or capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance, which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for capacity rights, software, and permits. Amortization of participation rights is computed over the life of the agreement.

Capitalized Interest

The Water Authority capitalizes interest based on the criteria outlined in GASB which applies to taxable borrowings and tax-exempt non-project specific debt. The objective is to obtain a measure of the acquisition cost that more closely reflects the Water Authority’s total investment in the asset and to charge a cost that relates to the acquisition of a resource that will benefit future periods against revenues of the periods benefited. The amount to be capitalized is the amount of interest expense that would have been avoided during the asset’s acquisition period if the asset had not been acquired, whether or not the asset had been acquired through incurring debt. When the asset has not been acquired through incurring debt, GASB requires a pooled calculation of average interest expense and a weighted average project allocation of interest expense with no offset for interest earnings.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(g) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The Water Authority has the following items that qualify for reporting in this category:

- Deferred loss on refunding
- Employer contributions subsequent to measurement date for pensions and other post-employment benefits
- Deferred actuarial amounts related to pensions and other post-employment benefits

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Water Authority has the following item that qualifies for reporting in this category:

- Deferred actuarial amounts related to pensions

(h) Compensated Absences

It is the Water Authority’s policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. The sick leave policy restricts unused sick leave conversion to vacation at a 50 percent hourly conversion rate for employees with more than 1,000 hours of accrued sick leave. Employees that terminated employment prior to retirement or death are paid zero percent of the unused sick leave. Employees that attained the age of 55, were vested with five years of service, and terminated employment due to retirement, layoff, or death, are paid 100 percent of unused vacation and 100 percent of unused sick leave (up to 1,000 hours), and 50 percent of any amount over 1,000 hours. A Terminal Pay Plan (TPP) was established requiring retirees, or those separating due to death, to transfer 100 percent of all accrued but unused vacation leave and up to 1,000 hours of sick leave (50 percent of any amount over 1,000 hours) into the TPP after completing five years of service and reaching the age of 55. Those who voluntarily separate (or are discharged) with five years of service and have reached the age of 55, are able to use the TPP for payout of accrued vacation hours only.

All accumulated and unused vacation and sick leave pay is recorded as an expense and as compensated absences liability at the time the benefit is earned. At the end of each fiscal year, the Water Authority conducts an analysis of historical annual leave payouts. Based on this analysis, the Water Authority recognizes 66 percent of the accrued but unused leave balances at June 30 as a current liability with the remaining 34 percent of the balance recorded as a long-term liability.
1. **Nature of Business and Summary of Significant Accounting Policies (continued)**

(i) **Net Position**

The financial statements utilize a net position presentation. Net position is categorized as follows:

**Net investment in capital assets**

This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding, net of unspent proceeds, related to the acquisition, construction, or improvement of those assets, and deferred outflows and inflows of resources related to debt.

**Restricted for construction projects**

This component of net position consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation, less outstanding debt associated with restricted assets.

**Restricted for debt service**

This component of net position consists of amounts required by bond covenants to be set aside in reserve to be used to pay debt service in the event pledged revenues are insufficient to cover the debt service requirements, less outstanding debt associated with restricted assets.

**Unrestricted**

This component of net position consists of net position that does not meet the definition of net investment in capital assets, restricted for construction projects, or restricted for debt service.

When both restricted and unrestricted resources are available, it is the Water Authority’s policy to use restricted resources first followed by unrestricted resources as they are needed.

(j) **Infrastructure Access Charges**

In June 1998, the Infrastructure Access Charge (IAC) was adopted by the Board as an additional source of fixed revenue to provide better coverage of the Water Authority’s projected fixed expenses. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and the Water Authority’s service area. The fixed charge levied against each member agency together with the water standby charge and property tax revenue all combine for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenses of at least 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process and was $2.87 per meter equivalent per month for the Calendar Year 2017.

(k) **Property Taxes**

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution. Property taxes are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year. The tax rate is based upon the San Diego County Assessor’s valuation of taxable property within the Water Authority’s service area. In addition, the Water Authority collects an in-lieu charge from the City of San Diego.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(l) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the City of San Diego pays the in-lieu charge directly to the Water Authority.

(m) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund’s principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, intergovernmental, and other miscellaneous income.

(n) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenses by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program. A water standby availability charge was put into effect in Fiscal Year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In Fiscal Year 1991, a capacity charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in contributions in aid of capital assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenses.

(o) Classification of Expenses

Operating expenses for the Water Authority include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, debt issuance costs, amortization of bond premiums, amortization of deferred loss on refunding, and other miscellaneous expenses.

(p) Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates. Management believes that all estimates in the financial statements are reasonable.
1. Nature of Business and Summary of Significant Accounting Policies (continued)

(q) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Water Authority’s prior year financial statements, from which this selected financial data was derived.

(r) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water Authority’s plan (Plan), which is administered by the California Public Employees’ Retirement System (CalPERS), and additions to/deductions from the Plan’s 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 currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date: June 30, 2015
Measurement Date: June 30, 2016
Measurement Period: July 1, 2015 to June 30, 2016

(s) Other Post-Employment Benefits (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 the Water Authority’s plan (OPEB Plan), the assets of which are held by the California Employers’ Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date: June 30, 2015
Measurement Date: June 30, 2016
Measurement Period: July 1, 2015 to June 30, 2016

(t) New Accounting Pronouncements

Early Implementation

The Water Authority early implemented the following GASB Statement for the fiscal year ended June 30, 2017 which did impact the Water Authority’s financial statements:

1. Nature of Business and Summary of Significant Accounting Policies (continued)

(t) New Accounting Pronouncements (continued)

Current Year Standards

The following GASB Statements were implemented for the fiscal year ended June 30, 2017, as required, and did impact the Water Authority’s financial statements:

- GASB Statement No. 82 – Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73, effective for periods beginning after June 15, 2016.

The following GASB Statements were implemented for the fiscal year ended June 30, 2017, as required, and did not impact the Water Authority’s financial statements:


Pending Accounting Standards

The following GASB Statements have been issued which may impact the Water Authority’s financial reporting requirements in the future:

- GASB Statement No. 84 – Fiduciary Activities, effective for periods beginning after December 15, 2018.
2. Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position at June 30 as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$ 56,840,335</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>149,126,977</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$ 205,967,312</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>135,072,833</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>23,411,934</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>$ 158,484,767</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td>$ 364,452,079</td>
</tr>
</tbody>
</table>

The carrying value of cash and investments held by the Water Authority at June 30 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty cash</td>
<td>$ 2,500</td>
</tr>
<tr>
<td>Deposits</td>
<td>87,884</td>
</tr>
<tr>
<td>Investments</td>
<td>364,361,695</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td>$ 364,452,079</td>
</tr>
</tbody>
</table>

(a) Investments Authorized by the California Government Code and the Water Authority’s Investment Policy

The following table identifies the investment types that are authorized for the Water Authority by the California Government Code (Gov’t. Code) and the Water Authority’s Investment Policy (Inv. Policy). The table also identifies certain provisions of the California Government Code (or the Water Authority’s Investment Policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code Sections 53600 et seq. or the Water Authority’s Investment Policy.
2. Cash and Investments (continued)

(a) Investments Authorized by the California Government Code and the Water Authority’s Investment Policy (continued)

<table>
<thead>
<tr>
<th>Minimum Maturity</th>
<th>Maximum Percentage of Portfolio</th>
<th>Maximum Investment in One Issuer</th>
<th>Minimum Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local agency bonds</td>
<td>5 years</td>
<td>5 years</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>5 years</td>
<td>5 years</td>
<td>None</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>5 years</td>
<td>5 years</td>
<td>None</td>
</tr>
<tr>
<td>Bankers’ acceptances</td>
<td>180 days</td>
<td>180 days</td>
<td>40%</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>270 days</td>
<td>270 days</td>
<td>25%</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>5 years</td>
<td>5 years</td>
<td>30%</td>
</tr>
<tr>
<td>Placement service deposits</td>
<td>5 years</td>
<td>5 years</td>
<td>30%</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>5 years</td>
<td>5 years</td>
<td>30%</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>1 year</td>
<td>1 year</td>
<td>None</td>
</tr>
<tr>
<td>Reverse repurchase agreements</td>
<td>92 days</td>
<td>92 days</td>
<td>20% of portfolio base value</td>
</tr>
<tr>
<td>Medium-term notes</td>
<td>5 years</td>
<td>5 years</td>
<td>30%</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>n/a</td>
<td>(8)</td>
<td>20%</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>n/a</td>
<td>n/a</td>
<td>20%</td>
</tr>
<tr>
<td>Mortgage pass-through securities</td>
<td>5 years</td>
<td>(8)</td>
<td>20%</td>
</tr>
<tr>
<td>County pooled investment funds (1)</td>
<td>n/a</td>
<td>(8)</td>
<td>None</td>
</tr>
<tr>
<td>JPA pools (other investment pools)</td>
<td>n/a</td>
<td>n/a</td>
<td>None</td>
</tr>
<tr>
<td>Supranationals (2)</td>
<td>5 years</td>
<td>5 years</td>
<td>30%</td>
</tr>
<tr>
<td>Local agency investment fund (LAIF) (3)</td>
<td>n/a</td>
<td>n/a</td>
<td>None</td>
</tr>
</tbody>
</table>

Notes:

(1) Authorized by Government Code Section 53684 (a).
(2) Authorized by Government Code section 53601 (q).
(3) Authorized by Government Code Section 16429.1.
(4) The combined Government Code maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 30 percent.
(5) The combined Investment Policy maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.
(6) The combined Investment Policy maximum investment in one issuer for placement service certificates of deposit and negotiable certificates of deposit is 5 percent.
(7) Must have a minimum rating of “A” by all three credit rating agencies.
(8) These investments are not authorized by the Investment Policy.
(9) The Investment Policy’s maximum permitted investment amount is governed by current State Law.
2. Cash and Investments (continued)

(b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority’s Investment Policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where 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 its fair value is to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority’s investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that show the distribution of the Water Authority’s investments by terms to maturity for Fiscal Year 2017.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>June 30, 2017</th>
<th>12 months or less</th>
<th>13 to 36 months</th>
<th>37 to 60 months</th>
<th>More than 60 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities</td>
<td>$ 64,773,425</td>
<td>$ 14,940,035</td>
<td>$ 49,833,390</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>137,394,227</td>
<td>75,388,157</td>
<td>62,006,070</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Medium-term notes</td>
<td>32,051,305</td>
<td>7,996,340</td>
<td>18,051,325</td>
<td>6,003,640</td>
<td>-</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>30,265,608</td>
<td>30,265,608</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>LAIF</td>
<td>40,098,031</td>
<td>40,098,031</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>JPA pools</td>
<td>28,907,358</td>
<td>28,907,358</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>503,282</td>
<td>503,282</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Held by bond trustees:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed investment contract</td>
<td>12,240,775</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12,240,775</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>7,054,281</td>
<td>7,054,281</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>JPA pools</td>
<td>11,073,403</td>
<td>11,073,403</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 364,361,695</strong></td>
<td><strong>$ 216,226,495</strong></td>
<td><strong>$ 129,890,785</strong></td>
<td><strong>$ 6,003,640</strong></td>
<td><strong>$ 12,240,775</strong></td>
</tr>
</tbody>
</table>

48
2. Cash and Investments (continued)

(d) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table for Fiscal Year 2017 is the minimum rating required (where applicable) by the California Government Code, the Water Authority’s Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Minimum Rating</th>
<th>Exempt From Disclosure</th>
<th>AAA/AA-</th>
<th>A</th>
<th>A1</th>
<th>Not Rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities</td>
<td>64,773,425</td>
<td>$64,773,425</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>137,394,227</td>
<td>137,394,227</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Medium-term notes</td>
<td>32,051,305</td>
<td>A-</td>
<td>28,027,025</td>
<td>4,024,280</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>30,265,608</td>
<td>A1</td>
<td>-</td>
<td>-</td>
<td>30,265,608</td>
<td></td>
</tr>
<tr>
<td>LAIF</td>
<td>40,098,031</td>
<td>n/a</td>
<td>-</td>
<td>-</td>
<td>40,098,031</td>
<td></td>
</tr>
<tr>
<td>JPA pools</td>
<td>28,907,358</td>
<td>AAm</td>
<td>28,907,358</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>503,282</td>
<td>AAm</td>
<td>503,282</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Held by bond trustees:
- Guaranteed investment contract:
  - 12,240,775 | n/a | - | - | - | 12,240,775 |
- Money market mutual funds:
  - 7,054,281 | AAm | 7,054,281 | - | - |
- JPA pools:
  - 11,073,403 | AAm | 11,073,403 | - | - |

Total investments:
- $364,361,695 | $64,773,425 | $212,959,576 | $4,024,280 | $30,265,608 | $52,338,806 |

(e) Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments for Fiscal Year 2017 are as follows:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Investment Type</th>
<th>Reported Amount</th>
<th>% of Total Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Home Loan Bank</td>
<td>Federal agency securities</td>
<td>$56,932,314</td>
<td>15.6%</td>
</tr>
<tr>
<td>Federal Home Loan Mortgage Corporation</td>
<td>Federal agency securities</td>
<td>36,228,755</td>
<td>9.9%</td>
</tr>
<tr>
<td>Federal National Mortgage Association</td>
<td>Federal agency securities</td>
<td>35,918,910</td>
<td>9.9%</td>
</tr>
</tbody>
</table>
2. Cash and Investments (continued)

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Water Authority’s Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

(g) Investment Value Measurement

The following is a summary of Water Authority investments based on the method for measuring value as of June 30, 2017:

<table>
<thead>
<tr>
<th>Fair Value Measurements Using</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments by fair value level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>$</td>
<td>$64,773,425</td>
<td>$</td>
<td>$64,773,425</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>-</td>
<td>137,394,227</td>
<td>-</td>
<td>137,394,227</td>
</tr>
<tr>
<td>Medium-term notes</td>
<td>-</td>
<td>32,051,305</td>
<td>-</td>
<td>32,051,305</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>-</td>
<td>30,265,608</td>
<td>-</td>
<td>30,265,608</td>
</tr>
<tr>
<td>Total investments by fair value level</td>
<td>$</td>
<td>$264,484,565</td>
<td>$</td>
<td>$264,484,565</td>
</tr>
<tr>
<td>Investments measured at cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guanateed investment contract</td>
<td>12,240,775</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>7,557,563</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAIF (2)</td>
<td>40,098,031</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPA pools (3)</td>
<td>39,980,761</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investments measured at cost</td>
<td>99,877,130</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>$364,361,695</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(1) Reported as a stable one-dollar value per share.
(2) Reported based on the application of a fair value factor to each one-dollar share.
(3) Measured at amortized cost.
2. Cash and Investments (continued)

(h) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The value of the Water Authority’s investment in the pool is reported in the accompanying financial statements at amounts based upon a fair value factor applied to each one-dollar share.

The total amount invested by all public agencies in LAIF as of June 30, 2017 was $22.8 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which as of June 30, 2017 had a balance of $77.6 billion and of those amounts, 2.89 percent were invested in medium-term and short-term structured notes, and asset-backed securities as of June 30, 2017. The average maturity of LAIF investments as of June 30, 2017 was 194 days.

(i) JPA Pools

The Water Authority is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. CAMP had a balance of $2.7 billion at June 30, 2017 with a weighted average maturity of 49 days. The value of the pool shares in CAMP, which may be withdrawn without restriction, is determined on an amortized cost basis, the same as the fair value of the Water Authority’s position in the pool. The Water Authority’s investment in CAMP, measured at amortized cost was $39,980,761 as of June 30, 2017.

3. Inventories

Components of inventories at June 30, 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water in storage</td>
<td>$96,135,738</td>
</tr>
<tr>
<td>Valves in storage</td>
<td>699,381</td>
</tr>
<tr>
<td>Materials in storage</td>
<td>148,034</td>
</tr>
<tr>
<td><strong>Total inventories</strong></td>
<td><strong>$96,983,153</strong></td>
</tr>
</tbody>
</table>
4. Prepaid Expenses

In March 2008, the Water Authority purchased 10,006 and 13,071 acre-feet of transfer water from the Butte Water District and Sutter Extension Water District, respectively, for a total of 23,077 acre-feet. As part of the transfer, the Water Authority incurred a Delta carriage loss of 20 percent, a conveyance loss of three percent and evaporative and aquifer losses of ten percent. After the adjustments, the total acre-feet for Butte Water District and Sutter Extension Water District are 6,930 and 9,187, respectively, a total of 16,117 acre-feet. This water is currently stored outside the Water Authority’s service area pursuant to a long-term groundwater storage agreement as outlined in Note 8(c). As such, it is classified as prepaid expenses on the Statement of Net Position in the amount of $4,620,500 as of June 30, 2017.

Other prepaid expenses were $19,748 as of June 30, 2017, which includes payments to the Water Authority’s benefits administrator and payments for memberships in the amount of $14,748 and $5,000, respectively. The total prepaid expenses balance as of June 30, 2017 was $4,640,248.

5. Long-Term Loan Receivables

Imperial Irrigation District (IID)

In October 2003, the Water Authority amended its Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments totaling $10.0 million (the "Loan").

These funds will be used to pay for the initial administrative costs, and estimated and annual cumulative socioeconomic impact costs. Beginning in Calendar Year 2019, the Water Authority will begin receiving credits from IID to be applied against any payments due and shall continue until Calendar Year 2048 or until the agreement is terminated, whichever comes first. If the agreement terminates before Calendar Year 2048, IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007, the Water Authority paid IID $10.0 million for future deliveries of water. Interest on the prepayment shall begin to accrue on December 31, 2019 using the Water Authority’s weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority’s annual financial report for each fiscal year ending June 30. If not repaid sooner, beginning on December 31, 2019 through December 31, 2033, IID shall credit the Water Authority’s monthly invoice for conserved water in 180 equal monthly installments of $55,556 plus accrued interest.

As of June 30, 2017, the total long-term loan receivables balance was $20,000,000.
6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

<table>
<thead>
<tr>
<th>Non-depreciable capital assets:</th>
<th>Balance at June 30, 2016</th>
<th>Additions (1)</th>
<th>Deletions (2)</th>
<th>Transfers</th>
<th>Balance at June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 24,458,404</td>
<td>$ 32,550</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 24,490,954</td>
</tr>
<tr>
<td>Easements</td>
<td>11,858,791</td>
<td>57,097</td>
<td>-</td>
<td>-</td>
<td>11,915,888</td>
</tr>
<tr>
<td>Mitigation bank</td>
<td>5,329,998</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,329,998</td>
</tr>
<tr>
<td>Storage rights</td>
<td>414,541,159</td>
<td>-</td>
<td>-</td>
<td>71,029,190</td>
<td>485,570,349</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>171,049,357</td>
<td>60,288,900</td>
<td>(1,769,819)</td>
<td>(119,359,835)</td>
<td>110,208,603</td>
</tr>
<tr>
<td>Total non-depreciable capital assets</td>
<td>627,237,709</td>
<td>60,378,547</td>
<td>(1,769,819)</td>
<td>(48,330,645)</td>
<td>637,515,792</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Depreciable capital assets:</th>
<th>Balance at June 30, 2016</th>
<th>Additions (1)</th>
<th>Deletions (2)</th>
<th>Transfers</th>
<th>Balance at June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipelines and dams</td>
<td>2,131,640,177</td>
<td>-</td>
<td>(34,710)</td>
<td>29,317,884</td>
<td>2,160,923,351</td>
</tr>
<tr>
<td>Facilities</td>
<td>780,095,031</td>
<td>624,183</td>
<td>(2,965,509)</td>
<td>11,690,179</td>
<td>789,443,884</td>
</tr>
<tr>
<td>Equipment</td>
<td>37,739,089</td>
<td>1,448,060</td>
<td>(7,421,170)</td>
<td>259,803</td>
<td>32,025,782</td>
</tr>
<tr>
<td>Intangible software and mitigation</td>
<td>8,757,292</td>
<td>26,492</td>
<td>(6,155,941)</td>
<td>2,678,480</td>
<td>5,306,323</td>
</tr>
<tr>
<td>Participation and capacity rights</td>
<td>514,774,153</td>
<td>2,639,156</td>
<td>-</td>
<td>4,384,299</td>
<td>521,797,608</td>
</tr>
<tr>
<td>Total depreciable capital assets</td>
<td>3,473,005,742</td>
<td>4,737,891</td>
<td>(16,577,330)</td>
<td>48,330,645</td>
<td>3,509,496,948</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Less accumulated depreciation and amortization for:</th>
<th>Balance at June 30, 2016</th>
<th>Additions (1)</th>
<th>Deletions (2)</th>
<th>Transfers</th>
<th>Balance at June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipelines and dams</td>
<td>(318,941,923)</td>
<td>(25,309,833)</td>
<td>34,710</td>
<td>-</td>
<td>(344,217,046)</td>
</tr>
<tr>
<td>Facilities</td>
<td>(171,357,939)</td>
<td>(21,594,195)</td>
<td>2,325,716</td>
<td>-</td>
<td>(190,626,418)</td>
</tr>
<tr>
<td>Equipment</td>
<td>(33,888,778)</td>
<td>(1,561,841)</td>
<td>7,421,170</td>
<td>-</td>
<td>(28,029,449)</td>
</tr>
<tr>
<td>Intangible software and mitigation</td>
<td>(7,249,061)</td>
<td>(520,239)</td>
<td>5,909,306</td>
<td>-</td>
<td>(1,859,994)</td>
</tr>
<tr>
<td>Participation and capacity rights</td>
<td>(77,830,304)</td>
<td>(13,028,879)</td>
<td>-</td>
<td>-</td>
<td>(90,859,183)</td>
</tr>
<tr>
<td>Total accumulated depreciation and amortization</td>
<td>(609,268,005)</td>
<td>(62,014,987)</td>
<td>15,690,902</td>
<td>-</td>
<td>(655,592,090)</td>
</tr>
<tr>
<td>Total depreciable capital assets, net</td>
<td>2,863,737,737</td>
<td>(57,277,096)</td>
<td>(886,428)</td>
<td>48,330,645</td>
<td>2,853,904,858</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$ 3,490,975,446</td>
<td>$ 3,101,451</td>
<td>(2,656,247)</td>
<td>$</td>
<td>$ 3,491,420,650</td>
</tr>
</tbody>
</table>

Notes:

1. Additions include capitalized interest of $4.9 million for Fiscal Year 2017.
2. Construction in progress deletions are for write-offs of Communication System Facilities, Hydraulic Transient Model, demolition of Nob Hill and Pipeline 4 Reline Lake Murray to Alvarado.
7. Mitigation Bank

The Mitigation Bank contains purchased rights to designate the future use of land in which title is held by another entity. This acreage includes wetland, stream, or other open space areas that have been restored, established, enhanced, or preserved for the purpose of providing compensation to the public for unavoidable impacts to the environment permitted under Section 404 of the Federal Clean Water Act or other state or local regulation. The Water Authority transfers a proportionate share of the cost of the Mitigation Bank to the capital project at the time the acreage is identified to mitigate the impacts from a specific project. These costs are then amortized over the estimated useful life of the related asset. As of June 30, 2017, the value of acreage remaining was $5,329,998.

<table>
<thead>
<tr>
<th>Mitigation Sites</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Crestridge Habitat Management Area (HMA)</td>
<td>258.45</td>
</tr>
<tr>
<td>San Miguel Conservation</td>
<td>820.85</td>
</tr>
<tr>
<td><strong>Total Mitigation Bank</strong></td>
<td><strong>1,079.30</strong></td>
</tr>
</tbody>
</table>

8. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were $430,938,425 as of June 30, 2017.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) Creation and Funding Agreement (Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority net of amortization was $48,369,165 as of June 30, 2017. Amortization is computed using the acre-feet assigned per calendar year over the 75-year life of the Agreement.

In addition, the Agreement required the Water Authority to pay, net of amortization, $8,179,959 as of June 30, 2017 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the 75-year life of the Agreement.

Legal expenses associated with the right to purchase water were capitalized in Fiscal Year 2011 due to litigation finalized in that fiscal year with MWD, in relation to the QSA JPA projects. These costs are being amortized utilizing the straight-line method over the life of the 75-year Agreement, and totaled, net of amortization, $19,817,330 for fiscal year ended June 30, 2017. The QSA JPA is not a named party to separate ongoing Water Authority litigation challenging MWD's rate structure, as discussed in Note 16.
8. Participation and Capacity Rights (continued)

(b) Canal Lining Participation Rights

On October 10, 2003, the Water Authority assumed MWD’s rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement, net of amortization, required payment of $3,528,944 as of June 30, 2017 to IID for MWD’s outstanding obligations.

The agreement specifically assigned the project of lining the Coachella Canal, which is a branch of the All-American Canal from the Colorado River and is owned by the U.S. Bureau of Reclamation (BOR), to the Water Authority. The lining of the canal prevents and conserves water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for $79,447,974. Participation rights for this project, net of amortization, totaled $118,083,452 as of June 30, 2017 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

The agreement executed January 13, 2006 between BOR, IID, and the Water Authority for the construction of the All-American Canal Lining Project provides for the construction of the canal by IID with oversight by the Water Authority and the BOR. The All-American Canal provides 56,200 acre-feet per year to the Water Authority annually for 110 years. The Department of Water Resources funded $135.7 million for construction of the All-American Canal Lining Project, and the Water Authority funded the amount over the state subsidy. Participation rights for this project, net of amortization, totaled $144,003,442 as of June 30, 2017 and are amortized utilizing the straight-line method over the life of the agreement of 110 years.

(c) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler’s 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District’s underground basin in Kern County. The Water Authority also invested in Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet.

Storage and recovery rights for this program totaled, net of amortization, $7,904,478 for Vidler and $10,152,439 for Semitropic as of June 30, 2017. These rights are amortized using the straight-line method over the life of the agreements, which end in 2035.
8. Participation and Capacity Rights (continued)

(d) Levy Treatment Plant Capacity Rights

In April 1997, the Water Authority entered into a capacity agreement with Helix Water District (Helix) for installation of an untreated water transmission pipeline, a flow control facility, and expansion of the R.M. Levy Water Treatment Plant (Levy Plant). Helix owns, operates, and maintains the Levy Plant and agreed to its phased expansion to 106 million gallons per day (mgd). In accordance with the April 1997 agreement, the Water Authority has capacity rights of 26 mgd. In April 2006, a third amendment to the agreement with Helix transferred to the Water Authority an additional 10 mgd capacity in the Levy Plant, for total capacity rights of 36 mgd. The Water Authority paid $10.6 million to Helix for 10 mgd of additional capacity in the Levy Plant, $300,000 to Helix for 4 mgd of additional capacity in the 54-inch transmission main (for Lakeside Water District), $1.5 million to Helix for 8 mgd of additional capacity in Helix Flume Pipeline (for Otay Water District), and $600,000 to Helix for 12 mgd of additional capacity in Helix Flume Pipeline (for Padre Dam Municipal Water District). Capacity rights for Levy Plant Capacity Purchases, net of amortization, totaled $10,996,780 as of June 30, 2017 and are being amortized using the straight-line method over 35 years.

(e) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the Levy Plant to provide additional capacity to serve Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to an additional 12 mgd. Capacity rights for Los Coches Pump Station, net of amortization, totaled $1,640,669 as of June 30, 2017 and for Helix Flume Pipeline, net of amortization, totaled $1,467,807 as of June 30, 2017 and are being amortized using the straight-line method over ten years.

(f) Moreno-Lakeside Pipeline Capacity Rights

In June 2001, the Water Authority and Helix executed the first amendment to the 1997 Capacity Agreement. Capacity rights for this project, net of amortization, totaled $675,848 as of June 30, 2017 and are being amortized using the straight-line method over ten years, which began when the project was capitalized in Fiscal Year 2008. Otay Water District constructed a new pipeline from the Otay 14 Flow Control Facility location to the regulatory reservoirs in the Otay System. The Water Authority reimbursed Otay Water District for the new pipeline and Otay Water District agreed to purchase at least 10,000 acre-feet of water per calendar year from the Water Authority. The capacity rights added to the Moreno-Lakeside Pipeline, net of amortization, totaled $738,675 as of June 30, 2017 and are being amortized using the straight-line method over ten years.

(g) Imperial Irrigation District Water Transfer – Base Contract Price Settlement Participation Rights

IID and the Water Authority executed an agreement that settled all disputes related to the Base Contract Price and the Water Authority/IID Conserved Water Transfer Agreement as stated in the Fifth Amendment to the agreement. Participation rights for this agreement, net of amortization, totaled $47,180,163 as of June 30, 2017 and are being amortized utilizing the straight-line method over the 75-year life of the agreement.
8. Participation and Capacity Rights (continued)

(h) Rancho Canada Permit for Endangered Species

The Water Authority contributed to property acquisition for conservation measures under this permit in an amount net of amortization of $5,276,804 as of June 30, 2017. The property is owned and managed by the Department of Fish and Wildlife consistent with mitigation requirements associated with the Emergency Storage Project (ESP) and Carryover Storage Project (CSP) federal Endangered Species Act (Section 7), Clean Water Act, Porter-Cologne Act, California Fish and Game Code 1602 permits and the CSP California Environmental Quality Act (CEQA) mitigation measures, and the Natural Community Conservation Plan/Habitat Conservation Plan, a 55-year multi-species take permit issued pursuant to the federal Endangered Species Act (Section 10) and Natural Community Conservation Planning Act (NCCPA). Any acreage not applied as mitigation to ESP or CSP, constitutes the Water Authority’s commitment towards regional multi-species conservation pursuant to provisions of the NCCPA, and allowed for the issuance of the 55-year multi-species take permit, which streamlines endangered species permitting for the Water Authority’s current and future CIP projects and operation and maintenance activities.

(i) Lake Hodges Pumped Storage Inlet/Outlet Storage Rights

The Lake Hodges Projects are part of the Water Authority’s ESP, which consists of a system of reservoirs, interconnected pipelines, and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries. The Lake Hodges Projects connect the City of San Diego’s Hodges Reservoir, also called Lake Hodges, to the Water Authority’s Olivenhain Reservoir. The connection provides the ability to store 20,000 acre-feet of water in Hodges Reservoir for emergency use. Storage Rights for Lake Hodges Pumped Storage, net of amortization, totaled $2,922,470 as of June 30, 2017. These storage rights are being amortized over 20 years.

9. Short-Term Liabilities

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority’s CIP. The Water Authority also has an Extendable Commercial Paper (ECP) program to provide financing for the Water Authority’s CIP. ECP offers a lower cost of funds than TECP, but is only available to highly rated agencies like the Water Authority. The Water Authority has the ability to access the capital markets and redeem the notes before the end of the 150-day extension period. ECP maturities are limited to between 1 and 120 days to allow a 150-day extension period and maintain a maximum maturity of 270 days. The total amount of short-term revenue certificates (TECP and ECP Notes) authorized at any time to be outstanding is $450,000,000.

The TECP and ECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COP), Water Revenue Bonds, and Water Revenue Refunding Bonds. At June 30, 2017, the Water Authority had short-term debt outstanding of $345,000,000.
9. Short-Term Liabilities (continued)

Short-term liabilities activity for the fiscal year ended June 30, 2017 are as follows:

<table>
<thead>
<tr>
<th>Original Issue</th>
<th>Interest Rate</th>
<th>Balance at June 30, 2016</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper Notes, Series 8</td>
<td>2014</td>
<td>0.93%</td>
<td>$110,000,000</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Commercial Paper Notes, Series 9</td>
<td>2016</td>
<td>0.86%</td>
<td>135,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extendable Commercial Paper Notes, Series 1</td>
<td>2014</td>
<td>0.87%</td>
<td>100,000,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total short-term liabilities | $345,000,000 | $ | $ | $345,000,000 |

10. Long-Term Liabilities

(a) Changes in Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017 are as follows:

<table>
<thead>
<tr>
<th>Balance at June 30, 2016</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2017</th>
<th>Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds</td>
<td>$1,820,960,000</td>
<td>$</td>
<td>$(12,050,000)</td>
<td>$1,808,910,000</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td>104,145,000</td>
<td></td>
<td>(29,510,000)</td>
<td>74,635,000</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>1,925,105,000</td>
<td></td>
<td>(41,560,000)</td>
<td>1,883,545,000</td>
</tr>
<tr>
<td>Unamortized bond premiums</td>
<td>195,578,887</td>
<td></td>
<td>(14,230,535)</td>
<td>181,348,352</td>
</tr>
<tr>
<td>Total long-term debt, net</td>
<td>2,120,683,887</td>
<td></td>
<td>(55,790,535)</td>
<td>2,064,893,352</td>
</tr>
<tr>
<td>Contributions payable</td>
<td>38,431,387</td>
<td></td>
<td>(10,917,816)</td>
<td>27,513,571</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>5,989,166</td>
<td>3,451,721</td>
<td>(3,221,210)</td>
<td>6,219,677</td>
</tr>
<tr>
<td>Arbitrage rebate</td>
<td>600,437</td>
<td></td>
<td></td>
<td>600,437</td>
</tr>
<tr>
<td>Total long-term liabilities, net</td>
<td>$2,165,704,877</td>
<td>$3,451,721</td>
<td>$(69,929,561)</td>
<td>$2,099,227,037</td>
</tr>
</tbody>
</table>
10. Long-Term Liabilities (continued)

(b) Long-Term Debt Outstanding

The following schedule summarizes the major terms of outstanding long-term debt at June 30, 2017:

<table>
<thead>
<tr>
<th>Issue Date</th>
<th>Interest Rates to Maturity</th>
<th>Final Maturity Fiscal Year</th>
<th>Original Amount</th>
<th>Balance Outstanding June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)</td>
<td>2010 4.00-5.25%</td>
<td>2020  $ 98,495,000</td>
<td>$ 13,460,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)</td>
<td>2010 6.138%</td>
<td>2049  526,135,000</td>
<td>526,135,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2011A</td>
<td>2011 0.45-5.00%</td>
<td>2027  139,945,000</td>
<td>103,635,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2011B</td>
<td>2011 3.00-5.00%</td>
<td>2031  94,540,000</td>
<td>94,540,000</td>
<td></td>
</tr>
<tr>
<td>Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)</td>
<td>2012 5.00%</td>
<td>2046  203,215,000</td>
<td>203,215,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2013A</td>
<td>2013 3.00-5.00%</td>
<td>2034  299,105,000</td>
<td>299,105,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2015A</td>
<td>2015 2.00-5.00%</td>
<td>2029  184,795,000</td>
<td>184,795,000</td>
<td></td>
</tr>
<tr>
<td>Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1</td>
<td>2016 3.00-5.00%</td>
<td>2021  87,685,000</td>
<td>87,685,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2016A</td>
<td>2016 5.00%</td>
<td>2033  98,945,000</td>
<td>98,945,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2016B</td>
<td>2016 5.00%</td>
<td>2038  197,395,000</td>
<td>197,395,000</td>
<td></td>
</tr>
<tr>
<td>Total Revenue Bonds</td>
<td></td>
<td></td>
<td>$1,808,910,000</td>
<td></td>
</tr>
<tr>
<td>Certificates of Participation (COP):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Revenue COP, 1998A</td>
<td>1998 4.50-5.25%</td>
<td>2028  $ 180,000,000</td>
<td>$ 11,685,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue Refunding COP, Series 2005A</td>
<td>2005 5.00-5.25%</td>
<td>2022  107,455,000</td>
<td>28,490,000</td>
<td></td>
</tr>
<tr>
<td>Water Revenue COP, Series 2008A</td>
<td>2008 4.00-5.00%</td>
<td>2020  558,015,000</td>
<td>34,460,000</td>
<td></td>
</tr>
<tr>
<td>Total COP</td>
<td></td>
<td></td>
<td>$ 74,635,000</td>
<td></td>
</tr>
<tr>
<td>Total long-term debt</td>
<td></td>
<td></td>
<td>$1,883,545,000</td>
<td></td>
</tr>
</tbody>
</table>
10. Long-Term Liabilities (continued)

(c) Debt Service Requirements

The total debt service requirements, including principal and interest payments, are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue Bonds</th>
<th>Certificates of Participation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td>Principal</td>
</tr>
<tr>
<td>2018</td>
<td>$12,610,000</td>
<td>$94,511,685</td>
<td>$32,010,000</td>
</tr>
<tr>
<td>2019</td>
<td>34,075,000</td>
<td>94,007,285</td>
<td>8,315,000</td>
</tr>
<tr>
<td>2020</td>
<td>36,100,000</td>
<td>92,383,635</td>
<td>8,825,000</td>
</tr>
<tr>
<td>2021</td>
<td>130,635,000</td>
<td>90,702,210</td>
<td>6,725,000</td>
</tr>
<tr>
<td>2022</td>
<td>45,270,000</td>
<td>84,552,960</td>
<td>7,075,000</td>
</tr>
<tr>
<td>2023-2027</td>
<td>290,540,000</td>
<td>384,881,246</td>
<td>-</td>
</tr>
<tr>
<td>2028-2032</td>
<td>352,820,000</td>
<td>304,476,802</td>
<td>11,685,000</td>
</tr>
<tr>
<td>2033-2037</td>
<td>363,500,000</td>
<td>212,447,803</td>
<td>-</td>
</tr>
<tr>
<td>2038-2042</td>
<td>231,570,000</td>
<td>126,460,618</td>
<td>-</td>
</tr>
<tr>
<td>2043-2047</td>
<td>237,315,000</td>
<td>62,106,595</td>
<td>-</td>
</tr>
<tr>
<td>2048-2049</td>
<td>74,475,000</td>
<td>6,901,569</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,808,910,000</strong></td>
<td><strong>$1,553,432,408</strong></td>
<td><strong>$74,635,000</strong></td>
</tr>
</tbody>
</table>

(d) Redemption and Defeasance of Debt

In prior years, the following refunded debts were defeased and the related liabilities were removed from the financial statements. At June 30, 2017, principal amounts payable from escrow funds established for defeased debts are as follows:

<table>
<thead>
<tr>
<th>Defeased Debt Outstanding</th>
<th>Amount</th>
<th>Redemption Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Revenue COP, Series 2008A</td>
<td>$142,445,000</td>
<td>5/1/2018</td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010A</td>
<td>52,375,000</td>
<td>11/1/2019</td>
</tr>
<tr>
<td><strong>Total (2015 Escrow September 22, 2015)</strong></td>
<td><strong>194,820,000</strong></td>
<td></td>
</tr>
<tr>
<td>Water Revenue COP, Series 2008A</td>
<td>320,090,000</td>
<td>5/1/2018</td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010A</td>
<td>20,425,000</td>
<td>11/1/2019</td>
</tr>
<tr>
<td><strong>Total (2016 Escrow June 23, 2016)</strong></td>
<td><strong>340,515,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total defeased debt outstanding</strong></td>
<td><strong>$535,335,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
10. Long-Term Liabilities (continued)

(e) Long-Term Pledged Liabilities

Long-term pledged liabilities for the fiscal year ended June 30, 2017 are comprised of the following:

<table>
<thead>
<tr>
<th>Type of Pledged Revenue</th>
<th>Fiscal Year Maturity Date</th>
<th>Pledged Revenue to Maturity</th>
<th>Debt Principal and Interest Paid</th>
<th>Pledged Revenue Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledged Net Water Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Revenue COP, Series 1998A</td>
<td>2028</td>
<td>$ 17,790,413</td>
<td>$ 555,038</td>
<td>$ 555,038</td>
</tr>
<tr>
<td>Water Revenue Refunding COP, Series 2005A</td>
<td>2022</td>
<td>32,530,663</td>
<td>17,288,488</td>
<td>17,288,488</td>
</tr>
<tr>
<td>Water Revenue COP, Series 2008A</td>
<td>2020</td>
<td>37,481,250</td>
<td>16,953,250</td>
<td>16,953,250</td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)</td>
<td>2020</td>
<td>14,642,200</td>
<td>4,878,300</td>
<td>4,878,300</td>
</tr>
<tr>
<td>Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)</td>
<td>2049</td>
<td>1,293,723,511</td>
<td>32,294,166</td>
<td>32,294,166</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2011A</td>
<td>2027</td>
<td>132,913,450</td>
<td>13,290,150</td>
<td>13,290,150</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2011B</td>
<td>2031</td>
<td>139,567,250</td>
<td>4,707,000</td>
<td>4,707,000</td>
</tr>
<tr>
<td>Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)</td>
<td>2046</td>
<td>422,093,278</td>
<td>10,160,750</td>
<td>10,160,750</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2013A</td>
<td>2034</td>
<td>453,507,969</td>
<td>13,981,519</td>
<td>13,981,519</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2015A</td>
<td>2029</td>
<td>253,038,500</td>
<td>8,909,750</td>
<td>8,909,750</td>
</tr>
<tr>
<td>Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1</td>
<td>2021</td>
<td>104,022,000</td>
<td>3,494,303</td>
<td>3,494,303</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2016A</td>
<td>2033</td>
<td>171,514,000</td>
<td>4,232,647</td>
<td>4,232,647</td>
</tr>
<tr>
<td>Water Revenue Refunding Bonds, Series 2016B</td>
<td>2038</td>
<td>377,320,250</td>
<td>8,444,119</td>
<td>8,444,119</td>
</tr>
<tr>
<td><strong>Total Pledged Net Water Revenue</strong></td>
<td></td>
<td><strong>$ 3,450,144,734</strong></td>
<td><strong>$ 139,189,480</strong></td>
<td><strong>$ 139,189,480</strong></td>
</tr>
</tbody>
</table>

(f) Contributions Payable

Contributions Payable concern the Water Authority’s payment obligation to the QSA JPA for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement. The outstanding balance of the payment obligation at June 30, 2017 was $27,513,571. The total contributions payable, including principal and interest payments, are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$ 8,568,383</td>
<td>$ 1,596,431</td>
<td>$ 10,164,814</td>
</tr>
<tr>
<td>2019</td>
<td>7,579,399</td>
<td>1,085,268</td>
<td>8,664,667</td>
</tr>
<tr>
<td>2020</td>
<td>2,179,549</td>
<td>630,504</td>
<td>2,810,053</td>
</tr>
<tr>
<td>2021</td>
<td>1,374,649</td>
<td>526,187</td>
<td>1,900,836</td>
</tr>
<tr>
<td>2022</td>
<td>3,332,937</td>
<td>468,695</td>
<td>3,801,632</td>
</tr>
<tr>
<td>2023-2026</td>
<td>4,478,654</td>
<td>653,912</td>
<td>5,132,566</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 27,513,571</strong></td>
<td><strong>$ 4,960,997</strong></td>
<td><strong>$ 32,474,568</strong></td>
</tr>
</tbody>
</table>
10. Long-Term Liabilities (continued)

(g) Rate Covenants

Under the Water Authority Act, the Board sets water rates and charges that are sufficient to meet its operation expenses and payment obligations. The Board has established that, exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues will equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate obligations for Fiscal Year 2017.

11. Defined Benefit Pension Plan

California Public Employees’ Retirement System

Plan Description

All qualified full-time Water Authority employees are required to participate in the Water Authority’s Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees’ Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Benefit provisions and all other requirements are established by state statute, Water Authority resolution, and contracts with employee bargaining groups.

Effective January 1, 2013, Water Authority new hires who meet the definition of “new employee” and “new member” accrue and receive defined benefit pension plan benefits in accordance with the California Public Employees’ Pension Reform Act (PEPRA) of 2013.

Financial statements for the Water Authority’s plan are not separately issued. Requests for detailed plan provisions and copies of CalPERS’ annual financial report can be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703 or http://www.calpers.ca.gov.

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 or 52, depending on hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments is applied as specified by the Public Employees’ Retirement Law.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Benefits Provided (continued)

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

<table>
<thead>
<tr>
<th>Hire Date</th>
<th>Prior to January 1, 2013</th>
<th>On or after January 1, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit formula</td>
<td>2.5% @ 55</td>
<td>2% @ 62</td>
</tr>
<tr>
<td>Benefit vesting schedule</td>
<td>5 years of service</td>
<td>5 years of service</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>monthly for life</td>
<td>monthly for life</td>
</tr>
<tr>
<td>Retirement age</td>
<td>50 - 55</td>
<td>52 - 67</td>
</tr>
<tr>
<td>Monthly benefits, as a % of eligible compensation</td>
<td>2.0% to 2.5%</td>
<td>1.0% to 2.5%</td>
</tr>
<tr>
<td>Required employee contribution rates</td>
<td>8.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Required employer contribution rates</td>
<td>22.84%</td>
<td>22.58%</td>
</tr>
</tbody>
</table>

Employees Covered

As of the June 30, 2015 actuarial valuation, the following current and former employees were covered by the benefit terms under the Miscellaneous Plan:

<table>
<thead>
<tr>
<th>Miscellaneous Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active employees</td>
</tr>
<tr>
<td>Inactive employees or beneficiaries currently receiving benefits</td>
</tr>
<tr>
<td>Inactive employees entitled to, but not yet receiving benefits</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Contributions

Water Authority employees hired prior to January 1, 2013, and any employees hired on or after this date who are not considered "New Members" within the meaning of the Public Employees' Pension Reform Act of 2013 (PEPRA) are Tier I members or "Classic Members". Tier II members are employees hired on or after January 1, 2013, who are considered "New Members" as defined by PEPRA. Current Classic Members are required to contribute eight percent of their annual covered salary to fund the Plan. The Water Authority pays seven percent of the employees’ required contribution and the employee pays the remaining one percent required contribution. For the fiscal year ended June 30, 2017, the amount contributed by the Water Authority on behalf of the employees (the 7 percent contribution) was $1,560,663.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Contributions (continued)

Pursuant to Government Code Section 20516 of the California Public Employees' Retirement Law, Tier 1 Members' cost-share of the Water Authority's employer contributions, will be seven percent by mandatory deduction from gross pay. For "classic" employees, effective July 1, 2013, the Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential classified employees increased the amount they pay toward CalPERS by 1.25 percent for a total contribution of seven percent, increasing to eight percent by July 2014. Executive and Senior Management employees increased the amount they pay toward CalPERS by 1.75 percent for a total contribution of eight percent as of July 1, 2013.

The terms of PEPRA mandate that a “New Member” contribution rate be the greater of 50 percent of the total normal cost rate for their defined benefit plan or the current contribution rate of similarly situated employees. The current employee contribution rate of new members and similarly situated employees at the Water Authority is 6.0 percent.

The Water Authority is required to contribute the remaining amounts, as determined by calculating the required employer contribution rate multiplied by the covered salary, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants, and adopted by the CalPERS Board of Administration.

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 Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is 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 Water Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

<table>
<thead>
<tr>
<th>Actuarial Cost Method:</th>
<th>Entry Age Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actuarial Assumptions:</strong></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>7.65%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.75%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>Varies by Entry Age and Service</td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>7.65% net of pension plan investment expenses; includes inflation</td>
</tr>
<tr>
<td>Mortality Rate Table (1)</td>
<td>Derived using CalPERS’ Membership Data for all funds</td>
</tr>
<tr>
<td>Post Retirement Benefit Increase</td>
<td>Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter</td>
</tr>
</tbody>
</table>

Note:

(1) The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

Change of Assumptions

There were no changes of assumptions.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. 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. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees’ Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) 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 PERF 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table 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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Current Target Allocation</th>
<th>Real Return Years 1 - 10 (1)</th>
<th>Real Return Years 11 + (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>51.0%</td>
<td>5.25%</td>
<td>5.71%</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>20.0%</td>
<td>0.99%</td>
<td>2.43%</td>
</tr>
<tr>
<td>Inflation Sensitive</td>
<td>6.0%</td>
<td>0.45%</td>
<td>3.36%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10.0%</td>
<td>6.83%</td>
<td>6.95%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10.0%</td>
<td>4.50%</td>
<td>5.13%</td>
</tr>
<tr>
<td>Infrastructure and Forestland</td>
<td>2.0%</td>
<td>4.50%</td>
<td>5.09%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>1.0%</td>
<td>-0.55%</td>
<td>-1.05%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(1) An expected inflation of 2.5% used for this period.
(2) An expected inflation of 3.0% used for this period.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Subsequent Events

On December 21, 2016, the CalPERS Board of Administration lowered the discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuation. This will increase public agency employer contribution costs beginning in Fiscal Year 2018-19. The phase in of the discount rate change approved by the Board for the next three Fiscal Years is as follows:

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Fiscal Year for Required Contribution</th>
<th>Discount Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2016</td>
<td>2019</td>
<td>7.38%</td>
</tr>
<tr>
<td>June 30, 2017</td>
<td>2020</td>
<td>7.25%</td>
</tr>
<tr>
<td>June 30, 2018</td>
<td>2021</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

Lowering the discount rate means the Water Authority will see increases in both normal costs (the cost of pension benefits accruing in one year for active members) and the accrued liabilities. These increases will result in higher required employer contributions. In addition, active members hired after January 1, 2013, under the PEPRA may also see their contributions rates rise.

In May 2017, the Water Authority made a supplemental payment to CalPERS of $9,582,404, which is reflected in deferred outflows, to reduce the unfunded pension liability. The effects of this will be seen in the June 30, 2017 actuarial report as a reduction to the unfunded pension liability as well as a reduction to future annual employer contributions to CalPERS.

Net Pension Liability

The Water Authority’s net pension liability for the Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Changes in the Net Pension Liability

The changes in the net pension liability for the Plan are as follows:

<table>
<thead>
<tr>
<th>Increase (Decrease)</th>
<th>Total Pension Liability (a)</th>
<th>Plan Fiduciary Net Position (b)</th>
<th>Net Pension Liability/(Asset) (c) = (a) - (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 30, 2016</td>
<td>$ 208,287,579</td>
<td>$ 145,739,990</td>
<td>$ 62,547,589</td>
</tr>
<tr>
<td>(Valuation Date June 30, 2015)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes recognized for the measurement period:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>4,578,555</td>
<td>-</td>
<td>4,578,555</td>
</tr>
<tr>
<td>Interest on total pension liability</td>
<td>15,841,721</td>
<td>-</td>
<td>15,841,721</td>
</tr>
<tr>
<td>Differences between expected and actual experience</td>
<td>527,455</td>
<td>-</td>
<td>527,455</td>
</tr>
<tr>
<td>Contributions - employer</td>
<td>-</td>
<td>6,198,142</td>
<td>(6,198,142)</td>
</tr>
<tr>
<td>Contributions - employees</td>
<td>-</td>
<td>5,423,687</td>
<td>(5,423,687)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>-</td>
<td>829,361</td>
<td>(829,361)</td>
</tr>
<tr>
<td>Benefit payments, including refunds of employee contributions</td>
<td>(8,045,995)</td>
<td>(8,045,995)</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>-</td>
<td>(90,897)</td>
<td>90,897</td>
</tr>
<tr>
<td>Net Changes</td>
<td>12,901,736</td>
<td>4,314,298</td>
<td>8,587,438</td>
</tr>
<tr>
<td>Balance at June 30, 2017</td>
<td>$ 221,189,315</td>
<td>$ 150,054,288</td>
<td>$ 71,135,027</td>
</tr>
</tbody>
</table>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2016:

<table>
<thead>
<tr>
<th>Net Pension Liability</th>
<th>1% Decrease</th>
<th>Current Discount Rate</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.65%</td>
<td>7.65%</td>
<td>8.65%</td>
</tr>
<tr>
<td>$102,206,586</td>
<td>$71,135,027</td>
<td>$45,473,528</td>
<td></td>
</tr>
</tbody>
</table>
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued CalPERS GASB 68 Accounting Valuation report for the Water Authority.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

| Net Difference between projected and actual earnings on pension plan investments | 5-year straight-line amortization |
| All other amounts | Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period |

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

For the fiscal year ended June 30, 2017, the Water Authority recognized pension expense of $7,014,032. As of fiscal year ended June 30, 2017, the Water Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Description</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension contributions subsequent to measurement date</td>
<td>$ 16,163,814</td>
<td>$ -</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>-</td>
<td>(1,830,638)</td>
</tr>
<tr>
<td>Differences between expected and actual experiences</td>
<td>384,900</td>
<td>(730,917)</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on pension plan investments</td>
<td>8,176,059</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$ 24,724,773</td>
<td>$ (2,561,555)</td>
</tr>
</tbody>
</table>
11. Defined Benefit Pension Plan (continued)

California Public Employees’ Retirement System (continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The $16,163,814 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2016 measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense/(income) as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30:</th>
<th>Deferred Outflows/(Inflows) of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$</td>
</tr>
<tr>
<td>2019</td>
<td>207,026</td>
</tr>
<tr>
<td>2020</td>
<td>3,755,409</td>
</tr>
<tr>
<td>2021</td>
<td>2,114,562</td>
</tr>
<tr>
<td>2022</td>
<td>-</td>
</tr>
<tr>
<td>Thereafter</td>
<td>-</td>
</tr>
</tbody>
</table>

12. Other Post-Employment Benefits (OPEB)

(a) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP), effective December 10, 2007, which is administered by the Water Authority’s Controller, who serves as the administrator and trustee. The TPP was established and governed under the Internal Revenue Code Section 414(d), which provides benefits to participants. The benefit is the accumulated balance of the retiring employee’s (or a separated employee due to death) earned but unpaid vacation and sick leave on the date of retirement. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant retires, or separates employment due to death, from the Water Authority after reaching the age of 55 and completing five years of service.

GASB states the definition of pensions does not include postemployment healthcare benefits and termination benefits. As such, the TPP liability is related to earned, but unpaid sick and vacation benefits, and is recorded in the financial statements as compensated absences.
12. Other Post-Employment Benefits (OPEB) (continued)

(a) Terminal Pay Plan (continued)

**Plan Description (continued)**

Employees may elect benefits be disbursed from the TPP in a lump sum or in monthly installments over a 60-month period (with no interest). As an alternative, an employee has the right to elect that all or a portion of benefits be immediately rolled over or transferred to an individual retirement account (IRA), a tax-sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

**Benefits Provided**

Contributions equal to the accumulated balance in the employee’s earned but unpaid vacation and sick leave accounts are made by the Water Authority to the TPP for eligible employees who retire, or separate due to death, from the Water Authority after reaching the age of 55 and completing five years of service, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who retires, or separates due to death, from Water Authority service are fully vested once they are accrued and the value of TPP benefits is the amount of an employee’s earned but unpaid vacation and sick leave on the date of retirement. No additional employee contributions are permitted. Benefits earned are accrued as compensated absences.

**Distribution**

If the value of benefits is over $5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee’s vested benefit is $5,000 or less on the date of retirement, or separation due to death, benefits will be distributed in a single lump sum.

**Changes or Termination of Plan**

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

(b) Retiree Health Benefit

**Plan Description**

The Water Authority has established a Retiree Healthcare Plan (HC Plan), an agent multiple-employer defined benefit retiree healthcare plan. The HC Plan, administered by the Water Authority, provides employees who retire directly from the Water Authority, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums up to a cap of $200 per employee or $320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of $160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit.
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Plan Description (continued)

Employees who retire directly from the Water Authority at a minimum age of 55 with a minimum of five years of CalPERS service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the HC Plan.

Employees Covered

As of the June 30, 2015 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active employees</td>
<td>236</td>
</tr>
<tr>
<td>Inactive employees or beneficiaries currently receiving benefits</td>
<td>44</td>
</tr>
<tr>
<td>Inactive employees entitled to, but not yet receiving benefits</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
</tr>
</tbody>
</table>

Contributions

The HC Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Water Authority and the bargaining units. The annual contribution is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2017, the Water Authority’s cash contributions were $157,659 in current premiums and the estimated implied subsidy was $167,323 resulting in total payments of $324,982. In Fiscal Year 2015, the Water Authority made a contribution of $4,300,000 to fund California Employers’ Retiree Benefit Trust (CERBT), an OPEB trust administrator and affiliate program of CalPERS, for the purpose of prefunding obligations for past services.
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Actuarial Methods and Assumptions Used to Determine Total OPEB Liability

The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 total OPEB liability, based on the following actuarial methods and assumptions:

<table>
<thead>
<tr>
<th>Actuarial Cost Method:</th>
<th>Entry Age Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actuarial Assumptions:</strong></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>7.00%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.75%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>3.0% per annum, in aggregate</td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>7.00%, assuming actuarially determined contributions funded into CERBT Investment Strategy 1</td>
</tr>
<tr>
<td>Mortality Rate(1)</td>
<td>Derived using CalPERS’ Membership Data for all funds</td>
</tr>
<tr>
<td>Pre-Retirement Turnover(2)</td>
<td>Derived using CalPERS’ Membership Data for all funds</td>
</tr>
<tr>
<td>Healthcare Trend Rate</td>
<td>Based on recent premium experience assuming 1%-2% increase due to market trends then reduced to a rate reflecting medical price inflation</td>
</tr>
</tbody>
</table>

Note:

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

(2) The pre-retirement turnover information was developed based on CalPERS’ specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Water Authority contributions 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 be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-term expected real rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Assets</td>
<td>5.0%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Global Debt Securities</td>
<td>27.0%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Global Equities</td>
<td>57.0%</td>
<td>5.25%</td>
</tr>
<tr>
<td>REITs</td>
<td>8.0%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Commodities</td>
<td>3.0%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

* Long-term expected rate of return is 7.00%.

Net OPEB Liability

The Water Authority’s net OPEB liability for the HC Plan is measured as the total pension liability, less the OPEB plan’s fiduciary net position. The net OPEB liability of the HC Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Changes in the OPEB Liability

The changes in the net OPEB liability for the HC Plan are as follows:

<table>
<thead>
<tr>
<th>Increase (Decrease)</th>
<th>Total OPEB Liability (a)</th>
<th>Plan Fiduciary Net Position (b)</th>
<th>Net OPEB Liability/(Asset) (c) = (a) - (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at June 30, 2016</td>
<td>$ 4,275,266</td>
<td>$ 4,367,370</td>
<td>$(92,104)</td>
</tr>
<tr>
<td>(Valuation Date June 30, 2015)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes recognized for the measurement period:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>187,026</td>
<td>-</td>
<td>187,026</td>
</tr>
<tr>
<td>Interest</td>
<td>314,699</td>
<td>-</td>
<td>314,699</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>81,287</td>
<td>-</td>
<td>81,287</td>
</tr>
<tr>
<td>Contributions - employer</td>
<td>-</td>
<td>279,009</td>
<td>(279,009)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>-</td>
<td>43,839</td>
<td>(43,839)</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(279,009)</td>
<td>(279,009)</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>-</td>
<td>(2,081)</td>
<td>2,081</td>
</tr>
<tr>
<td>Net Changes</td>
<td>304,003</td>
<td>41,758</td>
<td>262,245</td>
</tr>
<tr>
<td>Balance at June 30, 2017</td>
<td>$ 4,579,269</td>
<td>$ 4,409,128</td>
<td>$ 170,141</td>
</tr>
<tr>
<td>(Measurement Date June 30, 2016)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2016:

<table>
<thead>
<tr>
<th>Net OPEB Liability</th>
<th>1% Decrease (6.00%)</th>
<th>Current Discount Rate (7.00%)</th>
<th>1% Increase (8.00%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$477,493</td>
<td>$170,141</td>
<td>($111,105)</td>
</tr>
</tbody>
</table>
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the Water Authority if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2016:

<table>
<thead>
<tr>
<th>Current Healthcare Cost Trend Rates</th>
<th>1% Decrease</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6.00%HMO/6.50%PPO decreasing to 3.50%HMO/3.50%PPO)</td>
<td>(6.00%HMO/6.50%PPO decreasing to 3.50%HMO/3.50%PPO)</td>
<td>(6.00%HMO/6.50%PPO decreasing to 3.50%HMO/3.50%PPO)</td>
</tr>
<tr>
<td>Net OPEB Liability</td>
<td>($26,161)</td>
<td>$170,141</td>
</tr>
<tr>
<td><strong>OPEB Plan Fiduciary Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed information about the HC Plan’s fiduciary net position is available in the separately issued Nyhart Actuary and Employee Benefits GASB Nos. 74 and 75 Actuarial Valuation report for the Water Authority.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The amortization period differs depending on the source of the gain or loss:

<table>
<thead>
<tr>
<th>Net difference between projected and actual earnings on OPEB plan investments</th>
<th>5-year straight-line amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other amounts</td>
<td>Straight-line amortization over the expected average remaining service lifetime (EARSIL) of all members that are provided with benefits (active and retired) as of the beginning of the measurement period</td>
</tr>
</tbody>
</table>
12. Other Post-Employment Benefits (OPEB) (continued)

(b) Retiree Health Benefit (continued)

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2017, the Water Authority recognized OPEB expense of $265,289. As of fiscal year ended June 30, 2017, the Water Authority reported deferred outflows of resources related to OPEB from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPEB contributions subsequent to measurement date</td>
<td>$324,982</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>67,739</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on OPEB plan investments</td>
<td>208,226</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$600,947</strong></td>
</tr>
</tbody>
</table>

The $324,982 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2016 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30:</th>
<th>Deferred Outflows/(Inflows) of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$</td>
</tr>
<tr>
<td>2019</td>
<td>$</td>
</tr>
<tr>
<td>2020</td>
<td>$</td>
</tr>
<tr>
<td>2021</td>
<td>$</td>
</tr>
<tr>
<td>2022</td>
<td>$</td>
</tr>
<tr>
<td>Thereafter</td>
<td>-</td>
</tr>
</tbody>
</table>
13. Deferred Compensation Plans and Defined Contribution Plans

The Water Authority Board of Directors has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. The Water Authority Board of Directors has discretion to amend the Plans. These plans permit all eligible employees to defer, either pre-tax or post-tax, a portion of their salary until future years. The plan administrators for the Water Authority at June 30, 2017 were TIAA and ICMA.

Participation in the 457(f) plan is not required and employee contributions may be modified from time to time at the employee’s direction. Employees eligible for the 401(a) plan must contribute an irrevocable mandatory minimum of three percent up to a maximum of 20 percent of salary to the plan. The Water Authority makes an annual contribution to the 401(a) plan on behalf of Senior and Executive Managers as specified in the compensation plans. Contributions to the Plans and interest earnings are 100 percent vested immediately. Benefits depend solely on the amounts contributed to the Plans plus investment earnings.

Plan contributions and earnings are not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the Plans are held in trust for the exclusive benefit of plan participants and their beneficiaries. The Plans are not considered part of the Water Authority’s financial reporting entity. Employee contributions to the 457(f) plan were $1,490,081 for Fiscal Year 2017. Employee contributions to the 401(a) plan were $385,650 for Fiscal Year 2017. Employer 401(a) matching contributions were $55,500 for Fiscal Year 2017.

14. Insurance

The Water Authority is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Water Authority obtains coverage for general liability, errors and omissions, employment practices liability, and crime coverage from Alteris – Allied World Assurance Company, and coverage for auto, property, boiler and machinery from Travelers Property Casualty Company of America (Travelers). Liability coverage is $46 million per occurrence with a $75,000 deductible per occurrence. Property coverage is provided with a $500 million per occurrence and aggregate coverage limit and a sub-limit of $100 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a $25,000 deductible per occurrence. The current property policy limit of $500 million exceeds the current $300 million valuation of scheduled property. The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains workers’ compensation coverage through the program. Workers’ compensation coverage is per California statutory limits with $1 million per occurrence for employer’s liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three fiscal years for all coverage types, individually and collectively.

15. Jointly Governed Organization

The Water Authority’s payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenses for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California’s Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity. See Note 10(f) for the Water Authority’s remaining required payments to the QSA JPA.
16. Commitments and Contingencies

(a) Construction Projects

There are no material commitments under construction contracts as of June 30, 2017.

(b) Water Purchase Agreement

On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement with Poseidon Resources (Channelside) LP (Company) to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant (Plant) upon commencement of commercial operations, which was achieved December 23, 2015. The Plant is a 54 million gallons per day (mgd) reverse osmosis desalination plant with an approximately ten-mile pipeline (Pipeline) that connects the Plant to the Water Authority’s existing distribution system.

The project was developed as a “public-private partnership” between the Water Authority and the Company. The Company owns, operates and maintains the Plant whereas the Water Authority owns, operates and maintains the Pipeline. Pursuant to the Water Purchase Agreement (WPA), the Company sells the potable water produced by the Plant (Product Water) to the Water Authority and the Water Authority is the sole purchaser of the Product Water.

The Water Authority has an annual obligation to purchase or pay (a take-or-pay contract) for 48,000 acre-feet, the minimum annual demand commitment by the Water Authority, of Product Water that meets the requirements of the WPA and may request up to 56,000 acre-feet each year, the maximum annual supply commitment, of Product Water produced by the Company. Prior to each contract year, the Water Authority and the Company schedule the monthly delivery of the Product Water such that the annual total will be between 48,000 acre-feet and 56,000 acre-feet, unless otherwise adjusted in accordance with the terms of the WPA. The monthly payments are based on actual units of Product Water delivered or deliverable according to the delivery schedule. The Water Authority pays a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds, an equity return, and variable and fixed Project operating costs. The Water Authority is responsible for paying debt service costs on the Series 2012 Water Furnishing Revenue Pipeline Bonds. The Company is obligated to make shortfall payments to the Water Authority for the failure to deliver Product Water as required under the WPA (Operating Period Shortfall Payments). To secure its performance obligations under the WPA, the Company was required to post a $5.125 million letter of credit.

The Water Authority has an option to purchase the Plant at any time following the tenth anniversary of the December 23, 2015 Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any additional plant senior debt incurred for the construction and modification of the Plant that constitutes permitted approved debt under the WPA plus a return on equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant under those circumstances. The Water Authority may also purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any additional plant senior debt under the Plant Loan Agreement (described in the Project Financing section) incurred for the construction and modification of the Plant and that constitutes permitted approved debt under the WPA upon a termination of the WPA for the Company’s default.
16. Commitments and Contingencies (continued)

(c) Litigation

The Water Authority is subject to lawsuits and claims, which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the change in financial position, or liquidity of the Water Authority. For further information, contact the General Counsel’s office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

(1) Quantification Settlement Agreement (QSA)

All state and federal court challenges to the validity of the QSA have been resolved and the validity of the QSA has been judicially confirmed. See In re Quantification Settlement Agreement Cases (2011) 201 Cal. App. 4th 758; Quantification Settlement Agreement Cases (2015) 237 Cal. App. 4th 72; and California ex rel. Imperial County Air Pollution Control Dist. v. United States, 767 F. 3d 781 (9th Cir. 2014).

(2) Construction Dispute

The Water Authority is involved in a construction dispute with Plaintiff Shimmick Construction Company, Inc./Obayashi Corporation, a Joint Venture. This dispute pertains to construction cost disputes for the San Vicente Dam Raise project. The Plaintiff alleges approximately $60 million in unpaid costs and interest, while the Water Authority disputes all such claims. The Water Authority has also sued the Plaintiff entities for false claims. The trial in the case started in September, and is expected to conclude in late November or early December.

(3) MWD Litigation

The MWD rate cases are described in detail in the MWD Litigation section found in the Letter of Transmittal (see page 10).

17. Restatement of Net Position

As a result of early implementing GASB Statement No. 75 in Fiscal Year 2017, the beginning net position was restated by a decrease of $1,893,778. Financial information for Fiscal Year 2016 was not restated because the necessary actuarial information was not available.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Position as of June 30, 2016, as previously reported</td>
<td>$1,537,068,381</td>
</tr>
<tr>
<td>Change in accounting principle: GASB 75 Adjustment</td>
<td>(1,893,778)</td>
</tr>
<tr>
<td>Net Position as of June 30, 2016, as restated</td>
<td>$1,535,174,603</td>
</tr>
</tbody>
</table>
SUPPLEMENTAL INFORMATION
A. Defined Benefit Pension Plan - California Public Employees’ Retirement System

### San Diego County Water Authority
#### Miscellaneous Plan

#### SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

**for the Measurement Periods Ended June 30**

<table>
<thead>
<tr>
<th>Measurement Period</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Pension Liability</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$4,578,555</td>
<td>$4,706,004</td>
<td>$4,921,587</td>
</tr>
<tr>
<td>Interest on the total pension liability</td>
<td>15,841,721</td>
<td>14,880,474</td>
<td>14,066,260</td>
</tr>
<tr>
<td>Actual and expected experience difference</td>
<td>527,455</td>
<td>(1,543,047)</td>
<td>-</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>-</td>
<td>(3,864,680)</td>
<td>-</td>
</tr>
<tr>
<td>Changes in benefit terms</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Benefit payments: including refunds of employee contributions</td>
<td>(8,045,995)</td>
<td>(6,923,794)</td>
<td>(6,089,127)</td>
</tr>
<tr>
<td><strong>Net change in total pension liability</strong></td>
<td>12,901,736</td>
<td>7,254,957</td>
<td>12,898,720</td>
</tr>
<tr>
<td><strong>Total pension liability - beginning</strong></td>
<td>208,287,579</td>
<td>201,032,622</td>
<td>188,133,902</td>
</tr>
<tr>
<td><strong>Total pension liability - ending (a)</strong></td>
<td>221,189,315</td>
<td>208,287,579</td>
<td>201,032,622</td>
</tr>
</tbody>
</table>

| **Plan Fiduciary Net Position** |             |              |              |
| Contribution - employer       | 6,198,142    | 5,766,812    | 5,273,604    |
| Contribution - employee       | 5,423,687    | 475,394      | 870,031      |
| Net investment income         | 829,361      | 3,400,388    | 21,444,232   |
| Benefit payments:             |              |              |              |
| including refunds of employee contributions | (8,045,995) | (6,923,794) | (6,089,127) |
| Administrative expense        | (90,897)     | (167,895)    | -            |
| **Net change in plan fiduciary net position** | 4,314,298    | 2,550,905    | 21,506,740   |
| **Plan fiduciary net position - beginning** | 145,739,990 | 143,189,085 | 121,682,345 |
| **Plan fiduciary net position - ending (b)** | 150,054,288  | 145,739,990 | 143,189,085 |

| **Net pension liability - ending (a)-(b)** | $71,135,027 | $62,547,589 | $57,843,537 |

Plan fiduciary net position as a percentage of the total pension liability

Covered payroll

Net pension liability as a percentage of covered payroll

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

**Changes in assumptions.** In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

**Pension liability.** Based on the respective June 30, 2016, 2015 and 2014 measurement dates.

Future years’ information will be displayed up to 10 years as information becomes available.
A. Defined Benefit Pension Plan - California Public Employees’ Retirement System (continued)

San Diego County Water Authority
Miscellaneous Plan
SCHEDULE OF CONTRIBUTIONS
Last Ten Fiscal Years*

<table>
<thead>
<tr>
<th>Fiscal Year End</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarially Determined Contribution (ADC)</td>
<td>$6,581,410</td>
<td>6,198,142</td>
<td>5,766,812</td>
<td>5,273,604</td>
</tr>
<tr>
<td>Contributions in relation to the ADC</td>
<td>(16,163,814)</td>
<td>(6,198,142)</td>
<td>(5,766,812)</td>
<td>(5,273,604)</td>
</tr>
<tr>
<td>Contribution (excess)</td>
<td>$(-9,582,404)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Covered payroll</td>
<td>$26,726,241</td>
<td>26,692,446</td>
<td>26,977,782</td>
<td>26,830,872</td>
</tr>
</tbody>
</table>

Contributions as a percentage of covered payroll 24.63% 23.22% 21.38% 19.65%

Notes to Schedule:
*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Years 2017, 2016, 2015 and 2014 were from the respective June 30, 2014, 2013, 2012 and 2011 funding valuation reports.

Methods and assumptions used to determine contribution rates:
San Diego County Water Authority, an agent multiple-employer defined benefit plan

Actuarial Cost Method Entry Age Normal
Amortization Method/Period: Level percent of payroll over a closed 20-year period
Asset Valuation Method: Fiscal Year 2016 and 2015: Market value
Fiscal Year 2014: 15-year smoothed market
Inflation: 2.75%
Salary Increases: Varies by Entry Age and Service
Payroll Growth: 3.00%
Investment Rate of Return: 7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Retirement Age: The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality: The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Future years’ information will be displayed up to 10 years as information becomes available.
B. Other Post-Employment Benefits

San Diego County Water Authority
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
for the Measurement Periods Ended June 30

<table>
<thead>
<tr>
<th>Measurement Period</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total OPEB Liability</strong></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$187,026</td>
</tr>
<tr>
<td>Interest on the total OPEB liability</td>
<td>$314,699</td>
</tr>
<tr>
<td>Actual and expected experience difference</td>
<td>-</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>$81,287</td>
</tr>
<tr>
<td>Changes in benefit terms</td>
<td>-</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>($279,009)</td>
</tr>
<tr>
<td><strong>Net change in total OPEB liability</strong></td>
<td>$304,003</td>
</tr>
<tr>
<td><strong>Total OPEB liability - beginning</strong></td>
<td>$4,275,266</td>
</tr>
<tr>
<td><strong>Total OPEB liability - ending (a)</strong></td>
<td>$4,579,269</td>
</tr>
</tbody>
</table>

| **Plan Fiduciary Net Position** |      |
| Contribution - employer | $279,009 |
| Net investment income | $43,839 |
| Benefit payments | ($279,009) |
| Administrative expense | ($2,081) |
| **Net change in plan fiduciary net position** | $41,758 |
| **Plan fiduciary net position - beginning** | $4,367,370 |
| **Plan fiduciary net position - ending (b)** | $4,409,128 |
| **Net OPEB liability - ending (a)-(b)** | $170,141 |

Plan fiduciary net position as a percentage of the total OPEB liability 96.28%

Notes to Schedule:

Changes in assumptions. The discount rate was changed from 7.28 percent (net of administrative expense) to 7.00 percent.

Net OPEB liability. Based on the June 30, 2016 measurement date.

Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years’ information will be displayed up to 10 years as information becomes available.
B. Other Post-Employment Benefits (continued)

<table>
<thead>
<tr>
<th>San Diego County Water Authority</th>
<th>SCHEDULE OF CONTRIBUTIONS</th>
<th>Last Ten Fiscal Years*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year End</td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Actuarially Determined Contribution (ADC)</td>
<td>$324,982</td>
<td>180,363</td>
</tr>
<tr>
<td>Contributions in relation to the ADC</td>
<td>(324,982)</td>
<td>(279,009)</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>$-</td>
<td>$(98,646)</td>
</tr>
</tbody>
</table>

Notes to Schedule:
*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Years 2017 and 2016 were from the June 30, 2015 actuarial valuation and Fiscal Year 2015 was from the June 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

- **Amortization Method/Period**: Level percent of payroll over a closed rolling 15-year period
- **Asset Valuation Method**: Market value
- **Inflation**: 2.75%
- **Payroll Growth**: 3% per annum, in aggregate
- **Investment Rate of Return**: 7.00% per annum. Assumes investing in California Employers’ Retiree Benefit Trust
- **Healthcare cost-trend rates**: 7.0% initial, 1.0% - 2.0% near term increase then decreasing 0.5% per year to trend rate that reflects medical price inflation.
- **Retirement Age**: Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62
  - The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
- **Mortality**: Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Future years’ information will be displayed up to 10 years as information becomes available.
## C. San Diego County Water Authority Budgetary Comparison Schedule

**Two-Year Budget for the Fiscal Years Ended June 30, 2017 and 2016 – Budgetary Basis**

### Net Water Sales Revenue

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Net Water Sales Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Sales</td>
<td>$ 1,162,792,404</td>
<td>$ 1,103,991,670</td>
<td>$ (58,800,734)</td>
</tr>
<tr>
<td>Water Purchases &amp; Treatment</td>
<td>(895,904,361)</td>
<td>(817,684,137)</td>
<td>78,220,224</td>
</tr>
<tr>
<td>Total Net Water Sales Revenue</td>
<td>$ 266,888,043</td>
<td>$ 286,307,533</td>
<td>$ 19,419,490</td>
</tr>
</tbody>
</table>

### Revenues and Other Income

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Revenues and Other Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Access Charges</td>
<td>61,295,000</td>
<td>61,579,074</td>
<td>284,074</td>
</tr>
<tr>
<td>Property Taxes and In-Lieu Charges</td>
<td>23,400,000</td>
<td>24,980,536</td>
<td>1,580,536</td>
</tr>
<tr>
<td>Investment Income</td>
<td>9,233,000</td>
<td>8,223,437</td>
<td>(1,009,563)</td>
</tr>
<tr>
<td>Hydroelectric Revenue</td>
<td>7,000,000</td>
<td>6,368,274</td>
<td>(631,726)</td>
</tr>
<tr>
<td>Grant Reimbursements</td>
<td>16,708,000</td>
<td>18,508,031</td>
<td>1,800,031</td>
</tr>
<tr>
<td>Build America Bonds Subsidy</td>
<td>20,978,000</td>
<td>21,070,597</td>
<td>92,597</td>
</tr>
<tr>
<td>Other Income</td>
<td>523,000</td>
<td>9,059,921</td>
<td>8,536,921</td>
</tr>
<tr>
<td>Capital Contributions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity Charges</td>
<td>30,500,000</td>
<td>36,919,340</td>
<td>6,419,340</td>
</tr>
<tr>
<td>Water Standby Availability Charges</td>
<td>22,500,000</td>
<td>22,179,662</td>
<td>(320,338)</td>
</tr>
<tr>
<td>Contributions in Aid of Capital Improvement Program (CIP)</td>
<td>3,668,000</td>
<td>1,010,811</td>
<td>(2,657,189)</td>
</tr>
<tr>
<td>Total Revenues and Other Income</td>
<td>$ 195,805,000</td>
<td>$ 209,899,683</td>
<td>$ 14,094,683</td>
</tr>
</tbody>
</table>

### Total Revenues

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 462,693,043</td>
<td>$ 496,207,216</td>
<td>$ 33,514,173</td>
</tr>
</tbody>
</table>

### Expenses

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Expenses</td>
<td>$ 96,912,615</td>
<td>$ 90,141,542</td>
<td>$ 6,771,073</td>
</tr>
<tr>
<td>Stored Water Purchases</td>
<td>72,082,756</td>
<td>72,082,756</td>
<td>-</td>
</tr>
<tr>
<td>Debt Service</td>
<td>282,804,000</td>
<td>271,560,872</td>
<td>11,243,128</td>
</tr>
<tr>
<td>QSA Mitigation</td>
<td>24,011,000</td>
<td>24,010,732</td>
<td>268</td>
</tr>
<tr>
<td>Hodges Pumped Storage</td>
<td>4,389,000</td>
<td>4,254,382</td>
<td>134,618</td>
</tr>
<tr>
<td>Equipment Replacement</td>
<td>4,261,065</td>
<td>4,029,434</td>
<td>231,631</td>
</tr>
<tr>
<td>Grant Expenses</td>
<td>18,108,000</td>
<td>20,712,292</td>
<td>(2,604,292)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>1,000,000</td>
<td>11,078,692</td>
<td>(10,078,692)</td>
</tr>
<tr>
<td>Operating Departments/Programs (Note 4)</td>
<td>96,912,615</td>
<td>90,141,542</td>
<td>6,771,073</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$ 503,568,436</td>
<td>$ 497,870,702</td>
<td>$ 5,697,734</td>
</tr>
</tbody>
</table>

### Net Revenues Before CIP Expenses

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Net Revenues Before CIP Expenses</td>
<td>$ (40,875,393)</td>
<td>$ (1,663,486)</td>
<td>$ 39,211,907</td>
</tr>
</tbody>
</table>

### CIP Expenses

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>CIP Expenses</td>
<td>$ 146,525,000</td>
<td>$ 146,661,433</td>
<td>$ (136,433)</td>
</tr>
</tbody>
</table>

### Change in Net Position - Budgetary Basis

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Change in Net Position - Budgetary Basis</td>
<td>$ (187,400,393)</td>
<td>$ (148,324,919)</td>
<td>$ 39,075,474</td>
</tr>
</tbody>
</table>

### Add Adjustments - Full Accrual (Note 5)

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Add Adjustments - Full Accrual (Note 5)</td>
<td>224,194,145</td>
<td>224,194,145</td>
<td>-</td>
</tr>
</tbody>
</table>

### Change in Net Position - GAAP Basis

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Change in Net Position - GAAP Basis</td>
<td>36,793,752</td>
<td>75,869,226</td>
<td>39,075,474</td>
</tr>
</tbody>
</table>

### Net Position at Beginning of Year, as restated

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Net Position at Beginning of Year, as restated</td>
<td>$ 1,494,678,922</td>
<td>$ 1,494,678,922</td>
<td>-</td>
</tr>
</tbody>
</table>

### Net Position at End of Year

<table>
<thead>
<tr>
<th></th>
<th>Final Budget</th>
<th>Actual Amounts (1)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td>Net Position at End of Year</td>
<td>$ 1,531,472,674</td>
<td>$ 1,570,548,148</td>
<td>$ 39,075,474</td>
</tr>
</tbody>
</table>

Notes:

(1) Actual amounts have been adjusted to more accurately compare it to the adopted multi-year budget which is prepared on a modified accrual basis.
1. **General Manager’s Adopted Multi-Year Budget**

In June 2015, the Board of Directors (Board) adopted a $1.5 billion budget for the Fiscal Years 2016 and 2017. The Water Authority adheres to the budget policies and budgetary controls adopted by the Board for the Fiscal Years 2016 and 2017. The schedule on the previous page presents the final Adopted Multi-Year Budget amounts, as amended by the Board, and compares them to actual amounts as presented on a modified accrual basis, which are different from the amounts presented in the Statements of Revenues, Expenses, and Changes in Net Position for the Fiscal Years ended June 30, 2017 and 2016.

2. **Budgetary Controls**

The Board, by resolution, has established budgetary controls and made a total appropriation for expenses consistent with the adopted budget. The total appropriation adopted by the Board establishes the legal spending limit for the Water Authority. The Board, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of $150,000 subject to the total appropriation limit. Budget adjustments in excess of $150,000 or increases in the total appropriation limit must be approved by the Board.

3. **Budget Process**

The Board adopts a multi-year operating and capital improvement program budget every other fiscal year. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the two-year period. The General Manager views the budget as an essential tool for proper financial management and holds a series of budget hearings through the Administrative and Finance Committee. The budget process includes presentations of key assumptions in the budget development and provides mechanisms for questions and comments from the Board to the Water Authority staff. The Finance Department leads the effort in developing the budget and is responsible for monitoring and reporting to the Board.

4. **Operating Departments/Programs**

<table>
<thead>
<tr>
<th>Operating Departments/Programs</th>
<th>Two-Year Final Budget</th>
<th>Two-Year Actual Amounts</th>
<th>Variance with Final Budget Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Services</td>
<td>$14,604,628</td>
<td>$13,984,684</td>
<td>$619,944</td>
</tr>
<tr>
<td>Colorado River Program</td>
<td>3,223,420</td>
<td>2,847,937</td>
<td>375,483</td>
</tr>
<tr>
<td>Engineering</td>
<td>7,306,798</td>
<td>6,711,537</td>
<td>595,261</td>
</tr>
<tr>
<td>Finance</td>
<td>4,719,484</td>
<td>4,508,951</td>
<td>210,533</td>
</tr>
<tr>
<td>General Counsel</td>
<td>7,391,814</td>
<td>6,094,158</td>
<td>1,297,656</td>
</tr>
<tr>
<td>General Manager &amp; Board of Directors</td>
<td>6,587,554</td>
<td>5,418,668</td>
<td>1,168,886</td>
</tr>
<tr>
<td>MWD Program</td>
<td>4,133,029</td>
<td>3,911,305</td>
<td>221,724</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>32,583,676</td>
<td>31,809,852</td>
<td>773,824</td>
</tr>
<tr>
<td>Public Outreach and Conservation</td>
<td>8,142,160</td>
<td>7,460,125</td>
<td>682,035</td>
</tr>
<tr>
<td>Water Resources</td>
<td>8,220,052</td>
<td>7,394,325</td>
<td>825,727</td>
</tr>
<tr>
<td><strong>Total Operating Departments/Programs</strong></td>
<td>$96,912,615</td>
<td>$90,141,542</td>
<td>$6,771,073</td>
</tr>
</tbody>
</table>
5. Reconciliation of Adjustments

<table>
<thead>
<tr>
<th>Revenues and Other Income</th>
<th>Two-Year Actual Budgetary Basis</th>
<th>Adjustments (1)</th>
<th>Two-Year Actual GAAP Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydroelectric Revenue</td>
<td>$6,368,274</td>
<td>$(6,368,274)</td>
<td>$-</td>
</tr>
<tr>
<td>Grant Reimbursements</td>
<td>18,508,031</td>
<td>(18,508,031)</td>
<td>-</td>
</tr>
<tr>
<td>Build America Bonds Subsidy</td>
<td>21,070,597</td>
<td>(21,070,597)</td>
<td>-</td>
</tr>
<tr>
<td>Other Income (2)</td>
<td>9,059,921</td>
<td>45,946,902</td>
<td>55,006,823</td>
</tr>
<tr>
<td><strong>Total Revenues and Other Income</strong></td>
<td><strong>55,006,823</strong></td>
<td><strong>-</strong></td>
<td><strong>55,006,823</strong></td>
</tr>
</tbody>
</table>

**Expenses**

| Stored Water Purchases       | 72,082,756                      | (72,082,756)     | -                         |
| Debt Service                 | 271,560,872                     | (90,914,156)     | 180,646,716               |
| QSA Mitigation               | 24,010,732                      | (24,010,732)     | -                         |
| Hodges Pumped Storage        | 4,254,382                       | (4,254,382)      | -                         |
| Equipment Replacement        | 4,029,434                       | (4,029,434)      | -                         |
| Grant Expenses               | 20,712,292                      | (20,712,292)     | -                         |
| Other Expenses               | 11,078,692                      | 16,622,034       | 27,700,726                |
| Operating Departments        | 90,141,542                      | (6,392,835)      | 83,748,707                |
| Depreciation and Amortization| -                               | 121,508,103      | 121,508,103               |
| Bond Issuance Costs          | -                               | 6,733,738        | 6,733,738                 |
| **Total Expenses**           | **497,870,702**                 | **(77,532,712)** | **420,337,990**           |

**Net Revenues Before CIP Expenses**

| **(442,863,879)** | 77,532,712 | **(365,331,167)** |

**CIP Expenses**

| 146,661,433       | (146,661,433) | - |

**Change in Net Position**

| $ (589,525,312) | $ 224,194,145 | $ (365,331,167) |

Notes:

(1) Only includes revenues and expenses with adjustments.

(2) Other Income includes operating revenues, other income, intergovernmental, and loss on sale/retirement of capital assets.


In accordance with best financial management practices, the Finance Department provides monthly financial reports to the Board that include the monitoring of Water Purchases and Water Sales in acre-feet and in dollars, and a narrative and variance analysis. In addition, a schedule prepared on a budgetary basis compares the final adopted budget, as amended by the Board, to actual expenses. These monthly financial reports are prepared to provide timely information on the financial progress of the Water Authority for the Board to consider in the decision making process.
7. Annual Financial Reporting

The Water Authority elects to present the budgetary schedule, optional for Enterprise Funds, in accordance with best practices recommended by professional accounting organizations and in keeping with the Water Authority’s commitment to transparency in financial reporting and disclosure. The schedule prepared on a budgetary basis compares the final two-year adopted budget, as amended by the Board, to actual expenses for the two-year period as presented on the initial schedule in Other Supplementary Information. In addition, a reconciliation of the budgetary schedule and the audited financial statements are presented in Note 5 Reconciliation of Adjustments.
Statistical Section

This section of the San Diego County Water Authority’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Water Authority’s overall financial health.

CONTENTS

Financial Trends
These tables contain trend information to help the reader understand how the Water Authority’s financial performance has changed over time.

Revenue Capacity
These tables contain information to help the reader assess the Water Authority’s most significant revenue sources.

Debt Capacity
These tables present information to help the reader assess the ability of the Water Authority to pay debt service on outstanding debt.

General Information
These tables contain service and infrastructure data to help the reader understand how information in its financial report relates to Water Authority provided services and activities.

Demographic and Economic Information
These tables offer demographic and economic indicators to help the reader understand the environment in which the Water Authority’s financial activities take place.

Note:
Unless otherwise noted, the information in these schedules is derived from the Water Authority’s comprehensive annual financial reports of the relevant year.
### Table 1

#### Net Position

#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Investment in Capital Assets</th>
<th>Restricted for Construction Projects</th>
<th>Restricted for Debt Service</th>
<th>Unrestricted</th>
<th>Total Net Position</th>
<th>Changes in Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1,138,160,938</td>
<td>$147,352,064</td>
<td>$235,337</td>
<td>$284,799,809</td>
<td>$1,570,548,140</td>
<td>$(1) $35,373,545</td>
</tr>
<tr>
<td>2016</td>
<td>1,148,155,974</td>
<td>156,718,296</td>
<td>158,377</td>
<td>232,035,734</td>
<td>1,537,068,381</td>
<td>40,495,681</td>
</tr>
<tr>
<td>2015</td>
<td>1,102,128,289</td>
<td>143,366,311</td>
<td>113,537</td>
<td>250,964,563</td>
<td>1,496,572,700</td>
<td>86,143,313</td>
</tr>
<tr>
<td>2014</td>
<td>1,011,397,033</td>
<td>201,696,008</td>
<td>549,186</td>
<td>257,965,113</td>
<td>1,471,607,340</td>
<td>81,003,310</td>
</tr>
<tr>
<td>2013</td>
<td>980,446,318</td>
<td>151,728,963</td>
<td>540,932</td>
<td>257,887,817</td>
<td>1,390,604,030</td>
<td>60,895,729</td>
</tr>
<tr>
<td>2012</td>
<td>976,837,047</td>
<td>133,157,019</td>
<td>675,910</td>
<td>219,038,325</td>
<td>1,329,708,301</td>
<td>52,228,329</td>
</tr>
<tr>
<td>2011</td>
<td>959,638,557</td>
<td>121,172,255</td>
<td>586,217</td>
<td>196,082,943</td>
<td>1,277,479,972</td>
<td>39,160,773</td>
</tr>
<tr>
<td>2010</td>
<td>954,037,294</td>
<td>115,506,824</td>
<td>597,315</td>
<td>185,460,362</td>
<td>1,255,601,795</td>
<td>48,261,746</td>
</tr>
<tr>
<td>2009</td>
<td>964,225,706</td>
<td>79,790,128</td>
<td>614,622</td>
<td>162,709,593</td>
<td>1,207,340,049</td>
<td>76,296,511</td>
</tr>
<tr>
<td>2008</td>
<td>873,060,643</td>
<td>97,515,721</td>
<td>637,302</td>
<td>159,829,872</td>
<td>1,131,043,538</td>
<td>55,277,185</td>
</tr>
</tbody>
</table>

Notes:

1. Beginning net position was restated by a decrease of $1,893,778 pursuant to GASB Statement No. 75 implemented in Fiscal Year 2017.
2. Beginning net position was restated by a decrease of $61,177,953 pursuant to GASB Statement Nos. 68 and 71 implemented in Fiscal Year 2015.
3. Net position at June 30, 2012 and 2011 was restated to reflect the bond issuance costs expensed in the period incurred.
4. Net position at June 30, 2009 and 2008 was restated to reflect the capitalization of project costs. Net position at June 30, 2008 was restated to reflect the cancellation of projects.
Revenues and Capital Contributions by Source
Last Ten Fiscal Years

Table 2.1

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water Sales (1)</th>
<th>Other Revenues</th>
<th>Total Operating Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$579,057,028</td>
<td>$3,727,332</td>
<td>$582,784,360</td>
</tr>
<tr>
<td>2016</td>
<td>524,934,642</td>
<td>3,240,007</td>
<td>528,174,649</td>
</tr>
<tr>
<td>2015</td>
<td>584,172,839</td>
<td>4,567,285</td>
<td>588,740,124</td>
</tr>
<tr>
<td>2014</td>
<td>593,695,290</td>
<td>3,935,305</td>
<td>597,630,595</td>
</tr>
<tr>
<td>2013</td>
<td>523,455,688</td>
<td>2,578,210</td>
<td>526,033,898</td>
</tr>
<tr>
<td>2012</td>
<td>443,347,502</td>
<td>1,519,525</td>
<td>444,867,027</td>
</tr>
<tr>
<td>2011</td>
<td>382,922,036</td>
<td>634,572</td>
<td>383,556,608</td>
</tr>
<tr>
<td>2010</td>
<td>387,871,218</td>
<td>4,965,060</td>
<td>392,836,278</td>
</tr>
<tr>
<td>2009</td>
<td>359,951,622</td>
<td>3,608,350</td>
<td>363,559,972</td>
</tr>
<tr>
<td>2008</td>
<td>343,455,834</td>
<td>9,500,104</td>
<td>352,955,938</td>
</tr>
</tbody>
</table>

Table 2.2

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Property Taxes</th>
<th>In-Lieu Charges (2)</th>
<th>Infrastructure Access Charges</th>
<th>Investment Income</th>
<th>Other, net</th>
<th>Total Nonoperating Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$10,816,635</td>
<td>$2,096,678</td>
<td>$31,144,704</td>
<td>2,237,947</td>
<td>22,860,940</td>
<td>69,156,904</td>
</tr>
<tr>
<td>2016</td>
<td>10,066,792</td>
<td>2,000,431</td>
<td>30,434,370</td>
<td>5,985,490</td>
<td>25,905,838</td>
<td>74,392,921</td>
</tr>
<tr>
<td>2015</td>
<td>9,577,280</td>
<td>1,898,327</td>
<td>29,895,726</td>
<td>2,905,952</td>
<td>18,967,088</td>
<td>63,244,373</td>
</tr>
<tr>
<td>2014</td>
<td>9,387,129</td>
<td>1,754,973</td>
<td>29,205,684</td>
<td>3,674,934</td>
<td>21,265,070</td>
<td>65,287,790</td>
</tr>
<tr>
<td>2013</td>
<td>9,202,932</td>
<td>1,593,549</td>
<td>28,675,422</td>
<td>2,936,474</td>
<td>13,546,781</td>
<td>55,956,158</td>
</tr>
<tr>
<td>2012</td>
<td>8,240,009</td>
<td>1,642,353</td>
<td>27,700,326</td>
<td>5,211,394</td>
<td>16,277,941</td>
<td>59,072,023</td>
</tr>
<tr>
<td>2011</td>
<td>8,071,041</td>
<td>1,583,467</td>
<td>24,507,570</td>
<td>6,960,755</td>
<td>19,250,470</td>
<td>60,373,303</td>
</tr>
<tr>
<td>2010</td>
<td>8,341,559</td>
<td>1,630,065</td>
<td>21,241,060</td>
<td>5,217,031</td>
<td>7,100,636</td>
<td>43,530,351</td>
</tr>
<tr>
<td>2009</td>
<td>8,760,552</td>
<td>1,706,932</td>
<td>19,389,790</td>
<td>18,507,476</td>
<td>5,396,592</td>
<td>53,761,342</td>
</tr>
<tr>
<td>2008</td>
<td>8,608,767</td>
<td>1,694,569</td>
<td>17,457,819</td>
<td>22,163,684</td>
<td>341,694</td>
<td>50,266,533</td>
</tr>
</tbody>
</table>

Notes:
(1) Includes readiness-to-serve and capacity charges assessed by the Metropolitan Water District (MWD).
(2) The City of San Diego elects to pay in-lieu charges rather than the tax levy. This calculation is based on prior year assessed valuation.
(3) Proposition 1A Borrowing by the State of California of $688,268 in Fiscal Year 2010 was recognized as tax revenues in the fiscal year for which they were levied.
Revenues and Capital Contributions by Source (continued)
Last Ten Fiscal Years

Table 2.3

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Capacity Charges</th>
<th>Water Standby Availability Charges</th>
<th>Contributions in Aid of Capital Assets</th>
<th>Total Capital Contributions</th>
<th>TOTAL REVENUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$21,080,540</td>
<td>$11,091,285</td>
<td>$219,325</td>
<td>$32,391,150</td>
<td>$684,332,414</td>
</tr>
<tr>
<td>2016</td>
<td>15,838,800</td>
<td>11,088,377</td>
<td>791,486</td>
<td>27,718,663</td>
<td>630,286,233</td>
</tr>
<tr>
<td>2015</td>
<td>22,559,844</td>
<td>11,106,743</td>
<td>6,897,528</td>
<td>40,564,115</td>
<td>692,548,612</td>
</tr>
<tr>
<td>2013</td>
<td>17,709,796</td>
<td>11,147,488</td>
<td>7,409,404</td>
<td>36,266,688</td>
<td>618,255,744</td>
</tr>
<tr>
<td>2012</td>
<td>11,098,619</td>
<td>11,240,988</td>
<td>4,533,844</td>
<td>26,873,451</td>
<td>530,812,501</td>
</tr>
<tr>
<td>2011</td>
<td>10,321,076</td>
<td>11,255,132</td>
<td>913,097</td>
<td>22,489,305</td>
<td>466,419,216</td>
</tr>
<tr>
<td>2010</td>
<td>10,298,928</td>
<td>11,240,386</td>
<td>4,087,011</td>
<td>25,626,325</td>
<td>461,992,954</td>
</tr>
<tr>
<td>2009</td>
<td>13,265,608</td>
<td>11,311,384</td>
<td>25,027,314</td>
<td>49,604,306</td>
<td>466,925,620</td>
</tr>
</tbody>
</table>

Total Revenues by Source, in Millions ($)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$684,332,414</td>
</tr>
<tr>
<td>2016</td>
<td>630,286,233</td>
</tr>
<tr>
<td>2015</td>
<td>692,548,612</td>
</tr>
<tr>
<td>2014</td>
<td>688,101,779</td>
</tr>
<tr>
<td>2013</td>
<td>618,255,744</td>
</tr>
<tr>
<td>2012</td>
<td>530,812,501</td>
</tr>
<tr>
<td>2011</td>
<td>466,419,216</td>
</tr>
<tr>
<td>2010</td>
<td>461,992,954</td>
</tr>
<tr>
<td>2009</td>
<td>466,925,620</td>
</tr>
<tr>
<td>2008</td>
<td>442,349,052</td>
</tr>
</tbody>
</table>
Expenses by Function
Last Ten Fiscal Years

Table 3.1

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Cost of Sales</th>
<th>Operations &amp; Maintenance Planning</th>
<th>General &amp; Administrative</th>
<th>Depreciation &amp; Amortization</th>
<th>Total Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$430,560,992</td>
<td>$19,097,518</td>
<td>$9,040,200</td>
<td>$14,487,899</td>
<td>$535,201,596</td>
</tr>
<tr>
<td>2016</td>
<td>387,123,145</td>
<td>18,212,388</td>
<td>8,651,233</td>
<td>14,259,469</td>
<td>487,739,351</td>
</tr>
<tr>
<td>2015</td>
<td>411,037,897</td>
<td>22,365,531</td>
<td>8,416,134</td>
<td>14,115,738</td>
<td>513,686,584</td>
</tr>
<tr>
<td>2014</td>
<td>422,699,658</td>
<td>18,780,808</td>
<td>8,851,384</td>
<td>13,670,808</td>
<td>518,592,276</td>
</tr>
<tr>
<td>2013</td>
<td>371,258,531</td>
<td>19,252,138</td>
<td>9,009,004</td>
<td>13,314,635</td>
<td>465,094,285</td>
</tr>
<tr>
<td>2012</td>
<td>312,446,563</td>
<td>16,800,991</td>
<td>7,163,795</td>
<td>13,545,177</td>
<td>401,662,275</td>
</tr>
<tr>
<td>2011</td>
<td>275,099,372</td>
<td>16,576,465</td>
<td>9,754,403</td>
<td>13,238,715</td>
<td>352,033,776</td>
</tr>
<tr>
<td>2010</td>
<td>291,385,187</td>
<td>15,482,609</td>
<td>8,642,260</td>
<td>15,270,175</td>
<td>361,437,481</td>
</tr>
<tr>
<td>2009</td>
<td>269,835,859</td>
<td>17,409,496</td>
<td>10,004,616</td>
<td>15,309,407</td>
<td>342,597,766</td>
</tr>
<tr>
<td>2008</td>
<td>262,538,493</td>
<td>14,475,780</td>
<td>8,882,047</td>
<td>13,561,452</td>
<td>327,937,979</td>
</tr>
</tbody>
</table>

Table 3.2

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Interest Expense (1)</th>
<th>Other, net</th>
<th>Total Nonoperating Expenses</th>
<th>TOTAL EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$95,533,730</td>
<td>$18,223,543</td>
<td>$113,757,273</td>
<td>$648,958,869</td>
</tr>
<tr>
<td>2016</td>
<td>85,112,986</td>
<td>16,938,215</td>
<td>102,051,201</td>
<td>589,790,552</td>
</tr>
<tr>
<td>2015</td>
<td>81,792,704</td>
<td>10,926,011</td>
<td>92,718,715</td>
<td>606,405,299</td>
</tr>
<tr>
<td>2014</td>
<td>77,791,397</td>
<td>10,714,796</td>
<td>88,506,193</td>
<td>607,098,469</td>
</tr>
<tr>
<td>2013</td>
<td>80,738,966</td>
<td>11,526,764</td>
<td>92,265,730</td>
<td>557,360,015</td>
</tr>
<tr>
<td>2012</td>
<td>69,076,153</td>
<td>7,845,744</td>
<td>76,921,897</td>
<td>478,584,172</td>
</tr>
<tr>
<td>2011</td>
<td>67,209,780</td>
<td>8,014,887</td>
<td>75,224,667</td>
<td>427,258,443</td>
</tr>
<tr>
<td>2010</td>
<td>38,982,442</td>
<td>13,311,285</td>
<td>52,293,727</td>
<td>413,731,208</td>
</tr>
<tr>
<td>2009</td>
<td>40,828,498</td>
<td>7,202,845</td>
<td>48,031,343</td>
<td>390,629,109</td>
</tr>
<tr>
<td>2008</td>
<td>52,170,107</td>
<td>6,963,781</td>
<td>59,133,888</td>
<td>387,071,867</td>
</tr>
</tbody>
</table>

Total Expenses, in Millions ($)

Notes:
(1) Net of interest expense incurred during construction, “capitalized interest”.
(2) Fiscal Years 2012 and 2011 expenses were restated for GASB 65 implementation.
## Operating Department/Program Expenses by Major Expense Category
### Last Ten Fiscal Years

**Table 4**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Labor &amp; Benefits</th>
<th>Outside Services</th>
<th>Supplies, Utilities, Insurance</th>
<th>Other Expenses</th>
<th>Capitalized Overhead</th>
<th>TOTAL OPERATING DEPARTMENT EXPENSES (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$30,203,216</td>
<td>$13,163,995</td>
<td>$3,809,016</td>
<td>$2,012,274</td>
<td>$(6,562,884)</td>
<td>$42,625,617</td>
</tr>
<tr>
<td>2016</td>
<td>30,157,924</td>
<td>12,393,149</td>
<td>3,264,804</td>
<td>1,832,617</td>
<td>(6,525,404)</td>
<td>41,123,090</td>
</tr>
<tr>
<td>2015</td>
<td>33,547,387</td>
<td>13,244,296</td>
<td>3,324,270</td>
<td>1,713,115</td>
<td>(6,931,665)</td>
<td>44,897,403</td>
</tr>
<tr>
<td>2014</td>
<td>29,882,613</td>
<td>13,981,175</td>
<td>3,127,000</td>
<td>1,640,283</td>
<td>(9,328,071)</td>
<td>39,303,000</td>
</tr>
<tr>
<td>2013</td>
<td>30,592,860</td>
<td>13,555,169</td>
<td>3,151,622</td>
<td>1,576,776</td>
<td>(7,300,650)</td>
<td>41,575,777</td>
</tr>
<tr>
<td>2012</td>
<td>30,342,606</td>
<td>8,759,265</td>
<td>2,584,696</td>
<td>2,270,811</td>
<td>(6,447,415)</td>
<td>37,509,963</td>
</tr>
<tr>
<td>2011</td>
<td>30,972,738</td>
<td>9,928,970</td>
<td>3,078,911</td>
<td>1,491,077</td>
<td>(5,902,113)</td>
<td>39,569,583</td>
</tr>
<tr>
<td>2010</td>
<td>30,934,843</td>
<td>8,588,898</td>
<td>2,614,997</td>
<td>1,622,306</td>
<td>(4,366,000)</td>
<td>39,395,044</td>
</tr>
<tr>
<td>2009</td>
<td>30,579,263</td>
<td>11,880,022</td>
<td>3,491,169</td>
<td>3,733,747</td>
<td>(6,960,682)</td>
<td>42,723,519</td>
</tr>
<tr>
<td>2008</td>
<td>27,488,581</td>
<td>9,908,019</td>
<td>2,807,336</td>
<td>1,937,361</td>
<td>(5,222,018)</td>
<td>36,919,279</td>
</tr>
</tbody>
</table>

Notes:

(1) Excludes equipment purchases.

![Total Operating Department/Program Expenses, in Millions ($)](image-url)
### Capital Assets

**Last Ten Fiscal Years**

**Table 5.1**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Land</th>
<th>Easements</th>
<th>Mitigation Banks</th>
<th>Storage Rights</th>
<th>Construction in Progress</th>
<th>Total Non-Depreciable Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$24,490,954</td>
<td>$11,915,888</td>
<td>$5,329,998</td>
<td>$485,570,349</td>
<td>$110,208,603</td>
<td>$637,515,792</td>
</tr>
<tr>
<td>2016</td>
<td>24,458,404</td>
<td>11,858,791</td>
<td>5,329,998</td>
<td>414,541,159</td>
<td>171,049,357</td>
<td>627,237,709</td>
</tr>
<tr>
<td>2014</td>
<td>23,244,672</td>
<td>7,933,369</td>
<td>5,017,023</td>
<td>41,016,383</td>
<td>555,898,353</td>
<td>633,109,800</td>
</tr>
<tr>
<td>2013</td>
<td>22,333,982</td>
<td>7,610,124</td>
<td>5,017,023</td>
<td>41,016,383</td>
<td>527,693,655</td>
<td>546,837,987</td>
</tr>
<tr>
<td>2012</td>
<td>19,291,657</td>
<td>7,301,686</td>
<td>2,644,029</td>
<td>-</td>
<td>637,434,621</td>
<td>666,671,993</td>
</tr>
<tr>
<td>2011</td>
<td>16,833,637</td>
<td>7,301,686</td>
<td>2,644,029</td>
<td>-</td>
<td>520,058,635</td>
<td>546,837,987</td>
</tr>
<tr>
<td>2010</td>
<td>16,421,418</td>
<td>1,023,887</td>
<td>2,644,029</td>
<td>-</td>
<td>1,200,331,306</td>
<td>1,220,420,640</td>
</tr>
</tbody>
</table>

**Table 5.2**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Pipelines and Dams</th>
<th>Facilities</th>
<th>Equipment</th>
<th>Intangible Software &amp; Mitigation</th>
<th>Participation and Capacity Rights</th>
<th>Total Depreciable Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,131,640,177</td>
<td>780,095,031</td>
<td>37,739,089</td>
<td>8,757,292</td>
<td>514,774,153</td>
<td>3,473,005,742</td>
</tr>
<tr>
<td>2015</td>
<td>1,871,305,792</td>
<td>739,777,239</td>
<td>36,341,572</td>
<td>7,917,720</td>
<td>511,932,470</td>
<td>3,167,274,793</td>
</tr>
<tr>
<td>2014</td>
<td>1,790,726,715</td>
<td>731,162,857</td>
<td>35,202,142</td>
<td>7,917,720</td>
<td>508,782,992</td>
<td>3,073,792,426</td>
</tr>
<tr>
<td>2013</td>
<td>1,786,130,985</td>
<td>744,832,423</td>
<td>34,751,465</td>
<td>7,644,109</td>
<td>503,001,729</td>
<td>3,076,360,711</td>
</tr>
<tr>
<td>2012</td>
<td>1,645,493,121</td>
<td>635,616,230</td>
<td>32,307,160</td>
<td>4,995,235</td>
<td>491,565,179</td>
<td>2,809,976,925</td>
</tr>
<tr>
<td>2011</td>
<td>1,629,816,278</td>
<td>622,504,085</td>
<td>31,694,365</td>
<td>3,253,579</td>
<td>482,042,703</td>
<td>2,769,311,010</td>
</tr>
<tr>
<td>2010</td>
<td>1,188,379,660</td>
<td>436,476,504</td>
<td>24,800,078</td>
<td>3,253,579</td>
<td>258,678,630</td>
<td>1,911,588,451</td>
</tr>
</tbody>
</table>

**Table 5.3**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Accumulated Depreciation/Amortization</th>
<th>Total Depreciable Assets, Net</th>
<th>NET CAPITAL ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$(655,592,090)</td>
<td>$2,853,904,858</td>
<td>$3,491,420,650</td>
</tr>
<tr>
<td>2016</td>
<td>(609,268,005)</td>
<td>2,863,737,737</td>
<td>3,490,975,446</td>
</tr>
<tr>
<td>2015</td>
<td>(550,095,993)</td>
<td>2,617,179,700</td>
<td>3,257,269,215</td>
</tr>
<tr>
<td>2014</td>
<td>(493,102,853)</td>
<td>2,580,689,573</td>
<td>3,213,799,373</td>
</tr>
<tr>
<td>2013</td>
<td>(436,681,789)</td>
<td>2,639,678,922</td>
<td>3,167,372,577</td>
</tr>
<tr>
<td>2012</td>
<td>(384,901,910)</td>
<td>2,425,075,015</td>
<td>3,091,747,008</td>
</tr>
<tr>
<td>2011</td>
<td>(334,288,815)</td>
<td>2,435,022,195</td>
<td>2,981,860,182</td>
</tr>
<tr>
<td>2010</td>
<td>(296,923,994)</td>
<td>1,614,664,457</td>
<td>2,835,085,097</td>
</tr>
</tbody>
</table>

Notes:

(1) In Fiscal Year 2012, the categorization of non-depreciable and depreciable capital assets was updated. For comparative purposes, Fiscal Years 2011 and 2010 have been updated.
Capital Assets (continued)

Last Ten Fiscal Years

Table 5.4

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Land</th>
<th>Construction in Progress</th>
<th>Work in Progress</th>
<th>Total Capital Assets Not Depreciated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$13,128,344</td>
<td>$1,302,928,098</td>
<td>$749,017</td>
<td>$1,316,805,459</td>
</tr>
<tr>
<td>2008</td>
<td>13,283,900</td>
<td>1,051,556,553</td>
<td>612,973</td>
<td>1,065,453,426</td>
</tr>
</tbody>
</table>

Table 5.5

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Olivenhain Dam</th>
<th>Water Transportation Pipelines</th>
<th>Pumping Plants and Facilities</th>
<th>Treatment Plants and Facilities</th>
<th>Automobiles &amp; Miscellaneous Equipment (2)</th>
<th>Intangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$175,971,199</td>
<td>$994,213,762</td>
<td>$173,706,256</td>
<td>$25,620,355</td>
<td>$55,068,680</td>
<td>$135,988,876</td>
</tr>
<tr>
<td>2008</td>
<td>175,971,199</td>
<td>960,401,118</td>
<td>171,651,588</td>
<td>25,620,355</td>
<td>56,100,131</td>
<td>105,829,841</td>
</tr>
</tbody>
</table>

Table 5.6

<table>
<thead>
<tr>
<th>Total Other Capital Assets</th>
<th>Accumulated Depreciation/Amortization</th>
<th>Depreciable Capital Assets, Net</th>
<th>NET CAPITAL ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,560,569,128</td>
<td>$(272,182,244)</td>
<td>$1,288,386,884</td>
<td>$2,605,192,343</td>
</tr>
<tr>
<td>1,495,574,232</td>
<td>(245,651,212)</td>
<td>1,249,923,020</td>
<td>2,315,376,446</td>
</tr>
</tbody>
</table>
## Schedule of Rates and Charges
### Last Ten Calendar Years\(^{(1)}\)

### Table 6.1

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Full Service Tier 1</th>
<th>Full Service Tier 2</th>
<th>Interim Agricultural Water Program(^{(3)})</th>
<th>Surface Storage Operating Agreement(^{(4)})</th>
<th>Replenishment Water Rate(^{(5)})</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UTR</td>
<td>TR</td>
<td>UTR</td>
<td>TR</td>
<td>UTR</td>
</tr>
<tr>
<td>2017</td>
<td>666 $</td>
<td>979 $</td>
<td>760 $</td>
<td>1,073 $</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>594 $</td>
<td>942 $</td>
<td>728 $</td>
<td>1,076 $</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>582 $</td>
<td>923 $</td>
<td>714 $</td>
<td>1,055 $</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>593 $</td>
<td>890 $</td>
<td>735 $</td>
<td>1,032 $</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>593 $</td>
<td>847 $</td>
<td>743 $</td>
<td>997 $</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>560 $</td>
<td>794 $</td>
<td>686 $</td>
<td>920 $</td>
<td>537</td>
</tr>
<tr>
<td>2011</td>
<td>527 $</td>
<td>744 $</td>
<td>652 $</td>
<td>869 $</td>
<td>482</td>
</tr>
<tr>
<td>2010</td>
<td>484 $</td>
<td>701 $</td>
<td>594 $</td>
<td>811 $</td>
<td>416</td>
</tr>
<tr>
<td>2009(^{(2)})</td>
<td>484 $</td>
<td>701 $</td>
<td>564 $</td>
<td>781 $</td>
<td>394</td>
</tr>
<tr>
<td>2009</td>
<td>412 $</td>
<td>579 $</td>
<td>528 $</td>
<td>695 $</td>
<td>322</td>
</tr>
<tr>
<td>2008</td>
<td>351 $</td>
<td>508 $</td>
<td>449 $</td>
<td>606 $</td>
<td>261</td>
</tr>
</tbody>
</table>

**Notes:**

1. All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
2. Reflects a mid-year rate increase effective September 1, 2009 to match MWD’s mid-year rate increase.
3. Reflects MWD treated Interim Agricultural Water Program (IAWP) rate and Water Authority charges prior to January 1, 2003. The IAWP will be discontinued after 2012.
4. This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. Effective January 1, 2003, MWD instituted a SSOA offering a discount of $70/acre-foot for “scheduled” water placed into reservoirs by member agencies. An increased discount rate of $105/acre-foot is offered for “call” water, which is withdrawn from reservoirs per MWD’s usage needs. SSOA was not renewed in 2009.
5. MWD’s Replenishment Rate is a discounted rate for surplus system supplies available for the purpose of replenishing local supplies.

UTR = untreated acre foot  
TR = treated acre foot
### Schedule of Rates and Charges (continued)
#### Last Ten Calendar Years

**Table 6.2**

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Melded Supply Rate</th>
<th>Special Agricultural Water Rate</th>
<th>Transportation Rate</th>
<th>Customer Service</th>
<th>Storage</th>
<th>Supply Reliability Charge</th>
<th>Standby Charge</th>
<th>Capacity Charge</th>
<th>Infrastructure Access Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$855</td>
<td>$1,145</td>
<td>$666</td>
<td>$956</td>
<td>$110</td>
<td>$26,400,000</td>
<td>$26,000,000</td>
<td>$10</td>
<td>$5,157</td>
</tr>
<tr>
<td>2016</td>
<td>780</td>
<td>1,060</td>
<td>594</td>
<td>874</td>
<td>105</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>10</td>
<td>4,963</td>
</tr>
<tr>
<td>2015</td>
<td>764</td>
<td>1,042</td>
<td>582</td>
<td>860</td>
<td>101</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>-</td>
<td>4,800</td>
</tr>
<tr>
<td>2014</td>
<td>732</td>
<td>1,006</td>
<td>593</td>
<td>867</td>
<td>97</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>-</td>
<td>4,800</td>
</tr>
<tr>
<td>2013</td>
<td>714</td>
<td>970</td>
<td>593</td>
<td>849</td>
<td>93</td>
<td>26,400,000</td>
<td>60,200,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2012</td>
<td>638</td>
<td>872</td>
<td>506</td>
<td>794</td>
<td>85</td>
<td>26,400,000</td>
<td>54,200,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2011</td>
<td>597</td>
<td>812</td>
<td>527</td>
<td>742</td>
<td>75</td>
<td>23,200,000</td>
<td>34,000,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2010</td>
<td>532</td>
<td>747</td>
<td>484</td>
<td>699</td>
<td>67</td>
<td>18,000,000</td>
<td>34,000,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2009(2)</td>
<td>532</td>
<td>747</td>
<td>484</td>
<td>699</td>
<td>67</td>
<td>16,000,000</td>
<td>23,000,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2008</td>
<td>463</td>
<td>631</td>
<td>412</td>
<td>580</td>
<td>64</td>
<td>16,000,000</td>
<td>23,000,000</td>
<td>-</td>
<td>4,492</td>
</tr>
<tr>
<td>2007</td>
<td>390</td>
<td>554</td>
<td>-</td>
<td>-</td>
<td>60</td>
<td>15,200,000</td>
<td>22,200,000</td>
<td>-</td>
<td>4,492</td>
</tr>
</tbody>
</table>

**Notes:**

1. All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
2. Reflects a mid-year rate increase effective September 1, 2009 to match MWD’s mid-year rate increase.
3. The Water Authority’s Melded Supply Rate includes MWD’s Full Service Tier 1 charge, as well as other supply and treatment charges.
4. A new transitional rate was adopted on December 10, 2008 for customers opting out of MWD’s IAWP. Customers participating in the Special Agricultural Water Rate (SAWR) program are considered M&I customers by MWD.
5. Per acre-foot of water.
6. The Supply Reliability charge is a fixed charge that went into effect on January 1, 2016 and recovers costs associated with desalinated and transfer water.
7. Per parcel or acre, whichever is greater.
8. Per equivalent meter (less than one inch) and includes system and treatment capacity charges.
9. Per equivalent meter.

UTR = untreated acre foot
TR = treated acre foot
### Water Sales by Customer for Fiscal Year Ended June 30, 2017

#### Table 7

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Water Sold (acre-feet)</th>
<th>Percent of Water Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td>162,186</td>
<td>38.6%</td>
</tr>
<tr>
<td>Otay Water District</td>
<td>27,002</td>
<td>6.4%</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>24,910</td>
<td>5.9%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>21,249</td>
<td>5.1%</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>20,220</td>
<td>4.8%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>17,474</td>
<td>4.2%</td>
</tr>
<tr>
<td>Rainbow Municipal Water District</td>
<td>17,202</td>
<td>4.1%</td>
</tr>
<tr>
<td>Vista Irrigation District</td>
<td>16,332</td>
<td>3.9%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>15,426</td>
<td>3.7%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>14,616</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

**Total Top Ten Customers** 336,617 80.2%

#### Fiscal Year Ended June 30, 2008

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Water Sold (acre-feet)</th>
<th>Percent of Water Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td>219,273</td>
<td>35.8%</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>39,962</td>
<td>6.5%</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>39,500</td>
<td>6.4%</td>
</tr>
<tr>
<td>Otay Water District</td>
<td>38,045</td>
<td>6.2%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>32,573</td>
<td>5.3%</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>27,198</td>
<td>4.4%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>26,722</td>
<td>4.4%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>25,242</td>
<td>4.1%</td>
</tr>
<tr>
<td>Vista Irrigation District</td>
<td>21,280</td>
<td>3.5%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>21,187</td>
<td>3.5%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>10,003</td>
<td>1.6%</td>
</tr>
<tr>
<td>Fallbrook Public Utilities District</td>
<td>17,622</td>
<td>2.9%</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>16,151</td>
<td>2.6%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>14,851</td>
<td>2.4%</td>
</tr>
<tr>
<td>San Diego Municipal Water District</td>
<td>8,116</td>
<td>1.3%</td>
</tr>
<tr>
<td>San Dieguito Water District</td>
<td>4,361</td>
<td>0.7%</td>
</tr>
<tr>
<td>Lakeside Water District</td>
<td>4,135</td>
<td>0.7%</td>
</tr>
<tr>
<td>Yuma Municipal Water District</td>
<td>3,676</td>
<td>0.6%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>1,210</td>
<td>0.2%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>75</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Total Top Ten Customers** 480,962 80.1%

**Other Customers** 83,655 19.8%

**Total Water Sales** 613,095 100.0%

---

(1) Represents gross water delivery net of water exchanges.

(2) Sweetwater Authority includes National City and South Bay Irrigation District.

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### Water Sales by Customer for Fiscal Year Ended June 30, 2017

- City of San Diego
- Otay Water District
- Helix Water District
- City of Oceanside
- Valley Center Municipal Water District
- Olivenhain Municipal Water District
- Rainbow Municipal Water District
- Vista Irrigation District
- City of Escondido
- Carlsbad Municipal Water District
- Other Customers

---

**Water Sales by Customer for Fiscal Year Ended June 30, 2017**

- City of San Diego: 38.6%
- Otay Water District: 5.9%
- Helix Water District: 6.4%
- City of Oceanside: 5.9%
- Valley Center Municipal Water District: 4.8%
- Olivenhain Municipal Water District: 4.1%
- Rainbow Municipal Water District: 3.9%
- Vista Irrigation District: 3.7%
- City of Escondido: 3.5%
- Carlsbad Municipal Water District: 3.5%
- Other Customers: 19.8%
Total Treated and Untreated Water Sales
Last Ten Fiscal Years

Table 8

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Treated Water</th>
<th>Untreated Water</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acre-Feet</td>
<td>Sales</td>
<td>Acre-Feet</td>
</tr>
<tr>
<td></td>
<td>Acre-Feet</td>
<td>Sales</td>
<td>Acre-Feet</td>
</tr>
<tr>
<td>2017</td>
<td>157,126</td>
<td>$185,939,681</td>
<td>263,146</td>
</tr>
<tr>
<td>2016</td>
<td>146,112</td>
<td>159,173,709</td>
<td>255,953</td>
</tr>
<tr>
<td>2015</td>
<td>173,204</td>
<td>181,907,967</td>
<td>321,779</td>
</tr>
<tr>
<td>2014</td>
<td>198,397</td>
<td>199,765,961</td>
<td>324,056</td>
</tr>
<tr>
<td>2012</td>
<td>181,445</td>
<td>150,884,055</td>
<td>261,198</td>
</tr>
<tr>
<td>2011</td>
<td>177,098</td>
<td>138,798,942</td>
<td>242,413</td>
</tr>
<tr>
<td>2010</td>
<td>195,937</td>
<td>147,719,098</td>
<td>294,892</td>
</tr>
<tr>
<td>2009</td>
<td>240,808</td>
<td>145,040,752</td>
<td>316,954</td>
</tr>
<tr>
<td>2008</td>
<td>265,421</td>
<td>142,182,057</td>
<td>347,674</td>
</tr>
</tbody>
</table>

Notes:
(1) Total water sales do not include MWD's readiness-to-serve and capacity charges; and are net of surface storage, seasonal storage, agriculture, and reclamation credits passed on to member agencies.

Total Treated and Untreated Water Sales
Total Acre-Feet (in Thousands)
## Assessed Valuation of Taxable Property

### Last Ten Fiscal Years

**Table 9**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local Secured Property</th>
<th>State Secured Property</th>
<th>Redevelopment and Homeowners Exemptions</th>
<th>Net Secured Assessed Value</th>
<th>Net Unsecured Assessed Value</th>
<th>Total Assessed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$452,291,604,769</td>
<td>$947,193,625</td>
<td>$48,943,478,320</td>
<td>$404,295,320,074</td>
<td>$13,343,942,403</td>
<td>$417,639,262,477</td>
</tr>
<tr>
<td>2016</td>
<td>427,427,915,780</td>
<td>798,410,621</td>
<td>45,982,840,513</td>
<td>382,243,485,888</td>
<td>13,084,323,381</td>
<td>395,327,809,269</td>
</tr>
<tr>
<td>2015</td>
<td>404,011,617,061</td>
<td>730,338,926</td>
<td>43,257,822,190</td>
<td>361,484,133,797</td>
<td>12,871,635,577</td>
<td>374,355,769,374</td>
</tr>
<tr>
<td>2014</td>
<td>380,636,482,118</td>
<td>808,778,971</td>
<td>40,786,610,505</td>
<td>340,658,650,584</td>
<td>12,314,446,187</td>
<td>352,973,096,771</td>
</tr>
<tr>
<td>2013</td>
<td>367,697,518,087</td>
<td>934,170,553</td>
<td>39,467,366,837</td>
<td>329,164,321,803</td>
<td>11,813,249,531</td>
<td>340,977,571,334</td>
</tr>
<tr>
<td>2012</td>
<td>368,513,444,797</td>
<td>948,639,459</td>
<td>39,371,348,044</td>
<td>330,090,736,212</td>
<td>11,762,281,838</td>
<td>341,853,018,050</td>
</tr>
<tr>
<td>2010</td>
<td>371,808,214,146</td>
<td>747,943,167</td>
<td>40,999,711,071</td>
<td>331,556,446,242</td>
<td>12,538,322,810</td>
<td>344,094,769,052</td>
</tr>
<tr>
<td>2009</td>
<td>381,979,733,503</td>
<td>589,927,644</td>
<td>42,074,337,530</td>
<td>340,495,323,617</td>
<td>11,869,245,103</td>
<td>352,364,568,720</td>
</tr>
</tbody>
</table>

Source: County of San Diego's Office of the Auditor & Controller.

### Total Assessed Valuation in Billions ($)

![Graph showing total assessed valuation in billions ($) from 2008 to 2017](graph.png)

Fiscal Year
### Levies and Collections
#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Property Taxes</th>
<th>Special Assessments (1)</th>
<th>Total Levy</th>
<th>Total Collections</th>
<th>Net Delinquent</th>
<th>% of Delinquent/Total Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$10,602,193</td>
<td>$11,912,245</td>
<td>$22,514,438</td>
<td>$21,531,426</td>
<td>$983,012</td>
<td>4.37%</td>
</tr>
<tr>
<td>2016</td>
<td>10,057,779</td>
<td>11,913,896</td>
<td>21,971,675</td>
<td>20,939,584</td>
<td>1,032,091</td>
<td>4.70%</td>
</tr>
<tr>
<td>2015</td>
<td>9,642,868</td>
<td>12,045,616</td>
<td>21,688,484</td>
<td>20,644,160</td>
<td>1,044,324</td>
<td>4.82%</td>
</tr>
<tr>
<td>2014</td>
<td>9,175,527</td>
<td>12,260,070</td>
<td>21,435,597</td>
<td>20,236,442</td>
<td>1,199,155</td>
<td>5.59%</td>
</tr>
<tr>
<td>2013</td>
<td>8,831,152</td>
<td>12,319,533</td>
<td>21,150,685</td>
<td>19,747,352</td>
<td>1,403,333</td>
<td>6.63%</td>
</tr>
<tr>
<td>2012</td>
<td>8,769,573</td>
<td>12,331,193</td>
<td>21,100,766</td>
<td>19,603,936</td>
<td>1,496,830</td>
<td>7.09%</td>
</tr>
<tr>
<td>2011</td>
<td>8,885,757</td>
<td>12,443,203</td>
<td>21,328,960</td>
<td>19,878,227</td>
<td>1,450,733</td>
<td>6.80%</td>
</tr>
<tr>
<td>2010</td>
<td>9,103,831</td>
<td>12,370,600</td>
<td>21,474,431</td>
<td>19,788,939</td>
<td>1,685,492</td>
<td>7.85%</td>
</tr>
<tr>
<td>2009</td>
<td>9,445,331</td>
<td>12,261,787</td>
<td>21,707,118</td>
<td>20,046,360</td>
<td>1,660,758</td>
<td>7.65%</td>
</tr>
<tr>
<td>2008</td>
<td>9,186,799</td>
<td>12,014,079</td>
<td>21,200,878</td>
<td>19,674,672</td>
<td>1,526,206</td>
<td>7.20%</td>
</tr>
</tbody>
</table>

**Notes:**

1. Represents the tax levy for the Water Authority's Water Standby Availability Charge.

**Source:**

County of San Diego's Office of the Auditor & Controller and the San Diego County Water Authority

---

### Total Levy and Collections in Millions ($)

![Graph showing total levy and collections](image-url)
Revenue Debt Service Coverage
Last Ten Fiscal Years

Table 11

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenues for Purpose of Calculation(1)</th>
<th>Operating Expenses(2)</th>
<th>Net Revenue Available for Debt Service</th>
<th>Senior Lien Debt Service(3)</th>
<th>Coverage Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$650,240,212</td>
<td>$460,273,296</td>
<td>$189,966,916</td>
<td>$41,560,000</td>
<td>150%</td>
</tr>
<tr>
<td>2016</td>
<td>589,264,060</td>
<td>416,179,012</td>
<td>173,085,048</td>
<td>26,550,000</td>
<td>150%</td>
</tr>
<tr>
<td>2015</td>
<td>636,915,844</td>
<td>444,459,693</td>
<td>192,456,151</td>
<td>34,615,000</td>
<td>150%</td>
</tr>
<tr>
<td>2014</td>
<td>643,791,434</td>
<td>450,860,556</td>
<td>192,930,878</td>
<td>31,940,000</td>
<td>150%</td>
</tr>
<tr>
<td>2013</td>
<td>584,848,831</td>
<td>402,037,827</td>
<td>182,811,004</td>
<td>28,175,000</td>
<td>150%</td>
</tr>
<tr>
<td>2012</td>
<td>502,859,753</td>
<td>340,074,164</td>
<td>162,785,589</td>
<td>26,585,000</td>
<td>147%</td>
</tr>
<tr>
<td>2011</td>
<td>446,399,335</td>
<td>305,014,447</td>
<td>141,384,888</td>
<td>24,120,000</td>
<td>136%</td>
</tr>
<tr>
<td>2010</td>
<td>439,639,107</td>
<td>320,808,607</td>
<td>118,830,500</td>
<td>6,365,000</td>
<td>150%</td>
</tr>
<tr>
<td>2009</td>
<td>412,709,321</td>
<td>302,091,894</td>
<td>110,617,427</td>
<td>19,820,000</td>
<td>150%</td>
</tr>
<tr>
<td>2008</td>
<td>414,064,382</td>
<td>289,154,436</td>
<td>124,849,946</td>
<td>34,685,000</td>
<td>150%</td>
</tr>
</tbody>
</table>

(1) Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contributions in aid of capital assets, and Capital Improvement Program (CIP) grant reimbursements.

(2) Excludes depreciation and amortization expenses; net of applicable property tax receipts.

(3) Excludes commercial paper.

(4) Excludes $51,005,000 principal payment on the 1998A COPs which was paid from debt proceeds.

(5) Excludes $1,500,000 interest payment on the 2008A COPs and $9,530,000 interest payment on the 2010A and B Bonds, which was paid from debt proceeds.

(6) Excludes $18,023,409 interest payment on the 2008A COPs which was paid from debt proceeds.

(7) Excludes $64,238,181 principal payment on the 1997A COPs which was paid from debt proceeds.
Long-term Debt Outstanding
Last Ten Fiscal Years (in Thousands)

Table 12.1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>43,925</td>
<td>55,605</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>-</td>
<td>57,375</td>
<td>512,650</td>
<td>571,010</td>
</tr>
<tr>
<td>2014</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>43,925</td>
<td>70,885</td>
<td>536,110</td>
<td>662,605</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>43,925</td>
<td>83,490</td>
<td>547,030</td>
<td>686,130</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
<td>-</td>
<td>11,685</td>
<td>-</td>
<td>17,510</td>
<td>243,370</td>
<td>255,855</td>
<td>708,225</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
<td>6,110</td>
<td>11,685</td>
<td>236,750</td>
<td>425,000</td>
<td>107,455</td>
<td>558,015</td>
<td>1,345,015</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
<td>23,610</td>
<td>11,685</td>
<td>243,370</td>
<td>425,000</td>
<td>107,455</td>
<td>558,015</td>
<td>1,369,135</td>
</tr>
<tr>
<td>2009</td>
<td>-</td>
<td>23,610</td>
<td>62,690</td>
<td>249,735</td>
<td>425,000</td>
<td>107,455</td>
<td>558,015</td>
<td>1,426,505</td>
</tr>
<tr>
<td>2008</td>
<td>13,700</td>
<td>23,610</td>
<td>62,690</td>
<td>255,855</td>
<td>425,000</td>
<td>107,455</td>
<td>558,015</td>
<td>1,446,325</td>
</tr>
</tbody>
</table>

Original Par Amount $ 135,650 $ 162,315 $ 180,000 $ 300,000 $ 425,000 $ 107,455 $ 558,015 $ -

Debt Service Reserve Funds $ - $ - $ - $ 12,241 $ - $ - $ 10,746 $ 23,671 $ 46,658

Final Maturity (FY) 2009 2012 2028 2013 2015 2022 2020 -

Notes:
(1) $18,365,750 of proceeds were released from the debt service reserve fund to defease the balance of $17,510,000 on the 2002A COPs in February 2013.
(2) $43,925,000 was defeased on the 2004A COPs in February 2015.
(3) $344,785,000 of the 2004A COPs was refunded by the 2013A Bonds in March 2013.
(4) $4,052,362 of proceeds were released from the debt service reserve fund to defease part of the 2004A COPs in February 2015.
(5) Balance satisfied with surety bond.
(6) $142,445,000 of the 2008A COPs was refunded by the 2015A Bonds in September 2015; $114,895,000 and $205,195,000 of the 2008A COPs was refunded by the 2016A and 2016B Bonds, respectively, in June 2016.
(7) $12,100,000 was defeased on the 2008A COPs in February 2015.
(8) $64,238,181 of proceeds were used to make an early payment on the 1997A COPs in June 2008.
(9) $52,375,000 of the 2010A Bonds was refunded by the 2015A Bonds in September 2015; $20,425,000 of the 2010A Bonds was refunded by the 2016B Bonds in June 2016.
(10) $86,630,000 of the 2011S-1 Bonds was refunded by the Series 9 Notes in May 2016.
(11) See Table 16 for personal income and population data.
### Table 12.2

**Revenue Bonds**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Unamortized Premiums and Discounts</th>
<th>Total Debt Outstanding (in Thousands)</th>
<th>% of Personal Income(^{(11)})</th>
<th>Debt Per Capita (in dollars)(^{(11)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$181,348</td>
<td>$2,664,893</td>
<td>1.03%</td>
<td>$619</td>
</tr>
<tr>
<td>2016</td>
<td>195,579</td>
<td>2,120,684</td>
<td>1.13%</td>
<td>642</td>
</tr>
<tr>
<td>2015</td>
<td>97,009</td>
<td>1,898,594</td>
<td>1.13%</td>
<td>575</td>
</tr>
<tr>
<td>2014</td>
<td>105,863</td>
<td>1,998,088</td>
<td>1.19%</td>
<td>612</td>
</tr>
<tr>
<td>2013</td>
<td>114,717</td>
<td>2,038,882</td>
<td>1.27%</td>
<td>633</td>
</tr>
<tr>
<td>2012</td>
<td>69,809</td>
<td>2,085,339</td>
<td>1.34%</td>
<td>655</td>
</tr>
<tr>
<td>2011</td>
<td>39,402</td>
<td>2,009,047</td>
<td>1.36%</td>
<td>639</td>
</tr>
<tr>
<td>2010</td>
<td>41,603</td>
<td>2,035,369</td>
<td>1.47%</td>
<td>656</td>
</tr>
<tr>
<td>2009</td>
<td>35,076</td>
<td>1,461,581</td>
<td>1.09%</td>
<td>477</td>
</tr>
<tr>
<td>2008</td>
<td>37,463</td>
<td>1,483,788</td>
<td>1.07%</td>
<td>491</td>
</tr>
</tbody>
</table>
Direct and Overlapping Debt  
June 30, 2017

Table 13

2016-17 Assessed Valuation:  $451,908,408,914

<table>
<thead>
<tr>
<th>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</th>
<th>Total Debt Outstanding June 30, 2017</th>
<th>% Applicable (1)</th>
<th>Estimated Share of Overlapping Debt as of June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Water District</td>
<td>74,905,000</td>
<td>17.494%</td>
<td>$13,103,881</td>
</tr>
<tr>
<td>Community College Districts</td>
<td>2,519,254,600</td>
<td>79.889-99.956%</td>
<td>2,424,978,071</td>
</tr>
<tr>
<td>Other Unified School Districts</td>
<td>1,116,320,514</td>
<td>Various</td>
<td>1,112,619,375</td>
</tr>
<tr>
<td>High School Districts</td>
<td>1,356,591,066</td>
<td>Various</td>
<td>1,322,417,247</td>
</tr>
<tr>
<td>School Districts</td>
<td>948,849,434</td>
<td>Various</td>
<td>917,832,381</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>60,460,000</td>
<td>99.483%</td>
<td>60,147,422</td>
</tr>
<tr>
<td>City of La Mesa</td>
<td>21,825,000</td>
<td>99.983%</td>
<td>21,821,290</td>
</tr>
<tr>
<td>City of National City</td>
<td>3,900,000</td>
<td>99.876%</td>
<td>3,895,164</td>
</tr>
<tr>
<td>Grossmont Healthcare District</td>
<td>263,913,330</td>
<td>95.863%</td>
<td>252,995,236</td>
</tr>
<tr>
<td>Palomar Pomerado Hospital District</td>
<td>443,465,867</td>
<td>98.059%</td>
<td>434,858,195</td>
</tr>
<tr>
<td>Otay Water District, I.D. No. 27</td>
<td>3,995,000</td>
<td>Various</td>
<td>3,995,000</td>
</tr>
<tr>
<td>Community Facilities Districts</td>
<td>1,340,152,144</td>
<td>100.000%</td>
<td>1,340,152,144</td>
</tr>
<tr>
<td>1915 Act Bonds (Estimated)</td>
<td>80,060,824</td>
<td>100.000%</td>
<td>80,060,824</td>
</tr>
<tr>
<td><strong>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</strong></td>
<td><strong>$10,840,489,159</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| OVERLAPPING GENERAL FUND DEBT:                  |                                     |                 |                                                     |
| San Diego County General Fund Obligations       | 291,180,000                         | 96.714%         | 281,611,825                                          |
| San Diego County Pension Obligation Bonds       | 605,520,000                         | 96.714%         | 585,622,613                                          |
| San Diego Superintendent of Schools Certificates of Participation | 11,460,000 | 96.714% | 11,083,424 |
| Community College District Certificates of Participation | 17,225,000 | 79.889-99.921% | 16,912,385 |
| Unified School District General Fund Obligations | 201,434,984 | 90.005-99.956% | 198,456,088 |
| High School and School District General Fund Obligations | 408,400,401 | 89.520-99.987% | 404,268,796 |
| City of San Diego General Fund Obligations     | 570,460,000                         | 99.948%         | 570,163,361                                          |
| Other City General Fund Obligations            | 318,380,152                         | 99.076%         | 317,587,417                                          |
| San Miguel Consolidated Fire Protection District General Fund Obligations | 6,768,000  | 99.519% | 6,735,446 |
| Lakeside Fire General Fund Obligations         | 5,370,000                           | 95.860%         | 5,147,682                                            |
| **TOTAL OVERLAPPING GENERAL FUND DEBT:**       | **$2,397,589,037**                 |                 |                                                     |

**OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):** $1,250,235,964 1.163-100.0% $1,210,147,616

**TOTAL DIRECT DEBT** $0

**TOTAL OVERLAPPING DEBT** $14,448,225,812

**COMBINED TOTAL DEBT** $14,448,225,812 (2)

Ratios to 2016-17 Assessed Valuation

- Direct Debt 0.00%
- Total Direct and Overlapping Tax and Assessment Debt 2.40%
- Combined Total Debt 3.20%

Ratios to Redevelopment Successor Agencies Incremental Valuation ($48,497,358,705)

- Total Overlapping Tax Increment Debt 2.50%

Notes:

1. The percentage of overlapping debt applicable to the authority is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the authority divided by the district's total taxable assessed value.

2. Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.
General Information
June 30, 2017

Table 14

<table>
<thead>
<tr>
<th>Number of member agencies</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>6</td>
</tr>
<tr>
<td>Water districts</td>
<td>5</td>
</tr>
<tr>
<td>Irrigation districts</td>
<td>3</td>
</tr>
<tr>
<td>Municipal water districts</td>
<td>8</td>
</tr>
<tr>
<td>Public utility districts</td>
<td>1</td>
</tr>
<tr>
<td>Federal agency (military base)</td>
<td>1</td>
</tr>
</tbody>
</table>

Operating Indicators
Last 10 Fiscal Years

Table 15

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Water System Service Area(1)</th>
<th>Number of Primary Pipelines</th>
<th>Miles of Pipeline</th>
<th>Miles of Patrol Road Maintained</th>
<th>Number of Service Connections</th>
<th>Treated Water Pipeline Capacity(2)</th>
<th>Untreated Water Pipeline Capacity(2)</th>
<th>Average Daily Deliveries(2)</th>
<th>Total Regular Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>946,000</td>
<td>5</td>
<td>310</td>
<td>168</td>
<td>96</td>
<td>420</td>
<td>504</td>
<td>375</td>
<td>250.00</td>
</tr>
<tr>
<td>2016</td>
<td>951,000</td>
<td>5</td>
<td>310</td>
<td>168</td>
<td>96</td>
<td>420</td>
<td>504</td>
<td>349</td>
<td>247.40</td>
</tr>
<tr>
<td>2015</td>
<td>951,000</td>
<td>5</td>
<td>300</td>
<td>168</td>
<td>96</td>
<td>420</td>
<td>504</td>
<td>442</td>
<td>253.65</td>
</tr>
<tr>
<td>2014</td>
<td>946,000</td>
<td>5</td>
<td>300</td>
<td>150</td>
<td>96</td>
<td>420</td>
<td>504</td>
<td>467</td>
<td>252.50</td>
</tr>
<tr>
<td>2013</td>
<td>951,000</td>
<td>5</td>
<td>300</td>
<td>150</td>
<td>96</td>
<td>420</td>
<td>504</td>
<td>430</td>
<td>253.00</td>
</tr>
<tr>
<td>2012</td>
<td>947,288</td>
<td>5</td>
<td>300</td>
<td>150</td>
<td>106</td>
<td>420</td>
<td>504</td>
<td>395</td>
<td>254.50</td>
</tr>
<tr>
<td>2011</td>
<td>951,000</td>
<td>5</td>
<td>300</td>
<td>150</td>
<td>106</td>
<td>420</td>
<td>504</td>
<td>375</td>
<td>267.50</td>
</tr>
<tr>
<td>2010</td>
<td>951,000</td>
<td>5</td>
<td>300</td>
<td>150</td>
<td>131</td>
<td>420</td>
<td>504</td>
<td>440</td>
<td>267.50</td>
</tr>
<tr>
<td>2009</td>
<td>951,000</td>
<td>5</td>
<td>300</td>
<td>168</td>
<td>121</td>
<td>420</td>
<td>504</td>
<td>496</td>
<td>267.50</td>
</tr>
<tr>
<td>2008</td>
<td>943,425</td>
<td>5</td>
<td>279</td>
<td>135</td>
<td>119</td>
<td>420</td>
<td>504</td>
<td>590</td>
<td>268.50</td>
</tr>
</tbody>
</table>

Notes:
(1) Acres.
(2) Millions of gallons per day (mgd).
Demographic and Economic Statistics
Last Ten Calendar Years

Table 16

<table>
<thead>
<tr>
<th>Year</th>
<th>County Population (1)</th>
<th>Personal Income (in thousands) (2)</th>
<th>Per Capita Personal Income (in dollars) (2)</th>
<th>Unemployment Rate (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3,337,300</td>
<td>$199,700,000</td>
<td>$59,839</td>
<td>4.2%</td>
</tr>
<tr>
<td>2016</td>
<td>3,305,481</td>
<td>$187,900,000</td>
<td>$56,845</td>
<td>4.7%</td>
</tr>
<tr>
<td>2015</td>
<td>3,299,421</td>
<td>175,858,000</td>
<td>53,300</td>
<td>5.2%</td>
</tr>
<tr>
<td>2014</td>
<td>3,263,431</td>
<td>167,931,419</td>
<td>51,459</td>
<td>6.4%</td>
</tr>
<tr>
<td>2013</td>
<td>3,222,558</td>
<td>160,828,662</td>
<td>49,907</td>
<td>7.8%</td>
</tr>
<tr>
<td>2012</td>
<td>3,183,413</td>
<td>155,954,440</td>
<td>48,990</td>
<td>9.1%</td>
</tr>
<tr>
<td>2011</td>
<td>3,141,768</td>
<td>147,960,807</td>
<td>47,095</td>
<td>10.3%</td>
</tr>
<tr>
<td>2010</td>
<td>3,104,182</td>
<td>138,346,589</td>
<td>44,568</td>
<td>10.8%</td>
</tr>
<tr>
<td>2009</td>
<td>3,061,203</td>
<td>134,139,980</td>
<td>43,819</td>
<td>9.4%</td>
</tr>
<tr>
<td>2008</td>
<td>3,022,116</td>
<td>138,673,021</td>
<td>45,886</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source:
(1) U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data
(2) CALMIS, Employment Development Department (EDD)
(3) California Department of Transportation (estimates)

Largest Employers in San Diego
Fiscal Year 2017 and 2008

Table 17

<table>
<thead>
<tr>
<th>2017 (1)</th>
<th>Industry Type</th>
<th># of Employees</th>
<th>% of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of California, San Diego</td>
<td>1</td>
<td>26,000</td>
<td>1.79%</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>2</td>
<td>20,500</td>
<td>1.41%</td>
</tr>
<tr>
<td>United States Navy, San Diego</td>
<td>3</td>
<td>20,000</td>
<td>1.38%</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>4</td>
<td>19,500</td>
<td>1.34%</td>
</tr>
<tr>
<td>San Diego Unified School District</td>
<td>5</td>
<td>15,881</td>
<td>1.09%</td>
</tr>
<tr>
<td>Sharp Healthcare</td>
<td>6</td>
<td>14,390</td>
<td>0.99%</td>
</tr>
<tr>
<td>Scripps Healthcare</td>
<td>7</td>
<td>12,700</td>
<td>0.87%</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>8</td>
<td>9,444</td>
<td>0.65%</td>
</tr>
<tr>
<td>Kaiser Foundation Hospital</td>
<td>9</td>
<td>7,608</td>
<td>0.52%</td>
</tr>
<tr>
<td>San Diego State University</td>
<td>10</td>
<td>6,939</td>
<td>0.48%</td>
</tr>
<tr>
<td>Total All Industries</td>
<td></td>
<td>152,962</td>
<td>10.52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2008 (2)</th>
<th>Industry Type</th>
<th># of Employees</th>
<th>% of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Navy, San Diego</td>
<td>1</td>
<td>42,000</td>
<td>3.18%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2</td>
<td>39,100</td>
<td>2.96%</td>
</tr>
<tr>
<td>State of California</td>
<td>3</td>
<td>37,100</td>
<td>2.81%</td>
</tr>
<tr>
<td>University of California, San Diego</td>
<td>4</td>
<td>24,790</td>
<td>1.88%</td>
</tr>
<tr>
<td>San Diego Unified School District</td>
<td>5</td>
<td>21,073</td>
<td>1.59%</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>6</td>
<td>20,700</td>
<td>1.57%</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>7</td>
<td>18,900</td>
<td>1.43%</td>
</tr>
<tr>
<td>Sharp Healthcare</td>
<td>8</td>
<td>13,872</td>
<td>1.05%</td>
</tr>
<tr>
<td>Scripps Healthcare</td>
<td>9</td>
<td>10,313</td>
<td>0.78%</td>
</tr>
<tr>
<td>Kaiser Permanente</td>
<td>10</td>
<td>7,386</td>
<td>0.56%</td>
</tr>
<tr>
<td>Total All Industries</td>
<td></td>
<td>235,234</td>
<td>17.80%</td>
</tr>
</tbody>
</table>

2017 Total Number employed in San Diego County (3) | 1,453,600 |
2008 Total Number employed in San Diego County (3) | 1,321,500 |

Source:
(1) San Diego's Top Ten
(2) The Daily Transcript, Sourcebook 2008
(3) California Employment Development Department
CONTINUING DISCLOSURE
October 27, 2017

Dear friends and interested parties:

We are pleased to present the Continuing Disclosure Report (Report) for fiscal year ended June 30, 2017 for the San Diego County Water Authority (Water Authority).

The information provided in this Report speaks only as of its date, November 8, 2017 and the financial and operating data included therein is accurate only as of the dates specified therein. The delivery of this Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement of the Water Authority. Other than as set forth in its Continuing Disclosure Agreements, the Water Authority has not undertaken to disclose financial or operating data or to provide notice of changes to the information in this Report.

This Report is provided solely pursuant to the Water Authority's Continuing Disclosure Agreements. The filing of this Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Water Authority or the referenced securities, or (iii) that no changes, circumstances, or events have occurred since the end of the fiscal year to which this Report relates (other than as contained in this Report), or any other date specified with respect to any of the information contained in this Report, or that no other information exists, which may have a bearing on the security for the referenced securities, or an investor's decision to buy, sell, or hold the referenced securities. The information contained in this Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Report should be construed as a prediction or representation about future financial performance of the Water Authority. Any statements regarding the referenced securities, other than a statement made by the Water Authority in an official release or subsequent notice published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board are not authorized by the Water Authority. The Water Authority shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Report, please contact Lisa Marie Harris, Director of Finance at (858) 522-6671, or by email at lharris@sdcwa.org.

Sincerely,

Lisa Marie Harris, Director of Finance/Treasurer

A public agency providing a safe and reliable water supply to the San Diego region.
General Information

**SAN DIEGO COUNTY WATER AUTHORITY MANAGEMENT**

Maureen A. Stapleton
General Manager

Sandra L. Kerl
Deputy General Manager

Dennis A. Cushman
Assistant General Manager

Lisa Marie Harris
Director of Finance/Treasurer

Mark Hattam
General Counsel

The Water Authority was organized by nine member agencies in 1944 for the primary purpose of supplying water to San Diego County for distribution to the Water Authority’s member agencies. The Water Authority currently has 24 member agencies. A member of the San Diego County Board of Supervisors serves as a non-voting representative to the Water Authority Board of Directors. As a wholesale entity, the Water Authority serves only its member agencies and has no retail customers. The Water Authority has broad powers related to acquiring, developing, storing, transporting, selling, and delivering water both inside and outside its boundaries. The Water Authority is authorized to fix and collect rates or other charges for the purchase and delivery of water or the use of facilities for service. The Water Authority may borrow money, incur indebtedness, and issue bonds and other evidences of indebtedness.

The Water Authority currently receives a minor amount of revenue from hydroelectric power sales. Legislation enacted in September 2000 expands the Water Authority’s power generation authority to include the purchase, sale, and transmission of energy.
Selected Financial Highlights

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are located in the Financial Section, under the Financial Statements tab, pages 31 and 32, respectively.

The Water Authority’s restricted and unrestricted cash and investments balances at June 30, 2017 were $169.9 million and $194.6 million respectively. Approximately 52.7 percent of total cash is unrestricted.

**TABLE 1. CASH AND INVESTMENTS, JUNE 30, 2017 AND 2016**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>$ 2,663,522</td>
<td>$ 55,448,642</td>
</tr>
<tr>
<td>Debt Service Reserve (1)</td>
<td>22,523,325</td>
<td>22,448,531</td>
</tr>
<tr>
<td>Pay-As-You-Go</td>
<td>147,352,064</td>
<td>156,647,460</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 172,538,911</strong></td>
<td><strong>$ 234,544,633</strong></td>
</tr>
</tbody>
</table>

As of June 30, 2017 and 2016, unrestricted cash and investments balances were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>$ 55,645,254</td>
<td>$ 49,282,921</td>
</tr>
<tr>
<td>Designated for Rate Stabilization</td>
<td>135,072,833</td>
<td>125,312,636</td>
</tr>
<tr>
<td>Designated for Equipment Replacement</td>
<td>1,195,081</td>
<td>2,893,890</td>
</tr>
<tr>
<td>Designated for Stored Water</td>
<td>-</td>
<td>23,630,099</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 191,913,168</strong></td>
<td><strong>$ 201,119,546</strong></td>
</tr>
</tbody>
</table>

Note:
(1) The Debt Service Reserve balance includes the California Pollution Control Financing Authority (CPCFA) issued 2012 Pipeline Bond reserves.
Summary of Outstanding Debt

The Water Authority continues to hold long-term senior lien credit ratings of AA+, and Aa2 from Fitch and Moody’s, and was upgraded from AA+ to AAA by Standard & Poor’s in May 2016. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Poors, Fitch, and Moody’s, respectively.

**LONG-TERM SENIOR LIEN FIXED-RATE DEBT**

The table below summarizes the Water Authority’s outstanding long-term, fixed-rate debt as of June 30, 2017, which includes final maturities, original par amounts, amounts outstanding, and applicable debt service reserve fund requirements. All reserve requirements are fully funded by either reserves or surety bonds.

**TABLE 2. LONG-TERM, FIXED-RATE DEBT OUTSTANDING, FISCAL YEAR JUNE 30, 2017**

<table>
<thead>
<tr>
<th>Issue Name</th>
<th>Final Maturity</th>
<th>Original Par Amount</th>
<th>Amount Outstanding</th>
<th>Debt Service Reserve Funds (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water Revenue Certificates of Participation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 1998A</td>
<td>2028</td>
<td>$180,000,000</td>
<td>$11,685,000</td>
<td>$12,240,775</td>
</tr>
<tr>
<td>Series 2005A</td>
<td>2022</td>
<td>107,455,000</td>
<td>28,490,000</td>
<td>10,745,500 (2)</td>
</tr>
<tr>
<td>Series 2008A</td>
<td>2020</td>
<td>558,015,000</td>
<td>34,460,000</td>
<td>23,670,625 (2)</td>
</tr>
<tr>
<td><strong>Water Revenue Bonds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2010A</td>
<td>2020</td>
<td>98,495,000</td>
<td>13,460,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2010B (Taxable Build America Bonds)</td>
<td>2049</td>
<td>526,135,000</td>
<td>526,135,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2011A</td>
<td>2027</td>
<td>139,945,000</td>
<td>103,635,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2011B</td>
<td>2031</td>
<td>94,540,000</td>
<td>94,540,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2013A</td>
<td>2034</td>
<td>299,105,000</td>
<td>299,105,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2015A</td>
<td>2029</td>
<td>184,795,000</td>
<td>184,795,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2016A</td>
<td>2033</td>
<td>98,945,000</td>
<td>98,945,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 2016B</td>
<td>2038</td>
<td>197,395,000</td>
<td>197,395,000</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$2,484,825,000</td>
<td>$1,592,645,000</td>
<td>$46,656,900</td>
</tr>
</tbody>
</table>

Notes:
* The CPCFA issued 2012 Pipeline Bond is not shown as they are super-subordinate bonds and therefore not included in debt service coverage calculations.
(1) Amounts stated reflect the minimum balance required.
(2) Balance satisfied with surety bond.
SHORT-TERM AND SUBORDINATE LIEN FIXED-RATE DEBT

The Water Authority currently has three forms of short-term debt: five-year fixed-rate bonds, Tax-Exempt Commercial Paper (TECP) and Extendable Commercial Paper (ECP).


The Water Authority established its TECP Program in 1995. Commercial paper is a form of variable-rate debt, and is issued with maturities of 1 to 270 days. When the commercial paper matures, it is rolled over to new investors by the Water Authority’s commercial paper dealers. The Water Authority has authorized the issuance of up to $460,000,000 of TECP, with $245,000,000 issued and outstanding. The TECP has been issued in two series – Series 8 ($110,000,000), and Series 9 ($135,000,000). Series 8 was issued in 2014 and series 9 was issued in 2016. Each of these series is supported with a bank “revolving credit and term loan agreement”. As of June 30, 2016, no advances have been made under any of the revolving credit and term loan agreements.


The Water Authority established an ECP Program in June 2014. ECP is considered a market access product. A market access product such as ECP does not require bank liquidity to back stop the notes. This allows the Water Authority to save on bank costs for revolving credit and term loan agreements which support the TECP program. ECP is issued with a final maturity between 1 and 120 days. If the notes cannot be remarketed at their maturity date, the notes will be automatically extended to 270 days from the initial issuance and bear interest at a penalty rate until the notes can be remarketed or redeemed. The product’s final maturity of 270 days assures that ECP complies with SEC Rule 2a7, making the notes eligible investments for money market funds. The ECP has been issued as Series 1, for $100,000,000 par amount.

The Water Authority has remarketing agreements with Bank of America Merrill Lynch, Morgan Stanley & Co. LLC, and JP Morgan Securities, LLC who serve as the dealers for ECP.

### TABLE 3. SUBORDINATE LIEN FIXED-RATE DEBT, FISCAL YEAR JUNE 30, 2017

<table>
<thead>
<tr>
<th>Issue Name</th>
<th>Final Maturity</th>
<th>Original Par Amount</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Revenue Refunding Bonds, Series 2016S-1</td>
<td>2021</td>
<td>$87,685,000</td>
<td>$87,685,000</td>
</tr>
</tbody>
</table>

### TABLE 4. TECP & ECP PROGRAM SUMMARY, FISCAL YEAR JUNE 30, 2017

<table>
<thead>
<tr>
<th>Short-Term Active Debt</th>
<th>Size</th>
<th>Liquidity Provider</th>
<th>Liquidity Provider Agreement Expiration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 1 (ECP)</td>
<td>$100,000,000</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Series 8</td>
<td>110,000,000</td>
<td>Bank of Tokyo Mitsubishi, UFJ</td>
<td>June 26, 2019 (1)</td>
</tr>
<tr>
<td>Series 9</td>
<td>135,000,000</td>
<td>Bank of America, N.A.</td>
<td>July 16, 2018</td>
</tr>
<tr>
<td>Total</td>
<td>$345,000,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) The Series 8 Remarketing Agreement was amended in May of 2017, and extended to June 2019.
Member Agency Voting Entitlements

The 24 voting member agencies currently served by the Water Authority consist of six cities, 17 special districts, and one federal agency. Under the County Water Authority Act (Act), California Statutes 1943, Chapter 545, a member agency’s vote is based on its “total financial contribution” to the Water Authority since the Water Authority was organized in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of the Water Authority or the Metropolitan Water District of Southern California (MWD) excluding charges for water treatment. The Act authorizes each member agency to cast one vote for each $5 million, or major fractional part thereof, of the total financial contribution paid by the member agency.

**TABLE 5. MEMBER AGENCY VOTING ENTITLEMENTS, EFFECTIVE AS OF JANUARY 1, 2017**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Total Financial Contribution (1)</th>
<th>Vote Entitlement (2)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad Municipal Water District</td>
<td>$431,156,808</td>
<td>86.231</td>
<td>3.54%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>36,117,018</td>
<td>7.223</td>
<td>0.30%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>436,276,826</td>
<td>87.255</td>
<td>3.58%</td>
</tr>
<tr>
<td>Fallbrook Public Utility District</td>
<td>285,951,374</td>
<td>57.190</td>
<td>2.35%</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>832,390,462</td>
<td>166.478</td>
<td>6.84%</td>
</tr>
<tr>
<td>Lakeside Water District</td>
<td>91,203,352</td>
<td>18.241</td>
<td>0.75%</td>
</tr>
<tr>
<td>City of National City</td>
<td>91,727,414</td>
<td>18.345</td>
<td>0.75%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>623,762,588</td>
<td>124.753</td>
<td>5.12%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>385,239,402</td>
<td>77.048</td>
<td>3.16%</td>
</tr>
<tr>
<td>Otay Water District</td>
<td>690,919,344</td>
<td>138.184</td>
<td>5.67%</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>329,327,732</td>
<td>65.866</td>
<td>2.70%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>12,094,532</td>
<td>2.419</td>
<td>0.10%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>258,158,135</td>
<td>51.632</td>
<td>2.12%</td>
</tr>
<tr>
<td>Rainbow Municipal Water District</td>
<td>492,182,417</td>
<td>98.436</td>
<td>4.04%</td>
</tr>
<tr>
<td>Ramona Municipal Water District</td>
<td>185,453,535</td>
<td>37.091</td>
<td>1.52%</td>
</tr>
<tr>
<td>Rincon del Diablo Municipal Water District</td>
<td>178,576,744</td>
<td>35.715</td>
<td>1.47%</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>4,852,828,335</td>
<td>970.566</td>
<td>39.84%</td>
</tr>
<tr>
<td>San Dieguito Water District</td>
<td>130,908,885</td>
<td>26.182</td>
<td>1.07%</td>
</tr>
<tr>
<td>Santa Fe Irrigation District</td>
<td>192,085,488</td>
<td>38.417</td>
<td>1.58%</td>
</tr>
<tr>
<td>South Bay Irrigation District</td>
<td>249,711,095</td>
<td>49.942</td>
<td>2.05%</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>325,171,904</td>
<td>65.034</td>
<td>2.67%</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>651,038,145</td>
<td>130.208</td>
<td>5.34%</td>
</tr>
<tr>
<td>Vista Irrigation District</td>
<td>373,526,057</td>
<td>74.705</td>
<td>3.07%</td>
</tr>
<tr>
<td>Yuima Municipal Water District</td>
<td>47,663,138</td>
<td>9.533</td>
<td>0.39%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12,183,470,729</strong></td>
<td><strong>2436.694</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Notes:
(1) Total financial contribution equals base revenues plus fiscal year ended June 30, 2016 revenues.
(2) Numbers may not total due to rounding.
## Water Source and Use

**TABLE 6. MEMBER AGENCY GROSS WATER SALES BY FISCAL YEAR, THOUSANDS OF DOLLARS • (1)**

<table>
<thead>
<tr>
<th>Water Authority</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016 (2)</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad Municipal Water District</td>
<td>$21,736</td>
<td>$23,942</td>
<td>$23,192</td>
<td>$20,929</td>
<td>$26,133</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>1,157</td>
<td>1,198</td>
<td>1,140</td>
<td>1,133</td>
<td>1,212</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>21,630</td>
<td>23,524</td>
<td>22,427</td>
<td>20,765</td>
<td>20,198</td>
</tr>
<tr>
<td>Fallbrook Public Utility District</td>
<td>13,981</td>
<td>15,971</td>
<td>15,480</td>
<td>12,665</td>
<td>12,657</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>29,583</td>
<td>35,291</td>
<td>33,721</td>
<td>30,279</td>
<td>32,216</td>
</tr>
<tr>
<td>Lakeside Water District</td>
<td>4,493</td>
<td>4,948</td>
<td>4,124</td>
<td>3,758</td>
<td>4,197</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>26,392</td>
<td>29,460</td>
<td>28,676</td>
<td>27,204</td>
<td>29,432</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>22,639</td>
<td>22,755</td>
<td>22,376</td>
<td>20,483</td>
<td>22,868</td>
</tr>
<tr>
<td>Otay Water District</td>
<td>39,944</td>
<td>44,691</td>
<td>42,890</td>
<td>39,233</td>
<td>42,722</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>14,863</td>
<td>16,156</td>
<td>14,944</td>
<td>13,427</td>
<td>14,800</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>64</td>
<td>72</td>
<td>76</td>
<td>86</td>
<td>82</td>
</tr>
<tr>
<td>City of Poway</td>
<td>12,112</td>
<td>13,851</td>
<td>12,295</td>
<td>10,980</td>
<td>11,179</td>
</tr>
<tr>
<td>Rainbow Municipal Water District</td>
<td>24,723</td>
<td>28,093</td>
<td>25,622</td>
<td>23,418</td>
<td>24,513</td>
</tr>
<tr>
<td>Ramona Municipal Water District</td>
<td>7,866</td>
<td>8,391</td>
<td>7,672</td>
<td>6,874</td>
<td>6,858</td>
</tr>
<tr>
<td>Rincon del Diablo Municipal Water District</td>
<td>8,477</td>
<td>9,132</td>
<td>8,046</td>
<td>7,249</td>
<td>7,870</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>189,884</td>
<td>205,769</td>
<td>217,734</td>
<td>194,692</td>
<td>211,989</td>
</tr>
<tr>
<td>San Dieguito Water District</td>
<td>2,642</td>
<td>5,308</td>
<td>5,628</td>
<td>4,307</td>
<td>4,928</td>
</tr>
<tr>
<td>Santa Fe Irrigation District</td>
<td>6,436</td>
<td>10,691</td>
<td>10,173</td>
<td>7,524</td>
<td>9,512</td>
</tr>
<tr>
<td>Sweetwater Authority (3)</td>
<td>4,308</td>
<td>13,400</td>
<td>14,117</td>
<td>13,085</td>
<td>15,512</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>21,435</td>
<td>23,598</td>
<td>21,639</td>
<td>20,912</td>
<td>25,754</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>32,765</td>
<td>35,839</td>
<td>32,816</td>
<td>27,224</td>
<td>28,828</td>
</tr>
<tr>
<td>Vista Irrigation District</td>
<td>18,344</td>
<td>20,244</td>
<td>18,100</td>
<td>17,564</td>
<td>22,646</td>
</tr>
<tr>
<td>Yuima Municipal Water District</td>
<td>2,273</td>
<td>4,964</td>
<td>5,075</td>
<td>4,367</td>
<td>5,673</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$527,647</td>
<td>$597,289</td>
<td>$587,964</td>
<td>$528,157</td>
<td>$581,779</td>
</tr>
</tbody>
</table>

Notes:
* Numbers may not total due to rounding.

(1) Gross water sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges. In addition to gross water sales revenues, in some years the Water Authority has also received a minor amount of revenues from adjacent water districts that provide water to customers within the Water Authority's service area under operating agreements. These revenues are not included in this chart.

(2) Numbers have been adjusted to account for the adjustments stated in Note 1.

(3) Represents sales to the city of National City and South Bay Irrigation District for which Sweetwater Authority acts as a purchasing agent.
In Fiscal Year 2017, the Water Authority member agencies’ combined imported and local water use totaled 477,024 acre-feet. Imported supplies accounted for 405,400 acre-feet or 85 percent of the total water used, excluding estimated water savings from conservation programs. Approximately 374,147 acre-feet or 92 percent of imported water supplies was used for municipal and industrial (M&I) needs, with the balance going to meet agricultural demands.

### TABLE 7. WATER SOURCE AND USE (IN ACRE-FEET), FISCAL YEARS 2013-2017

<table>
<thead>
<tr>
<th>Water Use by Member Agency</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% of change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad Municipal Water District</td>
<td>21,273</td>
<td>22,829</td>
<td>20,609</td>
<td>17,391</td>
<td>18,324</td>
<td>5.4%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>1,231</td>
<td>1,197</td>
<td>1,097</td>
<td>1,016</td>
<td>1,061</td>
<td>4.4%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>24,573</td>
<td>25,523</td>
<td>22,265</td>
<td>18,518</td>
<td>18,672</td>
<td>0.8%</td>
</tr>
<tr>
<td>Fallbrook Public Utility District</td>
<td>13,820</td>
<td>14,125</td>
<td>12,331</td>
<td>10,175</td>
<td>9,863</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>34,373</td>
<td>35,067</td>
<td>31,145</td>
<td>27,118</td>
<td>28,717</td>
<td>5.9%</td>
</tr>
<tr>
<td>Lakeside Water District</td>
<td>4,249</td>
<td>4,311</td>
<td>3,739</td>
<td>3,185</td>
<td>3,380</td>
<td>6.1%</td>
</tr>
<tr>
<td>City of National City</td>
<td>6,722</td>
<td>6,692</td>
<td>5,676</td>
<td>5,014</td>
<td>5,210</td>
<td>3.9%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>28,843</td>
<td>29,638</td>
<td>26,449</td>
<td>22,789</td>
<td>22,723</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>23,672</td>
<td>25,020</td>
<td>22,222</td>
<td>18,167</td>
<td>20,007</td>
<td>10.1%</td>
</tr>
<tr>
<td>Otay Water District</td>
<td>36,197</td>
<td>38,158</td>
<td>34,485</td>
<td>29,128</td>
<td>30,734</td>
<td>5.5%</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>12,776</td>
<td>12,982</td>
<td>11,322</td>
<td>9,371</td>
<td>10,138</td>
<td>8.2%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base [1]</td>
<td>9,086</td>
<td>9,038</td>
<td>8,026</td>
<td>6,277</td>
<td>6,206</td>
<td>-1.1%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>12,579</td>
<td>13,038</td>
<td>11,127</td>
<td>8,806</td>
<td>9,800</td>
<td>11.3%</td>
</tr>
<tr>
<td>Rainbow Municipal Water District</td>
<td>22,514</td>
<td>22,980</td>
<td>20,173</td>
<td>17,050</td>
<td>16,983</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Ramona Municipal Water District</td>
<td>6,961</td>
<td>6,827</td>
<td>6,142</td>
<td>4,867</td>
<td>5,042</td>
<td>3.6%</td>
</tr>
<tr>
<td>Rincon del Diablo Municipal Water District</td>
<td>10,071</td>
<td>9,873</td>
<td>8,882</td>
<td>7,488</td>
<td>7,572</td>
<td>1.1%</td>
</tr>
<tr>
<td>City of San Diego [2]</td>
<td>202,447</td>
<td>209,876</td>
<td>191,674</td>
<td>164,228</td>
<td>171,883</td>
<td>4.7%</td>
</tr>
<tr>
<td>San Dieguito Water District</td>
<td>7,285</td>
<td>7,443</td>
<td>7,110</td>
<td>5,895</td>
<td>6,110</td>
<td>3.7%</td>
</tr>
<tr>
<td>Santa Fe Irrigation District</td>
<td>10,758</td>
<td>12,172</td>
<td>11,199</td>
<td>8,482</td>
<td>9,851</td>
<td>16.1%</td>
</tr>
<tr>
<td>South Bay Irrigation District</td>
<td>14,370</td>
<td>14,584</td>
<td>13,555</td>
<td>11,987</td>
<td>12,484</td>
<td>4.2%</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>17,402</td>
<td>17,889</td>
<td>15,297</td>
<td>12,985</td>
<td>14,410</td>
<td>11.0%</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>29,620</td>
<td>29,997</td>
<td>25,985</td>
<td>20,025</td>
<td>20,606</td>
<td>2.9%</td>
</tr>
<tr>
<td>Vista Irrigation District [3]</td>
<td>19,490</td>
<td>20,134</td>
<td>17,833</td>
<td>15,812</td>
<td>17,190</td>
<td>8.7%</td>
</tr>
<tr>
<td>Yuima Municipal Water District [4]</td>
<td>3,589</td>
<td>5,143</td>
<td>4,894</td>
<td>9,191</td>
<td>10,058</td>
<td>9.4%</td>
</tr>
<tr>
<td>Total</td>
<td>573,901</td>
<td>594,536</td>
<td>532,383</td>
<td>454,963</td>
<td>477,024</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

### Allocation of Water Use

<table>
<thead>
<tr>
<th>Water Use</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% of change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>382,128</td>
<td>385,559</td>
<td>338,162</td>
<td>296,379</td>
<td>306,757</td>
<td>3.5%</td>
</tr>
<tr>
<td>Commercial &amp; Industrial</td>
<td>72,545</td>
<td>83,482</td>
<td>80,311</td>
<td>74,049</td>
<td>80,668</td>
<td>8.9%</td>
</tr>
<tr>
<td>Agricultural [5]</td>
<td>50,226</td>
<td>51,851</td>
<td>55,360</td>
<td>44,675</td>
<td>45,167</td>
<td>1.1%</td>
</tr>
<tr>
<td>Public &amp; Other</td>
<td>69,002</td>
<td>73,644</td>
<td>65,528</td>
<td>39,860</td>
<td>44,432</td>
<td>11.5%</td>
</tr>
<tr>
<td>Total</td>
<td>573,901</td>
<td>594,536</td>
<td>539,361</td>
<td>454,963</td>
<td>477,024</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Notes:
(1) Includes Water Authority deliveries via South Coast Water District System.
(2) Excludes City of San Diego local surface water use outside of Water Authority service area.
(3) Excludes land outside of Water Authority service area.
(4) Includes local supplies and demands developed beyond Yuima’s master meters beginning in Fiscal Year 2015.
(5) Agricultural use based on member agencies’ estimated sector weightings.
### TABLE 8. WATER SOURCE AND USE - CURRENT YEAR BREAKOUT, FISCAL YEAR ENDED JUNE 30, 2017

<table>
<thead>
<tr>
<th>Source of Water (Supply) (Acre-feet)</th>
<th>Type of Water Authority Supply (Acre-feet)</th>
<th>Gross Area (Acres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water Authority (Imported) (2)</td>
<td>Agricultural Use (1)</td>
</tr>
<tr>
<td></td>
<td>Local (1)</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carlsbad Municipal Water District</td>
<td>6,175</td>
<td>12,149</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>123</td>
<td>938</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>3,786</td>
<td>14,886</td>
</tr>
<tr>
<td>Fallbrook Public Utility District</td>
<td>763</td>
<td>9,100</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>3,757</td>
<td>24,960</td>
</tr>
<tr>
<td>Lakeside Water District</td>
<td>776</td>
<td>2,604</td>
</tr>
<tr>
<td>City of National City</td>
<td>2,232</td>
<td>2,978</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>1,474</td>
<td>21,249</td>
</tr>
<tr>
<td>Olivenhain Municipal Water District</td>
<td>2,533</td>
<td>17,474</td>
</tr>
<tr>
<td>Otoy Water District</td>
<td>3,732</td>
<td>27,002</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>793</td>
<td>9,345</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>6,072</td>
<td>134</td>
</tr>
<tr>
<td>City of Poway</td>
<td>1,165</td>
<td>8,635</td>
</tr>
<tr>
<td>Rainbow Municipal Water District</td>
<td>-</td>
<td>16,983</td>
</tr>
<tr>
<td>Ramona Municipal Water District</td>
<td>637</td>
<td>4,405</td>
</tr>
<tr>
<td>Rincon del Diablo Municipal Water District</td>
<td>2,591</td>
<td>4,981</td>
</tr>
<tr>
<td>City of San Diego (5)</td>
<td>18,387</td>
<td>153,496</td>
</tr>
<tr>
<td>San Dieguito Water District</td>
<td>2,126</td>
<td>3,984</td>
</tr>
<tr>
<td>Santa Fe Irrigation District</td>
<td>2,401</td>
<td>7,450</td>
</tr>
<tr>
<td>South Bay Irrigation District</td>
<td>1,793</td>
<td>10,691</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>3,500</td>
<td>10,910</td>
</tr>
<tr>
<td>Valley Center Municipal Water District</td>
<td>387</td>
<td>20,220</td>
</tr>
<tr>
<td>Vista Irrigation District</td>
<td>858</td>
<td>16,332</td>
</tr>
<tr>
<td>Yuima Municipal Water District</td>
<td>5,564</td>
<td>4,494</td>
</tr>
<tr>
<td><strong>Total (6)</strong></td>
<td>71,624</td>
<td>405,400</td>
</tr>
</tbody>
</table>

Notes:
1. Includes surface, recycled, seawater desalination, and groundwater supplies; does not reflect conserved water.
2. Water use in a given year may differ from Water Authority sales due to utilization of storage.
3. Includes only amounts certified through the Transitional Special Agricultural Water Program (TSAWR).
4. Includes Water Authority deliveries via South Coast Water District System.
5. Excludes City of San Diego local surface water use outside of Water Authority service area.
6. Numbers may not total due to rounding.
# Operating Results

**TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS \(^{*}\)**

<table>
<thead>
<tr>
<th>Operating Revenue</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Sales (^{(1)})</td>
<td>$523,456</td>
<td>$593,695</td>
<td>$584,173</td>
<td>$524,935</td>
<td>$579,057</td>
</tr>
<tr>
<td>Standby Charges</td>
<td>11,147</td>
<td>11,137</td>
<td>11,107</td>
<td>11,088</td>
<td>11,091</td>
</tr>
<tr>
<td>Capacity Charges</td>
<td>17,710</td>
<td>13,815</td>
<td>22,560</td>
<td>15,839</td>
<td>21,081</td>
</tr>
<tr>
<td>Infrastructure Access Charges (^{(2)})</td>
<td>28,675</td>
<td>29,206</td>
<td>29,896</td>
<td>30,434</td>
<td>31,145</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td>$580,988</td>
<td>$647,853</td>
<td>$647,736</td>
<td>$582,296</td>
<td>$642,374</td>
</tr>
</tbody>
</table>

**Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>(12,500)</td>
<td>(22,000)</td>
<td>(28,500)</td>
<td>(10,300)</td>
<td>(8,673)</td>
</tr>
<tr>
<td>BABs Interest Rate Subsidy (^{(3)})</td>
<td>11,303</td>
<td>10,269</td>
<td>10,476</td>
<td>10,544</td>
</tr>
<tr>
<td>Nonoperating Revenue (^{(4)})</td>
<td>5,058</td>
<td>7,670</td>
<td>7,204</td>
<td>6,724</td>
</tr>
<tr>
<td><strong>Total Revenue (^{(5)})</strong></td>
<td>$584,849</td>
<td>$643,792</td>
<td>$636,916</td>
<td>$589,264</td>
</tr>
</tbody>
</table>

**Operating Expenses \(^{(6)}\)**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Sales</td>
<td>371,259</td>
<td>422,700</td>
<td>411,038</td>
<td>387,123</td>
</tr>
<tr>
<td>Other Maintenance and Operations Costs (^{(7)})</td>
<td>41,576</td>
<td>39,303</td>
<td>44,898</td>
<td>41,123</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td>$412,835</td>
<td>$462,003</td>
<td>$455,936</td>
<td>$428,246</td>
</tr>
</tbody>
</table>

**Application of Net Tax Receipts**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,796</td>
<td>11,142</td>
<td>11,476</td>
<td>12,067</td>
<td>12,913</td>
</tr>
<tr>
<td><strong>Net Operating Expense</strong></td>
<td>$402,038</td>
<td>$450,861</td>
<td>$444,460</td>
<td>$416,179</td>
</tr>
</tbody>
</table>

**Net Water Revenue Available for Debt Service**

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>182,811</td>
<td>192,931</td>
<td>192,456</td>
<td>173,085</td>
<td>189,967</td>
</tr>
</tbody>
</table>

Notes:

\(^{*}\) Some amounts are prepared on a basis other than generally accepted accounting principles.

1. Water sales represent accrued sales to member agencies, as well as revenues from treatment of raw water and certain miscellaneous income items.
2. Infrastructure access charge was implemented January 1999 and is levied on retail water meters within the service area.
3. Taxable Build America Bonds (BABs) receive a 35 percent subsidy of interest payable from the United States Treasury. In Fiscal Year 2014, due to Congressionally-mandated sequestration, the IRS reduced the subsidy payments to issuers of BABs. The first semi-annual payment was reduced by 8.7 percent and the second semi-annual payment was reduced by 7.2 percent. In Fiscal Year 2015, 2016, and 2017 both semi-annual payments were reduced by 6.8 percent.
4. Nonoperating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).
5. Total revenue includes amounts transferred to and from the Rate Stabilization Fund, and excludes property taxes, contributions in aid of capital assets, and CIP grant reimbursements.
6. Operating expenses exclude depreciation and amortization expenses.
7. Includes operations, maintenance, planning, and general and administrative costs; excludes capital equipment purchases.
8. Includes only debt service on Water Authority indebtedness payable from net water revenues and excludes debt service paid from tax revenues. Senior lien debt service does not include trust fees.
9. Total debt service excludes the CPCFA issued 2012 Pipeline Bonds.
10. Commercial paper (CP) costs include interest and related program fees.
11. Coverage ratios do not include program fees.
### TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS*, (CONTINUED)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Supported Debt Service (9)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998 Certificates</td>
<td>555</td>
<td>555</td>
<td>555</td>
<td>555</td>
<td>555</td>
</tr>
<tr>
<td>2002 Certificates</td>
<td>292</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004 Certificates</td>
<td>7,798</td>
<td>2,163</td>
<td>1,262</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005 Certificates</td>
<td>17,127</td>
<td>16,852</td>
<td>17,113</td>
<td>16,771</td>
<td>17,157</td>
</tr>
<tr>
<td>2008 Certificates</td>
<td>36,776</td>
<td>38,181</td>
<td>37,819</td>
<td>19,504</td>
<td>16,832</td>
</tr>
<tr>
<td>2010A&amp;B Bond</td>
<td>37,017</td>
<td>38,576</td>
<td>39,497</td>
<td>38,505</td>
<td>37,145</td>
</tr>
<tr>
<td>2011A Bond</td>
<td>13,271</td>
<td>13,237</td>
<td>13,232</td>
<td>13,230</td>
<td>13,224</td>
</tr>
<tr>
<td>2011B Bond</td>
<td>4,688</td>
<td>4,707</td>
<td>4,707</td>
<td>4,707</td>
<td>4,707</td>
</tr>
<tr>
<td>2013A Bond</td>
<td>4,194</td>
<td>13,982</td>
<td>13,982</td>
<td>13,982</td>
<td>13,982</td>
</tr>
<tr>
<td>2015A Bond</td>
<td></td>
<td></td>
<td></td>
<td>6,905</td>
<td>8,910</td>
</tr>
<tr>
<td>2016A&amp;B Bond</td>
<td></td>
<td></td>
<td></td>
<td>1,054</td>
<td>14,093</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>$121,718</td>
<td>$128,253</td>
<td>$128,167</td>
<td>$115,213</td>
<td>$126,605</td>
</tr>
</tbody>
</table>

|                      |            |            |            |            |            |
| Subordinate Obligation Payments |            |            |            |            |            |
| Commercial Paper (10) | 3,080      | 2,480      | 1,708      | 1,925      | 3,853      |
| 2011S-1 Bond         | 4,272      | 4,272      | 4,272      | 3,916      | -          |
| 2016S-1 Bond         |            |            |            | 290        | 3,885      |
| Total Subordinate Obligation Payments | $7,352    | $6,752     | $5,980     | $6,131     | $7,738     |

|                      | $53,741    | $57,926    | $58,311    | $51,741    | $55,625    |
|                      |            |            |            |            |            |
| Revenue Supported Debt Service |            |            |            |            |            |
| Coverage Ratio       | 1.50X      | 1.50X      | 1.50X      | 1.50X      | 1.50X      |
| Debt Service and Subordinate Obligation |            |            |            |            |            |
| Coverage Ratio (11)  | 1.44X      | 1.45X      | 1.45X      | 1.44X      | 1.43X      |

Chart 1, Water Authority Debt Service Coverage Ratios by Fiscal Year
Summary of Water Rates

Water rates are established by the Board of Directors and are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Under the General Resolution, the Water Authority is required to fix rates that are reasonably fair and nondiscriminatory. The Water Authority assesses five different charges for the supply and delivery of water; the fixed Customer Service, Storage, and Supply Reliability Charges and the variable Transportation Rate and the Supply and Treatment Rates. The Customer Service Charge recovers operating and capital costs associated with the overall functioning of the Water Authority, the Storage Charge recovers costs associated with the Emergency and Carryover Storage Program, the Supply Reliability Charge recovers a portion of costs associated with desalinated water and IID transfer water, and the Transportation Rate recovers costs associated with the conveyance of water through the Water Authority’s aqueducts.

### TABLE 10. SUMMARY OF WATER RATES, EFFECTIVE JANUARY 1 - DECEMBER 31

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Melded Supply</th>
<th>TSAWR (2)</th>
<th>Transportation Rate</th>
<th>Customer Service</th>
<th>Storage Supply Reliability</th>
<th>Full Service Tier 2</th>
<th>Replenishment Water Rate (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UTR TR</td>
<td>UTR TR</td>
<td></td>
<td></td>
<td></td>
<td>UTR TR</td>
<td>UTR TR</td>
</tr>
<tr>
<td>2011</td>
<td>$597 $812</td>
<td>$527 $742</td>
<td>$75</td>
<td>$23,200,000</td>
<td>$44,300,000</td>
<td>n/a</td>
<td>$652 $869</td>
</tr>
<tr>
<td>2012</td>
<td>638 872</td>
<td>560 794</td>
<td>85</td>
<td>26,400,000</td>
<td>54,200,000</td>
<td>n/a</td>
<td>686 920</td>
</tr>
<tr>
<td>2013</td>
<td>714 970</td>
<td>593 849</td>
<td>93</td>
<td>26,400,000</td>
<td>60,200,000</td>
<td>n/a</td>
<td>743 997</td>
</tr>
<tr>
<td>2014</td>
<td>732 1,006</td>
<td>593 867</td>
<td>97</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>n/a</td>
<td>735 1,032</td>
</tr>
<tr>
<td>2015</td>
<td>764 1,042</td>
<td>582 860</td>
<td>101</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>n/a</td>
<td>714 1,055</td>
</tr>
<tr>
<td>2016</td>
<td>780 1,060</td>
<td>594 874</td>
<td>105</td>
<td>26,400,000</td>
<td>63,200,000</td>
<td>26,000,000</td>
<td>728 1,076</td>
</tr>
<tr>
<td>2017</td>
<td>855 1,145</td>
<td>666 956</td>
<td>110</td>
<td>26,400,000</td>
<td>65,000,000</td>
<td>24,800,000</td>
<td>760 1,073</td>
</tr>
</tbody>
</table>

Notes:
(1) MWD rates are shown as the rates adopted by MWD.
(2) TSAWR was adopted on December 10, 2008 for customers opting out of MWD’s IAWP, and continues through December 31, 2020. Customers that are participating in the TSAWR program are considered M&I customers by MWD.
(3) The IAWP was discontinued in 2013.
(4) Discussion on MWD’s Replenishment Rate Program are continuing with its member agencies.

UTR=Untreated Water
TR=Treated Water
IAWP=Interim Agricultural Water Program
TSAWR=Transitional Special Agricultural Water Rate
Summary of Investments

TABLE 11. SUMMARY OF INVESTMENTS, FISCAL YEAR ENDED JUNE 30, 2017 (1)

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Permitted by Board Policy</th>
<th>Maximum Maturity</th>
<th>Maximum Financial Institution Concentration</th>
<th>Actual Percentage</th>
<th>Actual Amount Book Value (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>$65 Million</td>
<td>n/a</td>
<td>n/a</td>
<td>11.96%</td>
<td>$40,140,553</td>
</tr>
<tr>
<td>Treasury Securities</td>
<td>15% - Minimum</td>
<td>5 years</td>
<td>n/a</td>
<td>19.39%</td>
<td>$65,040,351</td>
</tr>
<tr>
<td>Agency Securities</td>
<td>85%</td>
<td>5 years</td>
<td>no limit</td>
<td>41.27%</td>
<td>$138,461,429</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>25%</td>
<td>270 days</td>
<td>5%</td>
<td>9.02%</td>
<td>$30,265,608</td>
</tr>
<tr>
<td>Medium Term Notes/Corporates</td>
<td>30%</td>
<td>5 years</td>
<td>5%</td>
<td>9.59%</td>
<td>$32,171,762</td>
</tr>
<tr>
<td>JPA Pools (CAMP)</td>
<td>25%</td>
<td>n/a</td>
<td>n/a</td>
<td>8.62%</td>
<td>$28,907,358</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>15%</td>
<td>n/a</td>
<td>n/a</td>
<td>0.15%</td>
<td>$503,282</td>
</tr>
</tbody>
</table>

100% $335,490,343

Accrued Interest (unavailable for investing) 67,016
Checking/Petty Cash/Available Funds (unavailable for investing) 89,079
Subtotal for Pooled Funds: $335,646,438

Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages (3):
Trinity Plus - Reserve (GIC) - Series 1998A COPs 12,240,775
Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures): $12,240,775

Total Cash and Investments $347,887,213

Notes:
(1) Includes only investment types with balances at June 30, 2017.
(2) Book value of investments differ from fair market values contained in financial statements. Book value of investments represents cost.
(3) Debt Service Reserve does not include the CPCFA issued 2012 Pipeline Bond.

Investment Policy

The Water Authority’s investment policy is defined and approved annually. The purpose of this policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. The Water Authority’s Board of Directors has delegated investment responsibility to the Water Authority’s Treasurer, who is primarily responsible for implementing the investment policy. The Board and the Treasurer adhere to the guidance provided by the “prudent investor rule.” The Treasurer presents an investment report to the Board monthly. The objectives of the investment policy are as follows:

A. Safety: Each investment transaction shall seek to avoid capital losses. Diversification of the portfolio will be used to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid, short-term securities that can be converted to cash to meet disbursement requirements. Investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.
D. Public Trust: All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Portfolio diversification is employed as a way to control risk.

The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the two-year U.S. Treasury constant maturity.

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, investments are authorized for the Water Authority’s operating and reserve funds as indicated in the Summary of Investments table.

It is the Water Authority’s goal to maintain a minimum of 50 percent of the Water Authority’s portfolio in U.S. Treasury securities; however, based on market conditions, a combination of 50 percent agency securities and Treasury bills or notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury bills or notes.

The Water Authority does not invest in derivative instruments. Securities such as yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited. Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity. Investments such as common stocks, futures, and the writing of options are prohibited from use in the Water Authority’s portfolio. The use of short positions is also prohibited.

Litigation

All state and federal court challenges to the validity of the Quantification Settlement Agreement (QSA) have been resolved and the validity of the QSA has been judicially confirmed. See In re Quantification Settlement Agreement Cases (2011) 201 Cal. App. 4th 758; Quantification Settlement Agreement Cases (2015) 237 Cal. App. 4th 72; and California ex rel. Imperial County Air Pollution Control Dist. v. United States, 767 F. 3d 781 (9th Cir. 2014).

The Water Authority is involved in a construction dispute with Plaintiff Shimmick Construction Company, Inc./Obayashi Corporation, a Joint Venture. This dispute pertains to construction cost disputes for the San Vicente Dam Raise project. The Plaintiff alleges approximately $60 million in unpaid costs and interest, while the Water Authority disputes all such claims. The Water Authority has also sued the Plaintiff entities for false claims. The case is at trial by jury, which began in September, 2017, and is expected to be concluded in November, 2017, in Riverside Superior Court.

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. Here is the general status of these cases:

2010/2012 Rate Cases: The Water Authority won a trial court award of $234,932,782 from MWD on rate overcharges, interest, and attorney’s fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal. App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court which was filed by the Water Authority.
Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case will return to the trial court for further proceedings consistent with the Court of Appeal’s ruling.

2014 Rate Case: This case challenges MWD’s rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2016 Rate Case: This case challenges MWD’s rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

2017 Rate Case: This case challenges MWD’s rates adopted in 2017 for 2018 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority's rate litigation, visit: http://www.sdcwa.org/mwdrate-challenge

For further information, contact the General Counsel’s office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

Economy of San Diego County

Two of the San Diego region’s greatest assets are its geography and climate. The average annual rainfall is only ten inches, so the county is highly reliant on imported water. For these reasons, the health of the regional economy is inextricably linked to the long-term success of the San Diego County Water Authority.

San Diego County has an estimated population of just over 3.1 million people; the estimated average growth between 2017 and 2040 is approximately 0.81 percent; the 2016 per capita income was $55,705, a 0.7 percent decrease from 2016 estimates; and the per capita income for 2017 is estimated at $56,840. \(^{(1)}\) Estimated unemployment for San Diego County in July 2017 is averaging 4.2 percent according to CALMIS.

The San Diego region took 78 months to recover from the recession (2010-2014). Some sectors such as innovation, tourism, and the military were fairly immune from the recession and continued to grow from 2009 to the present. According to the U.S. Bureau of Economic Analysis, Gross Domestic Product (GDP) increased 2.2 percent in 2016, which ranks the San Diego region as 17th overall in major U.S. cities. Industries that continue to underperform are trade, transportation and utilities, and manufacturing.

\(^{(1)}\) http://www.dot.ca.gov. San Diego County Economic Forecast
Soaring housing prices continue to pose a problem as San Diego continues to remain one of the least affordable housing markets in the nation. Building units authorized for construction have risen with an expectation of continued improvement; and home building is shifting slightly from single family to more multi-unit, less expensive housing.

**TABLE 12. SAN DIEGO COUNTY ANNUAL BUILDING PERMIT ACTIVITY, CALENDAR YEAR**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 (est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>2,565</td>
<td>2,487</td>
<td>3,222</td>
<td>2,351</td>
<td>4,050</td>
</tr>
<tr>
<td>Multi-Family</td>
<td>252</td>
<td>261</td>
<td>328</td>
<td>451</td>
<td>647</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,817</td>
<td>2,748</td>
<td>3,550</td>
<td>2,802</td>
<td>4,697</td>
</tr>
</tbody>
</table>

**2017 year-to-date**

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>131</td>
<td>271</td>
<td>231</td>
<td>335</td>
<td>244</td>
<td>538</td>
<td>557</td>
<td>269</td>
</tr>
<tr>
<td>Multi-Family</td>
<td>4</td>
<td>39</td>
<td>51</td>
<td>105</td>
<td>51</td>
<td>92</td>
<td>36</td>
<td>32</td>
</tr>
</tbody>
</table>

**CHART 3. BUILDING PERMIT ACTIVITY, 2013-2017 (est.), CALENDAR YEAR**

![Chart 3](chart3.png)

Table 12 and Chart 3. Source: U.S. Census Bureau (based on building estimates).
### TABLE 13. LABOR FORCE RATE TRENDS, CALENDAR YEAR

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AREA</th>
<th>CIVILIAN LABOR FORCE</th>
<th>EMPLOYMENT</th>
<th>UNEMPLOYMENT</th>
<th>PERCENTAGE of UNEMPLOYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>San Diego County</td>
<td>1,543,200</td>
<td>1,422,500</td>
<td>120,700</td>
<td>7.8%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,624,300</td>
<td>16,958,700</td>
<td>1,665,600</td>
<td>8.9%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>155,047,000</td>
<td>144,671,000</td>
<td>10,376,000</td>
<td>6.7%</td>
</tr>
<tr>
<td>2014</td>
<td>San Diego County</td>
<td>1,543,700</td>
<td>1,444,400</td>
<td>99,200</td>
<td>6.4%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,755,000</td>
<td>17,348,600</td>
<td>1,406,400</td>
<td>7.5%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>156,129,000</td>
<td>147,442,000</td>
<td>8,687,000</td>
<td>5.6%</td>
</tr>
<tr>
<td>2015</td>
<td>San Diego County</td>
<td>1,554,800</td>
<td>1,474,400</td>
<td>80,400</td>
<td>5.2%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,893,200</td>
<td>17,723,300</td>
<td>1,169,899</td>
<td>6.2%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>157,065,000</td>
<td>147,442,000</td>
<td>9,623,000</td>
<td>6.1%</td>
</tr>
<tr>
<td>2016</td>
<td>San Diego County</td>
<td>1,570,400</td>
<td>1,497,000</td>
<td>73,500</td>
<td>4.7%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>19,102,700</td>
<td>18,065,000</td>
<td>1,037,700</td>
<td>5.4%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>159,186,000</td>
<td>151,437,000</td>
<td>7,749,000</td>
<td>4.9%</td>
</tr>
<tr>
<td>2017 Estimated</td>
<td>San Diego County</td>
<td>1,566,082</td>
<td>1,499,571</td>
<td>66,511</td>
<td>4.2%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>19,162,178</td>
<td>18,203,472</td>
<td>958,706</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>160,056,478</td>
<td>152,846,199</td>
<td>7,210,279</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: State of California, Employment Development Department

### TABLE 14. SAN DIEGO COUNTY EMPLOYMENT BY INDUSTRY, CALENDAR YEAR (1)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Production</td>
<td>9,800</td>
<td>9,400</td>
<td>9,100</td>
<td>9,000</td>
<td>9,400</td>
</tr>
<tr>
<td>Mining and Logging</td>
<td>300</td>
<td>400</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Construction</td>
<td>61,000</td>
<td>63,900</td>
<td>69,900</td>
<td>76,100</td>
<td>80,900</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>99,400</td>
<td>102,200</td>
<td>106,200</td>
<td>107,800</td>
<td>107,400</td>
</tr>
<tr>
<td>Trade, Transportation, and Utilities</td>
<td>212,400</td>
<td>215,000</td>
<td>219,200</td>
<td>221,600</td>
<td>220,300</td>
</tr>
<tr>
<td>Information</td>
<td>24,300</td>
<td>24,400</td>
<td>23,800</td>
<td>23,600</td>
<td>23,800</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>70,800</td>
<td>69,400</td>
<td>71,200</td>
<td>73,000</td>
<td>76,300</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>221,100</td>
<td>224,300</td>
<td>230,200</td>
<td>234,000</td>
<td>235,300</td>
</tr>
<tr>
<td>Educational and Health Services</td>
<td>181,000</td>
<td>186,000</td>
<td>192,700</td>
<td>198,500</td>
<td>201,800</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>168,600</td>
<td>177,000</td>
<td>183,900</td>
<td>190,700</td>
<td>198,700</td>
</tr>
<tr>
<td>Other Services</td>
<td>49,300</td>
<td>52,000</td>
<td>53,200</td>
<td>54,900</td>
<td>60,600</td>
</tr>
<tr>
<td>Federal Government</td>
<td>46,500</td>
<td>45,800</td>
<td>46,000</td>
<td>46,500</td>
<td>46,000</td>
</tr>
<tr>
<td>State and Local Government</td>
<td>183,000</td>
<td>186,200</td>
<td>190,200</td>
<td>195,600</td>
<td>192,800</td>
</tr>
<tr>
<td>Total</td>
<td>1,327,500</td>
<td>1,356,000</td>
<td>1,395,900</td>
<td>1,431,600</td>
<td>1,453,600</td>
</tr>
</tbody>
</table>

Notes:
(1) Table uses the North American Industry Classification System (NAICS).
(2) Current year is based on August statistics.
Source: CALMIS
November 29, 2017

Attention: Board of Directors

Public Hearing to consider adoption of a Resolution of Necessity and authorization of condemnation proceedings to acquire permanent and temporary property interests for the Northern First Aqueduct Structures and Lining Rehabilitation project on Assessor Parcel Numbers:

- 128-112-05 John B. Nugent, Jr. and Margaret I. Nugent, Trustee or Successor Trustee of the Nugent Revocable Trust dated July 29, 1991
- 187-060-01 Tommy Ly and Lan Xuan Thi Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016
- 187-450-43 Tommy Ly and Lan Xuan Thi Nguyen, trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016 and as to an undivided 50% interest, Minh Tran, a married man as his sole and separate property, as to an undivided 25% interest, and Jimmy Hien Nguyen, a married man as his sole and separate property as to an undivided 25% interest, all as tenants in common

Staff recommendation
1. That the Board of Directors:
   a) Receive public testimony;
   b) Determine that offers to acquire the necessary real property were made to the owners of the subject properties pursuant to Section 7267.2 of the Government Code;
   c) Adopt Resolution of Necessity No. 2017-____ (Attachment 1) pertaining to the acquisition of real property from the subject parcels in support of the Northern First Aqueduct Structures and Lining Rehabilitation project, and find that:
      1) the public interest and necessity require the project
      2) the project is planned or located in a manner that will be the most compatible with the greatest public good and least private injury; and
      3) the interest in the property sought to be acquired is necessary for the project;
   d) Authorize staff to proceed with condemnation proceedings necessary to acquire the right of way on the subject properties.

Alternatives
Do not adopt the Resolution of Necessity or postpone action on the Resolution of Necessity. This will result in delays to the project.

Fiscal impact
The Water Authority will deposit $12,000 with the Court for the amount offered to property owners, which is not less than the appraised value as determined by a certified independent appraiser. There are sufficient funds to support this recommendation in the approved Capital Improvement Program budget and fiscal years 2018 and 2019 appropriation. The rate category for this project is transportation.
Board of Directors  
November 29, 2017  
Page 2 of 2

**Background**  
The Northern First Aqueduct Structures and Lining Rehabilitation project is part of the San Diego County Water Authority’s Asset Management program. The project is 14.5 miles long involving both Pipelines 1 and 2. Figure 1 depicts the limits of work. Pipeline appurtenances will be repaired or replaced depending on their condition, and pipe lining will be rehabilitated to extend the service life. The project is scheduled to start construction in Fall 2018 and be complete in summer 2020.

**Discussion**  
This project requires access and temporary staging areas in several locations. Access rights are required from nine private owners, three public agencies, and one utility. Negotiations are favorable with all but one owner. The public agencies have advised they will grant the necessary access rights. Staff anticipates the utility will grant the necessary access rights based on previous projects. Since the negotiations may not be successful with the private property owners, it is recommended to adopt a Resolution of Necessity and approve condemnation proceedings.

Appraisals by independent appraisers have been completed for the required property rights. Additionally, offers with summary statements of the appraisal have been made pursuant to Government Code Section 7267.2. The Water Authority’s offer letters are incorporated by reference. To date, only one of the eight private property owners has signed their offer.

To ensure legal possession of all necessary property rights before construction begins, it is necessary to adopt a Resolution of Necessity now regarding the eight properties where negotiations have not successfully concluded. Notices of the hearing for consideration to adopt the Resolution of Necessity and the right to be heard at the hearing were provided to the affected property owners by certified mail on November 20, 2017. Copies of the notice of hearing letters are incorporated by reference.

Staff recommends the Board adopt the Resolution of Necessity for the Northern First Aqueduct Structures and Lining Rehabilitation project.

Prepared by: Nick von Gymnich, Senior Right of Way Agent  
Reviewed by: Jerry Reed, Director of Engineering  
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:  
Figure 1 – General Location Map  
Attachment 1 - Resolution No. 2017-_______ with Exhibits 1 through 3
RESOLUTION NO. 2017-___

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY DECLARING THE PUBLIC INTEREST AND NECESSITY TO ACQUIRE PROPERTY BY EMINENT DOMAIN FOR THE NORTHERN FIRST AQUEDUCT STRUCTURES AND LINING REHABILITATION PROJECT

WHEREAS, the San Diego County Water Authority is a public agency, organized and existing under California law to construct, operate, control, maintain and use works, facilities, and means to provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs (West’s Cal. Water Code Appendix §45-5); and

WHEREAS, pursuant to its statutory authority, the Water Authority intends to implement the project known as THE NORTHERN FIRST AQUEDUCT STRUCTURES AND LINING REHABILITATION PROJECT, including incidental, appurtenant, and related works or facilities pursuant to Code of Civ. Proc. § 1240.120, and implementation of environmental mitigation measures, if any, identified in the environmental document referenced below (the Project). The project is 14.5 miles in length involving both Pipelines 1 and 2. Valves, manways, pump wells, and other structures will be repaired or replaced. In certain areas, new cement mortar lining will be installed. The plans for the Project are on file with the Director of Engineering; and

WHEREAS, a Notice of Exemption under the California Environmental Quality Act was filed November 21, 2017 regarding the Project; and

WHEREAS, implementation of the Project requires acquisition of the property described and depicted in Exhibits 1 through 3 to this Resolution (the Property). The Property is required for permanent access and for a temporary period of nine months, as more specifically identified in the offers and descriptions of interests to be acquired. The Property will be used for permanent access to the Aqueduct and for temporary construction areas to support the project.

WHEREAS, the Project is authorized by paragraphs (4), (11), and (12) of section 5 of the County Water Authority Act (West’s Cal. Water Code Appendix §45-5); and

WHEREAS, the Water Authority is authorized to acquire the Property, by eminent domain pursuant to the California Constitution, the California Eminent Domain Law, and paragraph (5) of Section 5 of the County Water Authority Act (West’s Cal. Water Code Appendix §45-5); and

WHEREAS, on November 20, 2017 a notice of the meeting and hearing of the Board of Directors to consider this resolution was given in accordance with applicable law by mail to all persons whose names appear on the last equalized County Assessment Roll as having an interest in the Property, and advised said persons of their right to be heard on the matters referred to therein; and

WHEREAS, the Water Authority has established the just compensation for the Property, has provided the owners of the Property a written statement and summary of the basis for the
amount established as just compensation, and has made an offer to acquire the Property for the full amount established by the Water Authority as just compensation; and

WHEREAS, the hearing set out in the notice of hearing was held on December 7, 2017 at the time and place stated therein, and all interested parties who timely filed a request to be heard were given an opportunity to be heard, and the hearing was then closed; and

WHEREAS, funds have been budgeted and appropriated sufficient for payment of just compensation for the Property and implementation of the Project.

NOW, THEREFORE, based on the evidence presented, the Board of Directors of the San Diego County Water Authority, by vote of two-thirds or more of its members, finds, determines, declares and resolves the following:

1. The above recitations are true.

2. The public interest and necessity require the Project.

3. The Project has been planned and located in a manner most compatible with the greatest public good and the least private injury.

4. The Property is necessary for the Project. Immediate possession of the Property is necessary for implementation of the Project in a timely manner.

5. The Water Authority has complied with the requirements of Government Code § 7267.2 to the extent applicable to the Property, made the required offers to acquire the Property together with the accompanying statement of and summary of the basis for the amount established as just compensation to the owner or owners of record, which offers and accompanying statement/summary were in a form and contained all of the factual disclosures required by law, and complied with all conditions and statutory requirements necessary to exercise of the power of eminent domain to acquire the Property.

6. The General Counsel, directly or through special counsel retained by the General Counsel, is authorized and directed, on behalf of the Water Authority, to acquire the Property by eminent domain, in fee simple absolute unless a lesser estate is described for the Property in an Exhibit to this resolution, and to commence and prosecute an eminent domain action or actions for that purpose, to obtain an order of court authorizing the Water Authority to take possession of the Property at the earliest date authorized by law, to retain attorneys and experts, and to take such other actions as the General Counsel determines necessary for acquisition of the Property.

7. The General Manager is authorized and directed to deposit from Water Authority funds the amount of probable compensation for the Property pursuant to applicable law, and to take all other actions requested by the General Counsel for acquisition of the Property.

8. The General Counsel, with the approval of the General Manager, is authorized to correct any errors and make non-material changes to the description of the Property to be
acquired, or to reduce or modify the amount or interest in the Property to be acquired as needed to reduce the amount of just compensation to be paid, so long as the reduction or modification will not materially impair the implementation of the Project.

PASSED, APPROVED, AND ADOPTED this ______ day of __________, 20____.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

_____________________________________
Mark Muir, Chair

ATTEST:

_____________________________________
Gary Croucher, Secretary

I, Melinda Nelson, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2017-_____ was duly adopted by the requisite two-thirds vote at the meeting of the Board of Directors on the date stated above.

_____________________________________
Melinda Nelson, Clerk of the Board
GRANT OF ACCESS EASEMENT
TO THE
SAN DIEGO COUNTY WATER AUTHORITY

Margaret I. Nugent, Laurene M. Collings, Carol L. Nugent and Rosemary M. Nugent, Co-Trustees of the Nugent Revocable Trust dated July 29, 1991 (Grantor) owns the real property described in the attached Exhibit A Paragraph 1, (Property); and

WHEREAS, the San Diego County Water Authority (Grantee) owns and operates the First San Diego Aqueduct, within an easement acquired by Quit Claim Deed recorded December 19, 1997 as Document 1997-0646794 of the official records of the County of San Diego; and;

WHEREAS, the Grantee desires an access easement over, across, and along the Grantor’s Property for the purpose of inspection, maintenance, repair, and enlargement of the aqueduct;

PURSUANT TO THE FOREGOING PREMISES and in consideration of the covenants and promises herein recited, the Grantor hereby grants to the Grantee an access easement, more particularly described in the attached Exhibit A paragraph 2, in perpetuity, for road purposes.

In consideration for granting the access easement described above, Grantee agrees to repair any damage to the access easement described above, resulting from the Grantee’s use of said access easement. The Grantee further agrees that, should the Grantor desire to fence the access easement
Assessor’s Parcel No.: 128-112-05
Water Authority Parcel No.: P01-230A-AR
Project Name and No: First Aqueduct Structures & Lining Rehabilitation – Q0204

or close the access thereto by fences and gates, the Grantee will provide locks for such purpose so access to the roadway by the general public can be restricted.

Grantor waives any right under Civil Code Section 845 and any other right, if any, to compel Grantee to improve or maintain any part of the access easement as a roadway or private right of way.

The rights and obligations contained herein shall inure to the benefit of and be binding upon the successors in interest, agents, employees, assigns, and transferees of the parties hereto.

In WITNESS WHEREOF, this instrument has been executed this ___ day of ____________, 2017.


Name:

Name:

Name:

Name:

(Notarial acknowledgment of execution by GRANTOR must be attached.)
CERTIFICATE OF ACCEPTANCE

Re: Assessor’s Parcel Number: 128-112-05
    Water Authority Parcel Number: P01-230A-AR

This is to certify that the interest in real property conveyed by Margaret I. Nugent, Laurene M. Collings, Carol L. Nugent and Rosemary M. Nugent, Co-Trustees of the Nugent Revocable Trust dated July 29, 1991, dated ____________, to the San Diego County Water Authority, is hereby accepted by the order of the Board of Directors and the Grantee who consent to the recording of said conveyance.

Executed on this ______ day of ________________________, 20______.

SAN DIEGO COUNTY WATER AUTHORITY

______________________________
By: Gerard E. Reed, III
    Director of Engineering
EXHIBIT "A"
LEGAL DESCRIPTION
ACCESS EASEMENT
A.P.N. 128-112-05 (NUGENT)
PARCEL NO. P01-230A-AR

A PORTION OF THE SOUTHWEST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 9, TOWNSHIP 10 SOUTH, RANGE 2 WEST, SAN BERNARDINO BASE AND MERIDIAN, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO OFFICIAL PLAT THEREOF, AS DESCRIBED AS PARCEL 1 IN QUITCLAIM DEED, RECORDED DECEMBER 26, 1991 AS DOC #1991-0670644 OF OFFICIAL RECORDS, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

THAT PORTION OF SAID PARCEL 1 LYING WITHIN A 20.00-FOOT WIDE STRIP OF LAND FOLLOWING AN EXISTING ROAD, WHOSE ROUTE IS GENERALLY DESCRIBED IN AGREEMENT FOR ACCESS ROAD, RECORDED NOVEMBER 10, 1948 IN BOOK 3013, PAGE 375 AS DOCUMENT NO. 111973, AND SHOWN WITHIN PARCEL 230-A, OWNED BY JOHN L. AND ELMA M. PEARSON, ON LANDS AND RIGHTS DRAWING B-119, DATED SEPTEMBER 13, 1948, FILED IN THE OFFICE OF THE SAN DIEGO COUNTY WATER AUTHORITY.

CONTAINS 0.16 ACRES MORE OR LESS.

MARVIN J. SYLAKOWSKI, PLS 6998
EXPIRATION: 9-30-19

06/04
06/17 MJS
PLEASE RECORD THIS DOCUMENT AT
NO FEE AS IT IS TO THE BENEFIT OF
THIS DISTRICT (GOV. CODE §6103)

RECORDING REQUESTED BY AND
WHEN RECORDED, PLEASE MAIL TO:

San Diego County Water Authority
Engineering Department
4677 Overland Avenue
San Diego, CA 92123

Assessor's Parcel No.: 187-060-01 (Space above this line for Recorder's use)
Water Authority Parcel No.: P01-202A-AR
Project Name & No.: First Aqueduct Structures & Lining Rehabilitation – Q0204
DOCUMENTARY TRANSFER TAX: None (Gov. Code §6103)

Gerard E. Reed, III
Director of Engineering

GRANT OF ACCESS EASEMENT
TO THE
SAN DIEGO COUNTY WATER AUTHORITY

Tommy Ly and Lan Xuan Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September
15, 2016 (Grantor) owns the real property described in the attached Exhibit A Paragraph 1,
(Property); and

WHEREAS, the San Diego County Water Authority (Grantee) owns and operates the First San
Diego Aqueduct, within an easement acquired by Quit Claim Deed recorded December 19, 1997
as Document 1997-0646794 of the official records of the County of San Diego; and;

WHEREAS, the Grantee desires an access easement over, across, and along the Grantor's Property
for the purpose of inspection, maintenance, repair, and enlargement of the aqueduct;

PURSUANT TO THE FOREGOING PREMISES and in consideration of the covenants and
promises herein recited, the Grantor hereby grants to the Grantee an access easement, more
particularly described in the attached Exhibit A paragraph 2, and as shown on attached Exhibit B,
in perpetuity, for road purposes.

In consideration for granting the access easement described above, Grantee agrees to repair any
damage thereto resulting from the Grantee’s use of said access easement. The Grantee further agrees
that, should the Grantor desire to fence the access easement or close the access thereto by fences and gates, the Grantee will provide locks for such purpose so access to the roadway by the general public can be restricted.

Grantor waives any right under Civil Code Section 845 and any other right, if any, to compel Grantee to improve or maintain any part of the access easement as a roadway or private right of way.

The rights and obligations contained herein shall inure to the benefit of and be binding upon the successors in interest, agents, employees, assigns, and transferees of the parties hereto.

In WITNESS WHEREOF, this instrument has been executed this __ day of ____________, 2017.

GRANTOR: Tommy Ly and Lan Xuan Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016.

__________________________
Name:

__________________________
Name:

(Notarial acknowledgment of execution by GRANTOR must be attached.)
CERTIFICATE OF ACCEPTANCE

Re: Assessor's Parcel Number: 187-060-01
     Water Authority Parcel Number: P01-202A-AR

This is to certify that the interest in real property conveyed by Tommy Ly and Lan Xuan
Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016, dated
to the San Diego County Water Authority, is hereby accepted by the order of the Board of
Directors and the Grantee who consent to the recording of said conveyance.

Executed on this ________ day of _____________________, 2017.

SAN DIEGO COUNTY WATER AUTHORITY

________________________________________
By: Gerard E. Reed, III
      Director of Engineering
EXHIBIT "A"
LEGAL DESCRIPTION
ACCESS EASEMENT
A.P.N. 187-060-01
(LY-NGUYEN FAMILY 2016 TRUST)
PARCEL NO. P01-202A-AR

A PORTION OF THE NORTHWEST QUARTER OF THE NORTHWEST QUARTER OF SECTION 27,
TOWNSHIP 11 SOUTH, RANGE 2 WEST, SAN BERNARDINO BASE AND MERIDIAN, COUNTY OF SAN
DIEGO, STATE OF CALIFORNIA, ACCORDING TO OFFICIAL PLAT THEREOF, AS DESCRIBED AS
PARCEL 1 IN GRANT DEED, RECORDED MAY 6, 2010 AS DOC #2010-0227605 OF OFFICIAL
RECORDS, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

THAT PORTION OF SAID PARCEL 1 LYING WITHIN A 20.00-FOOT WIDE STRIP OF LAND FOLLOWING
AN EXISTING ROAD, WHOSE ROUTE IS GENERALLY SHOWN ON ATTACHED EXHIBIT "B".

CONTAINS 0.09 ACRES MORE OR LESS.

MARVIN J. SYLAKOWSKI, PLS 6998
EXPIRATION: 9-30-19

9/13/17 NJS
EXISTING 130' WIDE
SDCWA RIGHT OF WAY
PER ROS 18154

APN 187-050-61

APN 187-050-61

APN 187-451-20

APN 187-060-27

APN 187-060-30

APN 187-060-32

APN 187-060-01

APN 187-060-02

SW 1/4 NW 1/4
SEC 27
T11S R2W

NW 1/4 NW 1/4
SEC 27
T11S R2W

LEGEND:
DENOTES PROPOSED ACCESS EASEMENT

SAN DIEGO COUNTY
WATER AUTHORITY
ACCESS ROAD EASEMENT

AREA: 0.09 ACRES

SDCWA PARCEL NO.: P01 202A-AR
(PROJECT: Q0204)
VESTING:
LY-NGUYEN FAMILY TRUST
(APN 187-060-01)

DRAWN BY: JPW | CHECK BY: MJS
9/13/2017 | SHT 1 OF 1
PLEASE RECORD THIS DOCUMENT AT NO FEE AS IT IS TO THE BENEFIT OF THIS DISTRICT (GOV. CODE §6103)

RECORDING REQUESTED BY AND WHEN RECORDED, PLEASE MAIL TO:

San Diego County Water Authority
Engineering Department
4677 Overland Avenue
San Diego, CA 92123

Assessor's Parcel No.: 187-450-43
Water Authority Parcel No.: P01-199C-AR
Project Name & No.: First Aqueduct Structures & Lining Rehabilitation – Q0204
DOCUMENTARY TRANSFER TAX: None (Gov. Code §6103)

Gerard E. Reed, III
Director of Engineering

GRANT OF ACCESS EASEMENT TO THE
SAN DIEGO COUNTY WATER AUTHORITY

Tommy Ly and Lan Xuan Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016 and as to an undivided 50% interest, Minh Tran, a married man as his sole and separate property, as to an undivided 25% interest, and Jimmy Hien Nguyen, a married man as his sole and separate property as to an undivided 25% interest, all tenants in common (Grantor) owns the real property described in the attached Exhibit A Paragraph 1, (Property); and

WHEREAS, the San Diego County Water Authority (Grantee) owns and operates the First San Diego Aqueduct, within an easement acquired by Quit Claim Deed recorded December 19, 1997 as Document 1997-0646794 of the official records of the County of San Diego; and;

WHEREAS, the Grantee desires an access easement over, across, and along the Grantor’s Property for the purpose of inspection, maintenance, repair, and enlargement of the aqueduct;

PURSUANT TO THE FOREGOING PREMISES and in consideration of the covenants and promises herein recited, the Grantor hereby grants to the Grantee an access easement, more particularly described in the attached Exhibit A paragraph 2, and as shown on attached Exhibit B, in perpetuity, for road purposes.
Assessor's Parcel No.: 187-450-43
Water Authority Parcel No.: P01-199C-AR
Project Name and No: First Aqueduct Structures & Lining Rehabilitation – Q0204

In consideration for granting the access easement described above, Grantee agrees to repair any damage thereto resulting from the Grantee's use of said access easement. The Grantee further agrees that, should the Grantor desire to fence the access easement or close the access thereto by fences and gates, the Grantee will provide locks for such purpose so access to the roadway by the general public can be restricted.

Grantor waives any right under Civil Code Section 845 and any other right, if any, to compel Grantee to improve or maintain any part of the access easement as a roadway or private right of way.

The rights and obligations contained herein shall inure to the benefit of and be binding upon the successors in interest, agents, employees, assigns, and transferees of the parties hereto.

In WITNESS WHEREOF, this instrument has been executed this __ day of ________________, 2017.

GRANTOR: Tommy Ly and Lan Xuan Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016 and as to an undivided 50% interest, Minh Tran, a married man as his sole and separate property, as to an undivided 25% interest, and Jimmy Hien Nguyen, a married man as his sole and separate property as to an undivided 25% interest, all tenants in common.

________________________
Name:

________________________
Name:

________________________
Name:

________________________
Name:

(Notarial acknowledgment of execution by GRANTOR must be attached.)
CERTIFICATE OF ACCEPTANCE

Re: Assessor’s Parcel Number: 187-450-43
          Water Authority Parcel Number: P01-199C-AR

This is to certify that the interest in real property conveyed by Tommy Ly and Lan Xuan Nguyen, Trustees of the 2016 Ly-Nguyen Family Trust dated September 15, 2016 and as to an undivided 50% interest, Minh Tran, a married man as his sole and separate property, as to an undivided 25% interest, and Jimmy Hien Nguyen, a married man as his sole and separate property as to an undivided 25% interest, all tenants in common, dated , to the San Diego County Water Authority, is hereby accepted by the order of the Board of Directors and the Grantee who consent to the recording of said conveyance.

Executed on this ______ day of ___________________________, 2017.

SAN DIEGO COUNTY WATER AUTHORITY

By: Gerard E. Reed, III
     Director of Engineering
EXHIBIT "A"
LEGAL DESCRIPTION
ACCESS EASEMENT
A.P.N. 187-450-43
(LY-NGUYEN FAMILY 2016 TRUST)
PARCEL NO. P01-199C-AR

A PORTION OF LAND DESCRIBED AS PARCEL 1 IN GRANT DEED, RECORDED SEPTEMBER 30, 2016 AS DOC #2016-0524074 OF OFFICIAL RECORDS, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

THAT PORTION OF PARCEL 1 DESCRIBED IN SAID GRANT DEED LYING WITHIN 20.00-FOOT WIDE STRIPS OF LAND FOLLOWING EXISTING ROADS, Whose ROUTES ARE GENERALLY SHOWN ON ATTACHED EXHIBIT "B".

CONTAINS 0.28 ACRES MORE OR LESS.

MARVIN J. SYLAKOWSKI, PLS 6998
EXPIRATION: 9-30-19

Q0204
0/13/17 M. S
EXISTING 130' WIDE
SDCWA RIGHT OF WAY
PER ROS 18154

APN 187-050-61

APN 187-060-01

APN 187-060-02

APN 187-060-27

APN 187-060-30

APN 187-451-20

APN 187-450-43

SW 1/4 NW 1/4
SEC 27
T11S R2W

APN 187-060-32

N

LEGEND:
- DENOTES PROPOSED ACCESS EASEMENT

SAN DIEGO COUNTY
WATER AUTHORITY
ACCESS ROAD EASEMENT

AREA: ± 0.28 ACRES

SDCWA PARCEL NO.: P01-199C-AR
(PROJECT: Q0204)

VESTING:
LY-NGUYEN FAMILY
TRUST
(APN 187-450-43)

DRAWN BY: JPW | CHECK BY: MJS
9/13/2017 | SHT 1 OF 1
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THIS PAGE LEFT BLANK INTENTIONALLY
November 29, 2017

Attention: Board of Directors

General Counsel’s Report – October/November 2017

Purpose
This report discusses certain meaningful legal matters receiving attention during the months of October/November 2017.

Significant Developments in Pending Litigation

MWD Rate Cases

2010/2012 Rate Cases: As previously reported, the Court of Appeal decision is now final. A remittitur issued on October 24, 2017, so the case will be renewed in the trial court soon.

2014 Rate Case: The case filed on May 30, 2014 challenging MWD’s rates adopted in 2014 for 2015 and 2016 was transferred to San Francisco Superior Court, assigned to Judge Karnow, and remains stayed.

2016 Rate Case: The case filed on April 13, 2016 challenging MWD’s rates adopted in 2016 for 2017 and 2018 was transferred to San Francisco Superior Court and, following MWD’s exercise of a peremptory challenge against Judge Karnow, assigned to Judge Mary Wiss, the other complex litigation judge in San Francisco. The 2016 case remains stayed.

2017 Rate Case: The case was filed in Los Angeles Superior Court on June 9, 2017, following MWD’s April 2017 approval of Readiness-to-Serve and Capacity Charges to be charged in 2018, and amended on July 18, 2017, after the MWD Board approved an amended RTS Charge for 2018. The nine MWD member agencies that have participated in the rate litigation each filed an answer. By stipulation, MWD’s answer was not due until after the case was transferred. All parties stipulated to transfer the case to San Francisco Superior Court; the case was transferred on October 27, 2017; and proceedings will soon commence in San Francisco. MWD has indicated that it will move to stay the 2017 case until completion of proceedings in the 2010/2012 case.

Public Records Act Case: This action to obtain a copy of the "financial planning" rate model used by MWD in 2016 to allocate its costs and set its rates for calendar years 2017 and 2018 is pending in San Francisco. The opening brief has been filed with a hearing date of December 22, 2017.
Shimmick/Obayashi Joint Venture v. San Diego County Water Authority

This large CIP construction case is now in trial (which began September 22, 2017), with a jury empaneled and witnesses testifying. The Plaintiff put on its case, and the Water Authority’s case is now proceeding. It is anticipated that the case will be concluded around Christmas.

San Diegans for Open Government v. San Diego County Water Authority

This case was to have had our Demurrer heard in September, but Plaintiff’s counsel Corey Briggs had some form of medical emergency and the hearing was re-set for November 3. Plaintiff then made modifications to the Complaint, and we filed another demurrer, which is set to be heard January 19, 2018.

Department of Water Resources v. All Persons Interested

The Water Authority filed its Answer, which made clear we had specific issues that might or might not be at issue in the case. MWD demurred to our Answer, and also moved to strike portions of it, and we will have filed opposition briefs by the date of the Board meeting. The hearing is set for December 15, 2017.

Requests Pursuant to the Public Records Act Request

<table>
<thead>
<tr>
<th>Requestor</th>
<th>Documents Requested</th>
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<tbody>
<tr>
<td>Diskriter Inc.</td>
<td>Proposals for Temporary Staffing Service for Senior Engineering Technician</td>
</tr>
<tr>
<td>Sheppard Mullin Richter &amp; Hampton LLP</td>
<td>Copy of SDCWA’s review and comments to the City of San Diego’s City Preferred Alignment and Murphy Alternative related to the City’s proposed pipeline project in Scripps Ranch area</td>
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<tr>
<td>SmartProcure</td>
<td>Purchase orders dated 8/9/2017 to current</td>
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<tr>
<td>Steve Hodges</td>
<td>Request for assorted records</td>
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</tbody>
</table>

Prepared by: Mark J. Hattam, General Counsel

Attachment: Special Counsel Expenditure Report
## On-going Litigation

<table>
<thead>
<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended for Oct/Nov-17 (Fees &amp; Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allen Matkins</td>
<td>MWD Ethics Office Issues</td>
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<td>Aviles, Kelly A.</td>
<td>Enforcing Requests for Public Records</td>
<td>Privileged</td>
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<tr>
<td>Brownstein Hyatt Farber Schreck</td>
<td>QSA Litigation</td>
<td>Privileged</td>
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<tr>
<td></td>
<td>QSA Implementation</td>
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<td>MWD Rate Litigation</td>
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<tr>
<td></td>
<td>Public Records Litigation</td>
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<td>California Appellate Law Group</td>
<td>Metropolitan Rates</td>
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<td>Daley &amp; Heft</td>
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<td>San Diego Office of Education Matter</td>
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<td>Metropolitan Rates</td>
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<td>Keker Van Nest &amp; Peters</td>
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<tr>
<td>Procopio Cory Hargreaves &amp; Savitch</td>
<td>Brown Act Case</td>
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<td></td>
<td>DWR Validation Matter</td>
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<tr>
<td></td>
<td>San Vicente Dam Raise Project</td>
<td>Privileged</td>
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## Non-Litigation

<table>
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<tr>
<th>Special Counsel</th>
<th>Project</th>
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</thead>
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<tr>
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<td></td>
<td>San Vicente Pumped Storage Project</td>
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<td>Brownstein Hyatt Farber Schreck</td>
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<td>Pillsbury Winthrop Shaw Pittman LLP</td>
<td>Intellectual Property</td>
<td>$900.00 (OP)</td>
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1 The California Supreme Court has held that the amounts of monthly legal bills for ongoing litigation have privileged status, as they may disclose litigation strategy. *Los Angeles County Bd. of Supervisors v. Superior Court*, (2016) 2 Cal. 5th 282, 286.