Director John Linden and Congresswoman Susan Davis at the Paths to Partnerships Regional Forum for small businesses
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 9, 2010 the afternoon session of Standing Committees will commence at 1:15 p.m. Please see the meeting schedule. The full Board will convene in formal session at 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. If a quorum of the Board is present during a Committee meeting, upon approval of a motion by any Board member to convene for consideration of action on an item or items on the Committee agenda, the Board may take action on that item or items. If the Board takes action on an item during a Committee meeting, the matter will not be subject to further action at the Formal Board meeting unless a motion to reconsider is approved according to the provisions of the Water Authority Administrative Code. 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 on line at www.sdcwa.org or at the Water Authority Headquarters.
MEETING SCHEDULE

DECEMBER 9, 2010

MORNING SESSION 9:00 a.m. to 12:00 p.m.
Imported Water
Estimated time: 55 minutes
Water Planning
Estimated time: 1 hour 25 minutes
Administrative and Finance
Estimated time: 30 minutes

LUNCHEON FOR DIRECTORS 12:00 p.m. – 1:15 p.m.

AFTERNOON SESSION 1:15 p.m. – 3:00 p.m.
Engineering and Operations
Estimated time: 50 minutes
Legislation, Conservation and Outreach
Estimated time: 45 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 1:15 p.m., and the following afternoon sessions may start at any time after 1:15 p.m. The Board meeting will start no earlier than 3:00 p.m., or following the conclusion of the last committee meeting.
IMPORTED WATER COMMITTEE

AGENDA FOR

DECEMBER 9, 2010

Dan McMillan – Chair     Keith Lewinger
Bill Knutson – Vice Chair  John Linden
Yen Tu – Vice Chair      Ralph McIntosh
Keith Blackburn        Rua Petty
Jim Bond              Hershel Price
Brian Boyle          Elsa Saxod
Gary Croucher        Barbara Wight
Lynne Heidel

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.
   4-B Final report on Imported Water Committee’s Goals for 2009 and 2010.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

1. Metropolitan Water District Issues and Activities update.  Amy Chen
   1-A Metropolitan Water District Delegates report.  (Information)

2. Colorado River Programs.
   2-A Colorado River Board representative’s report.  Bill Knutson
       (Information)  (pickup packet)
III. INFORMATION

1. Metropolitan Water District Program report. Amy Chen

IV. CLOSED SESSION

1. CLOSED SESSION: Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California;
   Case No. BS126888 (transferred to San Francisco CPF-10-510830) Dan Hentschke

V. ADJOURNMENT

Doria F. Lore
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.
December 1, 2010

Attention: Imported Water Committee

Final Report on Imported Water Committee’s Goals for 2009 and 2010

Purpose
The attached report summarizes activities performed in support of the Imported Water Committee’s Goals for 2009 and 2010.

Background
Previous Board action: On March 25, 2009, the Board of Directors adopted a set of goals for the Imported Water Committee to accomplish in 2009 and 2010.

Discussion
The Imported Water Committee is responsible for imported water matters, including: activities and issues as a member agency of the Metropolitan Water District of Southern California; administration of the Colorado River Quantification Settlement Agreement and related agreements; Colorado River Board; State Water Project and Bay-Delta related activities; and other matters relating to water supplies from outside San Diego County. During the past two years, the Committee reviewed, discussed, and made decisions pertaining to these matters. A progress report was presented to the Board January 20, 2010.

Prepared by: Amy I. Chen, MWD Program Chief
Halla Razak, Colorado River Program Director
Reviewed by: Dan McMillan, Chair, Imported Water Committee

Attachment: Final Report on Imported Water Committee’s Goals for 2009 and 2010
Final Report on Imported Water Committee Goals
Calendar Years 2009 and 2010

Strategic Plan Objectives

1. Adopt and implement a biennial water policy agenda directed toward MWD, the state, the seven basin states, and various federal agencies. (June 2009 – SP #7)
   
   **Activities:** In collaboration with the Legislation, Conservation, and Outreach Committee, the 2009 Legislative Guidelines were adopted, which provides direction to staff and legislative advocates (January 2009). The Board adopted updated 2010 Legislative Policy Guidelines (December 2009), presented for review and comment the 2011 Legislative Policy Guidelines (October 2010) and will consider the 2011 Legislative Policy Guidelines (December 2010). The MWD work plan was reviewed during the board retreat (2009) and an updated MWD work plan was presented in (April 2010).

   In addition, the Colorado River Program Ad Hoc Committee reviewed progress and recommended actions for the full range of Colorado River Program activities, including regular reports on QSA litigation and related matters, construction of the canal lining projects, water quality issues, and matters related to the water transfer with IID. The Committee heard monthly briefings from the Water Authority’s representative on the Colorado River Board, and recommended a cost-share formula for funding the Colorado River Board.

2. Create broad public support for and awareness of issues surrounding water, water resources, and water infrastructure. (January 2015 – SP #15)

   **Activities:** The Committee heard updates on efforts by the MWD Delegates, Water Authority Board officers and MWD Program staff to work with MWD and its member agencies towards shared goals (Ongoing). Regular meetings were held with representatives from Eastern, Western and Inland Empire Utilities Agency. The Delegates also met frequently with directors from other agencies including Anaheim, Glendale, Los Angeles, Long Beach, MWDOC, Pasadena, San Fernando, Santa Monica and others. In addition, the MWD Delegates and MWD Program staff continue to provide insight on current water issues at Monthly Delegates’ meetings and Water Authority’s goals relative to MWD during inspection and education trips of MWD and local facilities (Ongoing).

   The Committee also heard reports and updates related to education and outreach activities in the Imperial Valley related to QSA and IID water transfer matters, including human safety measures related to the All American Canal Lining Project, Water Authority participation in Imperial Valley community events, and the publication of “Water Updates From the Coast,” an electronic newsletter providing relevant Water Authority information to the Imperial Valley community. Committee members participated in a celebration of the completion of the All American Canal Lining Project.
Business Plan Goals

Bay-Delta Program

1. Adopt updated Bay-Delta Workplan. (January 2010 – BP #4)
   Activities: The Committee and Board adopted the 2009-2010 Bay-Delta Workplan (July 2009).

2. Adopt policies that support efforts to implement interim Bay-Delta fixes by 2011 and construction of conveyance facilities for long-term water supply reliability. (December 2009 – BP #6)
   Activities: The Committee received quarterly updates on activities that took place in the Bay-Delta region (January, April, July, and October 2009 and 2010). Staff reported on board members’ activities and efforts working with MWD and other stakeholders that led to the passage of a legislative package of bills that provide for reaching a comprehensive solution to problems in the Delta, including a Water Bond (and the subsequent postponement of the bills to 2012). Also reported to the Committee on:
   • The near-term, “no-regrets” actions that should begin immediately to protect fish species and possibly recover some of the water that is being lost to pumping restrictions. Some of these actions included: an alternative intake for Contra Costa Water District, demonstration fish protection screen at Clifton Court Forebay, and emergency preparedness for floods and levee failures. The federal government has taken charge of the Two Barrier (or Two Gates) option, which when completed would prevent Delta smelt from entering the part of the Delta where they are likely to be entrained into the pumps. The federal government has suspended the project while it gathers more scientific data. (January 2010).
   • The appointment of members to various councils and commissions established by last fall’s legislative package, including the Delta Stewardship Council and California Water Commission (ongoing).
   • A presentation on the Delta’s ecosystem, water system and impacts to the surrounding communities by Curt Schmutte, consultant to MWD (May 2010).
   • The Water Authority’s comment letter on the State Water Resources Control Board’s Draft Delta Flow Criteria Report (July 2010) and the subsequent Control Board’s adoption of flow criteria for the Delta (October 2010).
   • Court rulings in favor of water users (July 2010).
   • New science regarding the pelagic organism decline, such as Delta smelt (July 2010).
   • An update on the issuance of a tentative permit for the Sacramento Regional Wastewater Treatment Plant that may help to ensure the survival of the Delta smelt (October 2010).
3. Review staff recommendations on the Bay-Delta Conservation Plan. (July 2010 – BP #7)

**Activities:** The Committee heard updates on the Bay-Delta Conservation Plan through quarterly Bay-Delta reports, monthly Imported Water and MWD Program Activities reports and other reports (Ongoing).

**Colorado River Water Supplies**

1. Provide policy direction on staff efforts to identify feasible water supply augmentation projects by the Colorado River Basin states and participate in the Intentionally Created Surplus (ICS) water storage program (December 2009 – BP #3)

**Activities:** The Committee heard reports on the progress of a Colorado River water supply and demand study being completed by the seven Colorado River Basin states and Bureau of Reclamation. Committee members reviewed and provided guidance on the development of a proposed Water Authority ICS account, or sub-account to the MWD ICS program.

2. Consider recommendations on potential implementation of specific binational water augmentation projects that staff identifies in cooperation with the seven basin states, IBWC, and Mexico. (December 2010 – BP #5)

**Activities:** The Committee recommended the authorization of a feasibility study and preliminary design of a large-scale seawater desalination plant that would be located at Rosarito Beach, in Baja California, Mexico. The Committee heard reports on the progress of the study, as well as related binational activities, including a proposal to store some of Mexico’s 1.5 maf apportionment in Lake Mead, which could facilitate water exchanges between the two nations, proposed shortage guidelines for Mexico, and proposed water conservation and environmental pilot projects to be implemented in Mexico.

**Metropolitan Water District Water Supplies**

1. Provide direction to staff to ensure MWD meets its water transfer goals and influence its participation in long-term water transfer options. (May 2009 – BP #1)

**Activities:** Through the Delegates’ and MWD Program reports, the Committee received information on MWD’s 2010 Short-Term Water Transfer activities, which includes agreements with: Delta Wetlands (March 2010); various Sacramento Valley water districts and Department of Water Resources to purchase, convey and store transfer water (March 2010); DWR to purchase Yuba County Water Authority transfer supplies (April and July 2010); and San Luis Water District and Westland Water District transfer supplies (August 2010).

2. Provide direction regarding MWD’s Integrated Resources Plan to ensure the Plan incorporates a strategy component for the Delta fix, governs MWD’s financial investments and operational decisions, and functionally integrates into its rate structure. (July 2009 – BP #2)
Activities: The Committee heard reports on:

- MWD’s Integrated Resources plan update process (March, August and October 2010). In September, the Water Authority submitted a detailed letter outlining the critical flaws with the Final Draft of IRP Update and requested the adoption be postponed until issues and concerns raised by the letter could be addressed. Despite the Water Authority’s letter and concerns expressed by others, the MWD board approved the adoption of the Final Draft. The Final Draft failed to address the substantive comments and concerns highlighted in the Water Authority’s letter. As a result, the Water Authority’s MWD Delegates opposed the adoption of the 2010 IRP Update.

3. Provide policy direction to staff to influence MWD’s policies, planning efforts, studies, programs, budgets, and rates and charges to ensure water reliability and cost effectiveness. (December 2009 – BP #3)

Activities: The Committee received, reviewed, or provided direction to staff on:

- MWD’s current supply conditions and its impact on its budget through the monthly MWD Delegates’ Reports (Ongoing).
- SWP activities and MWD’s participation in ensuring the SWP reliability through the monthly MWD Program Reports (Ongoing).
- MWD’s legislative activities (Ongoing).
- MWD’s calendar year 2011 proposed rates and charges (January 2010) and MWD’s budget for fiscal year 2011/12 (January and August 2010). In April, the MWD board adopted a two-year rate increase of 7.5 percent overall average increase in rates and charges, effective January 1, 2011 and again on January 1, 2012. In adopting the rate increase, the MWD board also directed staff to reduce its proposed 2010/11 expenditures by $20 million so the rate increase would fully recover anticipated costs in the first year, fiscal year 2010/11. In May, the MWD board approved staff’s recommended $20 million reduction in expenditures for the 2010/11 budget, and directed staff to return within 90 days with a 2011/12 budget for consideration and to hold a workshop to facilitate discussion on the 2011/12 budget proposal. Subsequently, MWD’s proposed fiscal year 2011/12 budget of $1.82 million was approved in August.
- MWD’s approval to continue implementation of its Water Supply Allocation Plan and declaration of the Regional Shortage Level 2 (April 2010);
- MWD’s Calendar Year 2010 regional water supply and demand conditions as reported to the Water Planning Committee (April 2010).
- MWD’s Blue Ribbon Committee process (June 2010). MWD established the 2010 BRC, comprised of business, community and public interest leaders to provide insight to global, environmental, economic, social and demographic changes that MWD is assuming it will encounter in the future. The Water Authority delegates have been advocating for MWD to focus on improving its core water supplies, the SWP and the Colorado River supplies, throughout the Integrated Resources Planning process. The BRC recommendations were expected to be considered by MWD’s board in September 2010, but was later postponed to December 2010.
The Water Authority’s lawsuit challenging MWD’s water rates for 2011 and 2012 filed on June 10, 2010 (Ongoing). As a result of the challenge, MWD’s board voted to and MWD has taken steps to terminate any Local Resources Program subsidy contract with the rate structure integrity verbiage in its contract.

Impacts of federal Judge Wanger’s preliminary injunction, which lifted a set of water restrictions implemented by the federal government under the salmon biological opinion. The water contractors and federal government negotiated a settlement under which the government would adopt the least severe restrictions for the remainder of the restricted period, but the settlement came in late-June when it would have almost no impact before the restrictions were lifted in July (July 2010).

Report on the effect of the pumping restrictions on MWD’s water supply, which pointed out that DWR reported fishery restrictions for 2010 impacted SWP deliveries by 800,000 acre-feet. MWD is entitled to about half of the State Water Project contractors Table A supply (July 2010).

Report on the accounting for the capital component for the SWP through the Delegates’ Report (July 2010). A letter from the Water Authority General Counsel stating that although MWD accounts for the payment of the SWP in a particular way, it does not mean MWD owns that facility, was submitted at the board meeting as part of the record.

Report through the Delegates’ Report on MWD’s Bay Delta Conservation Plan (BDCP) and Delta Habitat Conservation and Conveyance Program (DHCCP) budget activity (September 2010). MWD staff reported that the long-term implementation capital costs (estimated) are as high as $13 billion, with MWD’s obligation estimated to be about $3 billion; MWD’s capital, O&M and energy costs share could be as high as $160 million per year. The near-term Delta planning budget is projected to be $253.5 million.

Report on the Little Hoover Commission’s report on Statewide Water Management, which was released on August, 26, 2010 (September 2010).

4. Ensure cost-effective incentive implementation for conservation and Local Resources Programs, including seawater desalination that better reflect the Water Authority’s financial contribution to MWD. (December 2009 – BP #5)

Activities: The Committee heard a report on MWD’s development of a Long-Term Conservation Plan (February 2010). Subsequently, the board approved the fiscal year 2010/11 Water Conservation Plan (Plan) which is designed to achieve water savings of 10,000 af/yr. The plan became effective June 1, 2010. Updates on activities pertaining to MWD’s Conservation Program are also reported in the monthly MWD Program Report (Ongoing). As a result of the Water Authority’s rate challenge, MWD initiated proceedings to take steps to terminate any Local Resources Program subsidy contract with the rate structure integrity verbiage in its contract.
Other Goals

1. Explore opportunities, including partnerships with others, for additional conjunctive use of imported water or storage supplies.

   Activities: The Water Authority actively sought water transfer options as part of its drought management plan; staff’s effort to obtain option water was reported to the Water Policy Committee (Ongoing). Due to the changed conditions of the Water Authority’s water demands, which have significantly dropped since MWD enacted Level 2 of its Water Supply Allocation Plan in July 2009, the expense necessary to obtain the necessary approvals and agreements and the comparatively higher cost of the supplies, staff recommended and the board approved not exercising its call rights to the 2010 dry-year transfer with the South Feather Water and Power Agency (March 2010) and later decided to end its pilot program efforts between San Juan Water District, Santa Clara Valley Water District and the Water Authority for Calendar Year 2010 and continue it over to 2011 (August 2010). Staff provided updates on the out-of-region conjunctive use program and supplies in the Water Policy Committee’s monthly report.

2. Consider staff recommendations on engaging San Diego-based stakeholders in the support of Bay-Delta near-term and long-term fixes.

   The Water Authority worked closely with San Diego stakeholders to support passage of the 2009 Bay-Delta bill package, including a water bond. Several lobbying trips were taken with business leaders in support of the legislation. The Committee also received updates on Bay-Delta activities and legislation through quarterly Bay-Delta reports, monthly Imported Water and MWD Program Activities reports and other reports (Ongoing).

3. Adopt policies to ensure successful and timely implementation of the Water Authority’s Quantification Settlement Agreement projects and programs.

   Activities: The Committee heard regular reports on the status of QSA implementation, including issues related to the QSA, the IID water transfer, the All American Canal Lining Project, the Coachella Canal Lining Project. The Committee:
   - Heard regular updates in closed session on litigation matters related to a Superior Court ruling that invalidated the QSA and a number of related agreements, a subsequent stay of that ruling, and an appeal of that ruling.
   - Heard reports and considered issues related to the pricing of IID transfer water, resulting in a fifth amendment to the transfer agreement that establishes an agreed-upon transfer pricing methodology through 2034.
   - Heard updates on activities related to completion of the All American Canal Lining Project, including Reclamation’s “Secretarial Determination” of the amount of water conserved by the project; settling contractor claims, and human safety improvements, and establishment of an operations and maintenance baseline used to determine net O&M costs to be paid by the Water Authority and San Luis Rey settlement parties.
   - Heard updates on activities related to the completion of the Coachella Canal Lining Project, including process to repair cracked panels, progress on environmental mitigation features, and establishment of an operations and maintenance baseline used to determine net O&M costs to be paid by the Water Authority and San Luis Rey settlement parties.
December 1, 2010

Attention: Imported Water Committee

Metropolitan Water District Delegates’ Report (Information)

Background
The MWD committees and board met on October 26 and November 8 and 9. The next regular MWD board and committee meetings are scheduled for December 13 and 14.

Discussion
This section summarizes discussions held and key decisions made at the October 26 and November 8 and 9 MWD committee and board meetings, as reported by the MWD delegates. Attachment 1 is a copy of MWD’s November board meeting agenda.

October 26 Committee meetings:

Executive Committee
Two nominations were accepted by the committee for board secretary – Directors John Morris (San Marino) and Angel Santiago (Inland Empire Utilities Agency). Subsequently, at the November board meeting, Santiago withdrew his name from the ballot and Morris was elected unanimously to serve a two-year term as the board secretary, effective January 1, 2011.

Real Property and Asset Management Committee
The committee and board declared as surplus of 23.803 acres of land in La Verne, California. Another action item, pertaining to 83.6 acres adjacent to the Box Springs Feeder in Riverside, was approved in committee but delayed to the December board meeting to allow the city/county of Riverside time to prepare a purchase proposal. Chief Economic Advisor for the Southern California Association of Government, Jack Kayser, gave an overview of the economic impact of the recession in MWD’s service area. In short, Kayser said that recovery will be slow with modest job growth going forward. Director Pocklington asked if staff’s recommendation to sell assets rather than lease property is prudent, considering the slow recovery rate. Kayser responded that there is distress in the residential resell market; however, investors are reemerging in the real estate market. Director Wright (Torrance) asked if San Diego mirrored the Los Angeles region’s economic recovery; Kayser said that if one were to rank the counties, Orange County will likely recover lost jobs first due to its economic strength, then San Diego, then Los Angeles, followed by Riverside and San Bernardino. Staff followed Kayser’s presentation with a brief overview on the criteria used to determine the sale or lease of MWD’s property.

Special Committee on Bay-Delta
The committee heard presentations on expenditures related to Bay-Delta environmental activities, an update on the Bay Delta Conservation Plan (BDCP), and on early Delta habitat actions. Staff reported costs incurred by MWD to-date on the Bay-Delta environmental expenditures since 1994 (when the Bay-Delta Accord was reached) is about $266 million. Director Edwards (Foothill Municipal Water District) received confirmation that the contribution does not include legal expenses to protect MWD’s position on Bay-Delta issues. Staff said that the Draft BDCP document is planned to be released later in November, which would include proposed operating criteria for new and existing conveyance to meet habitat flows and project water supply reliability.
The system is being designed to allow an average export of about six million acre-feet (af) per year between the State Water and Central Valley Project.

The committee also received an update on Delta water management legislative package and related state budget actions.

**November 8 and 9 Committee and Board meetings:**

**Business and Finance Committee**

There were no board action items on the agenda. MWD staff reported on its investment activity and its financial highlights. Chief Financial Officer Brian Thomas said water sales continue to run under budget and the projected year-end sales are about 1.74 maf compared to the 1.93 maf budget, which translates to about $120 million less in revenue. MWD’s projected “water” sales include the Water Authority’s exchange water of 152,000 af. Staff said if the current pace continues, MWD would draw about $100 million from the water rate stabilization fund without further expenditure reduction. This action would result in reserves dipping below the minimum level by about $35 million to $40 million. Director Lewinger highlighted that the cumulative water sales this month have further decreased from previous projections. Director Blake (Fullerton) added that the water sales trend is likely to decline even more due to favorable precipitation. Thomas reported plans to return to the Committee and board in December and January to discuss capital spending and funding, in addition to plans to present the proposed budget for 2011/12 and 2012/13 in January. Thomas said MWD may issue bonds before the end of the calendar year before the Build America Bond subsidies will likely expire. The renewal rate is unknown at this time; staff will evaluate this option.

The Committee received an overview on MWD’s existing rate structure and revenue sensitivities for fiscal year 2011/12 as a result of water sales that are lower than budgeted. A 200 taf of sales reduction (1.8 maf water sales) would result in a revenue impact equal to $152 million, the need to reduce Pay-As-You-Go funding, deterioration of reserves, and not meeting board established coverage targets (although MWD will still meet bond covenant requirements). Director Wunderlich (Beverly Hills) proposed that the board consider ways to modify the rate structure so it contains more fixed charges, because MWD has high fixed costs regardless of whether or not water is sold. Kightlinger responded that MWD’s philosophy in handling the volatility of sales has been through the use of reserves, but with public sensitivities to rate spikes, he agreed that further review of options are warranted. Director Dick (Municipal Water District of Orange County), concerned with what high fixed charges may do to cost containment, asked if staff has found an agency with predominantly fixed costs that successfully held down costs; Kightlinger said staff will follow-up. Dick also asked if consideration was given to allow a member agency to purchase water for future use, but at this year’s rates, to help shore up MWD’s revenues. Kightlinger said the discussions are taking place with the member agency managers and Water Planning and Stewardship Committee members; there are plans to bring the item to the board in December. Lewinger received confirmation that all costs related to fixing the Delta, including MWD’s share through DWR’s statement of charges, are being captured in the Delta Surcharge rate. Thomas said the board will be discussing rate structure issues and how MWD would finance any delta fix in the future. Blake said that the board should relook at the Boronkay Compromise and see if opportunity exists to increase ad valorem property taxes.

The committee also heard a portion of a presentation on MWD’s 2009/10 Audited Financial Statements.
Communications and Legislation Committee

There were no board action items on the committee agenda. Chair Griset (Santa Ana) reported that Chairman Brick (Pasadena) will convene a 20x2020 water summit on November 10 and over 400 stakeholders are expected to attend. Staff reviewed the proposed federal and state legislative priorities for 2011. The board will consider staff’s recommended priorities at the December committee meeting. Staff also briefed the committee on its support of Association of California Water Agencies’ Policy Principles on the Endangered Species Act, which is in-line with MWD’s policy principles. The committee received reports on state and federal legislative activities.

Engineering and Operations Committee

The committee and board approved three items and the board tabled an agreement on security guard services to December. Staff reported blends at Skinner continue to be 35 percent SWP. Staff also reported that the October demands on MWD were 131 taf, which was about 27 taf lower than the October 2009 demands. Diamond Valley Lake is currently at 581 taf (72 percent of 810 taf maximum capacity).

Legal and Claims Committee

The committee and board approved conflict of interest amendments to the administrative code. General Counsel Karen Tachiki reported to the committee that Judge Wanger still has not ruled on the motion for summary judgment on the delta smelt (restrictions go into place in December) and the summary judgment on the salmon is on Wanger’s calendar for December 15 and 16. She said plans to report on the Sacramento Regional matter in December were delayed because the regional board is unable to gather a quorum. The committee also heard a report on the legislative response to the City of Bell scandal, where eight current or former Bell public officials paid themselves base salaries ranging from $100,000 to nearly $800,000 by charging property taxes 34% above the standard. Staff said the consequences to date include criminal action filed against several individuals on misappropriation of more than $5.5 million in public funds. The State Attorney General sued the individuals and former police chief seeking pay back of funds and opened up a probe that would review local and other government agencies paying annual salaries of more than $300,000 and pensions greater than $200,000. As a result, six bills related to compensation emerged and a seventh bill (AB 900) requires the City of Bell to reimburse its taxpayers for property taxes designated for pensions that were imposed and collected without legal authority.

Organization and Personnel Committee

The committee heard a report on MWD’s employee workforce, as of September 30. Staff reported that hiring activity was the highest in 2007, at 145 employees. By 2009, it decreased to 16 employees and it appears that 2010 will reflect similar numbers. The committee then went into closed session to discuss labor negotiations. Chair Murray (Los Angeles) later reported that directions were given to the negotiating team following closed session discussion.

Water Planning and Stewardship Committee

The committee and board adopted the 2010 Regional Urban Water Management Plan and resolution for submittal to the state of California. The Water Authority’s Delegation submitted a letter (Attachment 2) requesting the board to defer the adoption of the plan to ensure compliance with DWR’s 2010 UWMP guidelines (DWR has yet to finalize the technical methodologies for making determinations under SBX7-7, the 20x2020 legislation). In response to Lewinger’s concern that the document unnecessarily included the water use efficiency buffer supply; staff said
that 500 taf buffer supply identified in the Integrated Resources Plan (IRP) is not included in the RUWMP, and reported that the RUWMP includes the core resources mix identified in the IRP and the “goal” of a 20 percent regional reduction in per capita water use (which is about 200 taf over the next 25 years).

During public comment, California Avocado Commission Chairman Don Reeder requested that the committee consider lowering the agricultural allocation percentage. The committee received a report from Little Hoover Commission (LHC) Executive Director Stuart Drown on modernizing California’s water governance. He noted that the LHC felt the SWP is a public asset that needs to stay overall in the State’s hands, but not necessarily within DWR’s mission, and despite compelling arguments to allow the SWP contractors to operate the project. It should be noted that in the Communications and Legislative Committee, staff said the 2011 recommended priorities will include support of legislative or administrative action to separate SWP operations from DWR as recommended by the LHC. Drown also noted that ultimately, the recommendation includes seeing the two projects – the SWP and CVP – merge and that the LHC did not recommend a specific form of governance. Pocklington asked if the LHC would reduce bureaucracy and streamline governance to obtain faster decisions; Drown said change would be challenging, but the suggested efficiencies should streamline processes. In response to Record’s question, Drown said contact with the governor-elect regarding this report has not yet been made.

The committee also heard an update on water supply conditions. Staff said projections include significant increases in storage levels, supplies available are higher than anticipated, demand continues to track below WSAP Level 2, and the imported supply outlook for 2011 is improved from recent years. Record asked what it would take for staff to return to the committee with a proposal in response to Mr. Reeder’s request. Kightlinger said staff plans to return to the committee in December to discuss a range of options including changes to allocations.

The committee also heard reports on Bay-Delta and Colorado River matters. Staff reported that the Westlands “three af for two af exchange” with MWD has been approved by the State Water Resources Control Board for place of use change. The exchange will result in about 35 taf to 37 taf additional water for MWD.
Regular Board Meeting

November 9, 2010

12:00 p.m. -- Board Room

MWD Headquarters Building 700 N. Alameda Street Los Angeles, CA 90012

1. Call to Order
   (a) Invocation: (Guest)
   (b) Pledge of Allegiance: Director W. D. "Bud" Pocklington

2. Roll Call

3. Determination of a Quorum

4. Opportunity for members of the public to address the Board on matters within the Board’s jurisdiction. (As required by Gov. Code Section 54954.3(a))

5. OTHER MATTERS
   A. Approval of the Minutes of the Meeting for October 12, 2010. (A copy has been mailed to each Director)

   Any additions, corrections, or omissions
   B. Report on Directors’ meetings attended at Metropolitan expense for month of October
   C. Approve committee assignments
   D. Chairman’s Monthly Activity Report
   E. Report from Executive Committee on nominations
   F. Nomination and election of Board Secretary for two-year term effective January 1, 2011
   G. Update on Department Head Evaluation Process. (O&P)

   [Public employees’ performance evaluations - General Manager, General Counsel, General Auditor, Ethics Officer; to be heard in closed session pursuant to Gov. Code Section 54957]

6. DEPARTMENT HEADS’ REPORTS
   A. General Manager’s summary of Metropolitan’s activities for the month of October

   6A Report
   B. General Counsel’s summary of Legal Department activities for the month of October

   6B Report
   C. General Auditor’s summary of activities for the month of October

   6C Report
   D. Ethics Officer’s summary of activities for the month of October

7. CONSENT CALENDAR ITEMS - ACTION

7-1 Appropriate $610,000; and authorize final design for rehabilitation of sand traps for the Colorado River Aqueduct (Approp. 15373). (E&O)

7-1 Board Letter & Attachments
7-1 Presentation

7-2 Appropriate $770,000; and award $377,000 contract to Minako America Corp., dba Minco Construction, for rehabilitation of three service connection turnouts on the Upper Feeder (Approp. 15441). (E&O)

7-2 Board Letter & Attachments
7-2 Presentation

7-3 Appropriate $370,000; and authorize preliminary design of rehabilitation projects at the Foothill and Sepulveda Canyon Hydroelectric Plants (Approp. 15458). (E&O)

7-3 Board Letter & Attachments

7-4 Amend the Conflict of Interest Code in Chapter 2 of Division VII of the Metropolitan Water District Administrative Code for statutory compliance. (L&C)

7-4 Board Letter & Attachments

8. OTHER BOARD ITEMS - ACTION

8-1 Affirm the General Manager’s determination that The Metropolitan Water District of Southern California’s Parcel Nos. 1415-2-1.-3 (easterly portion), APN 8378-010-923, is surplus to Metropolitan’s needs. 23.803 acres south of Arrow Highway, La Verne, California. (RP&AM)

8-1 Board Letter & Attachments

8-2 Affirm the General Manager’s determination that 110 parcels (83.6 acres) acquired for construction and operation of an extension to the Box Springs Feeder, Riverside County, are surplus to Metropolitan’s present needs and future operational requirements. (RP&AM) (ACTION ON ITEM 8-2 WILL TAKE PLACE IN DECEMBER)

8-3 Authorize entering into an agreement with Securitas to provide security guard services for a maximum period of five years at a total cost not to exceed $36 million. (E&O)

8-3 Board Letter & Attachment

8-4 Adopt 2010 Regional Urban Water Management Plan and resolution for submittal to the State of California. (WP&S)

8-4 Board Letter & Attachments
8-4 Presentation

9. BOARD INFORMATION ITEMS

9-1 Calendar year 2010 summary and 2011 outlook on water supply and storage conditions for Metropolitan. (WP&S)

9-1 Board Letter & Attachment
9-1 Presentation

9-2 Little Hoover Commission recommendations for reorganizing California state water agencies. (WP&S)

9-2 Board Letter & Attachments
9-2 Presentation

10. FUTURE AGENDA ITEMS

11. ADJOURNMENT
November 5, 2010

Timothy Brick
Chairman of the Board
Metropolitan Water District of Southern California
P. O. Box 54153
Los Angeles, CA 90054-0153

Re: 2010 Regional Urban Water Management Plan – Request to Defer Adoption

Dear Chairman Brick:

The purpose and importance of the Urban Water Management Plan (UWMP) has expanded since first required 25 years ago. The information contained in Metropolitan’s Regional UWMP is now used by its member agencies, retail water agencies, cities and counties to determine the availability of reliable supplies when approving potential land-use development. UWMPs inform the public of the water supply challenges we face and plans to address those challenges. An UWMP must be certified complete by the Department of Water Resources (DWR) in order to obtain funding and drought assistance from the state.

Due to its importance to water suppliers in southern California, Metropolitan successfully advocated for the passage of SB 1478, so that it would have the time necessary to fully integrate the requirements imposed by SBX7-7 on retail agencies in its service area. The law has been modified to allow wholesale water agencies to work more closely with retail agencies and to allow additional time to complete UWMPs which are not due until July 2011. For this reason and for the reasons described below, Metropolitan’s Board of Directors should defer adoption of the 2010 Regional Urban Water Management Plan (RUWMP) so that it can ensure consistency with DWR’s 2010 guidelines and that it otherwise meets the statutory requirements.

DWR has not yet finalized the technical methodologies for making the determinations under SBX7-7, commonly known as the 20x2020 legislation, and has not adopted the process water regulations. Each of these methodologies is required in order for retail agencies to determine their 20x2020 targets. Metropolitan should use the statutory six-month extension of time it advocated for in order to obtain, consider, and integrate the information it needs from its member agencies into its RUWMP. Another important reason to defer adoption of the RUWMP is to incorporate the Long Term Conservation Plan (LTCP), which is still being prepared. Metropolitan has stated that the LTCP will be the road map to achieve the 20x2020 water use efficiency targets, and yet, the RUWMP is being finalized prematurely without the benefit of the LTCP “road map.”
This letter is not intended to address the sufficiency of the RUWMP because Metropolitan does not yet have available all of the information it needs to complete the plan. However, we would like to call a couple of issues to your attention pending completion of the final RUWMP.

First, local supply augmentation, which is described in the 2010 IRP as a core supply consisting of groundwater recovery and seawater desalination projects, should not be included in Metropolitan’s In-Region Storage and Programs and utilized as a Metropolitan supply in the RUWMP. Instead, local supply augmentation should be included as an offset against firm demands on Metropolitan.

Second, the RUWMP mistakenly includes 200,000AF of 20x2020 Regional Consistency water supply, included in the IRP as part of the “uncertainty buffer”, as “In-Region Storage and Programs.” Including the “buffer supply” in this manner requires that Metropolitan include the supporting Supply Capability/Water Supply Reliability documentation. Last month, when the IRP was adopted, Metropolitan stated that specific implementation measures regarding the “regional consistency” supply buffer were yet to be determined or defined. Consistent with Metropolitan’s 2005 RUWMP, these “buffer” supplies should not be included in the Supply Capability Tables (Section 2.3), but instead, should be included in the section on supply reliability risks.

As noted above, this letter is not intended as a complete review of the draft RUWMP because we do not believe that Metropolitan has all of the information it needs to complete the RUWMP or ensure compliance with the yet-to-be-released DWR guidelines. There is no reason why Metropolitan’s RUWMP cannot be deferred to ensure compliance with DWR’s 2010 UWMP guidelines. Metropolitan can best assist its member agencies and the dozens of other cities and public water suppliers that will be relying on the RUWMP – not by adopting the RUWMP prematurely – but by applying DWR’s 2010 guidelines and interpretation of the UWMP Act.

On behalf of the San Diego delegation, and for the reasons stated in this letter, we ask that the adoption of 2010 RUWMP be deferred until the DWR guidelines are available and we are able to determine that Metropolitan is in compliance.

Sincerely,

Fern Steiner

c: MWD Board of Directors  
Jeff Kightlinger, MWD General Manager  
Water Authority Board of Directors  
Maureen Stapleton, SDCWA General Manager
December 1, 2010

Attention: Imported Water Committee

Colorado River Operations Under Shortage Provisions (Information)

Purpose
This is an information report that describes current drought conditions affecting Lake Mead, and how guidelines and operating criteria are planned to be used to deliver water from the reservoir. The report also presents current estimates of shortage probabilities conducted by the Bureau of Reclamation.

Background
The Colorado River Basin has experienced drought in 10 of the last 11 years, which resulted in significantly reduced water storage in Lake Mead. The reservoir is currently less than 38 percent full, which is the lowest storage level since its initial fill, when it reached near capacity in 1941, and is near the water surface elevation that would trigger reduced deliveries to Arizona and Nevada. Shortage deliveries are governed by a set of reservoir operating guidelines that were implemented in 2007. The guidelines also provide for the coordinated operation of Lake Mead and Lake Powell, to help prevent shortages from occurring in the Lower Basin and minimize the need to curtail water deliveries in the Upper Basin. Lake Powell is currently 62 percent of capacity. As Lake Mead’s elevation has dropped, considerable attention has been paid to both the shortage criteria and the reservoir reoperation rules, which allow additional water to be delivered from Lake Powell to Lake Mead under certain conditions.

Lake Mead status
As a result of drought and continued demand for Colorado River water, Lake Mead’s elevation has dropped from about 1,220 feet in 2000, which is about the reservoir’s capacity of 26 maf, to 1,082 feet today, with a current storage of 9.958 maf. The chart below shows historic elevations of Lake Mead, and certain key elevations that have significance for water and power operations. One of the key elevations is 1,075 feet, which is the first shortage trigger used to reduce water deliveries from the reservoir. Other key elevations include 1,050 feet, which is the first intake from the reservoir, as well as the elevation at which turbines generating power at Hoover Dam would lose efficiency from reduced water pressure. SNWA has another intake at the 1,000-foot elevation, and is constructing a third intake, also at 1,000 feet, that will be complete by 2013.

![Historic Lake Mead Elevation (Monthly)](chart.png)
Shortage criteria and guidelines
The 2007 shortage guidelines are the first set of rules that Reclamation provided for allocating shortages of water on the Colorado River. The guidelines are based on three reservoir surface elevation triggers, which determine the amount of water sent to Lower Basin states. Each year in August, using a “24-month study,” Reclamation projects reservoir elevations for January 1 of the coming year. Water deliveries for the coming year are based on the projected elevation triggers. The charts below show the trigger elevations for implementing shortage deliveries and the amounts of shortage deliveries. California would be delivered its normal 4.4 maf apportionment under all of these scenarios.

<table>
<thead>
<tr>
<th>Trigger A: 1,075 feet to 1,050 feet</th>
<th>State</th>
<th>Normal-Year Apportionment (maf)</th>
<th>Trigger A Apportionment (maf)</th>
<th>Shortage Amount (maf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>2.800</td>
<td>2.480</td>
<td>0.320</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>4.400</td>
<td>4.400</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Nevada</td>
<td>0.300</td>
<td>0.287</td>
<td>0.013</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.500</td>
<td>7.167</td>
<td>0.333</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trigger B: 1,050 feet to 1,025 feet</th>
<th>State</th>
<th>Normal-Year Apportionment (maf)</th>
<th>Trigger A Apportionment (maf)</th>
<th>Shortage Amount (maf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>2.800</td>
<td>2.400</td>
<td>0.400</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>4.400</td>
<td>4.400</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Nevada</td>
<td>0.300</td>
<td>0.283</td>
<td>0.017</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.500</td>
<td>7.083</td>
<td>0.417</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trigger C: 1,025 feet or below</th>
<th>State</th>
<th>Normal-Year Apportionment (maf)</th>
<th>Trigger A Apportionment (maf)</th>
<th>Shortage Amount (maf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>2.800</td>
<td>2.320</td>
<td>0.480</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>4.400</td>
<td>4.400</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Nevada</td>
<td>0.300</td>
<td>0.280</td>
<td>0.020</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.500</td>
<td>7.000</td>
<td>0.500</td>
<td></td>
</tr>
</tbody>
</table>

Coordinated operation of Lake Mead and Lake Powell
The 2007 guidelines developed a method to better coordinate the operations of Lake Mead and Lake Powell, with the objective of avoiding curtailments of water use in the upper basin states, and minimizing water shortages in the lower basin states. Like the shortage guidelines, the reservoir operating guidelines are based upon projected reservoir elevations. In this case, there are bands of elevations for both reservoirs that establish how water is released from Lake Powell to Lake Mead, as shown in the chart below. Lake Powell is currently at an elevation of 3,632 feet and has storage contents of 15.129 maf.
In recent years, Lake Powell has been operated to deliver each year a “minimum objective release” of 8.23 maf to Lake Mead. The guidelines allow for more or less water being delivered from Powell to Mead, depending upon projected elevations. Reclamation’s draft 2011 Annual Operating Plan for Colorado River reservoirs, using “most probable” inflows from the August 2010 24-month study, forecasts a January 1, 2011 Lake Powell elevation of 3,628.7 feet. Based upon this projection, Lake Powell will be operated under the “Upper Elevation Balancing Tier,” which calls for a release to Lake Mead in 2011 of 8.23 maf. However, Reclamation will update its forecasts in April 2011, which could significantly increase this delivery. If the April 2011 24-month study projects a Lake Powell elevation of 3,643 feet or more for September 30, 2011 (end of the water year), operations would be adjusted using the Equalization Tier from the guidelines. Under this scenario, deliveries from Lake Powell to Lake Mead could increase to as much as 15 maf. For this to happen, “maximum credible” inflows would have to occur this winter. Recent Reclamation analysis suggests that with “most probable” inflows, the April 2011 adjustment could result in an 11.3 maf delivery to Lake Mead for 2011.

<table>
<thead>
<tr>
<th>Lake Powell Elevation (feet)</th>
<th>Lake Powell Operational Tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,700</td>
<td>Equalization Tier equalize, avoid spills or release 8.23 maf</td>
</tr>
<tr>
<td>3,643*</td>
<td>Upper Elevation Balancing Tier release 8.23 maf; if Lake Mead &lt; 1,075 feet, balance contents with a min/max release of 7.0 and 9.0 maf</td>
</tr>
<tr>
<td>3,575</td>
<td>Mid-Elevation Release Tier release 7.48 maf; if Lake Mead &lt; 1,025 feet, release 8.23 maf</td>
</tr>
<tr>
<td>3,525</td>
<td>Lower Elevation Balancing Tier balance contents with a min/max release of 7.0 and 9.5 maf</td>
</tr>
</tbody>
</table>

*The elevation for this operational tier is variable through 2026, based upon a table in the 2007 guidelines. The elevation shown is for 2011.

**Probability of shortage**

Last month Reclamation provided updated information regarding shortage probabilities to a workgroup of water agency staff studying Colorado River water supply augmentation opportunities. The table below is from Reclamation’s projection of the probability that any type of shortage would occur on the river. As the table shows, significant risk of shortages begins in 2012. Depending upon projected upper basin states’ water demand (“UB Schedules” in the table), the probability of shortages in 2012 range from about 15 percent to about 22 percent. The risk of shortages increases throughout the forecast period, with a probability above 30 percent by 2015 and above 40 percent by 2025.
Figure 6
Lower Basin Shortage
Probability of Occurrence of any Amount

- Jan 2010 CRSS, Updated ICS, 2000 UB Schedules
- Jan 2010 CRSS, Updated ICS, 2007 UB Schedules (Baseline)

Prepared by: Dave Fogerson, Senior Engineer
Reviewed by: Halla Razak, Colorado River Program Director
December 1, 2010

Attention: Imported Water Committee

Metropolitan Water District Program Report (Information)

Purpose
The MWD Program Report summarizes activities associated with the Metropolitan Water District of Southern California and other imported water agencies and organizations.

Discussion

Metropolitan Water District. This report provides a summary of key actions taken at the November 8 and 9 as well as significant MWD activities during November. This report was prepared prior to MWD’s December board mailing and meeting. The MWD board meets next on December 13 and 14; items anticipated on the December agenda are outlined in this report.

November

Sensitivity Analysis of 2011/12 Water Sales
At the request of Water Authority Director Lewinger, MWD staff presented a sensitivity analysis based on MWD water sales of 1.8 million acre-feet (maf), rather than the budgeted 2.0 maf of sales. The request was driven by the fact that MWD’s current water sales were continuing to track lower than budgeted and, given that the board had already adopted a rate increase of 7.5% for CY 2010, the analysis is to address what measures MWD needs to take to manage its budget. In conjunction with the sensitivity analysis, a review of MWD’s rate structure was also presented.

Staff reported that the 200 taf sales reduction (from budgeted 2.0 maf to 1.8 maf) would result in an impact of $152 million in less revenue. Potential cost reductions could be achieved through reduction in water transfers ($60 million), reductions to the conservation credits program ($0.7 million), deferral of the Other Post-Employment Benefits funding ($10 million), reduction of PAYGO funding ($35 million to $90 million) and reduction of power and treatment costs ($26 million). MWD staff said that in the coming months additional assessment opportunities to contain costs and smooth rate increases will be presented to the committee and board for consideration.

Outlook on Water Supply and Storage Conditions
MWD staff reported that supplies are higher than anticipated while demands continue to be below the Water Supply Allocation Plan Level 2. As a result, storage levels have significantly improved. The dry-year Water Surplus and Demand Management portfolio shows that storage will be about 1.6 maf by the beginning of calendar year 2011; this is an increase of 600 taf from January 2010 levels. The State Water Project (SWP) supply outlook for 2011 is better than recent years, also due to improved storage in that system. According to MWD, projections show a low need to implement a WSAP for FY 2011/12; demands most likely could be met if MWD receives at least 25 percent of its Table A SWP allocations, delivers at least 1.0 maf of Colorado River supplies, and implements some of its five-year supply plan options. MWD staff plans to return to the committee and board in December regarding potentially ending WSAP Level 2 and IAWP
cutbacks mid-year this fiscal year. A more detailed report on Water Supply Conditions is included in a Water Planning Committee memo titled “Metropolitan Water District of Southern California Water Supply Update.”

**Other items discussed or approved by board committees or at the November board meeting:**
- John Morris (San Marino) was elected as the board secretary for a two-year term, effective January 1, 2011;
- Adopted the 2010 Regional Urban Water Management Plan, despite the Water Authority request to defer the adoption of the plan to ensure compliance with DWR’s 2010 UWMP guidelines (See MWD Delegates Report for a copy of the letter);
- Heard reports on MWD’s investment activities, financial highlights and 2009/10 Financial Statements;
- Heard a report on the Little Hoover Commission recommendations for reorganizing California state water agencies;
- Affirmed surplus determination of 23.803 acres in La Verne, California, and approved selling the property at its fair market value;
- Approved final design for rehabilitation of sand traps for the Colorado River Aqueduct;
- Approved proposed amendments to the conflict of interest code in MWD’s Administrative Code for statutory compliance; and
- Heard a report on workforce data asserting that staff level decreased over the last four years, promotional activity decreased over the last three years and retirements rose in 2010.

**December**

The following items are anticipated to be discussed in MWD’s December committees and board meetings:
- Amend water management program with member agencies during 2010/11;
- Review draft Bay Delta Conservation Plan document;
- Authorize payment for calendar year 2011 charges for water from State Water Project under terms of water supply contract with DWR;
- Approve amendment to Ethics Officer’s Terms of Employment; and
- Adopt Legislative Strategy for 2011.

**State Water Contractors**

*October 21 meeting.* With the recent elections and the potential change in the administration of the Natural Resources Agency and DWR, it was noted that there are financial and operational issues of which the new administration should be made aware. As a result, the State Water Contractors (SWC) are preparing briefing documents that identify the SWC’s concerns and suggested approaches for resolving the identified issues. The SWC also received a general overview of the Association of California Water Agencies’ Water Transfer Initiative, which is an effort to address the impediments experienced by both buyers and sellers in the State’s water transfer market. DWR Deputy Director Ralph Torres also gave a presentation on staffing issues DWR currently faces operating and maintaining the SWP. See Attachment 1 for final October 21 actions.

*November 18 meeting.* The SWC authorized additional funding for legal costs to minimize Sacramento Regional County Sanitation District (SRCSD) impacts on Delta water supply. In
April 2009, the SWC initiated legal review of the SRCSD wastewater discharge permit based on scientific research that showed that SRCSD’s discharge of ammonia may be a significant cause of the Pelagic Organism decline; the decline resulted in reduction of water delivery to SWP and Central Valley Project contractors. The increased funding would support review of the revised discharge permit which was released in August. The SWC also received a staff report on the SWC FY 2010-11 infrastructure objectives. See Attachment 2 for final November 18 actions.

The next SWC meeting will be held on December 16.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Reviewed by: Amy Chen, MWD Program Chief

Attachment 1: State Water Contractors Board of Directors Meeting Board Actions for October 21, 2010
Attachment 2: State Water Contractors Board of Directors Meeting Board Actions for November 18, 2010
The following actions were taken at the State Water Contractors (SWC) Board of Directors October 21, 2010 meeting upon motions duly made, seconded and unanimously passed.

1. Approved the Consent Calendar, including Draft Board Minutes for September 16, 2010, the Financial Report, and September 2010 Consultant Reports.

2. Authorized the General Manager to reimburse San Luis&Delta-Mendota Water Authority (SLDMWA) $37,659.85 for BDCP Public Outreach costs.

Other Actions:

1. Requested that a meeting be scheduled to coordinate with DWR on the scope of work for the consultant that is selected for the Davis Dolwig Act evaluation.

2. Requested an update on the status of the refund of the $11.5 million sleeving costs and a summary of options for recovery of those funds.

3. Requested that a policy meeting be scheduled for SWC members on the Statement of Charges items in dispute to update the status of remaining issues and options for resolution of those issues.

4. Requested that briefing documents be prepared on financial and other State Water Project Management topics identifying SWC concerns and potential approaches for resolving identified issues.
STATE WATER CONTRACTORS
BOARD OF DIRECTORS
BOARD ACTIONS
NOVEMBER 18, 2010

The following actions were taken at the State Water Contractors (SWC) Board of Directors November 18, 2010 meeting upon motions duly made, seconded and unanimously passed.

1. Approved the Consent Calendar, including Draft Board Minutes for October 21, 2010, the Financial Report, and October 2010 Consultant Reports.

2. Authorized the General Manager to provide a budget of up to $195,000 from the SWC Bay-Delta budget to fund legal costs to minimize Sacramento Regional County Sanitation District (SRCSD) impacts on Delta water supply. The costs would be shared half and half with San Luis & Delta-Mendota Water Authority and, subject to approval by the State and Federal Water Contractors Authority, would reduce the SWC contribution to the Coordinated Science Program.

3. The Board directed the General Manager to send a letter to the Department of Water Resources stating conditional support for the DWR proposal for a Georgiana Slough Non-Physical Barrier subject to identification of appropriate cost sharing by the U.S. Bureau of Reclamation and commitment in concept by fisheries agencies to providing regulatory relief for export contractors. In the absence of identified funding and a commitment to regulatory considerations, the SWC oppose DWR proceeding on its own. The draft letter should be distributed to the SWC Board prior to sending to DWR.
December 1, 2010

Attention: Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case No. BS126888 (transferred to San Francisco CPF-10-510830)

Purpose
This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(a) to discuss the above-referenced matter at the December 9, 2010, Board 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: Daniel S. Hentschke, General Counsel
WATER PLANNING COMMITTEE

AGENDA FOR

DECEMBER 9, 2010

Javier Saunders – Chair    Bud Lewis
Rua Petty – Vice Chair    John Linden
Brian Boyle      Dan McMillan
Marilyn Dailey      Mark Muir
Trish Hannan      Fern Steiner
Lynne Heidel       Mark Watton
Keith Lewinger

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.
   4-B Final report on Water Planning Committee’s Goals for 2009 and 2010.

I. CONSENT CALENDAR

1. Award a professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 30-month period for a not-to-exceed amount of $300,000.00.
   Staff recommendation: Award a professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 30-month period for a not-to-exceed amount of $300,000.00. (Action)

Mark Tegio

Page 32 of 434

San Diego County Water Authority
2. Amend the Professional Services Agreement with Clean Energy Capital and RW Beck for technical services related to the preparation and negotiation of a potential Water Purchase Agreement with Poseidon Resources (Channelside) for desalinated seawater from the Carlsbad Desalination Project and associated financial and engineering due diligence activities.

Staff recommendation:
1. Approve the third amendment to the Professional Services Agreement with Clean Energy Capital and increase the not-to-exceed amount from $299,500 to $600,000 for financial and economic analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities.
2. Approve the second amendment to the Professional Services Agreement with RW Beck and increase the not-to-exceed amount from $125,407 to $250,000 for engineering and business analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities. (Action)

II. ACTION/DISCUSSION

1. Professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan update.

Staff recommendation:
1. Award a professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan Update for a not-to-exceed amount of $1,863,000.
2. Add $1.2 million to the 2012 Regional Water Facilities Optimization and Master Plan Update Budget. (Action)
2. Resolution Certifying the Final Environmental Impact Report for the Natural Community Conservation Plan/Habitat Conservation Plan; Adopting Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approving the Project; and Authorizing Filing of a Notice of Determination and execution of an Implementing Agreement.

Staff recommendation:
It is recommended the Board adopt a Resolution that:
1. Certifies the Final EIR has been completed in compliance with the California Environmental Quality Act and State CEQA Guidelines, and reflects the independent judgment of the Board;
2. Concurrently adopts the Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program;
3. Approves the Proposed Plan (Alternative 2), the Natural Community Conservation Plan/Habitat Conservation Plan that provides coverage for 63 species, as the selected project;
4. Authorizes the filing of a Notice of Determination; and
5. Authorizes the General Manager to execute an Implementing Agreement. (Action)

Larry Purcell/Bill Tippets

3. Authorize submittal of Proposition 84 Integrated Regional Water Management Implementation Grant Application.

Staff recommendation: Adopt Resolution No. 2010-_____ authorizing the General Manager to submit a Proposition 84 Integrated Regional Water Management Implementation Grant Application. (Action)

Mark Stadler

III. INFORMATION

1. Presentation on the relationship between the retail price of water and water demands.

Dana Friehauf

   2-A Metropolitan Water District of Southern California Water Supply update. (Information)
   2-B Presentation on water supply conditions.
   2-C Fiscal year 2011 water supply allocations monitoring. (pickup packet)

Julia Velez
Lesley Dobalian
Dana Friehauf


Ken Weinberg
IV. CLOSED SESSION

V. ADJOURNMENT

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.
December 1, 2010

Attention: Water Planning Committee

Final Report on Water Planning Committee’s Goals for 2009 and 2010

Purpose
The attached report summarizes activities performed in support of the Water Planning Committee’s Goals for 2009 and 2010.

Background
Previous Board action: On April 23, 2009, the Board of Directors adopted a set of goals for the Water Planning Committee to accomplish in 2009 and 2010.

Discussion
The Water Planning Committee is responsible for developing policies relative to long range water resources planning and local supply development including: the Urban Water Management Plan, Integrated Regional Water Management Plan, regional and member agency sponsored local water supply development, water shortage and drought management planning, assisting member agencies on local projects, annexation, other planning matters, environmental interests of the Water Authority, and overseeing the implementation of those policies. During the past two years, the Committee reviewed, discussed, and made decisions pertaining to these matters. A progress report was presented to the Board January 20, 2010.

Prepared by: Ken Weinberg, Director of Water Resources
Reviewed by: Javier Saunders, Chair, Water Planning Committee

Attachment: Final Report on Water Planning Committee’s Goals for 2009 and 2010
Strategic Plan Objectives:

1. Obtain 30,000 acre-feet (AF)/year of short-term water transfers and groundwater banking to meet dry year supply needs (January 2010).

**Activities:** The Committee/Board authorized a dry-year water transfer with Placer County Water Agency in May 2009. After accounting for conveyance losses, a total of 15,520 AF was delivered to the Water Authority. In 2010, due to the reduction in water demand that has occurred since MWD enacted Level 2 of its Water Supply Allocation Plan in July 2009, marginal improvement in water supply for 2010, the expense necessary to obtain the necessary approvals and agreements and the comparatively higher cost of the supplies, staff recommended and the board approved not exercising its call rights to the 2010 dry-year transfer with the South Feather Water and Power Agency (March 2010) and later decided to end its pilot program efforts between San Juan Water District, Santa Clara Valley Water District and the Water Authority for Calendar Year 2010 and continue it over to 2011 (August 2010).

2. Update the Water Facilities Master Plan in conjunction with the 2015 Urban Water Management Plan (January 2012).

**Activities:** Special meetings of the Water Planning Committee were convened in May and September 2009 to review long-range facility planning efforts, including the Camp Pendleton Desalination Project Feasibility Study, the Pipeline 6 alignment study, as well as the issues surrounding new facility impacts to treated and untreated water service and the evaluation of infrastructure and supply options to be included in the Water Facilities Master Plan. Based on the input received at these special meetings, staff developed a scope of work and schedule to prepare the 2012 Regional Water Facilities Master Plan Update. Approval of a consultant contract to prepare the Master Plan is scheduled for consideration at the December 2010 Committee and Board meeting. The Master Plan draft document is scheduled to be available for review by January 2012.

3. The Water Authority will have facilitated and/or developed local seawater and brackish groundwater desalination facilities that represent 10 percent of the region’s total water supply requirements (January 2020).

**Activities:** In May 2009, the Committee recommended and the Board approved policies to facilitate the exchange and wheeling of local supplies that will help facilitate implementation of future local desalination projects. In October and December 2009, the Committee approved the MWD Seawater Desalination Program incentive funding Agreement for the Carlsbad Desalination Project. In calendar year 2010, the Committee has been actively engaged in moving the Carlsbad Desalination Project forward. At the Special Board meeting on June 10, 2010, the Board directed staff to return with water purchase/funding alternatives after it was established that the project structure with nine
member agencies purchasing water at the avoided cost was not financially feasible. At the June 24 meeting, the Committee recommended and the Board directed staff to develop a term sheet that would establish the basis for the Water Authority to negotiate a water purchase agreement for the entire output from the Carlsbad project. At the July 22 meeting, the Water Planning Committee recommended and the Board approved the Term Sheet with Poseidon and directed staff to prepare a draft water purchase agreement, subject to the conditions of the Term Sheet. In May 2009, the Committee also received a report on the results of the Camp Pendleton Desalination Project Feasibility Study.

4. Member agencies, with the assistance of the Water Authority, will supply at least six percent of the region’s total water supply through non-potable reuse (January 2025).

**Activities:** In October 2009, the Committee recommended and the Board authorized extending the December 2008 professional services contract with Winzler and Kelly for continued administration of the Recycled Water Marketing and Technical Assistance Program to increase and promote recycled water use primarily to industrial and commercial customers. This allowed member agency customers to proceed with system retrofits in order to receive recycled water.

Numerous stakeholder workshops have been held, which focused on providing detailed comments and input on the draft Salinity and Nutrient Management Planning Guidelines. On November 10, 2010, the Regional Water Quality Control Board approved a resolution endorsing the proposed guidelines for Salinity and Nutrient Management Planning in the San Diego Region. Adoption of the resolution will improve focus and increased efficiency in the preparation of San Diego Region salinity/nutrient management plans, increase the use of recycled water, and decrease regulatory uncertainty in the salinity/nutrient management process.

The Water Authority has successfully managed, administered, and concluded the Accelerated Public Sector Water Efficiency Partnership Demonstration Program - Public Facility Recycled Water Retrofit Program funded by MWD, and managed and wrapped up the SDG&E Recycled Water Retrofit Program which provided additional public retrofit funding to the member agencies. Program funding was awarded through the Integrated Regional Water Management Plan/Prop. 50 for continuation of the Public Facility Recycled Water Retrofit Program.

**Business Plan Goals & Other Related Goals:**

**Brackish and Seawater Desalination**

1. Work with Desal Partners to define delivery regime and distribution system for the Carlsbad Desalination Project (December 2009).

**Activities:** In 2009, staff worked with the Desal Partner agencies and Poseidon to finalize the desalination project distribution system that will connect to and deliver the majority of desalinated seawater supplies through the Water Authority’s regional aqueduct system. In May 2009, the Committee recommended and the Board approved
policies to facilitate the exchange and wheeling of local supplies that will help facilitate implementation of future local desalination projects. With the contemplated change in the project structure in 2010, staff continues to work with Poseidon on the elements of the distribution system including the conveyance pipeline and the aqueduct connection facilities as well as the specifics of a potential delivery regime that would deliver the entire plant output to the Water Authority.

2. Approve funding agreements for MWD’s Seawater Desalination Program for member agencies contracting for water from the Carlsbad Desalination Project (May 2009).

**Activities:** Approved by the Committee in October and again in December 2009 to incorporate language added by MWD’s Board. In August 2010, MWD’s Board directed its staff to invoke Rate Structure Integrity provisions contained in a limited number of funding agreements between the Water Authority and MWD. As part of this action, MWD’s Board also directed its staff to defer execution of the Seawater Desalination Program Agreement that also contains Rate Structure Integrity provisions.

3. Approve Exchange or Wheeling agreements with member agencies contracting for water from the Carlsbad Desalination Project (Fall 2009-Winter 2010).

**Activities:** With the contemplated change in the project structure to the Water Authority potentially purchasing the entire plant output, staff work to complete the member agency exchange and wheeling agreements was stopped.

4. Complete planning effort for the Seawater Desalination Project at Camp Pendleton (December 2010).

**Activities:** As noted in Strategic Plan goal #3 the feasibility study is completed. The results were presented to the Committee in May 2009 at a special meeting of the Committee. In April 2010, the Committee recommended and the Board approved a Memorandum of Understanding with MCB Camp Pendleton to cover further planning and technical studies for the project.

5. Provide Staff Direction on next steps based on results of Camp Pendleton Initial Feasibility Study (April 2009).

**Activities:** Staff received input/direction from the Committee at the May and September 2009 special meeting of the Committee regarding the scope of the technical studies planned for the project, including addressing treated water supply integration and additional conveyance alignment alternatives. The consultant scope for the Master Plan Update to be considered by the Committee in December 2010 includes further evaluation of conveyance pipeline alignments from a proposed Camp Pendleton project as well as evaluation of the integration of product water from a Camp Pendleton project into the Water Authority’s distribution system. Hydrogeologic and marine studies are also planned and are scheduled to be considered by the Committee in early 2011.
6. Complete detailed Feasibility Study for the South San Diego County Desalination Project (December 2010).

**Activities:** This study was deferred in light of the study effort initiated in 2009 to evaluate the feasibility of a Rosarito Beach desalination facility in Mexico. Additionally, it was revealed in 2010 that a similar-sized private desalination project, located in Rosarito, was also being developed that could sell a portion of its output to Otay Water District.

7. Establish governmental responsibility/ownership for successful implementation of a Regional Brine Line System to support local brackish groundwater desalination and Water recycling projects (December 2010).

**Activities:** The results of this study were presented to the Committee in July 2009. As reported to the Committee, further work will be postponed until the timing and need for a Regional Brine Line System is better defined by a “driver” project.

**Drought Management**

1. Develop “water supply offset” provision for new development (January 2009).

**Activities:** In January 2009, the Committee received a report on the framework for handling new demand offsets within the San Diego region during shortages. The framework was developed with input from a member agency workgroup and is being implemented at the retail level by the member agencies.

2. Develop 5-year regional water supply plan that manages storage reserves and reduces shortage risks (April 2009).

**Activities:** Multi-year supply plan presented to the Committee in April 2009 as part of the Committee consideration of shortage management actions in response to supply cutbacks from MWD in fiscal year 2010. Multi-year supply plan presented again in May 2010 as part of the Committee consideration of shortage management actions in response to continued MWD cutbacks in fiscal year 2011.

3. Maximize regional carryover storage capacity through agreements with member agencies as part of drought response and shortage mitigation (on-going).

**Activities:** The Committee approved extension of the carryover storage agreements with Sweetwater Authority (December 2009) and the City of San Diego (March 2010).

4. Identify and develop emergency local water supplies (January 2010).

**Activities:** As a result of a lessening in the severity of water supply shortages and the higher levels of demand reduction achieved, this goal was deferred to 2011.
5. Secure 30,000 AF per year of short-term water transfers and groundwater banking and recovery to meet dry year supply needs (May 2010).

**Activities:** See Strategic Plan goal #1.


**Activities:** The Committee/Board approved the member agency allocation percentages in April 2009 for fiscal year 2010 and in June 2010 for fiscal year 2011.

7. Make timely recommendations to the full Board of Directors on modifications to member agency drought allocations (on-going).

**Activities:** The Committee receives monthly reports on allocation performance. No modifications to member agency drought allocations were requested by the member agencies for consideration by the Committee in calendar years 2009 and 2010.

8. Provide timely and appropriate responses to drought management strategies to account for changing circumstances and conditions (on-going).

**Activities:** In response to municipal and industrial supply cutbacks from the Metropolitan Water District for fiscal year 2010 and a need to manage dry-year supplies for future years, the Committee took action in April 2009 to allocate supplies to the member agencies, utilize dry-year transfers acquired in calendar year 2009, and declare Level 2, “Drought Alert” condition. In May 2010, in response to continued supply cutbacks from Metropolitan in fiscal year 2011, the Committee approved continued supply allocations to the member agencies and to remain at a Level 2, “Drought Alert.”

**Recycled Water**

1. By 2012, over 32,000 AF of recycled water will be beneficially reused in San Diego county, and will supply four percent of the San Diego region’s water demand (December 2012).

**Activities:** See Strategic Plan goal #4. In addition, in January 2009, the Committee recommended and the Board authorized the General Manager to amend its January 2008 agreement with the State Water Resources Control Board for review, planning, and permitting activities related to water recycling, raw and potable water development and seawater desalination projects in an amount not-to-exceed $350,000.

2. Evaluate regional strategies to address regulatory and other constraints and develop recommendations to increase beneficial reuse of recycled water.

**Activities:** Water Authority assisted and actively solicited the California Department of Water Resources to work with the Department of Housing and Community Development to approve amendments to the building standards contained in the California Code of
Regulations (CCR), Title 24, Part 5. These amendments pertained to dual plumbing
design standards for potable and recycled water systems inside buildings.
On November 18, 2009, the Building Standards Commission unanimously voted to
approve the California Dual Plumbing Code that establishes statewide standards for
installing both potable and recycled water plumbing systems in commercial, retail, and
office buildings, theaters, auditoriums, condominiums, schools, hotels, apartments,
barracks, dormitories, jails, prisons, and reformatories. The code will be effective
January 2011. A Water Authority sponsored workshop to disseminate information
regarding the Dual Plumbing Code changes and expanded use of gray water was held
November 9, 2010.

In August 2009, the Committee heard a report from staff on local and statewide activities
related to recycled water policies and legislation. The report demonstrated that with
activities and policy development through reasonable regulation and regional planning,
the Water Authority is on target to reach its recycled water goals.

Locally, regulatory guidelines were developed for the use of recycled water in decorative
water features. The guidelines provide information tailored specifically for customers
planning to use recycled water in decorative water features while still protecting public
health.

Climate Change and Sustainability

1. Recommend decision support tools or strategies to assist with update of the Urban Water
Management Plan (December 2009).

**Activities:** In February 2010, the Committee received a report on decision support
planning methods and selection of “Traditional Scenario Planning” as the method to
address climate change and regulatory uncertainties in long-range water supply planning.
Staff will present preliminary results of the scenario planning process as part of the Water
Authority’s 2010 Urban Water Management Plan at a Board workshop scheduled for
February 2011. (The schedule was extended taking into account the six-month extension
provided on submittal of the 2010 UWMP.)

Environmental Management

1. Develop and recommend policy to integrate AB32 greenhouse gas reduction
requirements into CEQA environmental compliance activities (June 2010).

**Activities:** Revised CEQA guidelines to address greenhouse gases were published by the
state in December 2009. In March 2010, staff developed a memorandum recommending
preparation of a Climate Action Plan in conjunction with the Facilities Master Plan
Update and associated Program EIR. The Climate Action Plan will describe approaches
to minimize greenhouse gas emissions from construction and operation of existing and
future Water Authority facilities. The PEIR will examine the environmental effects of
Master Plan implementation and provide a cumulative greenhouse gas analysis that can
be referenced in future project-specific CEQA documents, thus avoiding redundant
analyses.
**Infrastructure Planning**

1. Develop and recommend approval to the full Board of policies that facilitate the exchange and wheeling of local water supplies and provide guidelines on Water Authority purchase of excess local supplies (March-April 2009).

   **Activities:** In May 2009, the Committee approved both policies. Also see Strategic Plan Objective #3.

2. Board approval of the San Diego Pipeline 6 feasibility study, and selection of a preferred pipeline alignment and implementation schedule for CEQA compliance, design, and construction (May 2009).

   **Activities:** At the special committee meetings in May and September 2009, the Committee received information on results of the Pipeline 6 feasibility study and the issues linking future water demands, local supply development, and the need for new infrastructure; particularly the relationship between new seawater desalination and the timing for Pipeline 6. This relationship will be further analyzed under the 2012 Regional Water Facilities Master Plan Update to confirm the timing and need for Pipeline 6 compared to other supply and infrastructure options that address regional supply reliability.

3. Review and provide direction to staff on incorporation of desalination and other new sources of water from the perspective of geographic location, prioritization, annual operating issues, fluctuating demands and optimizing local and regional surface water treatment facilities.

   **Activities:** The issues surrounding new local supply development, prioritization of CIP projects, new demand analysis (pursuant to the 2010 UWMP), and the optimization of local and regional treatment, conveyance and storage facilities, will be evaluated under the 2012 Regional Water Facilities Master Plan Update. See also Strategic Plan Objective #2.

**Water Resources Planning**

1. Consider requests for annexations in a manner consistent with Board adopted polices and taking into account current water supply constraints (on-going).

   **Activities:** The Committee established preliminary terms and conditions for the Yuima Municipal Water District’s proposed Pauma Ranch annexation based on Board adopted policies in September 2009. The Committee approved procedures for implementation of Annexation Policy #2: Protection of Member Agency Supply Reliability in April 2010. In July 2010, the Committee established preliminary terms and conditions for the Otay Water District’s proposed Peaceful Valley Ranch annexation, based on Board adopted policies and the procedures for implementing Policy #2. In August 2010, the Committee established revised preliminary terms and conditions for the Yuima Municipal Water District’s proposed Pauma Ranch annexation.
District’s proposed Pauma Ranch annexation, based on the Board approved procedures for implementing Policy #2.

2. Complete Annual Water Supply Report as required by Water Authority Administrative Code Section 8.00.050 (Annually, except UWMP preparation years).

   **Activities:** Staff was unable to complete a draft Supply Report for Committee consideration because Metropolitan’s Integrated Resources Plan, critical to completion of the report, had not yet been updated to reflect changed conditions associated with the State Water Project. Next report is scheduled for 2012, with the Urban Water Management Plan completed in 2011.

3. Implement business structure to secure and distribute the initial $25 million and future IRWM planning and project grant funding (June 2011).

   **Activities:** In July and August 2009, the Committee authorized the distribution of Proposition 50 funding to member agencies, the county of San Diego and several Non-Governmental Organizations (NGOs) awarded Proposition 50 IRWM grants. (The Water Authority also received a portion of the funding for three projects.) Also in August 2009, the Committee approved amendments to the Board-approved MOU among the Regional Water Management Group (RWMG) partners (Water Authority, county of San Diego, and city of San Diego) vesting the Water Authority as the sole agency for distribution of funding. Staff has established internal business structures to distribute the Proposition 50 funding and has begun billing to reimburse our local project sponsors. To date, the Water Authority has submitted reimbursement invoices for $1.8 million. In March 2009, the Committee approved entering into a tri-county MOU between the San Diego RWMG and RWMGs for the Upper Santa Margarita River Watershed and southern Orange County to allocate future Proposition 84 IRWM funding and to cooperate on mutual planning issues. In late 2010, the Committee approved the submittal of two applications by the RWMG for funding from DWR’s Prop 84 IRWM grant program. In September 2010, the Committee approved a $1 million planning grant that will be used to update the 2007 San Diego IRWM Plan. In December 2010, the Committee will consider an implementation grant from the Prop 84 grant program that will support 11 water-related projects in the San Diego region.


   **Activities:** The deadline for submittal of the 2010 UWMP has been extended by state law from December 31, 2010 to July 1, 2011. A status report on preparation of the UWMP was presented to the Committee in August 2010. Staff is on schedule to present a draft 2010 UWMP to the Committee in February 2010.

5. Complete water demand forecast model update, taking into account current and long-range weather impacts (December 2010).
**Activities:** A preliminary municipal and industrial baseline demand forecast was presented to the Committee in August 2010. The final draft forecast will be presented to the Committee in February 2010. (The schedule was extended taking into account the six-month extension provided on the 2010 UWMP submittal.)
December 1, 2010

Attention: Water Planning Committee

Award a professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 30-month period for a not-to-exceed amount of $300,000.00. (Action)

Staff recommendation
Award a professional services contract to Helix Environmental Planning, Inc. (Helix) to provide environmental construction monitoring and support services for a 30-month period for a not-to-exceed amount of $300,000.00.

Alternatives
Do not authorize the contract, and direct staff to negotiate with other consultant(s) or solicit new proposals.

Fiscal Impact
There are sufficient funds to support adoption of the staff recommendation within the project budgets and the proposed fiscal years 2010 and 2011 Capital Improvement Program (CIP) appropriation. Funding for subsequent years will be dependent on Board approval of the proposed CIP appropriations for those years. The related rate category is customer service.

Background
The Water Authority’s upcoming relining project, Pipelines 3 and 4 from Miramar Hill to Scripps Ranch, will require environmental monitoring during construction. This project has mitigation measures that must be implemented to comply with Board adopted Mitigation Monitoring and Reporting Programs, and conditions of approval of various federal, state, and local permits.

Discussion
A Request for Proposals (RFP) for environmental support services for environmental construction monitoring was published in The San Diego Daily Transcript on August 18, 2010. The RFP was emailed directly to 450 environmental consulting firms via the Water Authority’s online vendor database (The Network). A pre-proposal meeting for the project was held at the Water Authority on September 8, 2010. Five firms attended the pre-proposal meeting. Five proposals were received in response to the RFP. The firms that submitted proposals were: AECOM Technical Services, Inc., Chambers Group, Inc., Dudek, Helix, and TRC Solutions, Inc. Based on an evaluation of written proposals and consultant interviews, Helix was selected as the best qualified to perform the required work.

Helix is a consulting firm specializing in environmental compliance and resources studies, field monitoring on construction projects, and habitat restoration. Key factors in the selection of Helix were the level of experience and capability of the team, the team’s understanding of the key
issues, past performance on projects of similar size and scope, and its experience and working relationship with the regulatory agencies. The Helix project manager and key staff have proven capabilities related to environmental and permitting compliance, have demonstrated their experience and knowledge of the key issues related to this project, and provide a full range of environmental assessment services. Helix’s strong capabilities were demonstrated by its previous environmental compliance and construction monitoring work, including the Water Authority’s San Vicente Pipeline project.

The recommendation to award an environmental support contract is based on an analysis of the project tasks within the context of our staff/consultant mix criteria. The contract will include work to monitor all environmental impact mitigation and permit requirements during construction and to assist with federal, state, and local agency coordination and permitting. Environmental monitoring and support during construction requires specialized skill sets and services, which the Helix team provides. It also represents the most cost effective approach. Upon Board approval, the contract will be executed for a not-to-exceed amount of $300,000.00.

Construction monitoring is a narrow, single purpose task that provides for limited subcontracting opportunities. SCOOP good faith efforts to conduct outreach to qualified small businesses were not imposed, although encouraged. The Helix Environmental Services team includes two subconsultants; both of these subconsultants are small businesses. This information is provided for statistical purposes.

Prepared by: Mark Tegio, Senior Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager
December 1, 2010

Attention: Water Planning Committee

Amend the Professional Services Agreement with Clean Energy Capital and RW Beck for technical services related to the preparation and negotiation of a potential Water Purchase Agreement with Poseidon Resources (Channelside) for desalinated seawater from the Carlsbad Desalination Project and associated financial and engineering due diligence activities. (Action)

Staff recommendation
1. Approve the third amendment to the Professional Services Agreement with Clean Energy Capital and increase the not-to-exceed amount from $299,500 to $600,000 for financial and economic analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities.

2. Approve the second amendment to the Professional Services Agreement with RW Beck and increase the not-to-exceed amount from $125,407 to $250,000 for engineering and business analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities.

Alternative
1. Do not approve the amendments. Water Authority staff does not have the specialized technical and financial expertise to conduct the due diligence activities contemplated under the Term Sheet approved by the Board in July 2010.

Fiscal Impact
There are sufficient funds in the Water Resources Fiscal Years 2010 and 2011 Operating Budget from previous Board actions related to the Carlsbad Desalination Water Purchase Agreement and unexpended professional services funds to implement both contract amendments. Supply is the related rate category.

Background
The Carlsbad Desalination Project (Project) is a fully-permitted seawater desalination plant and conveyance pipeline currently being developed by Poseidon Resources (Poseidon), a private investor owned company that develops water and wastewater infrastructure. The Project has been in development since 1998 and was incorporated into the 2003 Water Facilities Master Plan and the Water Authority’s 2005 Update of the Urban Water Management Plan. The Project has obtained all required permits and environmental clearances and, when completed, will provide a highly reliable local supply of 56,000 acre-feet (AF) per year for the region. In 2020, the Project would account for approximately eight percent of the total projected regional supply and 30% of all locally generated water in San Diego County.
At its July 22, 2010 meeting, the Board approved a Term Sheet between the Water Authority and Poseidon and directed staff to prepare a Water Purchase Agreement based on its provisions. Because of the complex and technical nature of the Project and the transaction, specialized legal, financial and engineering expertise is required to conduct Project due diligence and to assist staff in the preparation and negotiation of a final Water Purchase Agreement. The outside consultant firms that have been assisting the negotiating team include: Clean Energy Capital (CEC), RW Beck and special legal counsel from Hawkins Delafield and Wood.

At its September 2010 meeting, the Board approved the second amendment to the agreement with Clean Energy Capital and added $500,000 to the Water Resources Department Fiscal Years 2010 and 2011 Operating Budget to carry out consultant related tasks associated with the Water Purchase Agreement. Since September staff and the consultants have been conducting due diligence activities on various aspects of the Project and developing the initial first draft of the Water Purchase Agreement. This effort has included a comprehensive reworking of the pricing methodology consistent with the guidance provided in the Board approved July 2010 Term Sheet (see Attachment A).

Discussion
Staff is currently conducting Project due diligence activities and is completing the first draft of a Water Purchase Agreement between the Water Authority and Poseidon Resources (Channelside). As per the approved Term Sheet, there are a set of pricing principles that must be met in any pricing methodology in the Water Purchase Agreement. Meeting those principles has required a total reworking of the pricing approach from what was previously contemplated by Poseidon and the nine Desal Partner member agencies. Staff believes that modifications to the pricing method are critical to optimizing the price paid by the Water Authority for the water and could result in cost savings over the short and long term. Those principles are provided as Attachment A.

Clean Energy Capital (CEC) has been the primary financial advisor to the Water Authority in the development of the draft Water Purchase Agreement and in the conducting of the financial and corporate due diligence. CEC is an investment banking firm that specializes in municipal financing, equity placement and is experienced in the project financing of large utility projects. CEC has taken the lead in addressing the changes to the pricing structure and has worked closely with Poseidon and Barclay’s Capital, Poseidon’s underwriter, on determining the financial feasibility and financibility of the Project. Because the first draft agreement is near conclusion, staff is better able to project the need for continued assistance through the balance of the negotiations and financing process. Given CEC’s level of effort to date, what is anticipated through the negotiating and financing process including additional due diligence of financial documents prior to bond marketing, staff has determined that an additional $300,000 is necessary for CEC to complete the remaining tasks being contemplated. This includes participation in the two Board workshops to be scheduled as well as assistance to the Board’s Carlsbad Desalination Project Advisory Group.
Under the General Manager’s contracting authority, staff obtained the services of RW Beck to provide engineering and business advice to the Water Authority on the potential transaction with Poseidon. RW Beck is an internationally recognized engineering consultant with special expertise in project financing and seawater desalination. RW Beck has provided support previously to the Water Authority in prior negotiations with Poseidon and is the current Owner’s Engineer for the Tampa Bay Desalination Project.

RW Beck has been the lead in conducting the engineering aspects of the due diligence and has assisted staff in the development of the July 2010 Term Sheet and the initial draft Water Purchase Agreement. RW Beck’s involvement in the due diligence has been limited to the technical documents that are currently available. Because Poseidon had not procured their construction contractor or the plant operator, new engineering plans were not available and draft construction and operating agreements were not completed and could not be revised. Because Poseidon is now finalizing its selection of the engineering, procurement and construction (EPC) contractor team and is selecting its operator, staff can now estimate the level of effort required of RW Beck to both complete due diligence activities and participate in the negotiation of the Water Purchase Agreement. Based on the tasks contemplated, staff is recommending that the contract amount with RW Beck for professional services be increased $124,593 from $125,407 to $250,000.

There are currently sufficient funds previously approved by the Board for these activities and unexpended funds in the Water Resources Fiscal Years 2010 and 2011 Operating Budget to accomplish these tasks.

Prepared and Reviewed by: Ken Weinberg, Director of Water Resources  
Reviewed by: Eric Sandler, Director of Finance  
Reviewed by: Sandra L. Kerl, Deputy General Manager  
Approved by: Maureen A. Stapleton, General Manager  

Attachment A: Term Sheet Pricing Principles- Proposed Water Purchase Contract  
- Carlsbad Seawater Desalination Project
## 18. Water Purchase Price

### A. Water Authority’s Obligation to Pay for Product Water

The Water Authority will only pay for Product Water that meets the Product Water quality requirements and is actually delivered or ready to be delivered to the Delivery Point.

### B. Water Purchase Price

The price payable by the Water Authority for Product Water shall consist of (1) the negotiated Unit Price per acre-foot, multiplied by (2) the number of acre-feet of Product Water purchased by the Water Authority. Any extraordinary items (such as costs payable by the Water Authority associated with Included Changes in Law and amounts payable by Poseidon for non-compliance with the MWD Agreement, liquidated damages or indemnity payments) shall be paid or credited as a separate element of the Water Purchase Price, or shall be reflected in a revised Unit Price, as appropriate.

### C. Unit Price

The negotiation of the Unit Price will be determined in accordance with the following principles:

1. The Unit Price will be based on the capital and operating costs of the Project (as opposed to the “avoided cost” of water).

2. The Unit Price will not exceed the Base Price established in the existing Carlsbad water purchase agreement.

3. Poseidon will provide full transparency to the Water Authority with respect to capital costs, operating costs, and financial returns to Poseidon, the equity investor(s), and lenders to the Project.

4. The Unit Price will support the financing, construction and operation of a high-quality desalination facility that operates in a highly reliable manner.

5. The Unit Price will provide financial incentive to Poseidon for efficient plant operations. The Water Authority will reserve the right to provide wholesale power to the Project.

6. The Unit Price will be the lowest and least volatile price that is consistent with the other principles.

7. The Unit Pricing structure will determine how actual debt service costs, and future refinancing savings will be reflected in the Unit Price.
8. The Unit Price will not be finalized until the underlying capital and operational costs of the Project have been established through binding contracts, and these contracts and the financing costs and draft financing documents have been received, reviewed and accepted as reasonable by the Water Authority.

D. Site Conditions Risk
Poseidon shall bear all performance and price risk associated with any differing site conditions and regulated site conditions (such as hazardous substances and cultural resources).

E. Grants and Subsidies Benefit Water Authority
Any subsidy, grant or contribution received directly or indirectly by the Water Authority or Poseidon from the MWD or any other local, regional, state or federal governmental agency will be for the full benefit of the Water Authority. The parties will also consider alternative approaches regarding federal, state, regional and local financial support to help reduce the cost of the Product Water.

F. Notification of Annual Price Adjustments
For budgetary purposes, Poseidon will notify the Water Authority no later than a date to be specified in the Contract prior to the start of the next succeeding contract year of the Water Purchase Price that will be in effect for the coming contract year based on the specified index adjustments.

G. Annual “True-Up” Process
There will be an annual “true-up” process, based upon the Water Purchase Price paid by the Water Authority and other costs or liabilities that may have been incurred by either party, for which responsibility is addressed in the Contract, through which the amounts that were paid by the Water Authority and the amounts that were due from the Water Authority will be confirmed or reconciled. If it is determined that the Water Authority paid less than the amounts actually due, the Water Authority will pay any such additional costs to Poseidon within 60 days of such determination. If it is determined that the Water Authority paid more than was actually due, Poseidon will credit such overpayment against the next immediate billing to the Water Authority.
December 1, 2010

Attention: Water Planning Committee

**Professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan Update. (Action)**

**Staff recommendation**
1. Award a professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan Update for a not-to-exceed amount of $1,863,000.

2. Add $1.2 million to the 2012 Regional Water Facilities Optimization and Master Plan Update Budget.

**Alternatives**
Do not award the contract and direct staff to negotiate with other consultant(s) or solicit new proposals for professional services.

**Fiscal Impact**
A $1.625 million budget was established with adoption of the fiscal years 2010-2011 CIP budget to initiate the 2012 Regional Water Facilities Optimization and Master Plan Update (Master Plan Update) and supporting technical studies. That amount was an initial staff estimate of consultant and Water Authority labor costs pending finalization of the scope of the Master Plan Update. Based on input from the Board and member agency staff, the scope of the Master Plan Update was finalized over the last year. There is currently approximately $1.4 million allocated in the project budget for consultant and Water Authority labor costs to complete the Master Plan Update. The approval of the staff recommendation and the completion of the Master Plan Update will require the transfer of $1.2 million from the Pipeline 6 project to the Master Plan Update project, resulting in a corresponding $1.2 million decrease to the Pipeline 6 project budget and a $1.2 million increase to the Master Plan Update project budget for a total Master Plan Update budget of $2.825 million. There will be no net change to the CIP budget. Additionally, approximately $3.6 million in currently programmed planning funds in fiscal years 2011 and 2012 for major projects being evaluated in the update of the Master Plan Update will be deferred pending its approval. The related rate categories are customer service, storage and transportation.

**Background**
The Water Authority completed its first ever Regional Water Facilities Master Plan in late 2002 and the Program EIR for the Regional Water Facilities Master Plan was certified by the Board in November 2003. These prior documents, which evaluated a number of supply and facility options that were designed to meet the Water Authority’s reliability goals and cost objectives over an approximate 30 year period, have been the principal guide for all new infrastructure...
development by the Water Authority under its ongoing $3.8 billion Capital Improvement Program.

As discussed at the May and September 2009 Special Meetings of the Water Planning Committee, the changing water supply and demand outlook, as evidenced by current conditions as well as updated projections being developed as part of the 2010 Urban Water Management Plan (UWMP), will affect the Water Authority’s need and timing for new infrastructure development. In addition to maintaining the supply reliability identified in the 2010 UWMP, the scope of work for the Master Plan Update will focus on optimizing regional and local treatment, conveyance, and storage facilities. The goal of the Master Plan Update is to develop a cost effective and reliable system capable of meeting member agency needs for untreated and treated water service through the 2035 planning horizon.

Discussion
In support of the Water Authority’s mission, the Master Plan Update is intended to guide future Water Authority investments in new facilities in consideration of local supply development, water resources management, water conservation, operational management, and asset management needs. The scope of work to prepare the Master Plan Update will address several key planning concerns, including:

- An evaluation of peak untreated water demands and the ability to serve the untreated water agencies using available system conveyance, possible addition of conveyance such as pipeline 6 and storage within the region and out of region
- An evaluation of treated water demands and the effects of desalination supplies on regional and local water treatment plants and conveyance, including the ability to expand the Twin Oaks WTP service area
- An evaluation to integrate a potential Camp Pendleton desalination conveyance pipeline into the regional aqueduct system
- In cooperation with member agencies, the development of a strategic long range plan for surface water storage
- A system vulnerability assessment and an evaluation of system operating risks
- An evaluation of renewable energy opportunities and greenhouse gas emissions related to new infrastructure development
- A review of all CIP projects remaining to be implemented to confirm their scope, timing, and need
- An economic comparison of various water supply scenarios and facility options
- A prioritization of all newly proposed and existing CIP projects, including projects resulting from the Asset Management Program

Work on the Master Plan Update is expected to begin soon after award of the consultant contract. Throughout the work effort, staff will be coordinating key planning criteria and issues with member agencies through a technical advisory committee and presentations at Member Agency General Managers’ meetings. A draft copy of the Master Plan Update is expected to be made available for public review by January 2012. In the event the Board determines that an updated
Program EIR should be completed, a separate consultant selection process will be conducted. Board consideration of the final Master Plan Update document, as well as recommendations for new infrastructure projects, is scheduled for December 2012. New infrastructure projects requiring approval by the Board resulting from the Master Plan Update will be included in the development of the Fiscal Year 2014/2015 two-year budget.

The Master Plan Update Request for Proposals (RFP) was released in September 2010, and posted on the network (Water Authority’s online vendor database) and under “Upcoming Contract Opportunities” on the Water Authority's website. A pre-proposal meeting for the project was also held in September and attended by 24 interested firms. Three proposals were received in response to the RFP: a team of AECOM/GEI, a team of CH2M Hill/Black & Veatch, and Carollo Engineers. The written proposals and follow up consultant interviews were evaluated by a selection panel that included staff from Helix Water District, City of San Diego, Vallecitos Water District, and members from the Water Authority’s Engineering, O&M, and Water Resource Departments. Based on these evaluations, the team of CH2M Hill/Black & Veatch was selected as the best qualified firm to prepare the Master Plan Update.

CH2M Hill and Black & Veatch are global multi-discipline engineering and planning consulting firms, with a strong presence in the water resources market. Key factors in the selection of this team were the level of experience and capability of the team, their understanding of the key issues, past performance on projects of similar size and scope, and experience and working relationship with member agencies. The project manager and key support staff have proven capabilities related to planning and technical analysis in water infrastructure, and have demonstrated their experience and knowledge of the Water Authority’s aqueduct system and member agency distribution systems. Both firms provide a full range of water resources services and have participated in planning, design and construction of numerous local facilities, including pipelines, water treatment plants, pump stations and hydroelectric facilities.

The CH2M Hill and Black & Veatch team also includes subconsultants with specific industry expertise. Four of the six subconsultants are small businesses, and of these, three are also minority/women-owned businesses. This information is provided for informational purposes.

Prepared by: Paul Gebert, Senior Water Resources Specialist
Reviewed by: Dave Chamberlain, Principal Engineer
Reviewed by: Ken Weinberg, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager
December 1, 2010

Attention: Water Planning Committee

Resolution Certifying the Final Environmental Impact Report for the Natural Community Conservation Plan/Habitat Conservation Plan; Adopting Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approving the Project; and Authorizing Filing of a Notice of Determination and Execution of an Implementing Agreement. (Action)

Staff recommendation:
It is recommended the Board adopt a Resolution (attached) that:
1. Certifies the Final EIR (previously provided on CD) has been completed in compliance with the California Environmental Quality Act (CEQA) and State CEQA Guidelines, and reflects the independent judgment of the Board;
2. Concurrently adopts the Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program (previously provided on CD);
3. Approves the Proposed Plan (Alternative 2), the Natural Community Conservation Plan/Habitat Conservation Plan that provides coverage for 63 species, as the selected project (previously provided on CD);
4. Authorizes the filing of a Notice of Determination; and
5. Authorizes the General Manager to execute an Implementing Agreement (previously provided on CD).

Alternatives:
1. No Project (Alternative 1): Do not certify the Final EIR and associated CEQA documents, do not approve the NCCP/HCP, and do not authorize the General Manager to sign the Implementing Agreement. This alternative would retain the status quo and require individual permits from the California Department of Fish and Game (CDFG) and U.S. Fish and Wildlife Service (USFWS) for any CIP or O&M activities that could result in take of endangered species. Staff does not recommend this alternative due to the time and cost required to process individual project permits, and the risk of revising multiple permits if other species become listed in the future.

2. Full Species List (Alternative 3): Certify the Final EIR and direct staff to return with modified CEQA project approval documents to allow selection of Alternative 3. This alternative would provide permit coverage for the 63 original species, but also require Water Authority commitment to gather sufficient biological information to justify including an additional 26 Covered Species (total of 89 species). This would entail considerable scientific research, peer review, and circulation of a Supplemental EIR (concurrent with federal NEPA environmental compliance). This would also require CDFG and USFWS to revise their permits and prepare new approval documents once the additional species were justified. Staff does not recommend this alternative due to the time and cost involved to gather the necessary species data, the low probability of
affecting these species, and the risk that sufficient information to justify coverage may not be reasonably available.

3. Reduced Plan Area (Alternative 4): Certify the Final EIR and direct staff to return with modified CEQA project approval documents to allow selection of Alternative 4. This would limit the Plan Area to 64,600 acres immediately adjacent to existing Water Authority facilities and provide coverage for 39 species. Any future projects located outside the approved area that affect listed species would require either a major amendment to the Plan (with associated CEQA/NEPA documentation and revised permits), or an individual permit obtained through existing state and/or federal permitting processes. Staff does not recommend this alternative due to the high probability that future projects will occur outside the reduced plan area, thus requiring additional cost and time to either amend the Plan and permits or obtain individual project permits.

**Fiscal Impact**

There are no additional funds needed to certify the EIR and authorize execution of the Implementing Agreement (IA). The Water Authority’s Mitigation Program has a $23.8 million total project budget; approximately $15 million has already been expended to meet NCCP/HCP requirements. The $8.8 million remaining under the current Mitigation Program will be expended for constructing wetlands in the Tijuana River Valley. Staff is currently revising the estimate for completion of the Tijuana River Valley Wetlands, including a plant establishment period and an endowment to the County of San Diego for perpetual wetland management. The County provided the land at no cost to the Water Authority.

In order to obtain complete species coverage for the 55 year term of the permit contemplated under the IA, staff will be requesting an estimated $10 million be added to the Mitigation Program in the proposed Fiscal Year 2012-2013 CIP budget to complete our obligations under the Implementing Agreement. Once mitigation lands have been accepted by the wildlife agencies, the Water Authority will only be responsible for remediating damage caused by reasonably foreseeable adverse natural events (fire, flooding, etc.). Staff estimates that such events will occur infrequently, that most corrective measures will cost from $50,000-$75,000 per incident and can likely be funded from operating reserves. In the event a future CIP project affects one or more species not known to exist on Water Authority mitigation lands, staff will incorporate those additional mitigation costs into relevant individual proposed project budgets. Additionally, ongoing costs to the Water Authority for management and compliance with the NCCP/HCP and the IA are estimated to be approximately $70,000 annually to be requested in each subsequent Operating Budget. The related Rate Category is transportation.

**Background**

Beginning in the mid-1990s, the USFWS and CDFG (wildlife agencies) developed broad-based, multiple-species conservation programs to provide long-term protection and conservation of declining habitats and species that would also streamline appropriate development and growth. The state’s Natural Community Conservation Program (NCCP) and federal Habitat Conservation
Program (HCP) promote coordination and cooperation among public agencies, landowners and other interested parties to minimize natural resource conflicts, especially when activities affect endangered or potentially endangered species. Recognizing the Water Authority’s diverse set of potential projects and ongoing operations and maintenance activities, the Water Authority Board directed staff in 1995 to commence preparation of a NCCP/HCP Plan (Plan) to address long-term needs for addressing current and future endangered species impacts. An initial draft Plan addressing the Water Authority’s service area and surrounding habitat lands was prepared in 1997, followed by several subsequent drafts to incorporate comments from the wildlife agencies. Due to fundamental disagreements with wildlife agency staff over the nature and extent of impacts and required mitigation, work on the Plan was suspended for several years while these issues were further discussed. Work resumed in early 2003 and preparation of a draft EIR/EIS was commenced in December 2003. Limited staff availability and personnel changes at the wildlife agencies further delayed progress as previously resolved issues were revisited in light of evolving regulations and better scientific understanding of species biology. During this period, several petitions to list additional species were submitted to the state and federal governments; these new listings resulted in the need for more revisions. The continual cycle of revision was finally overcome with the official submittal of a revised draft Plan to the wildlife agencies in September 2007. Again, however, staffing changes at the wildlife agencies resulted in substantial modifications to the draft document. A second draft was provided to the wildlife agencies in February 2008, and in June 2008 another set of wildlife agency comments was received. Based on the nature of those comments, the Water Authority determined that the Plan required a major revision to allow greater flexibility for project impacts and sensitive species impacts.

In March 2009, a revised draft final Plan was submitted to the wildlife agencies; in June 2009, the draft Implementing Agreement was submitted; in August 2009 the draft EIR/EIS was completed. These documents were subsequently approved for public review.

Discussion

The draft EIR presented a detailed analysis of potential environmental impacts associated with adoption of a Proposed Plan that addresses impacts to 63 species resulting from the existing CIP, future projects, and O&M activities within the Water Authority’s service area and the extreme southwestern portion of Riverside County. The Plan area totals about 992,000 acres; the term is 55 years. Member Agencies and underlying landowners of Water Authority rights-of-way and easements are not covered by this Plan.

The Plan area overlaps with numerous other existing and in-process NCCP/HCPs in San Diego County, including the Joint Water Agencies’ NCCP/HCP, and several NCCP/HCPs in western Riverside County. The Plan is designed to be compatible with other conservation plans in the region, and the Water Authority will avoid and/or minimize impacts to existing preserve lands to the maximum extent feasible.

A Notice of Preparation identifying the scope of the draft EIR was published on December 3, 2003 and sent to all Responsible and Trustee agencies, other government agencies, and non-governmental organizations. A public scoping meeting was held on December 11, 2003. Comments provided by
the U.S. Environmental Protection Agency, U.S. Army Corps of Engineers, CDFG, county of San Diego, and the Center for Biological Diversity were addressed in the draft EIR.

On March 4, 2010, the Water Authority began a 90-day public review period for the draft EIR, which ended June 3, 2010. The Water Planning Committee held two public hearings: one on March 17 at the Water Authority’s Kearney Mesa office and the other on March 18 at Escondido City Hall. During the public review period, a total of seven written comment letters (two from federal agencies, one from a state agency, three from local agencies, and one from a private citizen) were received. All of these comments are reproduced in the Responses to Comments that are attached to and made part of the Final EIR.

The Board was separately mailed a CD containing the Final EIR, Environmental Findings of Fact, and Mitigation Monitoring and Reporting Program (MMRP) on November 24, 2010. These documents describe the expected project impacts and incorporated measures that will avoid or substantially lessen identified potentially significant environmental effects. The Board will need to rely on these documents when considering whether or how to approve the Proposed Plan. Once the Plan is approved, completion of the CEQA process requires the Water Authority to file a Notice of Determination.

Board approval of the Plan and execution of the Implementing Agreement will allow the CDFG and the USFWS to issue 55-year incidental take permits for planned and future Water Authority activities that could result in impacts to specified endangered species, and species that possibly may be listed as endangered, thus simplifying future state and federal Endangered Species Act compliance.

Prepared by:  Bill Tippets, Principal Water Resources Specialist  
Reviewed by:  Larry Purcell, Water Resources Manager  
Reviewed by:  Ken Weinberg, Director of Water Resources  
Approved by:  Sandy Kerl, Deputy General Manager

Attachment:  Resolution No. 2010-_____
RESOLUTION NO. 2010-_______

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY CERTIFYING THE FINAL ENVIRONMENTAL IMPACT REPORT (STATE CLEARINGHOUSE NO.2003121012) FOR THE SAN DIEGO COUNTY WATER AUTHORITY NATURAL COMMUNITY CONSERVATION PLAN/HABITAT CONSERVATION PLAN, MAKING FINDINGS REGARDING THE ENVIRONMENTAL EFFECTS OF THE PROJECT, APPROVING THE MITIGATION MONITORING AND REPORTING PROGRAM, APPROVING THE PROJECT, AUTHORIZING THE FILING OF A NOTICE OF DETERMINATION, AND AUTHORIZING EXECUTION OF AN IMPLEMENTING AGREEMENT FOR THE SAN DIEGO COUNTY WATER AUTHORITY NATURAL COMMUNITY CONSERVATION PLAN/HABITAT CONSERVATION PLAN BY AND BETWEEN SAN DIEGO COUNTY WATER AUTHORITY, UNITED STATES FISH AND WILDLIFE SERVICE AND CALIFORNIA DEPARTMENT OF FISH AND GAME

WHEREAS, pursuant to the California Environmental Quality Act (CEQA) and the CEQA Guidelines, the Water Authority, acting as the lead agency, has caused to be prepared a Final Environmental Impact Report for the San Diego County Water Authority Natural Community Conservation Plan/Habitat Conservation Plan project, hereinafter referred to as the “Final EIR”, for the proposed implementation of said project by the Water Authority;

WHEREAS, the Final EIR was prepared by the Water Authority in consultation with firms or persons having expertise in the analysis of the environmental effects of projects and in the preparation of environmental documentation;

WHEREAS, a draft of the EIR was prepared and made available for a 90-day review period commencing on March 4, 2010, and ending on June 3, 2010, notices were published of the availability of the draft and of the public hearings on the draft, and copies were distributed to interested persons;

WHEREAS, after review of all written and oral comments and the preparation of responses thereto and changes to the Draft EIR, the Final EIR was presented to and certified by the Board on December 9, 2010, as having been completed in compliance with CEQA and the State CEQA Guidelines;

WHEREAS, having heard and considered the evidence, and being fully advised regarding the environmental consequences of the San Diego County Water Authority Natural Community Conservation Plan/Habitat Conservation Plan, it is in the interest of the Water Authority and the people it serves to approve the Final EIR, to make findings regarding the environmental effects of the project, to make a brief rationale for each finding, to approve the Mitigation Monitoring and Reporting Program to assure that all necessary mitigation steps are taken, to approve the project, and authorize execution of an Implementing Agreement for the San Diego County Water Authority Natural Community Conservation Plan/Habitat Conservation Plan by and between San Diego County Water Authority, United States Fish and Wildlife Service and California Department of Fish and Game.
NOW THEREFORE, IT IS HEREBY RESOLVED, DETERMINED, AND ORDERED by the Board of Directors of the San Diego County Water Authority as follows:

1. That the foregoing facts are true and correct.

2. That the Board, as the lead agency under CEQA, hereby finds that the Final EIR has been presented to the Board (as a CD attachment), that the Final EIR contains an adequate analysis of the environmental effects which would result from the project, that the Board has reviewed and considered the information contained therein prior to approving the project, and that the Final EIR represents the Board’s independent judgment and analysis.

3. That all mitigation measures identified in the Final EIR are hereby made conditions of approval of the project, that the Board approves the Mitigation Monitoring and Reporting Program attached hereto (as a CD attachment) and made a part hereof, and that the General Manager or her designated representative be assigned the task of implementing the Mitigation Monitoring and Reporting Program.

4. That the Board, having reviewed and considered the information contained in the Final EIR and all related documents, records, and comments, finds that changes are required or have been incorporated into the project which mitigate or avoid significant environmental effects thereof, as described in the Final EIR and in the Findings attached hereto (as a CD attachment) and made a part hereof, and sets forth the rationale for each potential environmental impact and mitigation measure.

5. That Alternative 2—Proposed Plan as described in the Final EIR is hereby approved.

6. That the General Manager shall file a Notice of Determination as provided in Section 15094 of the State CEQA Guidelines.

7. That the General Manager is authorized to execute an Implementing Agreement for the San Diego County Water Authority Natural Community Conservation Plan/Habitat Conservation Plan by and between San Diego County Water Authority, United States Fish and Wildlife Service and California Department of Fish and Game, in substantially the same form as attached hereto (as a CD attachment) and made a part hereof.

PASSED, APPROVED, and ADOPTED this 9th of December 2010.

Ayes:

Noes:

Abstain:

Absent:

_______________________________
Michael T. Hogan,
Chair
I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2010-______ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore,
Clerk of the Board
December 1, 2010

Attention:  Water Planning Committee

Authorize submittal of Proposition 84 Integrated Regional Water Management Implementation Grant Application. (Action)

Staff recommendation
Adopt Resolution No. 2010-_____ authorizing the General Manager to submit a Proposition 84 Integrated Regional Water Management (IRWM) Implementation Grant Application.

Other recommendation
The Regional Advisory Committee (RAC) – the San Diego Integrated Regional Water Management Program’s official advisory panel – voted to approve the list of projects recommended for grant funding.

Alternative
Do not adopt Resolution No. 2010-_____ authorizing the General Manager to submit a Proposition 84 Integrated Regional Water Management Implementation Grant Application.

Fiscal Impact
There is no immediate fiscal impact with the submittal of a Proposition 84 Integrated Regional Water Management (IRWM) Implementation Grant Application.

Background
The Water Authority, the county of San Diego and the city of San Diego joined in 2005 to form a regional water management group (RWMG), which is required for the development on an IRWM planning region. The Water Authority was designated the lead agency for purposes of applying for grants, administering grant funding and representing the RWMG to funding agencies such as DWR. The RWMG completed the first San Diego IRWM Plan, which was adopted by the Board in 2007 and approved by DWR in 2009. In addition, DWR in 2008 awarded a $25 million Proposition 50 IRWM implementation grant to the San Diego Planning Region. These funds are supporting 19 water-related projects developed by public agencies and non-profit organizations in the San Diego region, including three by the Water Authority and nine by Water Authority member agencies.

New funding opportunities were created when California voters approved Proposition 84 in 2006. Proposition 84 allocated $1 billion to DWR to support IRWM planning and implementation in California. The ballot measure allocates specific amounts of money to each of 11 defined “funding areas.” The San Diego Funding Area, which comprises the planning regions for San Diego, South Orange County and the Upper Santa Margarita River Watershed, is allotted $91 million. In 2009, the three planning regions in the funding area adopted a Tri-County memorandum of
understanding (MOU) that improves planning across regional boundaries and facilitates the allocation of Proposition 84 funding for IRWM projects. The MOU establishes that the San Diego region will receive approximately 78 percent of Proposition 84 IRWM funding.

The first two grant programs to distribute this funding became active this year. In September, the San Diego RWMG submitted an application, authorized by the Board, for a $1 million planning grant. These funds will be used to update the San Diego IRWM Plan so that it complies with new state guidelines and requirements. DWR plans to unveil its list of recommended grant recipients in December and the final list in January.

Next on DWR’s schedule is the first of an anticipated three rounds of Proposition 84 IRWM implementation grant programs. The deadline for submittal of applications for this first implementation grant application period is January 7. The first round originally offered $100 million statewide, with $10.1 million allocated to the San Diego IRWM Funding Area. Based on the funding formula in the Tri-County MOU, the San Diego IRWM Program expects to receive approximately $7.9 million from this grant program.

The San Diego RWMG began work on the application in August. In early November, DWR announced that it was adding $100 million to the grant program, but that it was not extending the deadline for submitting applications. The RWMG determined that there is insufficient time to expand its application, which is near completion, to seek additional funding. The RWMG noted that any money it does not receive in the first round of funding will remain in the San Diego Funding Area’s account for future rounds.

Previous related Board reports:
• In September 2010, the Board authorized submittal of an application for Proposition 84 planning funds.
• In March 2009, the Board approved the Tri-County MOU for coordinated planning and grant applications in the San Diego Funding Area.
• In October 2007, the Board authorized submittal of an application for Proposition 50 implementation funds.

Discussion
DWR released its project selection package and application schedule for the first round of Proposition 84 IRWM implementation grants in August, which left a compressed time period in which to complete applications by the deadline of January 7. With this timetable in mind, the San Diego RWMG immediately began preparing its application. The San Diego RWMG and RAC organized a workgroup of technical experts to review projects that were submitted by local sponsors and develop a package of projects for inclusion in the grant application. The nine-member workgroup included representatives of the Water Authority, the city of San Diego, and the county of San Diego as the RWMG members, as well as six other members representing public agencies and non-profit organizations from the areas of retail water supply, water quality, natural resources and watershed protection.
Meeting six times in September, the workgroup settled on a suite of 11 projects using criteria based on the San Diego IRWM Plan and DWR’s proposal solicitation package. The application requests $7.9 million to support these projects. If DWR awards this entire request and the region’s entire request for a planning grant, that will leave approximately $62.6 million in Proposition 84 grant funds set aside for the San Diego planning region, according to the Tri-County MOU funding formula. (Half of the $1 million planning grant will come from the San Diego Funding Area account and the other half from another funding source available to DWR.) This amount will be available to the San Diego region in future grant application rounds.

The projects in the grant application are located throughout the region, from the Santa Margarita hydrologic unit in the north to the Pueblo hydrologic unit in the south. All of the projects are designed to provide multiple benefits. Three of the projects offer features designed to benefit the entire region, which means that all 11 of the region’s hydrologic units will gain if the regional package is funded as proposed. Of the total requested grant amount, almost $5 million is designated for five projects that will increase the region’s water supply or protect drinking water quality, or both. (A list of the projects, including brief descriptions, is attached.)

Eight project sponsors are represented in the grant application. The Water Authority is sponsoring two projects. The first is to study and begin implementation of water quality improvement and quagga mussel control measures in Lake Hodges. It will receive $900,000 if the grant application is fully funded. The Water Authority’s partners in this project include the Santa Fe Irrigation District, the city of San Diego, the city of Escondido and the San Dieguito Watershed Council. The second project aims to improve landscape conservation and reduce watershed pollutants in the region. It will receive $1.05 million if the application is fully funded. Partners in this project include the city of San Diego, the county of San Diego, the California Center for Sustainable Energy, the Association of Compost Producers and California-American Water Company.

If the grant is awarded, DWR requires a minimum local funding match of 25 percent of the total cost of the projects included in a Proposition 84 implementation grant application. The individual project sponsors must provide this match; as such, if awarded, the Water Authority will provide matching funds for the two Water Authority projects included in the application. The total local funding match for the Water Authority’s sustainable landscape project is $350,000. The Water Authority will provide $96,500 of this match, using funds from the Water Resources Department budget. The remaining $253,500 will come from five project partners and two non-state grants. The total local funding match for the Water Authority’s Lake Hodges Water Quality and Quagga Mitigation Measure project is $300,000, of which $210,000 will come from a new CIP project to be included as part of the FY2012-2013 proposed CIP budget, with the remaining to come from two project partners.

The Olivenhain Municipal Water District is the sponsor of a planning project designed to consolidate recycled water projects in the North County; this project has 10 partners, most of which also are Water Authority member agencies. The city of San Diego is sponsoring a project to install pervious pavement that will allow stormwater runoff in the Tecolote Creek Watershed to infiltrate into the ground rather than flow into storm drains that empty into the ocean. The San
Elijo Joint Powers Authority is sponsoring a project that will increase the availability of recycled water in the coastal North County area and improve the quality of stormwater that flows into the ocean.

The other project proponents are the County of San Diego (two projects), City of Santee, the Jacobs Center for Neighborhood Innovation, the Rural Communities Assistance Corporation and San Diego Coastkeeper.

DWR plans to announce its initial list of recommended grant recipients in April 2011. After receiving and responding to public comments on the draft list, it will release its final grant award list in June.

At its October 6 meeting, the RAC voted unanimously to approve the list of projects recommended for grant funding. Staff recommends that the Board authorize the General Manager to submit the region’s Proposition 84 IRWM implementation grant application. (A resolution concerning authorization to submit the grant application is attached.)

Prepared by: Mark Stadler, Principal Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:

1. Resolution No. 2010-____ of the Board of Directors of the San Diego County Water Authority authorizing the General Manager to submit a Proposition 84 IRWM implementation grant application
2. San Diego IRWM Proposition 84 Grant Application Project List
RESOLUTION No. _2010-___

RESOLUTION OF THE BOARD OF
DIRECTORS OF THE SAN DIEGO COUNTY
WATER AUTHORITY AUTHORIZING
THE GENERAL MANAGER TO SUBMIT A
PROPOSITION 84 IRWM IMPLEMENTATION GRANT
APPLICATION

WHEREAS, Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Public Resources Code section 75001 et seq.), authorized the California Legislature to appropriate $1 billion to encourage integrated regional water management planning in California; and

WHEREAS, Section 83002(b)(3)(A)(i) of the California Water Code appropriated to the Department of Water Resources (DWR) funds for integrated regional water management (IRWM) planning grants and other purposes; and

WHEREAS, DWR has made these funds available through a grant program that allocates specific amounts of money to 11 funding areas located throughout California, including the San Diego Funding Area; and

WHEREAS, grant application procedures established by DWR require applicants to provide a copy of a resolution adopted by the applicant’s governing body designating an authorized representative to file an application for an IRWM implementation grant; and

WHEREAS, achieving IRWM grant funding will help to achieve the regional water supply goals established in the Water Authority’s 2005 Urban Water Management Plan; and

WHEREAS, the San Diego Regional Water Management Group (RWMG), in close cooperation with the Regional Advisory Committee (RAC), is preparing an application for a Proposition 84 grant to further water supply reliability, water quality enhancement, natural resources stewardship, and water resource management in the region; and

WHEREAS, on October 6, 2010, the RAC recommended that the Water Authority Board authorize submittal of the San Diego Region’s application for a round one Proposition 84 implementation grant; and

WHEREAS, the memorandum of understanding that established the San Diego IRWM Program identifies the Water Authority as the program’s authorized representative; and

WHEREAS, the Water Authority Board of Directors is the decision-making body for the Water Authority; and

WHEREAS, the Board of Directors has considered the reports submitted by Water Authority staff on IRWM planning dated February 14, 2007; May 16, 2007; July 18, 2007; September 19, 2007; January 16, 2008; June 18, 2008; December 10, 2008; January 14, 2009; March 18, 2009; August 19, 2009; October 14, 2009; July 14, 2010; September 15, 2010; and December 9, 2010.
NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority resolves the following:

1. The foregoing facts are true and correct.

2. The General Manager is authorized to prepare the necessary data, conduct investigations, and submit a Proposition 84 implementation grant application.

3. The General Manager is authorized to enter into an agreement to receive a round one Proposition 84 implementation grant from the California Department of Water Resources.

PASSED, APPROVED AND ADOPTED, this 9th day of December, 2010, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

____________________
Michael Hogan
Chair

ATTEST:

____________________________
Richard Smith
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2010- ______ was duly adopted at the meeting of the Board of Directors on the date stated above.

____________________________
Doria F. Lore
Clerk of the Board
### San Diego Integrated Regional Water Management

#### Prop 84 Grant Application Project List

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Project Sponsor</th>
<th>Functional Area</th>
<th>Project Summary</th>
<th>Recommended Grant Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chollas Creek Integration Project – Phase 1 (DAC)</td>
<td>Jacobs Center for Neighborhood Innovation</td>
<td>Natural Resources and Watersheds</td>
<td>An Opportunities Assessment will provide a comprehensive and integrated evaluation of conditions and solutions along the main stems and tributary canyons of Chollas Creek. The project for Section 2A of the Chollas Creek South fork, will remediate 2.06 acres of disturbed natural habitat, prevent surface water pollution, and reduce erosion and flooding associated with channelization.</td>
<td>$900,000</td>
</tr>
<tr>
<td>Integrated Flood Control and Water Quality Protection Program</td>
<td>City of Santee</td>
<td>Water Quality/Stormwater</td>
<td>Introducing a pervious base to concrete channels will allow dry weather flows to be treated, infiltrate, replenishing groundwater supplies and preventing pollutants from being discharged to the river.</td>
<td>$250,000</td>
</tr>
<tr>
<td>Bannock Avenue Neighborhood Streetscape Improvements &amp; Bacteria Treatment for Tecolote Creek Watershed Protection</td>
<td>City of San Diego - Storm Water</td>
<td>Water Quality/Stormwater</td>
<td>Installation of 6” pervious concrete sidewalk, one hydrodynamic separator, 550 bio-retention cells at two each residence, one high volume bacterial filtration storm water and perforated storm drain pipe connecting BMPs. This system will be designed to capture the storm water runoff from the first 0.25 inch of rainfall to increase storage/infiltration capacity for the bio-retention areas.</td>
<td>$650,000</td>
</tr>
<tr>
<td>Implementing Nutrient Management in the Santa Margarita River Watershed - Phase I</td>
<td>County of San Diego</td>
<td>Water Quality/Stormwater</td>
<td>This project will use a scientific, stakeholder-based process to set nutrient WQOs for the watershed and implement nutrient reduction and water conservation practices. Benefits include: 1) reduction of NPS runoff &amp; eutrophication, 2) water conservation, 3) habitat/open space protection/restoration, 4) proof-of-concept for a science-based approach to establish nutrient WQOs, &amp; 5) stakeholder buy in.</td>
<td>$450,000</td>
</tr>
<tr>
<td>Lake Hodges Water Quality and Quagga Mitigation Measures</td>
<td>San Diego County Water Authority</td>
<td>Water Supply/Drinking Water Quality</td>
<td>This project is for a feasibility study, conceptual design, and limited implementation of capital improvements and preventive maintenance measures for quagga control and water quality improvements at Lake Hodges, Olivenhain Reservoir, San Dieguito Reservoir, interconnected pipelines and facilities. Main goals are increased regional source water usability and reduced operating costs.</td>
<td>$900,000</td>
</tr>
<tr>
<td>San Diego Regional Water Quality Assessment and Outreach Project, 2010 (DAC)</td>
<td>San Diego Coastkeeper</td>
<td>Water Quality/Stormwater</td>
<td>This project continues work by Coastkeeper as part of the Prop 50 funding cycle and will engage community stakeholders to collect and analyze surface water samples in nine watersheds and conduct trash removal in these areas. Samples will be analyzed for chem, bact, toxicity, bio assessment and metals. Water quality data collected will be accessible to support public involvement and stewardship.</td>
<td>$500,000</td>
</tr>
<tr>
<td>Project Title</td>
<td>Project Sponsor</td>
<td>Functional Area</td>
<td>Project Summary</td>
<td>Recommended Grant Amount</td>
</tr>
<tr>
<td>---------------</td>
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</tr>
<tr>
<td>Sustainable Landscapes Program</td>
<td>San Diego County Water Authority</td>
<td>Conservation/Water Supply</td>
<td>The SLP is a multifaceted project that consists of a suite of activities designed to reduce water waste and watershed pollutants. The proposed SLP consists of: standards development, development of educational resources (curriculum, materials and training), landscape technical assistance, retrofit incentive funding, and stakeholder involvement.</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Rural Disadvantaged Community Partnership Project (DAC)</td>
<td>Rural Community Assistance Corp (RCAC)</td>
<td>Water Supply</td>
<td>RCAC will organize a committee to identify and select the neediest DACs within the Tri-County IRWMP watershed for project development. RCAC will assist rural DACs with project development, project oversight and access to resources, including financial resources other than Prop 84, e.g. USDA-RD, tribal set-a-side, SRF and RCAC financial resources will be considered to leverage project funds.</td>
<td>$500,000</td>
</tr>
<tr>
<td>San Diego North Regional Recycled Water Project</td>
<td>Olivenhain Municipal Water District</td>
<td>Recycled Water/Water Supply</td>
<td>The North San Diego County Recycled Water Project - Phase II involves preparation of a Recycled Water Facilities Plan that will consolidate the numerous recycled water projects being developed by 11 project partners into an integrated and comprehensive recycling program. This project involves planning, engineering, and environmental review for creation of 10,000 AFY of recycled water supply.</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>North San Diego County Cooperative Demineralization Project</td>
<td>San Elijo Joint Powers Authority</td>
<td>Recycled Water/Water Supply</td>
<td>The North San Diego County Cooperative Demineralization Project will construct advanced water treatment at the SEWRF for salinity management, production expansion, stormwater treatment and pollution mitigation. The SEWRF demineralization facility will provide integral logistics and technical data to assist OMWD with planning and design efforts for a future brackish water desalination facility.</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Regional Water Data Management Program</td>
<td>County of San Diego</td>
<td>Data Management</td>
<td>The Regional Water Management Group (RWMG) proposes to partner with local agencies and non-governmental organizations (NGOs) to implement a Regional Water Data Management Program that benefits the region. The Regional Water Data Management Program would develop a web-based system to make water supply and water quality data instantly available to interested stakeholders and facilitate data sharing.</td>
<td>$150,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$7,900,000</strong></td>
</tr>
</tbody>
</table>

Note: “DAC” is the acronym for “Disadvantaged Community.” Projects titles that include “DAC” will specifically benefit disadvantaged communities in the San Diego region.
December 1, 2010

Attention: Water Planning Committee

The relationship between the retail price of water and water demands. (Information)

Purpose
At the request of Board members, this report discusses the relationship between water price and demands along with an estimate, based on current research literature, of the role water rates have played in the demand reduction experienced between 2007 and 2010.

Background
Municipal and industrial (M&I) water use within the Water Authority’s service area has decreased by approximately 20% since the onset of supply constraints and activation of the Water Authority’s Drought Response and Water Shortage Plan in late fiscal year 2007. This includes reductions in demand from the single family residential sector. There are a number of factors that have influenced this reduction in demands. Some of these factors are within control of the water agencies and others are not. A list of the primary factors that influence water demands is included in Table 1 below:

<table>
<thead>
<tr>
<th>Factors under Control of Agency</th>
<th>Factors beyond Control of Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of Water</td>
<td>Weather and Climate</td>
</tr>
<tr>
<td>Rate Structure</td>
<td>Household Characteristics (i.e., income, persons per household)</td>
</tr>
<tr>
<td>Public Education and Outreach</td>
<td>Housing Characteristics (i.e., lot size, age of house, density)</td>
</tr>
<tr>
<td>Conservation Programs</td>
<td>Economic Situation</td>
</tr>
<tr>
<td>Shortage Response Actions (i.e., water use restrictions, allocations)</td>
<td></td>
</tr>
</tbody>
</table>

It is difficult to isolate and measure how much one of these specific factors can cause an increase or decrease in demands. This difficulty is due, in part, to the interaction between these factors and the unique demographic and hydrologic characteristics of water agencies’ service area. Considerable research has been conducted by economists and others as to the effect pricing and some of these other variables specifically have on consumer demand for water. This memo is in response to a request by Board members to apply some of the conclusions from current research literature to the relationship between retail water prices and water demands during this current drought shortage event. In preparing this memo, staff consulted with economists currently under contract for related activities. These experts were Jack Kiefer, PhD, Hazen and Sawyer and Tom Chesnutt, PhD, A& N Technical Services.

Discussion
It is clear from the research documents that water demands can be responsive to the retail price consumers pay when the appropriate factors are in place. The magnitude of the responsiveness can
vary based on the percent change in rates along with the numerous factors that interact and influence customer behavior. Evaluating the retail rates, not wholesale rates, is key to determining customer water use behavior.

Historically, water pricing has not been a major driver in consumer decisions to use water. The use of rate structures, such as inclining block rates where consumers that use more water pay more per unit, has been the tool of choice when using rates to manage demand. Evaluating long term historic demand trends within the San Diego region shows that price had very little, if any, impact on past water usage, where weather, economy, and growth in employment, housing and population were the influencing factors. This is due primarily to the low cost of water and slow rate of increase in retail rates experienced over the past 30 years. A sampling of retail rates of five large M&I member agencies between 1993 and 2007 show that increases in the commodity portion of the average monthly water bill rose less than or about equal to the 2.6 percent average rate of inflation during that period. The demands from these five urban agencies – Carlsbad Municipal Water District, City of San Diego, Helix Water District, Otay Water District, and Sweetwater Authority – comprise more than 50 percent of total water use within the region. Although water demand fluctuated significantly up and down during the entire 30-year period, as shown in Figure 1 below, it was the upswings and downturns in the local and national economy, population growth, weather, long term conservation programs, heightened messaging and imposition of water use restrictions that had the greatest effect on retail water demand.
Figure 2 illustrates the increase in demand of the five agency sample between 1993 and 2010 compared to the increase in a weighted commodity cost. The plots demonstrate that price of water had little effect, if any, on water demands between 1993 and the beginning of the current shortage event in 2007.

In evaluating demand trends, personal income is one of the major factors that can influence customer water usage. Figure 3 on the following page shows historical personal income for the San Diego region along with total water use. The relationship seems to demonstrate that historical personal income has had a greater impact on demands than price. The drop in demand since 2007 is concurrent with both a dramatic increase in retail rates and a leveling off in personal income. However, many other factors affecting demand came into play during that same time period.
Determining Consumer Response to Water Pricing

The approach often utilized in research to determine the responsiveness of water demands to price is the concept of price elasticity. This concept is used to measure the extent to which the demand for a good or service (such as water) is sensitive to changes in its price. Price elasticity tells you the percentage change in demand for a one percent change in price assuming all other variables are held constant. Price elasticity (P.E.) of demand is basically defined as follows:

\[
P.E. = \frac{\text{%change in quantity demand}}{\text{%change in price}}
\]

For example, if the price elasticity is of the magnitude of -1.0, then a 10% increase in price translates to a 10% decrease in demand for that product. When the price elasticity is less than 1.0, for example, -0.5, then a 10% increase in price would produce a 5% decrease in demand for the product.

The price of water itself is one of several variables that influence consumers’ choice on how much water to use. When staff produces the 25-year long-range water demand forecast for the Urban Water Management Plan (UWMP), it uses an econometric model -- CWA-MAIN -- to factor in multiple demographic and economic variables, such as price elasticity, employment growth, and personal income, to develop a forecast. Some of these variables cause a growth in demand while others work to offset it. The net effect of these different variables influences the demand path of the long-range forecast.
Similar to forecasting demand for the UWMP, determining the effect increases in retail water price are having on demands during the current shortage event must take into account the other independent variables that are also affecting consumer water use behavior. Some of the factors that could influence demands during the current shortage event are included in Table 2, below, along with the expected effect on water use behavior. As shown in Table 2, during the 2007 through 2010 period, these variables have caused demands to decrease, with price increases being only one variable potentially impacting demand.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Expected Water Use Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cool weather</td>
<td>↓</td>
</tr>
<tr>
<td>Income flattening</td>
<td>↓</td>
</tr>
<tr>
<td>Unemployment rate increase</td>
<td>↓</td>
</tr>
<tr>
<td>Housing unit vacancy rate increase</td>
<td>↓</td>
</tr>
<tr>
<td>Water price increases</td>
<td>↓</td>
</tr>
<tr>
<td>Conservation programs</td>
<td>↓</td>
</tr>
<tr>
<td>Mandatory restrictions</td>
<td>↓</td>
</tr>
<tr>
<td>Heightened public outreach</td>
<td>↓</td>
</tr>
</tbody>
</table>

Almost all the research conducted on consumer responsiveness to water pricing has centered on development of the price elasticity factor discussed above. Customers are likely to respond differently to changes in price that occur when other non-price policies, such as mandatory restrictions, are in place. When evaluating the effect of price on water demands over the last few years, one of the factors to consider is the drought response actions (mandatory restrictions to achieve up to a 20% reduction and outreach programs) that were in place throughout the county. The collective efforts of the Water Authority, its member agencies, extensive news media coverage along with regional advertising by the Metropolitan Water District and the State of California resulted in households throughout the region understanding the severity of the water supply situation and importance of reducing demands. When there are price increases and non-pricing policies (restrictions/outreach) in place, it can be more difficult to determine the effect of a specific factor on a consumer’s water use behavior.

Research has also shown that there is a difference between short-run and long-run responsiveness to price. Residential customer demand for water is relatively more responsive to price over the long term versus the short-term. In the short-run, immediately after rate increases, water users have limited options to permanently reduce water use, relying upon behavioral type measures initially. Over longer periods of time, customers also have the ability to replace water-using appliances and
landscape. Therefore, over the longer term, greater permanent demand reductions could be expected in response to appropriate rate increases.

Through the Water Authority’s long-range demand forecast development process, a long-run elasticity of -0.40 was developed for single family residential households, which is within the range identified in academic research. The literature also indicates that when applying a price elasticity factor to short-run consumer responses, it is necessary to utilize a lower elasticity because of the short term nature of the response period. The analysis in Table 3, below, utilizes a short-run price elasticity to provide an estimate of the demand reduction between 2007 and 2010 that may be attributable to price. The same five large M&I member agencies used in the previous historic evaluation of water use are used again here.

Table 3

<table>
<thead>
<tr>
<th>Estimate of Current Water Rates Expected Affect on Reduced Demands From Single Family Residential Users (sample from five M&amp;I Agencies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Run Price Elasticity Factor</td>
</tr>
<tr>
<td>Adjusted For Applied Short-Run Price Elasticity (-.40 minus -.25)</td>
</tr>
<tr>
<td>Percentage Increase in Commodity Cost 2007 and 2010</td>
</tr>
<tr>
<td>Estimate Effect of Price Response on Water Use</td>
</tr>
<tr>
<td>Single Family Demand Reduction 2007 and 2010</td>
</tr>
</tbody>
</table>

Conclusions
It is important to note that, other than price increases, the adjustment for short-run elasticity does not take into account the other factors included in Table 2 specific to a member agency or area, such as restrictions, weather and personal income. A detailed short-term modeling effort would need to be conducted for the Water Authority’s service area to take those variables into account, which may mean the -10% affect on demand calculated in Table 3 could be overstated. For simplicity, the remainder of the reduction in Table 3, not attributable to pricing, is due to factors such as weather and the economy. Long-range forecasting being conducted for the 2010 UWMP does take into account these factors.
It must be emphasized that this is a very simplistic evaluation of water demand responsiveness due to price over the last few years. The results are unique to the rate increases and demand reductions experienced over the four-year time frame. To extrapolate a continued price response over the long term would require retail price increases similar to what we have experienced over the last several years and continued flattening or reduction in personal income. Historically over the long term, retail water rates have either kept up with inflation or been slightly lower than the annual rate of inflation. It is clear that pricing signals and increasing retail water rates have an effect on consumer demand for water especially over the long term in achieving more permanent savings. Research literature and expert opinion on the topic, however, maintains that a multi-faceted, comprehensive approach to achieving long term demand reduction is still the most effective and balanced approach to demand management.

Prepared by: Dana L. Friehauf, Principal Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources

Primary Source Documents

There are a number of research documents and papers documenting price affects on water demands. The following are the primary documents used as reference in preparing this report:

Chesnutt, Dr. Thomas, Dr. Janice Beecher, Gary Fiske, November 2010. “PowerPoint Presentation on Prices, Programs, and Persuasion”.


December 1, 2010

Attention: Water Planning Committee

Metropolitan Water District of Southern California Water Supply Update (Information)

Purpose
The purpose of this report is to provide an update on Metropolitan Water District of Southern California’s (MWD) regional water supply and demand conditions for the remainder of calendar year 2010, and an early outlook for calendar year 2011.

Background
As a result of critically dry conditions coupled with a federal ruling to protect Delta Smelt, in February 2008, the MWD Board adopted its Water Supply Allocation Plan (WSAP), which established a formula for allocating supplies to its member agencies in times of shortage. The plan recommends setting the level of allocation each April, when region’s supply conditions are better known, and with an implementation date of July 1. This process avoids having to change the allocation level mid-stream, and sending mixed messages to the public.

The California Department of Water Resources (DWR) set the initial 2009 State Water Project (SWP) Table A allocation at 15 percent of State Water Contractors requested amounts. Despite an increase to 20 percent in April 2009, the MWD board declared “Water Supply Condition 3-Implement Water Supply Allocation” and allocated MWD’s available supplies to its member agencies at a Regional Shortage Level 2 effective July 2009 through June 2010. This resulted in mandatory conservation for MWD’s service area for the first time since the early 1990’s.

In November 2009, the initial SWP allocation for 2010 was set at five percent, which was the lowest initial allocation in the history of the SWP. The SWP allocation was increased to 15 percent in April 2010, and the MWD board voted to continue the WSAP at Level 2 through June 2011. In June 2010, due to drastically improved hydrologic conditions, DWR determined the final SWP Table A allocation for calendar year 2010 be set at 50 percent.

In November 2010, MWD staff presented an informational report on MWD’s supply and storage conditions. The report gave a low likelihood of needing to continue the WSAP after June 2011, due to above average precipitation and improved storage conditions statewide. On November 22, DWR announced its initial allocation for 2011 at 25 percent, which hasn’t been seen since the initial 2008 allocation. DWR cautioned that the state is experiencing strong La Niña conditions, which could result in drier conditions statewide, and must continue to promote responsible water use. At the December 14 meeting, the MWD board is scheduled to consider whether or not continuation of the WSAP is still necessary, and if so, at what level given current supply and climate conditions.
**Discussion**

Water from storage became an important component of MWD’s overall supply strategy when MWD lost access to surplus Colorado River water in 2003. MWD’s supplies from the SWP are more hydrologically variable, and historically, three out of 10 years, the SWP resources cannot produce adequate supplies to meet MWD’s demands. MWD had begun to build its storage portfolio to more than 5 million acre-feet (MAF), when restrictions were placed on the SWP’s Delta pumps to protect endangered species in 2007. As a result of the pumping restrictions, MWD’s modeling shows that the SWP supplies are “short” seven out of 10 years. MWD had about 2.5 MAF of water in storage (excluding emergency supplies) in 2007 when faced with drought conditions and Delta pumping restrictions. Over the past several years, MWD’s storage levels have seen a steady decline. The storage balance decreased by nearly 1.5 MAF from its 2007 level of 2.5 MAF, to about 1 MAF at the beginning of 2010, despite the cessation of discounted replenishment deliveries, the phasing out of the Interim Agricultural Water Program, and the imposition of allocations on the municipal and industrial sectors. When WSAP allocation was continued for fiscal year 2010/11, MWD had anticipated drawing about 200 thousand acre-feet (TAF) from its storage for calendar year 2010. However, as a result of favorable conditions on the SWP and lower demands than estimated, MWD’s storage balance has increased considerably this year. For the first time in three years, MWD will be able to replenish its depleted storage rather than having to rely on withdrawals to mitigate shortages.

In determining the proper WSAP level, MWD takes into consideration the projected supplies, demand and storage levels. Until the restrictions on Delta pumping are addressed, MWD’s regional storage levels will continue to play a major role in setting the WSAP level. MWD currently estimates its storage levels will increase by nearly 600 TAF from January 2010, reaching 1.6 MAF by December 2010, due to lower demands than anticipated and improved supply conditions. This is
a significant increase in storage levels for MWD and is the primary driver for staff’s recent consideration to discontinue the WSAP.

At the time the board approved continuing the WSAP at Level 2 in April 2010, for fiscal year 10/11, MWD’s supply scenario included 1.0 MAF of Colorado River supplies, and an anticipated SWP allocation of 15 percent, or roughly 287 TAF. There have been several factors impacting MWD’s supply and demand conditions for the remainder of the calendar year, including: increased SWP supplies (50 percent Table A allocation); additional water from the Colorado River; and significant decreased demands throughout the service area (by about 200 TAF).

The following sections highlight MWD’s current supply portfolio for the remainder of calendar year 2010 and potential supply conditions anticipated for calendar year 2011.

**Colorado River Aqueduct (CRA) Supply**

Despite record low levels at Lake Mead, MWD is anticipating having a full Colorado River Aqueduct of 1.2 MAF in 2011 due to a combination of Colorado River programs and receiving its full basic apportionment. Currently Lake Mead’s elevation is 1,082 feet, which is just above the 1,075 foot shortage trigger determined by the United States Bureau of Reclamation (USBR) to reduce water deliveries from the reservoir. Recent studies by the USBR indicate that there will be no shortage declaration for 2011, and a 9 percent chance of a shortage declaration in 2012. MWD’s 4th priority Colorado River rights, established by the 1931 Seven Party Agreement, reduce the risk that MWD will experience a shortage of its apportionment. However, a shortage declaration could impact MWD’s access to some of its water stored in Lake Mead under the Intentionally Created Surplus program.

**State Water Project (SWP)**

Since the MWD board approved the WSAP Level 2 in April 2010, the SWP system has increased by more than 660 TAF. In August 2010, a DWR study showed an initial allocation for 2011 could be between 15 and 20 percent under critically dry conditions, and up to 67 percent under median conditions. This study assumed dry conditions for October through December 2010, but actual conditions for the remainder of calendar year 2010 have improved significantly from the time of that assumption. When DWR announced the initial allocation of 25 percent for 2011, it also stated a possible increase up to 60 percent under median conditions. At the same time, if predictions regarding La Niña conditions prove to be true, the outlook could change. DWR will continue to perform water supply assessments, and will make another allocation announcement next month if conditions change.

**Water Demands**

MWD’s service area has responded well to allocation levels set under the WSAP. MWD’s member agency demands under the WSAP for fiscal year 2009/10 were expected to be approximately 2.0 MAF. However, the demands are tracking at about 1.7 MAF and that trend is expected to continue for fiscal year 2010/11. While the supply conditions report released in November by MWD staff mentions demands could increase due to full-service rate replenishment water purchases, it is unclear if it factors in a potential increase in demand from the Los Angeles Department of Water and Power (LADWP) through the use of its supplies from
the Los Angeles Aqueduct (LAA). If La Niña conditions were to affect supplies on the LAA, LADWP’s demands on MWD supplies would vary greatly. MWD has not yet officially identified its projected demands for 2011, however the November report stated that low demands will continue, and it is highly unlikely its demands will exceed 2.0 MAF for fiscal year 2011/12.

MWD’s 2010 supply and storage portfolio has greatly improved. Supplies are higher than anticipated, demands continue to be lower than projected, and, based on current climate conditions, the outlook for imported supplies from the SWP is positive. However, storage balances have not yet reached levels they were at prior to the MWD board adopting the WSAP in 2008. The WSAP calls for the MWD board to determine the appropriate level of allocation in April, and an evaluation this early in the season is, to some extent, premature. Lifting the WSAP in January before the region has a good handle on supply conditions does not seem prudent at this time, and may send mixed messages. Moreover, many climatologists are predicting La Niña conditions for 2010, which could severely impact water supplies for the region. MWD staff will continue to monitor the supply and demand conditions and will return to their board on December 14 with options of what level of allocation is appropriate.

Prepared by: Julia Velez, Assistant Water Resources Specialist
Reviewed by: Amy Chen, MWD Program Chief
December 1, 2010

Attention: Water Planning Committee

Water supply conditions. (Information)

Purpose
To provide a status report on water supply and demand conditions and implementation of the Water Authority’s Water Shortage and Drought Response Plan.

Background
Water Shortage and Drought Response Plan: Stage 3 “Mandatory Cutbacks”
Drought Response Level: Level 2 “Drought Alert”

According to the National Weather Service, La Niña is present throughout the Northern Hemisphere, and expected to last through the spring 2011. La Niña is associated with an increased likelihood of below average precipitation for the majority of California, with above precipitation in the Pacific Northwest. La Niña typically lasts from one to three years.

Staff attended the third annual Winter Outlook Workshop hosted by the California Department of Water Resources (DWR) in San Diego on November 17, 2010. The workshop brought together meteorologists to provide water managers with climate outlook predictions for the water year 2011, which runs from October 1, 2010, through September 30, 2011. The meteorologists agreed that precipitation in the Pacific Northwest, which may include parts of northernmost California, will likely be above average. Southern California conditions will probably be dry throughout the winter and into the spring. In the upper Colorado River basin, above average precipitation is forecasted for the winter, transitioning to a dry spring. Overall, there is a good chance for normal hydrology on the Upper Colorado River Basin in water year 2011. There is concern that if La Niña continues into a second year, dry conditions will negatively impact runoff in the basin.

Discussion
State Water Project
On November 22, 2010, DWR announced an initial State Water Project Table A allocation for calendar year 2011 of 25 percent. This is a conservative estimate that will be adjusted as hydrologic conditions develop through the winter. According to DWR, if average precipitation continues, the final allocation will likely be increased to 60 percent.

The State Water Project supply conditions for the 2011 water year on November 29 are as follows:
- Northern Sierra 8-Station Precipitation Index: 165 percent of average
- Lake Oroville Storage: 75 percent of average or 46 percent of capacity
- San Luis Storage: 90 percent of average or 55 percent of capacity
Unimpaired runoff to the Feather River at Lake Oroville in October: 117 percent of average

**Colorado River**
The Colorado River water supply conditions for the 2011 water year on November 29, 2010 are as follows:
- Lake Mead: 38 percent full
- Lake Powell: 61 percent full
- Total System contents: 55 percent full
- Upper Colorado Basin precipitation: 133 percent of average
- Unregulated inflow to Lake Powell: 73 percent of average

Further discussion on the Colorado River supplies is contained in this month’s Water Planning Committee Board memo, entitled *MWD Water Supply Update*.

**Metropolitan Water District of Southern California**
Information on MWD’s supplies for calendar year 2011 is contained in this month’s Water Planning Committee Board memo entitled *MWD Water Supply Update*.

**Local Conditions**
Precipitation has been above average in San Diego County since the start of the water year, as shown in the table to the right. The National Weather Service is predicting below average precipitation in San Diego County over the period from December through February.

Total local reservoir storage (including the Water Authority’s carryover storage) on November 15, 2010 was approximately 289,600 AF, which is about 44,200 AF greater compared with this time last year. Storage levels reflect increases primarily due to runoff, along with withdrawals that occurred during this period.

The Water Authority had the following dry-year supplies in storage through October 31, 2010:
- Water Authority local carryover storage: 39,200 AF
- Water Authority Semitropic groundwater storage bank: 16,117 AF

<table>
<thead>
<tr>
<th>Accumulated Precipitation</th>
<th>July 1, 2009 – November 28, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Station</td>
<td>Inches</td>
</tr>
<tr>
<td>Lindbergh Field</td>
<td>3.11</td>
</tr>
<tr>
<td>Ramona Airport</td>
<td>5.77</td>
</tr>
</tbody>
</table>

Prepared by: Lesley Dobalian, Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources
December 1, 2010

Attention: Water Planning Committee

Water Resources Report

Purpose
This report includes the following exhibits for October 2010:

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

### RAINFALL TOTALS (inches)

<table>
<thead>
<tr>
<th>Station</th>
<th>October 2010</th>
<th>2010-2011 WATER YEAR (October 2010 through September 2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Normal</td>
</tr>
<tr>
<td>Lindbergh Field (N.O.A.A.)</td>
<td>2.18</td>
<td>0.44</td>
</tr>
<tr>
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<td>5.20</td>
<td>1.64</td>
</tr>
<tr>
<td>Lake Henshaw (Vista I.D.)</td>
<td>2.39</td>
<td>0.90</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 2010

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>October 2010</th>
<th>October 2009</th>
<th>12 Months Ended October 2010</th>
<th>12 Months Ended October 2009</th>
</tr>
</thead>
<tbody>
<tr>
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<td>1,763.9</td>
<td>16,201.3</td>
<td>18,638.9</td>
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<td>74.6</td>
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<td>23,850.1</td>
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<td>1,726.0</td>
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<td>33,598.4</td>
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<td>236.2</td>
<td>323.6</td>
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<td>3,591.5</td>
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<td>234.9</td>
<td>1,768.2</td>
<td>4,763.4</td>
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<tr>
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<td>22,528.6</td>
<td>28,294.4</td>
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<tr>
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<td>2,051.9</td>
<td>18,931.4</td>
<td>21,379.1</td>
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<tr>
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<td>2,232.1</td>
<td>3,025.3</td>
<td>29,832.7</td>
<td>32,907.2</td>
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<td>Padre Dam M.W.D.</td>
<td>785.2</td>
<td>1,277.9</td>
<td>11,743.9</td>
<td>13,710.2</td>
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<td>9.0</td>
<td>62.9</td>
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<td>1,269.8</td>
<td>10,401.2</td>
<td>12,748.9</td>
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<td>2,573.2</td>
<td>19,505.1</td>
<td>26,656.3</td>
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<td>196,985.1</td>
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<td>2,531.3</td>
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<tr>
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<td>4,742.2</td>
<td>6,467.1</td>
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<td>17,661.8</td>
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<td>1,653.0</td>
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<td>17,782.1</td>
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<tr>
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<td>16,879.7</td>
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<tr>
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<td>166.5</td>
<td>348.8</td>
<td>2,044.0</td>
<td>2,573.1</td>
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<td>50,044.9</td>
<td>452,113.4</td>
<td>546,467.9</td>
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</tbody>
</table>

### Deliveries From SDCWA Storage

| Deliveries To Other Agencies    | 62.5           | 51.4           | 777.1                       | 800.6                       |
| Deliveries From SDCWA Storage   | -              | -              | -                           | -                           |

1. October 2010 deliveries include 1,043.0 AF to city of San Diego storage accounts. October 2009 deliveries include 43.5 AF to city of San Diego storage accounts.
## Estimated Water Use by Member Agency

### OCTOBER 2010

#### Imported Source

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>S.D.C.W.A.</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<td>1,667.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>351.8</td>
<td>498.3</td>
<td>1,485.8</td>
<td>2,166.2</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.8</td>
<td>8.5</td>
<td>77.4</td>
<td>111.1</td>
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<td>-</td>
<td>-</td>
<td>16.6</td>
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<td>2,516.6</td>
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<td>-</td>
<td>-</td>
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<td>67.0</td>
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<td>-</td>
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<td>2,791.9</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>365.9</td>
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<td>1,580.4</td>
<td>2,376.4</td>
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<td>-</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>322.4</td>
<td>329.2</td>
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<td>-</td>
<td>-</td>
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<td>674.3</td>
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<td>28.9</td>
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<td>375.5</td>
<td>498.7</td>
<td>-</td>
<td>15.2</td>
<td>49.7</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>1,122.8</td>
<td>1,637.7</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>1,833.6</td>
<td>3,334.0</td>
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<td>-</td>
<td>-</td>
<td>30.0</td>
<td>29.7</td>
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<td>-</td>
<td>-</td>
<td>41.9</td>
<td>65.9</td>
<td>-</td>
<td>-</td>
<td>208.4</td>
<td>414.6</td>
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<td>50,493.6</td>
<td>3,783.8</td>
<td>1,102.1</td>
<td>2,105.7</td>
<td>1,670.4</td>
<td>2,475.2</td>
<td>2,979.4</td>
<td>41,370.9</td>
<td>56,245.5</td>
</tr>
</tbody>
</table>

**PERCENT CHANGE**

|                | -35%      | 243%     | 26%      | -17%     | -26%     |

¹De Luz figures included in Fallbrook P.U.D. total.
²Brackish groundwater use included in groundwater totals.
³Pendleton's imported water use includes water delivered by South Coast Water District.
## Member Agency Reservoir Capacity

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Reservoir</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>600</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>2,606</td>
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<tr>
<td>Wohlford</td>
<td></td>
<td>6,506</td>
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<tr>
<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>1,335</td>
</tr>
<tr>
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<td>Cuyamaca</td>
<td>8,195</td>
</tr>
<tr>
<td>Jennings</td>
<td></td>
<td>9,790</td>
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<tr>
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<td>Beck</td>
<td>625</td>
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<td>465</td>
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<tr>
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<td>Ramona</td>
<td>12,000</td>
</tr>
<tr>
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<td>Barrett</td>
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<tr>
<td>El Capitan</td>
<td></td>
<td>112,807</td>
</tr>
<tr>
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<td></td>
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<tr>
<td>Lower Otay</td>
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<tr>
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<tr>
<td>Murray</td>
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<tr>
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<td>89,312</td>
</tr>
<tr>
<td>Sutherland</td>
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<td>29,684</td>
</tr>
<tr>
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<td>San Dieguito</td>
<td>883</td>
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<td>Loveland</td>
<td>25,400</td>
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<td>Turner</td>
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<tr>
<td>Vista I.D.</td>
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<td>51,774</td>
</tr>
<tr>
<td></td>
<td></td>
<td>564,919</td>
</tr>
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</table>

### % of Change

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Reservoir</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>71%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>92%</td>
</tr>
<tr>
<td>Wohlford</td>
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<td>32%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>50%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>Cuyamaca</td>
<td>8%</td>
</tr>
<tr>
<td>Jennings</td>
<td></td>
<td>62%</td>
</tr>
<tr>
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<td>86%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>Beck</td>
<td>29%</td>
</tr>
<tr>
<td>Morro Hill</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>Ramona</td>
<td>23%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>Barrett</td>
<td>84%</td>
</tr>
<tr>
<td>El Capitan</td>
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<td>50%</td>
</tr>
<tr>
<td>Hodges</td>
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<td>45%</td>
</tr>
<tr>
<td>Lower Otay</td>
<td></td>
<td>62%</td>
</tr>
<tr>
<td>Miramar</td>
<td></td>
<td>78%</td>
</tr>
<tr>
<td>Morena</td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Murray</td>
<td></td>
<td>87%</td>
</tr>
<tr>
<td>San Vicente</td>
<td></td>
<td>27%</td>
</tr>
<tr>
<td>Sutherland</td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>San Dieguito W.D./Santa Fe I.D.</td>
<td>San Dieguito</td>
<td>46</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Loveland</td>
<td>56%</td>
</tr>
<tr>
<td>Sweetwater</td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>Turner</td>
<td>89%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td></td>
<td>6%</td>
</tr>
</tbody>
</table>

### Water in Storage

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Capacity</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Capitan</td>
<td>13,465</td>
<td>41%</td>
</tr>
<tr>
<td>Lower Otay</td>
<td>6,878</td>
<td>43%</td>
</tr>
<tr>
<td>San Vicente</td>
<td>12,804</td>
<td>38%</td>
</tr>
<tr>
<td>Sweetwater</td>
<td>6,074</td>
<td>34%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>39,222</td>
<td>41%</td>
</tr>
</tbody>
</table>

### Other Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Water District</td>
<td>4,381,864</td>
</tr>
<tr>
<td>Diamond Valley</td>
<td>563,242</td>
</tr>
<tr>
<td>Oroville</td>
<td>1,701,643</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4,381,864</td>
</tr>
</tbody>
</table>

---

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. SDCWA has storage contracts in City of San Diego reservoirs in the amount of 40,000 AF, if available capacity exists.

---

**MONTHLY WATER RESOURCES REPORT**

**Reservoir Storage**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Reservoir</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>600</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>2,606</td>
</tr>
<tr>
<td>Wohlford</td>
<td></td>
<td>6,506</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>1,335</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>Cuyamaca</td>
<td>8,195</td>
</tr>
<tr>
<td>Jennings</td>
<td></td>
<td>9,790</td>
</tr>
<tr>
<td>Poway, City of</td>
<td></td>
<td>3,330</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>Beck</td>
<td>625</td>
</tr>
<tr>
<td>Morro Hill</td>
<td></td>
<td>465</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>Ramona</td>
<td>12,000</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>Barrett</td>
<td>37,947</td>
</tr>
<tr>
<td>El Capitan</td>
<td></td>
<td>112,807</td>
</tr>
<tr>
<td>Hodges</td>
<td></td>
<td>30,251</td>
</tr>
<tr>
<td>Lower Otay</td>
<td></td>
<td>49,510</td>
</tr>
<tr>
<td>Miramar</td>
<td></td>
<td>7,184</td>
</tr>
<tr>
<td>Morena</td>
<td></td>
<td>50,206</td>
</tr>
<tr>
<td>Murray</td>
<td></td>
<td>4,818</td>
</tr>
<tr>
<td>San Vicente</td>
<td></td>
<td>89,312</td>
</tr>
<tr>
<td>Sutherland</td>
<td></td>
<td>29,684</td>
</tr>
<tr>
<td>San Dieguito W.D./Santa Fe I.D.</td>
<td>San Dieguito</td>
<td>883</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Loveland</td>
<td>25,400</td>
</tr>
<tr>
<td>Sweetwater</td>
<td></td>
<td>28,079</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>Turner</td>
<td>1,612</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td></td>
<td>51,774</td>
</tr>
</tbody>
</table>

**% of Change**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Reservoir</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>71%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>92%</td>
</tr>
<tr>
<td>Wohlford</td>
<td></td>
<td>32%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>50%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>Cuyamaca</td>
<td>8%</td>
</tr>
<tr>
<td>Jennings</td>
<td></td>
<td>62%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td></td>
<td>86%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>Beck</td>
<td>29%</td>
</tr>
<tr>
<td>Morro Hill</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>Ramona</td>
<td>23%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>Barrett</td>
<td>84%</td>
</tr>
<tr>
<td>El Capitan</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>Hodges</td>
<td></td>
<td>45%</td>
</tr>
<tr>
<td>Lower Otay</td>
<td></td>
<td>62%</td>
</tr>
<tr>
<td>Miramar</td>
<td></td>
<td>78%</td>
</tr>
<tr>
<td>Morena</td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Murray</td>
<td></td>
<td>87%</td>
</tr>
<tr>
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<tr>
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<td></td>
<td>30%</td>
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<tr>
<td>San Dieguito W.D./Santa Fe I.D.</td>
<td>San Dieguito</td>
<td>46</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Loveland</td>
<td>56%</td>
</tr>
<tr>
<td>Sweetwater</td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>Turner</td>
<td>89%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td></td>
<td>6%</td>
</tr>
</tbody>
</table>

**Water in Storage**

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Capacity</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Capitan</td>
<td>13,465</td>
<td>41%</td>
</tr>
<tr>
<td>Lower Otay</td>
<td>6,878</td>
<td>43%</td>
</tr>
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<td>San Vicente</td>
<td>12,804</td>
<td>38%</td>
</tr>
<tr>
<td>Sweetwater</td>
<td>6,074</td>
<td>34%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>39,222</td>
<td>41%</td>
</tr>
</tbody>
</table>

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1. Excludes storage allocated to Escondido Mutual Water Co. or its rights to a portion of the unallocated water in Lake Henshaw.
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---

**MEMBER AGENCY TOTAL WATER IN STORAGE**

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Capacity</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Capitan</td>
<td>13,465</td>
<td>41%</td>
</tr>
<tr>
<td>Lower Otay</td>
<td>6,878</td>
<td>43%</td>
</tr>
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<td>38%</td>
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<tr>
<td>Sweetwater</td>
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<td>34%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>39,222</td>
<td>41%</td>
</tr>
</tbody>
</table>

**TOTAL WATER IN STORAGE**

<table>
<thead>
<tr>
<th>Capacity</th>
<th>% of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>564,919</td>
<td>41%</td>
</tr>
</tbody>
</table>

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**OTHER AGENCIES**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Water District</td>
<td>44,264</td>
</tr>
<tr>
<td>Diamond Valley</td>
<td>563,242</td>
</tr>
<tr>
<td>Oroville</td>
<td>1,701,643</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4,381,864</td>
</tr>
</tbody>
</table>

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## MONTHLY WATER RESOURCES REPORT

**Estimated Tier 1 Deliveries to Member Agencies**

*(acre-feet)*

### Through October 2010

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>CY2010 Tier 1 Threshold</th>
<th>CYTD Firm Deliveries</th>
<th>% of Tier 1 Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>18,354.8</td>
<td>14,216.9</td>
<td>77.5%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>1,408.3</td>
<td>931.5</td>
<td>66.1%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>23,694.5</td>
<td>11,590.0</td>
<td>48.9%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>12,569.4</td>
<td>8,781.8</td>
<td>69.9%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>38,421.4</td>
<td>18,595.5</td>
<td>48.4%</td>
</tr>
<tr>
<td>Lakeside M.W.D.</td>
<td>4,718.2</td>
<td>2,776.2</td>
<td>58.8%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>28,848.1</td>
<td>19,003.3</td>
<td>65.9%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>19,347.5</td>
<td>16,158.9</td>
<td>83.5%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>32,173.0</td>
<td>25,313.7</td>
<td>78.7%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>14,321.5</td>
<td>9,567.4</td>
<td>66.8%</td>
</tr>
<tr>
<td>Pendleton M.R./South Coast</td>
<td>1,141.3</td>
<td>737.4</td>
<td>64.6%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>13,575.6</td>
<td>8,878.7</td>
<td>65.4%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>23,572.1</td>
<td>14,257.4</td>
<td>60.5%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>8,101.1</td>
<td>4,162.4</td>
<td>51.4%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>7,307.0</td>
<td>4,907.9</td>
<td>67.2%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>215,438.4</td>
<td>156,299.4</td>
<td>72.5%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>4,692.0</td>
<td>1,302.3</td>
<td>27.8%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>7,895.9</td>
<td>3,933.3</td>
<td>49.8%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>13,094.7</td>
<td>6,984.7</td>
<td>53.3%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>14,641.2</td>
<td>13,092.4</td>
<td>89.4%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>26,252.9</td>
<td>16,411.3</td>
<td>62.5%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>17,576.3</td>
<td>8,879.1</td>
<td>50.5%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>94.0</td>
<td>135.0</td>
<td>143.6%</td>
</tr>
</tbody>
</table>

**MEMBER AGENCY TOTALS**  

|                  | 547,239.0  | 366,916.5 | 67.0%          |

Less: QSA deliveries calendar year to date  

|                  | (123,083.3) |           |               |

Plus: CWA purchases for own account  

|                  | 2,134.1     |           |               |

**Estimated Tier 1 deliveries calendar year to date**  

|                  | 245,967.3   |           | 44.9%          |

---

1 Tier 1 threshold is equal to all firm deliveries up to 90% of a member agency's historic maximum year firm demand.

2 Firm deliveries are net of IAWP certifications received.

3 Includes forced deliveries and deliveries made through temporary carryover storage agreements.
MONTHLY WATER RESOURCES REPORT
Summary of Water Authority Member Agency Operations

OCTOBER 2010

Member Agency Deliveries (AF)

- October 2010: 32,628 AF
- October 2009: 50,001 AF

- Previous 12 Months 2010: 449,892 AF
- Previous 12 Months 2009: 531,495 AF

Member Agency Water Use

- October 2010:
  - Imported: 80%
  - Surface: 9%
  - Well & Brackish Recovery: 5%
  - Recycled: 6%
- Previous 12 Months:
  - Imported: 84%
  - Surface: 8%
  - Well & Brackish Recovery: 4%
  - Recycled: 4%

Member Agency Storage (AF)

- October 2010: 227,348 AF
- October 2009: 189,658 AF

- 12 Month Average 2010: 233,125 AF
- 12 Month Average 2009: 210,957 AF
ADMINISTRATIVE AND FINANCE COMMITTEE

AGENDA FOR

DECEMBER 9, 2010

Ken Williams – Chair     Bud Lewis
Michael Hogan – Vice Chair  Bud Pocklington
Hershell Price – Vice Chair   Richard Smith
Jim Bond                 Fern Steiner
Jim Bowersox            Barbara Wight
Mitch Dion              Howard Williams
Frank Hilliker          Tom Wornham

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

1. Treasurer’s report.
   Staff recommendation: Note and file the monthly Treasurer’s report.
   (Action)
   Eric Sandler

2. Adopt the Vote Entitlement Resolution for Calendar Year 2011.
   Staff recommendation: Adopt Resolution No. 2010-__ establishing the vote and representative entitlements of each member agency effective January 1, 2011. (Action)
   Cindy Navaroli
3. **Actions in response to IRS Employer Tax Audit.**
   
   Staff recommendation: Adopt Resolution 2010-___ confirming tax treatment of mandatory employee cost share of retirement benefits.
   
   **(Action)**
   
   Dan Hentschke

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**II. ACTION/DISCUSSION**

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 2011.**

   **Staff 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 2011.

   **(Action)**

   David Shank

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**III. INFORMATION**

1. Controller’s report on monthly financial statements.  
   
   **Cindy Navaroli**

2. Quarterly presentation of water sales demand impact on revenues and budget.  
   
   **Eric Sandler**

3. Board calendar.

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**IV. CLOSED SESSION**

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**V. ADJOURNMENT**

Doria F. Lore  
Clerk of the Board

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**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 (Revised). 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.
December 1, 2010

Attention: Administrative and Finance Committee

Final Report on Administrative and Finance Committee’s Goals for 2009 and 2010

Purpose
The attached report summarizes activities performed in support of the Administrative and Finance Committee’s Goals for 2009 and 2010.

Background
Previous Board action: On April 23, 2009, the Board of Directors adopted a set of goals for the Administrative and Finance Committee to accomplish in 2009 and 2010.

Discussion
The Administrative and Finance Committee is responsible for administrative and finance matters including rates, fees, charges, and other sources of revenue; budget; audit; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business operations. During the past two years, the Committee reviewed, discussed, and made decisions pertaining to these matters. A progress report was presented to the Board January 20, 2010.

Prepared by: Marilyn L. Young, Director of Administrative Services
Reviewed by: Ken Williams, Chair, Administrative and Finance Committee

Attachment: Final Report on Administrative and Finance Committee’s Goals for 2009 and 2010
Strategic Plan Objectives

1. **Workforce Management** – Revisit the workforce management issues identified in the Water Authority Business Plan to ensure cost effectiveness and sustainability. (June 2010 – SP #16)

   **Activities:** Agreement was reached on a two-year amendment to the Memoranda of Understanding with bargaining groups represented by Teamsters, in accordance with Board direction for a zero cost agreement. Competency management e-solution and associated management reporting was deployed in September 2010. Employee turnover is 3.4% after factoring out retirements. Internal candidates successfully competed for 41% of vacancies. Cross-departmental workforce forecasting is ongoing.

2. **Investor Outreach** – Conduct outreach programs to investors and credit rating agencies to assure them of our financial stability and ability to pay our obligations. (June 2010 – SP #19)

   **Activities:** The marketing plan for the 2010 long-term bond issue included in-depth presentations with all three credit rating agencies, as well as a series of calls and one-on-one meetings with several significant investors in municipal debt. The Water Authority received credit rating upgrades from both Fitch and Moody’s. The Water Authority’s credit ratings are now Fitch (AA+), Standard and Poor’s (AA+), and Moody’s (Aa2).

3. **Asset Replacement** – Adopt policies regarding the funding of asset replacement. (January 2010 – SP #21)

   **Activities:** A sub-committee of the Board worked with staff to develop a funding policy for asset replacement. The formal funding policy builds on existing practice and covers three broad asset classes—Pipelines, Facilities, and Equipment. Different funding approaches were identified for each of the asset classes, based on the financial policy goals of cost efficiency, rate stability, and intergenerational equity. The sub-committee’s work was presented to the Engineering and Operations Committee and adopted by the full Board at the January 2010 Board meeting.

Business Plan Goals

**Workforce Management**

1. **Retiree Health Funding** – Consider staff recommendations on a “pay as you go” funding strategy for retiree health costs. (May 2009 – BP #4)

   **Activities:** The retiree health funding methodology is being reevaluated.

2. **Union Agreements** – Approve multi-year memoranda of understanding with bargaining groups. (July 2010 – BP #5)
Activities: On July 22, 2010, agreement was reached on a two-year amendment to the Memoranda of Understanding with bargaining groups represented by Teamsters, in accordance with Board direction for a zero cost agreement.

Financial Planning
1. Liquidity Facility – Approve a liquidity facility for the Water Authority’s Series I Commercial Paper. (June 2009 – BP #3)

Activities: On March 26, 2009, the Board approved a 4-year renewal of a liquidity facility with BLB supporting Series 1 of the Water Authority Commercial Paper Program at very competitive terms.

2. CRACA – Complete the Comprehensive Reliability and Cost Assessment process to confirm the level and cost of service elements of the Water Authority’s rates and charges. (February 2009 – BP #4)

Activities: On February 26, 2009, after several months of work, the CRACA sub-committee presented its findings and recommendations to the Administrative and Finance Committee. The recommended action directed staff to begin preparation of the fiscal years 2010-2011 Recommended Budget based upon the assumptions in the ‘High Rate Scenario.’ This included key assumptions relating to water sales volumes, MWD rates and charges, and CIP projects.

3. CIP Funding – Approve the issuance of approximately $120 million in debt to fund the CIP. (December 2010 – BP #8)

Activities: On November 12, 2009, the Administrative and Finance Committee approved the negotiated sale of the 2010 Long-Term Bond issue, the appointment of firms to the Water Authority’s pre-qualified underwriter pool and the selection of an underwriting team for the deal. On December 17, 2009, the Administrative and Finance Committee authorized the issuance of Water Revenue Bonds in an amount not-to-exceed $686 million to take advantage of historically attractive long-term interest rates as well as a series of other actions to facilitate the issuance. These actions included the formation of a JPA called the San Diego County Water Authority Finance Agency to enable the issuance of revenue bonds and the approval of transaction documents and the form of the Preliminary Official Statement.

Other Goals
1. Budget – Adopt the multi-year budget for fiscal years 2010 and 2011. (June 2009)

Activities: After conducting in-depth hearings on June 10, 11, and 25, 2009, the Administrative and Finance Committee recommended adoption of the multi-year budget for fiscal years 2010 and 2011—a total appropriation of $1.65 billion. The review focused on a range of topics such as water sales volumes, the cost of water purchases, the CIP budget, debt service, and operating department budgets. The adopted operating department budgets included a 10% reduction in services spending.
2. **Rates** – Adopt rates and charges for calendar year 2010 and calendar year 2011. (June 2009 and June 2010)

   **Activities:** On June 25, 2009, the Administrative and Finance Committee conducted a public hearing on rates and charges to become effective on September 1, 2009. The Committee recommended and the Board adopted rates and charges with an average increase in the cost of treated water of 18.1%, approximately 3% below the increase in treated water rates from MWD. The unusual timing of the increase (mid-year) was in response to a similarly timed increase from MWD.

   On June 24, 2010, the Administrative and Finance Committee conducted a public hearing on rates and charges to become effective on January 1, 2011 and July 1, 2010. The Committee recommended and the Board adopted rates and charges with an average increase in the cost of treated water of 11.3%, approximately 1% below the average increase in Water Authority costs for MWD services.

3. **Auditor Selection** – Approve selection of the Water Authority’s financial auditor. (April 2009)

   **Activities:** On April 23, 2009, the Administrative and Finance Committee recommended exercising the option to extend a professional services contract with the auditing firm Lance, Soll & Lunghard for two additional years. The Administrative and Finance Committee also recommended and the Board approved the creation of an Audit Committee to separate the financial reporting and financial policy-making functions of the Board. The newly formed Audit Committee now has the responsibility for recommending the appointment of the financial auditor.

4. **Agricultural Program** – Consider the recommendations of a member agency work group regarding the transitional agricultural water rate program adopted by the Board in late 2008. (End of calendar year 2009)

   **Activities:** On March 25, 2010, the Administrative and Finance Committee approved the Special Agricultural Water Rate (SAWR) Workgroup’s recommendation on a revised SAWR Program. The two main elements of the approved recommendation included: 1) extending the Transitional SAWR for an additional two years, to coincide with termination of Metropolitan’s Interim Agricultural Water Program, and 2) revising the SAWR program, effective January 1, 2013, so that eligible agricultural customers in the SAWR class of service would remain exempt from the storage charge but pay all other rates and charges. SAWR customers would therefore no longer receive the water supply rate differential.

5. **Enterprise Software Upgrade** – Approve professional service contracts to upgrade the Water Authority’s human resources and financial systems software. (2009 and 2010)

   **Activities:** On January 28, 2010, the Board approved a professional services contract with Maximus Consulting Services Inc. The consultants and staff have completed several major phases of the project and the upgrade remains on track for completion in January 2011.
December 1, 2010

Attention: Administrative and Finance Committee

Treasurer’s Report

Attached for review by the Administrative and Finance Committee and the Board of Directors is the Treasurer’s Report as of October 31, 2010. 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 17, 2009. 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, with and without bond-related funds, 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.

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 85 percent currently invested in AAA-rated securities. The Water Authority’s overall portfolio increased to 0.76 percent in October 2010, and continues to exceed the investment benchmark of 0.32 percent in October 2010. Bond Fund proceeds are expected to fund Capital Improvement Program expenditures for the next several years.

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.

__________________________________
Eric Sandler, Director of Finance/Treasurer
## PORTFOLIO PERCENTAGES

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Permitted By Board Policy</th>
<th>Actual Percentage</th>
<th>Actual Amount</th>
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<td>$50 Million</td>
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<td>Banker's Acceptances</td>
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<td>Treasury Securities</td>
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<td>Reverse Repurchase Agreements</td>
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<tr>
<td>Negotiable Certificates of Deposit</td>
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<tr>
<td>Commercial Paper</td>
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<td>Medium Term Notes/Corporates</td>
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<td>JPA Pools (CAMP)</td>
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<td>Money Market Funds</td>
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<td>0.44%</td>
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<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
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### Bond/CP Fund Excluded from Portfolio Percentages:
- Treasury Securities
- Agency Securities
- Certificates of Deposit (CDARS)
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- JPA Pools (CAMP)
- Money Market Funds and Cash

### Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:
- Agency Securities and Money Market Fund - Series 2004A COPs
- FSA - Reserve (GIC) Series 2002A COPs
- Trinity Plus - Reserve (GIC) Series 1998A COPs

### PORTFOLIO INFORMATION

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<tr>
<th></th>
<th>Pooled Funds **</th>
<th>Bond/CP Fund</th>
<th>Debt Service Reserve</th>
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<td>Portfolio Yield to Maturity - 365 Days</td>
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<td>0.58%</td>
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<td>345</td>
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<td>Average Days to Maturity (730 Days Maximum)</td>
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<td>162</td>
<td>151</td>
<td>194</td>
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### Accrued Interest Earnings (Cash and Investments):
- Month Ended October 2010 ***:
  - $ (476)
  - $ 669,012
  - $ 158,887
  - $ 827,423
- Fiscal Year to Date:
  - $ 838,635
  - $ 2,764,462
  - $ 27,778
  - $ 3,630,875
- Total Cash and Investments:
  - $ 272,964,779
  - $ 502,883,537
  - $ 69,389,535
  - $ 845,237,851

---

**Notes:**
- **The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity** per SDCWA Investment Policy.
- **Pooled Funds include Operating, Pay Go, RSF and Equipment.
- **Accrued Interest Earnings have been reduced by the premiums that were paid at the time of purchase for investments that matured in October 2010.**
On September 21st, the FOMC maintained the target for the federal funds rate at a range of 0–25 basis points. The next meeting is November 3rd.
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<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>
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<th>Maturity Date</th>
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Subtotal and Average: 312,955,827.44

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<th>Purchase Date</th>
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<th>Stated Rate</th>
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Subtotal and Average: 29,853,639.75

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SDCWA - Fiscal Year 2011
Portfolio Management

Page 3

Portfolio Details - Investments
October 31, 2010
CUSIP

Investment #

Issuer

Average
Balance

Purchase
Date

Par Value

Market Value

Book Value

Stated
Rate

S&P

02/04/2010
02/04/2010
02/04/2010
02/04/2010
02/04/2010
02/04/2010
02/04/2010
02/17/2010
02/17/2010
09/20/2007
09/20/2007
07/28/2010
09/24/2010
09/24/2010
02/04/2010
02/17/2010
02/23/2010
01/28/2010
02/25/2010
04/29/2010
02/18/2010
02/18/2010
02/18/2010
02/04/2010
02/04/2010
02/04/2010
02/23/2010
03/10/2010
03/11/2010

5,200,000.00
18,300,000.00
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1.875
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3.375
1.750
3.625
3.625

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16,000,000.00

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71,161,000.00

71,082,861.66

70,932,044.30

YTM Days to
365 Maturity

Maturity
Date

Federal Agency - Coupon
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3133XVQL8
3133XWW47
3133XTAW6
3133XUKB8
3133XR4U1
3133XVDU2
3133XVDM0
3133XWEZ8
3133XJVL9
3133XJUT3
3128X9D80
3137EABY4
3137EAAZ2
3134A4HF4
3137EABK4
3128X6U95
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31359MZ30
31359MZ30
31398AWQ1
31359MZ30
31398AWK4
31359MZ30
31359M5H2
31398ARH7
31398AVQ2
31398ATL6
31398ATL6

4012
4013
4016
4017
4021
4022
4024
4029
4030
5556
8160
10015
10016
10019
4020
4028
4032
10005
10008
10012
3011
3012
3013
4010
4015
4023
4033
4035
4037

FEDERAL HOME LOAN BANK
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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
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FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
Subtotal and Average

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1.132
1.077
0.744
0.589
0.543
0.485
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4.608
0.705
0.444
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0.713
0.454
0.386
0.489
0.694
0.796
0.465
0.740
1.055
0.817
1.006
0.523
0.440
0.615
0.637

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529
283
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186
168
249
130
494
541
508
724
318
161
102
165
348
348
178
348
536
348
472
199
142
287
287

0.718

317

0.283
0.381
0.444
0.464

269
92
120
120

0.351

197

11/18/2011
12/09/2011
03/09/2012
04/13/2012
08/11/2011
06/10/2011
05/06/2011
04/18/2011
07/08/2011
03/11/2011
03/09/2012
04/25/2012
03/23/2012
10/25/2012
09/15/2011
04/11/2011
02/11/2011
04/15/2011
10/15/2011
10/15/2011
04/28/2011
10/15/2011
04/20/2012
10/15/2011
02/16/2012
05/19/2011
03/23/2011
08/15/2011
08/15/2011

Federal Agency - Discount
313588JS5
313588BH7
313588CM5
313588CM5

211
4031
4034
4040

FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
FEDERAL NATION MORTAGE ASSOC.
Subtotal and Average

71,975,230.24

08/31/2010
02/23/2010
03/10/2010
03/18/2010

0.275
0.370
0.430
0.450

AAA
AAA
AAA
AAA

07/28/2011
02/01/2011
03/01/2011
03/01/2011

Portfolio CWA2
CC
Run Date: 11/01/2010 -Page
13:28

100 of 434

PM (PRF_PM2) SymRept 6.41.202a


# SDCWA - Fiscal Year 2011
## Portfolio Management
### Portfolio Details - Investments
#### October 31, 2010

<table>
<thead>
<tr>
<th>CUSIP</th>
<th>Investment #</th>
<th>Issuer</th>
<th>Purchase Date</th>
<th>Average Balance</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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</thead>
<tbody>
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Subtotal and Average: 59,082,788.42 53,000,000.00 53,360,070.48 53,463,876.30 0.485 289

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<th>CUSIP</th>
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<th>Average Balance</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>
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<th>Maturity Date</th>
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<td>BORREGO SPRINGS BANK</td>
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Subtotal and Average: 15,387,096.77 15,000,000.00 15,000,000.00 15,000,000.00 1.333 101

Total and Average: 897,167,747.83 831,487,895.02 840,516,787.26 843,995,415.64 0.763 194
# SDCWA - Fiscal Year 2011
## Portfolio Management
### Portfolio Details - Cash
#### October 31, 2010

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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>
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<tbody>
<tr>
<td>CASH00</td>
<td>50</td>
<td>WELLS FARGO - RETIREE &amp; COBRA</td>
<td>07/01/2010</td>
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<td>54,372.05</td>
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<td>PETTY CASH</td>
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<td>CASH02</td>
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<td>WELLS FARGO - OPERATING/POOLED</td>
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<td>1,244,676.63</td>
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<td>CASH03</td>
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<td>WELLS FARGO - PAYROLL ZBA</td>
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<td>-59,123.73</td>
<td>-59,123.73</td>
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Total Cash and Investments: 897,167,747.83

832,730,330.82

841,759,223.06

845,237,851.44

0.763

194
### SDCWA - Fiscal Year 2011
#### Portfolio Management
#### Activity Summary
#### October 2009 through October 2010

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<tr>
<th>Month</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>Average Days to Maturity</th>
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<tbody>
<tr>
<td>October</td>
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<td>60</td>
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<td>1.266</td>
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<td>9</td>
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<td>2009</td>
<td>45</td>
<td>424,393,508.31</td>
<td>1.136</td>
<td>1.152</td>
<td>1.021</td>
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<tr>
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<td>2010</td>
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<td>427,448,456.33</td>
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<td>1.077</td>
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<td>3</td>
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<tr>
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<td>2010</td>
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<td>0.763</td>
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Average

<table>
<thead>
<tr>
<th>Month</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>Average Days to Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>71</td>
<td>786,117,537.78</td>
<td>0.882%</td>
<td>0.895%</td>
<td>0.925</td>
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</tbody>
</table>
December 1, 2010

Attention: Administrative and Finance Committee

Adopt the Vote Entitlement Resolution for Calendar Year 2011. (Action)

Staff recommendation
Adopt the resolution establishing the vote and representative entitlements of each member agency effective January 1, 2011.

Alternative
None.

Fiscal Impact
None.

Background
In 1997, an amendment to the County Water Authority Act (Act) changed the basis for calculating member agency vote entitlement from assessed valuation of all property within the Water Authority service area to the total financial contribution of each member agency. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges paid to or on behalf of the Water Authority and the Metropolitan Water District with respect to property located within the boundaries of member agencies. These amounts include standby charges, capacity charges, infrastructure access charges, readiness-to-serve charges, connection and maintenance fees, annexation fees and charges for water delivered and sold to member agencies by the Water Authority. Total financial contribution excludes the cost of water treatment. Each year the Board of Directors reestablishes the vote entitlements of member agencies on January 1 based upon data from the recently completed fiscal year.

The Act provides for each member agency to have at least one representative on the Board of Directors. 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. Each year the Board of Directors reestablishes the number of member representatives based upon the most recent assessed valuations that are certified by the County of San Diego Auditor and Controller.

Previous Board action: Adopted the Vote Resolution for Calendar Year 2010 on December 17, 2009.

Discussion
The vote entitlement of each member agency is determined based on one vote for each $5 million of total financial contribution. Total financial contribution as of June 30, 2010 is calculated by adding the total financial contribution of each member agency for the fiscal year ending June 30, 2010 to its total financial contribution as of June 30, 2009.
Attachment A of the Resolution lists member agency total financial contribution as of June 30, 2010 and member agency vote entitlement for Calendar Year 2011.

The representative entitlement of each member agency is based on assessed valuation data from the County of San Diego as of June 30, 2010. The City of San Diego historically has had ten representatives. Helix Water District, Otay Water District and Carlsbad Municipal Water District have two representatives since 1984, 2001 and 2010 respectively. The calculation is shown in Attachment B of the Resolution.

Prepared by: Cora J. Pablo, Accountant
Reviewed by: Cindy Navaroli, Interim Controller
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:
1. Resolution No. 2010-___Vote and Member Representative Entitlement Resolution for Calendar Year 2011
   - Attachment A: Vote Entitlement Effective January 1, 2011
   - Attachment B: Representative Entitlement Effective January 1, 2011
RESOLUTION NO. 2010-


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 the number of member representatives in accordance with the provisions of the law.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Water Authority, that the number of votes which the representatives of each public agency shall be entitled to cast as members of the Board of Directors shall be as shown in Attachment A and the number of member representatives for each public agency shall be as shown in Attachment B.

PASSED, APPROVED AND ADOPTED, this 9th day of December 2010.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Michael T. Hogan, Chair

ATTEST:

Richard K. Smith, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2010- was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore, Clerk of the Board
### Vote Entitlement
**Effective January 1, 2011**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Total Financial Contribution*</th>
<th>Vote Entitlement</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>$308,132,799</td>
<td>61.627</td>
<td>3.47%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>26,712,096</td>
<td>5.342</td>
<td>0.30%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>309,042,191</td>
<td>61.808</td>
<td>3.48%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>218,428,872</td>
<td>43.686</td>
<td>2.46%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>637,439,156</td>
<td>127.488</td>
<td>7.18%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>67,621,562</td>
<td>13.524</td>
<td>0.76%</td>
</tr>
<tr>
<td>City of National City</td>
<td>68,314,426</td>
<td>13.663</td>
<td>0.77%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>444,682,548</td>
<td>88.937</td>
<td>5.01%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>259,531,297</td>
<td>51.906</td>
<td>2.92%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>456,013,523</td>
<td>91.203</td>
<td>5.14%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>239,041,700</td>
<td>47.808</td>
<td>2.69%</td>
</tr>
<tr>
<td>Camp Pendleton</td>
<td>11,722,897</td>
<td>2.345</td>
<td>0.13%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>190,858,236</td>
<td>38.172</td>
<td>2.15%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>367,268,291</td>
<td>73.454</td>
<td>4.14%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>142,320,163</td>
<td>28.464</td>
<td>1.60%</td>
</tr>
<tr>
<td>Rincon del Diablo M.W.D.</td>
<td>134,289,252</td>
<td>26.858</td>
<td>1.51%</td>
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<tr>
<td>City of San Diego</td>
<td>3,550,632,833</td>
<td>710.127</td>
<td>39.99%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>97,765,465</td>
<td>19.553</td>
<td>1.10%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>136,943,029</td>
<td>27.389</td>
<td>1.54%</td>
</tr>
<tr>
<td>South Bay I.D.</td>
<td>209,070,801</td>
<td>41.814</td>
<td>2.36%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>215,866,676</td>
<td>43.173</td>
<td>2.43%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>494,138,536</td>
<td>98.828</td>
<td>5.57%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>262,085,477</td>
<td>52.417</td>
<td>2.95%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>31,304,072</td>
<td>6.261</td>
<td>0.35%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$8,879,225,898</td>
<td>1775.847</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

*Total financial contribution equals base revenues plus fiscal year ending June 30, 2010 revenues.
<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Secured</th>
<th>Unsecured</th>
<th>Total</th>
<th>Percent</th>
<th>Member Representative</th>
</tr>
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<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>$18,493,466,959</td>
<td>$801,723,554</td>
<td>$19,295,190,513</td>
<td>5.06%</td>
<td>2</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>2,480,384,964</td>
<td>21,346,827</td>
<td>2,501,731,791</td>
<td>0.66%</td>
<td>1</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>6,297,129,134</td>
<td>236,509,235</td>
<td>6,533,638,369</td>
<td>1.71%</td>
<td>1</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>3,118,108,590</td>
<td>44,136,877</td>
<td>3,162,245,467</td>
<td>0.83%</td>
<td>1</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>19,083,065,203</td>
<td>703,196,997</td>
<td>19,786,262,200</td>
<td>5.19%</td>
<td>2</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>1,941,648,256</td>
<td>112,072,436</td>
<td>2,053,720,692</td>
<td>0.54%</td>
<td>1</td>
</tr>
<tr>
<td>City of National City</td>
<td>2,899,668,723</td>
<td>205,102,396</td>
<td>3,104,771,119</td>
<td>0.81%</td>
<td>1</td>
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<tr>
<td>City of Oceanside</td>
<td>17,001,086,576</td>
<td>369,290,689</td>
<td>17,370,377,265</td>
<td>4.56%</td>
<td>1</td>
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<tr>
<td>Olivenhain M.W.D.</td>
<td>17,778,976,143</td>
<td>240,699,514</td>
<td>18,019,675,657</td>
<td>4.73%</td>
<td>1</td>
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<tr>
<td>Otay W.D.</td>
<td>23,413,141,733</td>
<td>566,602,411</td>
<td>23,979,744,144</td>
<td>6.29%</td>
<td>2</td>
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<tr>
<td>Padre Dam M.W.D.</td>
<td>8,550,556,606</td>
<td>267,882,815</td>
<td>8,818,439,421</td>
<td>2.31%</td>
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<tr>
<td>Camp Pendleton*</td>
<td>614,583,969</td>
<td>20,817,890</td>
<td>635,401,859</td>
<td>0.17%</td>
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<tr>
<td>City of Poway</td>
<td>8,104,367,310</td>
<td>317,364,381</td>
<td>8,421,731,691</td>
<td>2.21%</td>
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<tr>
<td>Rainbow M.W.D.</td>
<td>3,659,896,343</td>
<td>21,342,930</td>
<td>3,681,239,273</td>
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<td>1</td>
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<tr>
<td>Ramona M.W.D.</td>
<td>3,375,794,274</td>
<td>44,742,123</td>
<td>3,420,536,397</td>
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<tr>
<td>Rincon del Diablo</td>
<td>7,019,074,961</td>
<td>225,619,203</td>
<td>7,244,694,164</td>
<td>1.90%</td>
<td>1</td>
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<tr>
<td>City of San Diego</td>
<td>174,484,948,313</td>
<td>8,489,022,514</td>
<td>182,973,970,827</td>
<td>47.98%</td>
<td>10</td>
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<tr>
<td>San Dieguito W.D.</td>
<td>6,848,141,478</td>
<td>127,238,676</td>
<td>6,975,380,154</td>
<td>1.83%</td>
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<tr>
<td>Santa Fe I.D.</td>
<td>8,834,355,909</td>
<td>58,645,270</td>
<td>8,993,001,179</td>
<td>2.33%</td>
<td>1</td>
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<tr>
<td>South Bay I.D.</td>
<td>7,830,021,305</td>
<td>314,281,363</td>
<td>8,144,302,668</td>
<td>2.14%</td>
<td>1</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>10,616,463,307</td>
<td>362,462,229</td>
<td>10,978,925,536</td>
<td>2.88%</td>
<td>1</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>3,879,070,946</td>
<td>25,781,425</td>
<td>3,904,852,371</td>
<td>1.02%</td>
<td>1</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>10,592,927,802</td>
<td>486,191,356</td>
<td>11,079,119,158</td>
<td>2.91%</td>
<td>1</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>340,738,256</td>
<td>5,525,713</td>
<td>346,263,969</td>
<td>0.09%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$367,257,817,060</strong></td>
<td><strong>$14,067,599,224</strong></td>
<td><strong>$381,325,416,284</strong></td>
<td>100.00%</td>
<td>36</td>
</tr>
</tbody>
</table>

5% of Total Assessed Valuation is $19,066,270,814

Note: County of San Diego – 1 Special Representative

*Pendleton Military Reservation is entitled to only one member representative notwithstanding total assessed valuation.
December 1, 2010

Attention: Administrative and Finance Committee

Actions in response to IRS Employer Tax Audit. (Information/Action)

Purpose
To report administrative actions taken in response to findings of the IRS audit of 2008 and 2009, and take further action necessary in response to the audit.

Staff recommendation
Adopt Resolution 2010-___ confirming tax treatment of mandatory employee cost share of retirement benefits.

Fiscal impact
The total amount of tax and penalty to resolve the IRS audit was $121,790.

Background
In fall 2009 the IRS announced the Employment Tax National Research Project and the audit of 6,000 separate public and private sector employers. On May 6, 2010, the IRS announced that it was auditing the Water Authority’s employer tax payments pursuant to this project. The project focuses on such employer tax matters as: employee classification (employee or independent contractor), fringe benefits, employee allowances and reimbursements, and retirement plans. The Finance Director provided an oral presentation of the purpose and results of the IRS audit of 2008 and 2009 at the October meeting of the Administrative and Finance Committee. The primary focus of that report was to describe the change in treatment of Board Members for tax purposes. As reported at that meeting, consistent with IRS direction, the Water Authority will deem Board Members to be “employees” for tax purposes. This does not change their status for other purposes, such as retirement and benefits, which the Water Authority does not provide for its Board Members.

During the October meeting of the Administrative and Finance Committee, the Finance Director reported that changes to the Water Authority’s travel and cell phone policies made before the audit was commenced had addressed key issues often the subject of IRS employer tax audits. As a result, the IRS audit found no issues in these areas. While the audit found the Water Authority in compliance with employer tax requirements, it identified issues in the following areas, in addition to the issue of classification of Board Members: taxability of contributions to the Terminal Play Plan; taxability of reimbursement payments for pants; and taxability of take home vehicles assigned to certain employees. On October 29 the IRS announced the final resolution of the audit. On November 3 the General Manager executed the documents necessary to resolve the audit and the Water Authority paid $84,661 in taxes and penalties for 2008 and $37,129 in taxes and penalties for 2009. These payments are itemized in the attached Summary of Findings – IRS Employer Tax Audit.
Discussion
In addition to changing the classification of Board Members for tax purposes, the Water Authority was required to make other changes to certain administrative practices to avoid employer tax liability in the future. These included taxing the value of the pant allowance, strictly enforcing the policy for assignment and use of Water Authority vehicles, and changing the Human Resources Policies and Procedures Manual provision for cash-out of vested vacation benefits. These changes were discussed with representatives of Teamsters 911. The General Manager and General Counsel have worked closely to address these issues and the General Counsel engaged special tax counsel for assistance.

During the course of responding to the audit, Water Authority’s special tax counsel identified a need for the Water Authority to adopt an additional resolution regarding the tax treatment of mandatory employee cost-share payments toward the Water Authority’s PERS payments. The cost-share obligation was established as part of the zero cost increase labor agreements approved by the Board and the various employee groups earlier this year. The attached resolution, which has been approved by special tax counsel, confirms the prior action of the Board and includes specific reference to applicable provisions of State and Federal law.

Prepared by: Daniel S. Hentschke, General Counsel
Reviewed by: Sandra L. Kerl, Deputy General Manager
Approved by: Maureen A. Stapleton, General Manager

Attachment: Summary of Findings – IRS Employer Tax Audit Resolution No. 2010-____
### Summary of Findings—IRS Employer Tax Audit

<table>
<thead>
<tr>
<th>Issue</th>
<th>2008 Estimate (IRS)</th>
<th>2008 Penalty (IRS)</th>
<th>2008 Total (IRS)</th>
<th>2009 Estimate (IRS)</th>
<th>2009 Penalty (IRS)</th>
<th>2009 Total (IRS)</th>
<th>Total for 2008&amp;2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Member Compensation</td>
<td>24,468</td>
<td>4,894</td>
<td>29,361</td>
<td>27,128</td>
<td>5,426</td>
<td>32,554</td>
<td>61,915</td>
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<td>Terminal Pay Plan</td>
<td>39,780</td>
<td>7,956</td>
<td>47,736</td>
<td>3,812</td>
<td>761</td>
<td>4,575</td>
<td>52,311</td>
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<tr>
<td>Pant Allowances</td>
<td>3,828</td>
<td>766</td>
<td>4,594</td>
<td>Not audited</td>
<td>Not audited</td>
<td>Not audited</td>
<td>4,594</td>
</tr>
<tr>
<td>Take Home Vehicles</td>
<td>653</td>
<td>131</td>
<td>784</td>
<td>Not audited</td>
<td>Not audited</td>
<td>Not audited</td>
<td>784</td>
</tr>
<tr>
<td>Certain Meal Reimbursements</td>
<td>1,822</td>
<td>364</td>
<td>2,186</td>
<td>Not audited</td>
<td>Not audited</td>
<td>Not audited</td>
<td>2,186</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 70,551</td>
<td>$ 14,111</td>
<td>$ 84,661</td>
<td>$ 30,940</td>
<td>$ 6,187</td>
<td>$ 37,129</td>
<td>$ 121,790</td>
</tr>
</tbody>
</table>
RESOLUTION NO. 2010 - _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY CONFIRMING TAX TREATMENT OF MANDATORY EMPLOYEE COST SHARE OF RETIREMENT BENEFITS

WHEREAS, the Water Authority Board of Directors has adopted Resolution 2010-10 a Resolution of the Board of Directors of the San Diego County Water Authority Ratifying and Approving the Amendments to and Extension of the Memoranda of Understanding for the Period from June 30, 2010 to July 1, 2012 with the Teamsters Local 911 Union Representing The Technical/Support, Professional/Administrative, and Managerial/Supervisory Bargaining Units; Approving Compensation Plan Adjustments for Executive, Senior Management, and Confidential Employees; and Approving Classification and Salary Schedules, and further has approved employment agreement amendments with the Water Authority employees reporting directly to the board of directors, which amended MOUs, plan, and employment agreements are referred to herein as the Labor Agreements; and

WHEREAS, the Water Authority has the authority to implement Government Code section 20516(f), which authorizes the Water Authority and its employees to share the costs of optional benefits of the CalPERS retirement benefit plan (“Plan”); and

WHEREAS, the Water Authority has adopted optional benefits to be provided to its employees pursuant to the Plan; and

WHEREAS, pursuant to section 20516(f), Water Authority employees will contribute a certain percentage of their base salary as specified for each employee in the applicable Labor Agreement towards the Water Authority’s employer’s cost of the Plan benefit provided for such employees (“Contributions”); and

WHEREAS, section 20516(f) authorizes the Water Authority to implement the cost-sharing arrangement without amending its existing pension contract with CalPERS; and

WHEREAS, pursuant to the terms of the Plan, the Contributions shall continue to be designated as an employer contribution; and

WHEREAS, sections 3121(a)(5)(A) and 3401(a)(12)(A) of the Internal Revenue Code (“Code”), exclude employer contributions from an employee’s wages until such time as such contributions are distributed to the employee; and

WHEREAS, as a result of the preceding, the Contributions will be taken on a pre-tax basis since the Contributions are considered by the Plan to be employer contributions; and

WHEREAS, if the IRS takes a contrary position, concluding that the Contributions should be characterized as employee contributions rather than employer contributions, the Water Authority wishes to ensure that the Contributions are not treated as currently taxable to the employee; and
WHEREAS, notwithstanding its position that the Contributions are employer contributions and excludable from an employee’s income until distributed, the Water Authority wishes to implement the provisions of section 414(h)(2) of the Code; and

WHEREAS, pursuant to section 414(h)(2), employee contributions to a public employer pension plan may be picked up on a pre-tax basis by the public employer and excluded from an employee’s gross income if the employer specifies that the contributions, although designated as employee contributions to the plan, are being paid by the employer in lieu of contributions by the employee, and the employee cannot choose to receive the amounts directly instead of having them paid by the employer; and

WHEREAS, the Water Authority has determined that, even though the implementation of the provisions of section 414(h)(2) is not required by law, the tax benefits of section 414(h)(2) in reducing taxable employee gross income should be provided to its employees who are members of CalPERS; and

WHEREAS, Internal Revenue Service Revenue Ruling 2006-43 requires that the Water Authority take contemporaneous action evidencing an intent to establish a proper pick-up under section 414(h)(2); and

WHEREAS, the Water Authority intended to take such contemporaneous action when it adopted and approved the Labor Agreements;

THEREFORE, the Board of Directors of the San Diego County Water Authority resolves as follows:

Section 1. A Water Authority employee shall be permitted to make an irrevocable and binding election not to receive the “Contributions” in cash AND in lieu thereof to have the Water Authority pick up and contribute such Contributions to the Plan towards the employer’s cost of the CalPERS retirement benefit provided for such employees. “Contributions” mean those payments to the Public Employees’ Retirement System which are deducted from the salary of employees and are credited to the employer account pursuant to California Government Code section 20516(f).

Section 2. The Water Authority will implement the provisions of section 414(h)(2) Code with respect to the Contributions. If the Contributions are designated as employee contributions by the Internal Revenue Service, the Contributions will be picked up on a pre-tax basis by the Water Authority in lieu of employee contributions so that such Contributions are treated as employer contributions.

Section 3. An employee not subject to a memorandum of understanding between the Water Authority and a recognized employee organization as specified by Resolution 2010-10 must elect, by executing a one-time, binding and irrevocable agreement to have the Contribution contributed to the Plan as a pick up under Section 414(h)(2) of the Code.
Section 4. An employee may not elect to receive such Contributions directly instead of having them paid by the Water Authority to the Plan.

Section 5. Amounts picked up by the Water Authority shall be paid from the same sources of funds as used in paying salary.

Section 6. The effective date of the pick up by the Water Authority is deemed to be July 1, 2010, as provided in the Labor Agreements.

PASSED, APPROVED, and ADOPTED this 9th day of December 2010.

Ayes:
Noes:
Abstain:
Absent:

_______________________________
Michael T. Hogan,
Chair

ATTEST:

_______________________________
Richard K. Smith,
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2010-______ was duly adopted at the meeting of the Board of Directors on the date stated above.

_______________________________
Doria F. Lore,
Clerk of the Board
December 1, 2010

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 2011. (Action)

Staff 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 2011.

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 2011.

Fiscal impact
None.

Background
It is the policy of the Board to review and approve the Annual Statement of Investment Policy and to continue 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 section 53646. However, in December 2005 the Water Authority’s investment advisor, PFM, recommended, and staff concurred, that the Water Authority continue its current practice of annually reviewing, updating and adopting its Annual Statement of Investment Policy and submitting monthly investment reports to the Board. Staff believes that the annual review and adoption of the Annual Statement of Investment Policy by the Board, along with submission of monthly investment reports to the Board, is critical to promoting transparency in the investment process.

Discussion
Staff has reviewed the current California Government Code (the Code), and has noted no new Code changes since last year’s annual update that would require the Water Authority to modify its Annual Statement of Investment Policy (the Investment Policy) for calendar year 2011. We have made minor edits to enhance the consistency and clarity of the Policy, which have been incorporated into the attached Investment Policy.

The current investment and finance climate continues to impact the investment alternatives available to the Water Authority; however, our emphasis on safety and liquidity has resulted in an overall safe and conservatively invested portfolio.

It is important to note that the Water Authority’s Investment Policy is more conservative than the California Government Code, and the overriding focus continues to emphasize investing in
accordance with the following objectives, in order of importance: (1) preserving principal, (2) maintaining liquidity, and (3) achieving yield.

Prepared by: Patti L. Cirello, Investment Analyst
Reviewed by: Eric Sandler, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachment:
Attachment A Annual Statement of Investment Policy for Calendar Year 2011
SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 2011

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 Dam Fill 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.

Dam Fill 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 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 has investigated and 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 (currently $50 million).

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 and Standard & Poor's. 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. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a
“AAA” credit rating from Moody’s Investors Service and Standard & Poor’s, and the investment has remaining days to maturity of 90 days or less.

**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 or Standard & Poor's with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Association’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 Public Securities Association 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). All banks are 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 or Standard & Poor's 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 Moody’s Investors Service or Standard & Poor’s 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 Financial Institutions Recovery Reform and Enforcement 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 not longer than December 31, 2013.

Placement Service Certificates of Deposit: The Water Authority may invest in certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit 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
Certificate of deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to Placement Service Certificates of Deposit and Negotiable Certificates of Deposit is limited to 15 percent. Maximum investment maturity will be restricted to not longer than December 31, 2013.

**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-licensed branch of a foreign bank (Government Code Section 53601(i)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard & Poor's.

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 Placement Service Certificates of Deposit is limited to 15 percent. Maximum investment maturity is restricted to not longer than December 31, 2013.

**Commercial Paper**: The Water Authority may invest in the highest grade of stand alone or enhanced ("prime") 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, 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. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a “AAA” credit rating from Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings and the investment has remaining days to maturity of 90 days or less.

**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)). Investment is limited to "AA-" rated or higher notes, as rated by Moody's Investors Service and Standard & Poor's. Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to three years for "AA-" and "AA" rated notes and five years for "AAA" rated notes. Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a “AAA” credit rating from Moody’s Investors Service and Standard & Poor’s, and the investment has remaining days to maturity of 90 days or less.

**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 and Standard and Poor’s. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 20 percent.

**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.

**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.

In the event that the percentage limits attributable to each security type are violated 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 violation 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.
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**

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. 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. 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.

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. This acceptable level of return has been quantified as a return that is consistent with the 1-Year U.S. Treasury constant maturity. Any level of return above this measure 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
GLOSSARY OF INVESTMENT TERMS

**Accrued Interest** - The accumulated interest due on a bond as of the last interest payment made by the issuer.

**Agencies** - Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Obligations of GSEs are not guaranteed by the full faith and credit of the U.S. government. There are eight GSEs, five of which are currently active in the new issue market. The five include:

- **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 “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

- **SLMA** - The Student Loan Marketing Association, also known as “SallieMae,” provides liquidity to private lenders who make various types of loans for education. SLMA currently issues floating rate notes.

*Federally related institutions* are arms of the federal government. Most do not issue securities directly into the market. Those, which do issue directly, include the following:

- **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 U.S. government.

- **PEFCO** - The Private Export Funding corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the U.S. 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.

**Amortization** - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**Asked** - The price at which a seller offers to sell a security.
**Average Life** - In mortgage-related investments, 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.

**Basis Point** - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**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.

**Book Value** - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**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.

**Call Price** - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**Call Risk** - The risk to a bondholder that a bond may be redeemed prior to maturity.

**Callable Bond** - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Cash Sale/Purchase** - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

**Certificate of Deposit (CD)** - A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

**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.

**Commercial Paper** - The short-term unsecured debt of corporations, with maturities ranging from 2 to 270 days.

**Convexity** - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.
**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 Rate** - The rate of return at which interest is paid on a bond. (See *Interest Rate*).

**Credit Quality** - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**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 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 Treasury 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**).

**Fair Value** - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Federal Funds (Fed Funds)** - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**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.

**Government Securities** - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. (See **U.S. Treasury Obligations**).

**Interest Rate** - See **Coupon Rate**.

**Interest Rate Risk** - The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

**Internal Controls** - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

**Inverted Yield Curve** - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**Investment Company Act of 1940** - Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**Investment-Grade Obligations** - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.
Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

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 Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-Market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

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.

Maturity - The final date upon which the principal of a security becomes due and payable.

Medium Term Notes (MTNs) - Unsecured, investment-grade senior debt securities of major corporations, which are sold in relatively small amounts either on 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 (Treasury bills, discount notes, commercial paper and banker’s acceptances) are issued and traded.

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, banker’s acceptances, repos and federal funds).

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.

Mutual Fund - An entity which pools the funds of investors and invests those funds in a set of securities which are 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.

**National Association of Securities Dealers (NASD)** - A self-regulatory organization (SRO) of
brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes
authority over firms that distribute mutual fund shares as well as other securities.

**Net Asset Value** - The market value of one share of an investment company, such as a mutual
fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any
accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number
of shares outstanding. This is calculated once a day based on the closing price for each security
in the fund's portfolio.

**No Load Fund** - A mutual fund which does not levy a sales charge on the purchase of its shares.

**Nominal Yield** - The stated rate of interest that a bond pays its current owner, based on par value
of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**Offer** - An indicated price at which market participants are willing to sell a security or
commodity. Also referred to as the "Ask price."

**Par** - Face value or principal value of a bond, typically $1,000 per bond.

**Positive Yield Curve** - A chart formation that illustrates short-term securities having lower
yields than long-term securities.

**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.

**Prime Rate** - A preferred interest rate charged by commercial banks to their most creditworthy
customers. Many interest rates are keyed to this rate.

**Principal** - The face value or par value of a debt instrument. Also may refer to the amount of
capital invested in a given security.
Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Investor Standard - A standard of responsibility, which applies to fiduciaries. In California, the standard is stated as “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.”

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.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (Repo or RP) – An agreement of one party to sell securities at a specified price to second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping - A service to bank customers whereby securities are held by the bank in the customer’s name.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

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.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue, which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

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, and includes interest earnings and realized and unrealized gains and losses on 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 U.S. 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 Treasury 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.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.
**Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**Yield to Call (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**Yield to Maturity** - The annualized internal rate of return on an investment, which equates the expected cash flows from the investment to its cost.

**Zero-Coupon Securities** - Securities that are issued at a discount and make no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.
December 1, 2010

Attention: Administrative and Finance Committee

Controller’s Report on Monthly Financial Reports (Information)

Financial Reports:
Attached for review by the Administrative and Finance Committee and the Board of Directors are the following financial reports:

Attachment A: Water Sales, in acre-feet
Attachment B: Water Sales, in millions
Attachment C: Water Purchases and Treatment, in millions
Attachment D: Multi-Year Budget Status Report
Attachment E: Operating Departments/Programs Expenditures, in millions
Attachment F: Schedule of Cash and Investments

The Multi-Year Budget Status Report reflects actual revenues and expenditures, on a budgetary basis, for the sixteen month period of July 1, 2009 through October 31, 2010. It compares actual revenues and expenditures to the adopted budget, as amended by the Board. Except for water sales and purchases, budgeted amounts for the sixteen month period are presented on a straight line basis.

Net Water Sales Revenue
Net water sales revenue is the 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 and storage. Cost of water includes payments to water suppliers such as MWD and IID. Attachments A, B, and C provide detailed information relative to net water sales revenue.

Total acre feet (AF) of water sold were budgeted to be 862,207 for the sixteen months ended October 31, 2010, but were actually 666,904 AF, a difference of 23% less volume than anticipated. Water sales revenue for the sixteen months ended October 31, 2010 is $532.8 million, which is 18% less than budgeted sales revenue of $647.1 million. The main reasons for the decrease in sales volume and corresponding sales revenue are the impacts of mandatory restrictions, continued water conservation efforts across the region, the economy, and the reduced need for outdoor irrigation due to wetter weather patterns.

Total water purchases & treatment costs were budgeted to be $496.6 million for the sixteen months ended October 31, 2010, but were significantly less at $398.4 million, a difference of 20%, due to lower volume of water purchases and less treatment costs than anticipated. This category includes $34.2 million for the 88,330 acre-feet of water purchased from the Imperial Irrigation District (IID).

1 All information regarding water sales volumes, revenues and costs are based on the original budget adopted by the Board in June 2009.
as well as $47.9 million for Metropolitan Water District’s wheeling charges related to IID, Coachella Canal and All-American Canal water.

Whereas sales volumes are 23% below the adopted budget, net water sales revenue is 11% or $16.1 million below the adopted budget. This is primarily a result of the Water Authority’s fixed revenues for customer service and storage, which provide a stable source of revenue in the event of reduced sales volumes.

**Revenues**

Certain revenue accounts are trending less than budgeted due to the timing of receipts, including Property taxes and in-lieu charges which are primarily received in December and April; Water standby availability charges which are primarily received in January and May; Other Income; and Contributions in aid of capital assets.

Investment income of $12.5 million is lower than budgeted due to lower than anticipated investment earnings. Capacity charge revenues of $15.3 million are trending higher than budgeted due to a greater number of meter permits issued by the member agencies than anticipated.

**Expenses**

Given the reduction in water demand and the more favorable supply picture, water purchased for storage is significantly below budget. Debt service expenditures are trending lower than budget due to the timing of debt service payments. Equipment replacement of $1.6 million is trending almost $1.0 million lower than projected due to the deferral of replacement and purchases of new vehicles to mitigate the impact from reduced water sales.

Capital expenditures are trending less than budgeted due to the timing of expenditures during the sixteen months of the two-year budget period, as well as savings from the favorable bidding environment for capital projects. Operating expenditures are trending less than budgeted due to the timing of expenditures, vacancies, and/or programmatic reductions that were identified to mitigate the deficit resulting from reduced water sales. Other expenditures are $5.2 million, and include grants, conservation programs, and other miscellaneous expenditures.

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Cindy Navaroli, Interim Controller
**WATER SALES**

Budget Versus Actual (in Acre-Feet)

for the 16 Months Ended October 31, 2010

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**Budget Year 2010 Cumulative Water Sales (AF)**

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-09</th>
<th>Aug-09</th>
<th>Sep-09</th>
<th>Oct-09</th>
<th>Nov-09</th>
<th>Dec-09</th>
<th>Jan-10</th>
<th>Feb-10</th>
<th>Mar-10</th>
<th>Apr-10</th>
<th>May-10</th>
<th>Jun-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>70,476</td>
<td>140,959</td>
<td>204,870</td>
<td>260,170</td>
<td>303,733</td>
<td>343,957</td>
<td>380,091</td>
<td>410,411</td>
<td>445,174</td>
<td>489,533</td>
<td>540,069</td>
<td>600,753</td>
</tr>
<tr>
<td>Actual</td>
<td>54,717</td>
<td>111,476</td>
<td>166,277</td>
<td>215,946</td>
<td>255,185</td>
<td>284,634</td>
<td>313,779</td>
<td>335,473</td>
<td>364,072</td>
<td>396,215</td>
<td>443,165</td>
<td>490,829</td>
</tr>
<tr>
<td>AF Difference (b)</td>
<td>(15,759)</td>
<td>(29,483)</td>
<td>(38,593)</td>
<td>(44,224)</td>
<td>(48,548)</td>
<td>(59,323)</td>
<td>(74,938)</td>
<td>(81,102)</td>
<td>(93,316)</td>
<td>(96,904)</td>
<td>(109,924)</td>
<td></td>
</tr>
<tr>
<td>Cum. Actual AF</td>
<td></td>
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</tr>
<tr>
<td>% Difference (b/a)</td>
<td>-22.4%</td>
<td>-20.9%</td>
<td>-18.8%</td>
<td>-17.0%</td>
<td>-16.0%</td>
<td>-17.2%</td>
<td>-17.4%</td>
<td>-18.3%</td>
<td>-18.2%</td>
<td>-19.1%</td>
<td>-17.9%</td>
<td>-18.3%</td>
</tr>
</tbody>
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**Budget Year 2011 Cumulative Water Sales (AF)**

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-10</th>
<th>Aug-10</th>
<th>Sep-10</th>
<th>Oct-10</th>
<th>Nov-10</th>
<th>Dec-10</th>
<th>Jan-11</th>
<th>Feb-11</th>
<th>Mar-11</th>
<th>Apr-11</th>
<th>May-11</th>
<th>Jun-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>70,824</td>
<td>141,655</td>
<td>205,881</td>
<td>261,454</td>
<td>305,232</td>
<td>345,655</td>
<td>381,968</td>
<td>412,438</td>
<td>447,373</td>
<td>491,950</td>
<td>542,745</td>
<td>603,728</td>
</tr>
<tr>
<td>Actual</td>
<td>48,675</td>
<td>97,631</td>
<td>142,404</td>
<td>176,075</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AF Difference (b)</td>
<td>(22,249)</td>
<td>(44,024)</td>
<td>(63,477)</td>
<td>(85,379)</td>
<td>-</td>
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<tr>
<td>Cum. Actual AF</td>
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<tr>
<td>% Difference (b/a)</td>
<td>-31.4%</td>
<td>-31.1%</td>
<td>-30.8%</td>
<td>-32.7%</td>
<td>-</td>
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</table>

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*Budgeted amounts are based on the adopted two year budget, and do not reflect any projection revisions which have not been incorporated into the official budget.*
*Budgeted amounts are based on the adopted two year budget, and do not reflect any projection revisions which have not been incorporated into the official budget.

### Fiscal Year 2010 Cumulative Water Sales (in Millions $)

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-09</th>
<th>Aug-09</th>
<th>Sep-09</th>
<th>Oct-09</th>
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<th>Apr-10</th>
<th>May-10</th>
<th>Jun-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>45.1</td>
<td>90.1</td>
<td>136.3</td>
<td>177.0</td>
<td>210.5</td>
<td>241.4</td>
<td>271.5</td>
<td>298.3</td>
<td>328.3</td>
<td>364.3</td>
<td>404.4</td>
<td>450.6</td>
</tr>
<tr>
<td>Actual</td>
<td>36.9</td>
<td>75.0</td>
<td>117.2</td>
<td>155.3</td>
<td>187.4</td>
<td>211.2</td>
<td>237.0</td>
<td>258.1</td>
<td>284.0</td>
<td>311.8</td>
<td>349.5</td>
<td>387.9</td>
</tr>
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<td>Difference (b)</td>
<td>(8.2)</td>
<td>(15.1)</td>
<td>(19.1)</td>
<td>(21.7)</td>
<td>(23.1)</td>
<td>(30.2)</td>
<td>(34.5)</td>
<td>(40.2)</td>
<td>(44.3)</td>
<td>(52.5)</td>
<td>(54.9)</td>
<td>(62.7)</td>
</tr>
<tr>
<td>Cum. Actual</td>
<td>-18.2%</td>
<td>-16.8%</td>
<td>-14.0%</td>
<td>-12.3%</td>
<td>-11.0%</td>
<td>-12.5%</td>
<td>-12.7%</td>
<td>-13.5%</td>
<td>-13.5%</td>
<td>-14.4%</td>
<td>-13.6%</td>
<td>-13.9%</td>
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### Fiscal Year 2011 Cumulative Water Sales (in Millions $)

<table>
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<tr>
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<th>Apr-11</th>
<th>May-11</th>
<th>Jun-11</th>
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</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>52.6</td>
<td>105.1</td>
<td>153.6</td>
<td>196.5</td>
<td>232.3</td>
<td>265.3</td>
<td>301.2</td>
<td>333.0</td>
<td>368.7</td>
<td>411.3</td>
<td>459.0</td>
<td>513.7</td>
</tr>
<tr>
<td>Actual</td>
<td>39.3</td>
<td>79.0</td>
<td>116.2</td>
<td>144.9</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Difference (b)</td>
<td>(13.3)</td>
<td>(26.1)</td>
<td>(37.4)</td>
<td>(51.6)</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Cum. Actual</td>
<td>-25.3%</td>
<td>-24.8%</td>
<td>-24.3%</td>
<td>-26.3%</td>
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Fiscal Year 2010 Cumulative Cost of Water Purchases and Treatment (in Millions $)

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-09</th>
<th>Aug-09</th>
<th>Sep-09</th>
<th>Oct-09</th>
<th>Nov-09</th>
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<th>Apr-10</th>
<th>May-10</th>
<th>Jun-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>34.4</td>
<td>68.8</td>
<td>107.8</td>
<td>139.0</td>
<td>164.4</td>
<td>190.1</td>
<td>211.9</td>
<td>230.6</td>
<td>251.6</td>
<td>277.5</td>
<td>306.5</td>
<td>348.9</td>
</tr>
<tr>
<td>Actual</td>
<td>27.2</td>
<td>55.8</td>
<td>90.8</td>
<td>123.0</td>
<td>149.4</td>
<td>161.9</td>
<td>180.0</td>
<td>192.4</td>
<td>213.9</td>
<td>236.0</td>
<td>261.1</td>
<td>291.4</td>
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<tr>
<td>Difference (b)</td>
<td>(7.2)</td>
<td>(13.0)</td>
<td>(17.0)</td>
<td>(16.0)</td>
<td>(28.2)</td>
<td>(31.9)</td>
<td>(38.2)</td>
<td>(42.5)</td>
<td>(57.5)</td>
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</tr>
<tr>
<td>Cum. Actual</td>
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</table>

$\text{% Difference (b/a)} -20.9\% -18.9\% -15.8\% -11.5\% -14.8\% -15.1\% -16.6\% -15.0\% -15.3\% -14.8\% -16.5\%$

Fiscal Year 2011 Cumulative Cost of Water Purchases and Treatment (in Millions $)

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-10</th>
<th>Aug-10</th>
<th>Sep-10</th>
<th>Oct-10</th>
<th>Nov-10</th>
<th>Dec-10</th>
<th>Jan-11</th>
<th>Feb-11</th>
<th>Mar-11</th>
<th>Apr-11</th>
<th>May-11</th>
<th>Jun-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (a)</td>
<td>39.7</td>
<td>79.3</td>
<td>115.7</td>
<td>147.7</td>
<td>173.9</td>
<td>198.2</td>
<td>224.5</td>
<td>247.0</td>
<td>272.3</td>
<td>303.5</td>
<td>338.4</td>
<td>379.4</td>
</tr>
<tr>
<td>Actual</td>
<td>28.6</td>
<td>57.9</td>
<td>86.1</td>
<td>107.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Difference (b)</td>
<td>(11.1)</td>
<td>(21.4)</td>
<td>(29.6)</td>
<td>(40.7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cum. Actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$\text{% Difference (b/a)} -28.0\% -27.0\% -25.6\% -27.6\%$

* Water Purchases and Treatment Budget Versus Actual (in Millions $)

for the 16 Months Ended October 31, 2010

- [Graph of Water Purchases and Treatment Budget Versus Actual (in Millions $)]
San Diego County Water Authority  
Fiscal Years 2010 & 2011 Budget Status Report  
For the 16 Months Ended October 31, 2010

<table>
<thead>
<tr>
<th>[A]</th>
<th>[A * 67%]</th>
<th>[B]</th>
<th>Variance with</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 10 &amp; 11 Two-Year Amended Budget</td>
<td>FY 10 &amp; 11 16 Months (67%)</td>
<td>FY 10 &amp; 11 Actual</td>
<td>Amended Budget Period-to-Date</td>
<td>Amended Budget Actual/Period-to-Date</td>
</tr>
<tr>
<td>Net Water Sales Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$964,292,000</td>
<td>$647,137,870 (b)</td>
<td>$532,838,561</td>
<td>$(114,299,309)</td>
</tr>
<tr>
<td>Water purchases &amp; treatment</td>
<td>736,432,000</td>
<td>496,581,479 (b)</td>
<td>398,429,793</td>
<td>98,151,686</td>
</tr>
<tr>
<td>Total Net Water Sales Revenue</td>
<td>$227,860,000</td>
<td>$150,556,391</td>
<td>$134,408,768</td>
<td>$(16,147,623)</td>
</tr>
</tbody>
</table>

Revenues and Other Income

| | | | |
| Infrastructure access charges | $45,551,000 | $30,519,170 | $28,558,900 | $(1,960,270) |
| Property taxes and in-lieu charges | 20,846,000 (c) | 13,966,820 | 11,476,916 | $(3,489,904) |
| Investment income | 26,876,000 (d) | 18,006,920 | 12,484,916 | $(5,522,008) |
| Hydroelectric revenue | 30,867,000 (f) | 18,006,920 | 12,484,916 | $(5,522,008) |
| Capital contributions: | | | |
| Capacity charges | 12,400,000 (g) | 8,800,000 | 7,243,676 | $(1,556,324) |
| Water standby availability charges | 22,245,000 (h) | 14,904,150 | 11,214,440 | $(3,689,710) |
| Contributions in aid of CIP | 22,143,000 (i) | 14,904,150 | 11,214,440 | $(3,689,710) |
| Total Revenues and Other Income | $183,541,000 | $122,972,470 | $97,033,008 | $(25,939,462) |

Expenditures

| | | | |
| Stored water purchases | $10,650,000 | $7,135,500 | $7,135,500 | 0% |
| Debt service | 240,008,000 (j) | 160,805,360 | 124,653,615 | 36,151,745 |
| QSA mitigation | 22,792,000 (k) | 15,270,640 | 17,081,875 | $(1,811,235) |
| Equipment replacement | 3,805,000 | 2,549,350 | 1,603,328 | 946,022 |
| Other expenditures | 30,646,000 (l) | 20,532,820 | 15,283,019 | $(5,049,801) |
| Operating departments/programs (see detail below) | 94,450,815 (m) | 63,282,048 | 50,999,029 | 12,283,019 |
| Total Expenditures | $402,351,150 | $269,575,718 | $199,542,688 | $70,033,030 |

Net Revenues before Capital improvement program (CIP)

| | | | |
| | | | |
| | | | |
| CIP Expenditures | $555,700,000 | $372,319,000 | $282,810,940 | 89,509,060 |

Net Fund Withdraws

| | | | |
| | | | |
| | | | |

Operating Departments/Programs Detail

<table>
<thead>
<tr>
<th>Operating Departments/Programs</th>
<th>[A]</th>
<th>[A * 67%]</th>
<th>[B]</th>
<th>[B / A]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Services</td>
<td>$11,019,018</td>
<td>$7,382,742</td>
<td>$7,243,676</td>
<td>$139,066</td>
</tr>
<tr>
<td>Colorado River Program</td>
<td>2,880,763</td>
<td>1,930,111</td>
<td>1,404,467</td>
<td>526,644</td>
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<tr>
<td>Engineering</td>
<td>1,786,459</td>
<td>1,196,928</td>
<td>923,678</td>
<td>273,250</td>
</tr>
<tr>
<td>Finance</td>
<td>4,731,650</td>
<td>3,170,206</td>
<td>2,724,862</td>
<td>445,344</td>
</tr>
<tr>
<td>General Counsel</td>
<td>5,491,425</td>
<td>3,679,255</td>
<td>2,948,735</td>
<td>730,520</td>
</tr>
<tr>
<td>General Manager &amp; Board of Directors</td>
<td>5,183,340</td>
<td>3,472,838</td>
<td>2,948,735</td>
<td>730,520</td>
</tr>
<tr>
<td>Human Resources</td>
<td>2,317,017</td>
<td>1,552,401</td>
<td>1,354,229</td>
<td>198,172</td>
</tr>
<tr>
<td>MWD Program</td>
<td>2,859,859</td>
<td>1,916,106</td>
<td>1,519,772</td>
<td>396,334</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>28,647,084</td>
<td>19,193,546</td>
<td>15,822,323</td>
<td>3,371,223</td>
</tr>
<tr>
<td>Public Affairs</td>
<td>4,270,498</td>
<td>2,861,234</td>
<td>2,524,159</td>
<td>337,075</td>
</tr>
<tr>
<td>Right of Way</td>
<td>5,704,234</td>
<td>3,821,837</td>
<td>3,269,805</td>
<td>552,032</td>
</tr>
<tr>
<td>Water Conservation Program</td>
<td>10,215,370</td>
<td>6,844,298</td>
<td>2,924,930</td>
<td>3,919,368</td>
</tr>
<tr>
<td>Water Resources</td>
<td>9,450,815</td>
<td>6,260,546</td>
<td>5,192,476</td>
<td>1,068,070</td>
</tr>
<tr>
<td>Total Operating Departments/Programs</td>
<td>$94,450,815</td>
<td>$63,282,048</td>
<td>$50,999,029</td>
<td>$12,283,019</td>
</tr>
</tbody>
</table>
San Diego County Water Authority
Fiscal Years 2010 & 2011 Budget Status Report
For the 16 Months Ended October 31, 2010

Notes to the Budget Status Report:

a) Period-year-to-date budget amounts are 16/24ths of the two-year budget unless noted.
b) Water sales and water purchases 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 $407,321 for fiscal year 2010 and $395,824 for fiscal year 2011 are received quarterly from the City of San Diego.
d) Investment income excludes unrealized gains or losses, which are non-cash transactions.
e) Hydroelectric sales include Rancho Penasquitos Hydroelectric Plant.
f) Other income includes Build America Bonds (BABs) federal subsidies, grants, conservation programs and other miscellaneous revenues.
g) Capacity charges are received quarterly in July, October, January and April.
h) Water standby availability charges are received in January and May.
i) Contributions in Aid of CIP (CIAC) includes East County Regional Treated Water Improvements.
j) Debt Service payments are due semi-annually on May 1 and November 1. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to long-term debt, such as discounts, premiums, deferred loss on refunding, and cost of issuance, are excluded because they are non-cash transactions.
k) The QSA mitigation payments includes: QSA JPA contributions of $8.1M in December 2009 and $2.8M in December 2010; IID Socioeconomic Mitigation Settlement payments of $2.9M in June 2010 and $2.9M in June 2011; and IID Price Reset settlement of $6.0M in December 2009.
l) Other expenditures include costs incurred for grants, conservation programs and other miscellaneous expenditures.
m) Amounts include capital equipment purchases.
n) Includes withdraws funded by bond proceeds and other fund balances.
San Diego County Water Authority
Comparison of Amended Budget and Period-to-Date Budget (67% Overall) to Actual Operating Expenditures by Departments/Programs
For the 16 Months Ended October 31, 2010

in Percentages (%)

[Bar chart showing the comparison of Two-Year Amended Budget, Period-To-Date Amended Budget, and Period-to-Date Actual Operating Expenditures]
## San Diego County Water Authority
### Schedule of Cash and Investments
#### As of October 31, and September 30, 2010

<table>
<thead>
<tr>
<th>Fund</th>
<th>October</th>
<th>September</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td>$63,522,310</td>
<td>$83,189,179</td>
<td>$67,000,000</td>
</tr>
<tr>
<td>Stored Water Fund</td>
<td>28,166,594</td>
<td>28,166,594</td>
<td></td>
</tr>
<tr>
<td>Equipment Replacement Fund</td>
<td>9,464,693</td>
<td>9,512,448</td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>43,456,187</td>
<td>43,456,187</td>
<td>55,100,000</td>
</tr>
<tr>
<td><strong>Total Unrestricted Funds</strong></td>
<td><strong>144,609,784</strong></td>
<td><strong>164,324,408</strong></td>
<td></td>
</tr>
<tr>
<td>Pay As You Go Fund (1)</td>
<td>129,354,851</td>
<td>128,419,480</td>
<td></td>
</tr>
<tr>
<td>CIP/Bond Construction Funds</td>
<td>498,431,610</td>
<td>567,596,954</td>
<td></td>
</tr>
<tr>
<td>Debt Service Reserve Funds</td>
<td>69,427,948</td>
<td>69,411,626</td>
<td></td>
</tr>
<tr>
<td><strong>Total Restricted Funds</strong></td>
<td><strong>697,214,409</strong></td>
<td><strong>765,428,060</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash and Investments</strong></td>
<td><strong>$841,824,193</strong></td>
<td><strong>$929,752,468</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 target/maximum balance is set to equal 45-days of operating expenditures.
3. In 2006, the Board adopted new policies governing the Rate Stabilization Fund (RSF). The new policies created a target and a maximum RSF balance. The target balance is set equal to the estimated financial impact of 2.5 years of wet weather and the RSF maximum balance is set equal to the estimated financial impact of 3.5 years of extremely wet weather. Wet weather adversely impacts the Water Authority by reducing water sales and net water sales revenue. The balance in this fund as of October 31, 2010 represents approximately 80% of the targeted value.
BOARD CALENDAR

JANUARY 2011
- 5 MWD Delegates – 11:30 a.m.
- 13 Tentative Special Board meeting – 1:30 p.m.
- 27 Regular Board meeting – 3:00 p.m.

FEBRUARY 2011
- 2 MWD Delegates – 11:30 a.m.
- 10 Tentative Special Board meeting – 1:30 p.m.
- 24 Regular Board meeting – 3:00 p.m.

MARCH 2011
- 2 MWD Delegates – 11:30 a.m.
- 10 Tentative Special Board meeting – 1:30 p.m.
- 24 Regular Board meeting – 3:00 p.m.
ENGINEERING AND OPERATIONS COMMITTEE

AGENDA FOR

DECEMBER 9, 2010

Gary Arant – Chair     Bill Knutson
Richard Smith, Vice Chair     Ralph McIntosh
Jim Bowersox     Ron Morrison
Trish Hannan     Vincent Mudd
Mike Hogan     Bud Pocklington
Jeremy Jungreis     Javier Saunders
Mike Hogan       Bud Pocklington
Jeremy Jungreis      Tom Wornham


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.
   4-B Final report on Engineering and Operations Committee’s Goals for 2009 and 2010.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

III. INFORMATION

1. Presentation on Water Quality. Frank Belock/Gary Eaton

2. Comprehensive Reliability and Cost Assessment Ad Hoc Committee update. Bill Knutson/Frank Belock

3. Advertisement for bids for revegetation of areas impacted by San Vicente Pipeline construction project. Mike Wallace

4. Right of Way encroachment strategy for identification, prioritization, and removal of unauthorized trees. Tad Brierton
IV. CLOSED SESSION

1. CLOSED SESSION:
   Conference with Legal Counsel - Potential Litigation
   Government Code §54956.9(b)(1) – OMWD – Elfin Forest Reserve

Dan Hentschke

V. ADJOURNMENT

Doria F. Lore
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.
December 1, 2010

Attention: Engineering and Operations Committee

Final Progress Report on Engineering and Operations Committee’s Goals for Calendar Years 2009 and 2010. (Information)

Purpose
This is the final report on the Engineering and Operations Committee’s goals and objectives established by the Board in April 2009.

Background
Every two years, following the appointment of new committee chairs, goals and objectives are updated for each committee. The goals and objectives for the Engineering and Operations Committee relate to issues and policies regarding the facilities and land rights of the Water Authority including: right of way management, operations and maintenance of the aqueduct system and implementation of the Capital Improvement Program, and overseeing the implementation of those policies. On April 23, 2009, the Board of Directors adopted a new set of goals and objectives for the Engineering and Operations Committee to accomplish in 2009 and 2010. In January 2010, a progress report was prepared to show interim completion of the established goals and objectives. This is the final report on the current Engineering and Operations Committee’s goals and objectives.

Discussion
The attached report lists the Engineering and Operations Committee’s goals and objectives, and provides a status on the activities taken to implement the objectives and achieve the goals. This report was prepared under the direction of the Engineering and Operations Committee Chair, Gary Arant.

Prepared by: Frank Belock, Jr., Deputy General Manager
William L. Busch, Director of Right of Way (Acting)
Gary A. Eaton, Director of Operations and Maintenance
Michael T. Stift, Director of Engineering

Reviewed by: Gary Arant, Chair, Engineering and Operations Committee

Attachment: Final Report on Calendar Year 2009 and 2010 Goals and Objectives
Final Report on Engineering and Operations Committee Goals  
Calendar Years 2009 and 2010

Strategic Plan Objectives

1. **Asset Management**- Adopt an integrated asset management plan that will be used to support all budget proposals related to water assets for the next two-year budget. (January 2009 SP#20)

   **Activities**: Complete. The Board adopted the integrated asset management plan in January 2009.

2. **Asset Management**- Water Authority Board will adopt a policy regarding funding of asset replacement. (January 2010 SP#21)

   **Activities**: Complete. The Board adopted the asset management funding policy in January 2010.

Business Plan Goals

Asset Management

1. **Asset Management Plan**- Approve an integrated Asset Management Plan to support budget proposals for the FY 2010 and FY 2011 budgets. (February 2009 BP #5)

   **Activities**: Complete. The Board adopted the integrated asset management plan in January 2009.

2. **Asset Management Funding Policy**- Approve a long term Asset Management funding policy that meets the expectations of the member agencies, Asset Management objectives, and complies with State/Federal regulations. (January 2010 BP#7)

   **Activities**: Complete. The Board adopted the asset management funding policy in January 2010.

Capital Improvement Program

1. **ESP San Vicente Pumping Facilities**- Complete and record the Notice of Completion for the ESP San Vicente Pumping Facilities projects on schedule and within budget to provide a means to transport emergency and carryover storage to and from the Second Aqueduct and the San Vicente Reservoir. (October 2009 BP#3)

   **Activities**: Filed the Notice of Completion for construction of the pump station and the final Notice of Completion for pre-procurement of major equipment is pending. A Notice of Completion for the construction contract was filed in May 2010. The pre-procurement
equipment contractor has responsibilities to complete testing and commissioning activities. The project is on track to file the pre-procurement Notice of Completion in January 2011 and is also on track to finish within budget.

2. **ESP San Vicente Pipeline**—Complete and record the Notice of Completion for the ESP San Vicente Pipeline per the revised schedule and budget. (November 2010 BP#4)

   **Activities:** *Ongoing dispute resolution.* The project is on track to be completed with a Notice of Completion filed in January 2011. The delay has been driven by the extended time required for the contractor to complete pipeline mortar lining. The Board approved a lining settlement agreement at their October 2010 meeting. Contract dispute resolution procedures are being followed for tunneling differing site conditions and a Project Labor Agreement provision dispute. The contractor has filed a claim for recovery of costs. Resolution of this claim will determine whether or not the project is finished within budget.

3. **ESP Pump Station Lake Hodges Facility**—Complete and record the Notice of Completion for the ESP Pump Storage Lake Hodges Facility per the revised schedule and budget to link Lake Hodges to the Water Authority’s aqueduct system, ultimately providing 20,000 acre-feet of emergency storage and 40 megawatts of hydroelectric power for regional use. (December 2010 BP#6)

   **Activities:** *Ongoing pending resolution of project issues.* The Commercial Operation Date is expected no later than July 2011 and is currently forecast for March 2011 with Notice of Completion to be filed approximately one month later. Delays in this project have been caused by a variety of issues; including equipment relocation, storm water infiltration, and the pump-turbine build.

4. **San Vicente Dam Raise**—Award a contract for construction for the San Vicente Dam Raise foundation excavation to provide 152,000 acre-feet of emergency and carryover storage for regional use. (May 2009 BP#9)

   **Activities:** *Complete.* A contract for the foundation excavation was awarded at the May 2009 Board meeting.

**Right of Way**

1. **ROW Enforcement**—Resolve top three ROW enforcement cases identified on an annual basis. (Annually BP#9)

   **CY 2009 Activities:** *Complete.* Top three enforcement cases successfully resolved in 2009 were: issuance of unilateral permit for a swimming pool in Escondido as authorized by Board, removal of large supplies of mulch near San Vicente, and removal of a deck and patio cover.
CY 2010 Activities: Complete, pending Board authorized permit of swimming pool and removal of pool house. Top three enforcement cases successfully resolved in 2010 were: removal of a house on the First Aqueduct in Escondido, removal of spa/wall from the First Aqueduct in Poway, and in process of resolving swimming pool and pool house on the First Aqueduct in Escondido.

Other Goals

1. **Annual Operating Plan**-Review the FY 2010 Annual Operating Plan. (June 2009)

   Activities: Complete. The Annual Operating Plans for FY 2010 and FY 2011 were reviewed and accepted by the Board in June 2009 and June 2010, respectively.

2. **State and Federal CIP Funding**-Pursue aggressively any available state or federal funding, including American Recovery and Reinvestment Act, to augment Water Authority funding for the Capital Improvement Program.

   Activities: Ongoing. Investigated 19 grant opportunities and submitted three which were identified as applicable to the Water Authority. We were not successful in obtaining grant funding in these cases. We will continue to look for additional grant opportunities and will apply for them.
December 1, 2010

Attention: Engineering and Operations Committee

Advertisement for bids for revegetation of areas impacted by San Vicente Pipeline construction project (Information)

Purpose
Inform the Board of the November 2010 advertisement to solicit bids for revegetation of areas impacted by the San Vicente Pipeline project.

Background
The San Vicente Pipeline project is a component of the Emergency Storage Project that will transport untreated water between San Vicente Reservoir and the Second Aqueduct. This project will revegetate areas impacted by construction operations. The installation phase of this work will be funded from the San Vicente Pipeline project and the four-year maintenance phase will be funded from the ESP Post Construction Mitigation project.

The Environmental Impact Report for the San Vicente Pipeline component of the Emergency Storage Project requires native landscaping and revegetation be installed and maintained for four years for areas impacted by construction.

Also, in response to community agreements on the Rancho Penasquitos Pressure Control/Hydroelectric Facility improvements which are adjacent to the West Shaft site, the revegetation landscaping plan was modified to include additional plant, mature trees and shrubs, and a supporting irrigation system. In addition, this contract includes the latest hydro seed mixers that have evolved over recent years to better match the native species based upon site specific micro-ecology.

Previous Board actions: Adopted Resolution 96-30 and 96-32 adopting the Final Environmental Impact Report and Mitigation, Monitoring and Reporting Program for the Emergency Storage Project. Adopted Resolution 04-01 adopting Final Subsequent Environmental Impact Report.

Discussion
The project includes five sites: West Shaft site, Canyon Hills Open Space Park site, Central Shaft site, Slaughterhouse Shaft site, and San Vicente Portal site. As part of continued community outreach, the proposed landscape requirements for the West Shaft site and Canyon Hills Open Space Park site were developed collaboratively with input from the Mira Mesa Community Group.

Instead of executing a change order to the existing San Vicente Pipeline construction contract to include the modified work, we removed the landscape work included in the San Vicente Pipeline construction contract and are bidding this work as a separate construction contract. Bidding this work separately is beneficial for three reasons. First, the revised landscape contract is ideal for small local businesses. Second, removal of landscape work from the San Vicente Pipeline will allow the tunnel contract to be closed out earlier reducing delay risk associated with contractor
claims. Lastly, by competitively bidding the new specialized landscaping work separately rather than by change order, the overall construction cost will likely be less.

The project’s estimated construction cost is between $1.1 and $1.3 million. Project construction activities are scheduled to begin in February 2011, with completion by June 2011, followed by a four-year maintenance phase.

The construction outreach to generate contractor interest in this project consists of listing the job on the “Opportunities” section of the Water Authority website, advertising in contract trade association publications, and directly informing contractors about the project. We anticipate a large number of small businesses to compete for this project and anticipate a recommendation for contract award at the January 2011 Board meeting.

Prepared by: Mike Wallace, Engineer (P.E.)
Reviewed by: Michael T. Stift, Director of Engineering
Approved by: Frank Belock Jr., Deputy General Manager

Attachments:
Figure 1 – Shaft and Portal Locations Map
December 1, 2010

Attention: Engineering and Operations Committee

Right of Way encroachment strategy for identification, prioritization, and removal of unauthorized trees. (Information)

Background
In 1989 the Water Authority implemented Article 25 of the San Diego County Water Authority Administrative Code, which included provisions to implement the first active and consistent administration and management of right of way encroachments. After several years of application it became apparent that some provisions of Article 25 were in conflict with language contained in some of the easement agreements.

In September 2002 the Board adopted Ordinance 2002-06 replacing Article 25 with Chapter 7.00 of the Administrative Code. Chapter 7.00, “Regulation of Right of Way and Property,” established comprehensive regulation for the Water Authority and rights of way consistent with its easements, the Water Authority’s requirements, and the public interest. Chapter 7.00 was implemented immediately regarding new encroachments, with the intent to address removal of long-existing encroachments at a later time.

On January 15, 2004 staff proposed to the Board that a pilot program be initiated to address all encroachments within a four to five mile portion of the existing rights of way. The Board directed staff to identify the most significant unauthorized encroachments throughout the rights of way. Staff proposed, and the Board adopted modifications to Chapter 7.00 in December 2004 establishing a priority for removal of unauthorized encroachments based upon the location of the encroachment relative to the pipeline.

This policy has served the Water Authority well. Seventy-one cases were resolved in fiscal year 2010 and only two required court action. (Collins and Atlantica were both owner-initiated encroachments which were later settled in the Water Authority’s favor.) Few encroachments have required elevated administrative attention. Some of the most onerous encroachments have been removed through implementation of Chapter 7, including: three houses, two mobile homes, a carport, spa, wall, and trees.

Other significant long-existing encroachments still remain. However, prohibited tree encroachments are rising in frequency and becoming an important issue requiring a well-defined strategy. Chapter 7.00 authorizes the planting of fruit trees and other shallow rooted trees by obtaining an encroachment permit. It defines where trees may be planted relative to the pipelines, and limits the mature height to 25-feet. Deep rooted trees are prohibited under Chapter 7.
Discussion
The Problem with Unauthorized Trees
As the higher priority encroachments are removed, the issue of prohibited trees has become the next significant type of encroachment to resolve. Trees are a problem for the following reasons:

1. Trees hinder our ability to quickly and safely excavate pipe in the event of emergencies or urgent repairs. The removal of large trees in urban areas requires special skills not possessed by the Water Authority or pipe contractors. Calling in tree removal specialists to dismantle large trees can cause delay in repair operations.

2. Tree roots often cause damage to pipes by penetrating pipe joints and mortar.

3. Existing trees inhibit completion of encroachment permits. Current policy will not allow issuing a permit if there are existing prohibited encroachments. Trees not meeting Chapter 7.00 standards must be removed. Owners are typically unwilling or financially unable to remove existing trees they did not plant.

4. A disagreement frequently arises regarding who is responsible for removing trees within the easement. The easement document prohibits trees. Since the owner has surface rights, the argument can be made that tree removal is the responsibility of the property owner, either as a result of the current owner’s actions, or as a result of liability assumed with the purchase of the property. Owners respond that they are victims of a long neglected enforcement lapse by the Water Authority. The result is that owners refuse to remove trees, even when the Water Authority agrees to split the cost of the removal using its tree removal contractor. The Water Authority has the right to remove any encroachment that interferes with its rights granted in the easement document. However, there are other environmental considerations that must be considered prior to removal. Reimbursement from the owner for cost of removal also may be a problem when the trees are long-standing, and the courts may not favorably view the Water Authority’s decades of tolerating the offending encroachment.

It is expected the Water Authority will encounter more pushback to its enforcement actions requiring substantial revenue directed away from the core mission of encroachment removal. Trees are a major element of landscaping, providing shade and beauty to the community. The public generally views trees as a benefit to air quality, ozone enhancement, and even a perceived asset in reducing global warming. Thus, it is important to proceed with a plan that is environmentally sound, and legally defensible.

The Tree Management Plan Proposal
Staff proposes to use the remainder of this operating budget cycle to complete an inventory of trees by risk class, and to develop a comprehensive plan to remove as many of the most threatening trees that funds will allow. Staff can establish a more informed goal and budget for tree removal in future years based on the inventory and experience with the cost of tree removal incurred over the next couple of months.

Risk categories are based on the condition of the pipe and the type of the tree. Newer steel welded pipe is less susceptible to breaks or penetration of roots into joints and mortar coating than some of the older reinforced concrete pipe. Some reinforced concrete pipe (RCCP) has
been identified as needing relining as part of the Aqueduct Protection Program. Trees growing over higher-risk pipe are a higher priority for removal than similar trees over the newer steel-welded pipe. The action plan consists of the following:

1. Rank the Water Authority pipelines based on pipe condition as follows:
   a. Unlined pipe that is currently identified as at-risk and is scheduled for relining in the future
   b. Sections of RCCP that have received indications of problems based on Acoustic Fiber Optic (AFO) information
   c. Remaining unlined non-steel pipe
   d. Remainder of system

2. Inventory trees by risk category
   a. Largest trees that are within a 25-foot distance from the edge of pipe and are a threat to fall onto homes, power lines, or other improvements if they are not removed with time consuming care
   b. Other large trees within 25 feet of the edge of pipe that are holding up execution of an encroachment permit involving more serious encroachments than trees, and the owner agrees to cost-share in removal
   c. Other large trees within 25 feet of the edge of the pipe
   d. Other large trees in right of way that could delay pipeline excavation

3. Prioritize trees for removal using the above screening criteria
   a. Highest risk trees over the highest risk pipe sections
   b. Second highest risk trees over the highest risk pipe sections
   c. Highest risk trees over the second highest risk pipe sections
   d. Second highest risk trees over the second highest risk pipe sections
   e. Highest risk trees over the third highest risk pipe sections and so on

4. Remove trees. As part of the process Staff will:
   a. Notify affected owners of the Water Authority tree removal policy and tree removal schedule in conformance with a communication plan that will be prepared in cooperation with Public Affairs
   b. Tag and record location of trees to be removed
   c. Execute task order and initiate tree removal

Having a well-defined tree management policy will enable the Water Authority to address the next generation of encroachments in a defensible and logical manner, reducing conflicts in the community, and improving the reliability of our facilities.

Prepared by: Tad Brierton, Right of Way Supervisor
Reviewed by: William L. Busch, Acting Director of Right of Way
December 1, 2010

Attention: Engineering & Operations Committee

CLOSED SESSION:
Conference with Legal Counsel - Potential Litigation
Government Code §54956.9(b)(1) – OMWD – Elfin Forest Reserve

Purpose
This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(b)(1) to discuss the above-referenced matter at the December 9, 2010, Board 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: Daniel S. Hentschke, General Counsel
LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

AGENDA FOR

DECEMBER 9, 2010

Marilyn Dailey – Chair    Jeremy Jungreis
Ron Morrison – Vice Chair    Vincent Mudd
Elsa Saxod – Vice Chair    Mark Muir
Gary Arant    Yen Tu
Keith Blackburn    Mark Watton
Gary Croucher    Howard Williams
Mitch Dion    Ken Williams
Frank Hilliker

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.
   4-B Final report on Legislation, Conservation and Outreach Committee’s Goals for 2009 and 2010.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

1. Legislative Issues.
   1-A Report by Carpi and Clay. (pickup packet)    Carpi & Clay
   1-B Adopt proposed 2011 Legislative Policy Guidelines.    Jeff Volberg
       Staff recommendation: Adopt the proposed 2011 Legislative Policy Guidelines. (Action)

2-A Blueprint for Water Conservation: Review and Partnership Opportunities.

Staff recommendation:

A. For the rest of this fiscal year staff will concentrate their efforts on the following activities (designated as “core” by the majority of the Member Agency Managers):
   1. Residential Surveys
   2. K-12 Education
   3. Landscape Audits
   4. MWD device-based incentives
   5. Tools (WaterSmart Target, Customer Tools, Technical Resources, Website and Resource Lists)

B. Staff will continue conservation programs and projects where contractually obligated pursuant to existing grants, MOUs, agreements, etc.

C. Staff will develop a revised conservation strategic plan as part of the upcoming preparation of the Draft Fiscal Year 2012/2013 Operating Budget.

D. Continue to seek out partnerships with entities like those shown in Attachment 1. (Action)

2-B MWD Long-Term Conservation Plan. (Information) 

2-C Water Conservation Garden future organization and funding. 

Recommendation: Approve the key components of Operating Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)), approve 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. (Action)

III. INFORMATION

1. Conservation Action Committee update. Frank Hilliker

2. Presentation on the results of the November 2010 election. Jeff Volberg
4. SCOOP quarterly report. Emily Yanushka
5. Quarterly report on Public Affairs outreach activities. Jason Foster

IV. ADJOURNMENT

Doria F. Lore
Clerk of the Board

NOTE: This meeting is called as a Legislation, Conservation, and 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.
Attention: Legislation, Conservation and Outreach Committee

Final Report on Legislation, Conservation and Outreach Committee’s Goals for 2009 and 2010

Purpose
The attached report summarizes activities performed in support of the Legislation, Conservation and Outreach Committee’s goals for 2009 and 2010.

Background
Previous Board action: On April 15, 2009, the Board of Directors adopted a set of goals for the Legislation, Conservation and Outreach Committee to accomplish in 2009 and 2010.

Discussion
The goals for the Legislation, Conservation and Outreach Committee relate to the following matters: legislation, lobbying and intergovernmental relations; community relations; media relations; water conservation programs; and the Small Contractor Outreach and Opportunities Program (SCOOP). During the past two years, the Committee reviewed, discussed, and made decisions pertaining to these matters. A progress report was presented to the Board January 20, 2010.

Prepared by: Jason Foster, Director of Public Affairs
Reviewed by: Marilyn Dailey, Chair, Legislation, Conservation and Outreach Committee

Attachment: Final Report on Legislation, Conservation and Outreach Committee’s Goals for 2009 and 2010
Final Report on Legislation, Conservation and Outreach Committee Goals
Calendar Years 2009 and 2010

Strategic Plan Objectives

1. **Per Capita Water Consumption** – The average regional residential per capita water consumption will be reduced by 10 percent from the current 10-year regional average. (January 2015 – SP #2)

   **Activities:** The committee discussed conservation program strategies for achieving long-term water savings goals at a special LCO Committee meeting in February 2009. Input from committee and Board members was used to help shape the conservation program as the Water Authority’s fiscal year 2010-2011 budget was developed.

   The committee, in conjunction with the Water Planning committee, has monitored and will continue to monitor urban per capita water consumption. The region’s 10-year rolling average from 1999 through 2008 was 178 gallons per capita per day (gpcd). Urban water use has fallen from 185 gpcd in fiscal year 2007 to 178 gpcd in fiscal year 2008, to 164 gpcd in fiscal year 2009, to 143 gpcd in fiscal year 2010. Overall, urban water use has declined approximately 20 percent compared to the region’s 10-year average, exceeding the committee’s 10 percent goal. In addition, agricultural water use also has fallen significantly. In the first quarter of FY 2011, SAWR water use is about 24 percent below allocation targets, and IAWP water use is 49 percent below allocation targets.

   SBX 7-7, approved by the Legislature and Governor in November 2009, set new conservation mandates to achieve by 2020. The committee initially reviewed SBX 7-7 in December 2009 and further examined the requirements of complying with SBX 7-7 in March 2010.

2. **Water Conservation Ethic** – 75 percent of the region’s residents can identify water conservation as one of their most important civic obligations. (January 2015 – SP #3)

   **Activities:** The committee received and discussed a report on the Water Authority’s latest public opinion poll in April 2009. The survey found that 92 percent of respondents viewed using water efficiently as a civic responsibility.

3. **Biennial Water Policy** – Adopt and implement a biennial water policy agenda directed toward MWD, the state, the seven basin states, and various federal agencies. (June 2009 – SP #7)

   **Activities:** In collaboration with the Imported Water Committee, the Water Authority’s 2009 Legislative Guidelines were adopted, providing direction to staff and legislative advocates, in January 2009. The Board adopted updated Legislative Policy Guidelines in December 2009.
4. **Issues Workshops** – Conduct a series of workshops for agency boards and other interested local officials to provide a comprehensive overview of the Water Authority issues and the region’s water supply. (January 2010 – SP #8)

**Activities:** In place of workshops, members of the LCO committee and Board of Directors participated in the Water Authority’s speaker’s bureau program throughout 2009, delivering presentations about water supply, water rates and other issues to business, civic and other organizations around the county. The speaker’s bureau made more than 225 presentations in calendar years 2009 and 2010.

5. **Policymaker Support** – At least 75 percent of the region’s local government policy makers understand the importance of connecting development with good water policy, support the Water Authority’s long-term direction, and endorse water conservation. (January 2010 – SP #9)

**Activities:** Committee members, Board members and Water Authority senior management made presentations to more than 75 percent of the region’s local policymakers as part of the Water Authority’s Speaker’s Bureau program. Support of the Water Authority’s diversification strategy and for conservation remain high among policymakers.

6. **Landscape Model Ordinance** – Approve a regional landscape model ordinance for local land use agencies to apply to new residential and commercial construction projects and major improvements to existing developments. (January 2009 – SP #10)

**Activities:** It was determined that Board approval was not needed for the ordinance. Instead, the committee supported the work of the Conservation Action Committee Ordinance Workgroup, which completed the regional model landscape ordinance in November 2009. The ordinance workgroup included representatives of local jurisdictions, member agencies and the landscape industry. The LCO Committee Chair recognized the efforts of the ordinance workgroup at the January 2010 Board meeting.

7. **Landscape Model Ordinance** – Encourage local land use agencies to enforce the model outdoor water program. (January 2010 – SP #11)

**Activities:** The LCO Committee is encouraging local land use agencies to use the regional model ordinance as the basis for adopting their own local ordinances. Agency adoption of the ordinances will result in enforcement.

8. **Public Affairs** – Create broad public support for and awareness of issues surrounding water, water resources, and water infrastructure. (January 2015 – SP #15)

**Activities:** During calendar years 2009 and 2010, the LCO Committee reviewed and provided feedback on a variety of tools and strategies used by staff to create public support for and awareness of issues related to water resources and water infrastructure.
This included reviewing the Water Authority's education programs in February 2009, the Water Authority's new web-based annual report in March 2010, and the Water Authority's new web site in October 2010. In addition, the LCO Committee reviewed and discussed communication strategies designed to enhance conservation awareness at several regular board meetings during this period and during a special board meeting held at the Reuben H. Fleet Science Center in October 2009. Committee members also participated in several MWD Inspection Trips, which showcased major local and California water infrastructure to local stakeholders.

**Business Plan Goals**

**Water Conservation**

1. **Model Landscape Ordinance** – At least 70 percent of the local land use planning jurisdictions within the Water Authority service area will adopt and enforce uniform outdoor water conservation standards. (December 2010 – BP #1)

   **Activities:** By November 2010, 14 local jurisdictions had adopted ordinances requiring outdoor water conservation standards. This represents 87.5 percent of all local jurisdictions.

**Government Relations Outreach**

1. **Bay-Delta** – In cooperation with MWD and other Southern California stakeholders, adopt a comprehensive legislative advocacy plan designed to obtain legislative and gubernatorial approval of interim (by 2011) and long-term (by 2018) Bay-Delta improvements. (July 2009 – BP #1)

   **Activities:** Committee members and other Water Authority board members participated in the Water Authority’s efforts to work with MWD and other Southern California stakeholders to help shape a package of bills to provide a comprehensive solution to both long-term and near-term problems in the Delta. The package of bills was approved by the Legislature and Governor in November 2009.

   In December 2009 the committee reviewed the final package of approved bills, including a water bond measure, which, if passed in the general election in November 2010, will provide financing to facilitate solutions in the Bay-Delta and other water projects statewide.

   The committee recommended a position of support for the bond measure to the full Board in January 2010, which the Board supported. The Legislature postponed the bond measure to the November 2012 ballot.

2. **Policymaker Support** – Ensure that at least 75 percent of the region’s local government policymakers understand the importance of connecting development with
good water policy, support the Water Authority’s long-term direction, and endorse water conservation. (January 2011 – BP #3)

Activities: Committee members, Board members and Water Authority senior management made presentations to more than 75 percent of the region’s local policymakers as part of the Water Authority’s Speaker’s Bureau program.

3. **Agency Relations** – Provide a comprehensive overview of Water Authority issues and the region’s water supply to agency boards and other interested local officials. (January 2011 – BP #4)

Activities: With input from the committee and the Board, the Water Authority formally commented on issues as they arose to the Department of Water Resources, State Water Resources Control Board, Department of Public Health, and local officials.

4. **Legislative Briefings** – Provide at least one briefing for each San Diego County, state, and federal legislator on the Water Authority CIP projects, regarding efforts to ensure water supply reliability, and the need to diversify the region’s water supply portfolio. (Annually – BP #5)

Activities: Committee and other Water Authority board members, the General Manager’s office, government relations staff, and legislative advocates provided numerous briefings to local, state and federal legislators on the Water Authority’s efforts to ensure its water supply, including briefings on the CIP projects.

Committee and other Water Authority board members also participated in Legislative Roundtables with Congressman Duncan D. Hunter in May 2009 and with assembly members Marty Block and Nathan Fletcher in June 2009.

5. **Public/Regulatory Briefings** – Provide at least one briefing for key public officials and regulatory agencies to aid in the advancement of Water Authority projects, water policy initiatives, and regulatory requirements. (Annually – BP #6)

Activities: Committee members, Board members and Water Authority senior management completed these briefings as part of the Water Authority’s Speaker’s Bureau program.

**Public Affairs Outreach**

1. **Drought Management Outreach** – Approve advertising/marketing campaigns and/or other outreach activities that support drought management policies and objectives and promote water use actions and behavioral changes that reduce regional consumption to achieve 56,000 acre-feet (or a number indicated in the Drought Management Plan) of additional annual conservation. (September 2012 – BP #3)
Activities: The committee reviewed drought management outreach activities reports and provided input to staff on drought management communications throughout 2009 and 2010.

At a special committee meeting in October 2009, the committee reviewed plans for shifting communications away from the “20-Gallon Challenge” and related drought management themes in 2010 toward a longer-term, broader-based “Rethink Water” theme, and provided direction to proceed with that strategy.

2. Conservation Outreach – Support Water Resources conservation programs and policies with communications and community relations initiatives to reach a 3 percent reduction of overall per capita use by 2011 and result in a 67 percent public acceptance of water conservation as an important civic duty by 2012. (November 2012 – BP #4)

Activities: Fiscal year 2007 (baseline) urban water use was 185 gpcd; FY 2010 urban use was 143 gpcd, a reduction of 22.7 percent, exceeding the Business Plan goal. A 2009 public opinion poll found 92 percent of the public considered water conservation a strong civic duty, exceeding the Business Plan goal. In 2010 the Business Plan goal for this was re-set at sustaining 90 percent or above support for water conservation by 2012.

In March 2009, the committee approved authorizing the General Manager to enter into a professional services contract with Parallax Visual Communication not to exceed $150,000 to redevelop the Water Authority’s website and develop a new website to support implementation of the WaterSmart conservation brand.

In June 2009, committee members and other Water Authority Board members participated in the Water Authority’s third Water Conservation Summit. The summit focused on providing crucial information to the community about upcoming water use restrictions and best practices for residential, commercial and industrial water use efficiency that could help the region meet its water shortage allocation for fiscal year 2010.

3. Small-Business Outreach – Adopt a small-business participation percentage target based on total procurement dollars. (June 2009 – BP #7)

Activities: Through the Small Contractor Outreach and Opportunity Program (SCOOP) committee, the Water Authority adopted a small-business participation target of 11 percent for FY 2008-2009; actual participation achieved was 25 percent. The FY 2010-2011 target was 20 percent. Because of the unique characteristics of the San Vicente Dam Raise Package 3 contract, that contract’s small-business participation was reported separately. Small business participation was 11 percent for Package 3, 20 percent on all other projects, and 12 percent overall for FY 2010.
4. **Polling** – Use findings of regular public opinion polling to recommend changes to conservation programs and outreach programs to help achieve Strategic Plan and Business Plan goals. (January 2010 – BP #1, #4, #5)

Activities: The committee received and discussed a report on the Water Authority’s latest public opinion poll in April 2009. The committee directed staff to consider its findings in the development of future conservation programs and messages, and directed staff to continue polling at regular intervals. The next poll is scheduled to be conducted in spring 2011.

**Other Goals**

1. **Conservation Programming** – Support the creation or expansion of existing water conservation programs that have the highest cost/benefit ratio and the greatest total yield. (June 2009)

Activities: In February 2009, the committee authorized the General Manager to approve a contract and an amendment with Katz & Associates for a total not to exceed $250,000 for outreach, facilitation and logistical support of Water Conservation program efforts, including services related to the Water Conservation Regional Stakeholder Process and 2009 Water Conservation Summit.

In February 2009, the committee authorized the General Manager to approve a contract and an amendment with Civic Resources Group, LLC, for the completion of Phase I of the WaterSmart Target software system and ongoing maintenance, for a total not-to-exceed amount of $328,993.

In October 2009, the LCO Committee held a special meeting at the Reuben H. Fleet Science Center to discuss strategies for transitioning from drought response-oriented messaging and device-based incentive programs to messaging and program platforms that support long-term behavior changes. The committee directed staff to proceed with this strategy.

The committee approved in October 2009 the reallocation of $250,000 in the Water Conservation program operating budget to the Water Conservation Garden to support the Garden’s transition to a nonprofit organization by June 2011.

The committee in December 2009 authorized the General Manager to enter into an agreement with SDG&E to receive an amount not to exceed $1,981,001 in funding for high-efficiency clothes washer incentives and energy audits.

In April 2010, the committee authorized the General Manager to approve as-needed water conservation program evaluation and planning services to three firms (A&N Technical Services, Inc.; Aquacraft, Inc.; and Winzler & Kelly) for a combined not-to-exceed total of $636,000.
In June 2010, the committee authorized the General Manager to execute an agreement with the Metropolitan Water District of Southern California to participate in MWD’s fiscal year 2011 Agricultural Water Conservation Program. The committee also authorized the General Manager to amend a contract with Mission Resource Conservation District in the amount of $75,000 to implement MWD’s fiscal year 2011 Agricultural Water Conservation Program.

In June 2010, the committee authorized the General Manager to approve a $250,000, 12-month contract amendment with Civic Resources Group, LLC to facilitate member agency efforts to implement the WaterSmart Target program.

In July 2010, the committee directed staff to evaluate the Blueprint for Water Conservation’s key strategies and recommend modified or new strategies to reflect changed conditions from when the Blueprint was adopted in 2007. In addition, the committee directed staff to complete a comprehensive review of existing water conservation programs in the San Diego region. The goal of that review is to determine if there are opportunities for the Water Authority to leverage more partnerships by combining efforts of other agencies, non-profits, etc. to provide a cohesive regional approach to conservation. Recommendations as a result of that process will be provided to the committee at its December 2010 meeting.

2. **Sponsoring Legislation** – Adopt positions on and/or sponsor legislation that affect the Water Authority’s interests and the attainment of the Water Authority’s Strategic Plan and Business Plan goals.

   **Activities:** During calendar year 2009 the committee approved adopting positions on 27 state and 5 federal bills. The committee approved sponsoring a bill which updated the best management practices for water conservation in urban water management plans to correspond with the BMPs adopted by the California Urban Water Conservation Council. The bill was signed into law in October 2009.

   In 2010, the committee approved adopting positions on 19 state and 6 federal bills.

   In December 2009 the committee approved sponsoring legislation in 2010 that would advance the following issues:

   1. Require homeowners’ associations to permit the use of artificial turf if it meets certain design standards. This bill passed out of the Legislature, but was vetoed by the Governor.

   2. Ensure that state agencies use recycled water for landscaping purposes, if it is made available to them. This bill was held in the Senate Natural Resources & Water Committee.

   In addition, in May 2010 the committee approved adopting a position of Oppose on Proposition 16. Proposition 16 was defeated during the June 2010 election.
In December 2009 the committee approved sponsoring legislation in 2010 that would advance the following issues:

1. Require homeowners’ associations to permit the use of artificial turf if it meets certain design standards. This bill passed out of the Legislature, but was vetoed by the Governor.

2. Ensure that state agencies use recycled water for landscaping purposes, if it is made available to them. This bill was held in the Senate Natural Resources & Water Committee.

In addition, in May 2010, the committee approved adopting a position of Oppose on Proposition 16. Proposition 16 was defeated during the June 2010 election.

3. **Legislative Policy Program** – Adopt annual Legislative Policy Guidelines that describe the Board’s policies on legislation, to assist the Water Authority’s staff and legislative advocates in advocating for the Water Authority on legislation. (January 2009 – January 2010)

   **Activities:** The committee approved the Water Authority’s 2009 Legislative Guidelines in January 2009.

   In May 2009 the committee adopted policy principles for water user fee legislation and policy principles for water use efficiency legislation.

   In June 2009 the committee adopted policy principles for stormwater management and recapture.

   The committee approved updated Legislative Policy Guidelines for 2010 in December 2009.

   The committee reviewed draft updated Legislative Policy Guidelines for 2011 in October 2010.

4. **Legislative Alerts** – Develop a program to engage member agencies in legislative alert campaigns. (July 2009)

   **Activities:** Following input from the committee, the Water Authority Government Relations team launched a Legislative Alert program in summer 2009. The program is used to update and engage Board members and member agencies on important legislative matters. Since the program’s inception, legislative alerts have been used to:

   - Provide information, sample letters, and legislative floor alerts to member agency general managers on legislation of potential significant concern.
• Solicit input from member agencies on the Legislative Policy Guidelines for annual updates and to seek suggestions for Water Authority sponsored legislation.
• Update member agency general managers on key issues and legislation to be discussed at the following week’s general managers’ meeting

Legislative alerts were used to provide regular updates throughout the development and approval of the comprehensive Bay-Delta bill package in 2009. During 2010, the program was used to provide member agencies with information on major developments regarding the Bay-Delta, state budget, and water bond.
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Adopt Proposed 2011 Legislative Policy Guidelines. (Action)

Purpose
This report presents proposed 2011 Legislative Policy Guidelines to the board for approval and adoption.

Staff recommendation
Adopt the proposed 2011 Legislative Policy Guidelines.

Alternatives
1. Direct staff to make changes as determined by the board.
2. Do not adopt the proposed 2011 Legislative Policy Guidelines.

Fiscal Impact
No direct fiscal impact.

Background
Previous Action: At its regular meeting on December 17, 2009, the board adopted the 2010 Legislative Policy Guidelines, as amended in the Legislation, Conservation & Outreach Committee.

The Water Authority maintains a set of legislative policy guidelines to direct staff and legislative advocates on whether to support or oppose legislation. The board originally approved the Water Authority’s Legislative Policy Guidelines in December 1993. The guidelines have been reviewed and updated annually. This report presents staff’s recommendations for the board’s annual review.

The Government Relations team sought comments on the proposed 2011 legislative policy guidelines from the various departments of the Water Authority during the summer. Staff also asked the member agency general managers for input at their meeting on October 19, 2010 and sent out the draft guidelines to the member agency legislative liaisons through the Legislative Alert system. Staff then presented a draft version of the Legislative Policy Guidelines to the Legislation, Conservation and Outreach Committee at its meeting on October 28, 2010 for comments and input. The draft version is in “strikeout” form, showing changes based on staff and member agency recommendations, as well as on positions the board adopted on legislation during the 2010 legislative session.

Discussion
This report presents an updated version of the Water Authority’s Legislative Policy Guidelines for calendar year 2011. Updates, revisions, and added guidelines reflect new legislative positions and policy principles the board discussed and adopted during 2010, as well as changes recommended by staff and member agencies.

The draft proposed Legislative Policy guidelines are attached. Revisions, updates, and recommended additions are underlined, while deletions are struck through. When the board adopts the guidelines, staff will incorporate the changes into the final document.

Staff recommends the adoption of the proposed 2011 Legislative Policy Guidelines.

Prepared by: Jeffrey A. Volberg, Government Relations Manager
Approved by: Dennis Cushman, Assistant General Manager

Attachment: Proposed 2011 Legislative Policy Guidelines
2010-2011 Legislative Policy Guidelines

Purpose

The San Diego County Water Authority’s legislative policy guidelines reflect policy positions adopted by the Board of Directors in 2009-2010. 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.

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. Additionally, ideas for new legislation are presented to the Board for action when the Water Authority is seeking sponsorship of a bill.
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Imported Water Supply

It shall be the Water Authority’s policy to support legislation that:

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

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

4. Implements a long-term, comprehensive solution for the Bay-Delta that:
   a) Focuses on resolution of conflicts between water management and the environment in the Bay-Delta.
   b) Provides reliable water supplies to meet California’s short- and long-term needs.
   c) Improves the ability to transport water to enhance State Water Project deliveries and facilitate transfers from north of the Delta to south of the Delta.
   d) Improves the quality of water delivered by the Metropolitan Water District to San Diego County.
   e) Enhances the Bay-Delta’s ecological health, taking into account all factors that have degraded Bay-Delta habitat and wildlife.
   f) Encourages cost-effective water use efficiency measures.
   g) Provides a cost-effective solution when compared with other water supply development options.
   h) Equitably allocates costs of the Bay-Delta solution to all those benefiting from improvements to the Bay-Delta system.
   i) Provides a firm commitment that the state will pursue water supply reliability and environmental restoration as co-equal goals.
   j) Encourages the development of local supplies such as seawater desalination, groundwater, storage, graywater, rainwater harvesting, and recycled water (including indirect potable reuse), in order to make water supplies more reliable, reduce demand on the Bay-Delta and improve water quality.
   k) Encourages the development of water transfers that will reduce demand on the Bay-Delta.
   l) Provides better coordination of Central Valley Project and State Water Project operations.
   m) Improves Delta levees to control flooding, maintain water supply reliability and reduce seawater intrusion to protect water quality.
   n) Develops adequate and reliable funding for maintenance of Delta levees.
Imported Water Supply (cont.)

5. Authorizes and appropriates the federal share of funding for the long-term Bay-Delta solution.

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

7. Provides 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 environment and public health.

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

9. Provides funding for Colorado River salinity control projects and other water quality management efforts.

10. Encourages and facilitates voluntary water transfers consistent with other Water Authority policies and agreements.

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

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

13. Streamlines the permitting and approval process for implementing transfers.

14. Encourages efficient use of existing facilities to advance voluntary transfers of water.

15. Provides 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.

16. Amends 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.
Imported Water Supply (cont.)

17. Provides an appropriate level of accountability and cost control over MWD spending. When time permits, legislation on this issue is to be brought to the board before any action is taken.

18. Repeals Section 135 (Preferential Rights) of the Metropolitan Water District Act

19. Requires 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.

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

It shall be the Water Authority’s policy to oppose legislation that:

1. Establishes 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.

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

3. Adversely affects 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.

4. Revises 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.

5. Creates a water transfer clearinghouse that is anything other than a neutral information resource.

6. Increases regulatory or procedural impediments to water transfers at the local or state level.

5-7. Requires additional reviews or approvals of Delta conveyance options beyond those provided by SBX7-1 (2009).
Local Water Resources

It shall be the Water Authority’s policy to support legislation that:

1. Provides funding for conservation, peak management programs, water recycling (including indirect 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. Provides funding for seawater and brackish groundwater desalination studies and facilities, including concentrate disposal facilities.

3. Recognizes and supports the development of seawater desalination as a critical new water supply for the state and especially San Diego County.

4. Recognizes and supports the development of indirect potable reuse as a critical new water supply for the State and especially San Diego County.

5. Encourages seawater desalination facilities to collocate with existing coastal power stations.

6. Preserves 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.

7. Authorizes and facilitates expanded use of local water resources including water recycling, indirect potable reuse, graywater and rainwater harvesting, and brackish groundwater.

8. Facilitates and encourages the use of rain barrels and cisterns to capture and store rain water for use in irrigation.

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

10. Encourages dual plumbing in all new development to enable utilization of recycled water when available.

11. Encourages the use of recycled water in residential settings.

12. Provides financial incentives to assist in the disposal of concentrate, sludge and other byproducts created in the water treatment process.

13. Ensures the Water Authority and its member agencies receive the dry-year water supply benefits of its investment in local water supply sources.
Provides for the interchangeability of funding for groundwater and surface water enhancements to fit best the hydrogeologic attributes of a particular region.

Provides for watershed planning, watershed signage and protection of source water, including reservoirs, such as land acquisition around reservoirs, limited land use and increased buffer areas.

Promotes uniform regulatory interpretation of state recycled water system standards.

Supports beneficial revisions to Appendix J of the California Plumbing Code that address recycled water systems.

Authorizes, promotes, and provides incentives for indirect potable reuse projects.

Requires regulatory processes to encourage and support the development of potable reuse as a drinking water supply.

Provides funding for potable reuse demonstration projects and studies.

Ensures 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.

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

Promotes and encourages the use of stormwater management and recapture to increase local municipal water supplies and improve water quality through low-impact development.

Provides incentives for the local or regional use of stormwater management and recapture.

Reduces or removes regulatory hurdles that hinder the use of stormwater management and recapture.

Encourages land use practices that enhance groundwater resources that promote efficient landscape design and groundwater recharge.
It shall be the Water Authority’s policy to oppose legislation that:

1. Limits 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. Establishes unreasonable regulatory requirements relative to the safe use of recycled water.

3. Contributes to the degradation of source water quality around reservoirs and groundwater basins.

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

5. Diminishes the water rights or legal historical uses of downstream water users through actions to manage or recapture stormwater.
Water Facilities/Facility Improvement

It shall be the Water Authority’s policy to support legislation that:

<table>
<thead>
<tr>
<th>1.</th>
<th>Funds or otherwise facilitates 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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2</td>
<td>Funds or otherwise facilitates the operation and maintenance of canal lining projects that enhance water supplies.</td>
</tr>
<tr>
<td>2.3</td>
<td>Provides funding for water infrastructure development, infrastructure security, and infrastructure rehabilitation and replacement projects that benefit San Diego County.</td>
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<tr>
<td>4.4</td>
<td>Funds enhancements to water treatment and recycling facilities to meet increased regulations.</td>
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<tr>
<td>2.5</td>
<td>Funds improvements to water treatment facilities that allow greater use of State Project water.</td>
</tr>
<tr>
<td>3.6</td>
<td>Provides funding for the preservation of cultural resources affected by construction or operation of water conveyance and storage facilities.</td>
</tr>
<tr>
<td>4.7</td>
<td>Provides funding for habitat preservation programs that address impacts resulting from construction or operation of water conveyance and storage facilities.</td>
</tr>
<tr>
<td>5.8</td>
<td>Recognizes water agencies as emergency responders to damage and challenges caused by wildfires, earthquakes, and other natural disasters, as well as terrorist and other criminal activities that threaten water operations, facilities, and supplies.</td>
</tr>
<tr>
<td>6.9</td>
<td>Provides funding for projects that enhance security against terrorist acts or other criminal threats to water operations, facilities, or supplies.</td>
</tr>
<tr>
<td>7.10</td>
<td>Provides funding for the control or eradication of non-indigenous aquatic species, including dreissenid mussels.</td>
</tr>
<tr>
<td>8.11</td>
<td>Authorizes state and federal wildlife agencies to provide assistance to local water agencies in the control and eradication of non-indigenous aquatic species, including dreissenid mussels.</td>
</tr>
<tr>
<td>9.12</td>
<td>Exempts owners and operators of water supply facilities from criminal and civil liabilities associated with dreissenid mussel infestations if due diligence requirements are being met.</td>
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</tbody>
</table>
40.13. Provides incentives that encourage the optimization, expansion and cooperative use of existing surface reservoirs.

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

42.15. Provides funding to water agencies for the voluntary retrofit of facilities for on-site generation of chlorine.

43.16. Requires mandatory inspections of boats for evidence of potential *dreissenid* mussel infestation before allowing boat launching in reservoirs.

It shall be the Water Authority’s policy to oppose legislation that:

1. Imposes or mandates 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. Impairs 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 storage, treatment and delivery system.

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

3-4. Shifts the risks of indemnity for damages and defense of claims from contractors to the Water Authority and/or its member agencies.

4-5. Impairs the Water Authority’s and/or its member agencies’ ability to execute construction projects using its own employees.

5-6. Restricts 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.

6-7. Authorizes state and federal wildlife agencies to control or eradicate invasive species in a way that excessively interferes with the operations or water supplies of local water agencies.
Water Use Efficiency

It shall be the Water Authority’s policy to support legislation that:

1. Furthers 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.

2. Promotes statewide implementation of foundational 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.

3. Provides loans and grants to fund incentives for water-conserving devices or practices.

4. Ensures accurate and meaningful reporting of implementation of water conservation measures.

5. Encourages implementation of effective water management practices for agricultural irrigation.

6. Ensures achievement of urban and agricultural water-use efficiency standards established in the 20 percent by 2020 statute.

7. Designates 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.

8. Encourages the use of graywater for landscape irrigation purposes where it complies with local health department guidelines and regulations and is cost-effective.

9. Establishes standards for the utilization of high-efficiency commercial coin-operated and residential clothes washers.

10. Requires submetering connections to be built in new construction of multiple commercial or residential buildings.

11. Encourages plumbing fixture retrofit upon real property resale.

12. Encourages stakeholders to investigate and develop statewide landscape water conservation standards and regulations.

13. Supports recommendations of the AB 2717 Landscape Taskforce.
14. Restricts Property Owner Associations from forbidding the use of California native plants or other low water use plants in well-maintained landscapes.

15. Restricts Property Owner Associations from forbidding retrofits of multiple unit facilities for the purpose of submetering, if feasible.

16. Ensures plumbing codes and standards that facilitate the installation and/or retrofit of water-saving devices.

17. Provides incentives, funding, and other assistance in meeting the Governor’s goal of reducing per capita water use statewide by 20 percent by the year 2020.

18. Provides incentives, funding, and assistance to water agencies so that they can comply with AB 1420 (2007) requirements and meet the coverage requirements for foundational DMMs in the Urban Water Management Planning Act.

It shall be the Water Authority’s policy to oppose legislation that:

1. Repeals cost-effective efficiency standards for water-using devices.

2. Prescribes statewide mandatory urban water conservation management practices 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. Prescribes 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.
Biological and Habitat Preservation

It shall be the Water Authority’s policy to support legislation that:

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

2. Exempts operation, maintenance, and repair of water conveyance and storage 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. Provides environmental regulatory certainty for implementation of existing and proposed long-term water supply programs.

4. Authorizes 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.

5. Incorporates 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.

6. Encourages 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.

7. Provides state and/or federal funding for the restoration of the Salton Sea.

8. Provides 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.

9. Facilitates 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.

10. Consolidates wetlands regulations.

10.11. Designates feral pigs as a noxious invasive animal species in the San Diego region, or authorizes actions to protect the region’s waters and natural landscapes from damage by feral pigs, or authorizes the eradication of feral pigs from the region.
Biological and Habitat Preservation (cont.)

It shall be the Water Authority’s policy to oppose legislation that:

1. Provides 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 are provided.

2. Imposes endangered species or habitat conservation requirements that restrict the operation, maintenance, or repair of public water supply, conveyance, or storage facilities.
Fiscal Policy and Water Rates

It shall be the Water Authority’s policy to support legislation that:

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

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

3. Provides the Water Authority and its member agencies with grant funding for public facilities.

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

5. Maintains the ability of water agencies to establish water rates locally.

6. Maximizes the flexibility of water agencies to design rate structures to meet local water supply goals.

It shall be the Water Authority’s policy to oppose legislation that:

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

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

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

4. Impairs 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 regardless of delivery costs.

5. Pre-empts the Water Authority’s or its member agencies’ ability to impose or change rate charges, fees or assessments.

6. Impairs 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.

7. Imposes additional administrative requirements and/or restricts the Water Authority’s or its member agencies’ ability to finance public facilities through the
issuance of long-term debt.

8. Reduces 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.

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

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

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

12. Mandates a specific rate structure for retail water agencies.

13. Imposes a water user fee on water agencies or water users that does not provide a commensurate benefit in the local area or region from which the water user fee is collected.

14. Imposes 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.

15. Imposes a water user fee in order to create a state fund that can be used to finance undefined future projects and programs.

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

17. Does 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.

18. Imposes a “public goods charge” on public water agencies or their ratepayers.

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

20. Interferes 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.

21. Interferes 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.
Right of Way and Property

It shall be the Water Authority’s policy to support legislation that:

1. Improves 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.

It shall be the Water Authority’s policy to oppose legislation that:

1. Impairs the Water Authority’s or its member agencies’ efforts to acquire property or property interests required for essential capital improvement projects.

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

3. Restricts 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. Restricts the transfer of property acquired for purposes of environmental mitigation or environmental mitigation credits to other public or private entities for long-term management.
Power Supply

It shall be the Water Authority’s policy to support legislation that:

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

2. Provides greater flexibility in the utilization of Water Authority and its member agencies’ facilities for generation and acquisition of electrical power.

3. Provides the Water Authority and its member agencies with greater flexibility in the permitting, construction, and operation of its existing and potential in-line hydroelectric and off-stream pumped-storage projects.

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

5. Makes SWP power available for seawater desalination.

6. Promotes the classification of electricity generated by in-line hydroelectric and off-stream pumped storage facilities as a clean, environmentally sound and renewable energy resource.

7. Provides funding, including state and federal grants, for in-line hydroelectric and off-stream pumped storage facilities as a means for reducing greenhouse gas emissions.

8. Provides state and federal grants for the construction of in-line hydroelectric and off-stream pumped-storage facilities.

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

It shall be the Water Authority’s policy to oppose legislation that:

1. Adversely affects the cost of electricity needed to move water through the Colorado River Aqueduct or the State Water Project.

2. Adversely affects 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.

3. Impedes the Water Authority’s or its members agencies’ ability to contract for the purchase of 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.
Local Autonomy

It shall be the Water Authority’s policy to oppose legislation that:

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

2. Modifies 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. Diminishes the power or rights of the Water Authority to govern relations with its employees.
Land Use and Water Management Planning

It shall be the Water Authority’s policy to support legislation that:

1. Promotes enhanced coordination and linkage of general plans and water management plans.

2. Recognizes 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. Discourages piecemeal or uncoordinated land use and water management planning.

4. Requires 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. Allows and funds land exchanges between local public agencies and federal or state agencies when mutually beneficial to all agencies and enhances water resources for the region.

6. Designates public lands that are tributary to drinking source water reservoirs as wilderness, habitat preserve, open space, or other protected status.

7. Protects floodplains and lands over prime groundwater recharge zones for stormwater catchment and bioremediation.

It shall be the Water Authority’s policy to oppose legislation that:

1. Restricts or limits the effectiveness of the Water Authority or its member agencies in its continuing efforts to meet its obligations under the Regional Comprehensive Plan and develop demand forecasts based on SANDAG regional growth forecasts and general plan use information.

2. Restricts the Water Authority’s or its member agencies’ ability to utilize a demand forecasting methodology that is best suited for the region.
Integrated Regional Water Management Planning

It shall be the Water Authority’s policy to support legislation that:

1. Defines 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. Requires 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.

3. Provides for population-based distribution of funds to ensure adequate distribution of grant funding throughout the state.

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

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

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

7. Provides for the use of state grant funds for binational projects where the projects benefit water supply or water quality in the San Diego region.

It shall be the Water Authority’s policy to oppose legislation that:

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

2. Precludes water wholesalers from serving on a regional water management group.

3. Dilutes public water agency participation on the regional water management group.
Jurisdictional Authority

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

It shall be the Water Authority’s policy to support legislation that:

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

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

It shall be the Water Authority’s policy to oppose legislation that:

1. Would usurp local control over the financing and construction of water supply and infrastructure projects in the San Diego/Baja California region.
Water Quality Issues

It shall be the Water Authority’s policy to support legislation that:

1. Assists in achieving a year-round blend of imported water supplies that achieve board-adopted water quality objectives from Metropolitan that allows 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. Assures cost-effective remediation and cleanup of contaminants of concern that have impacted groundwater and surface water.

3. Provides the necessary funding for research on the occurrence, treatment, health effects and environmental clean-up related to contamination of drinking water sources.

4. Incorporates sound scientific principles in adopting drinking water standards for drinking water contaminants.

5. Provides for the protection of source water such as reservoirs and groundwater basins so that the waters can be beneficially used for consumptive purposes.

6. Implements and funds the San Diego Regional Water Quality Control Board’s triennial review of water quality standards.

7. Exempts the conveyance, storage, or release of water supplies from regulation as a discharge under the Clean Water Act and other water quality control laws.

8. Recognizes drinking source water reservoirs as extensively managed, special-purpose, man-made water bodies different in character than the natural waterways, rivers, lakes, and coastal waters which are the appropriate focus of protection under the Clean Water Act and other water quality control laws.

9. Revises NPDES standards and procedures to facilitate inland discharge of recycled water.

10. Establishes quality standards, testing procedures, and treatment processes for emerging contaminants.

11. Directs the state’s participation or assistance in water quality issues related to or threatening the Colorado River water source.

12. Provides funding and support for Colorado River salinity control projects and other water quality management efforts.

13. Alters 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.
It shall be the Water Authority’s policy to oppose legislation that:

1. Regulates the conveyance, storage, or release of water supplies as a discharge under the Clean Water Act and other water quality control laws.
California State Reorganization

It shall be the Water Authority’s policy to support legislation that:

1. Preserves the California Colorado River Board.

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

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

4. Provides 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. Ensures 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.

It shall be the Water Authority’s policy to oppose legislation that:

1. Eliminates 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. Eliminates 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.
Metropolitan Water District Board of Directors

It shall be the Water Authority’s policy to oppose legislation that:

1. Returns the Metropolitan Water District to its membership structure prior to the enactment of SB 1885 (Ayala) in 1998.
Climate Change

It shall be the Water Authority’s policy to support legislation that:

1. Incorporates considerations of climate change into statewide, regional, and local water management planning, with climate change information provided by the state.

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

3. Allows water agencies to partner with energy providers to help fund water conservation and other programs that result in reduction of greenhouse gas emissions and provides funding for projects that assist in adapting to the effects of climate change on the state’s water supply or in reducing the emissions of greenhouse gases.

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

5. Provides opportunities and incentives for voluntary implementation of local water and renewable energy projects that directly or indirectly reduce greenhouse gas emissions.

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

7. Promotes the incorporation of anticipated climate change impacts in long-range water supply planning statewide.

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

It shall be the Water Authority’s policy to oppose legislation that:

1. Requires incorporation of considerations of climate change into statewide, regional, and local water management planning, without climate change information provided by the state.

2. Imposes top-down, “one size fits all” mandates without taking into account hydrological, meteorological, economic, and social variation across the state and without deferring to local and regional planning and implementation priorities and protocols.

3. Does not allow water agency participation in the carbon credits market.
Water Bonds

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 Bay-Delta conveyance projects.

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.
Water Bonds (cont.)

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

1. 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.

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

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

4. Diminishes the amount of funding in the 2012 water bond dedicated to the San Diego region.
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Blueprint For Water Conservation: Review and Partnership Opportunities. (Action)

Staff recommendation
A. For the rest of this fiscal year staff will concentrate their efforts on the following activities (designated as “core” by the majority of the Member Agency Managers):
   1. Residential Surveys
   2. K-12 Education
   3. Landscape Audits
   4. MWD device-based incentives
   5. Tools (WaterSmart Target, Customer Tools, Technical Resources, Website and Resource Lists)
B. Staff will continue conservation programs and projects where contractually obligated pursuant to existing grants, MOUs, agreements, etc.
C. Staff will develop a revised conservation strategic plan as part of the upcoming preparation of the Draft Fiscal Year 2012/2013 Operating Budget.
D. Continue to seek out partnerships with entities like those shown in Attachment 1.

Alternative
A. Reduce conservation activities solely to conservation programs and projects where the Water Authority is contractually obligated pursuant to existing grants, MOUs, agreements, etc.

Fiscal impact
None at this time. Adequate funds are available in the Water Conservation Program and the Public Affairs operating budgets to continue the efforts noted in the Staff Recommendation. Conservation activities in future years will be subject to Board action regarding the upcoming Operating Budget.

Background
The Blueprint for Water Conservation was developed following the 2006 Water Conservation Summit and the Board formally adopted the Blueprint as their water conservation strategic plan in July 2007. The Blueprint has the following twelve key strategies:

Landscape Sector:
- Develop and adopt a regional model landscape ordinance.
- Create an industry cluster to bring water-efficient landscape products, plants and services to market.
- Make water-efficient landscaping a financially attractive option.
- Support a professional landscaper certification program.
• Public outreach to bring water-saving landscape products and services to the market and change the public’s perception of water-efficient landscapes.
• Hold a Water Conservation Summit in 2007.

Indoor (Residential and CII) Sector:
• Continue device-based financial incentives to promote indoor conservation.
• Implement audit program for high water users.
• Market indoor residential and CII programs.
• Partner with San Diego Gas & Electric in CII and indoor sector.

Agriculture Sector:
• Continue agricultural audit program.
• Support agricultural research to discover new ways to save water.

Staff has been working on all twelve key strategies following the Board’s approval of the Blueprint in July 2007. However, numerous changes have occurred in the region that might influence the Water Authority’s approach to water conservation. Those factors include, but are not limited to: drought, MWD allocations, mandatory water restrictions, rate increases and reduced water sales. As a result the Board provided direction in July 2010 regarding further conservation activities.

**Previous Board Action**

*In July 2010 the Board directed staff to:*

1. Evaluate the Blueprint for Water Conservation’s Key Strategies and recommend modified or new strategies to reflect changed conditions from when the Blueprint was adopted in 2007, and
2. Complete a comprehensive review of existing water conservation programs in the San Diego region to determine if there are opportunities for the Water Authority to incorporate leveraging partnerships by combining efforts of other agencies, non-profits, etc. to provide a cohesive regional approach.

**Discussion**

The following is a chronology of activities initiated by staff to respond to the Board’s direction:

• August. Staff developed a plan where the Member Agency Managers would be the source of information to respond to the July 2010 Board direction.
• September 7. The member agency General Managers were asked to complete a comprehensive survey to gain their agency’s opinion on Blueprint’s 12 conservation strategies and to determine the type of partnerships that would aid conservation.
• September 14. A three-hour workshop was held with the Managers and their Conservation Coordinators to review the survey results and further explore what those results meant.
• October 19. Staff reported back to the Managers with a list of 18 projects/programs that were consistent with the Blueprint, the survey results and the comments received at the September 14 workshop. The list of existing Water Authority partners was also presented to the Managers. The Managers requested the 18 projects/programs be ranked.
• October 21. A second survey was sent to the Managers asking for them to rank the projects/programs and whether they were a core necessity, discretionary or unnecessary.
November 16. The objective of this last meeting was to gain consensus as to which project/programs the Water Authority should pursue the rest of this fiscal year and to provide guidance to the staff when preparing the next two-year budget. The Managers did not reach consensus and recommended the matter be deferred until after June 2011 when all the member agencies have completed their Urban Water Management Plans. Those plans are to include the conservation measures each agency will pursue to meet their conservation mandates spelled out in SBX7-7 (the 20x2020 legislation).

- November 30. At the time of the writing of this Board memo it was anticipated staff would discuss its recommendations with the Managers.

The ranking of the 18 projects/programs consistent with the Blueprint strategies and input from the Member Agency Managers is:

1. Residential surveys
2. K-12 education
3. Outreach plan for rate lawsuit
4. Landscape audits
5. Device based incentives via MWD
6. Water Smart Target
7. Outreach plan for MWD termination of conservation programs
8. Customer tools
9. Technical resources
10. Landscape retrofits
11. Water Conservation Garden
12. Websites (WaterSmart and Better Way to Beautiful)
13. SDG&E/Water-Energy Programs
14. Seek Partnerships
15. Water Authority participation in stakeholder groups
16. Landscape certification program
17. Resource lists
18. Agricultural conservation

Items 3 and 7 were excluded as they are now being prepared, and items 6, 8, 9, 11 and 17 were combined due to their interdependencies. This yielded the following items as consistent with the Blueprint and considered core activities by most of the General Managers:

1. Residential Surveys
2. K-12 Education
3. Landscape Audits
4. MWD device-based incentives
5. Tools (WaterSmart Target, Customer Tools, Technical Resources, Website & Resource Lists)

However, the Managers could not reach consensus on the future of these activities and they recommended waiting to take action on the strategic direction of the conservation program until
after June 2011 when all the member agencies submit their Urban Water Management Plans that will contain their anticipated conservation activities.

The Blueprint for Water Conservation was a multi-year strategic plan that identified multiple approaches to increase water use efficiency and begin to change the water use habits of the region’s customers. The Managers identified 18 programs/projects consistent with the Blueprint that were condensed to five. Therefore, staff recommends focusing primary attention during the rest of this fiscal year on the five core activities listed above and on programs or projects where the Water Authority is contractually obligated to perform (grants, MOUs, agreements, etc.). Valuable time and momentum will be lost if these activities are idled for the next seven months. Also, no new major activities not related to the core activities will be initiated (e.g. the contracts proposed in July 2010) for the rest of the fiscal year. Finally, staff will continue to evaluate the conservation activities from a strategic point of view, and develop a revised conservation strategic plan for consideration during the preparation of the Draft Fiscal Year 2012/2013 Operating Budget.

Also presented to the Managers throughout this process was the level of existing partnerships between the Water Authority, the member agencies, other public agencies and other non-governmental entities. The extensive list of partners matched the survey responses provided by the Managers and input received during the September 14 workshop. The commitment to partnerships is exemplified by the current application for IRWM Proposition 84 funds that leverage the strengths of the County of San Diego storm water group, City of San Diego Water Conservation and two non-profit entities. The list of current Water Authority partners is shown as Attachment 1.

Prepared by: William J. Rose, Water Conservation Program Executive
Approved by: Sandra L. Kerl, Deputy General Manager

Attachment: 1. Existing Partnerships
Attachment 1
Existing Partnerships

- Member agencies
- County of San Diego Storm Water (Prop 84 IRWM project)
- Water Conservation Garden (JPA member)
- San Diego Botanic Garden (Corporate member)
- DWR (numerous grants)
- USBR (numerous grants)
- SDG&E (HEW, Energy/Water Pilot)
- MWD (numerous programs)
- Cuyamaca College (landscape interns)
- Mira Costa College
- California Center for Sustainable Energy
- Surfrider (Prop 84 IRWM project)
- San Diego County Office of Education
- San Diego Natural History Museum
- San Diego Museum of Man
- Local Attractions (Zoo, Legoland, Sea World, etc)
- Reuben H. Fleet Science Center
- San Diego Unified School District
- California Urban Water Conservation Council (leadership role by staff)
- Conservation Action Committee (CAC)
- California Landscape Contractors Association (via CAC)
- American Society of Landscape Architects (via CAC)
- Irrigation Association (technical committee member)
- Building Industry Association (landscape ordinance coordination)
- Farm Bureau (Design of MWD Ag. program)
- Manufacturers (Hunter, Toro, Rainbird, etc. via CAC)
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

MWD Long-Term Conservation Plan (Information)

Purpose
Provide the LCO Committee an update on MWD’s draft Long-Term Conservation Plan

Background
MWD’s Conservation Credits Program has traditionally been a device-based incentive program. The two largest current programs are the SoCal WaterSmart residential rebate program and the Save A Buck commercial/institutional/industrial rebate program. In fiscal year 2009 MWD’s Conservation Credits Program suffered significant cost overruns. The original $20 million budget was doubled to $40 million and MWD staff requested a further increase to $64 million. Instead of approving the staff recommendation, the MWD Board ordered a thorough audit of the program to identify the cause of the increases. The audit revealed the primary cause was the increase in demand caused by customers becoming aware that there was a water supply shortage and water allocations were on the horizon. Also, MWD’s open-ended program did not limit the number of rebates submitted for payment. After the audit, the MWD Board approved a $14.2 million budget increase.

MWD’s existing program continues to generally be a device-based incentive program and the total budget for this fiscal year for actual program costs is $19.1 million. The budget is based on payment for incentives and MWD staff and conservation vendor costs are not included in the $19.1 million dollar budget. Water Authority staff is unable to determine the amounts for staff and vendor costs in MWD’s overall budget. This year’s program was modified by reducing the number of devices eligible for an incentive, and reducing the incentive values. MWD also initiated the Member Agency Administered (MAA) program where they return approximately 25 percent of their total conservation budget to the member agencies to run local programs that fit each agency’s individual needs. The Water Authority’s share of the MAA program is $803,000 of which about half will be spent directly by Water Authority member agencies who wish to run their own programs. The ability to expend MAA funds is contingent upon MWD approval of the programs proposed by the Water Authority’s member agencies. The Water Authority’s access to MWD conservation programs is subject to termination because all the conservation MOUs with MWD contain the Rate Structure Integrity language.

In November 2009 SBX7-7, known as the 20x2020 legislation, passed. The intent of this statue is to reduce urban water use at the retail level by 20 percent by 2020. Also, this year MWD adopted its Integrated Resources Plan (IRP) and Regional Urban Water Management Plan (RUWMP). Many MWD member agencies had previously noted MWD needed to take a more strategic look at water conservation, and MWD began that process in October 2009. The first draft of the Long-Term Conservation Plan (LTCP) was released in September 2010.
Discussion

The LTCP is a strategic level planning document intended to be consistent with MWD’s IRP and Regional Urban Water Management Plan (RUWMP). The LTCP states that it has three goals:

1. Achieve the conservation targets in MWD’s 2010 IRP
2. Pursue innovation that will advance water conservation
3. Transform the public’s value of water within the region

The LTCP is based upon the 2010 IRP water use efficiency target of 580,000 acre feet of new conservation by 2020. Of this amount MWD assumes its member agencies will provide 380,000 acre feet by complying with SBX7-7, although the actual cumulative savings are still being compiled by member agencies and will not be known until agencies have chosen the conservation methods and submitted their respective Urban Water Management Plans (UWMPs). UWMPs are due to be adopted by July 2011. Despite the July 2011 deadline, MWD chose to adopt its RUWMP seven months early, before conservation savings have been calculated at the retail level. SBX7-7 recognizes agencies that have already accomplished significant conservation by providing alternative methodologies to account for the 20 percent reduction. Many retail agencies have not yet determined the means by which they will comply with the 20 x 2020 legislation, and some are achieving conservation savings that exceed 20 percent. As a result, it is currently difficult to ascertain whether total retail conservation is more or less than 20 percent at the MWD level. Rather than waiting until this information is available, the MWD Board adopted an IRP that assumes the need for an additional 200,000 acre feet of water use efficiency savings. MWD has included this water as part of the so-called “Uncertainty Buffer,” which is proposed to be developed in the same timeframe as the SBX7-7 compliance schedule.

The LTCP states that it has five strategies to reach these goals:

1. Use catalysts for market transformation
2. Encourage action through outreach and education
3. Develop regional technical capability
4. Build strategic alliances
5. Advance water efficiency standards

The draft LTCP as a whole appears to acknowledge that the current MWD Conservation Credits Program is not capable of producing the conservation savings included in the MWD IRP. The LTCP states that it will rely upon market transformation instead of relying solely on device based incentives to achieve conservation targets. MWD appears to acknowledge device based incentive programs as just too expensive to achieve the IRP targets. The LTCP notes:

“Market transformation is a strategic approach to intervene in the market for water efficient devices and services. It is a process by which collective action, policies and programs are implemented to effect a positive lasting change in the market for water-efficient technologies and services, such that these technologies and services are produced, recommended, and purchased in increasing quantity. Metropolitan is seeking incremental change through this strategy to ensure that implementation is financially sustainable.”
The LTCP states that incentives will become a tool with a shelf life to help achieve market transformation and long term behavior change instead of the goal itself. Staff is actively engaged with MWD to define when market transformation has occurred and therefore when incentives for a particular program will end.

The Water Authority has significant concerns about the draft LTCP. The latest comments staff has provided to MWD are as follows.

The LTCP must recognize that conservation is a core supply

- The LTCP should clearly state that the 20% water use efficiency target is a core water supply and not part of the “uncertainty buffer.” MWD should also reduce its target of alternative water supplies to be developed by the amount of water included in the water use efficiency target.

- The LTCP should reflect that retail agencies have choices of compliance options to meet the 20x2020 requirements. After taking into account the cumulative conservation of the retail agencies within its service territory, MWD should develop additional “water use efficiency” supplies as part of core water supplies. The cost of these supplies should be competitive with the avoided cost of alternative water supplies available to be developed by MWD. As a supplemental, wholesale water supplier – and particularly in the current high rate environment – MWD must develop lower cost supplies first.

Metropolitan’s wholesale conservation programs should be grounded on a requirement that each retail agency pay for its own state-mandated 20 x 2020 compliance

- The LTCP should account for the 20x2020 compliance target as determined by the member agency, or by the retail subagencies served by the member agency. The MWD target cannot be established until the retail agencies have selected their respective compliance targets and methodologies. MWD should make it clear that retail agency compliance with statutory requirements is the foundation of the LTCP.

- The LTCP should provide a structure to integrate retail compliance with 20x2020 requirements and allow for trading of conservation credits. MWD should not pay subsidies to retail agencies to meet compliance requirements. MWD can facilitate retail compliance by creating a structure to allow for voluntary trading of conservation credits among member agencies.

- MWD’s LTCP as drafted encourages free riders and creates disincentives to water conservation in Southern California. Wholesale pricing that understates the true cost of supply can send a contrary price signal and obstruct market transformation at the retail level.

- MWD must determine whether it has authority to grant subsidies. Before adopting the LTCP, MWD must evaluate its legal authority to pay subsidies to member
agencies or retail sub-agencies to pay for 20x2020 compliance. This analysis is particularly important because of the recent passage of Proposition 26 by California voters.

- **Retail agencies are in the best position to implement market transformation.** Consumer conservation measures are imposed and implemented at the retail level. MWD can support implementation at the local level by working with industry groups and statewide retail suppliers like Home Depot and Rainbird. But MWD does not have the authority to regulate conservation at the retail level, and retail agencies need to have maximum flexibility as conservation programs make short term water use reductions more challenging.

**Measurement and verification are essential components of conservation**

- Sound conservation programs require measurement and verification of conservation savings. Measurement of water conservation solely by reference to average per capita water use throughout the MWD service territory as proposed by the LTCP is an insufficient foundation to support the expenditure of regional dollars and does not recognize the legal obligation all retail agencies have under current state law.

- MWD must implement a system to account for MWD water supplies that are available to each of its member agencies in order to have a baseline against which to measure conservation. MWD’s water supply allocation plan should accommodate voluntary trading among member agencies.

**MWD must send correct pricing signals in order to lay the foundation for conservation**

- Price to the end user is a significant factor affecting conservation – as the price of water goes up many consumers will choose to use less. Significant research on retail price elasticity has already established this premise. MWD must reform its wholesale rate structure to send correct pricing signals to its member agencies to develop local supplies or increase conservation efforts. Wholesale pricing is an important component of market transformation at the retail level.

- MWD should eliminate subsidies for water conservation. Instead, MWD should create and manage a “grid” through which retail conservation can be valued and traded. This is a more appropriate and productive role for MWD and truly represents something it has the unique ability to do as a regional agency serving all of Southern California.

**MWD must rewrite the LTCP to define key terms and distinguish conservation options**

- The LTCP must define key terms and distinguish various conservation approaches in order to assess which programs are better implemented by MWD at the wholesale level and which programs are better implemented at the retail level. As drafted, the LTCP does not distinguish regulations, subsidies, devices and full scale water
reclamation projects, even though these various methods of conservation have dramatically different costs and implementation considerations at the wholesale and retail level.

- In its current form the LTCP essentially says that MWD will make the conservation plan up as it goes along and essentially do “more” of what it has been doing in the past. This approach fails to grapple with problems of the past or provide creative leadership for the future of California water supply planning and management.

At this time MWD staff believes the LTCP will be forwarded to their Board in February 2011 as an information item and then for approval in March 2011.

Prepared by: William J. Rose, Water Conservation Program Executive
Reviewed by: Sandra L. Kerl, Deputy General Manager
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Water Conservation Garden future organization and funding. (Action)

Recommendation
Approve the key components of Operating Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)), approve 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.

Alternatives
1. Don’t approve the key components of the Operating Agreement between the Garden Authority and the Friends of the Water Conservation Garden. The Friends final acceptance of the Operating Agreement may be influenced whether the Water Authority endorses the key components of the Operating Agreement.
2. Approve the key components of the Operating Agreement but not provide an indication of support for future funding.

Fiscal impact
The Operating Agreement between the Garden Authority and the Friends of the Water Conservation Garden contemplates the following future funding from the Water Authority. For the next two-year budget period, Fiscal Years 2012 and 2013, the total amount is $368,871. For Fiscal Years 2014 and 2015 the total amount is $309,113.

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<th>FY 2013</th>
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<td>$57,797</td>
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<td><strong>Total</strong></td>
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All future expenditures for the Garden Authority will be funded by the Water Conservation Program and the Operating Budget. The rate category is Customer Service.

Background
In the spring of 2009 staff reviewed the Water Authority’s contribution to the Water Conservation Garden and conducted a thorough analysis of the Garden’s activities and various funding sources. All indications were the Garden required additional funding to maintain the activities and services provided at the time. The Water Authority continued to provide its regular Water Conservation Garden Authority annual dues of $105,000 and supplemented that amount with an additional $63,000 to cover Garden expenses during the first half of fiscal year 2010. During that time the Water Authority spent $15,000 to fund the preparation of a Strategic Plan for the Garden.

The Garden’s Strategic Plan was completed in September 2009 and 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 the Garden Authority.
Authority 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 funding from private donations.

In October 2009 the LCO Committee held a special meeting regarding conservation. The Garden’s transition from being run by the Garden Authority to a non-profit entity was discussed. The LCO Committee, and subsequently the Board, authorized the reallocation of $250,000 within the Water Conservation Program budget to the Garden to assist them as they made the transition to a non-profit structure. Specifically, $155,000 was designated to hire a Development Director to initiate fund raising activities, and $95,000 was designated for Garden operating expenses over 18 months. The other Garden Authority members, Helix, Otay, Sweetwater Authority and the City of San Diego also contributed, in total, $93,000 to be used for operating expenses.

The non-profit Friends of the Water Conservation Garden has existed for a number of years and has been a significant contributor to the Garden’s private fund raising efforts. The Friends participated throughout the Strategic Plan process and have agreed to become the entity that will operate the Garden in the future. The Garden Authority and the Friends have negotiated an Operating Agreement which defines each entity’s roles and responsibilities regarding the future operations of the Garden facilities. The Operating Agreement also contemplates funding, from both private sources and the Garden Authority members, for the next four fiscal years.

Discussion
The Operating Agreement’s key components include:

• The Friend’s operation of the Garden is subject to the License Agreement between the Garden Authority and the Grossmont Cuyamaca Community College District. The District is the underlying land owner and leases approximately 5 acres at no cost to the Garden Authority for the Garden facilities.
• The term of the Operating Agreement is five (5) years concluding on December 31, 2016.
• The Friends are responsible for all aspects of the operations and maintenance of the Garden, including the employees.
• The Friends must obtain approval from the Garden Authority in advance for any buildings or exhibits that exceed $35,000 in value.
• The Garden Authority will annually review the budget for the Garden, and it can request revisions.
• The Garden Authority can audit the Friends operation of the Garden at any time.
• Funding from the Garden Authority members is contemplated according to Attachment 1.

The Friends of the Water Conservation Garden understand the Garden Authority member agencies may not be able to commit funding outside their normal budgeting processes. However, an indication of the Board’s willingness to consider funding according to Attachment 1 is important to the Friends before their final acceptance of the Operating Agreement. The supplemental contributions by the Garden Authority member agencies are structured to taper off over a four-year period, while the Friend’s private fundraising efforts are solidified during very tough economic conditions. Continued funding via regular dues by all the Garden Authority members has been assumed.
The Water Authority currently is the Garden staff’s employer, and the Garden Authority reimburses the Water Authority for all expenses. As part of this transition the Garden staff will become employees of the Grossmont Cuyamaca Community College District Auxiliary by the end of December this year. Human Resources staff from the Auxiliary and the Water Authority, along with the Garden’s Executive Director, have closely coordinated to ensure a smooth transfer and minimize disruptions.

Prepared by:  James Bowersox, Board Member

Attachment: 1. DRAFT Cost Distribution Between Water Agencies and Other Income at the WCG 8/31/10.
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<td>58%</td>
<td>55%</td>
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</table>

msw 8/12/10
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Results of the November 2010 Election (Information)

Discussion
This report provides information on the results of the national and statewide general election that took place on November 2, 2010.

Nationwide Results
In the United States Senate, the Republicans increased their representation from 41 to 47 (as of November 18) and the Democrats decreased their representation from 59 to 53. The Democrats still maintain a majority in the Senate. In California, Barbara Boxer (D) defeated Carly Fiorina (R) by a margin of 52.1 percent to 42.5 percent.

In the House of Representatives, the Republicans increased their representation from 178 to 239, taking control of the House. The Democrats decreased their numbers from 255 to 195. This was the biggest change in party representation since 1948. It was also the first mid-term election in history where the House changed party control without the Senate also changing party control, as well. There are a few contests that are still undecided as of November 18, including two in California, so the above figures may change.

The California contests that are still too close to call are:

- District 11: Jerry McNerney (D-Incumbent) vs. David Harmer (R). Jerry McNerney is ahead by 1,783 votes as of December 18.
- District 20: Jim Costa (D-Incumbent) vs. Andy Vidak (R). Jim Costa is ahead by 2,422 votes as of December 18.

As to state Governors, the Republicans picked up seven states for a total of 31 states, while the Democrats lost 8 states, for a total of 18 states. Rhode Island’s governor is an Independent.

California Results
Generally, California did not follow the national trend with respect to Republicans replacing Democrats in Congress or in state government. If the two races that are still too close to call are won by the incumbents, all incumbents will have returned to the House of Representatives, with no change to the party balance. Only two races out of 53 did not have an incumbent running, and in each of those the party that previously controlled the district retained its control.
If Kamala Harris (D) wins the final vote for Attorney General, the Democratic party will have won all the constitutional offices in the executive branch of the state government. Previously, the Governor and Lieutenant Governor were Republicans.

The state Senate did not change in terms of party balance. In the Assembly, the Democrats picked up one Republican seat and one Independent seat. In neither house did one party pick up enough seats to obtain a two-thirds majority.

**Governor**
Jerry Brown (D), the current Attorney General, defeated Meg Whitman (R) by a margin of 53.7 percent to 41.2 percent.

**Other Constitutional Offices**
- Lieutenant Governor: Gavin Newsom (D)
- Secretary of State: Debra Bowen (D-Incumbent)
- Controller: John Chiang (D-Incumbent)
- Treasurer: Bill Lockyer (D-Incumbent)
- Attorney General: As of November 18, still too close to call. Kamala Harris (D) leads Steve Cooley (R) by 30,240 votes, or a margin of 0.4 percent.  
- Insurance Commissioner: Dave Jones (D) 
- Superintendent of Public Instruction: Tom Torlakson (non-partisan office)

**San Diego Delegation:**

**Senate**
Joel Anderson (R) won Dennis Hollingsworth’s Senate seat. Mark Wyland (R) kept his seat for another term. Juan Vargas (D) won Denise Ducheny’s Senate seat. Christine Kehoe’s seat was not up for election.

**Assembly**
Marty Block (D), Nathan Fletcher (R), Martin Garrick (R), and Diane Harkey (R) kept their seats in the Assembly. Brian Jones (R) will replace Joel Anderson in the Assembly. Toni Atkins (D) will replace Lori Saldaña, and Ben Hueso (D) will replace Mary Salas.

Martin Garrick has been replaced as Assembly minority leader by Connie Conway (R) of Tulare.

**Initiative Measures**
The ballot measures that passed, Propositions 20, 22, 25, and 26, could have a major impact on the state’s finances in coming years. Although Proposition 25 lowers the threshold for passing a state budget from two-thirds to a simple majority, it does not allow legislators to raise taxes without a two-thirds vote. Propositions 22 and 26 increase the constraints on the Legislature’s ability to acquire revenues.
Proposition 20
In 2008, the voters approved Proposition 11, which created the California Citizens Redistricting Commission. Previously, the state Constitution gave the Legislature the authority to redraw districts every 10 years. Each district must have approximately the same number of voters as each other district.

In 2001, the two parties in the Legislature reached an agreement under which they divided the state into districts that were heavily weighted toward one party or the other. Each district was effectively safe against a change in party control. Since then, the districts have remained in the hands of the party to which they were assigned in 98 percent of the elections.

Proposition 11 took the authority to redraw districts away from the Legislature and gave it to a citizens’ redistricting commission. In theory, the commission will draw districts that are more balanced among voters from each party. However, Proposition 11 did not address the redistricting of Congressional districts, which remained in the hands of the Legislature.

Proposition 20 amends the state Constitution to place the authority to redraw California Congressional districts with the Redistricting Commission. This may have an effect on the partisan balance among the California Congressional delegation, and give the voters a greater choice among the candidates and the parties in a general election. Proposition 27, which was defeated, would have abolished the California Citizens Redistricting Commission and given the redistricting authority back to the Legislature.

Proposition 22
Proposition 22 amends the state Constitution to prohibit the state government from taking revenues from local governments to balance the state budget. Revenues that are now off limits to the state government include the following:

- Revenues derived from local taxes, such as hotel taxes, parcel taxes, utility taxes, and sales taxes.
- Local public transit and transportation funds, such as Proposition 42 gas taxes and the HUTA gas tax.
- Property tax revenues that are dedicated to redevelopment.

This new law will make it more difficult for the Legislature and Governor to find revenues to balance the state budget. In recent years, the state has taken or borrowed local government revenues several times. In the 2010-2011 and 2011-2012 budget years, the measure will cost the state $800 million, but, of course, it will have the corresponding savings to local governments.

The Water Authority board of directors adopted a position of Support on this initiative measure on February 25, 2010.
Proposition 25

Proposition 25 amends the state Constitution to allow the passage of the state budget by a majority vote of the Legislature. Since 1962, the state Constitution has required a two-thirds majority vote for any appropriation (other than for public schools.) Because neither party in the Legislature has ever had a two-thirds majority since this requirement was instated, the minority party has been able to block passage of the budget until the majority party could persuade enough members of the minority party to cast their votes in favor of the budget. This has led in recent years to prolonged stalemates, during which the state was unable to pay certain of its bills for lack of appropriations. In 2010, the stalemate lasted a record 100 days.

Under Proposition 25, the majority party will be able to pass a budget by a majority vote. This should make it easier for the Legislature to pass the budget by the constitutional deadline of June 15 each year. If the Legislature does not pass a budget by June 15, the members of the Legislature will not be paid a salary or per diem expenses for each day after June 15 until the budget is passed. The actual enactment of the budget is, of course, dependent on the Governor’s signature, but any delay caused by the Governor’s refusal to sign will not be subject to the penalty on the Legislature.

However, any change in taxes that increases revenues will still require a two-thirds majority of the Legislature. This requirement was amended into the state Constitution by Proposition 13 in 1978, and it is not changed by Proposition 25. Also, the passage of Proposition 26 means that the Legislature may not substitute fees for taxes in order to circumvent the two-thirds majority requirement. The inability to raise revenues without a two-thirds vote means that the Legislature will either have to curtail spending to fit within the projected revenues for the fiscal year, or seek a two-thirds vote to increase revenues. Of course, the Legislature can also borrow money or use creative accounting gimmicks as it has in the past.

Proposition 26

Proposition 26 amends the state Constitution to define a “tax” as “any levy, charge, or exaction of any kind imposed by the State . . .” or a local government, with certain exceptions. This broad definition of “tax” is intended to include many fees that are charged by the state and by local governments. The state Constitution already requires that any changes to a tax that increase revenues from that tax, must be approved by a two-thirds vote of the legislative body.

There are seven exceptions to this broad definition:

1. Fees imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring or granting the privilege. This would include fees associated with planning and police permits, franchises, and parking passes. It also rules out free benefits or privileges such as parking passes for senior citizens or lower-income households.

2. Fees imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs
to the local government of conferring or granting the privilege. These fees would include utility fees that are not subject to Proposition 218, park and recreation fees, transit fees, emergency response fees, and others.

3. Fees imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits. This would include building permit fees, fire inspection fees, etc.

4. Fees imposed for entrance to or use of government property, or its purchase, rental, or lease. This would include franchise fees for rights to use rights-of-way, such as gas, cable, electric, or pipeline franchises.

5. Fines, penalties, or other charges imposed for violations of law.

6. Fees imposed as a condition of property development.

7. Assessments or property related fees subject to Prop. 218. This will include retail fees for water, sewer, or trash services.

These exceptions will require interpretation, because they are heavily conditioned. Many fees that are widely accepted and charged today by the state and by local governments may be challenged, and many may be found invalid. The Water Authority is working with ACWA, CSAC, the League of Cities and others to understand the ramifications of this new law.

Prepared by: Jeffrey A. Volberg, Government Relations Manager
Reviewed by: Dennis A. Cushman, Assistant General Manager
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Government Relations Update (Information)

Discussion
This report is an update of the Water Authority’s government relations program.

General Election
The 2010 statewide general election took place on November 2, 2010. On a national level, the election resulted in a major shift of power in the House of Representatives. In California, the Democratic party retained its majority, but the passage of certain initiatives substantially changed the way California’s government will function in the future. The election will be more fully discussed in a separate board memo.

State Budget
In November, the Legislative Analyst’s Office released an analysis of the newly enacted state budget that showed there will be a deficit of $25.4 billion in the 2010-2011 and 2011-2012 fiscal years. Of that amount, a $6 billion deficit already exists in the current fiscal year, because the budget was based on revenue assumptions that have already proved to be too high. Also, Proposition 22 removed from the Legislature the power to take local funds, which will prevent the Legislature from taking $800 million from the Highway Users Tax Account (HUTA) and local transportation taxes.

As to the other initiatives, Proposition 26 takes away the Legislature’s ability to substitute fees for taxes without a two-thirds vote, making it even more difficult to raise revenues to balance the budget. On the other hand, Proposition 25 will allow the Legislature to pass a budget with a majority vote, which may help the Legislature pass budgets on time. However, Proposition 25 does not allow the Legislature to raise revenues without a two-thirds vote, which means the only means the Legislature will have of balancing a budget on a majority vote will be borrowing and spending cuts.

In the longer term, certain taxes that were enacted in 2008 to balance the budget will expire in 2011. An extension of the taxes was put to a vote of the people in 2008, but was rejected. The LAO projects continuing structural deficits on the order of $20 billion annually.

In response, the Governor has called a special session of the Legislature to address the budget. The Legislature will meet on December 6 to swear in new members, at which time they will call the special session into order. However, it is unlikely the Legislature will take any action on the budget before the new Governor takes office in January.
Lobbyist Activities
Jonathan Clay of Carpi and Clay will provide a separate report of the firm’s monthly activities.

Bob Giroux of Lang, Hansen, O’Malley & Miller reports that he performed the following lobbying activities on behalf of the Water Authority in November:

- Met with Water Authority staff to discuss strategies for the 2011 legislative session.
- Provided insights and commentary on the November elections.
- Participated in a conference call with board Chair Michael Hogan and Legislation, Conservation and Outreach Committee Chair Marilyn Dailey regarding developments in Sacramento.

John White’s activities in November included:

- Met with Water Authority staff to discuss strategies for the 2011 legislative session.
- Provided insights and commentary on the November elections.
- Participated in a conference call with board Chair Michael Hogan and Legislation, Conservation and Outreach Committee Chair Marilyn Dailey regarding developments in Sacramento.

Washington, D.C.
The election resulted in a major shift in power in Congress. The Republicans took back the majority in the House of Representatives and gained seats in the Senate.

Congress reconvened in a “lame duck” session on November 15. The Congress will most likely conclude the lame duck session by passing a “concurrent resolution” to keep the federal government operating under the most recent year’s budget until the new Congress can meet in January and address the budget. The lame duck session may also address the expiration of the previous administration’s tax cuts.

Ken Carpi of Carpi & Clay will provide a separate report of the firm’s monthly activities in Washington, D.C.

Prepared by: Jeffrey A. Volberg, Government Relations Manager
Reviewed by: Dennis A. Cushman, Assistant General Manager
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Small Contractor Outreach and Opportunities Program Quarterly Report (Information)

Background
The purpose of the SCOOP program is to maximize small business participation on Water Authority contracts and procurements through networking, training, and technical assistance. This report provides a summary of the SCOOP activities and program measurements from July 1, 2010 through September 30, 2010.

Discussion
During the first quarter, staff devoted considerable effort to preparing for the annual Paths to Partnerships Regional Forum, which attracted more than 600 attendees. In the months prior to the Paths forum, Water Authority representatives reached out to 19 organizations at 23 separate events to create awareness and increase registration for Paths, SCOOP, and Water Authority procurements.

SCOOP continues to experience heightened interest from businesses in doing business with the Water Authority. A new tool that is helpful to firms in learning about our procurement process is the Water Authority’s renovated website. The site includes a Business Opportunities section with a Purchasing overview, SCOOP page, and vendor registration information. Businesses can also subscribe to an RSS feed that alerts them to updates on the upcoming contracting opportunities listing.

The Water Authority’s cumulative contract and purchase order awards for the quarter was approximately $3 million. This amount is not at the level of first quarter awards of previous fiscal years, but the smaller contracts resulted in small business success. Small businesses received more than $1.4 million, or 47 percent, of total dollars awarded by the Water Authority. Minority and women-owned businesses received nearly $390,000, or 13 percent of total dollars awarded.

Further details of SCOOP statistics are given in Exhibit A (SCOOP Program Measurements Summary). Information on minority-owned and women-owned businesses is made available to the Board for statistical purposes only.

Prepared by: Emily Yanushka, SCOOP Manager
Reviewed by: Jason Foster, Director of Public Affairs

Attachment
1. Exhibit A – SCOOP Program Measurements Summary
EXHIBIT A  
SCOOP Program Measurements Summary  
July 1, 2010 – September 30, 2010

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<tr>
<td></td>
<td>Total</td>
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<tr>
<td>1. Number of qualified small businesses capable of bidding on Water Authority projects</td>
<td>5809</td>
<td>2295</td>
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<tr>
<td>2. Number of bidders submitting bids and proposals for contracts</td>
<td>52</td>
<td>30</td>
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<td>3. Number of businesses participating on Water Authority procurements (contracts and purchase orders)</td>
<td>92</td>
<td>32</td>
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<td>4. Number of contracting opportunities</td>
<td>11</td>
<td>5</td>
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<td>5. Amount committed to small businesses</td>
<td>$2,992,462</td>
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<tr>
<td></td>
<td>Total</td>
<td>M/W</td>
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<tr>
<td>1. Number of qualified M/W businesses capable of bidding on Water Authority projects</td>
<td>5809</td>
<td>1420</td>
</tr>
<tr>
<td>2. Number of bidders submitting bids and proposals for contracts</td>
<td>52</td>
<td>11</td>
</tr>
<tr>
<td>3. Number of businesses participating on Water Authority procurements (contracts and purchase orders)</td>
<td>92</td>
<td>9</td>
</tr>
<tr>
<td>4. Number of contracting opportunities</td>
<td>11</td>
<td>3</td>
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<tr>
<td>5. Amount committed to minority and women-owned businesses</td>
<td>$2,992,462</td>
<td>$389,194</td>
</tr>
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</table>
December 1, 2010

Attention: Legislation, Conservation and Outreach Committee

Quarterly report on Public Affairs outreach activities (Information)

Background
From September 2010 through November 2010, Public Affairs supported Water Authority programs and projects, 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, Public Affairs worked with Administrative Services’ Information Systems staff to launch the re-developed Water Authority website and hosted the annual Paths to Partnerships regional small-business forum, which drew approximately 600 participants.

Public Affairs staff also began planning and production on the 2010 Annual Report and 2011 public opinion poll. Staff also worked on public communications for a variety of issues.

Media Relations
The Water Authority distributed six news releases. The subjects of the news releases were:
- Water Authority Board elects new officers
- Registration for the Paths to Partnerships regional small-business forum
- Program information for Paths to Partnerships
- An agreement to install solar systems at three Water Authority facilities
- The Water Authority earning an AMWA Gold Award for Exceptional Utility Performance
- The launch of the re-developed Water Authority website

Public Affairs provided a letter to the editor of The San Diego Union-Tribune by Chair Hogan that responded to an op-ed by Metropolitan Water District of Southern California General Manager Jeff Kightlinger. Public Affairs staff coordinated an interview with U.S. Infrastructure magazine with the Water Authority’s General Manager on water supply issues and challenges for the future.

Public Affairs staff also coordinated individual briefings by the Assistant General Manager for reporters from The San Diego Union-Tribune and the North County Times regarding the MWD rate lawsuit and the MWD Integrated Resources Plan. Staff coordinated a meeting with a new investigative reporter from The San Diego Union-Tribune to orient the reporter to the Water Authority and regional water issues. Staff also assisted Colorado River Program staff in preparing the Water Authority’s participation in a joint news conference with the Bureau of
Legislation, Conservation and Outreach Committee
December 1, 2010
Page 2 of 4

Reclamation, U.S. Customs and Border Protection, Bureau of Land Management, Imperial Irrigation District and the Consulate of Mexico in Calexico to announce a new consortium to promote All-American Canal safety.

Overall, staff tracked 29 media reports resulting from Water Authority communications or media requests. There were 22 print articles, five website stories, and two broadcast stories.

Key subjects covered during the period include:
- Planned solar power installation at three Water Authority facilities
- Paths to Partnerships regional small-business forum
- Status of water purchase agreement with Poseidon Resources
- Launch of new Water Authority website
- MWD rate lawsuit and Integrated Resources Plan
- Reductions in urban water use
- Proposed development of a seawater desalination plant in Baja California
- Water Authority earns AMWA Gold Award for Exceptional Utility Performance

Publications and Online Communications
Staff distributed WaterSource, the Water Authority’s water-issues e-newsletter, in October. Staff also completed monthly distributions of GM’s News and Notes to board members and member agency general managers and Connections to employees.

On October 27, staff launched the new Water Authority website. Public Affairs staff is coordinating ongoing enhancements to the site and internal training to enable staff from other departments to update their sections.

Staff made regular updates to the Water Authority Facebook page, and posted photos of Water Authority projects and WaterSmart landscape retrofit gardens to Flickr, a social media photo sharing site, and added those links to the new Water Authority website. Staff also updated the Water Authority water supply presentation available on SlideShare.

Community Relations
Board members and staff completed 16 presentations. Staff provided materials to support four member agency outreach events in the community, along with SDG&E’s LED light exchange at the Water Conservation Garden.

Water Authority board members participated in the AFL-CIO John S. Lyons Memorial Dinner, the San Diego Regional Hispanic Chamber of Commerce’s Illuminada Gala, the Chicano Federation’s Annual Gala, the Urban League Unity Luncheon, the San Diego County Farm Bureau’s Farmer of the Year Dinner, the Asian Business Association’s annual dinner, and the tribute dinner for retiring mayor of Carlsbad, Claude A. “Bud” Lewis, hosted by the Carlsbad Chamber of Commerce.
School Education
In September, staff distributed 14,000 education brochures to promote Water Authority programs to all teachers in San Diego County. Staff also began promoting the 20-Gallon Challenge promotion and the Be WaterSm“ART” essay contest. Classroom presentations, teacher workshops, the “H2O Where Did You Go?” theater program and the Splash Lab program reached 45 schools, 622 teachers and 16,380 students during the quarter.

MWD/Water Authority Inspection Trips
On November 5-6, Director Keith Lewinger hosted a Colorado River Aqueduct inspection trip. The 32 trip participants visited Water Authority projects and facilities, including the San Vicente Dam Raise construction site, Twin Oaks Valley Water Treatment Plant, and the relined segment of the All-American Canal. Additional stops included the Hiram W. Wadsworth Pumping Plant at Diamond Valley Lake, Gene Pumping Plant, Copper Basin Reservoir, Whitsett Intake Pumping Plant at Lake Havasu, Parker Dam, and the Palo Verde Diversion Dam.

Joint Public Information Council
Staff facilitated one meeting and two conference calls with member agency public information staff and conservation coordinators, providing monthly legislative, outreach, conservation and MWD program updates.

CIP Projects
San Vicente Projects
Staff continued working with outreach consultant Katz & Associates and the project team on preparations for the San Vicente Pipeline dedication on January 19, 2011. For the San Vicente Dam Raise, staff mailed a project update to neighbors and stakeholders describing upcoming construction activities and maintained contact with the Lakeside Planning Group. Staff also sent letters to county supervisors Dianne Jacob and Pam Slater-Price offering a project briefing and tour.

Overall ESP
Staff coordinated with Katz & Associates to distribute the Summer/Fall 2010 issue of the redesigned ESP Update newsletter.

Lake Hodges Pipeline and Pump Station
In September, staff placed doorhangers in the Mount Israel community to inform residents about work to reinforce the surge shaft site overlooking Olivenhain Dam. Staff and outreach consultant Katz & Associates produced an updated project fact sheet, updated the project web page, and continued monitoring the project information line and email for resident inquiries.

Mission Trails Projects
Staff updated Mission Trails Regional Park staff about trail closures and provided a project update to the Mission Trails Regional Park Citizens Advisory Committee and Task Force.
Pipeline 4 Relining SR 52 to Lake Murray
Staff created a project web page, notified community leaders about the availability of the project’s environmental documents, provided updates about the project to the MTRP Conservation Action Committee and Task Force, and created a project location display board.

Pipelines 3&4 Relining Miramar Hill to Scripps Ranch
Staff provided two presentations to the Nob Hill Homeowners Association board members to inform the community about a right of entry permit. The permit will facilitate construction activities within the Nob Hill community, located near Lake Miramar.

Prepared by: Denise Vedder, Public Affairs Manager
Reviewed by: Jason Foster, Director of Public Affairs
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 9, 2010

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 Formal Board of Directors’ meeting of October 28, 2010.

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-A Recognition of Sandy Lash, Senior Management Analyst, Employee of the 1st quarter.

8. REPORTS BY CHAIRS
   8-A Chairs report: Chair Hogan.

8-B Report by Committee Chairs
   Imported Water Committee Director McMillan
   Water Planning Committee Director Saunders
   Administrative and Finance Committee Director K. Williams
   Engineering and Operations Committee Director Arant
   Legislation, Conservation and Outreach Committee Director Dailey
9. CONSENT CALENDAR

9- 1. Award a professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 30-month period for a not-to-exceed amount of $300,000.00.

9- 2. Amend the Professional Services Agreement with Clean Energy Capital and RW Beck for technical services related to the preparation and negotiation of a potential Water Purchase Agreement with Poseidon Resources (Channelside) for desalinated seawater from the Carlsbad Desalination Project and associated financial and engineering due diligence activities.

Approve the third amendment to the Professional Services Agreement with Clean Energy Capital and increase the not-to-exceed amount from $299,500 to $600,000 for financial and economic analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities. Approve the second amendment to the Professional Services Agreement with RW Beck and increase the not-to-exceed amount from $125,407 to $250,000 for engineering and business analysis related to the preparation and negotiation of a Water Purchase Agreement with Poseidon Resources (Channelside) and complete the associated due diligence activities.

9- 3. Professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan update.

Award a professional services contract to CH2M Hill to provide planning services to prepare the 2012 Regional Water Facilities Optimization and Master Plan Update for a not-to-exceed amount of $1,863,000. Add $1.2 million to the 2012 Regional Water Facilities Optimization and Master Plan Update Budget.

9- 4. Resolution Certifying the Final Environmental Impact Report for the Natural Community Conservation Plan/Habitat Conservation Plan; Adopting Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approving the Project; and Authorizing Filing of a Notice of Determination and execution of an Implementing Agreement.

Adopt Resolution No. 2010-____ that: Certifies the Final EIR has been completed in compliance with the California Environmental Quality Act and State CEQA Guidelines, and reflects the independent judgment of the Board; Concurrently adopts the Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approves the Proposed Plan (Alternative 2), the Natural Community Conservation Plan/Habitat Conservation Plan that provides coverage for 63 species, as the selected project; Authorizes the filing of a Notice of Determination; and Authorizes the General Manager to execute an Implementing Agreement.
9-5. **Authorize submittal of Proposition 84 Integrated Regional Water Management Implementation Grant Application.**
Adopt Resolution No. 2010-_____ authorizing the General Manager to submit a Proposition 84 Integrated Regional Water Management Implementation Grant Application.

9-6. **Treasurer’s report.**
Note and file the monthly Treasurer’s report.

9-7. **Adopt the Vote Entitlement Resolution for Calendar Year 2011.**
Adopt Resolution No. 2010-___ establishing the vote and representative entitlements of each member agency effective January 1, 2011.

9-8. **Actions in response to IRS Employer Tax Audit.**
Adopt Resolution 2010-___ confirming tax treatment of mandatory employee cost share of retirement benefits.

9-9. **Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2011.**
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 2011.

9-10. **Adopt proposed 2011 Legislative Policy Guidelines.**
Adopt the proposed 2011 Legislative Policy Guidelines.

9-11. **Blueprint for Water Conservation: Review and Partnership Opportunities.**
For the rest of this fiscal year staff will concentrate their efforts on the following activities (designated as “core” by the majority of the Member Agency Managers): Residential Surveys, K-12 Education, Landscape Audits, MWD device-based incentives, Tools (WaterSmart Target, Customer Tools, Technical Resources, Website and Resource Lists). Staff will continue conservation programs and projects where contractually obligated pursuant to existing grants, MOUs, agreements, etc. Staff will develop a revised conservation strategic plan as part of the upcoming preparation of the Draft Fiscal Year 2012/2013 Operating Budget. Continue to seek out partnerships with entities like those shown in Attachment 1.

9-12. **Water Conservation Garden future organization and funding.**
Approve the key components of Operating Agreement between the Water Conservation Garden Authority and the Friends of the Water Conservation Garden (IRS 501(c)(3)), approve 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.
10. **ACTION / DISCUSSION**

10-1. **Audit Committee Annual Report.**

*Audit Committee recommendation:*
1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.

10-2. Biennial Review of Representatives to the Metropolitan Water District. (Action)

11. **CLOSED SESSION(S)**

11-A **CLOSED SESSION:***

Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California;
Case No. BS126888 (transferred to San Francisco CPF-10-510830)

11-B **CLOSED SESSION:***

Conference with Legal Counsel - Potential Litigation
Government Code §54956.9(b)(1) – OMWD – Elfin Forest Reserve

12. **Action following Closed Session**

13. **SPECIAL REPORTS**

13-A GENERAL MANAGER’S REPORT – Ms. Stapleton
13-B GENERAL COUNSEL’S REPORT – Mr. Hentschke
13-C SANDAG REPORT – Director Muir
   SANDAG Subcommittee: Borders/Regional Planning Committee –
   Director Saxod
13-D AB 1234 Compliance Reports – Directors

14. **OTHER COMMUNICATIONS**

15. **ADJOURNMENT**

Doria F. Lore
Clerk of the Board

**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.
MINUTES OF THE FORMAL BOARD OF DIRECTORS’ MEETING
OCTOBER 28, 2010

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE
CALL TO ORDER/ROLL CALL
Chair Dailey called the Legislation, Conservation and Outreach Committee to order at 9:00 a.m. Committee members present were Chair Dailey, Vice Chair Saxod, Directors Arant, Croucher, Dion, Hilliker, Tu, Watton, H. Williams, and K. Williams. Vice Chair Morrison, Directors Blackburn, Jungreis, Mudd, and Muir were absent. Other Board members present were Directors Bond, Boyle, Hannan, Heidel, Hogan, Lewinger, Linden, McIntosh, and Wight. At the time, there was a quorum of the full 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 Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Public Affairs Foster, Water Conservation Program Executive Rose, Government Relations Manager Volberg, SCOOP Manager Yanushka, Public Affairs Representative Otero, and Management Analyst Schnell.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to address the Committee.

CHAIR’S REPORT
Chair Dailey and Chair Hogan attended the October 5 annual awards dinner of the San Diego-Imperial Counties Chapter of the Public Relations Society for America (PRSA), where the Water Authority won three Edward L. Bernays Mark of Excellence awards. Chair Dailey introduced President of the San Diego-Imperial County chapter of the PRSA, Sara Wacker, to present the awards at the Committee meeting. Ms. Wacker presented the Bronze Bernays Award of Excellence in Annual Reports to the Water Authority and Public Affairs Representative Hubert for the 2009 Annual Report; the Silver Bernays Award of Excellence in Events or Observances of Seven or Fewer Days to the Water Authority and Sr. Public Affairs Representative Molise for the San Vicente Dam Groundbreaking event; and the Silver Bernays Award of Excellence in Integrated Communications to the Water Authority and Public Affairs Director Foster and Public Affairs Manager Vedder for the 20-Gallon Challenge Water Conservation Campaign. Ms. Wacker awarded the PRSA Chapter’s annual Diogenes Award to General Manager Stapleton in recognition of her demonstrated understanding of the need for candor when dealing with the public and the news media.

Chair Dailey reported that she and Director McMillan attended the Urban League of San Diego County Diversity Day Opportunity Awards event on October 13, 2010.
DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION

1. Legislative Issues.
   1-A Report by Carpi and Clay.

   Mr. Carpi reported that Congress adjourned on September 13 without passing any appropriations bills. He surmised that little more would happen except passage of a short-term budget resolution to cover government expenses until the new Congress met in January. Title XVI funding, the largest source of funding for water projects in San Diego County, according to the Bureau of Reclamation’s recent guidelines, would allocate approximately $20 million to the region in 2011 for current projects, and new projects that had not been authorized.

   Mr. Clay reported the anticipation in Sacramento was that California would be starting in January 2011 with a built-in deficit of approximately $10 billion. Also, expiration of a tax increase that was passed two years ago would give the 2011 Legislature some of the most difficult challenges yet to manage California’s budget, and would probably consume the Legislature’s attention all year.


   Mr. Volberg presented a draft annual update of the Legislative Policy Guidelines. He stated the 2011 preliminary draft presented was reviewed by member agency general managers and Water Authority staff, and suggested changes in the draft were based on positions the Board took on particular bills in the 2010 session. Mr. Volberg requested the Board members review the draft and provide input to staff by November 15, 2010. Staff would present the final draft of the Legislative Policy Guidelines to the Board for adoption on December 9, 2010.

III. INFORMATION


   Mr. Rose presented an update on the transition of managing regular operations of the Garden to the non-profit, Friends of the Water Conservation Garden. He added that Director Bowersox would be presenting an action item regarding funding of the Garden to the LCO Committee on December 9, 2010.
2. New Water Authority Website walk through presentation.

Ms. Otero demonstrated features of the Water Authority’s newly launched website to the board members.

3. SCOOP Annual Report.

Ms. Yanushka reported on SCOOP’s outreach activities during the year, participation figures on Water Authority procurements, and future program goals.


Ms. Schnell presented a status update on the final results of the 2009-2010 Legislative session. She stated that during the two-year session more than 180 bills were monitored, of which the Board took positions on 59 and sponsored 3. Ms. Schnell summarized the outcome of legislation that had been of interest to the Water Authority.

5. Government relations update.

The report was noted and filed.

V. ADJOURNMENT

There being no further business to come before the Legislation, Conservation and Outreach Committee, Chair Dailey adjourned the meeting at 10:00 a.m.

ADMINISTRATIVE AND FINANCE CALL TO ORDER/ROLL CALL

Chair Williams called the Administrative and Finance Committee meeting to order at 10:10 a.m. Committee members present were Chair K. Williams, Vice Chairs Hogan and Price, Directors Bond, Dion, Hilliker, Pocklington, Smith, Steiner, Wight, H. Williams, and Wornham. Committee members absent were Directors Bowersox and Lewis. At that time, there was a quorum of the Board, however only members of the Committee participated in the vote. Also present were Directors Arant, Boyle, Croucher, Dailey, Hannan, Heidel, Lewinger, Linden, McIntosh, Mudd, Saxod, Tu, and Watton. Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Finance/Treasurer Sandler, Director of Human Resources Leone, Director of Administrative Services Young, Financial Planning Manager Shank, and Jenny Poree, Senior Vice President of Montague DeRose and Associates, LLC.

ADDITIONS TO AGENDA

Chair Williams announced an Employment Tax Audit item would be added to the agenda.
Ms. Stapleton provided a brief presentation explaining the Employment Tax National Research Project and reviewed the findings of an Internal Revenue Service audit based on calendar years 2008 and 2009. Ms. Stapleton stated the key findings were related to the classification of Board members, terminal pay plan, pant reimbursement, and take-home vehicles. Mr. Hentschke outlined changes to the classification of Board Members, effective November 1, 2010, to comply with IRS requirements.

Directors asked questions and Mr. Hentschke provided answers.

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
1. Treasurer’s report.
   Staff recommendation: Note and file the monthly Treasurer’s report.

2. Establish 2011 Board meeting dates.
   Staff recommendation: Combine the November and December Board meeting dates to December 8, 2011, and approve the 2011 Board meeting dates calendar.

3. Amend Ordinance 2010-02 to correct an error in the allocation of the Storage, Customer Service, and Readiness-to-Serve charges to member agencies.
   Staff recommendation: Adopt Ordinance 2010-03 an Ordinance of the Board of Directors of the San Diego County Water Authority amending Ordinance 2010-02 to correct the allocation of the storage, customer service and readiness-to-serve charges.

   Director Steiner moved, Director Smith seconded, and the motion passed unanimously to approve the consent calendar.

II. ACTION/DISCUSSION
1. Approve the selection of Montague DeRose and Associates, LLC to provide financial advisory services.
   Staff recommendation: Authorize the General Manager to award a multi-year professional services contract to Montague DeRose and Associates, LLC for a base amount not-to-exceed $350,000 for the three-year period from November 1, 2010 to October 31, 2013. The contract has two one-year renewal options.

   Mr. Sandler provided a brief presentation on the item.
III. INFORMATION


Mr. Shank provided a presentation on the state of the capital markets, highlights of the commercial paper program performance, and next steps related to debt management. Directors asked questions and Mr. Shank provided answers. Director Lewinger requested additional information on the effects of variable interest rates on the commercial paper program debt.

Chair Williams announced Director Bond would provide an Audit Committee update. Director Bond, Audit Committee Chair, outlined the committee’s activities in selecting Mayer Hoffman McCann as the Water Authority’s external auditor. Director Bond announced the Audit Committee would present an annual report of its activities, as well as the Comprehensive Annual Financial Report for fiscal year 2010, at the December Board meeting.

The following items were noted and filed:

2. Controller’s report on monthly financial statements.

3. Review of Water Authority memberships.

4. Report on purchase orders and contracts for goods and services above $10,000 awarded between July 1, 2010 and September 30, 2010.

5. Public Disclosure Reports.
   5-A Reimbursements to Board members and staff per Government Code Section 53065.5.
   5-B Board of Directors’ Third Quarter 2010 Payments and Attendance.

6. Board calendar.

IV. There was no closed session.

V. ADJOURNMENT

There being no further business to come before the Administrative and Finance Committee, Chair Williams adjourned the meeting at 10:43 a.m.
FORMAL BOARD
AGENDA ITEM NUMBER 5
OCTOBER 28, 2010

WATER PLANNING COMMITTEE
CALL TO ORDER/ROLL CALL

Acting Chair Lewinger called the Water Planning Committee to order at 10:50 a.m. Committee members present were Acting Chair Lewinger and Directors Boyle, Dailey, Hannan, Heidel, Linden, Steiner, Muir and Watton. Directors Lewis, Petty and Saunders were absent. Director McMillan arrived at 11:15 a.m. Also present were Directors Arant, Bond, Croucher, Dion, Hilliker, Hogan, McIntosh, Mudd, Pocklington, Price, Saxod, Smith, Tu, Wight, H. Williams, K. Williams and Wornham. 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 Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Water Resources Weinberg, Water Resources Managers Purcell, Roy and Yamada, Senior Water Resources Specialist Bombardier and Water Resources Specialist Dobalian.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
Member of the public, Livia Borak of Coast Law Group, opted to withhold her comments until such time as the Desalination Project Information item would be discussed.

CHAIR’S REPORT
Acting Chair Lewinger announced that two Committee workshops on the Carlsbad Desalination Project Water Purchase Agreement, tentatively planned for November 10 and November 18, 2010, would be scheduled at later dates. In addition, the Committee in December would consider approval of the grant application for the first round of Proposition 84 Integrated Regional Water Management implementation projects for approximately $8 million for a variety of water supply, watershed protection and water quality projects submitted by the Water Authority, its member agencies and other local governmental and non-governmental entities.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION
There were no Action/Discussion items.

III. INFORMATION
1. Presentation on the results of the San Diego Foundation Survey on Climate Change by Scott Peters, Chair, The San Diego Foundation Climate Initiative.
Mr. Belock introduced Scott Peters who presented information and a policy memo on the Climate Initiative project and its September 2010 survey results.

2. Status report on Carlsbad Desalination Project.

Member of the Public, Livia Borak of Coast Law Group addressed the board.

Mr. Weinberg provided an update on the status of the Carlsbad Desalination Project Term Sheet Implementation. Staff and representatives from Poseidon responded to questions posed by directors. Board Chair Hogan confirmed that he had appointed a Carlsbad Desalination Project Advisory Group chaired by Director Bowersox with Directors Arant, Saunders, Wornham and himself, to work with staff on public workshops and any agreement that would be presented to the board. Staff confirmed that negotiations could not be undertaken and workshops could not be scheduled until all of the Term Sheet conditions precedent had been met, and all of the complex information related to costs would be available.

   3-A Presentation on water supply conditions.

Ms. Dobalian presented an overview of the 2010 water year and conditions projected for the 2011 water year. Mr. Bombardier followed with information on water supply allocations for the 2011 fiscal year. At Director Lewinger’s request, Ms. Stapleton agreed the Engineering and Operations Committee December meeting would include a formal presentation on water quality in relation to demand.

The following items were received and filed:

3-B Fiscal Year 2011 water supply allocations monitoring.


IV. CLOSED SESSION
There were no Closed Session items.

IV. ADJOURNMENT
There being no further business to come before the Water Planning Committee, Acting Chair Lewinger adjourned the meeting at 12:22 p.m.
ENGINEERING AND OPERATIONS COMMITTEE
CALL TO ORDER/ROLL CALL

Chair Arant called the Engineering and Operations Committee to order at 1:03 p.m. Committee members present were Chair Arant, Vice Chair Smith, Directors Hannan, Hogan, Knutson, McIntosh, Pocklington, and Wornham. Director Mudd arrived at 1:18 p.m. Directors Bowersox, Jungreis, Morrison, and Saunders were absent. Other Board members present were Directors Bond, Boyle, Dion, Heidel, McMillan, Muir, Saxod, and Wight. Other Board members arriving after roll call were Directors Dailey, Hilliker, Lewinger, Price, Tu, Watton, H. Williams and K. Williams. Prior to the first vote, 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 Hentschke, Deputy General Managers Kerl and Belock, Assistant General Manager Cushman, Director of Engineering Stift, Right of Way Supervisor Brierton, Director of Operations and Maintenance Eaton, and Principal Construction Manager Kenny.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to address the Committee.

CHAIR’S REPORT
There was no Chair’s Report.

I. CONSENT CALENDAR
1. Notice of Completion for the Mission Trails Pipeline Tunnel project.
   Staff recommendation: Authorize the General Manager to accept the Mission Trails Pipeline Tunnel project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods and Sons, Inc. following the expiration of the Notice of Completion period.

   Vice Chair Smith moved to approve the consent calendar, Director Knutson seconded, and the motion passed unanimously.

II. ACTION/DISCUSSION
There were no Action/Discussion agenda items.
III. INFORMATION
   1. Presentation on Emergency Response Program.

   Mr. Eaton gave a presentation on the Emergency Response Program which included information regarding threats to the aqueduct system, National, State and regional emergency response, response levels, heightened operations, examples of operational failure, the Emergency Storage Project, emergency communication and the emergency alert website. The Committee and Board followed up with several questions.

IV. CLOSED SESSION
   Mr. Hentschke took the Committee into Closed Session at 1:23 p.m.

   1. CLOSED SESSION:
      Conference with Legal Counsel – Potential Litigation
      Government Code §54956.9(b) - San Vicente Pipeline Mortar Lining Claim

      The Committee reconvened at 1:36 p.m. Mr. Hentschke stated the Committee unanimously recommended approval to authorize the General Manager to execute the Cement Mortar Lining Agreement with Traylor Shea Joint Venture dated October 20, 2010.

V. ADJOURNMENT
   There being no further business to come before the Engineering and Operations Committee, Chair Arant adjourned the meeting at 1:37 p.m.

IMPORTED WATER COMMITTEE
CALL TO ORDER / ROLL CALL
   Chair McMillan called the Imported Water Committee meeting to order at 1:45 p.m. Committee members present were Directors Bond, Boyle, Croucher, Heidel, Knutson, Lewinger, Linden, McIntosh, Price, Saxod, Tu, and Wight. Directors Blackburn and Petty were absent. Also present were Directors Arant, Dailey, Dion, Hannan, Hogan, Mudd, Muir, Pocklington, Smith, Steiner, Watton, H. Williams, K. Williams, and Wornham. At that time, there was a quorum of the full Board, and the meeting was conducted as a meeting of the Board, however, only committee members participated in the vote. Staff present included General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Colorado River Program Director Razak, MWD Program Chief Chen, and others.

ADDITIONS TO AGENDA
   There were no additions to the agenda.

PUBLIC COMMENT
   There were no public comments.
CHAIR’S REPORT

Chair McMillan reported that the Seven Basin States recently met with Secretary of Interior Ken Salazar to discuss dry-year water management strategies for the Colorado River and water shortage provisions for Mexico. He said that Lake Mead was at its lowest level in nearly 75 years and was now eight feet above the level that would trigger the first drought restrictions, which would reduce water supplies for Arizona and Nevada.

4-A Director’s comments. There were no Director’s comments.

I. CONSENT CALENDAR

There were no items on the consent calendar.

II. ACTION/DISCUSSION

1. MWD Issues and Activities update.
   1-A Metropolitan Water District’s Delegates report.

   The delegates reported on discussions and actions taken at the recent MWD board meetings.

   1-B Update on Metropolitan Water District’s 2010 Integrated Resources Plan.

   Ms. Chen gave a presentation on MWD’s 2010 Integrated Resources Plan that was adopted at the October MWD board meeting. She reviewed the plan’s recommendations including the development of supplies beyond forecasted needs, and the delegates’ opposition to its adoption.

2. Colorado River Programs.
   2-A Colorado River Board representative’s report.

   Director Knutson discussed the 75th anniversary celebration event for the Hoover Dam that he recently attended.

   2-B Colorado River Programs quarterly report.

   Ms. Razak provided an update on the activities of the canal lining projects, environmental mitigation projects, and human safety management for the All American Canal. She reported on the binational process between the U.S. and Mexico and their negotiations on shortage guidelines and water storage for Mexico.

III. INFORMATION

The following items were noted and filed:

1. Bay-Delta quarterly update.
2. Metropolitan Water District program report.

The Committee went into closed session at 2:26 p.m.

IV. CLOSED SESSION
1. CLOSED SESSION:
   Conference with Legal Counsel – Initiation of Litigation
   Governance Code §54956.9(c)
   Metropolitan Water District Notice of Intention to Enforce Rate Structure
   Integrity Clause

2. CLOSED SESSION:
   Conference with Legal Counsel – Initiation of Litigation
   Governance Code §54956.9(c) – One Case

3. CLOSED SESSION:
   Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(a) – SDCWA v Metropolitan Water District of
   Southern California;
   LASC Case No. BS126888 (transferred to San Francisco)

The Committee came out of closed session at 4:11 p.m. and Mr. Hentschke stated that
there were no reportable actions.

V. ADJOURNMENT
There being no further business to come before the Imported Water Committee, Chair
McMillan adjourned the meeting at 4:12 p.m.

FORMAL BOARD OF DIRECTORS’ MEETING OF OCTOBER 28, 2010

1. CALL TO ORDER Chair Hogan called the Formal Board of Directors’ meeting to
   order at 4:20 p.m.

2. SALUTE TO THE FLAG Director Saxod led the salute to the flag.

3. ROLL CALL, DETERMINATION OF QUORUM
   Secretary Smith called the roll. Directors present were Arant, Bond, Boyle,
   Croucher, Dailey, Dion, Hannan, Heidel, Hilliker, Hogan, Knutson, Lewinger, Lewis,
   Linden, McIntosh, McMillan, Mudd, Muir, Pocklington, Price, Saxod, Smith, Steiner,
   Tu, Watton, Wight, H. Williams, K. Williams and Wornham. Directors absent were
   Blackburn, Bowersox, Jungreis, Morrison, Petty, Saunders, and Representative Slater-
   Price.
3-A **Report on proxies received.** Director Dailey was the proxy for Director Bowersox.

4. **ADDITIONS TO AGENDA** There were no additions to the agenda.

5. **APPROVAL OF MINUTES** Director Saxod moved, Director Muir seconded, and the motion carried at 93.20% of the vote to approve the minutes of the Formal Board of Directors’ meeting of September 23, 2010.

6. **OPPORTUNITY FOR MEMBERS OF THE PUBLIC WHO WISH TO ADDRESS THE BOARD ON MATTERS WITHIN THE BOARD'S JURISDICTION** There were no public speakers.

7. **PRESENTATIONS AND PUBLIC HEARINGS** There were no items under Presentations and Public Hearings.

8. **REPORTS BY CHAIRS**
   8-A Chairs report: Chair Hogan reminded to Board members to turn in their W-4 forms and committee surveys. He announced the upcoming meeting with the MWD Delegates and Officers. He announced the formation of the Desalination Advisory Workgroup.

   8-B Report by Committee Chairs.
   - **Legislation, Conservation and Outreach Committee.** Director Dailey reviewed the meeting and stated no actions were taken.
   - **Administrative and Finance Committee.** Director K. Williams reviewed the committee meeting and actions taken.
   - **Water Planning Committee.** Director Lewinger reviewed the meeting and stated no actions were taken.
   - **Engineering and Operations Committee.** Director Arant reviewed the meeting and reviewed the actions taken.
   - **Imported Water Committee.** Director McMillan reviewed the meeting and stated no actions were taken.

9. **CONSENT CALENDAR**
   Director Tu moved, Director Mudd seconded, and the motion carried at 93.20% of the vote to approve the consent calendar. Directors voting no or abstaining are listed under the item number.

   9-1. **Treasurer’s report.**
   The Board noted and filed the monthly Treasurer’s report.

   9-2. **Establish 2011 Board meeting dates.**
   The Board approved combining the November and December Board meeting dates to December 8, 2011, and approved the 2011 Board meeting dates calendar.
9-3. **Amend Ordinance 2010-02 to correct an error in the allocation of the Storage, Customer Service, and Readiness-to-Serve charges to member agencies.**  
The Board adopted **Ordinance 2010-03** an Ordinance of the Board of Directors of the San Diego County Water Authority amending Ordinance 2010-02 to correct the allocation of the storage, customer service and readiness-to-serve charges.

9-4. **Approve the selection of Montague DeRose and Associates, LLC to provide financial advisory services.**  
The Board authorized the General Manager to award a multi-year professional services contract to Montague DeRose and Associates, LLC for a base amount not-to-exceed $350,000 for the three-year period from November 1, 2010 to October 31, 2013. The contract has two one-year renewal options.

9-5. **Notice of Completion for the Mission Trails Pipeline Tunnel project.**  
The Board authorized the General Manager to accept the Mission Trails Pipeline Tunnel project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods and Sons, Inc. following the expiration of the Notice of Completion period.

9-6. The Board authorized the General Manager to execute the Cement Mortar Lining Agreement with Traylor Shea Joint Venture dated October 20, 2010.

10. **ACTION/DISCUSSION**

10-1. **Approve the Audit Committee’s recommendation of Mayer Hoffman McCann P.C. as independent auditor for a five-year period covering both the financial audits of FY2011-FY2016 and Agreed Upon Procedures services.**  
Audit Committee recommendation: Approve the selection of MHM as the Water Authority’s and QSA JPA’s independent auditor, and to authorize the General Manager to enter into an agreement with MHM, for independent audits and agreed upon procedures services for a five-year period from June 1, 2011 through May 31, 2016, for a not-to-exceed amount of $613,200.

Director Croucher moved, Director Tu seconded and the motion to accept the Audit Committee recommendation passed at 93.20% of the vote.

11. **CLOSED SESSION(S)**

11-A **CLOSED SESSION:**  
Conference with Legal Counsel – Potential Litigation  
Government Code §54956.9(b) – San Vicente Pipeline Mortar Lining Claim

11-B **CLOSED SESSION:**  
Conference with Legal Counsel – Initiation of Litigation  
Government Code §54956.9(c)  
Metropolitan Water District Notice of Intention to Enforce Rate Structure Integrity Clause
11-C  CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c) – One Case

11-D  CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case No. BS126888 (transferred to San Francisco)

Mr. Hentschke took the Board into Closed Session at 4:30 p.m. Mr. Hentschke took the Board out of Closed Session at 4:32 p.m.

12.  Action following Closed Session.
Mr. Hentschke announced there was no reportable action.

13.  SPECIAL REPORTS
13-A  GENERAL MANAGER’S REPORT – Ms. Stapleton reviewed the changes to the Board calendar.
13-B  GENERAL COUNSEL’S REPORT – Mr. Hentschke reviewed the Public Records request from the Union Tribune.
13-C  SANDAG REPORT – Director Muir reviewed the recent meeting.
      SANDAG BORDERS/REGIONAL PLANNING COMMITTEE – Director Saxod stated the meeting had been cancelled.
13-D  AB 1234 COMPLIANCE REPORTS – No reports were given.

14.  OTHER COMMUNICATIONS - None.

15.  ADJOURNMENT
There being no further business to come before the Board, Chair Hogan adjourned the meeting at 4:40 p.m.

__________________________________  ______________________________
Michael T. Hogan, Chair   Richard K. Smith, Secretary

_______________________________
Doria F. Lore, Clerk of the Board
December 1, 2010

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 19, 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 19, 2009 the Board adopted Ordinance No. 2009-05 establishing the Audit Committee.

Discussion
The Committee’s work during the year focused on the oversight of the annual financial audit for fiscal year 2010. The Water Authority’s auditor, Lance, Soll, and Lunghard, LLP (LSL) provided the Water Authority with an unqualified (or clean) opinion on the financial statements for the fiscal year ended June 30, 2010. No Management letter comments or instances of noncompliance or deficiencies in internal controls were reported.

In addition the Committee recommended selection of a new external auditor to begin work starting with the audit for fiscal year 2011.

Audit Committee Annual Report
In discharging its responsibilities the Audit Committee met four times. Following are descriptions of the business conducted at the various meetings.

- February 3, 2010: The Committee met to discuss the work plan for the year which included oversight of the financial audit as well as the process for selecting a new external auditor.

- May 5, 2010: Staff introduced the audit team, who presented annual audit roles and responsibilities, scope, and limitations. This included a discussion with Committee members regarding auditing standards, interim and year-end audit procedures, as well as the various components of the Comprehensive Annual Financial Report (CAFR).
Staff also reviewed with Committee members a draft request for proposals (RFP) for audit services focusing on the scope and term of the agreement, which included a discussion of certain recommended practices adopted by the Government Finance Officers’ Organization (GFOA). After considering GFOA recommendations regarding audit contract terms and auditor rotation/competition, the Committee voted to approve the draft RFP, to recommend a five-year audit services agreement, and to include the Water Authority’s current auditor, LSL, in the selection process. In addition the Committee appointed member Barbara Wight to serve on the selection panel.

- September 10, 2010: The selection panel discussed with the Committee its rigorous selection process which included both written proposals and oral interviews. Of the three audit firms interviewed, the selection panel recommended Mayer Hoffman McCann (MHM) to the full Board of Directors as the new independent auditors.

- November 9, 2010: Kelly Culver, from Lance, Soll & Lunghard attended the meeting and explained the different auditor reports. The Committee then reviewed and discussed each of the basic financial statements, the Statement of Net Assets (or Balance Sheet), the Statements of Revenues, Expenses and Changes in Net Assets (or Income Statement), and the Statements of Cash Flows for fiscal years 2010 and 2009; The review of the basic financial statements included discussions about items in the Management’s Discussion and Analysis, and various detailed items in the footnotes. The Committee directed staff to complete the CAFR based on the audited financial statements and reviewed a draft of this Audit Committee Annual Report.

Comprehensive Annual Financial Statements - CAFR
The Audit Committee directed staff to complete the 2010 CAFR based on the audited financial statements. The basic audited financial statements include the Auditor’s Opinion Letter, Management Discussion and Analysis, Financial Statements, and the Notes to the Financial Statements which form the core of the CAFR. The CAFR includes additional documents such as the Letter of Transmittal from the General Manager and Director of Finance/Treasurer, a Supplemental Section which includes a Budgetary Comparison Schedule, and a Statistical Section presenting detailed information to assist the reader in assessing the economic condition of the Water Authority.

Prepared by: Jim Bond, Audit Committee Chair

Attachments: A) Water Authority Comprehensive Annual Financial Report for FY 2010
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December 9, 2010

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, 2010. The purpose of this report is to provide the Board of Directors (the Board), member agencies, Water Authority 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 report, which is based upon a comprehensive framework of internal controls that was established for this purpose. Because the costs of internal control 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 basic financial statements on an annual basis. Lance, Soll & Lunghard, LLP have issued an unqualified (or clean) opinion on the Water Authority’s basic financial statements for the fiscal year ended June 30, 2010. The independent auditor’s report is located at the front of the Financial Section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report in the Financial Section and provides an overview, summary, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

According to Generally Accepted Accounting Principles (GAAP) enterprise funds are not legally required to adopt and adhere to a budget, nor present budgetary comparison information. However, the Board has chosen to adopt a multi-year, two-year budget as a management tool. Since water demand cannot be accurately forecasted due to forces outside of the Water Authority’s control, actual operating revenues and expenditures may vary significantly from the adopted budget. Thus, the multi-year budget is viewed as a tool for estimating and planning Water Authority revenues and expenditures, and is used to identify unusual or unexpected trends. The Water Authority adopted a multi-year budget for fiscal years 2010 and 2011, and a Budgetary Comparison Schedule for the fiscal years ended June 30, 2010 and 2009 can be found in the Supplemental Section of this report.
Water Authority History, Responsibility, Service Area, Governance, and Management

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 1,474 square miles. As a semi-arid region, rainfall and groundwater meet only about ten percent of regional demand in an average hydrologic year. The Water Authority provides the remaining 90 percent, which it purchases from outside sources. As a wholesaling 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's 3.2 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, which derives its supply from the Colorado River.

A 36-member Board of Directors 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; Helix and Otay Water Districts as well as the City of Carlsbad have two directors. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the 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. 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 of Directors begin two-year terms on October 1 of each even-numbered years. To facilitate matters, most business coming before the Water Authority’s Board is first considered by one of its standing committees: Administrative and Finance; Engineering and Operations; Imported Water; Legislation, Conservation and Outreach; and Water Planning. Each committee makes recommendations to the full Board for formal action.

The Water Authority’s organizational structure follows on page 9. 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 are two Deputy General Managers, an Assistant General Manager, and the Colorado River Program Manager. The remainder of the executive team consists of eight department directors and three program heads, responsible for managing the Administrative Services, Engineering, Finance, Human Resources, Operations and Maintenance, Public Affairs, Right of Way, and Water Resources Departments, and the Water Conservation, MWD, and Government Relations Programs.

Local Economy and Environment

The San Diego region was previously associated primarily with its defense-related businesses, military establishments, and tourist attractions. However, over the past twenty years it has transformed into a significantly more diversified economy by adding many research, knowledge-based, and high-technology businesses. Like the rest of the country and the state, San Diego County continues to feel the impacts of the economic recession and a weak housing market. The direct financial impacts on the Water Authority relate to a reduction in development impact fees (capacity charges) and a decrease in investment earnings on cash balances.
The Water Authority continues to face an external environment characterized by two unprecedented challenges—uncertain water supply conditions and regulatory restrictions, and difficult economic conditions within the service area. In confronting these challenges, we have charted a course of prudent and progressive action to ensure that our long-term vision of water supply reliability and financial security remain our top priorities.

One of our major sources of supply, the California State Water Project, is facing a combination of resource and environmental challenges. Not only does the Sierra Nevada watershed experience variable hydrologic conditions, but also one of its main conveyance systems, the Sacramento-San Joaquin River Delta estuary, continues to be the focus of environmental challenges resulting in unprecedented pumping restrictions. Reduced State Water Project exports to southern California translate into supply reductions for MWD and to the Water Authority.

A combination of mandatory use restrictions within the service area, cooler weather, and the slow economy resulted in a significant decrease in water demand across the service area compared to fiscal year 2009. Though the Water Authority collects a significant portion of its revenue from fixed charges, this decrease in demand puts additional pressure on rates and charges.

Internally, our organization is undergoing a major transition. In the past five years, we began the execution of some of the largest capital projects in the Water Authority’s history. As we successfully complete the construction of major projects, our focus turns to the demands on our Operations and Maintenance Department to adapt to an increasingly diverse and complex water system.

**Focus on Long-Range Planning**

The Strategic Plan and the companion Five-Year Business Plan provide the foundation on which the departmental and programmatic budgets are based. This tight relationship between the plans and the budget ensures that our capital and human resources are focused on Board priority work.

**Board of Directors’ Strategic Plan**

The Strategic Plan, adopted in April 2008, establishes the long-term policy direction for the Water Authority over the next 25 years. The plan is structured around three Key Result Areas (KRA) that represent the vital business issues that impact our success or failure in the future.

**KRA 1: Water Supply Diversification.** This Key Area addresses the Water Authority’s role in securing additional imported supplies and assisting member agencies in developing additional local resources.

**KRA 2: Leadership.** This Key Area pertains to the Board’s function as a policy body and the effectiveness with which it influences local, regional, state, and federal action; and also to the continuity of effective management leadership of the Water Authority.

**KRA 3: Asset Management.** This Key Area reflects the capital intensive nature of Water Authority activities and the importance of facilities planning, capital financing, and operations and maintenance.
Five-Year Business Plan

Monitoring and evaluating our performance is vital to the success of achieving the goals identified in the Strategic Plan. The Business Plan's twenty programs provide a framework for implementing the Board’s Strategic Plan. Each program has a set of associated strategies, goals, objectives, and performance measurements. The Five-Year Business Plan is organized into three focus areas:

Water Supplies Portfolio. The seven programs intended to help the Water Authority reduce its dependence on a single source of imported supply include a Bay-Delta Program, Brackish and Seawater Desalination, Colorado River Water Supplies, Drought Management, MWD Water Supplies, Recycled Water, and Water Conservation. The goal of this focus area is to protect traditional supplies while increasing the diversity of the Water Authority’s supply portfolio to enhance reliability and meet the region’s growing demands. The majority of the new supplies will come from the successful transfer of Colorado River water and the concrete lining of the All-American and Coachella Canals. Twenty-eight percent of the region’s future water is projected to be met through existing surface water supplies, groundwater conjunctive use programs, aggressive water recycling projects, and water conservation programs. The development of local and regional seawater, and brackish groundwater desalination projects are also included in the Water Authority’s water supply portfolio. Imported water shortages in the near-term are addressed in the Drought Management program.

Water Facilities. The four programs which seek to cost-effectively build, operate, maintain, and secure water infrastructure to meet regional water demands include Asset Management, Capital Improvement Program (CIP), Facilities Security and Emergency Preparedness, and Operations and Maintenance. Some of the most significant issues include controlling capital and operating costs of facilities and balancing facility growth with water rate impacts. The Water Authority’s $3.8 billion total CIP budget involves the replacement, expansion, and the building of new infrastructure for the development, transportation, treatment, and storage of water for the benefit of member agencies. Key near-term challenges are managing a wide variety of sophisticated water facilities as integrated systems and shifting from planning for various projects to successful implementation.

Core Business. The nine programs which provide support to the Water Authority’s overall mission include Climate Change and Sustainability, Environmental Management, Financial Planning, Government Relations Outreach, Information Technology, Infrastructure Planning, Public Affairs Outreach, Water Resources Planning, and Workforce Management. This focus area is essential to management and staff’s performance in meeting the water supply challenges that the region faces over the next 25 year planning horizon. The Water Authority recognizes the importance of being prepared to adequately address and adapt to climate change in addition to providing timely environmental regulatory compliance that is critical to facilities construction and repair. As the nexus between growth and water continues to build upon one another, it is vital to collaborate with other agencies and governments in order to build strong community support and cooperative relationships that are so important in solving complex regional issues. Long-term resources planning programs are multifaceted and assist the Water Authority and its member agencies in prioritizing and planning regional and local projects in a cost-effective manner. Promoting the optimal uses and integration of our technology base, workforce, and financial resources are also necessary to accomplish the Strategic Plan’s goals.
Long-Range Financial Planning

Long-Range Financing Plan

The Water Authority updated its Long-Range Financing Plan (LRFP) in April 2008 and it is scheduled to be updated again in the next two years. As a financial planning document, the LRFP serves as the financial foundation supporting the long-term strategic objectives of the Water Authority. It provides long-term forecasts of revenues and expenditures for both operating and capital investment activities.

Developed with member agency involvement, the plan incorporates certain enhanced financial policies relating to debt service coverage and financial reserve levels. The plan also accounts for the near-term financial impacts of drought management activities, and provides more detailed information about key planning assumptions and financial sensitivities.

Credit Rating Upgrades from Moody’s Investor’s Service and Fitch Ratings

As part of the credit ratings agencies’ efforts to recalibrate municipal ratings to a global scale, the Water Authority received an upgrade in its credit ratings from Fitch, moving to an AA+ rating from AA and Moody’s, moving to Aa2 from Aa3. These upgrades reflect the credit worthiness of Water Authority debt when compared to other fixed income investment classes.

Major Initiatives

Adopted Calendar Year 2011 Rates and Charges

In June 2010 the Water Authority Board approved adjustments to rates and charges for calendar year 2011. These adjustments amount to an increase of approximately 11.3 percent for the delivery of treated water. This significant adjustment reflects the increased cost of purchased water from the Water Authority’s primary supplier, MWD, as well as increased debt service costs.

Issued $625 Million in Revenue Bonds

The Water Authority issued debt to refund existing obligations to attain savings and provide proceeds to complete the Emergency Storage Program (ESP) including the San Vicente Dam Raise. It was the largest Water Authority bond issue with the longest term and lowest overall interest rate. This action has locked in very low cost debt for future generations while ensuring the construction of infrastructure to serve their needs for a safe and reliable water supply well into the future.
The Future

The current water supply challenges facing southern California water agencies clearly validate the Water Authority's strategy of reducing the region's reliance on a single source of imported water through diversification of its supply portfolio. The pie charts below clearly demonstrate the substantial progress the Water Authority is continuing to make toward achieving its long-term supply diversification goals. In conjunction with all of the Water Authority's stakeholders, management will continue to move forward and provide a safe and reliable water supply for the San Diego region.

**Actual CY 2009**

<table>
<thead>
<tr>
<th>Water Sources</th>
<th>Calendar Year 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD Supply</td>
<td>62%</td>
</tr>
<tr>
<td>Conservation</td>
<td>9%</td>
</tr>
<tr>
<td>IID Transfer</td>
<td>8%</td>
</tr>
<tr>
<td>Canal Lining Transfers</td>
<td>8%</td>
</tr>
<tr>
<td>Local Surface Water</td>
<td>6%</td>
</tr>
<tr>
<td>Recycled Water</td>
<td>4%</td>
</tr>
<tr>
<td>Groundwater</td>
<td>3%</td>
</tr>
<tr>
<td>Seawater Desalination</td>
<td>n/a</td>
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</tbody>
</table>

**Projected CY 2020**

<table>
<thead>
<tr>
<th>Water Sources</th>
<th>Calendar Year 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD Supply</td>
<td>29%</td>
</tr>
<tr>
<td>IID Transfer</td>
<td>22%</td>
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<tr>
<td>Conservation</td>
<td>11%</td>
</tr>
<tr>
<td>Seawater Desalination</td>
<td>10%</td>
</tr>
<tr>
<td>Canal Lining Transfers</td>
<td>9%</td>
</tr>
<tr>
<td>Local Surface Water</td>
<td>7%</td>
</tr>
<tr>
<td>Groundwater</td>
<td>6%</td>
</tr>
<tr>
<td>Recycled Water</td>
<td>6%</td>
</tr>
</tbody>
</table>
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, 2009. This was the tenth 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 satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. 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 of Directors 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. Special appreciation and recognition are extended to Cindy Navaroli, Interim Controller; Yollie Cerezo, Accounting Supervisor; Jocelyn Matsuo, Senior Accountant; Kathryn Marshall, Senior Accountant; and Melody A. Parker, Financial Analyst.

Respectfully submitted,

Maureen A. Stapleton

Eric L. Sandler

Director of Finance
San Diego County Water Authority Board of Directors

Claude “Bud” Lewis ........................................... Chair ........................................ Carlsbad Municipal Water District
Mark Watton ......................................................... Vice Chair ........................................ Otay Water District
Thomas Wornham ........................................ Secretary ........................................ City of San Diego
Gary Arant ............................................................... Valley Center Municipal Water District
Keith Blackburn ............................................... Carlsbad Municipal Water District
Jim Bond ................................................................. San Dieguito Water District
James Bowersox ........................................... City of Poway
Gary Croucher ...................................................... Otay Water District
Marilyn Dailey ........................................................ City of Escondido
Mitchell Dion ...................................................... Rincon del Diablo Municipal Water District
Margaret “Betty” Ferguson ..................................... Vallecitos Water District
Lynne Heidel .......................................................... City of San Diego
Frank Hilliker ................................................... Lakeside Water District
Michael Hogan ................................................ Santa Fe Irrigation District
Jimmy Jungreis .................................................. Camp Pendleton Marine Corps Base
W.D. “Bill” Knutson .............................................. Yuima Municipal Water District
Keith Lewinger ................................................... Fallbrook Public Utility District
John Linden ................................................... Helix Water District
Barry Martin ..................................................... City of Oceanside
Ralph McIntosh Jr. ........................................... Ramona Municipal Water District
Dan McMillan ................................................ Padre Dam Municipal Water District
Ron Morrison ................................................ City of National City
Vincent Mudd .................................................. City of San Diego
Mark Muir ....................................................... Olivenhain Municipal Water District
Rua Petty .......................................................... Rainbow Municipal Water District
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Hershel Price ................................................... City of Del Mar
Javier Saunders ................................................ City of San Diego
Elsa Saxod .......................................................... City of San Diego
Richard Smith .................................................. Helix Water District
Fern Steiner ..................................................... City of San Diego
Yen Tu ................................................................. City of San Diego
Barbara Wight .................................................. City of San Diego
Howard Williams ........................................... Vista Irrigation District
Kenneth Williams ........................................... City of San Diego
Pamela Slater-Price ........................................ Representative ................................ County of San Diego
San Diego County Water Authority Organizational Structure

BOARD OF DIRECTORS

General Counsel
Daniel S. Hentschke

General Manager
Maureen A. Stapleton

Deputy General Manager
Sandra Kerl

Deputy General Manager
Frank Belock, Jr.

Assistant General Manager
Dennis A. Cushman

Administrative Services Department
Marilyn Young

Finance Department
Eric Sandler

Human Resources Department
Susan Leone

Water Conservation Program
Bill Rose

Water Resources Department
Ken Weinberg

Engineering Department
Michael Stilt

Operations and Maintenance Department
Gary Eaton

Right of Way Department
Bill Busch

Public Affairs Department
Jason Foster

MWD Program
Amy Chen

Government Relations Program
Jeff Volberg

Colorado River Program
Halla Razak
INDEPENDENT AUDITORS’ REPORT

Board of Directors
San Diego County Water Authority
San Diego, California

We have audited the statements of net assets of the San Diego County Water Authority (the “Water Authority”), San Diego, California, as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Water Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Water Authority, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2010, on our consideration of the Water Authority’s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The accompanying management’s discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.
Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplemental information and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

October 18, 2010
Management’s Discussion & Analysis

This section of the Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2010. Please read it in conjunction with the Letter of Transmittal located at the beginning of this report, and the Water Authority’s Basic Financial Statements, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The Basic Financial Statements are designed to provide readers with a broad overview of the finances of the Water Authority in a manner similar to a private-sector business. The components to the basic financial statements include financial statements and notes to the financial statements.

The Statements of Net Assets present information on all of the Water Authority’s assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Water Authority’s net assets changed during the fiscal year. All changes in net assets are reported on the accrual basis of accounting, meaning all revenues are realized when earned and expenses are recognized when incurred.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes to the Financial Statements (Notes) provide additional information that is 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. The accounts of this entity are blended into the Water Authority’s financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14. See Note 1(a) for further information regarding this entity.

The financial statements include the accounts of the San Diego County Water Authority Financing Agency, a separate legal entity established in December 2009. The accounts of this entity are blended into the Water Authority’s financial statements in accordance with GASB Statement Number 14. See Note 1(a) for further information regarding this entity.

This report also contains a Supplemental Section (unaudited), which includes a Budgetary Comparison Schedule, and a Statistical Section (unaudited), which presents detailed information to assist the reader in assessing the economic condition of the Water Authority.

The Water Authority implemented GASB Statement Number 51 for the fiscal year ended June 30, 2010. This statement provides accounting and reporting rules for intangible assets including easements, computer systems software, and participation and capacity rights.
Condensed Financial Information

San Diego County Water Authority Net Assets, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
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<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>$ 2,835.1</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,073.8</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,908.9</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>2,102.1</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>551.2</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2,653.3</td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>954.0</td>
</tr>
<tr>
<td>Restricted</td>
<td>116.1</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>185.5</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$ 1,255.6</td>
</tr>
</tbody>
</table>

Notes:
(1) Net Assets at June 30, 2008 were restated by $6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project which had been capitalized as construction in progress in prior years; and also were restated by $79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net Assets at June 30, 2009 were restated by $827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

Capital Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Capital assets include land, construction in progress, work in progress, plant and equipment, and intangible assets (net of accumulated depreciation and amortization). At June 30, 2010, capital assets total $2.8 billion, or 72.5 percent of total assets. Capital assets increased $229.9 million, or 8.8 percent compared to the prior fiscal year primarily due to the increase in intangible assets related to participation rights and the increase in plant and equipment related to pumping plants and facilities, and partially offset by depreciation and amortization expense. Capital Improvement Program (CIP) expenditures for the fiscal year ended June 30, 2010 are $261.5 million, which include capitalized interest of $51.6 million. CIP activities for the fiscal year ended June 30, 2010 are described in the Capital Assets and Capital Improvement Program section on page 22. More detailed information about the Water Authority’s capital assets is presented in Note 6 to the Financial Statements.
Fiscal Year 2009 Compared to Fiscal Year 2008

Capital assets include land, construction in progress, work in progress, plant and equipment net of depreciation, and intangible assets net of amortization. At June 30, 2009, capital assets total $2.6 billion, or 79.1 percent of total assets. This represents an increase of $289.8 million, or 12.5 percent compared to the prior fiscal year primarily due to continued expenditures on the CIP and the addition of $26.7 million in intangible assets related to participation rights, partially offset by depreciation and amortization expense. CIP expenditures for the fiscal year ended June 30, 2009 are $292.3 million, which include capitalized interest of $40.6 million.

Other Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, deferred charges, advances to other agencies, and unamortized bond issuance costs. Other assets total $1.1 billion at June 30, 2010, an increase of $383.8 million, or 55.6 percent from the prior fiscal year. Restricted cash and investments increased $364.8 million primarily due to the issuance of the Water Revenue Bonds, Series 2010 A&B, which also resulted in an increase in unamortized bond issuance costs of $5.0 million. Other receivables increased $3.3 million, primarily due to the federal subsidy from the U.S. Treasury for the Taxable Build America Bond Series 2010B debt service payment, which provides for a federal subsidy in an amount equal to 35 percent of the total interest payable. Advances to other agencies decreased $19.4 million as expenditures were incurred to fund the All-American Canal Lining project.

Fiscal Year 2009 Compared to Fiscal Year 2008

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, advances to other agencies and unamortized bond issuance costs. Other assets total $690.0 million at June 30, 2009, a decrease of $240.7 million, or 25.9 percent from the prior fiscal year. The unspent bond proceeds balance accounts for the majority of the decrease in restricted cash and investments or $234.0 million compared to the prior fiscal year. The Water Authority also had a related decrease in interest receivable of $0.5 million due to the decreased cash and investment balances. Advances to other agencies decreased $18.1 million as expenditures were incurred to fund the All-American Canal Lining project, which were partially offset by additional advances made to Imperial Irrigation District (IID) and are to be repaid when the project-related retention is released from the State of California’s Department of Water Resources. There is a $13.4 million increase in inventories primarily due to increasing water in storage for dry years and a related increase in water receivables of $3.7 million.
Long-term Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Long-term liabilities consist of bonds used to fund the Water Authority’s CIP, contributions payable, compensated absences, Other Post-Employment Benefits (OPEB) liability, arbitrage rebate, unamortized bond discounts/premiums, and deferred loss on refunding. At June 30, 2010, total long-term liabilities are $2.1 billion, or 79.2 percent of total liabilities. Long-term liabilities increased $567.0 million primarily due to the issuance of $624.6 million of new debt in February 2010, partially offset by maturities and the defeasance of $51.0 million on the outstanding 1998A certificates in March 2010. More detailed information about the Water Authority’s long-term liabilities is presented in Note 9 to the Financial Statements.

Fiscal Year 2009 Compared to Fiscal Year 2008

Long-term liabilities consist of bonds used to fund the Water Authority’s CIP, contributions payable, compensated absences, OPEB liability, arbitrage rebate, unamortized bond discounts/premiums, and a deferred loss on refunding. At June 30, 2009, total long-term liabilities were $1.5 billion, or 73.5 percent of total liabilities. Total long-term liabilities were $20.5 million lower than the prior fiscal year due to principal maturities on outstanding certificates of participation.

Other Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities are $551.2 million at June 30, 2010, or 20.8 percent of total liabilities. Other liabilities decreased $1.6 million primarily due to the decrease in construction deposits of $2.1 million as a result of reduced housing development.

Fiscal Year 2009 Compared to Fiscal Year 2008

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities were $552.8 million at June 30, 2009, or 26.5 percent of total liabilities. This is a decrease of $6.7 million compared to the prior fiscal year primarily due to the reduction in accounts payable and other liabilities of $9.3 million due to the timing of significant CIP expenses.
Net Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Net assets total $1.26 billion at June 30, 2010, an increase of $48.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Investment in capital assets, net of related debt is capital assets (net of accumulated depreciation and amortization) less any outstanding debt used to acquire those assets and amounted to $954.0 million, or 76.0 percent of total net assets in fiscal year 2010. The decrease of $10.2 million from the prior fiscal year is due to more capital related debt outstanding from the issuance of new bonds from the prior fiscal year. Restricted nets assets are $116.1 million, or 9.2 percent of total net assets, and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation. Restricted net assets increased $35.7 million primarily due to an increase in the cash and investments balance for construction funds, in addition to increased accrued interest on unspent debt proceeds restricted for construction projects. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are $185.5 million, or 14.8 percent of total net assets. Unrestricted net assets increased $22.8 million from the prior fiscal year primarily due to an increase in water sales of $27.9 million.

Fiscal Year 2009 Compared to Fiscal Year 2008

Net assets total $1.21 billion at June 30, 2009, an increase of $76.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Net assets invested in capital assets net of related debt is the difference between capital assets (net of accumulated depreciation/amortization) and the liabilities attributable to the acquisition, construction or improvement of those assets. Net assets invested in capital assets net of related debt were $964.2 million, or 79.9 percent of total net assets. This is an increase of $91.1 million from the prior fiscal year as restated primarily due to construction in progress. Restricted net assets are $80.4 million, or 6.7 percent of total net assets and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation, which for the Water Authority includes primarily the cash and investment balances in the 2008A Water Revenue Certificates of Participation, the Pay-As-You-Go funds, and the Debt Service Reserve funds. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are $162.7 million, or 13.5 percent of total net assets.
San Diego County Water Authority Changes in Net Assets, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$ 387.9</td>
<td>$ 360.0</td>
<td>$ 343.5</td>
</tr>
<tr>
<td>Other revenues</td>
<td>5.0</td>
<td>3.6</td>
<td>9.5</td>
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<tr>
<td><strong>Total operating revenues</strong></td>
<td>392.9</td>
<td>363.6</td>
<td>353.0</td>
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<tr>
<td><strong>Nonoperating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes and in-lieu charges</td>
<td>10.0</td>
<td>10.5</td>
<td>10.3</td>
</tr>
<tr>
<td>Infrastructure access charges</td>
<td>21.2</td>
<td>19.4</td>
<td>17.5</td>
</tr>
<tr>
<td>Investment income</td>
<td>5.2</td>
<td>18.5</td>
<td>22.2</td>
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<tr>
<td>Other income</td>
<td>1.3</td>
<td>5.3</td>
<td>-</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>5.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale/retirement of capital assets</td>
<td>0.1</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues</strong></td>
<td>43.6</td>
<td>53.7</td>
<td>50.3</td>
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<tr>
<td><strong>Total revenues</strong></td>
<td>436.5</td>
<td>417.3</td>
<td>403.3</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>291.4</td>
<td>269.8</td>
<td>262.5</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>15.5</td>
<td>17.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Planning</td>
<td>8.6</td>
<td>10.0</td>
<td>8.9</td>
</tr>
<tr>
<td>General and administrative</td>
<td>15.3</td>
<td>15.3</td>
<td>13.6</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>30.7</td>
<td>30.0</td>
<td>28.5</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>361.5</td>
<td>342.6</td>
<td>328.0</td>
</tr>
<tr>
<td><strong>Nonoperating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>39.0</td>
<td>40.8</td>
<td>52.2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>13.3</td>
<td>7.2</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Total nonoperating expenses</strong></td>
<td>52.3</td>
<td>48.0</td>
<td>59.2</td>
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<tr>
<td><strong>Total expenses</strong></td>
<td>413.8</td>
<td>390.6</td>
<td>387.2</td>
</tr>
<tr>
<td>Income before capital contributions</td>
<td>22.7</td>
<td>26.7</td>
<td>16.1</td>
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<tr>
<td><strong>Capital contributions:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity charges</td>
<td>10.3</td>
<td>13.3</td>
<td>23.9</td>
</tr>
<tr>
<td>Water standby availability charges</td>
<td>11.2</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Contributions in aid of capital assets</td>
<td>4.1</td>
<td>25.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td>25.6</td>
<td>49.6</td>
<td>39.2</td>
</tr>
<tr>
<td><strong>Changes in net assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48.3</td>
<td>76.3</td>
<td>55.3</td>
<td></td>
</tr>
<tr>
<td><strong>Net assets at beginning of year, as restated (Note 10)</strong></td>
<td>1,207.3</td>
<td>1,131.0</td>
<td>1,075.7</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$ 1,255.6</td>
<td>$ 1,207.3</td>
<td>$ 1,131.0</td>
</tr>
</tbody>
</table>

*Notes:*
(1) Amounts have been restated.
Revenues by Source

Fiscal Year 2010 Compared to Fiscal Year 2009

Total revenues and capital contributions for the fiscal year ended June 30, 2010 are $462.1 million, a decrease of $4.8 million over the prior fiscal year.

Water Sales, in Millions ($)

The Water Authority's principal source of revenue is from water sales. Water sales are $387.9 million, or 83.9 percent of total revenues and capital contributions. Water deliveries decreased by 86,242 acre-feet, or 14.9 percent primarily due to mandatory use restrictions within the service area, cooler weather, and difficult economic conditions. However, water sales revenues increased $27.9 million, or 7.7 percent when compared to the prior fiscal year due to increased rates and charges.

Nonoperating Revenues, in Millions ($)

Nonoperating revenues are comprised of property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled $43.6 million, or 9.4 percent of total revenues and capital contributions for the fiscal year ended June 30, 2010. Nonoperating revenues decreased $10.1 million, or 18.8 percent when compared to the prior fiscal year primarily due to a decrease in investment income of $13.3 million.

Capital Contributions, in Millions ($)

Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled $25.6 million, or 5.5 percent of total revenues and capital contributions. Total capital contributions decreased $24.0 million when compared to the prior fiscal year. Capacity charges decreased $3.0 million, or 22.6 percent due to the continued slow down of new construction. Water standby availability charges are fairly consistent at $11.2 million based on a fixed amount charged on each parcel of land within the boundaries of the Water Authority in order to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets decreased $20.9 million from the prior fiscal year due to grant revenue from the State of California’s Department of Water Resources that was earned in fiscal year 2009.
Fiscal Year 2009 Compared to Fiscal Year 2008

Total revenues and capital contributions for the fiscal year ended June 30, 2009 were $466.9 million, an increase of $24.4 million over the prior fiscal year.

Operating revenues or water sales were $360.0 million, or 77.1 percent of total revenues and capital contributions. Water deliveries decreased by 55,333 acre-feet primarily due to the impact of the Interim Agricultural Water Program cutback and 20-Gallon Challenge. However, water sales revenues increased $16.5 million, or 4.8 percent when compared to the prior fiscal year due to increased rates and the mix of treated versus untreated water sold. Other revenue is $3.6 million, a decrease of $5.9 million, and includes miscellaneous, grants, and hydroelectric power revenues.

Nonoperating revenues are comprised of property taxes and in-lieu charges, IAC, investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled $53.7 million, or 11.5 percent of total revenues and capital contributions for the fiscal year ended June 30, 2009. This was an increase of $3.4 million, or 6.8 percent when compared to the prior fiscal year. Investment income was $18.5 million, a $3.7 million decrease due primarily to an unfavorable interest rate environment. Property taxes and in-lieu charges were $10.5 million, an increase of $0.2 million. Revenue from IAC was $19.4 million, an increase of $1.9 million due to a planned, mid-year rate increase from $1.70 to $1.90 per equivalent meter per month. Other, net was $5.3 million, an increase of $5.0 million, and includes miscellaneous reimbursements, intergovernmental, and proceeds from sale of assets.

Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled $49.6 million, or 10.6 percent of total revenues and capital contributions. This was an increase of $10.4 million compared to the prior fiscal year. System capacity charges apply to all new or larger retail water meters installed and are designed to recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority’s service area. Capacity charges were $13.3 million, a decrease of $10.6 million when compared to the prior fiscal year. This 44.4 percent decrease was due to the continued slow down for new housing in the county. At $11.3 million, water standby availability charges were fairly consistent with the prior fiscal year and these revenues are intended to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets were $25.0 million and the substantial increase of $21.0 million from the previous fiscal year was due to a grant from the State of California’s Department of Water Resources for Vidler Water Company and Semitropic Water Storage related to the Groundwater Conjunctive Use Program.
Expenses by Function

Fiscal Year 2010 Compared to Fiscal Year 2009

Total expenses for the fiscal year ended June 30, 2010 are $413.8 million, an increase of $23.2 million, or 5.9 percent, over the prior fiscal year.

Operating Expenses, in Millions ($)

Operating expenses include the cost of water sales, operating departmental/programmatic expenses, and depreciation and amortization expenses. Operating expenses are $361.5 million, or 87.4 percent of total expenses. Operating expenses increased $18.9 million, or 5.5 percent when compared to the prior fiscal year primarily due to increased costs of water purchases from the Water Authority’s two main suppliers, Metropolitan Water District and IID. The operating departmental/programmatic expenses include operations and maintenance, planning, and general and administrative expenses and are $39.4 million, which represent 9.5 percent of total expenses. This is a decrease of $3.4 million from the prior fiscal year primarily due to programmatic budget reductions in the Water Resources Department and Water Conservation Program. More detailed information about expenses by department/program is presented in the Budgetary Comparison Schedule located in the Supplemental Section. Depreciation and amortization expenses are $30.7 million, which represent 7.4 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

Nonoperating expenses are $52.3 million, or 12.6 percent of total expenses and consist of interest and other expenses. Interest expense is $39.0 million, net of $51.6 million of capitalized interest and represents 9.4 percent of total expenses. Other expenses increased $6.1 million due to a payment in settlement to IID.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total expenses for the fiscal year ended June 30, 2009 were $390.6 million, an increase of $3.4 million, or 0.9 percent over the prior fiscal year.

Operating expenses include the cost of water sales, depreciation and amortization expenses, and operating departmental/programmatic expenses. Operating expenses were $342.6 million, or 87.7 percent of total expenses. This was an increase of $14.6 million, or 4.5 percent when compared to the prior fiscal year. The cost of water sales was $269.8 million, or 69.1 percent of total expenses. Depreciation and amortization expenses were $30.0 million, which represent 7.7 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

The operating departmental/programmatic expenses include operations and maintenance, planning, and general and administrative expenses. The operating departmental/programmatic expenses were $42.8 million, which was an increase of $5.8 million due to the timing of expenditures in the second half of the two-year budget cycle.
Nonoperating expenses were $48.0 million, or 12.3 percent of total expenses and include interest and other expenses. Interest expense was $40.8 million, net of $40.6 million of interest expense incurred during construction (capitalized interest) and represents 10.4 percent of total expenses. The decrease in interest expense of $11.4 million, or 21.8 percent, from the prior fiscal year was primarily due to increased capitalized interest. Other expenses were $7.2 million and include conservation reimbursement programs and other miscellaneous expenses.

Capital Assets and Capital Improvement Program

San Diego County Water Authority Capital Assets (Net of Accumulated Depreciation and Amortization), in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$19.1</td>
<td>$13.1</td>
<td>$13.3</td>
</tr>
<tr>
<td>Construction</td>
<td>1,199.7</td>
<td>1,302.9</td>
<td>1,051.6</td>
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<tr>
<td>Work in progress</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>1,371.4</td>
<td>1,166.2</td>
<td>1,150.4</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>244.3</td>
<td>122.2</td>
<td>99.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,835.1</strong></td>
<td><strong>$2,605.2</strong></td>
<td><strong>$2,315.4</strong></td>
</tr>
</tbody>
</table>

Notes:
(i) Amounts have been restated.

The Water Authority’s capital assets are $2.8 billion (net of accumulated depreciation and amortization). The total CIP budget as of June 30, 2010 consists of 50 projects at a cost of approximately $5.8 billion. The CIP is being financed by the proceeds from long-term and short-term debt issuances, water standby availability charge revenues, and capital contributions from capacity charges. The CIP is also financed from operating revenues as needed.

For the fiscal year ended June 30, 2010, the Water Authority maintained a service area of approximately 951,000 acres including 300 miles of pipelines ranging in size from 27 inches to 120 inches in diameter, rights-of-way, roads, mechanical equipment, buildings, and grounds, including nearly 1,400 line structures and 131 metering and control buildings. The preventative maintenance program consists of regularly scheduled inspections and maintenance. The Water Authority has an Aqueduct Protection Program as part of the CIP that ensures the structural integrity of pipeline assets, performs pipeline condition assessments, and extends the service life of the existing pipelines. This program includes internal inspection schedules and corrosion monitoring on the pipelines. Additional information on the Water Authority’s capital assets can be found in Note 6 to the Financial Statements.
Highlights of Fiscal Year 2010 Capital Improvement Expenditures

The major capital improvement activities for the current fiscal year include the following:

$31.6 million for the Emergency Storage Project (ESP) - San Vicente Pipeline and Aqueduct Interconnect. This is a major component of the ESP comprised of an eleven-mile tunnel that will stretch from the San Vicente reservoir northwest to just west of Interstate-15 at Mercy Road.

$5.3 million for the ESP - San Vicente Pumping Facilities. The pump station and surge control facility’s primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District’s Levy Water Treatment Plant. Operation of the pump station will not be integrated into the aqueduct system until the San Vicente Pipeline is completed in late 2010.

$30.8 million for the Colorado River Canal Linings. This project includes the lining of the All-American Canal, which calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, provides 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining was administered by IID. The All-American Canal construction was completed in fiscal year 2010.

$25.0 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

$49.7 million for the ESP – San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet. The construction for the excavation and foundation preparation is near completion. The construction package for raising the dam was awarded in April 2010 and is expected to be completed in early 2013.

$20.7 million for the Mission Trails Pipeline Tunnel. This pipeline tunnel project is critical to meet untreated water demands in the central and south county. This project, in conjunction with the Mission Trails Flow Regulatory Structure II Project, will relieve hydraulic constraints along the Second Aqueduct.

$3.3 million for the East County Regional Treated Water Improvements. This is a joint program of the Water Authority and several member agencies to improve the use of the Helix Water District’s Levy Water Treatment Plant. The member agencies include Helix Water District, Padre Dam Municipal Water District, Otay Water District, and Lakeside Water District. This program includes additional flow control facilities, as well as increased participation rights.
Highlights of Fiscal Year 2009 Capital Improvement Expenditures

The major capital improvement activities for the prior fiscal year include the following:

**$68.6 million for the Colorado River Canal Linings.** This includes the lining of the All-American Canal with water beginning to flow in June 2008 and March 2009. Construction of the remainder of the project is expected to be completed in spring 2010. The All-American Canal calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, will provide 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining is being administered by IID.

**$36.1 million for the ESP - San Vicente Pipeline and Aqueduct Interconnect.** This pipeline will connect the San Vicente Reservoir to the Second Aqueduct in the vicinity of Mercy Road and Interstate-15. It will transport water in either direction to meet member agency needs and to achieve storage requirements in the San Vicente Reservoir. Through the end of fiscal year 2009 the project is over 80 percent complete.

**$33.6 million for the ESP - San Vicente Pumping Facilities.** The pump station and surge control facility’s primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District’s Levy Water Treatment Plant.

**$31.6 million for the Relining and Pipe Replacement Program.** Nearly five miles of Pipelines 3, 4, and 4A were relined in the southern portion of the system and several urgent/emergency repairs were accomplished.

**$27.8 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline.** These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

**$26.7 million for the Groundwater Conjunctive Use Program.** Incident to Board guidance to pursue supply and storage opportunities in the region, two agreements for groundwater storage and supply were approved in the Central Valley of California with Vidler Water Company and Semitropic-Rosamond Water Bank. The agreements entitle 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.

**$22.1 million for the ESP – San Vicente Dam Raise and Carryover Storage.** This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet.

**$13.5 million for the Mission Trails Pipeline Tunnel.** The project is critical to meet untreated water demands in the central and south county. The project consists of a 96 inch diameter 4,800 foot pipeline tunnel from the north of Elliot Vent Number 1 to south of Elliot Vent Number 4.
Debt Administration

Short-term Debt

As of June 30, 2010 the Water Authority had $460 million in tax-exempt commercial paper outstanding. More detailed information about the Water Authority’s short-term debt is presented in Note 8 to the Financial Statements.

Long-term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions ($)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bonds</td>
<td>$ 624.6</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td>$1,369.2</td>
<td>$1,426.5</td>
<td>$1,446.3</td>
</tr>
<tr>
<td>Total</td>
<td>$1,993.8</td>
<td>$1,426.5</td>
<td>$1,446.3</td>
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</tbody>
</table>

As of June 30, 2010 the Water Authority had $2.0 billion in bonds outstanding. More detailed information about the Water Authority’s long-term debt is presented in Note 9 to the Financial Statements including information that the Water Authority is in compliance with bond covenants and its debt service coverage ratio requirement.

Credit Ratings

In April 2010, the Water Authority’s long-term debt credit rating was upgraded to AA+ from Fitch Ratings and upgraded to Aa2 from Moody’s Investors Service. Standard & Poor’s affirmed the Water Authority’s long-term debt underlying credit rating of AA+. These high ratings are enjoyed by only a few water agencies in California.

Future Long-term Debt Service

The table below shows the Water Authority’s estimated future long-term debt service requirements through June 30, 2015.

<table>
<thead>
<tr>
<th>Long-Term Debt Service Requirements, in Millions ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
<tr>
<td>Principal</td>
</tr>
<tr>
<td>20</td>
</tr>
</tbody>
</table>
Contacting the Water Authority’s Financial Management Division

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.
San Diego County Water Authority  
Statements of Net Assets, June 30, 2010 and 2009

<table>
<thead>
<tr>
<th>Assets:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$96,667,087</td>
<td>$104,094,605</td>
</tr>
<tr>
<td>(Notes 1d and 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and</td>
<td>565,858,310</td>
<td>381,242,365</td>
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<tr>
<td>investments (Notes 1d and 2)</td>
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<td></td>
</tr>
<tr>
<td>Water receivables</td>
<td>77,450,758</td>
<td>68,436,955</td>
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<tr>
<td>Interest receivable</td>
<td>2,940,382</td>
<td>3,502,437</td>
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<tr>
<td>Taxes receivable</td>
<td>1,824,080</td>
<td>1,829,617</td>
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<tr>
<td>Other receivables</td>
<td>7,105,549</td>
<td>3,814,700</td>
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<tr>
<td>Inventories (Notes 1e and 3)</td>
<td>25,398,574</td>
<td>27,102,945</td>
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<td>Prepaid water (Note 4)</td>
<td>4,615,600</td>
<td>5,713,500</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>781,860,240</strong></td>
<td><strong>595,737,124</strong></td>
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<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>37,678,064</td>
<td>2,694,225</td>
</tr>
<tr>
<td>(Notes 1d and 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and</td>
<td>216,097,708</td>
<td>35,926,935</td>
</tr>
<tr>
<td>investments (Notes 1d and 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred charges</td>
<td>159,240</td>
<td>-</td>
</tr>
<tr>
<td>Advances to other agencies</td>
<td>-</td>
<td>19,446,844</td>
</tr>
<tr>
<td>Retention receivable</td>
<td>-</td>
<td>4,007,308</td>
</tr>
<tr>
<td>Long-term loan receivables (Note 5)</td>
<td>20,688,268</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Unamortized bond issuance costs (Note 9)</td>
<td>17,282,596</td>
<td>12,263,098</td>
</tr>
<tr>
<td>Capital assets (Notes 1f and 6):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>19,065,447</td>
<td>13,128,344</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>1,199,690,241</td>
<td>1,302,928,098</td>
</tr>
<tr>
<td>Work in progress</td>
<td>641,065</td>
<td>749,017</td>
</tr>
<tr>
<td>Plant and equipment, net</td>
<td>1,371,349,004</td>
<td>1,166,190,126</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>244,339,340</td>
<td>122,196,758</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>3,126,990,973</strong></td>
<td><strong>2,699,530,753</strong></td>
</tr>
</tbody>
</table>

| Liabilities:              |                       |                       |
| Current liabilities:      |                       |                       |
| Accounts payable and other liabilities | 71,836,072   | 78,392,621            |
| Interest payable          | 19,035,842           | 12,077,179            |
| Construction deposits      | 302,657              | 2,364,089             |
| Short-term liabilities     | 460,000,000          | 460,000,000           |
| (Note 8)                  |                       |                       |
| Current portion of long-term liabilities (Note 9) | 31,658,450  | 10,691,961           |
| **Total current liabilities** | **582,833,021**   | **563,525,850**       |
| Noncurrent liabilities:   |                       |                       |
| Long-term liabilities     | 2,070,416,397        | 1,524,401,978         |
| (Note 9)                  |                       |                       |
| **Total noncurrent liabilities** | **2,070,416,397** | **1,524,401,978**     |
| **Total liabilities**     | **2,653,249,418**    | **2,087,927,828**     |
| Net assets:               |                       |                       |
| Invested in capital assets, net of related debt | 954,037,294  | 964,225,706           |
| Restricted for construction projects | 115,506,824   | 79,790,128            |
| Restricted for debt service | 597,315        | 614,622               |
| Unrestricted (Note 1i)    | 185,460,362          | 162,709,593           |
| **Total net assets**      | **$1,255,601,795**   | **$1,207,340,049**    |

See accompanying notes to the financial statements.
## San Diego County Water Authority

### Statements of Revenues, Expenses, and Changes in Net Assets for the Fiscal Years Ended June 30, 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$387,871,218</td>
<td>$359,951,622</td>
</tr>
<tr>
<td>Other revenues</td>
<td>4,965,060</td>
<td>3,608,350</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>392,836,278</strong></td>
<td><strong>363,559,972</strong></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>291,385,187</td>
<td>269,835,859</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>15,482,609</td>
<td>17,409,496</td>
</tr>
<tr>
<td>Planning</td>
<td>8,642,260</td>
<td>10,004,616</td>
</tr>
<tr>
<td>General and administrative</td>
<td>15,270,175</td>
<td>15,309,407</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>30,657,250</td>
<td>30,038,388</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>361,437,481</strong></td>
<td><strong>342,597,766</strong></td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>31,398,797</td>
<td>20,962,206</td>
</tr>
<tr>
<td><strong>Nonoperating revenues (expenses):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes and in-lieu charges (Notes 1k and 1l)</td>
<td>9,971,624</td>
<td>10,467,484</td>
</tr>
<tr>
<td>Infrastructure access charges (Note 1j)</td>
<td>21,241,060</td>
<td>19,389,790</td>
</tr>
<tr>
<td>Investment income</td>
<td>5,217,031</td>
<td>18,507,476</td>
</tr>
<tr>
<td>Other income</td>
<td>1,256,746</td>
<td>5,377,897</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>5,791,292</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale/retirement of capital assets</td>
<td>52,598</td>
<td>18,695</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(38,982,442)</td>
<td>(40,828,498)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(13,311,285)</td>
<td>(7,202,845)</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues (expenses)</strong></td>
<td><strong>(8,763,376)</strong></td>
<td><strong>5,729,999</strong></td>
</tr>
<tr>
<td><strong>Income before capital contributions</strong></td>
<td><strong>22,635,421</strong></td>
<td><strong>26,692,205</strong></td>
</tr>
<tr>
<td><strong>Capital contributions (Note 1n):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity charges</td>
<td>10,298,928</td>
<td>13,265,608</td>
</tr>
<tr>
<td>Water standby availability charges</td>
<td>11,240,386</td>
<td>11,311,384</td>
</tr>
<tr>
<td>Contributions in aid of capital assets</td>
<td>4,087,011</td>
<td>25,027,314</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td><strong>25,626,325</strong></td>
<td><strong>49,604,306</strong></td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>48,261,746</td>
<td>76,296,511</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year, as restated (Note 10)</strong></td>
<td><strong>1,207,340,049</strong></td>
<td><strong>1,131,043,538</strong></td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td><strong>$1,255,601,795</strong></td>
<td><strong>$1,207,340,049</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
San Diego County Water Authority
Statements of Cash Flows, For the Fiscal Years Ended June 30, 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>$380,531,626</td>
<td>$364,328,714</td>
</tr>
<tr>
<td>Cash paid to suppliers for purchases of water</td>
<td>(294,570,887)</td>
<td>(293,690,865)</td>
</tr>
<tr>
<td>Cash paid to suppliers for goods and services</td>
<td>(7,453,261)</td>
<td>(3,551,420)</td>
</tr>
<tr>
<td>Cash paid to employees for services</td>
<td>(42,895,846)</td>
<td>(40,692,090)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used for) operating activities</strong></td>
<td>35,611,632</td>
<td>26,394,339</td>
</tr>
<tr>
<td><strong>Cash flows from noncapital financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes and in-lieu charges received</td>
<td>9,977,161</td>
<td>10,258,751</td>
</tr>
<tr>
<td>Infrastructure access charges received</td>
<td>21,241,060</td>
<td>19,389,790</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>5,791,292</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash provided by (used for) noncapital financing activities</strong></td>
<td>37,009,513</td>
<td>29,648,541</td>
</tr>
<tr>
<td><strong>Cash flows from capital and related financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for acquisition and construction of capital assets</td>
<td>(189,457,004)</td>
<td>(261,089,069)</td>
</tr>
<tr>
<td>Contributions and capital related revenues received from other governments</td>
<td>25,626,325</td>
<td>49,604,306</td>
</tr>
<tr>
<td>Cash paid for deferred charges</td>
<td>(159,240)</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds of short-term debt issuance</td>
<td>460,000,000</td>
<td>460,000,000</td>
</tr>
<tr>
<td>Proceeds of long-term debt issuance</td>
<td>624,630,000</td>
<td>3,140,122</td>
</tr>
<tr>
<td>Cost of debt issuance</td>
<td>(5,639,216)</td>
<td>-</td>
</tr>
<tr>
<td>Principal paid on short-term debt</td>
<td>(460,000,000)</td>
<td>(460,000,000)</td>
</tr>
<tr>
<td>Principal paid on long-term debt</td>
<td>(65,321,650)</td>
<td>(24,650,275)</td>
</tr>
<tr>
<td>Interest paid on debt</td>
<td>(75,736,407)</td>
<td>(79,984,725)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used for) capital and related financing activities</strong></td>
<td>313,942,808</td>
<td>(312,979,751)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received on investments</td>
<td>5,779,086</td>
<td>19,016,648</td>
</tr>
<tr>
<td><strong>Net cash provided by (used for) investing activities</strong></td>
<td>5,779,086</td>
<td>19,016,648</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>392,343,039</td>
<td>(237,920,223)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments at beginning of year</td>
<td>$523,958,130</td>
<td>$761,878,353</td>
</tr>
<tr>
<td>Cash and investments at end of year</td>
<td>$916,301,169</td>
<td>$523,958,130</td>
</tr>
</tbody>
</table>

Reconciliation of cash and investments at the end of the year:

**Current assets:**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>$96,667,087</td>
<td>$104,094,605</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>565,858,310</td>
<td>381,242,365</td>
</tr>
</tbody>
</table>

**Noncurrent assets:**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments</td>
<td>37,678,064</td>
<td>2,694,225</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>216,097,708</td>
<td>35,926,935</td>
</tr>
</tbody>
</table>

**Cash and investments at the end of the year**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$916,301,169</td>
<td>$523,958,130</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
San Diego County Water Authority
Statement of Cash Flows For the Fiscal Years Ended June 30, 2010 and 2009, (continued)

| Reconciliation of operating income to net cash provided by (used for) operating activities: |
| Operating income | $ 31,398,797 | $ 20,962,206 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: |
| Depreciation and amortization | 30,657,250 | 30,038,388 |
| Other expenses | (13,311,285) | (7,202,845) |
| Other income | 1,256,746 | 5,377,897 |
| (Increase) decrease in water receivables | (9,013,803) | (3,706,195) |
| (Increase) decrease in other receivables | (3,290,849) | 4,474,937 |
| (Increase) decrease in inventories | 1,704,371 | (13,431,043) |
| (Increase) decrease in prepaid water | 1,098,000 | (1,098,000) |
| Increase (decrease) in long-term loan receivables | (688,268) | - |
| Increase (decrease) in retention receivable | 4,007,308 | (2,675,364) |
| Increase (decrease) in accounts payable and other liabilities | (6,556,549) | (9,325,963) |
| Increase (decrease) in construction deposits | (2,061,432) | 1,836,104 |
| Increase (decrease) in compensated absences | 132,346 | 959,217 |
| Increase (decrease) in OPEB liability | 279,000 | 185,000 |
| Total adjustments | 4,212,835 | 5,432,133 |
| Net cash provided by (used for) operating activities | $ 35,611,632 | $ 26,394,339 |

Noncash capital financing and investing activities:
- Amortization of discounts/premiums and deferred loss on refundings | $ (1,177,913) | $ (156,565) |
- Discounts/premiums on debt issued | 8,439,125 | - |
- Amortization of cost of issuance | 619,718 | 718,609 |

See accompanying notes to the financial statements.
1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (the Water Authority) was organized on June 9, 1944 under the County Water Authority Act (the 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. The Water Authority is a member of the Metropolitan Water District of Southern California (MWD) and historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies. The Water Authority is in the process of diversifying its supply. Pursuant to the Quantification Settlement Agreement (QSA) and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and will also receive water conserved by lining of the All-American and Coachella Canals. The QSA was signed on October 10, 2003. The Water Authority also adopted a Regional Water Facilities Master Plan in 2004, which calls for further supply diversification.

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 and based upon such formula, the Water Authority has a statutory preferential right to approximately 17.47 percent of MWD's total supply. 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 nonprofit public benefit corporation formed to assist the Water Authority as a financing entity. The SDCWAFC 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 Water Authority, 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 (SDCWAFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority and to finance working capital for the Water Authority. The SDCWAFA is a Joint Powers Agreement (JPA) with statutory authority to issue revenue bonds and was formed by 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 many such JPAs. Under the JPA agreement the Water Authority has control over all finance matters.

The SDCWAFA's sole purpose is to be a financing entity for the Water Authority and the SDCWAFA 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 Water Authority, 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 SDCWAFA 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 results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing 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 applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

(c) **Budgets and Budgetary Accounting**

The Water Authority Board of Directors adopts two-year budgets for operations, debt service, and capital expenditures. The Board of Directors, by resolution, has established budgetary controls and made a total appropriation for expenditures consistent with the adopted budget. The total appropriation adopted by the Board of Directors establishes the legal expenditure limit for the Water Authority. The Board of Directors, 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 of Directors. The Water Authority adhered to the budget policies and budgetary controls adopted by the Board of Directors for the fiscal years ended June 30, 2010 and 2009.

(d) **Cash and Investments**

The Water Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, 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 are shown as both restricted and unrestricted cash and investments.

Investments are reported at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer’s Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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.

(e) ** Inventories**

Inventories consist of water, valves, and materials in storage and are valued using the average cost method.
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 assets are valued at their estimated fair market value on the date received. The Water Authority capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least three years. 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 is computed utilizing the straight-line method over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dams</td>
<td>100 years</td>
</tr>
<tr>
<td>Water transportation pipelines</td>
<td>25 to 100 years</td>
</tr>
<tr>
<td>Plants and facilities</td>
<td>25 to 40 years</td>
</tr>
<tr>
<td>Automobiles and equipment</td>
<td>3 to 10 years</td>
</tr>
</tbody>
</table>

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 easements or life of the agreement in the case of participation rights.

(g) 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. Employees may elect to receive cash for accumulated sick leave depending on the prevailing rules at the time of termination or retirement. All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.
1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(h) Arbitrage Rebate

Arbitrage is the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds at higher yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage and so amounts are accumulated in order to make arbitrage rebate payments to the federal government under the Internal Revenue Code.

(i) Unrestricted Net Assets

The unrestricted net assets of the Water Authority are restricted by state law for sole use by the Water Authority for water operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the Water Authority was established. They are unavailable for other government uses and are committed to the ongoing operations of the Water Authority, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(j) Revenue Policies

The principal source of the Water Authority’s revenues is provided by water sales, which include all charges for the sale and availability of water, including water supply rates, customer service, storage charges, and transportation/exchange transactions. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery.

In fiscal year 1999 the Infrastructure Access Charge (IAC) was adopted by the Board of Directors as an additional source of fixed revenue to provide better coverage of the Water Authority’s projected fixed expenditures. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and within the Water Authority’s service area. The fixed charge is levied against each member agency for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenditures of 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process. Beginning on January 1, 2010, the IAC increased from $1.90 to $2.02 per meter equivalent per month.

(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 levied annually by the Water Authority’s Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10 and April 10. The taxes levied are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year.

(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.
1. **Nature of Business and Summary of Significant Accounting Policies, (continued)**

**(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, hydroelectric sales, 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 Statements of Revenues, Expenses, and Changes in Net Assets. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures 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 (CIP). 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 Capital 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 expenditures. Examples of capital projects where grants are received include regional water use and efficiency improvements, and water storage programs.

**(o) Classification of Expenses**

Operating expenses for enterprise funds 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, bond discounts/premiums, deferred loss on refunding, and other miscellaneous expenses.

**(p) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Management believes that the estimates are reasonable.

**(q) Reclassifications**

Certain prior year amounts have been reclassified to conform within current year presentation.
2. **Cash and Investments**

Cash and investments are classified in the accompanying Statements of Net Assets at June 30 as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$96,667,087</td>
<td>$104,094,605</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>565,858,310</td>
<td>381,242,365</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$662,525,397</td>
<td>$485,336,970</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>37,678,064</td>
<td>2,694,225</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>216,097,708</td>
<td>35,926,935</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>$253,775,772</td>
<td>$38,621,160</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td>$916,301,169</td>
<td>$523,958,130</td>
</tr>
</tbody>
</table>

The carrying value of cash and investments held by the Water Authority consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty cash</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>Deposits</td>
<td>363,010</td>
<td>186,437</td>
</tr>
<tr>
<td>Investments</td>
<td>915,935,659</td>
<td>523,769,193</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td>$916,301,169</td>
<td>$523,958,130</td>
</tr>
</tbody>
</table>
2. **Cash and Investments, (continued)**

   (a) **Investments Authorized by the California Government Code and the Water Authority’s Investment Policy**

   The table below identifies the investment types that are authorized for the Water Authority by the California Government Code and the Water Authority’s investment 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 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 or the Water Authority’s investment policy.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Authorized by State Law</th>
<th>Authorized by Investment Policy</th>
<th>Maximum Maturity*</th>
<th>Maximum Percentage of Portfolio (1)</th>
<th>Maximum Investment in One Issuer (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local agency bonds</td>
<td>Yes</td>
<td>5 years</td>
<td>20%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>Yes</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>Yes</td>
<td>5 years</td>
<td>85%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Bankers’ acceptances</td>
<td>Yes</td>
<td>180 days</td>
<td>20%</td>
<td>5%</td>
<td>None</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>Yes</td>
<td>270 days</td>
<td>25%</td>
<td>5%</td>
<td>None</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>Yes</td>
<td>12/31/2013</td>
<td>15%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Placement service certificates of deposit</td>
<td>Yes</td>
<td>12/31/2013</td>
<td>15%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>Yes</td>
<td>12/31/2013</td>
<td>15%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>Yes</td>
<td>1 year</td>
<td>20%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Reverse repurchase agreements</td>
<td>Yes</td>
<td>92 days</td>
<td>20% of base value</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Medium-term notes</td>
<td>Yes</td>
<td>5 years</td>
<td>30%</td>
<td>5%</td>
<td>None</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>No</td>
<td>n/a</td>
<td>20%</td>
<td>10%</td>
<td>None</td>
</tr>
<tr>
<td>Money market funds</td>
<td>Yes</td>
<td>n/a</td>
<td>15%</td>
<td>10%</td>
<td>None</td>
</tr>
<tr>
<td>Mortgage pass-through securities</td>
<td>No</td>
<td>5 years</td>
<td>20%</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>County pooled investment funds</td>
<td>No</td>
<td>n/a</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Local agency investment fund (LAIF)</td>
<td>Yes</td>
<td>n/a</td>
<td>$50 Million</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>JPA pools (other investment pools)</td>
<td>Yes</td>
<td>n/a</td>
<td>25%</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

**Notes:**
(1) Based on state law requirements or investment policy requirements, whichever is more restrictive.
(2) The combined maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.
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 contacts 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 of its fair value 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 shows the distribution of the Water Authority’s investments by terms to maturity:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</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>$72,445,944</td>
<td>$54,319,386</td>
<td>$18,126,558</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>380,524,045</td>
<td>215,197,571</td>
<td>165,326,474</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>45,212,733</td>
<td>45,212,733</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>17,095,944</td>
<td>17,095,944</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>LAIF</td>
<td>245,522,345</td>
<td>245,522,345</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>JPA pools</td>
<td>84,887,198</td>
<td>84,887,198</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Money market funds</td>
<td>1,177,370</td>
<td>1,177,370</td>
<td>$</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>Money market funds</td>
<td>450,382</td>
<td>450,382</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>37,993,173</td>
<td>37,993,173</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Investment contracts</td>
<td>30,626,525</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>30,626,525</td>
</tr>
<tr>
<td>Total</td>
<td>$915,935,659</td>
<td>$701,856,102</td>
<td>$183,453,032</td>
<td>$</td>
<td>$30,626,525</td>
</tr>
</tbody>
</table>
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 below 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>Rating as of Year-End</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Exempt From</td>
<td>AAA</td>
<td>A1</td>
<td>Not Rated</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>n/a</td>
<td>$72,445,944</td>
<td>$</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>n/a</td>
<td>380,524,045</td>
<td>-</td>
<td>$380,524,045</td>
<td>-</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>A1</td>
<td>-</td>
<td>45,212,733</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>n/a</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17,095,944</td>
</tr>
<tr>
<td>Local agency investment fund</td>
<td>n/a</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>245,522,345</td>
</tr>
<tr>
<td>JPA pools</td>
<td>AAAm</td>
<td>84,887,198</td>
<td>-</td>
<td>-</td>
<td>84,887,198</td>
</tr>
<tr>
<td>Money market funds</td>
<td>AAAm</td>
<td>1,177,370</td>
<td>-</td>
<td>-</td>
<td>1,177,370</td>
</tr>
<tr>
<td>Held by bond trustees:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money market funds</td>
<td>AAAm</td>
<td>450,382</td>
<td>-</td>
<td>-</td>
<td>450,382</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>n/a</td>
<td>37,993,173</td>
<td>-</td>
<td>-</td>
<td>37,993,173</td>
</tr>
<tr>
<td>Investment contracts</td>
<td>n/a</td>
<td>30,626,525</td>
<td>-</td>
<td>-</td>
<td>30,626,525</td>
</tr>
<tr>
<td>Total</td>
<td>$915,935,659</td>
<td>$110,439,117</td>
<td>$467,038,995</td>
<td>$45,212,733</td>
<td>$293,244,814</td>
</tr>
</tbody>
</table>

(e) Concentration of Credit Risk

The investment policy of the Water Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments 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>$164,734,614</td>
<td>18.0%</td>
</tr>
<tr>
<td>Federal National Mortgage Association</td>
<td>Federal agency securities</td>
<td>137,988,191</td>
<td>15.1%</td>
</tr>
<tr>
<td>Federal Home Loan Mortgage Corporation</td>
<td>Federal agency securities</td>
<td>46,163,241</td>
<td>5.0%</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 Water Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

(g) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Water Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Water Authority’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. Inventories

The Water Authority inventories are valued using the average cost method. Components of inventories at June 30 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water in storage</td>
<td>$24,103,433</td>
<td>$25,646,989</td>
</tr>
<tr>
<td>Valves in storage</td>
<td>860,040</td>
<td>1,250,975</td>
</tr>
<tr>
<td>Materials in storage</td>
<td>435,101</td>
<td>204,981</td>
</tr>
<tr>
<td>Total inventories</td>
<td>$25,398,574</td>
<td>$27,102,945</td>
</tr>
</tbody>
</table>

4. Prepaid water

In March 2008, the Water Authority executed an agreement with Butte Water District and Sutter Extension Water District to purchase 10,006 and 13,071 acre-feet of transfer water. In March 2009, the Water Authority executed an agreement with Placer County Water Agency and prepaid for rights to purchase 20,000 acre-feet of transfer water. The Water Authority bought and sold the water in fiscal year 2010.

Since this water is currently outside the Water Authority’s service area, it is classified as Prepaid Water on the Statements of Net Assets. The balance as of June 30, 2010 and 2009 was $4,615,500 and $5,713,500, respectively.
5. **Long-Term Receivables**

(a) **Proposition 1A State Borrowing**

Under the provisions of Proposition 1A Borrowing by the State of California and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed eight percent of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Water Authority was $688,268.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. The tax revenues were recognized in the fiscal year for which they were levied.

(b) **Imperial Irrigation District**

In October 2003, the Water Authority amended the Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments of $10,000,000 in four installments. 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 the 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, the 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 $10,000,000 for future deliveries of water. Interest on the prepayment shall begin to accrue 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 30th. If not repaid sooner, beginning 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.

For the fiscal years ended June 30, 2010 and 2009, the total long-term loan receivables balance was $20,688,268 and $20,000,000, respectively.
### 6. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2010 and 2009:

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2008, as Restated</th>
<th>Additions</th>
<th>Deletions</th>
<th>Transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital assets not depreciated:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$13,283,900</td>
<td>$</td>
<td>$</td>
<td>$ (155,556)</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>1,051,556,553&lt;sup&gt;1&lt;/sup&gt;</td>
<td>292,277,469</td>
<td>(573,570)</td>
<td>(40,332,354)</td>
</tr>
<tr>
<td>Work in progress</td>
<td>612,973</td>
<td>136,044</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total capital assets not depreciated</strong></td>
<td>1,065,453,426</td>
<td>292,413,513</td>
<td>(573,570)</td>
<td>(40,487,910)</td>
</tr>
</tbody>
</table>

**Other capital assets:**

- Olivenhain Dam 175,971,199
- Water transportation pipelines 960,401,118
- Pumping plants and facilities 171,651,588
- Treatment plants and facilities 25,620,355
- Automobiles 6,214,680
- Miscellaneous 49,885,451

- Intangible assets (Note 1f):
  - Easements -
  - Computer systems software -
  - Participation and capacity rights (Note 7) 105,829,841

- **Total other capital assets and intangible assets** 1,495,574,232

**Accumulated depreciation (Note 1f):**

- Olivenhain Dam (8,798,560)
- Water transportation pipelines (170,296,844)
- Pumping plants and facilities (24,323,529)
- Treatment plants and facilities (3,827,207)
- Automobiles (5,080,038)
- Miscellaneous (27,030,947)

**Accumulated amortization (Note 1f):**

- Computer systems software -
- Participation and capacity rights (Note 7) (6,294,087)

- **Total accumulated depreciation and amortization** (245,651,212)

**Other capital assets, net**

- 1,249,923,020

- **Total capital assets, net** $2,315,376,446

**Notes:**

1. Net assets at June 30, 2008 were restated by $6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project. The project costs had been capitalized as construction in progress in prior years; and also were restated by $79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net assets at June 30, 2009 were restated by $827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.
6. **Capital Assets, (continued)**

<table>
<thead>
<tr>
<th>Balance at June 30, 2009, as Restated</th>
<th>Additions</th>
<th>Deletions</th>
<th>Transfers</th>
<th>Balance at June 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 13,128,344</td>
<td>$</td>
<td>$ (6,248)</td>
<td>$ 5,943,351</td>
<td>$ 19,065,447</td>
</tr>
<tr>
<td>1,302,928,098</td>
<td>261,452,590</td>
<td>(1,207)</td>
<td>(364,689,240)</td>
<td>1,199,690,241</td>
</tr>
<tr>
<td>749,017</td>
<td>-</td>
<td>-</td>
<td>(107,952)</td>
<td>641,065</td>
</tr>
<tr>
<td>1,316,805,459</td>
<td>261,452,590</td>
<td>(7,455)</td>
<td>(358,853,841)</td>
<td>1,219,396,753</td>
</tr>
<tr>
<td>175,971,199</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>175,971,199</td>
</tr>
<tr>
<td>994,213,762</td>
<td>25,944</td>
<td>(1,160,323)</td>
<td>59,236,422</td>
<td>1,052,315,805</td>
</tr>
<tr>
<td>173,706,256</td>
<td>-</td>
<td>(143,227)</td>
<td>162,803,773</td>
<td>336,366,802</td>
</tr>
<tr>
<td>25,620,355</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,620,355</td>
</tr>
<tr>
<td>6,115,851</td>
<td>-</td>
<td>(357,468)</td>
<td>107,952</td>
<td>5,866,335</td>
</tr>
<tr>
<td>48,952,829</td>
<td>338,045</td>
<td>(4,300,891)</td>
<td>8,525,763</td>
<td>53,515,746</td>
</tr>
<tr>
<td>155,556</td>
<td>-</td>
<td>(1,368)</td>
<td>869,699</td>
<td>1,023,887</td>
</tr>
<tr>
<td>3,253,579</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,253,579</td>
</tr>
<tr>
<td>132,579,741</td>
<td>-</td>
<td>(1,211,343)</td>
<td>127,310,232</td>
<td>258,678,630</td>
</tr>
<tr>
<td>1,560,569,128</td>
<td>363,989</td>
<td>(7,174,620)</td>
<td>358,853,841</td>
<td>1,912,612,338</td>
</tr>
<tr>
<td>(8,798,560)</td>
<td>(1,759,712)</td>
<td>-</td>
<td>-</td>
<td>(10,558,272)</td>
</tr>
<tr>
<td>(185,829,428)</td>
<td>(13,896,046)</td>
<td>984,221</td>
<td>-</td>
<td>(198,741,253)</td>
</tr>
<tr>
<td>(28,355,779)</td>
<td>(4,668,756)</td>
<td>118,846</td>
<td>-</td>
<td>(32,905,689)</td>
</tr>
<tr>
<td>(4,468,182)</td>
<td>(640,975)</td>
<td>-</td>
<td>-</td>
<td>(5,109,157)</td>
</tr>
<tr>
<td>(5,261,986)</td>
<td>(351,274)</td>
<td>338,320</td>
<td>-</td>
<td>(5,274,940)</td>
</tr>
<tr>
<td>(25,676,191)</td>
<td>(3,356,944)</td>
<td>3,258,730</td>
<td>56,478</td>
<td>(25,717,927)</td>
</tr>
<tr>
<td>(2,343,657)</td>
<td>(758,474)</td>
<td>-</td>
<td>-</td>
<td>(3,102,131)</td>
</tr>
<tr>
<td>(11,448,461)</td>
<td>(5,221,029)</td>
<td>1,211,343</td>
<td>(56,478)</td>
<td>(15,514,625)</td>
</tr>
<tr>
<td>(272,182,244)</td>
<td>(30,653,210)</td>
<td>5,911,460</td>
<td>-</td>
<td>(296,923,994)</td>
</tr>
<tr>
<td>1,288,386,884</td>
<td>(30,289,221)</td>
<td>(1,263,160)</td>
<td>358,853,841</td>
<td>1,615,688,344</td>
</tr>
<tr>
<td>$ 2,605,192,343</td>
<td>$ 231,163,369</td>
<td>$ (1,270,615)</td>
<td>$</td>
<td>$ 2,835,085,097</td>
</tr>
</tbody>
</table>
7. 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 $243,164,005 as of June 30, 2010.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority Creation and Funding Agreement (the 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 was $52,220,859. Amortization is computed using the acre-feet assigned per calendar year over the life of the agreement, which is 75 years.

In addition, the Agreement required the Water Authority to pay $11,779,141 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the life of the agreement, which is 45 years.

(b) Imperial Irrigation District Socioeconomic Participation Rights

IID and the Water Authority resolved a dispute concerning the nature and extent of the obligations and covenants under Section 14.5 of the Revised Fourth Amendment to the Agreement between IID and the Water Authority for the Transfer of Conserved Water by agreeing to additional annual payments to be made to IID totaling $29,520,000 over the period of ten years.

(c) Canal Relining 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 required payment of $4,321,185 to the IID for MWD’s outstanding obligations.

The Agreement specifically assigned the project of lining the Coachella Canal, which is a branch from the Colorado River and is owned by the U.S. Bureau of Reclamation, to the Water Authority. The lining of the canal was in order to control 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 totaled $116,652,602 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.
7. Participation and Capacity Rights, (continued)

(d) 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 the 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 $11,749,900 for Vidler and $15,000,000 for Semitropic as of June 30, 2010. These rights are amortized using the straight-line method over the life of the agreement, which ends in 2035.

(e) Moreno-Lakeside Pipeline Capacity Rights

In April 1997, the Water Authority entered into an agreement with Helix Water District for installation of a raw water transmission pipeline, a flow control facility and expansion of the R.M. Levy Water Treatment Plant. Helix owns, operates, and maintains the R.M. Levy Water Treatment Plant and agreed to its phased expansion. The design capacity shall be 106 million gallons per day (mgd) with the Water Authority having capacity rights to 26 mgd. In April 2006, a third amendment to the agreement with Helix Water District transferred to the Water Authority 10 mgd capacity in the R.M. Levy Water Treatment Plant, for total capacity rights of 36 mgd. Capacity rights for this project totaled $6,777,313 as of June 30, 2010 and are being amortized using the straight-line method over ten years.

(f) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix Water District 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 R.M. Levy Water Treatment Plant to provide additional capacity to 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 12 mgd. Capacity rights for Los Coches Pump Station totaled $5,625,153 and for Helix Flume Pipeline totaled $5,032,477 as of June 30, 2010, and are being amortized using the straight-line method over 10 years.
8. **Short-Term Liabilities**

Short-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

<table>
<thead>
<tr>
<th>Short-term debt:</th>
<th>Balance at June 30, 2008</th>
<th>Additions</th>
<th>Deletions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper - Series 1</td>
<td>$ 110,000,000</td>
<td>$ 1,220,650,000</td>
<td>$(1,220,650,000)</td>
</tr>
<tr>
<td>Commercial Paper - Series 2</td>
<td>175,000,000</td>
<td>701,500,000</td>
<td>(701,500,000)</td>
</tr>
<tr>
<td>Commercial Paper - Series 3</td>
<td>175,000,000</td>
<td>3,344,305,000</td>
<td>(3,344,305,000)</td>
</tr>
<tr>
<td><strong>Total short-term debt</strong></td>
<td><strong>$ 460,000,000</strong></td>
<td><strong>$ 5,266,455,000</strong></td>
<td><strong>$(5,266,455,000)</strong></td>
</tr>
</tbody>
</table>

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 capital improvement program. The TECP program is comprised of three separate series with a total maximum authorized amount of $460,000,000.

The Water Authority has remarketing agreements with five separate broker-dealers: Banc of America Securities LLC/Merrill Lynch, JPMorgan Chase & Co., Citigroup Global Markets Inc., Barclays Capital Inc., and Goldman, Sachs and Co. The remarketing fees for the various dealer agreements range from 0.035 percent to 0.100 percent per annum on the par amount of TECP outstanding. No advances have been made under any of the revolving-credit and term-loan agreements during the fiscal year ended June 30, 2010.

The TECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COPs). At June 30, 2010 and 2009, the Water Authority had $460,000,000 of commercial paper outstanding.
8. **Short-Term Liabilities, (continued)**

<table>
<thead>
<tr>
<th>Balance at June 30, 2009</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2010</th>
<th>Amounts Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 110,000,000</td>
<td>$ 934,570,000</td>
<td>$ (934,570,000)</td>
<td>$ 110,000,000</td>
<td>$ 110,000,000</td>
</tr>
<tr>
<td>175,000,000</td>
<td>904,750,000</td>
<td>(904,750,000)</td>
<td>175,000,000</td>
<td>175,000,000</td>
</tr>
<tr>
<td>175,000,000</td>
<td>3,029,675,000</td>
<td>(3,029,675,000)</td>
<td>175,000,000</td>
<td>175,000,000</td>
</tr>
<tr>
<td><strong>$ 460,000,000</strong></td>
<td><strong>$ 4,868,995,000</strong></td>
<td><strong>$ (4,868,995,000)</strong></td>
<td><strong>$ 460,000,000</strong></td>
<td><strong>$ 460,000,000</strong></td>
</tr>
</tbody>
</table>

(a) **Commercial Paper Series 1**

The total maximum authorized amount of Series 1 is $110,000,000. Series 1 has liquidity support in the form of revolving-credit and term-loan agreements with Bayerische Landesbank, and unless otherwise extended, will terminate on June 30, 2013. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.70 percent.

(b) **Commercial Paper Series 2**

Series 2 has a total maximum authorized amount of $175,000,000 and was issued on November 15, 2006. Series 2 has liquidity support in the form of revolving-credit and term-loan agreements with BNP Paribas, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

(c) **Commercial Paper Series 3**

The total maximum authorized amount of Series 3 is $175,000,000 and the TECP was issued on November 15, 2006. Series 3 has liquidity support in the form of revolving-credit and term-loan agreements with Dexia Credit Local, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.
9. **Long-Term Liabilities**

Long-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

<table>
<thead>
<tr>
<th></th>
<th>Balance at June 30, 2008</th>
<th>Additions</th>
<th>Deletions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term debt:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010A Water Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-AMT Tax-Exempt Bonds (Note 9a)</td>
<td>$ - $</td>
<td>$ - $</td>
<td>$ - $</td>
</tr>
<tr>
<td>2010B Water Revenue BABs (Note 9b)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008A Water Revenue COPs (Note 9c)</td>
<td>558,015,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2005A Water Revenue Refunding COPs (Note 9d)</td>
<td>107,455,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004A Water Revenue COPs (Note 9e)</td>
<td>425,000,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002A Water Revenue COPs (Note 9f)</td>
<td>255,855,000</td>
<td>-</td>
<td>(6,120,000)</td>
</tr>
<tr>
<td>1998A Water Revenue COPs (Note 9g)</td>
<td>62,690,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1997A Water Revenue COPs (Note 9h)</td>
<td>23,610,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993A Water Revenue Refunding COPs (Note 9i)</td>
<td>13,700,000</td>
<td>-</td>
<td>(13,700,000)</td>
</tr>
<tr>
<td><strong>Total long-term debt</strong></td>
<td>1,446,325,000</td>
<td>-</td>
<td>(19,820,000)</td>
</tr>
<tr>
<td><strong>Other liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions payable (Note 9j)</td>
<td>76,913,801</td>
<td>3,140,012</td>
<td>(4,363,369)</td>
</tr>
<tr>
<td>Compensated absences (Note 1g)</td>
<td>5,232,786</td>
<td>4,131,546</td>
<td>(3,172,329)</td>
</tr>
<tr>
<td>OPEB liability (Note 12)</td>
<td>179,000</td>
<td>324,000</td>
<td>(139,000)</td>
</tr>
<tr>
<td>Arbitrage rebate (Note 1h)</td>
<td>874,731</td>
<td>-</td>
<td>(466,906)</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>1,529,525,318</td>
<td>$ 7,595,558</td>
<td>$ (27,961,604)</td>
</tr>
<tr>
<td>Unamortized bond discounts/premiums, deferred loss on refunding</td>
<td>26,091,232</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total long-term liabilities, net</strong></td>
<td>$ 1,555,616,550</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

<table>
<thead>
<tr>
<th>Balance at June 30, 2009</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2010</th>
<th>Amounts Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 98,495,000</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>$</td>
<td>-</td>
<td>-</td>
<td>$ 98,495,000</td>
<td>$</td>
</tr>
</tbody>
</table>

|                          | -             | 526,135,000 |                          | -                          |
| 558,015,000              | -             | -           | 558,015,000              | -                          |

|                          | -             | -           | 107,455,000              | -                          |
| 425,000,000              | -             | -           | 425,000,000              | -                          |

|                          | -             | (6,365,000) | 243,370,000              | 6,620,000                  |
| 249,735,000              | -             | -           |                          |                            |

|                          | -             | (51,005,000)| 11,685,000               | -                          |
| 62,690,000               | -             | -           |                          |                            |

|                          | -             | -           | 23,610,000               | 17,500,000                 |
| 23,610,000               | -             | -           |                          |                            |

|                          | -             | -           | 1,426,505,000            | 24,120,000                 |
| 1,426,505,000            | 624,630,000   | (57,370,000)| 1,993,765,000           |                            |

|                          | -             | -           | 67,738,795               | 2,940,000                  |
| 75,690,444               | -             | (7,951,649)|                          |                            |

|                          | -             | -           | 6,324,349                | 4,174,070                  |
| 6,192,003                | 3,971,547     | (3,839,201)|                          |                            |

|                          | 436,000       | (157,000)  | 643,000                  | 424,380                    |
| 364,000                  | -             | -           |                          |                            |

|                          | -             | (1)        | 407,824                  | -                          |
| 407,825                  | -             | -           |                          |                            |

|                          | $ 629,037,547 | $ (69,317,851)| 2,068,878,968           | $ 31,658,450               |
| 1,509,159,272            | $ (1,879,122)| $ (80,935,391)|                          |                            |

|                          | 25,934,667    | 33,195,879  |                          |                            |
| $ 1,535,093,939          |                |             | $ 2,102,074,847          |                            |
9. **Long-Term Liabilities, (continued)**

(a) **2010A Water Revenue Non-AMT Tax-Exempt Bonds**

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority’s CIP, the San Diego County WAFA issued 2010A Water Revenue Tax Exempt Bonds on February 4, 2010 in the aggregate principal amount of $98,495,000. A portion of the proceeds were used to refund $51,005,000 of the outstanding 1998A COPs on March 8, 2010. The balance of proceeds will be used to finance CIP projects, including interest incurred during construction. At June 30, 2010, $11,685,000 of 1998A COPs remains outstanding.

The tax-exempt bonds, with an aggregate principal amount of $98,495,000, have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1.

The 2010A bonds are limited obligations of the WAFA and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010A bonds. No debt service reserve fund was created to secure the 2010A bonds.

The 2010A Water Revenue Tax-Exempt Bonds were issued at a premium of $8,439,125 with issuance costs of $648,183. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $834,620. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2027 using the life of the new debt, which was shorter than the remaining life of the old debt. This transaction resulted in an economic gain of $1,984,683. In addition, the refunding resulted in a cash flow savings (difference in cash flows between the refunded bonds and the new bonds) of $3,626,860.

Included in the interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $206,841 and for loss on refunding of $20,455. The principal balance of outstanding bonds at June 30, 2010 was $98,495,000 or $105,913,119, net of unamortized premium of $8,232,284 and unamortized loss on refunding of $814,165.

The total debt service payment requirements with respect to the above bonds are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,570,000</td>
<td>$4,722,425</td>
<td>6,292,425</td>
</tr>
<tr>
<td>2015</td>
<td>2,560,000</td>
<td>$4,659,625</td>
<td>7,219,625</td>
</tr>
<tr>
<td>2016-2020</td>
<td>21,565,000</td>
<td>21,087,425</td>
<td>42,652,425</td>
</tr>
<tr>
<td>2021-2025</td>
<td>52,375,000</td>
<td>14,303,025</td>
<td>66,678,025</td>
</tr>
<tr>
<td>2026-2027</td>
<td>20,425,000</td>
<td>1,494,250</td>
<td>21,919,250</td>
</tr>
<tr>
<td>Total</td>
<td>$98,495,000</td>
<td>$60,434,025</td>
<td>$158,929,025</td>
</tr>
</tbody>
</table>
9. **Long-Term Liabilities, (continued)**

   (b) **2010B Water Revenue Taxable Build America Bonds**

   To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority’s CIP, the San Diego County WAFA issued 2010B Water Revenue Taxable Build America Bonds (BABs) on February 4, 2010 in the aggregate principal amount of $526,135,000.

   The taxable bonds, with an aggregate principal amount of $526,135,000, have a stated interest rate of 6.138 percent payable semi-annually on May 1 and November 1.

   The 2010B bonds were designated as BABs under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority will receive interest subsidy payments from the United States Treasury equal to 35 percent of the interest payable.

   The 2010B bonds are limited obligations of the WAFA and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010B bonds. No debt service reserve fund was created to secure the 2010B bonds.

   The 2010B Water Revenue BABs were issued at par for $526,135,000 with issuance costs of $4,991,033. The principal balance of outstanding bonds at June 30, 2010 was $526,135,000.

   The total debt service payment requirements with respect to the above bonds are as follows:

   **2010B Water Revenue Taxable BABs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$</td>
<td>$32,294,166</td>
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<td>32,294,166</td>
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<tr>
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<td>-</td>
<td>32,294,166</td>
<td>32,294,166</td>
</tr>
<tr>
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<td>-</td>
<td>32,294,166</td>
<td>32,294,166</td>
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<tr>
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<td>32,294,166</td>
<td>32,294,166</td>
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<tr>
<td>2016-2020</td>
<td>-</td>
<td>161,470,832</td>
<td>161,470,832</td>
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<tr>
<td>2021-2025</td>
<td>1,735,000</td>
<td>161,470,832</td>
<td>163,205,832</td>
</tr>
<tr>
<td>2026-2030</td>
<td>33,715,000</td>
<td>156,961,243</td>
<td>190,676,243</td>
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<tr>
<td>2031-2035</td>
<td>73,375,000</td>
<td>143,961,266</td>
<td>217,336,266</td>
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<tr>
<td>2036-2040</td>
<td>123,625,000</td>
<td>113,488,858</td>
<td>237,113,858</td>
</tr>
<tr>
<td>2041-2045</td>
<td>150,340,000</td>
<td>72,397,403</td>
<td>222,737,403</td>
</tr>
<tr>
<td>2046-2049</td>
<td>143,345,000</td>
<td>22,426,411</td>
<td>165,771,411</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$526,135,000</strong></td>
<td><strong>$993,647,675</strong></td>
<td><strong>$1,519,782,675</strong></td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(c) 2008A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority’s CIP, the Water Authority issued 2008A Water Revenue COPs on May 1, 2008 in the aggregate principal amount of $558,015,000. A portion of the proceeds were used to make an early payment of $64,238,181 on the outstanding 1997A COPs on June 23, 2008.

The Serial Certificates, with an aggregate principal amount of $558,015,000, have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1.

The certificates require that a reserve be maintained in an amount equal to the lesser of $23,670,625 or one-half of maximum annual debt service of the 2008A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Security Assurance, Inc. (FSA). The certificates are also insured by FSA.

The 2008A Water Revenue Certificates were issued at a premium of $19,063,710 with issuance costs of $7,147,600. Included in the interest expense for the fiscal year ended June 30, 2010 is an annual premium amortization of $614,400. The principal balance of outstanding certificates at June 30, 2010 was $558,015,000 or $575,167,058, net of unamortized premium of $17,152,058.

The total debt service payment requirements with respect to the above COPs are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$</td>
<td>$27,790,900</td>
<td>$27,790,900</td>
</tr>
<tr>
<td>2012</td>
<td>1,865,000</td>
<td>27,790,900</td>
<td>29,655,900</td>
</tr>
<tr>
<td>2013</td>
<td>9,120,000</td>
<td>27,716,300</td>
<td>36,836,300</td>
</tr>
<tr>
<td>2014</td>
<td>10,920,000</td>
<td>27,351,500</td>
<td>38,271,500</td>
</tr>
<tr>
<td>2015</td>
<td>11,360,000</td>
<td>27,351,500</td>
<td>38,711,500</td>
</tr>
<tr>
<td>2016-2020</td>
<td>78,130,000</td>
<td>124,403,500</td>
<td>202,533,500</td>
</tr>
<tr>
<td>2021-2025</td>
<td>56,615,000</td>
<td>105,996,000</td>
<td>162,611,000</td>
</tr>
<tr>
<td>2026-2030</td>
<td>93,985,000</td>
<td>89,783,750</td>
<td>183,768,750</td>
</tr>
<tr>
<td>2031-2035</td>
<td>167,100,000</td>
<td>58,912,250</td>
<td>226,012,250</td>
</tr>
<tr>
<td>2036-2038</td>
<td>128,920,000</td>
<td>13,101,500</td>
<td>142,021,500</td>
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<td>Total</td>
<td>$558,015,000</td>
<td>$530,198,100</td>
<td>$1,088,213,100</td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(d) 2005A Water Revenue Refunding Certificates of Participation

On February 1, 2005 the Water Authority issued 2005A Water Revenue Refunding COPs in the amount of $107,455,000 to refund, in advance, $117,310,000 of the 1998A COPs with stated interest rates between 4.75 percent and 5.25 percent.

The Serial Certificates, with an aggregate principal amount of $107,455,000, have stated interest rates ranging from 5.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2022.

The certificates require that a reserve be maintained in an amount equal to the lesser of $10,745,500 or maximum annual debt service on the 2005A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Guaranty Insurance Company (FGIC). FGIC also insures the certificates.

The 2005A Water Revenue Refunding Certificates were issued at a premium of $14,343,160 with issuance costs of $1,152,055. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,890,822. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through fiscal year 2022. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $835,524 and for loss on refunding of $581,808. The principal balance of outstanding certificates at June 30, 2010 was $107,455,000 or $110,554,208, net of unamortized premium of $9,887,032 and unamortized loss on refunding of $6,787,824.

The total debt service payment requirements with respect to the above COPs are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$</td>
<td>5,580,563</td>
<td>$ 5,580,563</td>
</tr>
<tr>
<td>2012</td>
<td>11,725,000</td>
<td>5,580,563</td>
<td>17,305,563</td>
</tr>
<tr>
<td>2013</td>
<td>12,240,000</td>
<td>4,994,313</td>
<td>17,234,313</td>
</tr>
<tr>
<td>2014</td>
<td>12,605,000</td>
<td>4,351,713</td>
<td>16,956,713</td>
</tr>
<tr>
<td>2015</td>
<td>13,510,000</td>
<td>4,351,713</td>
<td>17,861,713</td>
</tr>
<tr>
<td>2016-2020</td>
<td>43,575,000</td>
<td>8,949,675</td>
<td>52,524,675</td>
</tr>
<tr>
<td>2021-2022</td>
<td>13,800,000</td>
<td>1,095,935</td>
<td>14,895,935</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 107,455,000</strong></td>
<td><strong>$ 34,904,475</strong></td>
<td><strong>$ 142,359,475</strong></td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(e) 2004A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority’s CIP, the Water Authority issued 2004A Water Revenue Certificates of Participation on September 1, 2004 in the aggregate principal amount of $425,000,000. A portion of the proceeds were used to make an early payment of $56,700,000 on the 1991B Certificates of Participation on December 1, 2004.

The Serial Certificates with an aggregate principal amount of $318,295,000 have stated interest rates between 4.00 percent and 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2031. The Term Certificates with an aggregate principal amount of $106,705,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. These certificates are due May 1, 2034.

The certificates require that a reserve be maintained in an amount equal to the lesser of $38,568,617 or maximum annual debt service on the 2004A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by FSA.

The 2004A Water Revenue Certificates were issued at a premium of $11,438,625 and issuance costs of $2,837,544. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,200,156. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2011. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $386,653 and for loss on refunding of $966,265. The principal balance of outstanding certificates at June 30, 2010 was $425,000,000 or, $433,410,501 net of unamortized premium of $9,215,709 and unamortized loss from refunding of $805,208.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
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<td>$ 20,929,425</td>
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<tr>
<td>2012</td>
<td>-</td>
<td>20,929,425</td>
<td>20,929,425</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
<td>20,929,425</td>
<td>20,929,425</td>
</tr>
<tr>
<td>2014</td>
<td>-</td>
<td>20,929,425</td>
<td>20,929,425</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>20,929,425</td>
<td>20,929,425</td>
</tr>
<tr>
<td>2016-2020</td>
<td>37,240,000</td>
<td>103,916,925</td>
<td>141,156,925</td>
</tr>
<tr>
<td>2021-2025</td>
<td>109,260,000</td>
<td>86,657,650</td>
<td>195,917,650</td>
</tr>
<tr>
<td>2026-2030</td>
<td>139,560,000</td>
<td>56,349,500</td>
<td>195,909,500</td>
</tr>
<tr>
<td>2031-2034</td>
<td>138,940,000</td>
<td>17,790,750</td>
<td>156,730,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 425,000,000</td>
<td>$ 369,361,950</td>
<td>$ 794,361,950</td>
</tr>
</tbody>
</table>
9. **Long-Term Liabilities, (continued)**

(f) **2002A Water Revenue Certificates of Participation**

To provide funds for a portion of the design, acquisition, and construction of the Water Authority’s Emergency Storage Project and other water system improvements in furtherance of the Water Authority’s CIP, the Water Authority issued 2002A Water Revenue Certificates of Participation on May 1, 2002 in the aggregate principal amount of $300,000,000. A portion of the proceeds were used to make an early payment of $12,300,000 on the 1991A Certificates of Participation on July 15, 2002.

The Serial Certificates with an aggregate principal amount of $249,935,000 have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2029, subject to optional prepayments beginning May 1, 2012.

The Term Certificates with an aggregate principal amount of $50,065,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. An amount of $15,880,000 of these certificates is due May 1, 2030, $16,675,000 is due May 1, 2031, and $17,510,000 is due May 1, 2032.

The certificates require that a reserve be maintained in an amount equal to the lesser of $18,385,750 or maximum annual debt service on the 2002A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by Municipal Bond Insurance Association, Inc. (MBIA).

The 2002A Water Revenue Certificates were issued at a discount of $3,948,000 and issuance costs of $2,271,000. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for discount of $131,593. The principal balance of outstanding certificates at June 30, 2010 was $243,370,000 or, $240,485,993 net of unamortized discount of $2,884,007.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$6,620,000</td>
<td>$11,764,878</td>
<td>$18,384,878</td>
</tr>
<tr>
<td>2012</td>
<td>6,885,000</td>
<td>11,500,078</td>
<td>18,385,078</td>
</tr>
<tr>
<td>2013</td>
<td>7,160,000</td>
<td>11,224,678</td>
<td>18,384,678</td>
</tr>
<tr>
<td>2014</td>
<td>7,455,000</td>
<td>10,929,328</td>
<td>18,384,328</td>
</tr>
<tr>
<td>2015</td>
<td>7,770,000</td>
<td>10,612,490</td>
<td>18,382,490</td>
</tr>
<tr>
<td>2016-2020</td>
<td>44,540,000</td>
<td>47,377,443</td>
<td>91,917,443</td>
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<tr>
<td>2021-2025</td>
<td>56,560,000</td>
<td>35,354,500</td>
<td>91,914,500</td>
</tr>
<tr>
<td>2026-2030</td>
<td>72,195,000</td>
<td>19,727,250</td>
<td>91,922,250</td>
</tr>
<tr>
<td>2031-2032</td>
<td>34,185,000</td>
<td>2,584,748</td>
<td>36,769,748</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$243,370,000</strong></td>
<td><strong>$161,075,393</strong></td>
<td><strong>$404,445,393</strong></td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(g) 1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Water Authority’s Emergency Storage Project and other water system improvements in furtherance of the Water Authority’s CIP, the Water Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998 in the aggregate principal amount of $180,000,000.

During fiscal year 2010, $51,005,000 of the 1998A Certificates were refunded by the 2010A Water Revenue Tax Exempt Bonds. During fiscal year 2006, $117,310,000 of the 1998A Certificates were refunded by the 2005A Certificates. The principal balance of outstanding certificates at June 30, 2010 and 2009 was $11,685,000 and $62,690,000.

The Term Certificates with an aggregate principal amount of $11,685,000 have stated interest rates ranging from 4.50 percent to 5.25 percent payable semi-annually on May 1 and November 1. An amount of $11,685,000 is due May 1, 2028. The certificates are insured by FGIC.

The 1998A Water Revenue Certificates were issued at a discount of $1,202,000 and issuance costs of $965,000. The certificates required that a reserve be maintained in an amount equal to the lesser of $15,392,000 or maximum annual debt service on the 1998A Certificates. After refunding, the reserve requirement was reduced to $12,240,775. At June 30, 2010 and 2009 the reserve was fully funded.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>2011</td>
<td>$</td>
<td>$555,038</td>
<td>$555,038</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
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</tr>
<tr>
<td>2016-2020</td>
<td>-</td>
<td>2,775,188</td>
<td>2,775,188</td>
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<tr>
<td>2021-2025</td>
<td>-</td>
<td>2,775,188</td>
<td>2,775,188</td>
</tr>
<tr>
<td>2026-2028</td>
<td>11,685,000</td>
<td>1,665,109</td>
<td>13,350,109</td>
</tr>
<tr>
<td>Total</td>
<td>$11,685,000</td>
<td>$9,990,675</td>
<td>$21,675,675</td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(h) 1997A Water Revenue Certificates of Participation

On December 1, 1997 the Water Authority issued 1997A Water Revenue Refunding Certificates of Participation in the amount of $162,315,000 with stated interest rates between 4.00 percent and 5.75 percent to refund, in advance, $74,035,000 of the 1991A Certificates of Participation with stated interest rates between 6.25 percent and 6.40 percent and $80,000,000 of the 1991B Certificates of Participation with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.30 percent.

On May 1, 2008 the Water Authority issued 2008A Water Revenue Certificates of Participation and executed a current refunding of the 1997A Certificates eligible for optional prepayment. Under this option, the Water Authority may call certificates on or after May 1, 2008 that have a Certificate Payment Date on or after May 1, 2013. On June 23, 2008, $64,238,181 of the outstanding 1997A Certificates were refunded. The principal balance of outstanding certificates at June 30, 2010 and 2009 was $23,610,000.

The outstanding Serial Certificates with an aggregate principal amount of $23,610,000 have stated interest rate of 5.75 percent payable semi-annually on May 1 and November 1. The two remaining certificates mature serially May 1, 2011 and May 1, 2012.

The Certificates require that a reserve be maintained in an amount equal to the lesser of 10 percent of the principal amount, 100 percent of the maximum annual debt service, or 125 percent of the average annual debt service. A surety bond issued by FSA in the amount of $15,197,000 has been obtained by the Water Authority and issued in satisfaction of the requirement.

The 1997A Certificates were issued at a premium of $2,958,000 with issuance costs of $1,342,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17,184,000.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 17,500,000</td>
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<td>$ 18,857,575</td>
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<tr>
<td>2012</td>
<td>6,110,000</td>
<td>351,325</td>
<td>6,461,325</td>
</tr>
<tr>
<td>Total</td>
<td>$ 23,610,000</td>
<td>$ 1,708,900</td>
<td>$ 25,318,900</td>
</tr>
</tbody>
</table>
9. **Long-Term Liabilities, (continued)**

(i) **1993A Water Revenue Refunding Certificates of Participation**

To provide funds for the refunding of the 1989A Water Revenue Certificates of Participation, the Water Authority issued the 1993A Certificates of Participation in February 1993 in the aggregate principal amount of $135,650,000.

The Series 1993A Current Interest Certificates, with an aggregate principal amount of $85,050,000, have stated interest rates ranging from 3.50 percent to 5.50 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2007 and are not subject to prepayment. The Series 1993A Floating Auction Tax Exempts (FLOATS) with an aggregate principal amount of $25,300,000 carry an interest rate determined by auction every 28 days. The FLOATS are due April 22, 2009, subject to mandatory prepayments beginning in 2007. The Series 1993A Residual Interest Tax Exempt Securities (RITES) with an aggregate principal amount of $25,300,000 carry interest rates determined by a fixed component and an auction rate component payable every 28 days, not to exceed 5.75 percent in aggregate. The RITES mature serially between April 26, 2007 and April 22, 2009 and are not subject to mandatory prepayment. Interest rates are subject to minimum and maximum limits and may be fixed by the holder.

The Certificates require that a reserve be maintained in an amount equal to the lesser of $13,565,000, 100 percent of the maximum annual installment payments, or 125 percent of average annual installment payments. A surety bond issued by FGIC has been obtained by the Water Authority and issued in satisfaction of this requirement. The certificates were paid in full at June 30, 2009.

(j) **Contributions Payable**

Contributions Payable concern the Water Authority’s payment obligations for environmental and socioeconomic impacts related to the Quantification Settlement and other connected Agreements. These payments include contributions to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement, and payments to the IID on behalf of the Imperial Valley Socioeconomic Improvement Committee, the Local Entity, to mitigate third-party socioeconomic impacts of the Conserved Water Transfer Agreement.
9. Long-Term Liabilities, (continued)

(j) Contributions Payable, (continued)

(i) On April 25, 2007 the QSA JPA approved an agreement to modify the schedule of contributions payable pursuant to the QSA JPA Creation and Funding Agreement in order to more appropriately match environmental mitigation funding obligations. Contributions payable at June 30, 2010 was $47,158,795.

The total contributions payable with respect to the QSA JPA Creation and Funding Agreement are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
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<td>$2,770,483</td>
</tr>
<tr>
<td>2012</td>
<td>192,687</td>
<td>2,892,116</td>
<td>3,084,803</td>
</tr>
<tr>
<td>2013</td>
<td>678,281</td>
<td>2,817,966</td>
<td>3,496,247</td>
</tr>
<tr>
<td>2014</td>
<td>2,467,932</td>
<td>2,777,269</td>
<td>5,245,201</td>
</tr>
<tr>
<td>2015</td>
<td>2,662,795</td>
<td>2,629,194</td>
<td>5,291,989</td>
</tr>
<tr>
<td>2016-2020</td>
<td>21,437,233</td>
<td>9,183,033</td>
<td>30,620,266</td>
</tr>
<tr>
<td>2021-2025</td>
<td>17,778,982</td>
<td>4,756,701</td>
<td>22,535,683</td>
</tr>
<tr>
<td>2026</td>
<td>1,940,885</td>
<td>116,453</td>
<td>2,057,338</td>
</tr>
<tr>
<td>Total</td>
<td>$47,158,795</td>
<td>$27,943,215</td>
<td>$75,102,010</td>
</tr>
</tbody>
</table>

(ii) On May 14, 2007 the Water Authority and the IID executed the Settlement Agreement Resolving Present and Future Disputes under Sections 14.5 and 18.1 of the Revised Fourth Amendment to the IID/Water Authority Conserved Water Transfer Agreement pursuant to which the Water Authority will pay $40 million according to a payment schedule in the Agreement for third-party socioeconomic impacts as a result of the Conserved Water Transfer Agreement by and between the two agencies. The outstanding balance of the payment obligation on June 30, 2010 was $20,580,000.

The remaining total contributions payable are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$2,940,000</td>
<td>$</td>
<td>$2,940,000</td>
</tr>
<tr>
<td>2012</td>
<td>2,940,000</td>
<td>$</td>
<td>2,940,000</td>
</tr>
<tr>
<td>2013</td>
<td>2,940,000</td>
<td>$</td>
<td>2,940,000</td>
</tr>
<tr>
<td>2014</td>
<td>2,940,000</td>
<td>$</td>
<td>2,940,000</td>
</tr>
<tr>
<td>2015</td>
<td>2,940,000</td>
<td>$</td>
<td>2,940,000</td>
</tr>
<tr>
<td>2016-2017</td>
<td>5,880,000</td>
<td>$</td>
<td>5,880,000</td>
</tr>
<tr>
<td>Total</td>
<td>$20,580,000</td>
<td>$</td>
<td>$20,580,000</td>
</tr>
</tbody>
</table>
9. Long-Term Liabilities, (continued)

(k) Rate Covenants

The General Resolution requires the Water Authority to set rates and charges to provide a minimum level of net revenue. Exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues as defined by the agreement must equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate covenants under the General Resolution.

In fiscal year 1990 the Water Authority established a water Rate Stabilization Fund (RSF) for the purpose of identifying amounts available to mitigate future water rate increases. The Water Authority will transfer portions of its net water revenues as defined, which exceed its debt service ratio requirement, into the RSF and from time to time transfer amounts from its RSF into net water revenues to meet its debt service coverage ratio requirements. No transfer was made during the fiscal year ended June 30, 2010 and 2009.

(l) Unamortized Bond Issuance Costs

Included in noncurrent assets at June 30, 2010 and 2009 are deferred financing costs of $17,282,596 and $12,263,098 respectively. The deferred financing costs are being amortized over the life of the related obligations.

10. Net Assets

Net assets as of June 30, 2009 have been restated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Net Assets, as previously reported</td>
<td>$ 1,051,196,920</td>
</tr>
<tr>
<td>Restatements to record capital assets</td>
<td></td>
</tr>
<tr>
<td>not capitalized in prior years</td>
<td>79,846,618</td>
</tr>
<tr>
<td><strong>Beginning Net Assets, as restated</strong></td>
<td><strong>1,131,043,538</strong></td>
</tr>
<tr>
<td>Changes in net assets, as previously reported</td>
<td>75,468,535</td>
</tr>
<tr>
<td>Reduction of expenses to capitalize delay damages</td>
<td>827,976</td>
</tr>
<tr>
<td><strong>Net Assets at End of Year, as restated</strong></td>
<td><strong>1,207,340,049</strong></td>
</tr>
</tbody>
</table>
11. Defined Benefit Pension Plans

(a) California Public Employees Retirement System

Plan Description

The Water Authority contributes to the California Public Employees Retirement System (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 Employee’s Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Copies of CalPERS’ annual financial report may be obtained from their executive office at: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Participants are required to contribute eight percent of their annual covered salary. Effective July 1, 2006, the Water Authority pays seven percent of the employees required contribution and the employee pays the remaining one percent required contribution. For the fiscal years ended June 30, 2010 and 2009, the amount contributed by the Water Authority on behalf of the employees was $2,047,687 and $1,967,727, respectively. Benefit provisions and all other requirements are established by state statute and contracts with employee bargaining groups.

Effective July 1, 2010, Technical/Support, Professional/Administrative, and Managerial/Supervisory employees will increase the amount they pay toward their retirement plan (PERS) by one percent and an additional 2.5 percent effective July 1, 2011, for a total contribution of 4.5 percent. Executive, Senior Management, and Confidential employees will increase their contributions by 3.5 percent, effective July 1, 2010.

Annual Pension Cost and Net Pension Obligation

Under Governmental Accounting Standards Board Statement Number 27 for Pensions by State and Local Government Employees, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 is determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate indicated for the period is 16.204 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, this contribution rate was multiplied by the payroll of covered employees that was actually paid during the period July 1, 2009 to June 30, 2010.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annual Pension Cost (APC)</th>
<th>% of APC Contribution</th>
<th>Net Pension Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/08</td>
<td>$4,086,199</td>
<td>100%</td>
<td>$</td>
</tr>
<tr>
<td>6/30/09</td>
<td>4,526,549</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>6/30/10</td>
<td>4,771,669</td>
<td>100%</td>
<td>-</td>
</tr>
</tbody>
</table>
11. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Annual Pension Cost and Net Pension Obligation

A summary of principal assumptions and methods is shown below.

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>June 30, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Cost Method</td>
<td>Entry Age Normal Cost Method</td>
</tr>
<tr>
<td>Amortization Method</td>
<td>Level Percent of Payroll</td>
</tr>
<tr>
<td>Average Remaining Period</td>
<td>26 Years as of the Valuation Date</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>15 Year Smoothed Market</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td></td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>7.75 percent (net of administrative expenses)</td>
</tr>
<tr>
<td>Projected Salary Increases</td>
<td>3.25 percent to 14.45 percent depending on age, service, and type of employment</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.00 percent</td>
</tr>
<tr>
<td>Payroll Growth</td>
<td>3.25 percent</td>
</tr>
<tr>
<td>Individual Salary Growth</td>
<td>A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 percent and an annual production growth of 0.25 percent</td>
</tr>
</tbody>
</table>

Initial unfunded liabilities are amortized over a closed period that depends on the plan’s date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of six percent of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll.

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>Accrued Liability (a)</th>
<th>Actuarial Value of Assets (AVA) (b)</th>
<th>Unfunded Liability (UL) (a)-(b)</th>
<th>Funded Ratios (AVA) (b)/(a)</th>
<th>Market Value</th>
<th>Annual Covered Payroll (c)</th>
<th>UL as a % of Payroll [(a)-(b)]/(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/06</td>
<td>$87,662,740</td>
<td>$64,402,460</td>
<td>$23,260,280</td>
<td>73.5%</td>
<td>77.4%</td>
<td>$23,460,216</td>
<td>99.1%</td>
</tr>
<tr>
<td>6/30/07</td>
<td>$100,612,025</td>
<td>$74,904,585</td>
<td>$25,707,440</td>
<td>74.4%</td>
<td>85.0%</td>
<td>$25,262,078</td>
<td>101.8%</td>
</tr>
<tr>
<td>6/30/08</td>
<td>$111,911,416</td>
<td>$84,191,512</td>
<td>$27,719,904</td>
<td>75.2%</td>
<td>75.5%</td>
<td>$26,399,083</td>
<td>105.0%</td>
</tr>
</tbody>
</table>
11. Defined Benefit Pension Plans, (continued)

(b) 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 also serves as trustee. The TPP is a defined benefit pension plan established and governed under the Internal Revenue Code Section 401(a) that provides retirement benefits to participants. 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 terminates employment with the Water Authority on or after reaching the age of 55.

Employees may elect benefits from the TPP be received in a lump sum or in monthly installments over a 60 month period (with no interest). Also, an employee has the right to elect that all or a portion of benefits be 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.

Funding Policy

Contributions are made by the Water Authority to the TPP for eligible employees who terminate employment after age 55, 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 separates from Water Authority service or retires are fully vested once they are accrued and the value of TPP benefits is the amount of an employee’s terminal pay. No employee contributions are permitted.

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 termination, 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.

<table>
<thead>
<tr>
<th>Fiscal Year Ended</th>
<th>Annual Required Contribution</th>
<th>Contributions Made</th>
<th>Percentage of Required Contributions Made</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2008</td>
<td>$786,895</td>
<td>$786,895</td>
<td>100%</td>
</tr>
<tr>
<td>6/30/2009</td>
<td>273,335</td>
<td>273,335</td>
<td>100%</td>
</tr>
<tr>
<td>6/30/2010</td>
<td>123,716</td>
<td>123,716</td>
<td>100%</td>
</tr>
</tbody>
</table>
12. Other Post-Employment Benefits (OPEB)

Plan Description

The Water Authority has established a Retiree Healthcare Plan (the Plan), a single-employer defined benefit retiree healthcare plan. The Plan, which is administered by the Water Authority, provides employees who retire directly from the Water Authority at age 55 with 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. The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreement between the Water Authority and the bargaining units.

Employees who retire directly from the Water Authority at age 55 with five years of 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 Plan.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal years ended June 30, 2010 and 2009, the Water Authority’s cash contributions were $72,133 and $59,268 in current premiums which covered 27 and 30 retirees or their spouses, respectively. The implied subsidy was provided to 33 and 35 retired Water Authority employees or spouses at June 30, 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligation

The Water Authority’s annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation at June 30 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual required contribution</td>
<td>$446,000</td>
<td>$323,000</td>
</tr>
<tr>
<td>Interest on net OPEB obligation</td>
<td>18,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Adjustment to annual required contribution</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of net OPEB obligation</td>
<td>(28,000)</td>
<td>(8,000)</td>
</tr>
<tr>
<td><strong>Annual OPEB cost</strong></td>
<td><strong>436,000</strong></td>
<td><strong>324,000</strong></td>
</tr>
<tr>
<td>Contributions made</td>
<td>(157,000)</td>
<td>(139,000)</td>
</tr>
<tr>
<td>Increase in net OPEB obligation</td>
<td>279,000</td>
<td>185,000</td>
</tr>
<tr>
<td><strong>Net OPEB obligation, beginning of year</strong></td>
<td><strong>364,000</strong></td>
<td><strong>179,000</strong></td>
</tr>
<tr>
<td><strong>Net OPEB obligation, end of year</strong></td>
<td><strong>$643,000</strong></td>
<td><strong>$364,000</strong></td>
</tr>
</tbody>
</table>
12. **Other Post-Employment Benefits (OPEB), (continued)**

Annual OPEB Cost and Net OPEB Obligation, (continued)

The Water Authority’s annual OPEB cost, the annual OPEB cost contributed to the Plan, and the net obligation for the fiscal year ended June 30, 2010 and the two preceding fiscal years were as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annual OPEB Cost</th>
<th>Annual OPEB Cost Contributed</th>
<th>Net OPEB Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/08</td>
<td>$313,000</td>
<td>$134,000</td>
<td>$179,000</td>
</tr>
<tr>
<td>6/30/09</td>
<td>324,000</td>
<td>139,000</td>
<td>364,000</td>
</tr>
<tr>
<td>6/30/10</td>
<td>436,000</td>
<td>157,000</td>
<td>643,000</td>
</tr>
</tbody>
</table>

**Funded Status and Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress found below presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<table>
<thead>
<tr>
<th>Type of Valuation</th>
<th>Actuarial Valuation Date</th>
<th>Actuarial Accrued Liability</th>
<th>Value of Assets</th>
<th>Unfunded Liability</th>
<th>Funded Status</th>
<th>Annual Covered Payroll</th>
<th>UAAL as a % of Payroll</th>
<th>Interest Rate</th>
<th>Aggregate Payroll Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>1/1/2007</td>
<td>$2,316,000</td>
<td>$ -</td>
<td>$2,316,000</td>
<td>0.00%</td>
<td>$22,985,000</td>
<td>10.08%</td>
<td>5.00%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Actual</td>
<td>1/1/2009</td>
<td>2,997,000</td>
<td>-</td>
<td>2,997,000</td>
<td>0.00%</td>
<td>23,732,000</td>
<td>12.63%</td>
<td>5.00%</td>
<td>3.25%</td>
</tr>
</tbody>
</table>

*Note: Based on the most current information available.*
12. Other Post-Employment Benefits (OPEB), (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included (a) a five percent investment rate of return, net of administrative expenses, (b) a three percent general inflation rate, and (c) annual healthcare cost trend rates as follows: (i) HMO 9.1 percent, (ii) PPO 9.8 percent, and (iii) reduced by increments to an ultimate rate of 4.5 percent after ten years, and a payroll increase rate of 3.25 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30-year period. The UAAL is being amortized as a level percent of payroll over 30 years on a closed basis effective June 30, 2007. The remaining amortization period at June 30, 2010 was 27 years. The number of active plan participants was 272.

13. Deferred Compensation Plans & Defined Contribution Plans

The Water Authority 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. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. At June 30, 2010 and 2009 assets of the Plans totaled $22,999,765 and $20,411,340 respectively.
14. Insurance

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, and crime and fidelity coverage through the program. SDRMA liability coverage is $45.0 million per occurrence with a $50,000 deductible per occurrence. Property coverage is provided with a $1.0 billion per occurrence and aggregate coverage limit and a sub-limit of $100.0 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a $25,000 deductible per occurrence.

Liberty Mutual, formerly Wausau Insurance, provides workers’ compensation coverage per California statutory limits with $1.0 million per occurrence employer’s liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three years for all coverage types, individually and collectively.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide workers’ compensation and general liability insurance to the contractors, and professional liability, pollution liability, and builders risk for the Emergency Storage Program, the Water Authority’s long-term capital plan to increase water storage. In fiscal year 2009, the Water Authority obtained an extension of the OCIP at a cost of $15.0 million to cover the San Vicente Dam raise through fiscal year 2013. The OCIP also maintains a loss deduct account that is adjusted annually based upon loss experience and is capped at $9.1 million. Payments to the loss account are adjusted annually based on loss experience. The general liability deductible is $250,000 per occurrence. The primary policy coverage limit is $2.0 million per occurrence and $4.0 million in aggregate with excess liability coverage to $100.0 million aggregate and total coverage limit. The workers’ compensation program provides full statutory coverage with a $250,000 deductible for each occurrence. The builders risk insurance has a variable deductible depending on the construction type and has a $50.0 million per occurrence maximum coverage limit.

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 expenditures 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.
16. Commitments and Contingencies

(a) Construction Projects

At June 30, 2010, the Water Authority had material commitments under construction contracts as follows:

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency Storage Projects (ESP) San Vicente Pipeline &amp; Interconnect</td>
<td>$8,500,000</td>
</tr>
<tr>
<td>Olivenhain-Hodges Pumped Storage</td>
<td>$7,050,000</td>
</tr>
<tr>
<td>Mission Trails Tunnel</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>San Vicente Dam Raise (Foundation Excavation)</td>
<td>$2,176,000</td>
</tr>
<tr>
<td>San Vicente Dam Raise (Roller-Compacted Concrete Dam &amp; Facilities)</td>
<td>$130,424,000</td>
</tr>
<tr>
<td>ESP San Vicente Pumping Facilities</td>
<td>$1,520,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$150,670,000</strong></td>
</tr>
</tbody>
</table>

(b) Other Commitments

A “Base Contract Price Dispute Settlement Agreement” between IID and the Water Authority was entered into as of December 21, 2009. Previously, IID and the Water Authority had executed an April 29, 1998 agreement for the transfer of conserved water, and subsequent disagreements arose concerning the meaning, purpose and implementation of the base contract price formula for calendar years 2008 and 2009. Pursuant to the 1998 Transfer Agreement, disputes were to be resolved by procedures that included consensual settlement agreements and binding arbitration decisions. Prior to the commencement of arbitration, IID and the Water Authority agreed to settle the dispute and reached a compromise resolving the formula dispute as reflected in the 2009 settlement agreement, which became formally incorporated into the original 1998 Transfer Agreement as an amendment. The amendment included additional definitions and price modifications.

In December 2009 the Water Authority paid IID $6.0 million in partial satisfaction of the terms of the settlement agreement which represented the additional amount owed to IID for calendar years 2008 and 2009. A final settlement payment to IID for $50.0 million was due on October 1, 2010 per the amendment which stipulates that it is to be used for the exclusive purpose of paying for capital expenses.

(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 financial position, results of operations, or liquidity of the Water Authority.
San Diego County Water Authority Budgetary Comparison Schedule *
For the Fiscal Year Ended June, 30, 2010

<table>
<thead>
<tr>
<th>Revenues and Other Funding Sources/Uses</th>
<th>Original Budget</th>
<th>Actual Amounts</th>
<th>Variance with Original Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Positive (Negative)</td>
</tr>
<tr>
<td>Water sales</td>
<td>$450,564,000</td>
<td>$387,871,218</td>
<td>$(62,692,782)</td>
</tr>
<tr>
<td>Property taxes and in-lieu charges</td>
<td>10,423,000</td>
<td>9,283,356</td>
<td>(1,139,644)</td>
</tr>
<tr>
<td>Infrastructure access charges</td>
<td>21,292,000</td>
<td>21,241,060</td>
<td>(50,940)</td>
</tr>
<tr>
<td>Investment income</td>
<td>11,254,000</td>
<td>8,579,950</td>
<td>(2,674,050)</td>
</tr>
<tr>
<td>Hydroelectric revenue</td>
<td>1,300,000</td>
<td>1,208,178</td>
<td>(91,822)</td>
</tr>
<tr>
<td>Other income</td>
<td>12,932,000</td>
<td>8,973,692</td>
<td>(3,958,308)</td>
</tr>
<tr>
<td>Capital contributions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity charges</td>
<td>6,200,000</td>
<td>10,298,928</td>
<td>4,098,928</td>
</tr>
<tr>
<td>Water standby availability charges</td>
<td>11,145,000</td>
<td>11,240,386</td>
<td>95,386</td>
</tr>
<tr>
<td>Contributions in aid of construction</td>
<td>90,000</td>
<td>4,087,011</td>
<td>3,997,011</td>
</tr>
<tr>
<td>Other funding sources/uses (1)</td>
<td>250,978,000</td>
<td>190,606,464</td>
<td>(60,371,536)</td>
</tr>
<tr>
<td><strong>Total Revenues and Other Funding Sources/Uses</strong></td>
<td><strong>$776,178,000</strong></td>
<td><strong>$653,390,243</strong></td>
<td><strong>$(122,787,757)</strong></td>
</tr>
</tbody>
</table>

| Expenditures                            |                 |                |                               |
| Water purchases and treatment           | $348,942,000    | $291,385,187   | $57,556,813                   |
| Stored water purchases                  | 4,840,000       | -              | 4,840,000                     |
| Capital improvement program             | 258,590,000     | 210,625,548    | 47,964,452                    |
| Equipment replacement                    | 1,678,000       | 1,250,445      | 427,555                       |
| Debt service                            | 93,043,000      | 88,767,740     | 4,275,260                     |
| QSA mitigation                          | 11,082,000      | 11,081,875     | 125                           |
| Other expenditures                      | 12,823,000      | 10,858,861     | 1,964,139                     |
| Operating departments/programs          | 45,180,000      | 39,420,587     | 5,759,413                     |
| **Total Expenditures**                  | **$776,178,000**| **$653,390,243**| **$122,787,757** |

| Operating Departments/Programs          |                 |                |                               |
| Administrative Services                 | $5,504,700      | $5,211,545     | $293,155                      |
| Colorado River Program                  | 1,318,100       | 1,129,536      | 188,564                       |
| Engineering                             | 884,100         | 723,482        | 160,618                       |
| Finance                                 | 2,219,000       | 2,091,347      | 127,653                       |
| General Counsel                         | 1,564,600       | 2,547,541      | (982,941)                     |
| General Manager & Board of Directors    | 2,563,900       | 2,486,961      | 76,939                        |
| Human Resources                         | 1,253,200       | 1,008,415      | 244,785                       |
| MWD Program                             | 1,303,100       | 1,305,389      | (2,289)                       |
| Operations & Maintenance                | 13,700,000      | 12,164,742     | 1,535,258                     |
| Public Affairs                          | 2,120,000       | 1,924,366      | 195,634                       |
| Right of Way                            | 2,779,300       | 2,619,929      | 159,371                       |
| Water Conservation Program              | 5,118,200       | 2,270,062      | 2,848,138                     |
| Water Resources                         | 4,851,800       | 3,937,272      | 914,528                       |
| **Total Operating Departments/Programs**| **$45,180,000** | **$39,420,587**| **$5,759,413**                |

* The Water Authority adopted a two-year budget for the fiscal years ending June 30, 2010 and 2011. This schedule presents the information on a one-year basis for the fiscal year ended June 30, 2010.
(1) Includes withdraws funded by bond proceeds and other fund balances.
This part of the San Diego County Water Authority’s Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, notes to the financial statements, and required supplementary information says about the Water Authority’s overall financial performance.

Contents ................................................................................................................................. Page

Financial Trends ..................................................................................................................... 72
These tables and charts contain trend information to help the reader understand how the Water Authority’s financial performance has changed over time.

Revenue Capacity .................................................................................................................... 78
These tables and charts contain information to help the reader assess the Water Authority’s most significant revenue sources.

Debt Capacity .......................................................................................................................... 84
These tables and charts present information to help the reader assess the ability of the Water Authority to pay debt service on outstanding debt.

General Information ............................................................................................................... 90
These tables and charts 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 ................................................................................. 91
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 statements for the relevant year.
### TABLE 1
Net Assets - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Invested in Capital Assets, Net of Related Debt</th>
<th>Restricted for Construction Projects</th>
<th>Restricted for Debt Service</th>
<th>Unrestricted</th>
<th>Total Net Assets</th>
<th>Changes in Net Assets</th>
<th>% of Change in Net Assets</th>
</tr>
</thead>
<tbody>
<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>
<td>4.0%</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>
<td>6.7%</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>
<td>5.5%</td>
</tr>
<tr>
<td>2007</td>
<td>523,870,502</td>
<td>377,044,103</td>
<td>69,195,142</td>
<td>32,198,811</td>
<td>1,002,308,558</td>
<td>67,531,849</td>
<td>7.2%</td>
</tr>
<tr>
<td>2006</td>
<td>540,181,424</td>
<td>289,266,824</td>
<td>69,195,142</td>
<td>36,133,319</td>
<td>934,776,709</td>
<td>43,578,846</td>
<td>4.9%</td>
</tr>
<tr>
<td>2005</td>
<td>303,522,426</td>
<td>447,808,344</td>
<td>69,195,142</td>
<td>70,671,951</td>
<td>891,197,863</td>
<td>31,484,030</td>
<td>3.7%</td>
</tr>
<tr>
<td>2004</td>
<td>553,641,421</td>
<td>185,705,999</td>
<td>55,106,344</td>
<td>65,260,069</td>
<td>859,713,833</td>
<td>38,634,221</td>
<td>4.7%</td>
</tr>
<tr>
<td>2003</td>
<td>344,847,538</td>
<td>285,556,306</td>
<td>55,106,344</td>
<td>135,569,424</td>
<td>821,079,612</td>
<td>63,575,969</td>
<td>8.4%</td>
</tr>
<tr>
<td>2002</td>
<td>176,218,643</td>
<td>413,256,676</td>
<td>55,106,344</td>
<td>112,921,980</td>
<td>757,503,643</td>
<td>78,894,463</td>
<td>11.6%</td>
</tr>
<tr>
<td>2001</td>
<td>372,093,180</td>
<td>168,354,094</td>
<td>36,845,546</td>
<td>101,316,360</td>
<td>678,609,180</td>
<td>83,192,444</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

Notes:
1. Net assets at June 30, 2009 and 2008 were restated to reflect the capitalization of project costs. Net assets at June 30, 2006 were restated to reflect the cancellation of projects.

### TABLE 2
Revenues and Capital Contributions by Source - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Operating Revenues</th>
<th>Nonoperating Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water Sales (1)</td>
<td>Other Revenues</td>
</tr>
<tr>
<td>2010</td>
<td>$387,871,218</td>
<td>$4,965,060</td>
</tr>
<tr>
<td>2009</td>
<td>359,951,622</td>
<td>3,608,350</td>
</tr>
<tr>
<td>2008</td>
<td>343,455,834</td>
<td>9,500,104</td>
</tr>
<tr>
<td>2007</td>
<td>343,081,511</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>299,083,926</td>
<td>-</td>
</tr>
<tr>
<td>2005</td>
<td>271,465,862</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>298,467,548</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>283,043,676</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>294,526,126</td>
<td>(5)</td>
</tr>
<tr>
<td>2001</td>
<td>266,466,611</td>
<td>-</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.
5. Net of one-time refund to member agencies of $7,159,000.
### TABLE 2
Revenues and Capital Contributions by Source - Last 10 Fiscal Years, (continued)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Net Assets, in Millions ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$462.0</td>
</tr>
<tr>
<td>2009</td>
<td>$456.5</td>
</tr>
<tr>
<td>2008</td>
<td>$446.0</td>
</tr>
<tr>
<td>2007</td>
<td>$434.3</td>
</tr>
<tr>
<td>2006</td>
<td>$424.2</td>
</tr>
<tr>
<td>2005</td>
<td>$417.5</td>
</tr>
<tr>
<td>2004</td>
<td>$398.4</td>
</tr>
<tr>
<td>2003</td>
<td>$373.2</td>
</tr>
<tr>
<td>2002</td>
<td>$368.8</td>
</tr>
<tr>
<td>2001</td>
<td>$368.2</td>
</tr>
</tbody>
</table>

**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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<thead>
<tr>
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<tbody>
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**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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<tbody>
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**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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<tr>
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<td>2001</td>
<td>$368.2</td>
</tr>
</tbody>
</table>

**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

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</thead>
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</tr>
<tr>
<td>2002</td>
<td>$368.8</td>
</tr>
<tr>
<td>2001</td>
<td>$368.2</td>
</tr>
</tbody>
</table>

**Total Net Assets, in Millions ($)**

**Fiscal Year**


**Capital Contributions**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Net Assets, in Millions ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$462.0</td>
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<td>2003</td>
<td>$373.2</td>
</tr>
<tr>
<td>2002</td>
<td>$368.8</td>
</tr>
<tr>
<td>2001</td>
<td>$368.2</td>
</tr>
</tbody>
</table>

**Total Net Assets, in Millions ($)**

**Fiscal Year**

### TABLE 3
Operating Expenses - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Cost of Water Sold</th>
<th>Operations &amp; Maintenance Planning</th>
<th>General &amp; Administrative Depreciation &amp; Amortization</th>
<th>Total Operating Expenses</th>
<th>Interest Expense (1)</th>
<th>Other Expenses</th>
</tr>
</thead>
<tbody>
<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>$30,657,250</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>15,270,175</td>
<td>30,038,388</td>
<td>40,828,498</td>
</tr>
<tr>
<td>2008</td>
<td>262,538,493</td>
<td>14,475,780</td>
<td>8,882,047</td>
<td>15,270,175</td>
<td>28,480,207</td>
<td>52,170,107</td>
</tr>
<tr>
<td>2007</td>
<td>266,349,351</td>
<td>13,935,397</td>
<td>7,796,355</td>
<td>15,270,175</td>
<td>23,778,986</td>
<td>49,278,087</td>
</tr>
<tr>
<td>2005</td>
<td>216,631,544</td>
<td>12,572,374</td>
<td>6,762,765</td>
<td>15,270,175</td>
<td>21,388,027</td>
<td>46,109,407</td>
</tr>
<tr>
<td>2004</td>
<td>241,136,768</td>
<td>9,542,063</td>
<td>5,249,187</td>
<td>15,270,175</td>
<td>17,893,779</td>
<td>61,959,647</td>
</tr>
<tr>
<td>2003</td>
<td>224,346,665</td>
<td>9,056,787</td>
<td>4,862,234</td>
<td>15,270,175</td>
<td>17,644,556</td>
<td>266,792,917</td>
</tr>
<tr>
<td>2002</td>
<td>242,255,338</td>
<td>7,678,634</td>
<td>3,328,115</td>
<td>15,270,175</td>
<td>17,773,053</td>
<td>283,037,105</td>
</tr>
</tbody>
</table>

Notes:
(1) Excludes equipment purchases.

### TABLE 4
Operating Departmental/Programmatic Expenses by Major Expense Category - Last 10 Fiscal Years

<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 Departmental/Programmatic Expenses (1)</th>
</tr>
</thead>
<tbody>
<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></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></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></td>
<td>36,919,279</td>
</tr>
<tr>
<td>2007</td>
<td>26,002,349</td>
<td>8,789,610</td>
<td>3,282,717</td>
<td>1,925,411</td>
<td></td>
<td>34,523,503</td>
</tr>
<tr>
<td>2006</td>
<td>22,671,426</td>
<td>7,957,341</td>
<td>2,933,346</td>
<td>1,690,382</td>
<td></td>
<td>29,634,911</td>
</tr>
<tr>
<td>2005</td>
<td>20,973,393</td>
<td>9,372,642</td>
<td>3,307,774</td>
<td>1,913,736</td>
<td></td>
<td>26,276,765</td>
</tr>
<tr>
<td>2004</td>
<td>18,377,226</td>
<td>7,224,945</td>
<td>2,425,344</td>
<td>1,646,785</td>
<td></td>
<td>25,374,520</td>
</tr>
<tr>
<td>2003</td>
<td>16,071,050</td>
<td>7,875,041</td>
<td>2,549,110</td>
<td>1,637,495</td>
<td></td>
<td>24,801,696</td>
</tr>
<tr>
<td>2002</td>
<td>14,686,270</td>
<td>7,112,439</td>
<td>1,984,110</td>
<td>1,533,895</td>
<td></td>
<td>23,008,714</td>
</tr>
<tr>
<td>2001</td>
<td>13,737,329</td>
<td>6,897,096</td>
<td>2,097,192</td>
<td>1,371,077</td>
<td></td>
<td>21,794,694</td>
</tr>
</tbody>
</table>

Notes:
(1) Excludes equipment purchases.

Total Operating Departmental/Programmatic Expenses, in Million ($)
### TABLE 3
Operating Expenses - Last 10 Fiscal Years, (continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Nonoperating Expenses</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$52,293,727</td>
<td>$413,731,208</td>
</tr>
<tr>
<td>2002</td>
<td>48,031,343</td>
<td>390,629,109</td>
</tr>
<tr>
<td>2003</td>
<td>59,133,888</td>
<td>387,071,867</td>
</tr>
<tr>
<td>2004</td>
<td>56,037,997</td>
<td>380,689,837</td>
</tr>
<tr>
<td>2005</td>
<td>39,907,856</td>
<td>325,290,415</td>
</tr>
<tr>
<td>2006</td>
<td>46,687,118</td>
<td>315,974,454</td>
</tr>
<tr>
<td>2007</td>
<td>41,475,044</td>
<td>325,880,111</td>
</tr>
<tr>
<td>2008</td>
<td>39,920,751</td>
<td>306,713,668</td>
</tr>
<tr>
<td>2009</td>
<td>18,107,255</td>
<td>301,144,360</td>
</tr>
<tr>
<td>2010</td>
<td>21,526,344</td>
<td>273,061,182</td>
</tr>
</tbody>
</table>

Notes:
(1) Net of interest expense incurred during construction, “capitalized interest”.
(2) Includes a refund of $11,990,000 from the Operating Fund reserve to member agencies to comply with the reserve policy.
(3) Includes a refund of $14,000,000 from the Operating Fund reserve due to a change in the Operating Fund reserve policy decreasing the maximum ending balance to 45 days.
## TABLE 5
Capital Assets - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Land (1)</th>
<th>Construction in Progress</th>
<th>Work in Progress</th>
<th>Total Capital Assets Not Depreciated</th>
<th>Olivenhain Dam</th>
<th>Water Transportation Pipelines</th>
<th>Pumping Plants &amp; Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$19,065,447</td>
<td>$1,199,690,241</td>
<td>$641,065</td>
<td>$1,219,396,753</td>
<td>$175,971,199</td>
<td>$1,052,315,805</td>
<td>$336,366,802</td>
</tr>
<tr>
<td>2009</td>
<td>13,128,344</td>
<td>1,302,928,098</td>
<td>(2) 749,017</td>
<td>1,316,805,459</td>
<td>175,971,199</td>
<td>994,213,762</td>
<td>173,706,256</td>
</tr>
<tr>
<td>2008</td>
<td>13,283,900</td>
<td>1,051,556,553</td>
<td>(2) 612,973</td>
<td>1,065,453,426</td>
<td>175,971,199</td>
<td>960,401,118</td>
<td>171,651,588</td>
</tr>
<tr>
<td>2007</td>
<td>13,283,900</td>
<td>720,889,855</td>
<td>977,807</td>
<td>735,151,562</td>
<td>175,971,199</td>
<td>928,406,598</td>
<td>168,533,417</td>
</tr>
<tr>
<td>2006</td>
<td>13,193,281</td>
<td>480,320,115</td>
<td>(2) 367,223</td>
<td>493,880,619</td>
<td>175,971,199</td>
<td>907,651,466</td>
<td>137,664,442</td>
</tr>
<tr>
<td>2005</td>
<td>11,667,917</td>
<td>323,383,524</td>
<td>-</td>
<td>335,051,441</td>
<td>175,971,199</td>
<td>848,440,047</td>
<td>149,456,005</td>
</tr>
<tr>
<td>2004</td>
<td>11,667,917</td>
<td>298,520,667</td>
<td>-</td>
<td>310,188,584</td>
<td>175,971,199</td>
<td>798,800,178</td>
<td>115,742,495</td>
</tr>
<tr>
<td>2003</td>
<td>8,560,585</td>
<td>404,863,991</td>
<td>-</td>
<td>413,424,576</td>
<td>-</td>
<td>791,296,280</td>
<td>74,573,801</td>
</tr>
<tr>
<td>2002(6)</td>
<td>8,399,965</td>
<td>279,976,532</td>
<td>-</td>
<td>288,376,497</td>
<td>-</td>
<td>788,829,853</td>
<td>58,289,611</td>
</tr>
<tr>
<td>2001</td>
<td>9,074,965</td>
<td>221,012,392</td>
<td>-</td>
<td>230,087,357</td>
<td>-</td>
<td>755,998,128</td>
<td>43,909,580</td>
</tr>
</tbody>
</table>
### TABLE 5
Capital Assets - Last 10 Fiscal Years, (continued)

<table>
<thead>
<tr>
<th>Treatment Plants &amp; Facilities</th>
<th>Automobiles &amp; Miscellaneous Equipment (1)</th>
<th>Intangible Assets (4)</th>
<th>Total Other Capital Assets</th>
<th>Accumulated Depreciation/Amortization</th>
<th>Other Capital Assets, Net (1)</th>
<th>Net Capital Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,620,355</td>
<td>$59,382,081</td>
<td>$262,956,096</td>
<td><strong>$1,912,612,338</strong></td>
<td><strong>($296,923,994)</strong></td>
<td><strong>$1,615,688,344</strong></td>
<td><strong>$2,835,085,097</strong></td>
</tr>
<tr>
<td>25,620,355</td>
<td>55,068,680</td>
<td>135,988,876</td>
<td><strong>1,560,569,128</strong></td>
<td>(272,182,244)</td>
<td>1,288,386,884</td>
<td>2,605,192,343</td>
</tr>
<tr>
<td>25,620,355</td>
<td>56,100,131</td>
<td>105,829,841</td>
<td><strong>1,495,574,232</strong></td>
<td>(245,651,212)</td>
<td>1,249,923,020</td>
<td>2,315,376,446</td>
</tr>
<tr>
<td>25,620,355</td>
<td>58,198,582</td>
<td>99,052,528</td>
<td><strong>1,455,782,679</strong></td>
<td>(220,903,739)</td>
<td>1,234,878,940</td>
<td>1,970,030,502</td>
</tr>
<tr>
<td>25,620,355</td>
<td>56,674,342</td>
<td>69,532,528</td>
<td><strong>1,373,114,332</strong></td>
<td>(196,968,527)</td>
<td>1,176,145,805</td>
<td>1,670,026,424</td>
</tr>
<tr>
<td>25,620,355</td>
<td>35,402,318</td>
<td>-</td>
<td><strong>1,234,889,924</strong></td>
<td>(174,036,504)</td>
<td>1,060,853,420</td>
<td>1,395,904,861</td>
</tr>
<tr>
<td>25,620,355</td>
<td>30,463,915</td>
<td>-</td>
<td><strong>1,146,598,142</strong></td>
<td>(154,495,721)</td>
<td>992,102,421</td>
<td>1,302,291,005</td>
</tr>
<tr>
<td>25,620,355</td>
<td>28,908,254</td>
<td>-</td>
<td><strong>920,398,690</strong></td>
<td>(138,719,779)</td>
<td>781,678,911</td>
<td>1,195,103,487</td>
</tr>
<tr>
<td>25,620,355</td>
<td>28,389,538</td>
<td>-</td>
<td><strong>901,129,357</strong></td>
<td>(123,397,037)</td>
<td>777,732,320</td>
<td>1,066,108,817</td>
</tr>
<tr>
<td>-</td>
<td>27,535,046</td>
<td>-</td>
<td><strong>827,442,754</strong></td>
<td>(109,482,152)</td>
<td>717,960,602</td>
<td>948,047,959</td>
</tr>
</tbody>
</table>

Notes:
1. Includes land used for environmental mitigation.
2. Construction in progress at June 30, 2009 and 2008 were restated to reflect the capitalization of project costs; at June 30, 2008 and 2006, were restated to reflect the cancellation of projects.
3. Includes vehicles, computers, office equipment, furniture, and fixtures.
4. Capital asset amounts were restated to include intangible assets beginning with fiscal year 2006.
5. Depreciable assets less accumulated depreciation and amortization.
6. Capital asset amounts restated to reflect changes in asset classifications made during fiscal year 2002.
## TABLE 6
Schedule of Rates and Charges - Last 10 Calendar Years (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Full Service Tier 1 (2)</th>
<th>Full Service Tier 2 (3)</th>
<th>Interim Agricultural Water Program (4)</th>
<th>Surface Storage Operating Agreement (5)</th>
<th>Special Agricultural Water Rate (6)</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>2010</td>
<td>532</td>
<td>747</td>
<td>594</td>
<td>809</td>
<td>416</td>
</tr>
<tr>
<td>2009</td>
<td>463</td>
<td>631</td>
<td>528</td>
<td>695</td>
<td>322</td>
</tr>
<tr>
<td>2008</td>
<td>390</td>
<td>554</td>
<td>449</td>
<td>606</td>
<td>261</td>
</tr>
<tr>
<td>2007</td>
<td>365</td>
<td>512</td>
<td>427</td>
<td>574</td>
<td>241</td>
</tr>
<tr>
<td>2006</td>
<td>360</td>
<td>485</td>
<td>427</td>
<td>552</td>
<td>241</td>
</tr>
<tr>
<td>2005</td>
<td>349</td>
<td>461</td>
<td>412</td>
<td>524</td>
<td>241</td>
</tr>
<tr>
<td>2004</td>
<td>326</td>
<td>418</td>
<td>407</td>
<td>499</td>
<td>236</td>
</tr>
<tr>
<td>2003</td>
<td>326</td>
<td>408</td>
<td>407</td>
<td>489</td>
<td>236</td>
</tr>
<tr>
<td>2002</td>
<td>444</td>
<td>526</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>439</td>
<td>521</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
### TABLE 6
Schedule of Rates and Charges - Last 10 Calendar Years (1), (continued)

<table>
<thead>
<tr>
<th>Transportation Rate</th>
<th>Customer Service</th>
<th>Storage</th>
<th>San Diego County Water Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed Charges (2)</td>
<td></td>
<td>Variable Charges</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Standby Charge (8)</td>
</tr>
<tr>
<td>67</td>
<td>18,000,000</td>
<td>34,000,000</td>
<td>10</td>
</tr>
<tr>
<td>64</td>
<td>16,000,000</td>
<td>23,000,000</td>
<td>10</td>
</tr>
<tr>
<td>60</td>
<td>15,200,000</td>
<td>22,200,000</td>
<td>10</td>
</tr>
<tr>
<td>60</td>
<td>14,200,000</td>
<td>17,700,000</td>
<td>10</td>
</tr>
<tr>
<td>60</td>
<td>14,200,000</td>
<td>17,700,000</td>
<td>10</td>
</tr>
<tr>
<td>55</td>
<td>13,600,000</td>
<td>14,600,000</td>
<td>10</td>
</tr>
<tr>
<td>55</td>
<td>13,600,000</td>
<td>14,600,000</td>
<td>10</td>
</tr>
<tr>
<td>55</td>
<td>13,753,401</td>
<td>13,375,295</td>
<td>10</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
</tbody>
</table>

Notes:
(1) All rates are calendar year except for the water standby availability charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
(2) Effective January 1, 2003, Metropolitan Water District (MWD) separated its full service rates into Tier 1 and Tier 2 components. In addition, the Water Authority implemented a rate structure resulting in a reduced water rate per acre-foot, a new transportation charge, and two fixed charges:
   - The customer service charge is allocated to member agencies based on each agency’s three-year rolling average of all deliveries. It recovers operating and capital costs associated with the overall functioning of the Water Authority.
   - The storage charge is allocated to member agencies based on a pro-rata share of each agency’s three-year rolling average of non-agricultural deliveries, and recovers costs associated with the Emergency Storage Project.
(3) Reflects Municipal and Industrial (M&I) Supply rates per acre-foot of water before SSOA and seasonal storage credits given by MWD. A melded untreated supply rate was implemented in calendar year 2005 and a melded treatment rate was implemented in calendar year 2006, which blend the costs of different supply and treatment sources. Supply rates include Water Authority charges prior to the rate restructuring effective January 1, 2003.
(4) Reflects MWD treated Interim Agricultural Water Program (IAWP) rate and Water Authority charges prior to January 1, 2003. The IAWP will be discontinued in 2012.
(5) 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.
(6) A new transitional rate was adopted on December 10, 2008 for customers opting out of MWD’s IAWP. Customers that are participating in the Special Agricultural Water Rate (SAWR) program are considered M&I customers by MWD.
(7) Per acre-foot of water.
(8) Per parcel or acre, whichever is greater.
(9) Per equivalent meter (less than one inch) and includes system and treatment capacity charges.
(10) Per $100 of assessed valuation.
(11) Per equivalent meter.
(12) Reflects a mid-year rate increase effective September 1, 2009 to match MWD’s mid-year rate increase.

utrauntreated
tr=treated
### Table 7

**Principal Water Customers for Fiscal Years Ended June 30, 2010 and 2001**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Sales (acre-feet)</th>
<th>Percent of Water Sold</th>
<th>Member Agency</th>
<th>Sales (acre-feet)</th>
<th>Percent of Water Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td>187,032</td>
<td>38.1%</td>
<td>City of San Diego</td>
<td>208,184</td>
<td>35.3%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>31,188</td>
<td>6.4%</td>
<td>Valley Center M.W.D.</td>
<td>48,550</td>
<td>8.2%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>29,522</td>
<td>6.0%</td>
<td>Helix W.D.</td>
<td>42,175</td>
<td>7.1%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>28,903</td>
<td>5.9%</td>
<td>City of Oceanside</td>
<td>32,073</td>
<td>5.4%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>24,555</td>
<td>5.0%</td>
<td>Otay W.D.</td>
<td>29,897</td>
<td>5.1%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>22,407</td>
<td>4.6%</td>
<td>Rainbow M.W.D.</td>
<td>29,859</td>
<td>5.1%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>19,992</td>
<td>4.1%</td>
<td>City of Escondido</td>
<td>27,144</td>
<td>4.6%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>19,972</td>
<td>4.1%</td>
<td>Padre Dam M.W.D.</td>
<td>21,801</td>
<td>3.7%</td>
</tr>
<tr>
<td>Carlsbad M.W.D.</td>
<td>17,142</td>
<td>3.5%</td>
<td>Carlsbad M.W.D.</td>
<td>19,951</td>
<td>3.4%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>16,308</td>
<td>3.3%</td>
<td>Olivenhain M.W.D.</td>
<td>19,433</td>
<td>3.3%</td>
</tr>
<tr>
<td>Total Top Ten Customers</td>
<td>397,021</td>
<td>81.0%</td>
<td>Total Top Ten Customers</td>
<td>479,067</td>
<td>81.2%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>15,336</td>
<td>3.1%</td>
<td>Vista I.D.</td>
<td>17,123</td>
<td>2.9%</td>
</tr>
<tr>
<td>Sweetwater Authority (1)</td>
<td>14,551</td>
<td>3.0%</td>
<td>Fallbrook P.U.D.</td>
<td>17,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>13,070</td>
<td>2.7%</td>
<td>Vallecitos W.D.</td>
<td>16,464</td>
<td>2.8%</td>
</tr>
<tr>
<td>Padre Dam M.W.D. (2)</td>
<td>12,459</td>
<td>2.5%</td>
<td>City of Poway</td>
<td>15,548</td>
<td>2.6%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>10,050</td>
<td>2.0%</td>
<td>Ramona M.W.D.</td>
<td>11,501</td>
<td>1.9%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>7,194</td>
<td>1.5%</td>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,119</td>
<td>1.5%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>6,280</td>
<td>1.3%</td>
<td>Santa Fe I.D.</td>
<td>8,048</td>
<td>1.4%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>5,666</td>
<td>1.1%</td>
<td>Sweetwater Authority (1)</td>
<td>6,782</td>
<td>1.1%</td>
</tr>
<tr>
<td>Lakeside W.D. (2)</td>
<td>3,332</td>
<td>0.7%</td>
<td>San Dieguito W.D.</td>
<td>5,112</td>
<td>0.9%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>2,519</td>
<td>0.5%</td>
<td>Yuima M.W.D.</td>
<td>2,849</td>
<td>0.5%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>2,156</td>
<td>0.4%</td>
<td>City of Del Mar</td>
<td>1,556</td>
<td>0.3%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>1,129</td>
<td>0.2%</td>
<td>Camp Pendleton Marine Corps Base</td>
<td>109</td>
<td>0.0%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>66</td>
<td>0.0%</td>
<td>Lakeside W.D.</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Customers</td>
<td>93,808</td>
<td>19.0%</td>
<td>Other Customers</td>
<td>111,211</td>
<td>18.8%</td>
</tr>
<tr>
<td>Total Water Sales</td>
<td>490,829</td>
<td>100.0%</td>
<td>Total Water Sales</td>
<td>590,278</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

**Notes:**

1. Sweetwater Authority includes National City and South Bay I.D.
2. Effective January 1, 2007, Padre Dam M.W.D. was reorganized into Padre Dam M.W.D. and Lakeside W.D.
Table 8
Total Treated and Untreated Water Sales (1) - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Treated Water</th>
<th></th>
<th>Untreated Water</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acre-Feet</td>
<td>Sales</td>
<td>Acre-Feet</td>
<td>Sales</td>
<td>Acre-Feet</td>
<td>Change in Acre-Feet</td>
</tr>
<tr>
<td>2010</td>
<td>195,937</td>
<td>$147,719,098</td>
<td>294,892</td>
<td>$170,810,514</td>
<td>490,829</td>
<td>(66,933)</td>
</tr>
<tr>
<td>2009</td>
<td>240,808</td>
<td>145,040,752</td>
<td>316,954</td>
<td>157,033,216</td>
<td>557,762</td>
<td>(55,333)</td>
</tr>
<tr>
<td>2008</td>
<td>265,421</td>
<td>142,182,057</td>
<td>347,674</td>
<td>148,039,764</td>
<td>613,095</td>
<td>(47,360)</td>
</tr>
<tr>
<td>2007</td>
<td>273,989</td>
<td>135,190,065</td>
<td>386,466</td>
<td>157,807,646</td>
<td>660,455</td>
<td>79,241</td>
</tr>
<tr>
<td>2006</td>
<td>260,720</td>
<td>114,558,835</td>
<td>320,494</td>
<td>136,399,559</td>
<td>581,214</td>
<td>29,326</td>
</tr>
<tr>
<td>2005</td>
<td>247,776</td>
<td>104,722,566</td>
<td>304,112</td>
<td>121,240,099</td>
<td>551,888</td>
<td>(92,359)</td>
</tr>
<tr>
<td>2004</td>
<td>292,392</td>
<td>123,629,162</td>
<td>351,855</td>
<td>132,077,114</td>
<td>644,247</td>
<td>29,308</td>
</tr>
<tr>
<td>2003</td>
<td>273,707</td>
<td>126,412,573</td>
<td>341,232</td>
<td>132,049,449</td>
<td>614,939</td>
<td>(44,233)</td>
</tr>
<tr>
<td>2001</td>
<td>263,613</td>
<td>125,276,486</td>
<td>325,286</td>
<td>131,689,611</td>
<td>588,899</td>
<td>(135)</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.
(2) Amounts are reduced as a result of a rate structure implemented effective January 2003, which reduced the per acre-foot water rate and implemented two new fixed charges.
### TABLE 9
Assessed Value of Taxable Property - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local Secured Property</th>
<th>State Secured Property</th>
<th>Redevelopment &amp; Homeowners Exemptions</th>
<th>Net Secured Assessed Value</th>
<th>Net Unsecured Assessed Value</th>
<th>Total Assessed Value</th>
<th>Secured Tax Rate (1)</th>
<th>Unsecured Tax Rate (1)</th>
</tr>
</thead>
<tbody>
<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>
<td>0.00000</td>
<td>0.00000</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>
<td>0.00000</td>
<td>0.00000</td>
</tr>
<tr>
<td>2008</td>
<td>365,569,092,586</td>
<td>528,298,785</td>
<td>39,509,437,047</td>
<td>326,587,954,324</td>
<td>11,367,464,025</td>
<td>337,955,418,349</td>
<td>0.00000</td>
<td>0.00000</td>
</tr>
<tr>
<td>2007</td>
<td>332,684,762,248</td>
<td>764,249,126</td>
<td>34,464,826,993</td>
<td>298,984,184,381</td>
<td>11,704,409,707</td>
<td>310,688,594,088</td>
<td>0.00000</td>
<td>0.00000</td>
</tr>
<tr>
<td>2006</td>
<td>297,241,134,929</td>
<td>675,774,089</td>
<td>29,042,761,077</td>
<td>268,874,147,941</td>
<td>10,364,695,733</td>
<td>279,238,843,674</td>
<td>0.00000</td>
<td>0.00000</td>
</tr>
<tr>
<td>2005</td>
<td>260,789,184,612</td>
<td>639,767,553</td>
<td>22,371,576,753</td>
<td>239,057,375,412</td>
<td>9,868,477,797</td>
<td>248,925,853,209</td>
<td>0.00000</td>
<td>0.00000</td>
</tr>
<tr>
<td>2004</td>
<td>234,796,344,077</td>
<td>783,602,175</td>
<td>20,030,159,591</td>
<td>215,549,786,661</td>
<td>10,054,422,048</td>
<td>225,604,208,709</td>
<td>0.00067</td>
<td>0.00075</td>
</tr>
<tr>
<td>2003</td>
<td>213,411,716,593</td>
<td>106,087,120</td>
<td>17,361,329,140</td>
<td>196,156,474,573</td>
<td>9,425,146,125</td>
<td>205,581,620,698</td>
<td>0.00075</td>
<td>0.00083</td>
</tr>
<tr>
<td>2002</td>
<td>195,543,487,502</td>
<td>116,762,403</td>
<td>15,198,976,703</td>
<td>180,461,273,202</td>
<td>9,469,691,227</td>
<td>189,930,964,429</td>
<td>0.00083</td>
<td>0.00091</td>
</tr>
<tr>
<td>2001</td>
<td>178,578,243,860</td>
<td>114,853,595</td>
<td>13,455,522,267</td>
<td>165,237,575,188</td>
<td>8,606,600,823</td>
<td>173,844,176,011</td>
<td>0.00091</td>
<td>0.00100</td>
</tr>
</tbody>
</table>

**Notes:**
(1) Per $100 of assessed valuation.
(2) The 1966 General Obligation Bonds matured in October 2004; therefore, the debt service tax rate levy is no longer required.

*Source: County of San Diego’s Office of the Auditor & Controller*
# TABLE 10

**Property Tax and Assessment Levies and Collections - Last 10 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/ Collections</th>
</tr>
</thead>
<tbody>
<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>
<tr>
<td>2007</td>
<td>8,491,306</td>
<td>11,767,140</td>
<td>20,258,446</td>
<td>19,108,822</td>
<td>1,149,624</td>
<td>5.67%</td>
</tr>
<tr>
<td>2006</td>
<td>7,739,618</td>
<td>11,522,736</td>
<td>19,262,354</td>
<td>18,365,178</td>
<td>897,176</td>
<td>4.66%</td>
</tr>
<tr>
<td>2005</td>
<td>6,845,910</td>
<td>11,569,000</td>
<td>18,414,910</td>
<td>17,599,443</td>
<td>815,467</td>
<td>4.43%</td>
</tr>
<tr>
<td>2004</td>
<td>6,113,087</td>
<td>13,202,278</td>
<td>19,315,365</td>
<td>18,475,217</td>
<td>840,148</td>
<td>4.35%</td>
</tr>
<tr>
<td>2003</td>
<td>5,559,976</td>
<td>13,334,244</td>
<td>18,894,220</td>
<td>17,987,721</td>
<td>906,499</td>
<td>4.80%</td>
</tr>
<tr>
<td>2002</td>
<td>6,643,136</td>
<td>10,674,464</td>
<td>17,317,600</td>
<td>16,952,618</td>
<td>364,982</td>
<td>2.11%</td>
</tr>
<tr>
<td>2001</td>
<td>5,131,906</td>
<td>13,474,696</td>
<td>18,606,602</td>
<td>17,609,556</td>
<td>997,046</td>
<td>5.36%</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
## TABLE 11
Short-term and Long-term Debt Outstanding - Last 10 Fiscal Years (in Thousands)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Short-term Debt</th>
<th>Long-term Debt</th>
<th>Total Debt Outstanding</th>
<th>% of Personal Income (1)</th>
<th>Debt Per Capita (in dollars) (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial Paper</td>
<td>Government Obligations</td>
<td>Certificates of Participation (COPs)</td>
<td>Revenue Bonds</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$460,000</td>
<td>$ -</td>
<td>$1,369,135</td>
<td>$624,630</td>
<td>$2,453,765</td>
</tr>
<tr>
<td>2009</td>
<td>460,000</td>
<td>-</td>
<td>1,426,505</td>
<td>-</td>
<td>1,886,505</td>
</tr>
<tr>
<td>2008</td>
<td>460,000</td>
<td>-</td>
<td>1,446,325</td>
<td>-</td>
<td>1,906,325</td>
</tr>
<tr>
<td>2007</td>
<td>460,000</td>
<td>-</td>
<td>986,160</td>
<td>-</td>
<td>1,446,160</td>
</tr>
<tr>
<td>2006</td>
<td>110,000</td>
<td>-</td>
<td>1,019,845</td>
<td>-</td>
<td>1,129,845</td>
</tr>
<tr>
<td>2005</td>
<td>110,000</td>
<td>-</td>
<td>1,051,425</td>
<td>-</td>
<td>1,161,425</td>
</tr>
<tr>
<td>2004</td>
<td>110,000</td>
<td>-</td>
<td>723,640</td>
<td>-</td>
<td>833,640</td>
</tr>
<tr>
<td>2003</td>
<td>110,000</td>
<td>1,645</td>
<td>752,220</td>
<td>-</td>
<td>863,865</td>
</tr>
<tr>
<td>2002</td>
<td>110,000</td>
<td>3,220</td>
<td>791,590</td>
<td>-</td>
<td>904,810</td>
</tr>
<tr>
<td>2001</td>
<td>70,000</td>
<td>4,725</td>
<td>513,320</td>
<td>-</td>
<td>588,045</td>
</tr>
</tbody>
</table>

Notes:
(1) See Table 16 for personal income and population data.
(2) $64,238,181 of proceeds were used to make an early payment on the 1997A COPs in June 2008.
(3) $56,700,000 of proceeds were used to make an early payment on the 1991B COPs in December 2004.
(4) Issued to advance refund $117,310,000 of the 1998A COPs in February 2005.
(5) $12,300,000 of proceeds were used to make an early payment on the 1991A COPs in July 2002.
(6) Balance satisfied with surety bond.
TABLE 11
Short-term and Long-term Debt Outstanding - Last 10 Fiscal Years (in Thousands), (continued)

<table>
<thead>
<tr>
<th></th>
<th>Certificates of Participation</th>
<th>Revenue Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - $ - $ 23,610 $ 11,685 $ 243,370 $ 425,000 $ 107,455 $ 558,015</td>
<td>$ 98,495 $ 526,135</td>
<td></td>
</tr>
<tr>
<td>- - 23,610 62,690 249,735 425,000 107,455 558,015</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td>- 13,700 23,610 62,690 255,855 425,000 107,455 558,015</td>
<td>(2) -</td>
<td></td>
</tr>
<tr>
<td>- 26,700 102,575 62,690 261,740 425,000 107,455</td>
<td>(3) -</td>
<td></td>
</tr>
<tr>
<td>- 39,000 118,305 62,690 267,395 425,000 107,455</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>- 50,600 132,845 62,690 272,835 425,000 (3) 107,455 (4)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>56,700 61,665 147,210 180,000 278,065</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td>56,700 71,940 160,485 180,000 283,095</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td>69,000 81,895 160,695 180,000 300,000</td>
<td>(5) -</td>
<td></td>
</tr>
<tr>
<td>80,605 91,355 161,360 180,000</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

$ 300,000 $ 135,650 $ 162,315 $ 180,000 $ 300,000 $ 425,000 $ 107,455 $ 558,015 |

$ 98,495 $ 526,135 |

(1) (2) (3) (4) (5) (6)
### TABLE 12
Revenue Debt Service Coverage - Last 10 Fiscal Years

<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></td>
<td></td>
<td></td>
<td>Principal</td>
<td>Interest</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></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>(4) 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>53,242,022</td>
</tr>
<tr>
<td>2008</td>
<td>414,004,382</td>
<td>289,154,436</td>
<td>124,849,946</td>
<td>34,685,000</td>
<td>48,359,992</td>
</tr>
<tr>
<td>2007</td>
<td>410,112,152</td>
<td>292,283,252</td>
<td>117,828,900</td>
<td>33,685,000</td>
<td>50,184,173</td>
</tr>
<tr>
<td>2006</td>
<td>374,042,753</td>
<td>259,261,156</td>
<td>114,781,597</td>
<td>31,580,000</td>
<td>51,772,285</td>
</tr>
<tr>
<td>2005</td>
<td>349,123,929</td>
<td>245,745,447</td>
<td>103,378,482</td>
<td>30,660,000</td>
<td>47,633,295</td>
</tr>
<tr>
<td>2004</td>
<td>368,218,435</td>
<td>271,452,846</td>
<td>96,765,589</td>
<td>28,580,000</td>
<td>37,791,220</td>
</tr>
<tr>
<td>2003</td>
<td>345,776,089</td>
<td>256,762,278</td>
<td>89,013,811</td>
<td>27,070,000</td>
<td>38,707,465</td>
</tr>
<tr>
<td>2002</td>
<td>350,604,097</td>
<td>259,363,621</td>
<td>91,240,476</td>
<td>21,730,000</td>
<td>27,769,820</td>
</tr>
<tr>
<td>2001</td>
<td>330,895,949</td>
<td>230,837,198</td>
<td>100,058,751</td>
<td>20,115,000</td>
<td>27,586,194</td>
</tr>
</tbody>
</table>

**Notes:**

1. Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contribution 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 $51,055,000 principal payment on 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 & B Bonds, which was paid with bond proceeds.
6. Excludes $18,023,409 interest payment on 2008A COPs which was paid from debt proceeds.
7. Excludes $56,700,000 principal payment on the 1991 COPs which was paid from debt proceeds.
8. Excludes $12,300,000 principal payment on 1991 COPs which was paid from debt proceeds.
9. Excludes $64,238,181 principal payment on 1997A COPs which was paid from debt proceeds.
10. Excludes $117,310,000 principal payment on 1998A COPs which was paid from debt proceeds.
### TABLE 13
Ratio of Net General Bonded Debt to Assessed Value and Net General Bonded Debt Per Capita - Last 10 Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Population Estimate</th>
<th>Assessed Valuation</th>
<th>Gross Bonded Debt (1)</th>
<th>Less Debt Service Funds</th>
<th>Net Bonded Debt</th>
<th>Net Bonded Debt to Assessed Valuation</th>
<th>Net Bonded Debt Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,221,738</td>
<td>$344,094,769,052</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>3,053,793</td>
<td>352,364,568,720</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>3,019,274</td>
<td>337,955,418,349</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>2,975,656</td>
<td>310,688,594,088</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>2,947,222</td>
<td>279,238,843,674</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2005</td>
<td>2,941,770</td>
<td>248,925,853,209</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>2,935,672</td>
<td>225,604,208,709</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>2,926,814</td>
<td>205,581,620,698</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>2,901,235</td>
<td>189,930,964,429</td>
<td>1,645,000</td>
<td>-</td>
<td>1,645,000</td>
<td>0.0000087</td>
<td>0.5669999</td>
</tr>
<tr>
<td>2001</td>
<td>2,867,094</td>
<td>173,844,176,011</td>
<td>3,220,000</td>
<td>-</td>
<td>3,220,000</td>
<td>0.0000185</td>
<td>1.1230884</td>
</tr>
</tbody>
</table>

**Notes:**

**Source:** County of San Diego’s Office of Auditor & Controller and the San Diego County Water Authority
### TABLE 14
Direct and Overlapping Debt - June 30, 2010

2009-10 Assessed Valuation: $376,234,133,896
Redevelopment Incremental Valuation: 40,354,675,074
Adjusted Assessed Valuation: $335,879,458,822

<table>
<thead>
<tr>
<th>Direct and Overlapping Tax and Assessment Debt</th>
<th>Total Debt Outstanding as of June 30, 2010</th>
<th>% Applicable (1)</th>
<th>Estimated Share of Overlapping Debt as of June 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego County Water Authority</td>
<td>$ -</td>
<td>100.000%</td>
<td>$ -</td>
</tr>
<tr>
<td>Metropolitan Water District</td>
<td>264,220,000</td>
<td>18.571%</td>
<td>49,068,296</td>
</tr>
<tr>
<td>Community College Districts</td>
<td>1,152,970,046</td>
<td>81.271-99.944%</td>
<td>1,100,601,349</td>
</tr>
<tr>
<td>San Diego Unified School District</td>
<td>1,527,458,221</td>
<td>99.944%</td>
<td>1,526,602,844</td>
</tr>
<tr>
<td>Other Unified School Districts</td>
<td>751,001,565</td>
<td>various</td>
<td>747,938,328</td>
</tr>
<tr>
<td>High School Districts</td>
<td>759,394,192</td>
<td>various</td>
<td>738,122,902</td>
</tr>
<tr>
<td>School Districts</td>
<td>580,021,946</td>
<td>various</td>
<td>566,451,025</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>80,360,000</td>
<td>99.287%</td>
<td>79,787,033</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>4,340,000</td>
<td>99.930%</td>
<td>4,336,962</td>
</tr>
<tr>
<td>Other Cities</td>
<td>30,335,000</td>
<td>99.970-100.000%</td>
<td>30,312,342</td>
</tr>
<tr>
<td>Grossmont Healthcare District</td>
<td>85,627,076</td>
<td>94.851%</td>
<td>81,218,138</td>
</tr>
<tr>
<td>Palomar Pomerado Hospital District</td>
<td>417,623,319</td>
<td>97.522%</td>
<td>407,274,613</td>
</tr>
<tr>
<td>Municipal Water Districts</td>
<td>7,780,000</td>
<td>100.000%</td>
<td>7,780,000</td>
</tr>
<tr>
<td>Community Facilities Districts</td>
<td>1,687,344,117</td>
<td>100.000%</td>
<td>1,687,344,117</td>
</tr>
<tr>
<td>1915 Act Bonds (Estimated)</td>
<td>167,478,658</td>
<td>100.000%</td>
<td>167,478,658</td>
</tr>
</tbody>
</table>

Total Gross Direct and Overlapping Tax and Assessment Debt $7,194,316,607

**Notes:**

(1) Percentage of overlapping agency’s assessed valuation located within boundaries of the Water Authority.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc. and the San Diego County Water Authority
### TABLE 14
**Direct and Overlapping Debt - June 30, 2010, (continued)**

<table>
<thead>
<tr>
<th>Overlapping General Fund Debt</th>
<th>Total Debt Outstanding as of June 30, 2010</th>
<th>% Applicable (1)</th>
<th>Estimated Share of Overlapping Debt as of June 30, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego County General Fund Obligations</td>
<td>$415,240,000</td>
<td>96.467%</td>
<td>$400,569,571</td>
</tr>
<tr>
<td>San Diego County Pension Obligations</td>
<td>853,514,739</td>
<td>96.467%</td>
<td>823,360,063</td>
</tr>
<tr>
<td>San Diego Superintendent of Schools Certificates of Participation</td>
<td>21,187,500</td>
<td>96.467%</td>
<td>20,438,946</td>
</tr>
<tr>
<td>Community College District Certificates of Participation</td>
<td>13,970,000</td>
<td>81.271-99.944%</td>
<td>13,309,866</td>
</tr>
<tr>
<td>Unified School District General Fund Obligations</td>
<td>264,752,177</td>
<td>90.225-99.954%</td>
<td>261,893,196</td>
</tr>
<tr>
<td>High School and School District General Fund Obligations</td>
<td>301,607,349</td>
<td>96.560-100.000%</td>
<td>299,816,958</td>
</tr>
<tr>
<td>City of San Diego General Fund Obligations</td>
<td>520,825,000</td>
<td>99.930%</td>
<td>520,460,423</td>
</tr>
<tr>
<td>Other City General Fund Obligations</td>
<td>595,167,090</td>
<td>98.603-100.000%</td>
<td>592,560,620</td>
</tr>
<tr>
<td>Fallbrook Sanitary District General Fund Obligations</td>
<td>4,625,000</td>
<td>99.401%</td>
<td>4,597,296</td>
</tr>
<tr>
<td>Otay Municipal Water District Certificates of Participation</td>
<td>61,890,000</td>
<td>99.736%</td>
<td>61,726,610</td>
</tr>
<tr>
<td>San Miguel Consolidated Fire Protection District General Fund Obligations</td>
<td>7,020,000</td>
<td>99.566%</td>
<td>6,989,533</td>
</tr>
<tr>
<td>Lakeside Fire General Fund Obligations</td>
<td>7,340,000</td>
<td>93.248%</td>
<td>6,844,403</td>
</tr>
<tr>
<td><strong>Total Gross Overlapping General Fund Debt</strong></td>
<td>$3,012,567,485</td>
<td></td>
<td>$2,928,712,016</td>
</tr>
<tr>
<td>Less: City of El Cajon self-supporting obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Otay Municipal Water District Certificates of Participation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Overlapping General Fund Debt</strong></td>
<td>$2,928,712,016</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GROSS COMBINED TOTAL DEBT</strong></td>
<td>$10,206,884,092</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET COMBINED TOTAL DEBT</strong></td>
<td>$10,123,028,623</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Ratios to 2009-10 Assessed Valuation:**

- Direct Debt: 0.00%
- Total Gross Direct and Overlapping Tax and Assessment Debt: 1.91%

**Ratios to Adjusted Assessed Valuation:**

- Gross Combined Total Debt: 3.04%
- Net Combined Total Debt: 3.01%

**State School Building Aid Repayable as of June 30, 2010**: $0

**Notes:**

(1) Percentage of overlapping agency’s assessed valuation located within boundaries of the Water Authority.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations.

**Source:** California Municipal Statistics, Inc. and the San Diego County Water Authority
TABLE 15
General Information as of June 30, 2010

Number of Member Agencies 24

* The County of San Diego is a non-voting representative

Cities 6
Water Districts 5
Irrigation Districts 3
Municipal Water Districts 8
Public Utility Districts 1
Federal Agency (military base) 1

Operating Indicators - Last 10 Fiscal Years

<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>Number 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>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>
<tr>
<td>2007</td>
<td>939,672</td>
<td>5</td>
<td>279</td>
<td>135</td>
<td>119</td>
<td>420</td>
<td>504</td>
<td>588</td>
<td>265.25</td>
</tr>
<tr>
<td>2006</td>
<td>939,672</td>
<td>5</td>
<td>279</td>
<td>135</td>
<td>119</td>
<td>420</td>
<td>504</td>
<td>503</td>
<td>262.25</td>
</tr>
<tr>
<td>2005</td>
<td>922,381</td>
<td>5</td>
<td>279</td>
<td>135</td>
<td>120</td>
<td>420</td>
<td>504</td>
<td>494</td>
<td>245.50</td>
</tr>
<tr>
<td>2004</td>
<td>920,472</td>
<td>5</td>
<td>279</td>
<td>134</td>
<td>120</td>
<td>420</td>
<td>504</td>
<td>569</td>
<td>238.50</td>
</tr>
<tr>
<td>2003</td>
<td>908,974</td>
<td>5</td>
<td>279</td>
<td>134</td>
<td>119</td>
<td>420</td>
<td>504</td>
<td>550</td>
<td>229.00</td>
</tr>
<tr>
<td>2002</td>
<td>908,974</td>
<td>5</td>
<td>277</td>
<td>174</td>
<td>117</td>
<td>420</td>
<td>504</td>
<td>589</td>
<td>216.00</td>
</tr>
<tr>
<td>2001</td>
<td>908,968</td>
<td>5</td>
<td>274</td>
<td>174</td>
<td>114</td>
<td>420</td>
<td>504</td>
<td>525</td>
<td>213.00</td>
</tr>
</tbody>
</table>

Notes:
(1) Acres.
(2) Millions of gallons per day.
### TABLE 16
Demographic and Economic Statistics - Last 10 Calendar Years [1]

<table>
<thead>
<tr>
<th>Year</th>
<th>County Population [2]</th>
<th>Personal Income (in thousands) *</th>
<th>Per Capital Personal Income (in dollars)</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,221,738**</td>
<td>$131,111,850</td>
<td>$40,696</td>
<td>10.6%</td>
</tr>
<tr>
<td>2009</td>
<td>3,053,793</td>
<td>139,344,668</td>
<td>45,630</td>
<td>9.7%</td>
</tr>
<tr>
<td>2008</td>
<td>3,019,274</td>
<td>140,846,916</td>
<td>46,649</td>
<td>6.0%</td>
</tr>
<tr>
<td>2007</td>
<td>2,975,656</td>
<td>136,615,849</td>
<td>45,911</td>
<td>4.6%</td>
</tr>
<tr>
<td>2006</td>
<td>2,947,222</td>
<td>129,585,425</td>
<td>43,969</td>
<td>4.0%</td>
</tr>
<tr>
<td>2005</td>
<td>2,941,770</td>
<td>122,032,508</td>
<td>41,483</td>
<td>4.3%</td>
</tr>
<tr>
<td>2004</td>
<td>2,935,672</td>
<td>116,646,431</td>
<td>39,734</td>
<td>4.4%</td>
</tr>
<tr>
<td>2003</td>
<td>2,926,814</td>
<td>108,298,187</td>
<td>37,002</td>
<td>4.6%</td>
</tr>
<tr>
<td>2002</td>
<td>2,901,235</td>
<td>103,816,821</td>
<td>35,784</td>
<td>4.4%</td>
</tr>
<tr>
<td>2001</td>
<td>2,867,094</td>
<td>99,445,427</td>
<td>34,685</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Notes:
(1) Information is based on estimates.
(2) Fiscal year.

Source: U.S. Census Bureau
* U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts
** California Department of Transportation, estimated

### TABLE 17
Largest Employers in San Diego County - Fiscal Year 2010 [1]

<table>
<thead>
<tr>
<th>Employer</th>
<th>Rank</th>
<th># of Employees</th>
<th>% of Total Employment [2]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marine Corps Base, Camp Pendleton</td>
<td>1</td>
<td>60,000</td>
<td>3.82%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2</td>
<td>43,500</td>
<td>2.77%</td>
</tr>
<tr>
<td>United States Navy [3]</td>
<td>3</td>
<td>42,000</td>
<td>2.68%</td>
</tr>
<tr>
<td>State of California</td>
<td>4</td>
<td>40,900</td>
<td>2.61%</td>
</tr>
<tr>
<td>University of California, San Diego</td>
<td>5</td>
<td>26,000</td>
<td>1.66%</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>6</td>
<td>20,500</td>
<td>1.31%</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>7</td>
<td>19,500</td>
<td>1.24%</td>
</tr>
<tr>
<td>San Diego Unified School District</td>
<td>8</td>
<td>15,881</td>
<td>1.01%</td>
</tr>
<tr>
<td>Sharp Healthcare</td>
<td>9</td>
<td>14,390</td>
<td>0.92%</td>
</tr>
<tr>
<td>Scripps Health</td>
<td>10</td>
<td>12,700</td>
<td>0.81%</td>
</tr>
</tbody>
</table>

Notes:
(1) Fiscal Year 2001 information not available.
(2) Represents percentage of total countywide employment.
(3) 6,000 are listed as civilians.

Source: San Diego Source, The Daily Transcript, Sourcebook 2010
December 10, 2010

Dear friends and interested parties:

We are pleased to present the Continuing Disclosure Report for fiscal year ending June 30, 2010 for the San Diego County Water Authority (Water Authority).

The information provided in this Continuing Disclosure Report (Report) speaks only as of its date, December 10, 2010 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 David Shank, Financial Planning Manager at (858) 522-6676, or by email at dshank@sdcwa.org.

Sincerely,

Eric Sandler, Director of Finance/Treasurer

San Diego County Water Authority
4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600  FAX (858) 522-6568  www.sdcwa.org

A public agency providing a safe and reliable water supply to the San Diego region
Required Information

General Information

San Diego County Water Authority Management

Maureen A. Stapleton  General Manager
Sandra L. Kerl  Deputy General Manager
Frank Belock Jr.  Deputy General Manager
Dennis A. Cushman  Assistant General Manager
Eric L. Sandler  Director of Finance/Treasurer
Daniel S. Hentschke  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 wholesaling 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.

A Guide to the Continuing Disclosure

Selected Financial Highlights

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| Statement of Revenues, Expenses, and Changes in Net Assets can be found in the Financial Statements section | 28 |
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Selected Financial Highlights

Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets are located under the Financial Statements Tab, pages 27 and 28, respectively.

TABLE 1
Cash and Investments, June 30, 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>$587,410,453</td>
<td>$268,375,536</td>
</tr>
<tr>
<td>Debt Service Reserve</td>
<td>69,070,080</td>
<td>68,708,574</td>
</tr>
<tr>
<td>Pay-As-You-Go</td>
<td>125,475,485</td>
<td>80,085,190</td>
</tr>
<tr>
<td>Total</td>
<td>$781,956,018</td>
<td>$417,169,300</td>
</tr>
</tbody>
</table>

As of June 30, 2010 and 2009, restricted reserve fund cash balances were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>$80,978,933</td>
<td>$52,737,812</td>
</tr>
<tr>
<td>Debt Service Reserve</td>
<td>43,339,718</td>
<td>43,340,691</td>
</tr>
<tr>
<td>Pay-As-You-Go</td>
<td>10,026,500</td>
<td>10,710,327</td>
</tr>
<tr>
<td>Total</td>
<td>$134,345,151</td>
<td>$106,788,830</td>
</tr>
</tbody>
</table>

As of June 30, 2010 and 2009, unrestricted cash balances were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>$80,978,933</td>
<td>$52,737,812</td>
</tr>
<tr>
<td>Designated for Rate Stabilization</td>
<td>43,339,718</td>
<td>43,340,691</td>
</tr>
<tr>
<td>Designated for Equipment Replacement</td>
<td>10,026,500</td>
<td>10,710,327</td>
</tr>
<tr>
<td>Total</td>
<td>$134,345,151</td>
<td>$106,788,830</td>
</tr>
</tbody>
</table>

Summary of Outstanding Debt

The table below summarizes the Water Authority’s outstanding fixed-rate debt including 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. This information is presented as of June 30, 2010.

TABLE 2
Fixed-Rate Debt Outstanding, Fiscal Year Ended June 30, 2010

<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>Water Revenue Certificates of Participation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 1997A</td>
<td>2012</td>
<td>$162,315,000</td>
<td>$23,610,000</td>
<td>$15,197,000 (2)</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 2002A</td>
<td>2032</td>
<td>300,000,000</td>
<td>243,370,000</td>
<td>18,385,750</td>
</tr>
<tr>
<td>Series 2004A</td>
<td>2034</td>
<td>425,000,000</td>
<td>425,000,000</td>
<td>38,568,617 (2)</td>
</tr>
<tr>
<td>Series 2005A</td>
<td>2022</td>
<td>107,455,000</td>
<td>107,455,000</td>
<td>10,745,500 (2)</td>
</tr>
<tr>
<td>Series 2008A</td>
<td>2038</td>
<td>558,015,000</td>
<td>558,015,000</td>
<td>23,670,625</td>
</tr>
</tbody>
</table>

Water Revenue Bonds:

<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>Series 2010A (non-AMT tax-exempt)</td>
<td>2027</td>
<td>98,495,000</td>
<td>98,495,000</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>Total</td>
<td></td>
<td></td>
<td>$2,357,415,000</td>
<td>$1,993,765,000 $118,808,267</td>
</tr>
</tbody>
</table>

Notes:
(1) Amounts stated reflect the minimum balance required.
(2) Balance satisfied with surety bond.
Commercial Paper Program

The Water Authority has a commercial paper program through which it can borrow funds on a tax-exempt basis for periods up to 270 days. The commercial paper program is comprised of three separate series with a total maximum authorized amount of $460 million (Series 1 - $110 million, Series 2 - $175 million and Series 3 - $175 million). Series 2 and Series 3 were issued on November 15, 2006. Each series of the outstanding notes are supported by a separate revolving credit and term loan agreement. The revolving credit and term loan agreements, unless otherwise extended, will terminate on June 30, 2013, November 15, 2011, and November 15, 2011, respectively, for Series 1, 2, and 3. Currently, no advances have been made under any of the revolving credit and term loan agreements.


The commercial paper notes are secured and payable solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation and Water Revenue Bonds. As of June 30, 2010, $460 million of commercial paper was outstanding.

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 3
Member Agency Voting Entitlements, Effective as of January 1, 2010

<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 M.W.D.</td>
<td>$292,222,021</td>
<td>58.4</td>
<td>3.5%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>25,450,603</td>
<td>5.1</td>
<td>0.3%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>292,256,272</td>
<td>58.5</td>
<td>3.5%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>209,683,896</td>
<td>41.9</td>
<td>2.5%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>610,756,280</td>
<td>122.1</td>
<td>7.2%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>64,486,959</td>
<td>12.9</td>
<td>0.8%</td>
</tr>
<tr>
<td>City of National City(3)</td>
<td>64,692,920</td>
<td>12.9</td>
<td>0.8%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>422,172,096</td>
<td>84.4</td>
<td>5.0%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>241,196,349</td>
<td>48.2</td>
<td>2.8%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>427,905,140</td>
<td>85.6</td>
<td>5.1%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>227,675,770</td>
<td>45.5</td>
<td>2.7%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>11,673,157</td>
<td>2.3</td>
<td>0.1%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>181,619,964</td>
<td>36.3</td>
<td>2.0%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>351,566,225</td>
<td>70.3</td>
<td>4.2%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>136,252,922</td>
<td>27.3</td>
<td>1.6%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>128,510,485</td>
<td>25.7</td>
<td>1.5%</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>3,387,461,490</td>
<td>677.5</td>
<td>40.2%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>94,321,156</td>
<td>18.9</td>
<td>1.1%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>130,388,714</td>
<td>26.1</td>
<td>1.5%</td>
</tr>
<tr>
<td>South Bay I.D. (3)</td>
<td>200,400,677</td>
<td>40.1</td>
<td>2.4%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>201,772,929</td>
<td>40.4</td>
<td>2.4%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>474,543,582</td>
<td>94.9</td>
<td>5.6%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>248,257,020</td>
<td>49.7</td>
<td>2.9%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>29,952,711</td>
<td>6.0</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,455,219,338</strong></td>
<td><strong>1,691.0</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Total financial contribution equals base revenues plus fiscal 2009 revenues.
2. Rounded values.
3. City of National City and South Bay I.D. comprise the Sweetwater Authority.
### Water Source and Use

**TABLE 4**

**Water Source and Use (in Acre-Feet), Fiscal Years 2006-2010**

<table>
<thead>
<tr>
<th>WATER USE by MEMBER AGENCY</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% of change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>22,818</td>
<td>24,653</td>
<td>24,791</td>
<td>23,564</td>
<td>21,169</td>
<td>-10.2%</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>1,393</td>
<td>1,522</td>
<td>1,320</td>
<td>1,277</td>
<td>1,202</td>
<td>-5.9%</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>32,999</td>
<td>36,301</td>
<td>30,393</td>
<td>27,788</td>
<td>24,848</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>18,594</td>
<td>22,597</td>
<td>17,916</td>
<td>15,812</td>
<td>13,866</td>
<td>-12.3%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>40,190</td>
<td>42,088</td>
<td>40,443</td>
<td>37,657</td>
<td>33,211</td>
<td>-11.8%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>-</td>
<td>2,538</td>
<td>5,298</td>
<td>4,809</td>
<td>4,050</td>
<td>-15.8%</td>
</tr>
<tr>
<td>City of National City</td>
<td>6,674</td>
<td>7,078</td>
<td>6,395</td>
<td>6,593</td>
<td>6,328</td>
<td>-4.0%</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>33,143</td>
<td>36,856</td>
<td>34,538</td>
<td>32,097</td>
<td>28,730</td>
<td>-10.5%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>23,505</td>
<td>25,909</td>
<td>26,211</td>
<td>24,989</td>
<td>22,664</td>
<td>-9.3%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>42,548</td>
<td>43,730</td>
<td>42,638</td>
<td>39,430</td>
<td>35,245</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>21,179</td>
<td>20,082</td>
<td>16,993</td>
<td>15,479</td>
<td>13,148</td>
<td>-15.1%</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base</td>
<td>9,989</td>
<td>12,092</td>
<td>11,419</td>
<td>11,183</td>
<td>9,563</td>
<td>-14.5%</td>
</tr>
<tr>
<td>City of Poway</td>
<td>15,868</td>
<td>16,286</td>
<td>15,289</td>
<td>13,676</td>
<td>11,437</td>
<td>-16.4%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>30,459</td>
<td>33,305</td>
<td>27,045</td>
<td>26,420</td>
<td>22,357</td>
<td>-15.4%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>12,676</td>
<td>21,253</td>
<td>10,989</td>
<td>8,557</td>
<td>6,853</td>
<td>-19.9%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,449</td>
<td>17,704</td>
<td>11,190</td>
<td>10,762</td>
<td>9,559</td>
<td>-11.2%</td>
</tr>
<tr>
<td>City of San Diego(2)</td>
<td>232,898</td>
<td>240,265</td>
<td>239,946</td>
<td>225,639</td>
<td>199,790</td>
<td>-11.5%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>8,481</td>
<td>9,262</td>
<td>8,436</td>
<td>7,929</td>
<td>7,145</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>14,727</td>
<td>16,485</td>
<td>15,219</td>
<td>14,577</td>
<td>11,889</td>
<td>-18.4%</td>
</tr>
<tr>
<td>South Bay I.D.</td>
<td>17,275</td>
<td>16,253</td>
<td>17,113</td>
<td>16,098</td>
<td>14,466</td>
<td>-10.1%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>19,573</td>
<td>21,825</td>
<td>20,468</td>
<td>19,051</td>
<td>16,468</td>
<td>-13.6%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>45,153</td>
<td>50,892</td>
<td>39,919</td>
<td>35,173</td>
<td>29,922</td>
<td>-14.9%</td>
</tr>
<tr>
<td>Vista I.D.(3)</td>
<td>23,349</td>
<td>24,030</td>
<td>23,525</td>
<td>21,964</td>
<td>19,235</td>
<td>-12.4%</td>
</tr>
<tr>
<td>Yuima M.W.D.(4)</td>
<td>4,314</td>
<td>4,887</td>
<td>4,437</td>
<td>3,376</td>
<td>3,298</td>
<td>-2.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>687,254</td>
<td>741,893</td>
<td>691,931</td>
<td>643,900</td>
<td>566,443</td>
<td>-12.0%</td>
</tr>
</tbody>
</table>

#### ALLOCATION of WATER USE

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% of change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>378,709</td>
<td>406,011</td>
<td>405,524</td>
<td>387,401</td>
<td>344,478</td>
<td>-11.1%</td>
</tr>
<tr>
<td>Commercial &amp; Industrial</td>
<td>163,499</td>
<td>172,924</td>
<td>116,573</td>
<td>91,648</td>
<td>81,685</td>
<td>-10.9%</td>
</tr>
<tr>
<td>Agricultural</td>
<td>96,194</td>
<td>110,309</td>
<td>80,417</td>
<td>65,424</td>
<td>53,286</td>
<td>-18.6%</td>
</tr>
<tr>
<td>Public &amp; Other</td>
<td>48,852</td>
<td>52,649</td>
<td>89,517</td>
<td>99,427</td>
<td>86,994</td>
<td>-12.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>687,254</td>
<td>741,893</td>
<td>692,031</td>
<td>643,900</td>
<td>566,443</td>
<td>-12.0%</td>
</tr>
</tbody>
</table>

**Notes:**
(i) 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) Excludes local supplies developed beyond Yuima's master meters.
In fiscal year 2010, Water Authority member agencies’ combined imported and local water use totaled 566,443 acre-feet. Imported supplies accounted for 87.4 percent of the total water used, excluding estimated water savings from conservation programs. Of this amount, approximately 451,000 acre-feet of imported water was used for municipal and industrial needs, with the balance going to meet agricultural demands.

### TABLE 5
Water Source and Use - Current Year Breakout, Fiscal Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>Source of Water</th>
<th>Type of Water Authority Supply Water Use</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local Supply (Imported Use) (1) Acre-feet</td>
</tr>
<tr>
<td>Carlsbad M.W.D.</td>
<td>3,935</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>73</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>4,080</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>544</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>2,866</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>675</td>
</tr>
<tr>
<td>City of National City</td>
<td>3,305</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>3,833</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>2,672</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>4,070</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>663</td>
</tr>
<tr>
<td>Camp Pendleton Marine Corps Base (4)</td>
<td>8,731</td>
</tr>
<tr>
<td>City of Poway</td>
<td>326</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>0</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>729</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>3,279</td>
</tr>
<tr>
<td>City of San Diego (5)</td>
<td>12,486</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>4,989</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>6,209</td>
</tr>
<tr>
<td>South Bay I.D.</td>
<td>2,943</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>0</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>400</td>
</tr>
<tr>
<td>Vista I.D. (6)</td>
<td>3,899</td>
</tr>
<tr>
<td>Yuima M.W.D. (7)</td>
<td>779</td>
</tr>
<tr>
<td>TOTALS (8)</td>
<td>71,486</td>
</tr>
</tbody>
</table>

Notes:
(1) Includes surface, recycled, and groundwater supplies; does not reflect conserved water.
(2) Water use in a given year may differ from Water Authority sales due to storage.
(3) Includes only amounts certified through the IAWP and SAWR agricultural water use programs.
(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) Excludes land outside of the Water Authority’s service area.
(7) Excludes local supplies developed beyond Yuima’s master meters.
(8) Numbers may not total due to rounding.
### TABLE 6
Member Agency Gross Water Sales by Fiscal Year, Thousands of Dollars (1)

<table>
<thead>
<tr>
<th>Agency</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>$12,520</td>
<td>$13,862</td>
<td>$11,751</td>
<td>$14,281</td>
<td>$16,194</td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>679</td>
<td>760</td>
<td>738</td>
<td>740</td>
<td>838</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>11,322</td>
<td>13,764</td>
<td>15,250</td>
<td>12,810</td>
<td>14,811</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>8,418</td>
<td>9,499</td>
<td>8,153</td>
<td>9,738</td>
<td>10,972</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>16,286</td>
<td>20,062</td>
<td>21,163</td>
<td>27,076</td>
<td>21,472</td>
</tr>
<tr>
<td>Lakeside W.D. (2)</td>
<td>-</td>
<td>1,331</td>
<td>2,511</td>
<td>2,953</td>
<td>3,135</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>16,056</td>
<td>18,001</td>
<td>18,253</td>
<td>18,984</td>
<td>19,668</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>11,212</td>
<td>12,083</td>
<td>15,923</td>
<td>14,157</td>
<td>14,279</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>24,327</td>
<td>25,709</td>
<td>21,129</td>
<td>26,211</td>
<td>29,330</td>
</tr>
<tr>
<td>Padre Dam M.W.D. (2)</td>
<td>11,848</td>
<td>11,694</td>
<td>9,243</td>
<td>10,670</td>
<td>11,555</td>
</tr>
<tr>
<td>Camp Pendelton Marine Corps Base</td>
<td>44</td>
<td>59</td>
<td>38</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>City of Poway</td>
<td>7,297</td>
<td>7,962</td>
<td>8,090</td>
<td>8,431</td>
<td>7,733</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>14,003</td>
<td>15,986</td>
<td>14,149</td>
<td>16,989</td>
<td>18,823</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>5,932</td>
<td>5,933</td>
<td>6,124</td>
<td>5,367</td>
<td>6,155</td>
</tr>
<tr>
<td>Rincon Dele Diablo M.W.D.</td>
<td>4,771</td>
<td>5,191</td>
<td>3,973</td>
<td>5,478</td>
<td>5,809</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>100,761</td>
<td>117,018</td>
<td>124,187</td>
<td>121,901</td>
<td>140,194</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>2,985</td>
<td>2,990</td>
<td>2,644</td>
<td>2,356</td>
<td>1,958</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>5,397</td>
<td>5,822</td>
<td>5,135</td>
<td>5,060</td>
<td>4,746</td>
</tr>
<tr>
<td>Sweetwater Authority (3)</td>
<td>2,869</td>
<td>4,490</td>
<td>6,605</td>
<td>6,430</td>
<td>9,900</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>11,307</td>
<td>13,212</td>
<td>13,155</td>
<td>14,081</td>
<td>15,114</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>20,860</td>
<td>24,276</td>
<td>20,670</td>
<td>22,441</td>
<td>25,505</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>8,390</td>
<td>11,402</td>
<td>12,314</td>
<td>11,250</td>
<td>13,145</td>
</tr>
<tr>
<td>Yuina M.W.D.</td>
<td>1,358</td>
<td>1,552</td>
<td>1,849</td>
<td>1,311</td>
<td>2,041</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$298,642</strong></td>
<td><strong>$342,658</strong></td>
<td><strong>$343,047</strong></td>
<td><strong>$358,778</strong></td>
<td><strong>$393,440</strong></td>
</tr>
</tbody>
</table>

**Notes:**
1. Gross sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges.
2. Padre Dam M.W.D. was reorganized into Padre Dam M.W.D. and Lakeside W.D. in 2007.
3. Represents sales to the city of National City and South Bay I.D. for which Sweetwater Authority acts as a purchasing agent.
4. In addition to the total water sales revenue shown, 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.
### TABLE 7
Historical Operating Results by Fiscal Year, Thousands of Dollars *

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Sales (1)</td>
<td>$299,084</td>
<td>$343,082</td>
<td>$343,456</td>
<td>$359,952</td>
<td>$387,871</td>
</tr>
<tr>
<td>Water Standby Availability Charges</td>
<td>10,942</td>
<td>11,140</td>
<td>11,256</td>
<td>11,311</td>
<td>11,240</td>
</tr>
<tr>
<td>Capacity Charges</td>
<td>33,870</td>
<td>31,081</td>
<td>23,884</td>
<td>13,266</td>
<td>10,299</td>
</tr>
<tr>
<td>Infrastructure Access Charges (2)</td>
<td>13,864</td>
<td>16,188</td>
<td>17,458</td>
<td>19,390</td>
<td>21,241</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>357,760</td>
<td>401,491</td>
<td>396,054</td>
<td>403,919</td>
<td>430,651</td>
</tr>
<tr>
<td>Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund</td>
<td>3,762</td>
<td>(5,680)</td>
<td>3,866</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BABs Interest Rate Subsidy (3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,615</td>
</tr>
<tr>
<td>Nonoperating Revenue (4)</td>
<td>12,521</td>
<td>14,301</td>
<td>14,084</td>
<td>8,268</td>
<td>4,372</td>
</tr>
<tr>
<td>Total Revenues (5)</td>
<td>374,043</td>
<td>410,112</td>
<td>414,004</td>
<td>412,187</td>
<td>439,638</td>
</tr>
<tr>
<td><strong>Operating Expenses:</strong> (6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MWD Water Purchases</td>
<td>233,690</td>
<td>266,349</td>
<td>262,538</td>
<td>269,836</td>
<td>291,385</td>
</tr>
<tr>
<td>Other Maintenance and Operations Costs (7)</td>
<td>29,635</td>
<td>34,524</td>
<td>36,919</td>
<td>42,724</td>
<td>39,395</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>263,325</td>
<td>300,873</td>
<td>299,457</td>
<td>312,560</td>
<td>330,780</td>
</tr>
<tr>
<td>Application of Net Tax Receipts</td>
<td>4,054</td>
<td>8,590</td>
<td>10,303</td>
<td>10,467</td>
<td>9,972</td>
</tr>
<tr>
<td><strong>Net Operating Expenses</strong></td>
<td>259,271</td>
<td>292,283</td>
<td>289,154</td>
<td>302,093</td>
<td>320,808</td>
</tr>
<tr>
<td>Net Water Revenue Available for Debt Service</td>
<td>114,772</td>
<td>117,829</td>
<td>124,850</td>
<td>110,094</td>
<td>118,830</td>
</tr>
<tr>
<td><strong>Revenue Supported Debt Service</strong> (6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993 Certificates</td>
<td>14,344</td>
<td>14,393</td>
<td>14,395</td>
<td>14,352</td>
<td>-</td>
</tr>
<tr>
<td>1997 Certificates</td>
<td>21,221</td>
<td>21,692</td>
<td>20,864</td>
<td>1,358</td>
<td>1,358</td>
</tr>
<tr>
<td>1998 Certificates</td>
<td>2,930</td>
<td>2,930</td>
<td>2,930</td>
<td>2,732</td>
<td>1,347</td>
</tr>
<tr>
<td>2002 Certificates</td>
<td>18,347</td>
<td>18,343</td>
<td>18,345</td>
<td>18,343</td>
<td>18,342</td>
</tr>
<tr>
<td>2004 Certificates</td>
<td>20,929</td>
<td>20,929</td>
<td>20,929</td>
<td>20,929</td>
<td>20,929</td>
</tr>
<tr>
<td>2005 Certificates</td>
<td>5,581</td>
<td>5,581</td>
<td>5,581</td>
<td>5,581</td>
<td>5,581</td>
</tr>
<tr>
<td>2008 Certificates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,767 (9)</td>
<td>26,291 (10)</td>
</tr>
<tr>
<td>2010A&amp;B Bonds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,585 (10)</td>
</tr>
<tr>
<td><strong>Total Debt Service</strong></td>
<td>83,352</td>
<td>83,868</td>
<td>83,044</td>
<td>73,062</td>
<td>79,433</td>
</tr>
<tr>
<td><strong>Subordinate Obligation Payments</strong> (11)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Paper (12)</td>
<td>3,514</td>
<td>4,402 (13)</td>
<td>3,536 (14)</td>
<td>7,071</td>
<td>3,197</td>
</tr>
<tr>
<td>Balance Available After Debt Service and Subordinate Obligation Payments</td>
<td>$27,906</td>
<td>$29,559</td>
<td>$38,270</td>
<td>$29,961</td>
<td>$36,200</td>
</tr>
<tr>
<td>Revenue Supported Debt Service Coverage Ratio</td>
<td>1.38X</td>
<td>1.40X</td>
<td>1.50X</td>
<td>1.50X</td>
<td>1.50X</td>
</tr>
<tr>
<td>Debt Service and Subordinate Obligation Coverage Ratio (15)</td>
<td>1.32X</td>
<td>1.34X</td>
<td>1.44X</td>
<td>1.36X</td>
<td>1.44X</td>
</tr>
</tbody>
</table>

Notes:

* Some amounts are prepared on a basis other than the 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. Build America Bonds (BABs) receive a 35 percent subsidy of interest payable from the United States Treasury.
4. Nonoperating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds) and other revenues (hydroelectric sales, penalties, etc.).
5. Total revenues include amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, 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. Excludes $18,023,409 interest payment on 2008A COPs which was paid with bond proceeds.
10. Excludes $1,500,000 interest payment on the 2008A COPs and $9,530,000 interest payment on the 2010A & B Bonds, which was paid with bond proceeds.
11. The Water Authority has no outstanding subordinate obligation long-term debt at this time.
12. Commercial paper (CP) costs include interest and related program fees.
13. Excludes $7,995,111 interest payment on 2006 CP which was paid with commercial paper proceeds.
14. Excludes $9,783,772 interest payment on 2006 CP which was paid with commercial paper proceeds.
15. Coverage ratios do not include program fees.
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. A new rate structure, effective January 1, 2003, substantially increased the percentage of water revenues received as fixed charges, increasing Water Authority revenue stability. The Water Authority now assesses four different charges for the supply and delivery of water; the fixed Customer Service and Storage Charges, the variable Transportation, 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 Storage Project, the Transportation Rate recovers costs associated with the conveyance of water through the Water Authority’s aqueducts. In January 2005, the Water Authority transitioned to a melded supply rate, which recovers the weighted average cost of supply to the Water Authority, as well as certain other supply-related costs. Calendar year 2010 supplies include water from MWD and the Imperial Irrigation District. The Melded M&I Treatment Rate is set to recover the Water Authority’s costs of treating water and the cost of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants.

### TABLE 8
Summary of Water Rates, Effective January 1 - December 31

<table>
<thead>
<tr>
<th>Year</th>
<th>Metropolitan Water District</th>
<th>San Diego County Water Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Service Tier 1</td>
<td>Full Service Tier 2</td>
</tr>
<tr>
<td></td>
<td>UTR TR</td>
<td>UTR TR</td>
</tr>
<tr>
<td>2004</td>
<td>326 418</td>
<td>407 499</td>
</tr>
<tr>
<td>2005</td>
<td>349 461</td>
<td>412 524</td>
</tr>
<tr>
<td>2006</td>
<td>360 485</td>
<td>427 552</td>
</tr>
<tr>
<td>2007</td>
<td>365 512</td>
<td>427 574</td>
</tr>
<tr>
<td>2008</td>
<td>390 554</td>
<td>449 606</td>
</tr>
<tr>
<td>2009</td>
<td>463 631</td>
<td>528 695</td>
</tr>
<tr>
<td>2009 (4)</td>
<td>532 747</td>
<td>594 809</td>
</tr>
<tr>
<td>2010</td>
<td>532 747</td>
<td>594 809</td>
</tr>
</tbody>
</table>

Notes:
(1) The IAWP will be discontinued in 2012.
(2) Seasonal Shift Storage rates apply October 1 through April 30. This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. SSOA was not renewed in 2009.
(3) A new transitional agricultural water rate was adopted on December 10, 2008 for customers opting out of MWD’s IAWP. Customers that are participating in SAWR program are considered M&I customers by MWD.
(4) The Water Authority’s 2009 rates were increased effective September 1, 2009 to match MWD’s mid-year rate increase.

UTR=Untreated Water
TR=Treated Water
IAWP=Interim Agricultural Water Program
SSOA=Surface Storage Operating Agreement
SAWR=Special Agricultural Water Rate
Summary of Investments

TABLE 9
Summary of Investments, Fiscal Year Ended June 30, 2010 [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>$50 Million</td>
<td>N/A</td>
<td>N/A</td>
<td>7.71%</td>
<td>$19,927,050</td>
</tr>
<tr>
<td>Treasury Securities</td>
<td>15% - Minimum</td>
<td>5 years</td>
<td>N/A</td>
<td>28.24%</td>
<td>73,025,249</td>
</tr>
<tr>
<td>Agency Securities</td>
<td>85%</td>
<td>5 years</td>
<td>No limit</td>
<td>33.23%</td>
<td>85,908,125</td>
</tr>
<tr>
<td>Certificates of Deposit (CDARS)</td>
<td>15%</td>
<td>12/31/2013</td>
<td>No limit</td>
<td>0.77%</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>25%</td>
<td>270 days</td>
<td>5%</td>
<td>7.72%</td>
<td>19,947,286</td>
</tr>
<tr>
<td>JPA Pools (CAMP)</td>
<td>25%</td>
<td>N/A</td>
<td>N/A</td>
<td>21.87%</td>
<td>56,544,463</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>15%</td>
<td>N/A</td>
<td>10%</td>
<td>0.46%</td>
<td>1,197,712</td>
</tr>
</tbody>
</table>

100.00% $258,549,885

Accrued Interest (unavailable for investing) 11,667
Checking/Petty Cash/Available Funds (unavailable for investing) 298,556
Subtotal for Pooled Funds: $258,860,108

Bond/CP Fund Excluded from Portfolio Percentages:
- Treasury Securities
- Agency Securities 296,176,373
- Certificates of Deposit (CDARS) 15,000,000
- Commercial Paper 25,265,446
- Local Agency Investment Fund (LAIF) 225,192,373
- JPA Pools (CAMP) 28,342,734
- Money Market Funds and Cash 10

589,976,936
Subtotal for Bond/CP Fund (available for CIP expenditures): $590,012,853

Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:
- Treasury Securities and Money Market Fund - Series 2004A COPs 39,046,978
- FSA - Reserve (GIC) - Series 2002A COPs 18,385,750
- Trinity Plus - Reserve (GIC) - Series 1998A COPs 12,240,775

Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures): $69,673,503

Total Cash and Investments $918,546,464

Notes:
(1) Includes only investment types with balances at June 30, 2010.
(2) Book value of investments may differ from market values contained in financial statements.
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 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 1-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

The San Diego County Water Authority, along with the Imperial Irrigation District (IID), Metropolitan Water District of Southern California, Coachella Valley Water District, and State of California (collectively “QSA parties”), are defending a number of challenges that have been filed in a validation action brought relating to the Quantification Settlement Agreement and its various related agreements (collectively “QSA”), including agreements relating to the transfers of conserved water from IID to the Water Authority. On February 11, 2010, after trial on certain issues, the trial court entered a judgment invalidating the QSA. The QSA parties appealed and the matter is currently pending on appeal in the California Court of Appeal, Third Appellate District. (Imperial Irrigation Dist., et al. v. All Other Parties to QSA Coordinated Civil Cases, 3rd Dist. Court of Appeal Case No. C642993 (Sacramento Superior Court Case No. JCCP 4353). The court of appeal has issued a writ staying the trial court judgment pending appeal. A hearing date on the appeal has not been set. For further information, contact Daniel S. Hentschke, General Counsel, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6791, dhentschke@sdcwa.org.

Economy of San Diego County

Two of the San Diego region’s greatest assets are its geography and climate. Its physical beauty, ecological diversity, and favorable weather make it an attractive place to live and conduct business. The result has been a sustainable and diversified regional economy. This same geography and climate, however also yield limited and variable local water supplies. 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 a population of over 3.2 million people. There are 1.27 million wage and salary jobs located in the county, down from nearly 1.32 million in 2007. The per capita income in San Diego County is $40,696, which is higher than the California state average.

Economic growth in Southern California declined sharply in 2008 and 2009 and job losses were the largest on record. During 2009, over 43,000 total jobs were lost in San Diego County, representing a growth rate of -3.3 percent. The unemployment rate increased to 10.6 percent. (1)

The principal employment clusters in San Diego County are biotechnology, defense contractors, computer and electronics manufacturing, healthcare services, and tourism. The U.S. Navy is the largest employer. Like most areas of the state, economic activity related to real estate has contracted sharply since 2007. In 2009 housing production fell to its lowest level on record following six straight years of declining production.

CHART 1
Historic and Projected Population in Water Authority Service Area, 2001-2035 Calendar Year

### TABLE 10  
San Diego County Annual Building Permit Activity, Calendar Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Area</th>
<th>Single Family</th>
<th>Multi-Family</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>San Diego County</td>
<td>4,743</td>
<td>4,448</td>
<td>9,191</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>3,422</td>
<td>4,013</td>
<td>7,435</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>2,524</td>
<td>2,996</td>
<td>5,520</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>1,778</td>
<td>122</td>
<td>1,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Area</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>San Diego County</td>
<td>219</td>
<td>169</td>
<td>209</td>
<td>253</td>
<td>201</td>
<td>346</td>
<td>163</td>
<td>76</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>Multi-Family</td>
<td>12</td>
<td>28</td>
<td>8</td>
<td>10</td>
<td>2</td>
<td>27</td>
<td>8</td>
<td>27</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (based on building estimates)

### TABLE 11  
Labor Force Rate Trends, as of July of each year

<table>
<thead>
<tr>
<th>Year</th>
<th>Area</th>
<th>Labor Force</th>
<th>Employment</th>
<th>Unemployment</th>
<th>% Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>San Diego County</td>
<td>1,520,400</td>
<td>1,459,900</td>
<td>60,500</td>
<td>4.0%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>17,907,200</td>
<td>17,029,900</td>
<td>877,300</td>
<td>4.9%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>151,428,000</td>
<td>144,427,000</td>
<td>7,001,000</td>
<td>4.6%</td>
</tr>
<tr>
<td>2007</td>
<td>San Diego County</td>
<td>1,531,200</td>
<td>1,461,500</td>
<td>69,700</td>
<td>4.6%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,078,000</td>
<td>17,108,700</td>
<td>969,300</td>
<td>5.4%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>153,124,000</td>
<td>146,047,000</td>
<td>7,078,000</td>
<td>4.6%</td>
</tr>
<tr>
<td>2008</td>
<td>San Diego County</td>
<td>1,566,200</td>
<td>1,472,400</td>
<td>93,800</td>
<td>6.0%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,391,800</td>
<td>17,059,600</td>
<td>1,332,300</td>
<td>7.2%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>154,287,000</td>
<td>145,362,000</td>
<td>8,924,000</td>
<td>5.8%</td>
</tr>
<tr>
<td>2009</td>
<td>San Diego County</td>
<td>1,557,400</td>
<td>1,406,100</td>
<td>151,300</td>
<td>9.7%</td>
</tr>
<tr>
<td></td>
<td>California</td>
<td>18,250,000</td>
<td>16,163,900</td>
<td>2,086,200</td>
<td>11.4%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>154,142,000</td>
<td>139,877,000</td>
<td>14,265,000</td>
<td>9.3%</td>
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<tr>
<td>2010 estimated</td>
<td>San Diego County</td>
<td>1,569,000</td>
<td>1,401,900</td>
<td>167,100</td>
<td>10.6%</td>
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<td></td>
<td>California</td>
<td>18,299,300</td>
<td>16,059,200</td>
<td>2,240,100</td>
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<tr>
<td></td>
<td>United States</td>
<td>154,158,000</td>
<td>139,391,000</td>
<td>14,767,000</td>
<td>9.6%</td>
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Source: CALMIS (County and State) and U.S. Bureau of Labor Statistics, series report (U.S.)
### TABLE 12
San Diego County Employment by Industry (1), Calendar Year

<table>
<thead>
<tr>
<th>Industry</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Farm Production</td>
<td>11,300</td>
<td>11,100</td>
<td>11,100</td>
<td>11,200</td>
<td>9,600</td>
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<tr>
<td>Natural Resources and Mining</td>
<td>500</td>
<td>400</td>
<td>400</td>
<td>300</td>
<td>300</td>
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<tr>
<td>Construction</td>
<td>95,100</td>
<td>89,900</td>
<td>80,900</td>
<td>65,800</td>
<td>58,000</td>
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<tr>
<td>Manufacturing</td>
<td>104,700</td>
<td>102,000</td>
<td>102,100</td>
<td>93,600</td>
<td>91,200</td>
</tr>
<tr>
<td>Transportation, Warehousing, and Utilities</td>
<td>28,700</td>
<td>28,600</td>
<td>29,000</td>
<td>28,000</td>
<td>26,600</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>45,300</td>
<td>45,400</td>
<td>46,100</td>
<td>41,500</td>
<td>40,900</td>
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<tr>
<td>Retail Trade</td>
<td>146,000</td>
<td>146,800</td>
<td>144,900</td>
<td>133,400</td>
<td>127,800</td>
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<tr>
<td>Information</td>
<td>37,200</td>
<td>37,600</td>
<td>38,200</td>
<td>37,300</td>
<td>35,300</td>
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<td>Financial Activities</td>
<td>84,500</td>
<td>81,600</td>
<td>76,100</td>
<td>73,700</td>
<td>68,000</td>
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<td>Leisure and Hospitality</td>
<td>159,400</td>
<td>165,400</td>
<td>168,500</td>
<td>158,800</td>
<td>155,600</td>
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<td>Professional and Business Services</td>
<td>215,300</td>
<td>217,300</td>
<td>217,800</td>
<td>204,800</td>
<td>198,300</td>
</tr>
<tr>
<td>Educational and Health Services</td>
<td>125,000</td>
<td>128,300</td>
<td>131,300</td>
<td>134,500</td>
<td>144,900</td>
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<tr>
<td>Other Services</td>
<td>49,400</td>
<td>49,400</td>
<td>49,300</td>
<td>47,900</td>
<td>46,100</td>
</tr>
<tr>
<td>Federal Government</td>
<td>40,400</td>
<td>40,700</td>
<td>41,000</td>
<td>43,500</td>
<td>44,600</td>
</tr>
<tr>
<td>State and Local Government</td>
<td>180,800</td>
<td>185,300</td>
<td>186,300</td>
<td>178,500</td>
<td>170,900</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>1,323,600</td>
<td>1,329,800</td>
<td>1,323,000</td>
<td>1,252,800</td>
<td>1,218,100</td>
</tr>
</tbody>
</table>

Notes:

(1) Table uses the North American Industry Classification System (NAICS).

Source: CALMIS
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December 1, 2010

Attention: Board of Directors

From: Mike Hogan, Chair

Biennial Review of Representatives to the Metropolitan Water District. (Action)

Background
Under Section 9.00.060 of the Administrative Code, all Metropolitan Water District Delegates are to be reviewed in October of even numbered years. The Board was informed at its September meeting that the review of the MWD representatives would take place in December this year.

Discussion
In making this biennial review, I have taken into consideration, among other factors, the Water Authority’s longstanding policy objectives at MWD, the significant challenges confronting MWD’s water supply reliability, finances and rate structure in the years ahead, and the individual and collective skills and experience of the board members representing the Water Authority as our delegates.

During this review, I have also consulted with the other board officers to identify the team I believe will be best able to achieve our objectives at MWD. Accordingly, I am requesting that the Board confirm the following appointments as the Water Authority’s Metropolitan Water District delegates at the Dec. 9, 2010 board meeting:

   Director Jim Bowersox
   Director Lynne Heidel
   Director Keith Lewinger
   Director Fern Steiner

I believe these individuals comprise a team that possesses the mix of experience and skills best suited to meeting the challenges that lie ahead.

MH
December 1, 2010

Attention: Board of Directors

General Counsel’s Report - October-December 2010

Purpose
This report discusses certain legal matters receiving attention during the months of October-December 2010.

Significant Developments in Pending Litigation

QSA Litigation. Appellate briefing is anticipated to be complete by the end of January 2011. Appellant’s reply briefs are due at the end of December.

MWD Rate Litigation. The case has been transferred to the San Francisco Superior Court. The Water Authority has filed a motion to have the case designated as “complex,” which will result in assignment of the case to a single trial judge for all purposes. Hearings on previously filed demurrers to certain answers have been taken off calendar pending the outcome of this motion. The Water Authority is in the process of obtaining records from Metropolitan necessary for preparation of the record for trial. On a related matter, the Water Authority requested mediation pursuant to Metropolitan’s notice of intention to terminate certain conservation and local project development agreements based on the so-called rate structure integrity language Metropolitan inserted into those agreements. The Water Authority has provided a list of suggested mediators. Metropolitan has not agreed to a mediator from the Water Authority’s list and mediation has not yet commenced.

Other Activities
On December 1, the General Counsel gave an AB 1234 ethics training presentation at the ACWA conference. The General Counsel has also been appointed to a special committee of the League of California Cities that is preparing an analysis of the impact of Proposition 26, which was adopted by the voters in November. As vice-chair of the ACWA Legal Affairs Committee, the General Counsel has also established a similar committee of ACWA lawyers that will be preparing a similar analysis of Proposition 26 that is focused on issues of interest to ACWA members.

Special Counsel Expenditures
Funds approved for payments to special counsel during October-December 2010 from the General Counsel’s Operating Budget totaled $137,476.44 for work related to the Metropolitan rate dispute, the IRS audit and a personnel issue. In addition, $130,220.11 was
approved for payment to special counsel from the Water Resources’ Operating Budget for work related to the proposed desalination project. CIP expenditures during October-December 2010 were $322,221.72 for work related to QSA, Olivenhain/Lake Hodges and Traylor-Shea Joint Venture. The combined payments for fiscal years 09/10 and 10/11 from the General Counsel’s Operating Budget for legal services are $2,280,971.24. The combined payments for fiscal years 09/10 and 10/11 from the CIP Budget for legal services are $2,075,306.06.

Prepared by: Daniel S. Hentschke

Attachment: Special Counsel Expenditure Report
<table>
<thead>
<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended FYs 08 &amp; 09 (Fees &amp; Costs)</th>
<th>GC OP Budget Invoices Approved for Pmt. this Period</th>
<th>CIP Budget Invoices Approved for Pmt. this Period</th>
<th>Total $ Expended FYs 10 &amp; 11 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 10 &amp; 11 for Legal Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bayerisch Landesbank</td>
<td>Commercial Paper Notes, Series 1 *</td>
<td>$3,000.00 (OP)</td>
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<td></td>
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<td>$4,260,000.00</td>
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<tr>
<td>Best, Best &amp; Krieger</td>
<td>EEOC Claim *</td>
<td>$5,719.00 (OP)</td>
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<td></td>
<td>Personnel Issues *</td>
<td>$691.70 (OP)</td>
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<tr>
<td>Brownstein, Hyatt, Farber, Schreck</td>
<td>IID/SDCWA Transfer</td>
<td>$5,592.22 (OP)</td>
<td>$14,178.13 (OP)</td>
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<td></td>
<td>General Legal Matters (As Assigned)</td>
<td>$14,482.37 (OP)</td>
<td>$6,285.81 (OP)</td>
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<td></td>
<td>QSA Litigation</td>
<td>$1,629,568.85 (OP)</td>
<td>$220,604.48 (OP)</td>
<td>$779,907.13 (OP)</td>
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<td></td>
<td>Federal Clean Air Act Challenge / QSA</td>
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<td></td>
<td>Audit Letter</td>
<td>$1,845.18 (OP)</td>
<td>$48.60 (OP)</td>
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<td>$565.31 (OP)</td>
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<td></td>
<td>POWER v. IID 1 *</td>
<td>$22,598.70 (CIP)</td>
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<td></td>
<td>POWER II 1 *</td>
<td>$51,399.18 (CIP)</td>
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<tr>
<td></td>
<td>POWER III 1 *</td>
<td>$2,035.90 (CIP)</td>
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<tr>
<td></td>
<td>Drought Management Plan Transfer *</td>
<td>$28,207.29 (OP)</td>
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<td>Price Reset</td>
<td>$12,150.43 (OP)</td>
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<td></td>
<td>Metropolitan Rate Dispute</td>
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<tr>
<td>Chapman &amp; Cutler</td>
<td>Commercial Paper Notes, Series 1 *</td>
<td>$20,000.00 (OP)</td>
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<td>Culantuono &amp; Levin</td>
<td>Metropolitan Rates</td>
<td>$21,325.58</td>
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<td>$223,367.26 (OP)</td>
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<td>Daley &amp; Heft</td>
<td>SDCWA v. Atlantica/Deluca *</td>
<td>$15,862.59 (OP)</td>
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<td>$7,582.90 (OP)</td>
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<td></td>
<td>SDCWA v. NIAC</td>
<td>$60,376.30 (OP)</td>
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<td>$47,695.98 (OP)</td>
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<tr>
<td>Don Detisch, Law Offices of</td>
<td>Lake Hodges Project *</td>
<td>$1,650.66 (CIP)</td>
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<tr>
<td>Duncan &amp; Allen</td>
<td>Rancho Penasquitos Pressure Control Hydroelectric Facility Project *</td>
<td>$735.00 (CIP)</td>
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<td>$187.50 (CIP)</td>
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<td></td>
<td>San Vicente FERC Project</td>
<td>$2,758.00 (CIP)</td>
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<td>Olivenhain/Lake Hodges FERC Proj.</td>
<td>$35,354.00 (CIP)</td>
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<td>$7,838.11 (CIP)</td>
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<td>Frank, Lynn S. (Mediator)</td>
<td>TOV WTP *</td>
<td></td>
<td></td>
<td>$9,000.00 (CIP)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Concluded matters or assignments.

1 POWER litigation costs charged to the CIP and reimbursable by DWR.
2 $250,000 has been allocated to MWD Programs and $250,000 has been allocated to Finance; $10,000 transferred from HR budget to GC Budget for legal expenses in connection with a personnel issue.
<table>
<thead>
<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended FYs 08 &amp; 09 (Fees &amp; Costs)</th>
<th>GC OP Budget Invoices Approved for Payment this Period</th>
<th>CIP Budget Invoices Approved for Payment this Period</th>
<th>Total $ Expended FYs 10 &amp; 11 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 10 &amp; 11 for Legal Services $4,260,000.00</th>
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</thead>
<tbody>
<tr>
<td>Hanson Bridgett</td>
<td>Employee Benefits *</td>
<td>$48,103.89 (OP)</td>
<td>$130,220.11 ³</td>
<td>$219,816.04 ³ (OP)</td>
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<td>Hawkins, Delafield &amp; Wood</td>
<td>Proposed Desalination Proj.</td>
<td>$1,349.50 (CIP)</td>
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<td>Howard Rice Nemerovski Canady Falk &amp; Rabkin</td>
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<td>JAMS</td>
<td>Olivenhain Mediation *</td>
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<td>Jenkins &amp; Hogin</td>
<td>Conflict of Interest/Open Meeting Law Compliance *</td>
<td>$11,522.50 (OP)</td>
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<td>Liebert Cassidy Whitmore</td>
<td>Personnel Issue *</td>
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<td>Mandell Municipal Counseling</td>
<td>Capacity Charge Matter *</td>
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<td>McKenna Long &amp; Aldridge</td>
<td>Moreno Lakeside Pipeline - Construction contract- Hartford v. SDCWA *</td>
<td>$98,367.45 (CIP)</td>
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<td>Adams Valves v. SDCWA *</td>
<td>$4,362.10 (CIP)</td>
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<td>Audit Letter</td>
<td>$638.50 (OP)</td>
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<td>San Vicente Pump Station *</td>
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<td>Olivenhain-Lake Hodges Pump House</td>
<td>$65,521.00</td>
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<td>Orrick Herrington &amp; Sutcliff LLP</td>
<td>Bond counsel services³</td>
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<td>Pillsbury Winthrop Shaw Pittman</td>
<td>Terminal Pay Plans *</td>
<td>$48,545.26 (OP)</td>
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<td>IRS Audit Matters</td>
<td>$11,126.25</td>
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<td>Procopio Cory Hargreaves &amp; Savitch</td>
<td>Traylor/Shea Joint Venture (TSJV)</td>
<td>$215,306.41 (CIP)</td>
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<td>Multiple Tunnel Shift Pay</td>
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<td>Richards Watson &amp; Gershon</td>
<td>Water Conveyance Dispute</td>
<td>$148,617.63 (CIP)</td>
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<td>Shearman &amp; Sterling</td>
<td>Commercial Paper Notes, Series I *</td>
<td>$9,000.00 (OP)</td>
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<tr>
<td>Townsend</td>
<td>Trademark *</td>
<td>$13,471.27 (OP)</td>
<td>$13,471.27 (OP)</td>
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<td>Total:</td>
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<td>$2,062,967.74 (OP)</td>
<td>$137,476.44</td>
<td>$2,280,971.24 (OP)</td>
<td>$1,979,028.76</td>
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* Concluded matters or assignments.

¹ Includes Bond Counsel Services for QSA issues, revenue debt, IRS audit and proposed desalination project.
² $250,000 has been allocated to MWD Programs and $250,000 has been allocated to Finance;
３ Not included in totals, legal expenses related to proposed desalination project are coming out of Water Resources budget, not GC budget.
October 28, 2010

Attention: Imported Water Committee

Metropolitan Water District Delegates’ Report (Information)

Background
The MWD committees and board met on September 28 and October 11 and 12. The next regular MWD board and committee meetings are scheduled for November 8 and 9.

Discussion
This section summarizes discussions held and key decisions made at the September 28 and October MWD committee and board meetings, as reported by the MWD delegates. Attachment 1 is a copy of MWD’s October board meeting agenda.

September 28 Committee meetings:

Executive Committee
Vice Chair Anthony Fellow (Upper San Gabriel Valley) presided over the committee’s process to consider nominations for Board Chairman. The committee heard the two declared candidates, incumbent Chairman Tim Brick (Pasadena) and Director Jack Foley (Municipal Water District of Orange County) give presentations on the future of MWD and of water in Southern California.

Director Record (Eastern) questioned Chair Brick’s run for a third consecutive term, which is not permissible under the current Administrative Code. Director Santiago (Inland Empire Utilities Agency) moved to waive the code to allow “both” candidates to run for a third term (Director Foley previously served two consecutive terms as Board Chair). Director Peterson (Las Virgenes) said that the waiver requires a vote of the board not the Executive Committee and added that Foley served one and one-half terms, but not consecutive terms (it was subsequently corrected that Foley served two and one-half terms). Record requested that General Counsel Tachiki clarify the matter. Tachiki said that the Administrative Code applies to two consecutive-full terms, and does not pertain to Foley. She also said that it would be appropriate for the committee to consider a motion to waive the section that applies to Chair Brick, then they could consider the candidacy of Chair Brick and make a recommendation to the full board on both topics. Edwards requested a point of order because the discussion of a waiver was not on the agenda. Tachiki confirmed that the topic is appropriately covered under the consideration of nominations and the selection for Board Chairman. Director DeJesus (Three Valleys) expressed his support to allow both candidates to present and make determinations at the board meeting. Director Wunderlich (Beverly Hills) advocated having both candidates address the committee. When Fellow reiterated the motion, he said it was to waive both candidates to allow them to speak and make a recommendation for the full board to consider in October. Record asked that the maker of the motion restate his motion to allow Chair Brick to run since it was determined that the waiver does not apply to Foley. Santiago did not amend the motion. After the vote was taken, the committee requested a roll call vote.

Director Steiner then clarified the motion – to allow both candidates to make a presentation to the committee and the issue of the waiver would be addressed at the next board meeting. With this understanding, the roll call vote passed.

Foley gave a presentation on MWD’s role – to provide adequate water and maintain water quality, fiscal responsibility and stewardship coupled with being environmentally acceptable – and its
goals and challenges. He said that MWD should not be distracted from its mission, that when it came to political environment and public trust, disagreements should be resolved internally, not in the public arena where it becomes distorted or exaggerated. He said MWD cannot worry about capital investments at the expense of an “ancient” infrastructure. Foley expressed his commitment to the board includes being accessible, promoting open communication, and being a steward and ambassador of the board and its policies.

Chair Brick said as a result of unfinished business he is running for another term. He reminded the committee that at the MWD board retreat in 2007, three key priorities were identified – Bay-Delta, workforce, and energy management issues. Brick said the deferral of the water bond is critical to the Bay-Delta plan and that it would take the next two years to elevate the importance of the bond; he added implementation of policies on workforce and energy management will also be key to the next two years. He said that implementation of efforts identified in the Integrated Resources Plan (IRP) and by the Blue Ribbon Committee will be a focal point. Brick noted that his most positive accomplishment is building collaboration and strong decision-making capabilities on the board.

Wunderlich asked each of the candidates about their vision for the role of MWD in larger regional efforts, i.e. recycling and desalination. Brick said the significant thing emerging from the IRP is greater reliance on local projects and strategies – MWD needs to find a better way to be a facilitator on those projects. Foley added that we cannot expect the member agencies to make huge investments in desalination projects alone – a different approach to develop the project or a partnership where MWD is a full partner maybe necessary. As a response to Director Grunfeld’s (Los Angeles Department of Water and Power) question on what the candidates hope to accomplish this next term, Foley responded three or four ongoing projects, including West Basin, Camp Pendleton, and Carlsbad desalination projects and the Yuma Desalter. He also said building up the storage programs in the Central Valley to further alleviate stress on the Bay-Delta and at Hayfield. Chair Brick reiterated the priorities established at the Fullerton board retreat in 2007, including implementation of the IRP. Director Evans (Western) asked what each candidate accomplished as a chairman. Foley indicated a handout was made available that listed accomplishments during his chairmanship, which included the process of developing the DVL location, the original IRP release, and the building of the current MWD headquarters. Chair Brick said the reestablishment of the board retreats to set the course, training for the directors and the long-term view. He also added his pride in appointment of directors as chairpersons of various committees. DeJesus commented that Chair Brick in the past strongly supported climate change and questioned why this was not a focus of his next term. Chair Brick espoused that Governor Schwarzenegger said the debate was over – today, MWD needs to figure out the impact of climate change to water and financing programs to attain self-reliance without adversely impacting MWD’s ratepayers. DeJesus asked for Foley’s view of MWD’s position on energy as part of its core resources. Foley said that water and energy are interrelated and described areas where MWD could improve energy recovery at its existing facilities. Peterson asked the candidates about their failures – Chair Brick said not “finishing” things, not all appointments worked out, not maintaining stability among officers, projects took longer than scheduled, and agencies’ challenges played out in court rooms rather than the preferred board room. Foley said during his tenure the board transitioned from 51 directors to MWD’s current set-up and held plenary sessions to discuss issues through committee break-out sessions, which improved communication flow. Director Dick (Municipal Water District of Orange County) asked how the Delta fits in the IRP? Brick said that the IRP provides greater flexibility and in the long-term reduced cost, which would help MWD
prepare for challenges. Foley responded the best that MWD could get from the Delta is what MWD is entitled to, but no more.

**Real Property and Asset Management**
Krista Kisch, Vice President of Project Development for BrightSource Energy, Inc., addressed the committee during public comment on its portfolio of renewable energy projects throughout the world. The committee and subsequently the board authorized entering into an option agreement for lease of MWD’s Palo Verde Mesa property for a renewable energy project with BrightSource. The committee also heard a quarterly report on real estate activities for the period of April through June 2010.

**October 11 and 12 Committee and Board meetings:**

**Budget and Finance Committee**
There were no board action items on the agenda. MWD staff reported on its investment activity and its financial highlights. Chief Financial Officer Brian Thomas said that MWD issued its general obligation bond in September saving about $2.6 million on a net present value basis, which was better than anticipated. Thomas said that the finance team will make a determination on whether to initiate the next partial bond offering around the December timeframe (when the budget was adopted, staff scheduled a $400 million new bond for March).

Staff reported that the first quarter water sales are about 81 thousand acre-feet (taf) below budget; and the projected year-end sales are about 1.75 million acre-feet (maf), which translates to $119 million less in revenue. Staff also reported the first quarter receipts are $333 million (about $44 million lower than budget) and expenditures are $480 million (about $18 million lower than budget). The year-end expenditures are projected to be about $29 million lower than budget due to a combination of lower costs for CRA power, interest expenses, and conservation credits program. When the budget was adopted, staff anticipated receipts to be $26 million higher than expenditures; the current projections now show a shortfall in receipts of about $63 million for a difference of almost $90 million; and if this trend continues, the rate stabilization fund would be used to make up the shortfall.

Grunfeld asked if the board should expect MWD’s financial ratios to continue to deteriorate; staff responded that the year-end coverage projections include the projected low water sales of 1.75 maf coupled with the 7.5 percent rate increase effective January 1, 2011. Thomas responded to Director Blake’s (Fullerton) inquiry on the rate stabilization fund, saying that MWD has about $265 million in the fund and if MWD did nothing else, MWD would be drawing down about $100 million, which is about $70 million lower than MWD’s target. Director Edwards (Foothills) said the unrestricted funds are depleting, which would create a problem for bond sales. Director Lewinger added that the committee and board would also need to look at reviewing and amending the capital improvement budget and potentially looking at other funding sources, such as property taxes. As a result, Thomas announced plans to return to the committee to discuss options for the board to preserve cash and a review of MWD’s revenue structure. Also, staff will return to the committee in December with an analysis on impacts to MWD if projected water sales in fiscal year 2012 were 1.8 maf rather than the budgeted 2.0 maf. When asked about the use of Colorado River and Northern California supply, staff said that the water would be stored in various programs and used for replenishment (paid at full service rate).
Imported Water Committee
October 28, 2010
Page 4 of 6

The committee also heard a report on the bond official statement disclosure process and the role of
the directors in reviewing and assuring disclosure of material facts. Grunfeld pointed out the
benefit of the Water Authority’s letter in disclosing vital information on Appendix A (Attachment
2). In response to Record’s question on how much comment does staff receive on the bond
statement from members of the board, staff said mostly none and occasionally a thorough review.
Grunfeld then asked staff, in future statements, to highlight significant changes that the board
should be focusing on.

The committee also heard a report from Reams Asset Management Company on how they manage
MWD’s portfolio and current economic conditions.

Communications and Legislation Committee
There were no board action items on the committee agenda. The committee received reports on
state and federal legislative activities. MWD Legislative Representative Kathy Cole noted
November 30 as the official adjournment of the 2009-10 legislative session and December 6 as the
date for the new legislature to convene. The Governor vetoed nearly one-third of the 1,006
legislative bills that reached his desk at the end of the session. While the Governor signed the
budget, he vetoed about $962 million in spending. The budget includes an independent review of
how the California Department of Water Resources attributes its public funds on recreation and
fish and wildlife enhancements. Cole said that California State Association of Counties League of
Cities, and California Special Districts Association will team up to put together a statement of
principles focused on transparency reform on all levels of governments.

Engineering and Operations Committee
The committee and board approved five items and in closed session heard a report on security
vulnerability assessment. Staff reported blends at Skinner continue to be 35 percent SWP.
Skinner Ozone is fully operational as of October 1. Staff also reported that the September
demands on MWD were 169 taf, which was about 13 taf lower than the September 2009 demands.
Diamond Valley Lake is filling at about 500 af per day, down from last month due to the SWP loss
of service on pumps at the East Branch. The committee went into closed session to receive an
update on an assessment focused on security vulnerability.

Integrated Resources Plan Steering Committee
The committee and board adopted the 2010 Integrated Resources Plan (IRP) Update. Staff said
since the workshops in August, additional comment letters were received, including a letter from
the Water Authority (see IRP memo in Board Packet). Staff also reviewed next steps for MWD
upon adoption of the update, including developing a working inventory of projects with member
agencies for board consideration, and developing cooperative approaches and programs.

Lewinger expressed concern over the inclusion of increased water use efficiency and local supplies
to the “Uncertainty Buffer” rather than part of the Core Resources Strategy. Staff said that it is not
MWD’s position to fund every acre-foot of reduction through incentives; staff plans to return to
the board (after the adoption of the IRP) on the long-term conservation plan policy issue. Director
Little (West Basin) said member agencies should have some form of “cushion” in case an agency
cannot meet its conservation or local supply goal. Peterson pointed out that the last three IRPs
were adopted without CEQA review. Tachiki said that MWD has consistently viewed the IRP as a
planning document, therefore exempt from CEQA; and that the IRP is not implementing any
project, but any decisions on projects or programs will return for board consideration. In the
committee meeting, Director Griset (Santa Ana) moved the option to adopt the update and Peterson seconded the motion.

During the board meeting, Patti Krebs of the Industrial Environmental Association expressed concern on the buffer supply in excess of the core resources dry-year demand, stressing that reliability cannot be at any cost. Nancy Steele of the Los Angeles-San Gabriel River Watershed Council expressed support for the IRP. Also during the board meeting, Director Lewinger stated that the Water Authority delegation does not support the update and requested that the Water Authority’s letter be included in the record of the meeting.

**Legal and Claims Committee**
The committee and board approved a construction management services item and an item related to wastewater discharge into the Sacramento River. Regarding the rate challenge by the Water Authority, Tachiki said not to anticipate any action while the court is processing the transfer of the case to San Francisco. Tachiki also said that MWD filed its appellate brief in the Quantification Settlement Agreement litigation. Per a request by Peterson, Tachiki confirmed staff will provide a report on the QSA case.

**Organization and Personnel Committee**
The committee and board approved entering into a five-year Memorandum of Understanding with the Association of Confidential Employees (ACE). Lewinger confirmed the definition of the “favored nations” clause with staff; ACE can select a previously negotiated bargaining unit package in its entirety. For the first time the “favored nations” clause will apply to takeaways. The committee also received an update on the Human Resources audit response and a report on talent management deliverables including MWD’s strategy in workforce planning. Little commented on the challenge of attracting experienced staff at a level MWD could afford to pay for retirement benefits. General Manager Kightlinger said that MWD balances the strategies of hiring experienced candidates and apprentice-level candidates to fill future roles.

**Water Planning and Stewardship Committee**
The committee and board adopted a resolution to approve a notice of potential discontinuance of interim agricultural service of surplus water. Steiner pointed out that a letter was received from the California Avocado Commission requesting MWD to reinstate full deliveries under the Interim Agricultural Water Program (IAWP) for calendar year 2011 (Attachment 3). Record commented that MWD should be able to find water to help agriculture; as a result Record voted to not support discontinuance of the IAWP service. The item required a 2/3 support from the board to pass; during the board meeting the item passed with 95.25 percent support vote.

The committee also held a public hearing on the 2010 Regional Urban Water Management Plan for MWD. As part of the plan, staff reviewed MWD’s analysis of its demand projection and inventory of its supply; MWD identified supply capabilities sufficient to meet expected demands through its resources. MWD plans to transmit the document to DWR in December. In response to a question by Lewinger, staff confirmed that if the board adopted the IRP as proposed by staff, it would include water use efficiency efforts but not local supply development. Lewinger added if MWD proceeds with the development of local projects, MWD would develop more water than needed. Staff responded that they would return back to the board and recommend adjustments based on changed conditions.
The board went into closed session on potential litigation with Imperial Irrigation District on its intent to divert Colorado River water to the Salton Sea. The committee returned to open session and it was reported that no action was taken on the item. Reports on member agency efforts in water use efficiency, Bay-Delta matters and Colorado River matters were also heard.

**Board Meeting**

Robert Branch of the United Service Workers West representing Security Officers, encouraged the board to select a responsible contractor with a good track record of raising industry standards and security when considering a new security contract.

The board approved the recommendation from the governance ad-hoc and later the executive committee that the board chair continues to appoint Vice-Chairs; the executive committee would consist of no more than 15 members, which include the chairman, vice-chairs, secretary, ex-officio members, standing committee chairs and two member elected by the board of directors; and that a review of the executive committee duties be conducted.

Jack Foley (Municipal Water District of Orange County) was elected as the Chairman of the MWD Board for a two-year term starting January 1, 2011, ending December 31, 2012. Building up to his election, Tim Brick withdrew his candidacy for a third term; and Directors Foley, J. Murray and Lowenthal (Long Beach) were each nominated as candidates for the Chair position. Discussion ensued over whether the newly nominated candidates should have opportunity to address the board; the board voted to not hear from the candidates. Director Gray (West Basin) requested and it was adopted by the board that when the vote is administered, if no one candidate receives more than 50 percent of the vote, the candidate with the least amount of votes would drop out and a new vote for the remaining two candidates would take place. Director Quiñonez (Los Angeles Department of Water and Power) moved for a 20 minute recess. Discussion on the recess and potential for Brown Act violations ensued. The board voted to allow a 10 minute recess. After the recess, Murray withdrew his candidacy and gave his support to Foley. Foley was elected by 70.07% of the votes (with 28.9% of the vote going for Lowenthal). The Water Authority delegates supported Lowenthal. A motion was made to make the election of Foley by acclamation which was unanimously approved.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Approved by: *Keith Lewinger*

*Business and Finance Committee* by Keith Lewinger
*Communications and Legislation* by Fern Steiner
*Engineering and Operations* by Keith Lewinger
*IRP Steering Committee* by Keith Lewinger
*Legal and Claims Committee* by Fern Steiner
*Organization and Personnel* by Fern Steiner
*Real Property and Asset Management* by Lynn Heidel
*Water Planning and Stewardship Committee* by Fern Steiner

**Attachment 1:** MWD’s October board meeting agenda
**Attachment 2:** Water Authority Comment Letter on MWD’s Official Statement, dated September 21, 2010
**Attachment 3:** California Avocado Commission letter to Request Reinstatement of Full IAWP Deliveries, dated October 11, 2010
Regular Board Meeting

October 12, 2010

12:00 p.m. -- Board Room

1. Call to Order

   (a) Invocation:  (Guest)

   (b) Pledge of Allegiance: Director Thomas P. Evans

2. Roll Call

3. Determination of a Quorum

4. Opportunity for members of the public to address the Board on matters within the Board's jurisdiction. (As required by Gov. Code Section 54954.3(a))

5. OTHER MATTERS

   A. Approval of the Minutes of the Meeting for September 14, 2010. (A copy has been mailed to each Director)
      Any additions, corrections, or omissions

   B. Report on Directors' meetings attended at Metropolitan expense for month of September

Date of Notice: September 29, 2010
C. Presentation of 10-year service pin to Director Edward C. Little, representing West Basin Municipal Water District

D. Approve committee assignments

E. Chairman’s Monthly Activity Report

F. Consider recommendation of the Executive Committee on composition of Executive Committee

G. Report from Executive Committee on nominations

H. Consideration of Administrative Code Section 2201 regarding term limits for Board Chairman

I. Nomination and election of Board Chairman for two-year term effective January 1, 2011

6. DEPARTMENT HEADS’ REPORTS

A. General Manager’s summary of Metropolitan’s activities for the month of September

B. General Counsel’s summary of Legal Department activities for the month of September

C. General Auditor’s summary of activities for the month of September

D. Ethics Officer’s summary of activities for the month of September

7. CONSENT CALENDAR ITEMS — ACTION

7-1 Award $820,103.29 procurement contract to Royal Wholesale Electric for the Skinner Electrical Building Upgrades (Approp. 15365). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and award $820,103.29 procurement contract to Royal Wholesale Electric for the Skinner Electrical Building Upgrades.
7-2 Appropriate $510,000; and authorize two Colorado River Aqueduct rehabilitation projects (Approp. 15373). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $510,000;
b. Authorize preliminary design for repair of the Iron Mountain Tunnel; and
c. Authorize preliminary design for repair of the San Jacinto Tunnel east entrance adit.

7-3 Appropriate $900,000; and authorize an agreement not to exceed $875,000 with X. W., LLC for assignment of FCC clear-channel licenses to support Metropolitan’s emergency response communications (Approp. 15376). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $900,000; and
b. Authorize an agreement not to exceed $875,000 with X. W., LLC for assignment of FCC clear-channel licenses to support Metropolitan’s Emergency Response Communications.

7-4 Appropriate $1.48 million; award $710,000 contract to Unispec Construction, Inc. for the Diemer emergency Broadcast System; and authorize final design of the Weymouth Emergency Broadcast System (Approps. 15436 and 15440) (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $1.48 million;
b. Award $710,000 contract to Unispec Construction, Inc. to rehabilitate the Diemer Emergency Broadcast System; and
c. Authorize final design to rehabilitate the Weymouth Emergency Broadcast System.
7-5  Appropriate $790,000; and authorize final design to replace 230 kV disconnect switches on the Colorado River Aqueduct (Approp. 15438). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $790,000; and
b. Authorize final design to replace 230 kV disconnect switches at the CRA pumping plants.

(END OF CONSENT CALENDAR)

8. OTHER BOARD ITEMS — ACTION

8-1  Authorize entering into an option agreement for lease of Metropolitan’s 6,640-acre Palo Verde Mesa property for a renewable energy project, subject to project approvals. (RP&AM) (Previously mailed) [Conference with real property negotiators; Riverside County Assessor Parcel Nos. 879-230-001, -003, -005, -008, -010 through -018, inclusive, -023, and -024; 879-240-001, -002, -037, -038; 879-250-001, -002, -003, -008, -011, -013; and 879-261-019 through -022, inclusive; agency negotiators: Gilbert Ivey, Ralph Hicks, and John Clairday; negotiating parties: BrightSource Energy, Inc.; under negotiation: price and terms of payment; to be heard in closed session pursuant to Gov. Code Section 54956.8]

8-2  Adopt resolution to approve notice of potential discontinuance of interim agricultural service of surplus water from October 1, 2011 through December 31, 2012. (WP&S) (Two-thirds vote required)

Recommendation:

Option #1:

Adopt the CEQA determination and the Resolution of the Board of Directors giving notice of potential discontinuance of service of Interim Agricultural Water Program water in 2011 and 2012.
8-3 Adopt 2010 Integrated Water Resources Plan Update. (IRP)

Recommendation:

Option #1:

Adopt the CEQA determination and the 2010 Integrated Resources Plan Update.

8-4 Authorize increase of $500,000 for a total of $600,000 in maximum amount payable under contract with Latham & Watkins LLP; and report on Central Valley Regional Water Quality Control Board permit proceedings for the Sacramento Regional County Sanitation District's Wastewater Treatment Plant. (L&C)

[Conference with legal counsel—significant exposure to litigation (one or more matters); to be heard in closed session pursuant to Gov. Code Section 54956.9(b)]

8-5 Approve entering into five-year Memorandum of Understanding between The Metropolitan Water District of Southern California and the Association of Confidential Employees. (O&P)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize the General Manager under Administrative Code Sections 6101(m) and (n) to enter into a successor MOU with ACE.

8-6 Report on the status of the Foxfire Constructors, Inc. v. W. A. Rasic Construction Company, et al., superior Court of Orange County Case No. 30-2009-00118788; and authorize an increase in the maximum amount payable under contract with Construction Management Services by $8,800 to an amount not to exceed $238,800. (L&C)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize an increase of $8,800 in the maximum amount payable in the contract with Construction Management Services to an amount not to exceed $238,800.
9. BOARD INFORMATION ITEMS

None

10. FUTURE AGENDA ITEMS

11. ADJOURNMENT

NOTE: At the discretion of the Board, all items appearing on this agenda and all committee agendas, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

Each agenda item with a committee designation will be considered and a recommendation may be made by one or more committees prior to consideration and final action by the full Board of Directors. The committee designation appears in parenthesis at the end of the description of the agenda item e.g. (E&O, B&F). Committee agendas may be obtained from the Board Executive Secretary.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site http://www.mwdh2o.com.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.
September 22, 2010

Brian Thomas
Assistant General Manager/Chief Financial Officer
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012

Dear Brian:

On the afternoon of September 16, you distributed to members of the Board of Directors Appendix A of MWD’s Draft Official Statement for an upcoming refunding bond sale and asked for comments to be submitted by noon today; given the tight deadline, we limit our comments in this letter and the attachments to only the most significant issues and concerns with Appendix A. These comments are presented to you by the four of us as directors representing the San Diego County Water Authority. We request that you respond to the questions presented in this letter and make the necessary modifications to Appendix A of the Official Statement before it is finalized and issued. We believe additional time is warranted to schedule a full board review of the issues noted in this letter and in our IRP Comment Letter discussed below.

2010 Integrated Resources Plan

On page A-3, fourth paragraph, MWD makes only passing reference – and does not disclose key facts – about its 2010 Integrated Resources Plan Update. The document states that the IRP “...is expected to be completed in late 2010.” In fact, the IRP is expected to be presented by MWD staff to the Board of Directors for adoption at its October 12, 2010 meeting – only 13 days after the initiation of bond sales covered by this Official Statement. Appendix A fails to disclose material facts about the 2010 IRP that should be disclosed to potential investors, including but not limited to MWD’s plan to develop so-called “buffer” water supplies in the amount of up to 500,000 acre-feet per year, at a cost of billions of dollars over the next 25 years. On September 10, 2010, the Water Authority submitted to MWD extensive comments on the IRP. A copy of that letter is attached and the questions and comments incorporated herein (IRP Comment Letter). We request that MWD provide a substantive discussion in Appendix A regarding potential legal and financial implications from the shift from MWD’s historic role as a supplemental imported water supplier to local water supply developer; that identifies the breadth of the IRP implementation strategies under consideration, and the extent of costs and future water rates that would be necessary to implement the IRP recommendation. Appendix A should also include a discussion – here and elsewhere – on the effects higher water rates are expected to have on MWD sales.

Experience over the past several years clearly shows a nexus between sharply higher water
rates and conservation (demand reduction) by customers (ratepayers). MWD should disclose the impacts of its IRP strategies that would lead to water rates exceeding $2,000 an acre-foot by 2035 if not sooner and the impacts increasing water rates would have on water demands on MWD. Further, as discussed at length in the IRP Comment Letter, how will MWD ensure that there will be customers to pay for its regional local water supply projects when so many agencies are in the process of developing local water supply projects of their own for which their retail customers will pay through retail water rates. This concern should also be discussed in connection with the renewal of purchase orders at page A-1.

We are also concerned that the discussion is misleading about the purpose and importance of the IRP in the development and implementation of the “Preferred Resource Mix.” Responding to questions about the necessity of CEQA review prior to adoption of the draft IRP update, MWD staff has stated that such review is not required because the IRP is not a document that controls future decision-making in a manner that could result in the possibility of a significant effect on the environment. However, MWD staff has also stated that it intends to take immediate action to implement projects and programs identified in the draft IRP should it be adopted by the Board. When viewed in its entirety, the discussion of the IRP and the Preferred Resource Mix suggest the IRP is viewed by MWD as a controlling document that would be the first step in the implementation of a major new supply program and would be subject to CEQA. If this is not the case, MWD must make that clear and should also provide assurance that CEQA compliance will be accomplished before any actions are taken to implement any of the programs or projects contemplated as part of the draft IRP’s Supply Buffer.

**Seawater Desalination Project Subsidies**

On page A-4 and again on page A-31, under *Seawater Desalination*, MWD mischaracterizes the Carlsbad seawater desalination project and the status of the incentive payment agreement with MWD relating to this project. MWD also fails to disclose the fact that MWD has initiated termination proceedings on incentive payment agreements with the Water Authority and its member agencies, and, that it is MWD that has refused to sign the Carlsbad Seawater Desalination Project agreement approved by its own board on November 10, 2009.

In the Seawater Desalination Sections of Appendix A on Pages A-4 and A-31, Metropolitan addresses the status of member agency agreements for incentive funding for seawater desalination projects, including the Water Authority’s incentive funding agreement. Metropolitan states that “SDCWA has not executed the proposed agreement.” This statement would mislead the reader to conclude that but for SDCWA’s execution, the agreement would be in effect today. That is not true. The Water Authority’s incentive funding agreement, approved by the Metropolitan Board on November 10, 2009 and by the Water Authority Board on December 17, 2009, includes rate structure integrity language that allows Metropolitan to terminate the agreement should the Water Authority file litigation to challenge Metropolitan’s rate structure. Following the Water Authority’s initiation of litigation in June 2010 (briefly discussed on page A-47) challenging Metropolitan’s rates and charges, Metropolitan’s Board initiated termination of existing Water Authority funding agreements that include rate structure integrity language. On August 25, 2010, in a letter to the Water Authority from Metropolitan’s General Manager (attached), the Water Authority was notified that “Metropolitan’s Board of Directors also directed staff to defer execution” of the Water Authority’s seawater desalination incentive funding agreement “...as termination proceedings would begin.
immediately upon execution.” These facts regarding the Carlsbad Seawater Desalination Project agreement should be stated on pages A-4 and A-31.

Near-Term Delta Actions
On page A-25, under Near-Term Delta Actions, MWD discusses the potential supply benefit of the proposed Two-Gate System and other “near-term” actions to improve water supply and ecosystem of the Delta. However, MWD does not provide a timeline estimate of when it expects the Two-Gate project to be in place and producing improved supply reliability of approximately 150,000 acre-feet per year in certain years. We request an estimated operational date for the Two-Gate project be added to this discussion.

Five-Year Supply Plan
On page A-26, under Local Resources, MWD projects that 122,000 of additional, new supply could be online by 2014 from recycled water treatment plants, groundwater recovery plants, desalination plants and new hookups to existing recycled water plants. This figure seems optimistic based on the experience. If MWD indeed projects this level of implementation, it is not our belief that the costs associated with such level of local resources development have been included in the budget or water rates adopted for 2011 or 2012. We request that the estimated costs and associated water rate increases be added to this discussion. In addition, given the long lead time generally associated with the development of such projects, we believe MWD should describe the process by which it will be able to implement local projects of this magnitude within the timeline described in the O.S.

Significant Exposure to Reduced Sales
On page A-29, Appendix A describes a construction project that will provide an interconnection between the Antelope Valley-East Kern Water Agency and the Los Angeles Aqueduct. Under an agreement with MWD, the City of Los Angeles will be able to acquire and move into the LA Aqueduct supplies obtained independently of MWD. This section notes that the annual quantity of supplies moving into the LA Aqueduct through the interconnection is “…not to exceed the supplies lost to the City as a result of its Eastern Sierra environmental obligations, including water for the Lower Owens River Project and Owens Lake Dust Mitigation Project.” That amount, Appendix A notes, was 98,000 acre-feet from April 2009 to March 2010. However, MWD does not disclose that the City of Los Angeles currently purchases water used to offset the use of its own Eastern Sierra supplies for environmental purposes from MWD, and that the interconnection with AVEK will allow LA to reduce its purchase from MWD on an acre-foot-for-acre-foot basis. Reduction of sales by approximately 100,000 acre-feet per year will have a material effect on MWD revenues and on MWD’s water rates. And yet, on page A-30, MWD asserts that the City of LA’s “future reliance on Metropolitan supplies may increase with implementation of these (Eastern Sierra environmental) projects.” The motivation for LA to pursue the interconnection with AVEK in the first place is its apparent belief that it can acquire independent supplies at a lower cost than MWD’s supply cost. Therefore, in contrast to the statement on page A-30, it is more likely LADWP will acquire any additional environmental offset water needed from sources other than MWD.

Future Water Sales and Receipts
On Page A-69, and again at A-71 to A-72, MWD projects steady growth in water sales over the next five years from 1.77 million acre-feet in the current fiscal year (2011), to 2.11 million acre-feet in FY 2015, “…reflecting a return to average weather conditions.” This projection appears to attribute the current low water demands on MWD (and reduced sales) to a single factor: weather. A return to
normal weather, the report implies, will result in returning sales to pre-shortage levels. No
discussion or consideration is provided to what effect other factors—most notably higher water rates
—have had, and continue to have in suppressing water demand and sales. The O.S. also fails to
discuss or take into account the recently passed 20x2020 legislation requiring 20% conservation at
the retail level. Appendix A should provide an analysis of the impacts higher water rates and
conservation requirements are having on demand and sales, and factor those impacts into projections
of future water sales (e.g. the next five fiscal years and beyond).

Page A-72 notes that because of lower-than-budgeted water sales in the current year (160,000 acre-
feet lower than budgeted), MWD will make a draw of $34 million from its Water Rate Stabilization
Fund. However, on September 17, 2010, at the MWD Member Agency Managers meeting, MWD
management reported that the net draw from the Water Rate Stabilization Fund this year is projected
to be $100 million. MWD should reconcile these two figures and ensure the number reflected
Appendix A is the correct one.

We believe the comments contained in this letter and the attachments must be addressed through
substantive modifications to Appendix A and request those changes be made to ensure MWD
provide accurate and adequate disclosure to potential investors.

Thank you.

Sincerely,

Lynne Heidel
Director

Bud Pocklington
Director

Keith Lewinger
Director

Fern Steiner
Director

Attachments

Cc: MWD Board of Directors
    Jeff Kightlinger, General Manager
September 10, 2010

Jeffrey Kightlinger
General Manager
Metropolitan Water District of Southern California
PO Box 54153
Los Angeles, CA 90054-0153

Re: 2010 Integrated Resources Plan Update

Dear Jeff:

Water Authority staff has completed its review of the draft 2010 Integrated Resources Plan Update (draft IRP). We plan a broader outreach effort to our region’s cities, stakeholders and communities once we have complete information and a revised draft IRP document. Given that the current draft IRP has only been available since July, and since the revised draft won’t be available until sometime later in September, we reiterate our request that the October timeline for adoption of the IRP be extended to allow for broader distribution of the revised draft IRP here and in other parts of the MWD service territory. This outreach should then be followed by additional public meetings of MWD’s board so that the merits of the revised draft IRP can be fully deliberated in a transparent setting after MWD responds to all the current comments and questions.

Changed Circumstances

The water supply and cost environment have fundamentally changed since the IRP was last updated in 2004. Twenty percent water conservation is now legally required at the retail level by 2020. Replenishment deliveries by MWD have been interrupted indefinitely. Severe cutbacks of water supplies from the Bay-Delta are now a way of life for the foreseeable future. We must plan for impacts of climate change. As a result of these and other changed circumstances — and taking into account the reasonably anticipated cost of a Delta Fix – conservation and local projects that once warranted subsidies have become cost effective compared to MWD’s current and projected water rates. For this reason, many of the more than 250 retail water agencies and cities in the MWD service territory are now in the process of expanding conservation programs and developing local water supply projects.

Although the draft IRP refers generally to some of these changed circumstances, it does not recommend any changes in the basic MWD business model to address them. The draft IRP plan essentially assumes the same base resource mix and adds a massive, undefined “Buffer Supply” to mitigate undefined and unquantified uncertainties. Instead of asking how it may best coordinate, encourage and integrate with planned conservation and local water supply development that is already under way throughout the service territory, MWD proposes to embark on a massive spending program.

A public agency providing a safe and reliable water supply to the San Diego region
Stranded Costs and Stranded Historic Imported and Low Cost Water

MWD’s IRP strategy will drive MWD’s rates up drastically and lead to lower water sales by MWD as local agencies develop lower-cost supply alternatives. With the Buffer Supply strategy in the draft IRP, MWD is setting itself up for a perfect storm of skyrocketing water rates and plummeting water sales. This course of action amounts to a fiscal death-spiral for MWD and is financially unsustainable.

While it is not possible to determine from the draft IRP precisely what the current core supplies are or how the proposed Buffer Supply will be developed as MWD projects and member agency projects (or any iteration thereof), one thing is very clear from the draft IRP: **MWD is embarking on a course of action that will result in abandonment of MWD’s historic investments in water supply infrastructure and low-cost core water supplies in favor of far more expensive water.** A graph illustrating this practical effect of the IRP is included as Attachment 1 to this letter. That graph shows that MWD’s Buffer Supply strategy will lead to 500,000 acre-feet of imported water being stranded by MWD each year, in favor of more expensive local supplies developed by MWD at a cost of more than $1 billion annually on MWD’s rates (2035). **It is imperative that MWD take the time now to refine this draft IRP to avoid creating stranded water and the associated stranded costs we will be asking our ratepayers to cover for decades to come.**

Detailed Comments on July Draft IRP

Our detailed comments are included in Attachment 2 to this letter in the following broad subject matter categories:

- Water Rate Impacts
- Conservation
- Commitment to the Delta
- Stranded Costs
- Why Abandon Historic Investments and Low Cost Water?
- Respect for Local Autonomy
- Definition of Region
- Outdated Reliability Goal
- Need to Integrate Member Agency and Local Planning Data
- Failure to Identify Key Issues to Maximize Surface Storage, Groundwater Storage and Conjunctive Use
- The Problem with Water Insurance, aka “Buffer Supply”
- “Adaptive Management” Inadequately Defined
- Inaccurate and Incomplete Data
- Process Concerns
- Recommendations
Mr. Kightlinger
September 10, 2010
Page 3

We met with our member agency managers to obtain their perspectives, comments and questions. The August 10 IRP forum in San Diego was well attended by our agency managers and many questions and comments were presented to you directly at that time. A list of those questions is included as Attachment 3 to this letter.

We request that MWD staff distribute a revised draft IRP once it has an opportunity to respond to comments and questions raised here and at the IRP Stakeholder Forums, and to review and reconcile the data in the report so that it is both internally consistent and consistent with MWD's Regional Urban Water Management Plan.

Please let us know what the timeline is for receiving your written responses to this letter and the questions asked at the IRP Stakeholder Forums. We hope to work with you to complete an IRP that will provide a solid roadmap for the future for all of Southern California.

Sincerely,

Maureen A. Stapleton
General Manager

Attachment 1: Stranded Imported Water in 2035
Attachment 2: Comments on MWD's July Draft 2010 IRP Update
Attachment 3: Questions posted at San Diego IRP Forum

cc: MWD Board of Directors
    MWD Member Agency Managers
    Water Authority Board of Directors
    Water Authority Member Agency Managers
Stranded Imported Water 2035

- MWD Imported Water
- MWD-Incentivized Local Supply Buffer
- Stranded Imported Water
- Increased Water Use Efficiency Buffer
- MWD-Developed Local Supply Buffer

2400 - 100% Dry-Year Retail Demand is Met
2200
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1400
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400
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TAF

- Core Resources Strategy $1,484/AF
- Core Resources + WUE Buffer Only $1,608/AF
- Core Resources + WUE Buffer + MWD-Incentivized Local Supplies $1,844/AF
- Core Resources + WUE Buffer + MWD-Developed Local Supplies $2,021/AF
ATTACHMENT 2 – COMMENTS ON MWD’S JULY DRAFT 2010 IRP UPDATE

WATER RATE IMPACTS

With the unprecedented recommendation to develop 25% more water than MWD demands require, the draft IRP is extremely light on its analysis of potential rate impacts. The only rate analysis included in the draft was a table in Section 3 prepared for the board’s strategic policy discussion and not related to the recommendation to implement the Buffer Supply. Presumably, the supplies being developed under the Core Resources Strategy would generally be lower in cost than those under Buffer and Foundational Actions. The implementation of the Buffer Supply will require substantial financial investment by MWD and its member agencies. A critical analysis of potential rate impacts and the impact rate increases will have on demand must be completed and deliberated by the board before it takes a policy direction on the IRP and implementation of a Buffer Supply.

In mid-August, MWD’s staff presented a “2010 IRP Average Rate Analysis” on four implementation strategies for the IRP. The presentation showed the difference in the rate increase between the Core Resources Strategy – one that MWD admits meets all projected dry-year demand – and the plan’s recommended strategy to develop 500,000 acre-feet of additional Buffer Supplies is only 2 percent, a deceptively and alluringly low number that obscures the actual difference in cost ratepayers would experience between implementing the Core Resources Strategy and any one of the three Buffer Supply strategies. The difference amounts to up to $537 per acre-foot in 2035 – a 36% difference in water rates in that year; this is not insignificant.

More troublesome, however, are some of the assumptions that went into the rate analysis. MWD currently funds about $20 million for its water conservation programs, which it projects would result in about 10,000 acre-feet of new conservation annually. Both the 20x2020 retail mandate and 20x2020 regional consistency require investment far beyond the current conservation effort. Under the 20x2020 regional consistency analysis, staff estimated 580,000 acre-feet of water use efficiency beyond that anticipated through current conservation programs is needed. Yet, only $20 million is assumed in the analysis to achieve the conservation goal that is significantly higher than what the current investment is producing. Similarly, the rate impact for Buffer implementation assumes MWD continues the $250 acre-foot subsidy for local projects development at the same time it is proposing investments in local water supply development that greatly exceed this cost. Another example: in the MWD-Developed Buffer Supply scenario wherein MWD assumes financial responsibility for 500,000 acre-feet of conservation and local supply development, MWD’s operations would surely grow, yet the rate analysis shows zero cost difference in the Departmental O&M from the Core Resources Strategy; this appears to be an unrealistic assumption. Another example: zero cost has been assigned to account for the project development costs and risks associated with the Foundational Actions component of the plan.

MWD’s failure to calculate or acknowledge the true cost of water by basing the rate impact analysis on unrealistic assumptions does a disservice to Southern California ratepayers and only pushes the hard decisions to another day. We request that a more realistic set of cost assumptions be used to conduct the rate analyses associated with the IRP and that this information be available for full discussion and deliberation by MWD’s board of directors.
CONSERVATION

The Water Conservation Act of 2009 (the Conservation Act, or 20x2020) established new methodologies, water use targets and reporting requirements. The Act’s requirements apply to urban retail water suppliers. Although MWD and its wholesale member agencies have a supporting role, primary responsibility for compliance with the law falls to each retail agency within MWD’s service territory. The draft IRP does not address these requirements or explain how a regional program would integrate with, or support these retail conservation programs.

MWD’s recent board memo on water conservation concluded that accounting for conservation at the individual member agency level would be too difficult and would threaten the efficacy of MWD’s Integrated Resources Plan, Water Supply Allocation Plan and other programs. We respectfully disagree, and point out that local agencies already do so as part of their Urban Water Management Plans (and other plans). It is imperative that the MWD board consider changed circumstances and legal requirements to ensure that any future regional conservation program integrates with local programs, and avoids creating conservation disincentives through the pricing structure, water supply allocation plan, or otherwise.

While the draft IRP appears to assume a regional compliance approach, the Conservation Act provides that urban retail water suppliers must achieve and report compliance on an individual basis unless certain prerequisites for regional compliance and reporting are met. Among other things, regional compliance requires the written consent of each retail agency. MWD should factor this legal requirement into its analysis in the revised draft IRP.

Indeed, as a wholesale water provider, MWD’s role in conservation must be carefully evaluated in light of these new legal requirements. Since it is unlikely that all retail water suppliers within MWD’s service territory will elect to report as part of MWD’s regional water management group, MWD must account for that as the regional program is being developed. MWD must carefully assess how a regional program can fairly integrate with the individual programs its member agencies, and their respective retail agencies, choose to implement to ensure that each retail agency and group of ratepayers is carrying its legally required, fair share of the cost.

Changes will also be necessary to MWD’s water shortage allocation plan in order to encourage conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern that should be thoroughly evaluated and considered. We also believe that MWD’s wholesale price structure discourages conservation by disguising the true cost of alternative water supplies. By continuing to offer regional subsidies to retail agencies to meet water use efficiency targets that are legally required of them, MWD is actually discouraging water conservation — unless, that is, MWD pays for it. Any regional program must start where the legal requirement on the retailers ends, otherwise, MWD is simply robbing Peter to pay Paul and rewarding free riders. And, by subsidizing compliance with the retail 20x2020 targets, funds that MWD collects from some of its member agencies will be benefitting (subsidizing) compliance of other member agencies while providing no commensurate benefit to the “donor” agencies, because those donor agencies do not receive “credit” toward their own 20x2020 compliance goals for spending money (via the MWD subsidies) in other retailers’ service areas.
These donor agencies must additionally spend their own rate money to meet their own compliance requirement.

As noted earlier, we believe that measurement and verification are essential to any water use efficiency program, and is in fact, required for compliance. We would note that the data MWD uses to support the conservation section of the IRP is, except for the current demographic data from SCAG and SANDAG, outdated (Attachment A.1, Attachment C-2) (1997). One of the recommendations in the 1997 report was that MWD expand the coverage of its conservation data base to include the many MWD member agencies with respect to which conservation data was not available. (See IRP Attachment A-1 at Attachment C-40)

We believe there is an important role for MWD in water conservation but that its programs must change in order to address the concerns described above. The draft IRP fails to address these important considerations.

COMMITMENT TO THE DELTA

Many agencies and stakeholders are reading the draft IRP recommendation to “immediately” and “aggressively” implement 500,000 acre-feet of Buffer Supply as a signal that MWD is abandoning, or does not believe that it will be successful in fixing the Delta. This comes as a big surprise to our community, which worked tirelessly on the 2009 water bill package and water bond. We do not support changing course and believe that we must diligently pursue and protect our investment in the Delta and State Water Project. The Delta Community is also counting on our continued support. It is our understanding from the information provided by MWD that the Core Resources Strategy includes both a Delta Fix and continuation of existing Colorado River programs contemplated by the Quantification Settlement Agreement. We believe this is the correct approach and consistent with MWD’s core mission.

This having been stated, the Water Authority is open to having a candid discussion with MWD, the Delta Community and all interested parties about the nature and extent of the Delta “Fix,” if MWD has grown skeptical of the prospects for success in the Delta. In the meantime, and unless and until a conscious decision is made – with the benefit of analysis and input from all affected parties – we believe the call for a Buffer Supply sends the wrong message vis-à-vis MWD’s intentions in the Delta – and an expensive message at that.

STRANDED COSTS

Since the drought in the early 1990’s, MWD’s water management strategy has been to invest in storage to take advantage of the hydrologic cycles to best utilize low-cost, available water. Today, this investment, which stands in excess of 5 million acre-feet of storage capacity, has served the region well during the current supply challenges. But, rather than continuing this management strategy to optimize the historic investment in the State’s water supply infrastructure and MWD’s own low-cost imported water, the draft IRP proposes to shift course in favor of MWD developing local water supplies at a high cost to its ratepayers.
The development of the Buffer Supplies would lead to a similar outcome. If these supplies are not needed—and the draft indicates that demands for the Buffer Supplies will not exist—then the costs to develop them are truly in excess of need and stranded and, therefore, will be stranded costs. A graphic illustration of the stranded costs is shown below in Figure A.

**Stranded Dollars/AF in 2035**

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It is important that MWD integrate its planning with those of its member agencies so that it does not find itself with stranded investments and future unexpected rate increases due to poor planning.

**WHY ABANDON HISTORIC INVESTMENTS AND LOW COST WATER?**

Staff’s rate analysis released in mid-August sheds light on the following facts: the immediate implementation of Buffer Supply, whether limited to regional consistency Water Use Efficiency of 200,000 acre-feet or the entire 500,000 acre-feet inclusive of local projects would result in abandonment of like amounts of lower-cost imported water, even after it has obligated its share of the Delta Fix improvements. Case in point, in 2035, with Buffer Supply inclusive of Water Use Efficiency only, MWD’s own rate analysis showed it would forgo a like amount of imported water due to reduction in sales. The situation worsens if MWD implements the entire 500,000 acre-feet of Buffer Supply, under both MWD-Incentivized and MWD-Developed Buffer Supply scenarios, 500,000 acre-feet of imported water is forgone. Why would MWD spend billions of dollars to develop new supplies and, at the same time, plan to forego use of those supplies?

**RESPECT FOR LOCAL AUTONOMY**

The key question addressed in the draft IRP focuses on the “role” of MWD. But, with due respect, we believe it’s the wrong question. The focus should not be on MWD’s “role,” but on how the most reliable, cost-effective water supply can be provided to water ratepayers, being
mindful that not every retail water supplier or even every “region” within the vast MWD service territory will answer that question the same way. MWD’s “top-down, all-in” planning model in which it will assume responsibility over local water supply development fails to take into account the many cities, local agencies and groundwater managers who grapple with local water supply development issues every day. It is an open question what role these agencies and water suppliers would like MWD to play, but it is certainly important to ask. Historically, the answer to that question would be easy: they want funding to help support local water supply development. We believe that there is a role MWD can play in helping to support local projects including funding mechanisms for local supply development. But the rules must be firm and fair, laid out in advance, and equitable to all parties.

**DEFINITION OF REGION**

Given the dramatic shift in the draft IRP from imported water supplier to local supply developer, MWD should take a step back and ask itself, its member agencies and, critically – the hundreds of cities, counties, water suppliers, groundwater managers and other local districts – how they define their “region” for purposes of local water supply development. MWD has been Southern California’s principal “regional” imported water supplier. That does not mean that it will be efficient or even logical for MWD to become Southern California’s “regional” local water supplier. The State, for example, recognizes nine separate IRWM planning groups that are wholly or partially within the MWD service territory. What makes sense for “regional” local water supply development needs to be discussed between and among all interested parties, not just MWD and its member agencies, and be defined in a manner that is practical, workable and equitable to all parties. It is likely that not all local and regional agencies desire to be under the planning umbrella of MWD and its member agencies – whose member agencies often have goals, priorities and objectives that are different than their own.

**OUTDATED RELIABILITY GOAL**

By declaring allegiance to the 1952 Laguna Declaration, the draft IRP misses a critical opportunity to signal that it is no longer “business as usual” in Southern California or at MWD. Indeed, where and how to establish the reliability goal was not even discussed as part of the IRP process. In today’s water-scarce, high-rate environment, our customers want a choice about the level of “regional” reliability they want to pay for.

But the draft IRP goes even further, it advocates a reliability goal of developing core supplies to meet full-service dry year demands at the retail level under all foreseeable hydrologic conditions, plus developing a Buffer Supply of 10% of retail demand, plus completing project planning for an array of additional projects based on undefined “uncertainty” (the Foundational Actions). This “Laguna Declaration-Plus” approach is excessive, impractical and fiscally imprudent. It also flies in the face of California’s changed circumstances and Southern California’s conservation ethic.

Before staff recommends the highly aggressive supply development outlined in the draft IRP, it should communicate with each of its member agencies to determine the extent to which those
agencies intend to rely upon MWD to meet their future supplemental water supply needs. As aptly noted in the 1994 Blue Ribbon Task Force Report,

"[It was troubling] to learn, for example, that some of the member agencies most strongly supporting big-ticket projects...also had the most aggressive plans to reduce their future MWD water purchases and develop independent supplies. In effect, such agencies appear to want MWD to develop costly backup capacity-or insurance-for their local supply strategies, while seeking to shift the costs for these benefits on to Metropolitan and other agencies and customers." -- BRTF Report at page 23.

Just as in the past, it is clear that some of the MWD member agencies most strongly supporting the draft IRP are doing so precisely because they believe that it will allow them to become less dependent upon MWD.

**NEED TO INTEGRATE MEMBER AGENCY AND LOCAL PLANNING DATA**

The draft IRP identifies the need for only 16,000 acre-feet of local projects to achieve the Core Resources Strategy target in 2015 and only 46,000 acre-feet by 2025 and through the end of the planning horizon (2035). According to the draft IRP, this will result in 100% supply reliability under all hydrologic conditions to meet dry-year demand. It is important to note that in reaching the 100% reliability assessment, the plan has taken into account regulatory and environmental constraints on supplies from the Bay-Delta in the years before mid- and long-term Delta improvements are completed.

Based upon review of the limited data included in Appendix A.5 of draft IRP, it appears that as much as 750,000 acre-feet of local water supply is already being planned by MWD member agencies. It is unclear whether this list includes all supply projects that are being planned by cities, groundwater managers, replenishment districts, utilities and other agencies and water suppliers throughout Southern California. Given that the draft identifies only 46,000 acre-feet of local projects is needed to achieve Core Resources strategy’s 100% reliability goal, the draft IRP fails to grapple with the reality that MWD sales will be reduced, not increased in the future. If properly coordinated, this trend can be a positive outcome for MWD and all of Southern California. But MWD threatens to disrupt the positive economic impacts of this shift by proposing to over-invest in new water supplies in an ill-fated and illusory attempt to increase its own sales. Failure to coordinate with the many cities, water districts, and utilities beyond MWD member agencies places all Southern California water ratepayers at risk.

The draft IRP also does not provide projected supplies under average- and wet-year hydrologic conditions and their frequencies of occurrence. The draft shows only how MWD’s storage would fare under “average” conditions. Figures 4-5 and 4-6 reflect very healthy storage conditions for MWD, but lack data for member agencies to assess how their surface reservoir or groundwater basins could be augmented for dry year use.

In summary, although the IRP by definition is intended to be an integrated plan that takes member agency and retail supply plans into account as part of MWD’s regional planning, the
IRP draft fails to do so. This presents grave risk to MWD and Southern California water ratepayers.

Finally, MWD’s historic and principal role has been to deliver water to Southern California imported from the Colorado River and State Water Project. The subsidy programs were originally created to “encourage” conservation and development of local water supplies that were otherwise not cost-effective, and, in order to “send the right message” to Northern California where it was seeking to maintain its State Water Project entitlement. The rationale was that by supporting these local water supply investments, the costs of securing additional imported water supplies and/or infrastructure were “avoided,” and thus the payment of MWD subsidies benefited the region as a whole. MWD should take the time now as part of the IRP planning process to consider the appropriate role of subsidies generally, and including whether subsidies are encouraging or impeding desired outcomes.

FAILURE TO IDENTIFY KEY ISSUES TO MAXIMIZE SURFACE STORAGE, GROUNDWATER STORAGE AND CONJUNCTIVE USE

The draft IRP says that Metropolitan has “gradually shifted from being exclusively a supplier of imported water to collaborating with its member agencies on regional water supply planning issues.” This statement does not capture the momentous change that is being recommended for adoption in the draft 2010 IRP, which will place MWD in control of planning, outreach, all state and federal funding and decision-making about local project development. While the draft promises that MWD will “collaborate” with agencies outside of their own member agencies, it appears that it has not collaborated with them in proposing this new role for MWD in the first place. Willingness to allow MWD to become the regional master facilities planner may also vary by region.

MWD’s principal, historic role has been as a supplemental, imported wholesale water supplier to its member agencies. While “collaboration” with its member agencies is indeed important, MWD is announcing in the draft IRP a substantially different and enhanced role for itself in the future, including “master planning” for significant local water supply resources over which it has no legal jurisdiction or expertise. The draft IRP does not so much represent a “gradual shift” as a takeover strategy for local water supply development in which MWD will be in charge of local water supply development through its regional master planning process. For example, MWD is declaring that it will be in charge of “master planning” for the following activities:

1. Recycled water development, including creation of a regional finance committee that will determine how all state and federal funding dollars are best spent (Table 5-5);
2. Preparation of salt management plans and groundwater basin management plans (Table 5-7);
3. Seawater desalination “integration” (Table 5-10) and funding mechanisms (Table 5-13); and,
4. Stormwater capture, including regional master planning, implementation of pilot projects and development of subsidy programs (Table 5-19).
MWD’s newly announced role as “master planner” for all Southern California local water supply development goes far beyond the function of “collaboration” described above. Given that it has little expertise in groundwater and developing local projects, staffing and budget increases will undoubtedly be on the horizon. These efforts will duplicate those of the many local water suppliers, replenishment districts and groundwater managers who are already engaged at the local level.

In lieu of these proposed changes, MWD should follow the same, more cautious guidelines it suggests for graywater (see page 5-36), namely,

1. Do not establish subsidies to pay for graywater;
2. Focus instead on reviewing and suggesting standards and pursuing changes to legislation and regulations to support graywater development;
3. Work with local entities to create model guidelines for permitting processes; and,
4. Assist with public information efforts as requested and appropriate.

Finally, the draft IRP fails to address the most fundamental questions that must be addressed by MWD at the wholesale level, including: 1) how available imported water supplies will be managed; and 2) what policies are needed to assure fair access to facilities in order to move water stored in groundwater basins in and out of, and within the MWD distribution system.

THE PROBLEM WITH WATER INSURANCE, AKA “BUFFER SUPPLY”

The draft IRP recommends implementation of the Buffer Supply as an insurance policy against uncertainties, but does not provide a quantitative analysis or risk assessment to show how the 500,000 acre-feet of supply development was derived. For this reason, the Buffer Supply is purely speculative.

The Buffer Supply is also financially unsustainable under the current rate structure, since agencies would only pay for the “insurance” when they file a “claim” for the water. The cost of maintaining a large “standby” supply will be extraordinarily expensive, force MWD rates to increase exponentially, and, drive water purchasers away from MWD in search of lower cost supplies that they can control. Here again, the 1994 Blue Ribbon Task Force had it right:

“Reliability, quality and other water supply specifications cannot be made independently from the willingness of MWD customers to pay for such services. Member agencies may want, for example, the insurance provided by major investments to increase MWD standby capacity, but if forced to commit funds for such capabilities, they may actually prefer far lower levels of protection than a hypothetically “costless” water supply guarantee.” -- BRTF Report at page 9.

While the draft IRP itself is silent on the cost of the Buffer Supply, MWD’s mid-August rate analysis showed startling costs of the Buffer Supply, in terms of sky-high water rates, stranded water supply and stranded costs. The two charts included with these comments were developed based upon this mid-August rate analysis.
Furthermore, the draft IRP appears to ignore the fact that MWD already has a substantial "Buffer" in which it has invested, namely, MWD’s vast storage program. MWD has 5 million acre-feet of storage, which the draft IRP indicates will be full on average. The draft IRP also says that if the Core Resources Programs are implemented, the region could have an excess of 1 million acre-feet of water during dry years, when storage and transfers are factored in. If the 500,000 acre-feet Buffer Supply is implemented, without MWD taking any water from its storage, the region will have more water than required to meet demands including filling all available storage. The bottom line is that the draft IRP fails to factor in that the very purpose of the existing storage is to provide the same dry year assurance that is proposed to be filled by the new Buffer Supply.

"ADAPTIVE MANAGEMENT" INADEQUATELY DEFINED

Although the draft IRP says that MWD will employ an "adaptive management" strategy, the draft also concludes that an aggressive approach to immediately implement the Buffer Supply is required. In general, it is not possible to discern from the draft IRP what the timing or "triggers" are for any of the "adaptive" actions. The draft IRP is also inconsistent with statements made by MWD staff at the August 10 San Diego Stakeholders Forum with regard to timing of adaptive management actions described in the draft IRP.

At its own August 20 member agency managers’ meeting, MWD staff stated that it plans to only recommend immediate implementation of the regional consistency Water Use Efficiency Buffer, and leave the implementation of the Local Resources Buffer to occur only when certain trigger events take place, such as failure to obtain the environmental documentation for a Delta conveyance facility by a date-certain (yet to be specified). This is a very different position than the draft’s aggressive approach to implement local projects as delineated within the draft IRP as follows:

Page 4-20, "Implementing a Supply Buffer," states, in part: "...a ‘planning' Buffer was introduced during the 2004 Update. The 2010 IRP Update proposes to expand the concept of a planning Buffer and create an actual hedge against demand uncertainty, by implementing a supply Buffer equivalent to 10 percent of total retail demand. Metropolitan will collaborate with the member agencies to implement this Buffer through complying with the 20X2020 legislation, and by implementing aggressive adaptive actions to meet any remaining portion of the 10 percent Buffer." (Emphasis added.)

On page ES-8, the draft states: "Maximizing regional benefits through economies of scale and minimizing the cost of redundancy is important to adaptability. The 2010 IRP Update will hedge against demand, supply and environmental uncertainties by implementing a supply Buffer equivalent to 10 percent of total retail demand. This Buffer will be implemented through meeting 20X2020 water use efficiency goals, and by implementing aggressive adaptive actions to meet the remaining portion of the 10 percent Buffer through local supplies and transfers. This approach is consistent with maintaining reliable baseline supplies and advancing local and regional solutions." (Emphasis added.)
In its outreach materials used at the IRP Public Forums, MWD has an executive summary, page ES-10, that states the Buffer Supply will be "...developed through collaboration with the member agencies on aggressive actions." And, on Figure ES-4, Component 2 box reads "aggressive adaptive actions for the remainder." (Emphasis added.)

It is impossible to reconcile the oral comments made by MWD staff at the August 10 Stakeholder Forum and the August 20 MWD Member Agency Managers meeting with the conflicting verbiage in the draft IRP document.

It is also completely unclear what "adaptive management" means or how it will be employed by the MWD staff once the IRP is adopted by the board. Substantially more detailed planning and transparency is required before board adoption so that the member agencies can better understand what is intended by the draft IRP.

**INACCURATE AND INCOMPLETE DATA**

The Core Resources Strategy is the heart of MWD's current water supply planning. It is essential that the draft IRP provide a full description of the components of the Core Resources Strategy. And yet, it is not possible to discern the details of the Core Resources Strategy due to the fact that there is inconsistent data presented throughout Sections 4 and 6 of the draft IRP. These are the key sections of the report that present analyses of the available water supplies and need to develop additional supplies.

To ensure a sustainable resource plan that clearly outlines a path for long-term reliability, it is fundamental that the draft IRP start with a more comprehensive evaluation of the Core Resource Strategy. The Core Resource Strategy serves as the foundation of the plan. The analysis should include an identification of what actions can be taken to strengthen the core strategy in order to maximize investments already made in imported supplies. The evaluation should include an assessment that clearly identifies the risks associated with implementation of the core strategy and takes adaptive measures to mitigate those risks. This assessment would provide a linkage between the Core Resource Strategy and the timing and type of adaptive management strategies recommended. Transparency in the process is critical to providing the member agencies the data and information needed to plan accordingly in their UWMP and resource plans.

In addition to the internal inconsistencies, the data included in the draft IRP is also inconsistent with data included in MWD’s recently released draft Regional Urban Water Management Plan (RUWMP). The Water Authority suggests that MWD staff conduct a workshop with the member agency managers to work through this detail so that MWD’s Core Resources Strategy can be presented in a manner that may be better understood and inconsistencies with MWD’s RUWMP can be reconciled.

To cite just a few examples, seawater desalination is listed as existing production on Table 4-6 but as a yet-to-be-developed Core Resource on Table 4-8. There is no indication how the groundwater, local surface water and Los Angeles Aqueduct (LAA) supplies listed in Table 4-7 were projected. And, it is unclear why there is an increase in groundwater supplies during this
planning horizon, but a decrease in surface water. The data for LAA also differs between the IRP and RUWMP. These and other inconsistencies and lack of foundational data are not "details" to be "worked out later" — rather, this is foundational information required in order to meaningfully assess MWD’s current supplies and the need to develop additional supplies.

Beyond the internal inconsistencies in the draft IRP, there is also insufficient information provided on the plans of cities, groundwater agencies, replenishment districts, utilities and water suppliers throughout the Southland to implement conservation and other local water supply programs that will substantially reduce the amount of water purchases from MWD in the future. While the draft notes that there are approximately 250 retail agencies that supply water to the public, the draft IRP analysis has failed to account for the plans and timing of plans that many of these 250 retail agencies have to both conserve water and develop local resources. Although Appendix A.5 includes a list of member agency area projects, it does not provide analysis to show how these projects will reduce the demand for MWD supplies. It also does unclear whether it includes projects of the many agencies, sub-agencies and utilities who presently buy water from MWD member agencies. MWD must work with its member agencies to develop an accurate and agreed upon list of projects as well as project timing, and eliminate inconsistencies before it finalizes the draft IRP.

Moreover, MWD’s methodology limits its accounting of local supplies to existing, under construction and “committed” projects (a term not defined in the draft IRP). All other planned local projects are included as part of MWD’s own “regional” target, with the explanation that, “…[t]his recognizes the uncertainty in local supplies and avoids over and under allocating local supply targets to individual agencies” (see Appendix A.1-22, “Projected Active Conservation: A New Approach). This approach appears grounded in MWD’s past experience and the notion that local water suppliers cannot be relied upon to develop local supplies and, therefore, MWD must step in and take over responsibility for local supply development. This assumption fails to take into account the substantially changed circumstances and that many local water supply projects that were once uncompetitive with the price of imported water are now cost-effective — without any subsidies from MWD — when compared to even the conservatively projected cost of MWD water. There are also better mechanisms to hold local water suppliers accountable to the region for completion of projects than the theoretical no-cost or low-cost water supply Buffer “insurance” recommended in the draft IRP.

The realistic regional demand “gap” cannot reasonably be estimated without taking into account the existing and planned actions of MWD’s member agencies and other local water suppliers. The draft IRP notes that Metropolitan has historically provided between 45 and 60 percent of the municipal, industrial, and agricultural water used within its service area. However, enhanced conservation and development of local water supplies will result in a dramatic reduction in water demand on MWD. Implementing any of the Buffer Supply strategies in the draft IRP will lead to unavoidably higher rates and inversely declining sales.
PROCESS CONCERNS

While there have been a large number of meetings and IRP-related "processes," the process overall has been both "top down" and "disintegrated," with no meaningful opportunity for non-MWD member agency participants to shape the outcome. This shortcoming is all the more important given the draft IRP proposes that MWD become responsible for, or compete with many local projects that are currently within the jurisdiction of cities, local agencies and groundwater managers. The 1994 Blue Ribbon Task Force made similar observations about the then-pending IRP process:

"Although both the IRP and rate structure efforts largely involve member agencies in setting functional objectives, performance standards and the development of background materials such as the Strategic Resources Assessment-and to some extent, other outside participants-the precise role of non-MWD participation in IRP and rate structure discussions often seems limited to commenting on Metropolitan-generated objectives rather than considering de novo functional objectives and performance standards." -- Blue Ribbon Task Force Report (BRTF Report) at page 8.

"As different resource, reliability and operational goals are considered, IRP participants are not presented with fully articulated alternative models. The current practice is to make marginal changes in an assumed base resource mix in response to new, cost, technological, political or other concerns. This practice may limit the participants' understanding about the implications of different options, and artificially constrain the range of choices they take into account." -- BRTF Report at page 12.

"Despite a heavy meeting schedule, and numerous specialized committees and subcommittees, the Board often seems to be presented with limited options and choices for final approval largely defined and developed by MWD staff, rather than conduct an independent inquiry of relevant matters." -- BRTF Report at page 74.

These observations are as accurate regarding the current draft IRP and IRP process as they were more than 15 years ago. The 2010 draft IRP has been available for public review only recently, and although voluminous, contains limited information. The revised draft IRP will apparently not be available until later in September, with board adoption scheduled for October. This schedule and process does not allow for meaningful distribution or review of the draft IRP by those who are impacted through the adoption of the IRP. MWD staff has been portraying the draft IRP as implementation of the will of the people, rather than as a recommendation of MWD staff. But, of the almost 19 million people who live and work in Southern California, less than 350 people attended the four stakeholder workshops combined - and, many of those participants were MWD and member agency staff and consultants. Moreover, the stakeholders were being asked to comment on a draft report in which fundamental questions remain to be answered.
Given that MWD is proposing to change its historic role as imported water supplier – which is the principal responsibility most local agencies now associate with MWD – it is vitally important that sufficient time be allowed for distribution to city councils, county board of supervisors, groundwater managers, replenishment districts, water districts, utilities, and other local entities which will bear the expense of, or otherwise be impacted by MWD’s new role. MWD and its member agencies should not simply assume that all agencies and stakeholders will welcome this new role for MWD or the associated rate increases that will be necessary to implement this course of action.

RECOMMENDATIONS

MWD uses the IRP as a foundation for its RUWMP. Thus, the draft IRP should reflect the clear professional recommendation of MWD staff. Is that the case? If so, we recommend you say so when the revised draft IRP is released. As it stands in the draft IRP, this is unclear.

At a minimum, we recommend that MWD provide a full 60-day review period between the release of a revised draft IRP, including responses to all comments and questions, and the first MWD board meeting to consider the revised draft. We also recommend at least two public meetings of the board to consider and deliberate the revised draft IRP. This time frame would still allow adoption of the IRP in advance of the RUWMP. Although the update process stated more than a year ago, the recommendations were made available for the first time in July 2010 when draft report was posted online. We were quite surprised with the recommended strategy, especially since the draft’s own data indicates the excessiveness of such a recommendation. The draft recommends an adaptive strategy that included three components: Core Resources Strategy, Buffer Implementation, and Foundational Actions.

The draft IRP clearly indicated that the implementation of the Core Resources Strategy would meet projected dry-year demands under all foreseeable hydrologic conditions, with MWD’s 5 million acre-feet of average storage capacity above 60 percentile and probability of dry-year shortage diminishing to zero past 2015 (with only than less than 1 percent shortage in 2015). Yet, it recommends moving forward with all three components concurrently, including aggressively pursuing Buffer Supply implementation (in contrast to 2004 IRP’s planning buffer) and at the same time developing large-scale projects so they are “ready to proceed” under Foundational Actions.

The forthcoming revised draft IRP must integrate member agency plans and projects into the discussion, and before implementation of projects that exceed demand, member agencies’ commitment to pay for these supplies must be obtained and proper choice and structure be set in place to ensure MWD does not strand water nor investments under the new supply strategy.
ATTACHMENT 3 – QUESTIONSPOSEDAT SAN DIEGO IRP FORUM

RELIABILITY GOALS

- Doesn’t the IRP’s reliance on the almost 60 year old Laguna Declaration – drafted at a time when Southern California was almost completely dependent on imported water – send the wrong message in today’s limited resource and escalating cost environment? Is that a smart message in the water bond campaign?
- Why didn’t MWD reconsider the central question of the where the regional reliability goal should be set?
- Why should everyone have to pay for the same reliability standard if they want to conserve more and pay less?
- How has MWD accounted for the dampening effect higher prices will have on water demand?

SUPPLY AND PLANNING BUFFER

- Has MWD done a survey of each of its member agencies and other local agencies and utilities to determine what projects they are developing now or plan to develop in the near future? Don’t you need this kind of information in order to determine what supply “gap” exists?
- Will MWD staff agree to collect this information about local projects development and make it available before asking the board to adopt this IRP?
- What is the rationale for an MWD Buffer Supply equal to 10% of retail demand? What is that number based on?
- What is MWD’s assumption in the IRP about who will pay for the core and Buffer supplies? Is there a breakdown of this by region or project? Isn’t this information necessary to define even broad parameters of a real plan?
- Is staff recommending the implementation of both core and Buffer supplies because it does not believe it will be successful in the Delta Fix? If not, why does this draft recommend moving forward now with implementation of both supplies?
- Can you be more specific about the risks and uncertainties you believe justify the expenditure of current ratepayer dollars? What are the “trigger points” that would warrant increased spending?
- What is the level of commitment to developing the resources identified in the Buffer? And is there a certain date by which those resources will be developed?
- Why are recycled water and seawater desalination identified as part of the Buffer supplies?
- What is the size and composition of the Buffer?
- What is the process by which the region will make the decision to deploy elements of the Buffer? And are there risks associated with each trigger level?

MWD’S ROLE

- Isn’t our current water supply allocation the result of challenges to our imported supplies? Since this has been MWD’s historical role, shouldn’t MWD focus its efforts and regional dollars on securing the Delta Fix and filling the Colorado River Aqueduct?
August 25, 2010

Ms. Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Ms. Stapleton:

Notice of Intent to Initiate Process to Consider
Termination of Incentive Agreements with the Water Authority

The agreements listed below between Metropolitan and the San Diego County Water Authority (Water Authority) contain provisions allowing The Metropolitan Water District of Southern California (Metropolitan) to file a 90-day notice of intent to consider terminating agreements should the Water Authority file litigation challenging Metropolitan’s rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan’s water rates and charges for fiscal year 2010/11. Consequently, Metropolitan’s Board of Directors at its August 17, 2010, meeting directed staff to initiate the process outlined in the rate structure integrity provisions.

<table>
<thead>
<tr>
<th>Incentive Program</th>
<th>Existing Agreement</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservation</td>
<td>Regional Commercial Program</td>
<td>66654</td>
</tr>
<tr>
<td>Conservation</td>
<td>Regional Residential Program</td>
<td>78189</td>
</tr>
<tr>
<td>Enhanced Conservation</td>
<td>Landscape Auditor Interns</td>
<td>011-2006</td>
</tr>
<tr>
<td>Enhanced Conservation</td>
<td>Smart Landscape Grant Program</td>
<td>024-2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This letter is the official 90-day notice of Metropolitan’s intent to consider termination of the above listed agreements between Metropolitan and the Water Authority.

Within 30 days of receipt of this notice, the Water Authority has the right to request, in writing, mediation of the dispute by a neutral third party with expertise in finance and rate setting. The request for mediation would serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation. If the termination process advances, Metropolitan’s Board of Directors will ultimately make the decision on whether to terminate the agreements. Payment of the incentives for this program will continue pending the decision by the Board following the 90-day notice period.
MEMBER AGENCY’S ROLE

- Does the IRP assume and recognize that the 20x2020 requirement is a retail obligation? Given that, why should MWD subsidize member agencies to meet this local mandate? Isn’t this rewarding bad behavior?
- What is the IRP assumption about the project cost that would qualify for a financial “incentive” from MWD?
- Won’t MWD by definition be investing in the most expensive sources of supply? [Comment: If not, why would the local agency need an “incentive”?] How does Met intend to ensure fairness among its member agencies in the collection and redistribution of incentive money for conservation and local projects?

PROJECT ASSUMPTIONS

- What is MWD’s assumption on who will implement the 20x2020 mandate?
- What are MWD’s planning assumptions for the on-line dates for the member agency projects described in the Appendix?
- What are MWD’s assumptions for supply conditions under normal and wet years?
- What assumptions does the report make about how surplus water in any given year will be used? Will it go first to refill MWD’s storage? Do you assume that discounted replenishment rates will be available at any time in the future? If so, under what conditions?

COST ANALYSIS

- What are the cost assumptions for core and Buffer Supply projects?
- What is the estimated rate impact as a result of implementing the core strategies? Is this impact based on an assumption the current rate structure remains unchanged?
- What would the implementation of Buffer Supply add to water rates?
- What about the Foundational Actions? How much would those activities add to water rates?
- Will MWD do a new rate structure analysis and cost of service study for IRP programs and projects before adopting the IRP?
- How does MWD ensure its core supply investments would not be stranded?
- Is MWD going to require firm contractual commitments from each of its member agencies to pay for all of this supply development?
- How do preferential rights relate to the availability of Buffer Supply water? Are they enforceable if a member agency claims them?
- Do you have any analysis available to show the “balancing” between resource investment and cost considerations?

TIMING

- IRP sets forth MWD’s policy for future supply development and is an especially important document given changed water supply environment. Why the rush to get the report adopted so quickly?
- Are you willing to recommend extending the time for MWD staff to answer our questions before we are required to comment further on the report?
Metropolitan's Board of Directors also directed staff to defer execution of the following three agreements currently pending with the Water Authority, as termination proceedings would begin immediately upon execution:

<table>
<thead>
<tr>
<th>Incentive Program</th>
<th>Pending Agreement</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservation</td>
<td>Agricultural Conservation Program</td>
<td>113401</td>
</tr>
<tr>
<td>Innovative Conservation</td>
<td>Flow control valve research project</td>
<td>91694</td>
</tr>
<tr>
<td>Seawater Desalination</td>
<td>Carlsbad Seawater Desalination Project</td>
<td>70025</td>
</tr>
</tbody>
</table>

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwdb2o.com.

Very truly yours,

Jeffrey Kightlinger
General Manager

WAT:jc
o:\als\e\2010\WAT_SDCWA Agreement Termination_Notice v3.doc

cc:    Board of Directors
       Executive Secretary
October 11, 2010

Mr. Jeff Kightlinger
General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Dear Mr. Kightlinger:

Request to Reinstate Full Deliveries Under Metropolitan’s Interim Agricultural Water Program for CY2011

It has been nearly three years since Metropolitan implemented the initial 30 percent reduction in Interim Agricultural Water Program (IAWP) deliveries. The measures taken by citrus and avocado growers to meet the water use reduction requirements have been well documented.

Since the initial reduction in IAWP deliveries was implemented, IAWP participants have performed consistent with their obligations--actual IAWP reductions have exceeded 40%, reducing the need for higher allocation levels for Metropolitan’s municipal and industrial customers.

With overall water use in the Metropolitan service area down significantly and storage levels up in both State and Metropolitan reservoirs and storage programs, the California Avocado Commission (Commission) urges Metropolitan to end the allocation of supplies and reinstate full IAWP deliveries for CY2011. Specifically, we propose that the issue be studied and brought back to the full Board for consideration and action at Metropolitan’s November meeting.

The Commission looks forward to continuing our work with you and your staff on these issues, which are critical to the economic, environmental and social future of agriculture in the MWD service area.

Sincerely,

[Signature]

Tom Bellamore
President
California Avocado Commission

Cc: Brian Thomas – Chief Financial Officer
    Debra Man – Chief Operating Officer
    Maureen Stapleton – San Diego County Water Authority
October 28, 2010

Attention: Water Planning Committee

Fiscal Year 2011 Water Supply Allocations Monitoring (Information)

Purpose
This report provides monthly and cumulative deliveries for fiscal year 2011 compared to allocation targets for the three classes of service: Municipal and Industrial (M&I), Special Agricultural Water Rate (SAWR), and Metropolitan Water District’s (MWD’s) Interim Agricultural Water Program (IAWP). The report also discusses total water use including local supplies produced and used by member agencies.

Discussion
Water Allocation and Delivery Tracking
The Water Authority monitors monthly member agency water deliveries compared to allocation targets for the three classes of water service: M&I, SAWR and IAWP. To assist with tracking performance, each member agency received a monthly delivery target for the three classes of service. The targets are based upon historical monthly delivery patterns. Similar to fiscal year 2010 tracking, monthly targets for IAWP and SAWR participants were established based upon fiscal year 2007 deliveries, consistent with MWD’s IAWP guidelines. Member agencies are not subject to penalties for exceeding monthly targets. Any financial penalties would be assessed at the end of the fiscal year, and only if the Water Authority exceeds its allocation from MWD.

It should be noted that the fiscal year 2011 M&I targets are preliminary and used for tracking purposes. The targets are based on estimated local production data for surface water and groundwater provided by the member agencies. The final allocation targets will be derived after the allocation period is complete and based on actual local production data. Final targets will be utilized as a basis for potential financial penalties.
Fiscal Year 2011 Member Agency Water Deliveries

Figure 1 shows cumulative Water Authority M&I deliveries for the first three months compared with a cumulative target. M&I deliveries for the month of September 2010 is also compared with the September 2010 allocation target. Actual September 2010 M&I water deliveries were 40,010.0 AF, which is 35.5 percent less than the target of 62,064.9 AF. Cumulative deliveries for first three months of the fiscal year were 127,408.3 AF, which is 34.6 percent less than the cumulative target of 194,822.8 AF.

Figure 1
Fiscal Year 2011 Water Authority M&I Allocation vs. Actual Deliveries
Cumulative and Monthly Performance

![Graph showing cumulative and monthly performance of water deliveries compared to targets for fiscal year 2011.](image-url)
Table 1 provides the same information as Figure 1, except it is provided by member agency and shows the variances between actual deliveries and targets in acre-feet. This chart also provides information for cumulative M&I deliveries as a percentage of the annual allocation for each agency.

### Table 1
**Fiscal Year 2011 Allocation Tracking**

<table>
<thead>
<tr>
<th>Water Authority Member Agency</th>
<th>M&amp;I Target</th>
<th>Monthly Target</th>
<th>Monthly Actual</th>
<th>Variance</th>
<th>Cumulative Target</th>
<th>Cumulative Actual</th>
<th>Variance</th>
<th>FY11 M&amp;I Allocation</th>
<th>% Allocation Delivered To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego County Water Authority</td>
<td>2,308.2</td>
<td>1,654.5</td>
<td>(653.7)</td>
<td>7,131.5</td>
<td>5,133.8</td>
<td>(1,997.7)</td>
<td>21,401.4</td>
<td>24.0%</td>
<td></td>
</tr>
<tr>
<td>City of Del Mar</td>
<td>135.5</td>
<td>104.4</td>
<td>(31.1)</td>
<td>483.2</td>
<td>382.1</td>
<td>(101.1)</td>
<td>1,304.5</td>
<td>29.3%</td>
<td></td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>2,315.3</td>
<td>926.6</td>
<td>(1,388.7)</td>
<td>7,346.1</td>
<td>3,485.5</td>
<td>(3,860.6)</td>
<td>22,375.1</td>
<td>15.6%</td>
<td></td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>1,162.2</td>
<td>750.7</td>
<td>(411.5)</td>
<td>3,556.8</td>
<td>2,833.2</td>
<td>(723.6)</td>
<td>10,042.1</td>
<td>28.2%</td>
<td></td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>3,516.8</td>
<td>0.0</td>
<td>(3,516.8)</td>
<td>11,883.5</td>
<td>516.5</td>
<td>(11,367.0)</td>
<td>32,932.2</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>Lake Hodges W.D.</td>
<td>465.7</td>
<td>372.6</td>
<td>(93.1)</td>
<td>1,536.0</td>
<td>1,168.2</td>
<td>(367.8)</td>
<td>4,136.2</td>
<td>28.2%</td>
<td></td>
</tr>
<tr>
<td>Ocean View, City of</td>
<td>3,017.0</td>
<td>2,243.5</td>
<td>(773.5)</td>
<td>9,645.9</td>
<td>6,953.5</td>
<td>(2,692.4)</td>
<td>29,301.5</td>
<td>23.7%</td>
<td></td>
</tr>
<tr>
<td>Olivenhain W.D.</td>
<td>2,589.6</td>
<td>2,131.5</td>
<td>(458.1)</td>
<td>7,943.7</td>
<td>6,598.1</td>
<td>(1,345.6)</td>
<td>21,818.3</td>
<td>30.2%</td>
<td></td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>4,195.8</td>
<td>3,168.7</td>
<td>(1,027.1)</td>
<td>13,538.6</td>
<td>9,923.5</td>
<td>(3,615.1)</td>
<td>39,680.6</td>
<td>25.0%</td>
<td></td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>1,806.2</td>
<td>1,228.9</td>
<td>(575.3)</td>
<td>5,330.9</td>
<td>3,877.7</td>
<td>(1,453.2)</td>
<td>14,881.4</td>
<td>26.1%</td>
<td></td>
</tr>
<tr>
<td>Pendleton M. R.</td>
<td>91.9</td>
<td>8.0</td>
<td>(83.9)</td>
<td>287.3</td>
<td>21.9</td>
<td>(265.4)</td>
<td>753.4</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>Poway, City of</td>
<td>1,567.7</td>
<td>1,421.1</td>
<td>(146.6)</td>
<td>5,185.8</td>
<td>4,189.0</td>
<td>(996.8)</td>
<td>14,167.5</td>
<td>29.6%</td>
<td></td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>1,930.4</td>
<td>1,545.4</td>
<td>(385.0)</td>
<td>6,027.9</td>
<td>4,673.8</td>
<td>(1,354.1)</td>
<td>17,061.7</td>
<td>27.4%</td>
<td></td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>838.4</td>
<td>395.2</td>
<td>(463.2)</td>
<td>3,450.0</td>
<td>1,162.2</td>
<td>(2,233.8)</td>
<td>7,974.6</td>
<td>14.0%</td>
<td></td>
</tr>
<tr>
<td>Rincon del Diablo MWD*</td>
<td>879.1</td>
<td>626.4</td>
<td>(252.7)</td>
<td>2,802.9</td>
<td>2,000.0</td>
<td>(802.9)</td>
<td>6,724.9</td>
<td>26.2%</td>
<td></td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>25,575.4</td>
<td>19,615.9</td>
<td>(5,955.5)</td>
<td>78,485.4</td>
<td>60,267.2</td>
<td>(18,218.2)</td>
<td>220,143.8</td>
<td>27.4%</td>
<td></td>
</tr>
<tr>
<td>San Diego M.E. W.D.</td>
<td>851.2</td>
<td>40.9</td>
<td>(801.3)</td>
<td>2,563.8</td>
<td>539.8</td>
<td>(2,024.0)</td>
<td>5,331.6</td>
<td>9.8%</td>
<td></td>
</tr>
<tr>
<td>San Juan P.U.D.</td>
<td>1,943.1</td>
<td>515.8</td>
<td>(1,427.3)</td>
<td>4,739.2</td>
<td>1,831.1</td>
<td>(2,908.1)</td>
<td>9,075.8</td>
<td>18.8%</td>
<td></td>
</tr>
<tr>
<td>South Coast W.D. **</td>
<td>55.6</td>
<td>67.3</td>
<td>11.7</td>
<td>177.7</td>
<td>216.9</td>
<td>39.2</td>
<td>691.6</td>
<td>31.4%</td>
<td></td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>2,374.5</td>
<td>0.5</td>
<td>(2,374.0)</td>
<td>7,525.0</td>
<td>580.0</td>
<td>(6,945.0)</td>
<td>11,904.1</td>
<td>4.9%</td>
<td></td>
</tr>
<tr>
<td>Valecitos W.D.</td>
<td>1,933.4</td>
<td>1,635.7</td>
<td>(297.7)</td>
<td>6,169.5</td>
<td>5,119.6</td>
<td>(1,049.9)</td>
<td>17,869.0</td>
<td>28.7%</td>
<td></td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>1,305.5</td>
<td>1,196.5</td>
<td>(109.0)</td>
<td>4,136.5</td>
<td>3,718.0</td>
<td>(418.5)</td>
<td>11,175.8</td>
<td>33.3%</td>
<td></td>
</tr>
<tr>
<td>Vista I.D.*</td>
<td>1,574.5</td>
<td>731.7</td>
<td>(842.8)</td>
<td>4,851.7</td>
<td>2,193.4</td>
<td>(2,658.3)</td>
<td>17,543.6</td>
<td>12.5%</td>
<td></td>
</tr>
<tr>
<td>Yuma M.W.D.</td>
<td>8.9</td>
<td>52.8</td>
<td>43.9</td>
<td>23.9</td>
<td>61.3</td>
<td>37.4</td>
<td>55.6</td>
<td>11.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>62,064.9</td>
<td>40,010.0</td>
<td>(22,054.9)</td>
<td>194,822.8</td>
<td>127,408.3</td>
<td>(67,414.5)</td>
<td>540,217.1</td>
<td>23.6%</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

*Fiscal Year 2011 allocation targets are preliminary for tracking purposes.
*Monthly allocation delivery targets "shaped" in same proportion as average of actual FY2005-2007 monthly M&I deliveries.
*M&I water use is estimated because agricultural deliveries for current month have not been reported.
**Includes deliveries through Metropolitan Water District and South Coast Water District to the following entities within the Water Authority's service area: San Onofre Nuclear Generating Station (60.2 AF), San Mateo Point Housing on Camp Pendleton (5.3 AF) and San Onofre State Park (1.8 AF). Respective deliveries shown in parentheses for current month.
Table 2 shows the monthly and cumulative comparison of deliveries versus target along with total allocation delivered to date for agencies participating in the SAWR. September 2010 deliveries for the agencies that have reported totaled 2,486.1 AF, or 19.5 percent less than those agencies’ combined monthly target. Cumulative SAWR deliveries for the first three months of the fiscal year for those agencies having reported were 7,609.9 AF, or 24.4 percent less than their cumulative target of 10,065.8 AF.

### Table 2
**Fiscal Year 2011 SAWR Allocation Vs Actual Deliveries**

<table>
<thead>
<tr>
<th>San Diego County Water Authority SAWR Allocation Performance</th>
<th>FY 2011 Actual SAWR Deliveries Compared to Allocation Targets (AF)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agency</strong></td>
<td><strong>Monthly</strong></td>
</tr>
<tr>
<td></td>
<td>Target</td>
</tr>
<tr>
<td>Encinitas, City of</td>
<td>146.1</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>377.7</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>81.3</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>6.7</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>0.0</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>723.3</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>1.6</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>1.8</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>69.1</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>1,674.5</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>1.7</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>8.1</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>3,091.9</td>
</tr>
</tbody>
</table>

**Notes:**
1. FY2011 member agency monthly allocation delivery targets "shaped" in same proportion as actual FY2007 monthly IAWP deliveries.
2. Agencies that have not yet reported are shown as "n.r." Totals for actuals, variance and "Percentage Allocation Delivered to Date" exclude those agencies that have not yet reported for the current month.
Table 3 shows the monthly and cumulative comparison of deliveries versus target along with total allocation delivered to date for agencies participating in the IAWP for calendar year 2010. Participating agencies that have reported for September were delivered 2,653.4 of IAWP water, which is 26.7 percent below those agencies’ monthly target of 3,620.8 AF. Note that not all agencies reported the September delivery data in time for this report. Effective January 1, 2010, the IAWP cutback rate was reduced from 30 percent to 25 percent per the phase-out by MWD of IAWP.

### Table 3

#### Calendar Year 2010 Allocation Tracking

IAWP Target Vs Actual Deliveries

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current Month</th>
<th>Calendar Year-to Date</th>
<th>Total Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monthly Target</td>
<td>Monthly Actual</td>
<td>Variance</td>
</tr>
<tr>
<td>Carlsbad M.W.D.</td>
<td>2.5</td>
<td>0.0</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Encenidio, City of</td>
<td>70.1</td>
<td>75.5</td>
<td>54</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>490.2</td>
<td>256.1</td>
<td>(234.1)</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>17.6</td>
<td>18.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>1.9</td>
<td>91.0</td>
<td>89.1</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>272</td>
<td>n.r.</td>
<td>-</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>474.8</td>
<td>368.4</td>
<td>(106.4)</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>291.7</td>
<td>195.6</td>
<td>(96.1)</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>558</td>
<td>n.r.</td>
<td>-</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>51.5</td>
<td>15.1</td>
<td>(36.4)</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10.0</td>
<td>3.3</td>
<td>(6.7)</td>
</tr>
<tr>
<td>Vallejo W.D.</td>
<td>95.6</td>
<td>58.8</td>
<td>(36.8)</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>1,711.5</td>
<td>1,738</td>
<td>(537.7)</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>5.0</td>
<td>n.r.</td>
<td>-</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>403.4</td>
<td>396.9</td>
<td>(6.5)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>3,708.8</td>
<td>2,653.4</td>
<td>(967.4)</td>
</tr>
</tbody>
</table>

**Notes:**
1. CY2010 member agency monthly allocation delivery targets "shaped" in same proportion as actual CY2007 monthly IAWP deliveries and include CY2009 and CY2010 opt-out volumes.
2. Agencies that have not yet reported are shown as "n.r." Totals for actuals, variance and "Percentage Allocation Delivered to Date" exclude those agencies that have not yet reported for the current month.
Total water use
In addition to tracking imported deliveries, this report includes monitoring of monthly total water usage, which takes into account local production. Table 4 below provides a comparison of monthly and fiscal year cumulative water use. More detailed information on water use, including use by agency, is contained each month in the Water Resources Report prepared for the Board’s Water Planning Committee.

Table 4
Comparison Estimated Total Water Use*

<table>
<thead>
<tr>
<th>Monthly (AF)</th>
<th>Cumulative to Date (Jul-Sept) (AF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2009</td>
<td>54,800</td>
</tr>
<tr>
<td>September 2010</td>
<td>60,100</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>-9%</td>
</tr>
</tbody>
</table>

*Excludes recycled water use

Prepared by: Dana L. Friehauf, Principal Water Resource Specialist
Reviewed by: Ken Weinberg, Director of Water Resources
October 28, 2010

Attention: Imported Water Committee

Colorado River Board Representative’s Report (Information)

Purpose
The Colorado River Board (CRB) Representative’s Report summarizes monthly activities of the Colorado River Board.

Background
This report covers activities from the October 13, 2010 CRB meeting.

Discussion
The CRB took actions and heard informational reports from CRB staff on activities discussed below:

Water supply and reservoir operations
Measured on October 18, Lake Mead held 10.033 maf, 39 percent of reservoir capacity. The reservoir’s elevation was 1,083, or eight feet above the first shortage trigger level. Lake Powell held 15.325 maf, or 63 percent of capacity. Total system storage was 32.912 maf, 57 percent of capacity and about 1 maf less than last year at this time. Water flowing into Lake Powell finished the 2010 water year at 8.738 maf, or 73 percent of normal. For the month of September, observed inflow was 58 percent of normal, and the forecast for October is 69 percent of normal.

Binational discussions
Representatives from the U.S. and Mexico continued discussions related to a proposed agreement for Mexico to store water in Lake Mead. Mexico would like to store about 50,000 af of its 1.5 maf apportionment this year, and up to about 100,000 af next year. The parties are trying to resolve important aspects of the proposed storage agreement, including how it fits within existing treaty obligations for the quality of water delivered to Mexico, and how Mexico could withdraw the water later without increasing risk of shortage to U.S. users. Both the U.S. and Mexico anticipate working on more comprehensive agreement next year, which could include provisions for Mexico to share water shortages and surpluses, and the development of new water supply projects that benefit both countries.

Water use for planned solar power projects
Board members and staff discussed correspondence between the Board and Solar Millennium, a company developing a large solar power project near Blythe. The Board had previously sent a letter to the California Energy Commission regarding the project’s proposed use of groundwater that could be hydraulically connected to the Colorado River, and recommending the company secure water through an arrangement with MWD. Solar Millennium responded with a letter to the Board characterizing Reclamation’s accounting processes for determining whether groundwater is connected to the river, and Reclamation’s proposed rules for pumping the water. Board staff felt this letter contained several misconceptions about requirements for using Colorado River water and recommended another letter to Solar Millennium to help clarify the issue.
Basin states meeting with Secretary of Interior
Secretary of Interior Ken Salazar scheduled a meeting October 20 with representatives from the seven Colorado River Basin states. The meeting gives an opportunity for the states to express concerns to the secretary regarding current issues in the basin. Agenda items include binational discussions with Mexico, planning for reaching critical elevations at Lake Mead, equalization flows between Lake Powell and Lake Mead, an ongoing study of supply and demand in the basin, and Glen Canyon Dam operations.

Prepared by: Dave Fogerson, Senior Engineer
Reviewed by: Halla Razak, Colorado River Program Director
Approved by: W.D. "Bill" Knutson, CRB Representative

Attachment: Summary Water Report, Colorado River Basin
### SUMMARY WATER REPORT
COLORADO RIVER BASIN
October 4, 2010

<table>
<thead>
<tr>
<th>RESERVOIR STORAGE</th>
<th>MAF</th>
<th>ELEV.</th>
<th>% of Capacity</th>
<th>MAF</th>
<th>ELEV.</th>
<th>% of Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(as of October 4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lake Powell</td>
<td>15.254</td>
<td>3,633.6</td>
<td>63</td>
<td>15.345</td>
<td>3,634.3</td>
<td>63</td>
</tr>
<tr>
<td>Flaming Gorge</td>
<td>3.148</td>
<td>6,024.7</td>
<td>84</td>
<td>3.202</td>
<td>6,026.1</td>
<td>85</td>
</tr>
<tr>
<td>Navajo</td>
<td>1.406</td>
<td>6,064.5</td>
<td>83</td>
<td>1.438</td>
<td>6,066.9</td>
<td>85</td>
</tr>
<tr>
<td>Lake Mead</td>
<td>10.081</td>
<td>1,083.7</td>
<td>39</td>
<td>10.306</td>
<td>1,086.4</td>
<td>40</td>
</tr>
<tr>
<td>Lake Mohave</td>
<td>1.555</td>
<td>637.6</td>
<td>86</td>
<td>1.674</td>
<td>642.1</td>
<td>92</td>
</tr>
<tr>
<td>Lake Havasu</td>
<td>0.565</td>
<td>447.2</td>
<td>91</td>
<td>0.587</td>
<td>448.6</td>
<td>95</td>
</tr>
<tr>
<td>Total System Storage</td>
<td>33.007</td>
<td></td>
<td>55</td>
<td>33.642</td>
<td></td>
<td>58</td>
</tr>
<tr>
<td>System Storage Last Year</td>
<td>34.139</td>
<td></td>
<td>57</td>
<td>34.735</td>
<td></td>
<td>58</td>
</tr>
</tbody>
</table>

**September 6, 2010**

- WY 2010 Precipitation (Basin Weighted Avg) 10/01/09 through 10/04/10: 89 percent (28.9")
- WY 2010 Snowpack Water Equivalent (Basin Weighted Avg) on day of 10/04/10: N/A (N/A)
- October 1, 2010 Forecast of Unregulated Lake Powell Inflow: MAF % of Normal
- 2010 April through July unregulated inflow observed: 5.795 73 %
- 2010 Water Year observed: 8.738 73 %

**September 7, 2010**

- MAF % of Avg.
- MAF % of Normal

### USBR Forecasted Year-End 2010 and 2009 Consum. Use, October 8, 2010 a/ MAF

<table>
<thead>
<tr>
<th>State/Region</th>
<th>Diversion</th>
<th>Return</th>
<th>Net</th>
<th>MAF 2010</th>
<th>MAF 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nevada (Estimated Total)</td>
<td>0.480</td>
<td>0.210</td>
<td>0.270</td>
<td>0.249</td>
<td></td>
</tr>
<tr>
<td>Arizona (Total)</td>
<td>3.660</td>
<td>0.856</td>
<td>2.804</td>
<td>2.829</td>
<td></td>
</tr>
<tr>
<td>CAP Total</td>
<td></td>
<td></td>
<td>1.652</td>
<td>1.660</td>
<td></td>
</tr>
<tr>
<td>Az. Water Banking Authority</td>
<td></td>
<td></td>
<td>0.134</td>
<td>0.134</td>
<td></td>
</tr>
<tr>
<td>OTHERS</td>
<td></td>
<td></td>
<td>1.153</td>
<td>1.169</td>
<td></td>
</tr>
<tr>
<td>California (Total) b./</td>
<td>5.021</td>
<td>0.660</td>
<td>4.361</td>
<td>4.364</td>
<td></td>
</tr>
<tr>
<td>MWD</td>
<td></td>
<td></td>
<td>1.099</td>
<td>1.105</td>
<td></td>
</tr>
<tr>
<td>3.85 Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IID c./</td>
<td>2.863</td>
<td>-0.290</td>
<td>2.573</td>
<td>2.572</td>
<td></td>
</tr>
<tr>
<td>CVWWD d./</td>
<td>0.335</td>
<td>-0.031</td>
<td>0.304</td>
<td>0.309</td>
<td></td>
</tr>
<tr>
<td>PVID</td>
<td>0.290</td>
<td>0</td>
<td>0.290</td>
<td>0.285</td>
<td></td>
</tr>
<tr>
<td>YPRD</td>
<td>0.038</td>
<td>0</td>
<td>0.038</td>
<td>0.038</td>
<td></td>
</tr>
<tr>
<td>Island e./</td>
<td>0.006</td>
<td>0</td>
<td>0.006</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td>Total Ag.</td>
<td>3.532</td>
<td>-0.321</td>
<td>3.211</td>
<td>3.210</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td>0.051</td>
<td>0.049</td>
<td></td>
</tr>
<tr>
<td>PVID-MWD falling to storage (to be determined)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arizona, California, and Nevada Total f./</td>
<td>9.161</td>
<td>1.726</td>
<td>7.435</td>
<td>7.442</td>
<td></td>
</tr>
</tbody>
</table>

a/ Incorporates Jan.-Aug. USGS monthly data and 75 daily reporting stations which may be revised after provisional data reports are distributed by USGS. Use to date estimated for users reporting monthly and annually.

b/ California 2010 basic use apportionment of 4.4 MAF has been adjusted for payback of inadvertent Overrun and Payback Policy overruns (1,461 AF), MWD recovery of interstate underground storage from Arizona (8,159 AF), Delivery of Extraordinary Conservation ICS to MWD (27,569 AF), Delivery of System Efficiency ICS to MWD (34,000 AF), plus delivery of Drop 2 Construction Water (280 AF).

c/ 0.105 MAF conserved by IID-MWD Agreement as amended in 2007: 105,000 AF for SDCWA under the IID-SDCWA Transfer Agreement as amended, 70,000 AF of which is being diverted by MWD; 12,000 AF for CVWD under the IID-CVWD Acquisition Agreement, 87,700 AF from the All-American Canal Lining Project.

d/ 30,850 acre-feet conserved by the Coachella Canal Lining Project.

e/ Includes estimated amount of 8,470 acre-feet of disputed uses by Yuma Island pumpers and 0 acre-feet by Yuma Project Ranch 5 being charged by USBR to Priority 2.

f/ Includes unmeasured returns based on estimated consumptive use/diversion ratios by user from studies provided by Arizona Dept. of Water Resources, Colorado River Board of California, and Reclamation.
FIGURE 1
OCTOBER 1, 2010 FORECAST OF 2010 YEAR-END COLORADO RIVER WATER USE
BY THE CALIFORNIA AGRICULTURAL AGENCIES

Forecast of Colorado River Water Use
by the California Agricultural Agencies
(Millions of Acre-feet)

<table>
<thead>
<tr>
<th>Month</th>
<th>Use as of First of Month</th>
<th>Forecast of Year End Use</th>
<th>Forecast of Unused Water (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>0.000</td>
<td>3.352</td>
<td>0.191</td>
</tr>
<tr>
<td>Feb</td>
<td>0.084</td>
<td>3.456</td>
<td>0.087</td>
</tr>
<tr>
<td>Mar</td>
<td>0.195</td>
<td>3.421</td>
<td>0.122</td>
</tr>
<tr>
<td>Apr</td>
<td>0.479</td>
<td>3.378</td>
<td>0.165</td>
</tr>
<tr>
<td>May</td>
<td>0.826</td>
<td>3.381</td>
<td>0.162</td>
</tr>
<tr>
<td>Jun</td>
<td>1.208</td>
<td>3.382</td>
<td>0.161</td>
</tr>
<tr>
<td>Jul</td>
<td>1.561</td>
<td>3.389</td>
<td>0.154</td>
</tr>
<tr>
<td>Aug</td>
<td>1.958</td>
<td>3.398</td>
<td>0.145</td>
</tr>
<tr>
<td>Sep</td>
<td>2.320</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) The forecast of unused water is based on the availability of 3.543 MAF under the first three priorities of the water delivery contracts. This accounts for the 85,000 af of conserved water available to MWD under the 1988 IID-MWD Conservation agreement and the 1989 IID-MWD-CVWD-PVID Agreement as amended; 70,000 AF of conserved water available to SDCWA under the IID-SDCWA Transfer Agreement as amended being diverted by MWD; an estimated 28,500 AF of conserved water available to SDCWA and MWD as a result of the Coachella Canal Lining Project: 67,700 AF of water available to SDCWA and MWD as a result of the All American Canal Lining Project; 14,500 af of water IID and CVWD are forbearing to permit the Secretary of the Interior to satisfy a portion of Indian and miscellaneous present perfected rights use of Indian and miscellaneous present perfected rights use. As USBR is charging disputed uses by Yuma island pumps to priority 2, the amount of unused water has been reduced by those uses - 6,470 af. The CRB does no concur with USBR's viewpoint on this matter.
COLORADO RIVER BOARD OF CALIFORNIA

August 28, 2010

COLORADO RIVER WATER REPORT

The following report summarizes data obtained from provisional reports of the U.S. Geological Survey, U.S. Bureau of Reclamation, International Boundary and Water Commission, and Imperial Irrigation District.

I. Active Surface Storage\(^1\) in Reservoirs at end of Month (Thousand Acre-feet).

<table>
<thead>
<tr>
<th>Upper Basin</th>
<th>Storage</th>
<th>Elevation in feet</th>
<th>% of Capacity</th>
<th>Change During Month</th>
<th>Change from 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Powell</td>
<td>15,596</td>
<td>3,636.5</td>
<td>64%</td>
<td>-267</td>
<td>-542</td>
</tr>
<tr>
<td>Flaming Gorge</td>
<td>3,254</td>
<td>6,027.5</td>
<td>87%</td>
<td>20</td>
<td>-224</td>
</tr>
<tr>
<td>Fontenelle</td>
<td>333</td>
<td>6,504.4</td>
<td>96%</td>
<td>19</td>
<td>-7</td>
</tr>
<tr>
<td>Navajo</td>
<td>1,474</td>
<td>6,069.5</td>
<td>87%</td>
<td>-70</td>
<td>52</td>
</tr>
<tr>
<td>Blue Mesa</td>
<td>696</td>
<td>7,504.2</td>
<td>84%</td>
<td>-39</td>
<td>-89</td>
</tr>
<tr>
<td>Morrow Point</td>
<td>114</td>
<td>7,156.0</td>
<td>97%</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Crystal</td>
<td>16</td>
<td>6,751.2</td>
<td>92%</td>
<td>-1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>21,483</strong></td>
<td></td>
<td><strong>69%</strong></td>
<td><strong>-336</strong></td>
<td><strong>-808</strong></td>
</tr>
</tbody>
</table>

Lower Basin

<table>
<thead>
<tr>
<th>Lower Basin</th>
<th>Storage</th>
<th>Elevation in feet</th>
<th>% of Capacity</th>
<th>Change During Month</th>
<th>Change from 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Mead</td>
<td>10,357</td>
<td>1,087.0</td>
<td>40%</td>
<td>-199</td>
<td>-621</td>
</tr>
<tr>
<td>Lake Mohave</td>
<td>1,714</td>
<td>643.6</td>
<td>95%</td>
<td>-11</td>
<td>60</td>
</tr>
<tr>
<td>Lake Havasu</td>
<td>592</td>
<td>448.6</td>
<td>96%</td>
<td>-1</td>
<td>10</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>12,663</strong></td>
<td></td>
<td><strong>44%</strong></td>
<td><strong>-211</strong></td>
<td><strong>-551</strong></td>
</tr>
</tbody>
</table>

Upper and Lower Basin Total 34,146 \(^2\)

|                          |         |                  |               | -547               | -1,360           |

1/ Figures shown do not include reservoir dead storage.

2/ Storage above minimum operation level is 34,146 - 15,936 = 18,210 thousand acre-feet. Minimum operation level (15,936 thousand acre-feet) is defined as the sum of active content at minimum power pool plus minimum active content required to make surface diversions at Lake Havasu and Navajo Reservoir.
II. Upper Basin Discharge (Acre-feet).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Green River at Green River, Utah</td>
<td>247,800</td>
<td>3,055,900</td>
<td>268,200</td>
</tr>
<tr>
<td>Colorado River near Cisco, Utah</td>
<td>269,100</td>
<td>3,533,600</td>
<td>231,800</td>
</tr>
<tr>
<td>San Juan River near Bluff, Utah</td>
<td>54,300</td>
<td>684,100</td>
<td>-15,800</td>
</tr>
<tr>
<td>At Lee Ferry (Compact Point)</td>
<td>824,700</td>
<td>7,117,800</td>
<td>470,600</td>
</tr>
</tbody>
</table>

III. Lower Basin Discharge (Acre-feet).

<table>
<thead>
<tr>
<th>Station</th>
<th>Cumulative Flow October thru July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Hoover Dam</td>
<td>941,200</td>
</tr>
<tr>
<td>Below Davis Dam</td>
<td>971,700</td>
</tr>
<tr>
<td>Below Parker Dam</td>
<td>753,500</td>
</tr>
<tr>
<td>Above Imperial Dam</td>
<td>580,400</td>
</tr>
<tr>
<td></td>
<td>7,673,400</td>
</tr>
<tr>
<td></td>
<td>7,747,200</td>
</tr>
<tr>
<td></td>
<td>5,152,100</td>
</tr>
<tr>
<td></td>
<td>4,391,600</td>
</tr>
</tbody>
</table>
IV. Consumptive Use of Lower Colorado River Mainstream Water (Acre-feet),
July, 2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Palo Verde Irrig. Dist.</td>
<td>95,050</td>
<td>35,910</td>
<td>59,140</td>
<td>8,470</td>
<td>187,390</td>
<td>-48,280</td>
</tr>
<tr>
<td>Yuma Proj. (Res. Div.) b</td>
<td>8,080</td>
<td>2,380</td>
<td>5,700</td>
<td>4,080</td>
<td>23,980</td>
<td>-1,320</td>
</tr>
<tr>
<td>Imperial Irrig. Dist. a</td>
<td>296,440</td>
<td>296,440</td>
<td>34,530</td>
<td>1,573,290</td>
<td>-76,470</td>
<td>2,488,030</td>
</tr>
<tr>
<td>Salton Sea Mitigation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,700</td>
<td>-15,610</td>
<td>14,480</td>
</tr>
<tr>
<td>USBR Operations</td>
<td>230</td>
<td>230</td>
<td>230</td>
<td>230</td>
<td>230</td>
<td>230</td>
</tr>
<tr>
<td>IID plus Salton Sea Mitigation</td>
<td>296,670</td>
<td>296,670</td>
<td>33,200</td>
<td>1,575,220</td>
<td>-91,850</td>
<td>2,502,740</td>
</tr>
<tr>
<td>Coachella Val. Wat. Dist. a</td>
<td>36,040</td>
<td>36,040</td>
<td>740</td>
<td>171,710</td>
<td>-5,490</td>
<td>302,480</td>
</tr>
<tr>
<td>Subtotal</td>
<td>435,840</td>
<td>38,290</td>
<td>397,550</td>
<td>1,958,300</td>
<td>-146,940</td>
<td>3,119,700</td>
</tr>
<tr>
<td>Fort Mojave Ind. Res. a</td>
<td>4,300</td>
<td>4,300</td>
<td>0</td>
<td>14,820</td>
<td>0</td>
<td>24,760</td>
</tr>
<tr>
<td>Cal. Miscellaneous a</td>
<td>5,300</td>
<td>5,300</td>
<td>0</td>
<td>21,250</td>
<td>0</td>
<td>34,000</td>
</tr>
<tr>
<td>Metropolitan Water Dist.</td>
<td>107,320</td>
<td>430</td>
<td>106,890</td>
<td>597,480</td>
<td>-78,280</td>
<td>1,029,500</td>
</tr>
<tr>
<td>Total</td>
<td>552,760</td>
<td>38,720</td>
<td>514,040</td>
<td>2,591,850</td>
<td>-225,220</td>
<td>4,207,960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Arizona Project</td>
<td>49,250</td>
<td>49,250</td>
<td>-25,670</td>
<td>890,290</td>
<td>-129,500</td>
<td>1,530,510</td>
</tr>
<tr>
<td>Colorado River Ind. Res.</td>
<td>86,470</td>
<td>19,280</td>
<td>67,190</td>
<td>262,230</td>
<td>-40,400</td>
<td>398,580</td>
</tr>
<tr>
<td>Gila Gravity Main Canal</td>
<td>86,860</td>
<td>17,200</td>
<td>69,660</td>
<td>301,950</td>
<td>-30,880</td>
<td>519,230</td>
</tr>
<tr>
<td>Yuma Proj. (Valley Div.)</td>
<td>41,300</td>
<td>11,050</td>
<td>30,250</td>
<td>131,690</td>
<td>-3,790</td>
<td>205,650</td>
</tr>
<tr>
<td>Fort Mojave Ind. Res. a</td>
<td>8,450</td>
<td>8,450</td>
<td>0</td>
<td>49,280</td>
<td>0</td>
<td>85,130</td>
</tr>
<tr>
<td>Havasu Nat. Wildlife Ref.</td>
<td>5,100</td>
<td>5,100</td>
<td>1,340</td>
<td>24,940</td>
<td>-2,990</td>
<td>33,080</td>
</tr>
<tr>
<td>Arizona Miscellaneous a</td>
<td>11,320</td>
<td>11,320</td>
<td>0</td>
<td>52,040</td>
<td>0</td>
<td>85,000</td>
</tr>
<tr>
<td>Total</td>
<td>288,750</td>
<td>47,530</td>
<td>241,220</td>
<td>1,712,420</td>
<td>-207,560</td>
<td>2,857,190</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From Lake Mead b</td>
<td>49,070</td>
<td>9,810</td>
<td>39,260</td>
<td>2,080</td>
<td>153,830</td>
<td>-5,800</td>
</tr>
<tr>
<td>Mohave Steam Plant</td>
<td>50</td>
<td>50</td>
<td>10</td>
<td>200</td>
<td>-40</td>
<td>420</td>
</tr>
<tr>
<td>Total</td>
<td>49,120</td>
<td>9,810</td>
<td>39,310</td>
<td>154,030</td>
<td>-5,880</td>
<td>279,260</td>
</tr>
</tbody>
</table>

Total Consumptive Use
(Ariz., Cal., Nev.)
890,630   96,060  794,570  60,520  4,458,300  -438,660  7,344,410

a. Based on measurements below Pilot Knob (assumed to be equal to USBR Article V data after credit is given for unmeasured California return flows between Imperial Dam and Pilot Knob). In addition, Salton Sea mitigation is not part of IID's use but is included in IID total diversion. USBR Operations consists of Salton Sea Operations 0 acre-feet and Warren H. Brock Reservoir Operations 230 acre-feet.

b. Return flow estimates based on averages of past returns as calculated by USBR for Article V data.

c. Assumed equal to August, 1983 use estimated by Fort Mojave Indian Tribe.

d. An estimated residual made by the Colorado River Board of California combining such items as small diversions along the river, unmeasured groundwater return flow, etc., which, when combined with other quantities listed to arrive at the State's total, presents an estimate of the State's Consumptive use of Lower Colorado River water.
September 1, 2010, Observed Colorado River Flow into Lake Powell (1) (Million Acre-feet)

<table>
<thead>
<tr>
<th></th>
<th>USBR and National Weather Service</th>
<th>Change From Last Month's Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April-July 2010</td>
<td>Water Year 2010</td>
</tr>
<tr>
<td>Maximum (2)</td>
<td>5.845</td>
<td>9.661</td>
</tr>
<tr>
<td>Mean</td>
<td>5.795 *</td>
<td>8.861 **</td>
</tr>
<tr>
<td>Minimum (2)</td>
<td>5.765</td>
<td>8.161</td>
</tr>
</tbody>
</table>

* This month's A-J observed is 73% of the 30-year A-J average shown below.
** This month's W-Y observed is 74% of the 30-year W-Y average shown below.

Comparison with past records of Colorado River inflow into Lake Powell (at Lee Ferry prior to 1962)

<table>
<thead>
<tr>
<th></th>
<th>April-July Flow</th>
<th>Water Year Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Time Average (1922-2008)</td>
<td>7.741</td>
<td>11.519</td>
</tr>
<tr>
<td>30-yr. Average (1961-90)</td>
<td>7.735</td>
<td>11.724</td>
</tr>
<tr>
<td>Year 2000</td>
<td>4.352</td>
<td>7.310</td>
</tr>
<tr>
<td>Year 2001</td>
<td>4.301</td>
<td>6.955</td>
</tr>
<tr>
<td>Year 2002</td>
<td>1.115</td>
<td>3.058</td>
</tr>
<tr>
<td>Year 2003</td>
<td>3.918</td>
<td>6.358</td>
</tr>
<tr>
<td>Year 2004</td>
<td>3.640</td>
<td>6.128</td>
</tr>
<tr>
<td>Year 2005</td>
<td>8.810</td>
<td>12.614</td>
</tr>
<tr>
<td>Year 2006</td>
<td>5.318</td>
<td>8.769</td>
</tr>
<tr>
<td>Year 2007</td>
<td>4.052</td>
<td>8.231</td>
</tr>
<tr>
<td>Year 2008</td>
<td>8.906</td>
<td>12.356</td>
</tr>
<tr>
<td>Year 2009</td>
<td>7.804</td>
<td>10.633</td>
</tr>
<tr>
<td>Total Years 2000 - 2004</td>
<td>17.326</td>
<td>29.809</td>
</tr>
<tr>
<td>5-Year Average (2000-2004)</td>
<td>3.465</td>
<td>5.962</td>
</tr>
</tbody>
</table>

(1) Under conditions of no other Upper Basin reservoirs.

(2) USBR and NWS forecasts indicate the probability of 95 percent of the time the actual flow will not exceed the maximum value, and will not be less than the minimum value.
VI. Scheduled Flows to Mexico — Arrivals and excess arrivals of Water for Calendar Year 2010
(Acre-feet)

<table>
<thead>
<tr>
<th></th>
<th>(1) Scheduled Flow (\textsuperscript{9})</th>
<th>(2) Total Arrivals</th>
<th>(3) Other Excess Arrivals in accord with Minute 242</th>
<th>(4) Total Excess Arrivals</th>
<th>(5) Cumulative Excess Arrivals</th>
<th>(7) Flow Through NIB and Limitrophe</th>
<th>(8) Flow By-Pass Southerly International Boundary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.</td>
<td>121,599</td>
<td>185,672</td>
<td>11,287</td>
<td>52,786</td>
<td>64,073</td>
<td>166,898</td>
<td>11,287</td>
</tr>
<tr>
<td>Feb.</td>
<td>140,231</td>
<td>149,866</td>
<td>8,969</td>
<td>666</td>
<td>9,635</td>
<td>73,708</td>
<td>132,202</td>
</tr>
<tr>
<td>March</td>
<td>214,969</td>
<td>245,083</td>
<td>18,055</td>
<td>103,822</td>
<td>199,628</td>
<td>223,509</td>
<td>12,059</td>
</tr>
<tr>
<td>April</td>
<td>195,357</td>
<td>221,163</td>
<td>11,617</td>
<td>14,189</td>
<td>25,806</td>
<td>129,833</td>
<td>199,604</td>
</tr>
<tr>
<td>May</td>
<td>104,228</td>
<td>123,535</td>
<td>9,316</td>
<td>270</td>
<td>156,218</td>
<td>115,311</td>
<td>11,617</td>
</tr>
<tr>
<td>June</td>
<td>112,423</td>
<td>119,706</td>
<td>4,885</td>
<td>237</td>
<td>164,470</td>
<td>115,311</td>
<td>11,617</td>
</tr>
<tr>
<td>July</td>
<td>122,685</td>
<td>130,937</td>
<td>8,252</td>
<td>99,324</td>
<td>1,041,928</td>
<td>1,041,928</td>
<td>64,962</td>
</tr>
<tr>
<td>Aug.</td>
<td>94,455</td>
<td>1,175,962</td>
<td>65,146</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept.</td>
<td>89,307</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct.</td>
<td>78,170</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov.</td>
<td>107,099</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec.</td>
<td>125,992</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,506,515</td>
<td></td>
<td>99,324</td>
<td></td>
<td></td>
<td>1,041,928</td>
<td>64,962</td>
</tr>
</tbody>
</table>

Column (1). Flow schedule requested by Mexico. In surplus years as determined by the United States, Mexico can schedule up to 1.7 rather than 1.5 million acre-feet.  

(2). Total Colorado River waters reaching Mexico. It is the sum of: 1) Colorado River water measured at the Northerly International Boundary, 2) drainage waters measured at the Southerly International Boundary near San Luis, Arizona, and 3) Wellton-Mohawk drainage waters measured at the Southerly International Boundary. It is the sum of Columns (1) + (5).  

(3). Arizona's Wellton-Mohawk Irrigation and Drainage District drainage water. This water is discharged to the Santa Clara Slough in Mexico via a concrete-lined canal. 

(4). Excess arrivals other than Wellton-Mohawk drainage. It is the sum of: 1) a delivery of about 5,000 a. f. per year to ensure that Mexico receives what is scheduled, 2) releases from Parker Dam which are not used due to unexpected rainfall in the Palo Verde, Coachella, Imperial, and and Yuma areas, 3) controlled flood releases on the Gila and Colorado River, and 4) local runoff. 

(5). Sum of Columns (3) and (4).  

(6). Cumulation of Column (5).  

(7). Including Colorado River flow at the Northerly International Boundary plus flow from Cooper, 11-mile, and 21-mile spillways.  

(8). Including flow at the Southerly International Boundary, from the East and West Main canals, Yuma Valley Main, 242 Lateral plus diversions from Lake Havasu for Tijuana.
### WEIGHTED MONTHLY SALINITY AT SELECTED COLORADO RIVER STATIONS AND RUNNING 12-MONTH NIB-IMPERIAL FLOW-WEIGHTED SALINITY DIFFERENTIAL (in parts per million)

<table>
<thead>
<tr>
<th>Month</th>
<th>Below Hoover Dam 5-Year avg.3/</th>
<th>Below Parker Dam 2/ 5-Year avg.2/</th>
<th>Palo Verde 3/ Canal Near Blythe 5-Year avg.2/</th>
<th>At Imperial Dam 5-Year avg.2/</th>
<th>At Northerly International Boundary 5-Year avg.2/</th>
<th>Running 12-Month Flow-Wtd. Differential 4/</th>
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**General Notes:**

1/ 5-Year averages are arithmetical.
2/ 12-month flow-weighted differential between NIB and Imperial Dam through month shown in left column.
3/ Operational values only.
4/ Preliminary
Date: October 25, 2010

To: San Diego County Water Authority Board Members

From: Ken Carpi and Jonathan Clay
Legislative Representatives

Subject: Legislative Update

Sacramento, CA

California Legislature Passes State Budget 100 Days Late – The Senate and Assembly finally passed a state budget on October 8th, the latest budget ever passed by the California Legislature. As typical with the budget process in Sacramento, funding assumptions were made that will most likely never materialize. It is safe to say that this budget is roughly $4-$5 billion in the red and that the Legislature will need to revisit the spending plan as early as January or February next year. In signing the budget, the Governor used his blue pencil authority and struck roughly another $1 billion in State spending. These cuts angered Democrat leadership, whom felt that this was going back on agreements made in Big 5 discussions, and this will be another factor in the legislature revisiting the budget sooner rather than later in the new year (of course this all depends on who is elected Governor).

Elections – With the budget process finally over, Legislators are free to resume the campaign trail without the lingering budget “albatross” hanging from their necks. All in all, not much will change in terms of numbers for the Assembly and Senate. What has been interesting to watch has been the effect of the vacancies in the Senate and the impact on legislation. During the 2010 legislative year, there has been at times, three vacancies on the Democratic side which has made it more difficult for the Pro Tempore to gain passage of controversial bills or the budget (interesting that the Assembly passed the budget first this year and jammed the Senate with some bills that they did not want to vote on). The vacancies will be filled with this election cycle, but with the death of Senator Oropeza and the pending court case for Senator Wright, things will remain in flux in the Senate for the near future.
Congress Passes Short-Term Funding Bill and Leaves on Recess – Congress passed a Continuing Resolution (CR) in late September to keep the federal government temporarily funded until December 3. After passing the CR, members departed Washington, DC to campaign for the midterm elections. The CR keeps government operations funded at approximately the FY 2010 spending levels.

The budget and appropriations process this year has completely bogged down even though the federal deficit is hovering at $1.3 trillion annually and $13 trillion cumulatively. After the elections, Democrats are hoping they will be able to complete the appropriations process despite not a single bill having been enacted yet. Republicans are making no secret of their desire to push the budget process into next year when they hope to have more seats and a better ability to make spending cuts. The process will be significantly impacted by the debate over whether to extend Bush era tax cuts which expire December 31 and by President Obama’s fiscal commission report which is due on December 1.

Title XVI Program Criteria Published – The Title XVI Water Reclamation Program administered by the Bureau of Reclamation remains the largest potential source of federal funds for water projects in San Diego. For over a decade, the San Diego region has received a larger share of Title XVI Water Reclamation funds than any other region in the country.

The Bureau of Reclamation has published new funding criteria for the Title XVI Water Recycling and Reuse Program. The funding criteria will be used for two FY 2011 Title XVI Funding Opportunity Announcements.

It is expected that the two funding opportunities will be posted at www.grants.gov sometime this fall. One opportunity will be open for construction of Title XVI projects. Another funding opportunity will provide cost-shared assistance for the development of feasibility studies under the program.

As a part of the larger debate over Title XVI funding, Chairwoman Napolitano of the House Subcommittee on Water & Power sent a letter to Secretary of the Interior Ken Salazar requesting an annual funding level of $200 million for the Title XVI program to help eliminate the backlog of projects.

The Title XVI Water Recycling Program is a part of the President’s Budget but, over the years, has relied on Members of Congress’s funding requests in the appropriations process for the majority of its funding.
IMPORTED WATER COMMITTEE

AGENDA FOR

OCTOBER 28, 2010

REVISED

Dan McMillan – Chair  Keith Lewinger
Bill Knutson – Vice Chair  John Linden
Yen Tu – Vice Chair  Ralph McIntosh
Keith Blackburn  Rua Petty
Jim Bond  Hershell Price
Brian Boyle  Elsa Saxod
Gary Croucher  Barbara Wight
Lynne Heidel

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

1. Metropolitan Water District Issues and Activities update  Amy Chen
   1-A Metropolitan Water District Delegates report. (Information) (pickup packet)

   1-B Update on Metropolitan Water District’s 2010 Integrated Resources Plan. (Discussion)

2. Colorado River Programs.
   2-A Colorado River Board representative’s report. (Information) (pickup packet)

   Bill Knutson
2-B   Colorado River Programs quarterly report.  

III. INFORMATION  

1. Bay-Delta quarterly update.  
   Jeff Volberg  

2. Metropolitan Water District Program report.  
   Amy Chen  

IV. CLOSED SESSION  

1. CLOSED SESSION:  
   Conference with Legal Counsel – Initiation of Litigation  
   Government Code §54956.9(c)  
   Metropolitan Water District Notice of Intention to Enforce Rate Structure Integrity Clause  
   Dan Hentschke  

2. CLOSED SESSION:  
   Conference with Legal Counsel – Initiation of Litigation  
   Government Code §54956.9(c) – One Case  
   Dan Hentschke  

3. CLOSED SESSION:  
   Conference with Legal Counsel – Existing Litigation  
   Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California;  
   Case No. BS126888 (transferred to San Francisco)  
   Dan Hentschke  

V. ADJOURNMENT  

Doria F. Lore  
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 (Revised). 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.
October 22, 2010

Attention:  Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c) – One Case

Purpose
This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(c) to discuss the above-referenced matter at the October 28, 2010, Board 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: Daniel S. Hentschke, General Counsel
October 22, 2010

Attention: Import Water Committee

CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case No. BS126888 (transferred to San Francisco)

Purpose
This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(a) to discuss the above-referenced matter at the October 28, 2010, Board 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: Daniel S. Hentschke, General Counsel
San Diego County Water Authority

4677 Overland Avenue
San Diego, California 92123

REVISED

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.

October 28, 2010

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 Formal Board of Directors’ meeting of September 23, 2010.

6. Opportunity for members of the public who wish to address the Board on matters within the Board’s jurisdiction.

7. PRESENTATIONS & PUBLIC HEARINGS

8. REPORTS BY CHAIRS
   8-A Chairs report:

8-B Report by Committee Chairs
   Legislation, Conservation and Outreach Committee
   Administrative and Finance Committee
   Water Planning Committee
   Engineering and Operations Committee
   Imported Water Committee
   Director Dailey
   Director K. Williams
   Director Saunders
   Director Arant
   Director McMillan
9. CONSENT CALENDAR

9- 1. Treasurer's report.
   Staff recommendation: Note and file the monthly Treasurer’s report.

9- 2. Establish 2011 Board meeting dates.
   Combine the November and December Board meeting dates to December 8, 2011,
   and approve the 2011 Board meeting dates calendar.

9- 3. Amend Ordinance 2010-02 to correct an error in the allocation of the Storage,
   Customer Service, and Readiness-to-Serve charges to member agencies.
   Adopt Ordinance 2010-__ an Ordinance of the Board of Directors of the San
   Diego County Water Authority amending Ordinance 2010-02 to correct the
   allocation of the storage, customer service and readiness-to-serve charges.

9- 4. Approve the selection of Montague DeRose and Associates, LLC to provide
   financial advisory services.
   Authorize the General Manager to award a multi-year professional services
   contract to Montague DeRose and Associates, LLC for a base amount not-to-
   exceed $350,000 for the three-year period from November 1, 2010 to October 31,
   2013. The contract has two one-year renewal options.

9- 5. Notice of Completion for the Mission Trails Pipeline Tunnel project.
   Authorize the General Manager to accept the Mission Trails Pipeline Tunnel
   project as complete, record the Notice of Completion, and release funds held in
   retention to L.H. Woods and Sons, Inc. following the expiration of the Notice of
   Completion period.

10. ACTION / DISCUSSION

10-1. Approve the Audit Committee's recommendation of Mayer Hoffman McCann
   P.C. as independent auditor for a five-year period covering both the financial
   audits of FY2011-FY2016 and Agreed Upon Procedures services.
   Audit Committee Recommendation: Approve the selection of MHM as the Water
   Authority's and QSA JPA's independent auditor, and to authorize the General
   Manager to enter into an agreement with MHM, for independent audits and agreed
   upon procedures services for a five-year period from June 1, 2011 through May
   31, 2016, for a not-to-exceed amount of $613,200. (Action)
11. CLOSED SESSION(S)

11-A CLOSED SESSION:
Conference with Legal Counsel – Potential Litigation
Government Code §54956.9(b) – San Vicente Pipeline Mortar Lining Claim

11-B CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c)
Metropolitan Water District Notice of Intention to Enforce Rate Structure Integrity Clause

11-C CLOSED SESSION:
Conference with Legal Counsel – Initiation of Litigation
Government Code §54956.9(c) – One Case

11-D CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case No. BS126888 (transferred to San Francisco)

12. Action following Closed Session

13. SPECIAL REPORTS
13-A GENERAL MANAGER’S REPORT – Ms. Stapleton
13-B GENERAL COUNSEL’S REPORT – Mr. Hentschke
13-C SANDAG REPORT – Director Muir
  SANDAG Subcommittee: Borders/Regional Planning Committee – Director Saxod
13-D AB 1234 Compliance Reports – Directors

14. OTHER COMMUNICATIONS

15. ADJOURNMENT

Doria F. Lore
Clerk of the Board

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.