MWD’s Termination of Funding Agreements with the Water Authority

Imported Water Committee
June 23, 2011
2004 – MWD adopted policy to include “rate structure integrity” in funding agreements
   ◦ Intended to squelch member agencies’ actions to challenge rate structure through courts or legislature
     • With Water Authority in mind

2004 – Water Authority opposed “RSI”
   ◦ Declined execute agreements with “RSI”

2007 – Water Authority board authorized staff enter into funding agreements with MWD
   ◦ But with full reservation of rights
Options reviewed by MWD Board this month

- **Option 1**
  - Terminate existing contracts; do not execute pending or new agreements

- **Option 2**
  - Terminate existing contracts, hold estimated payments in separate account for future board determination; no pending or new agreements

- **Option 3**
  - Terminate existing agreements, except commercial and residential rebate programs; no pending or new agreements

- **Option 4**
  - Do not terminate existing agreements; authorize approval of pending agreements
## Existing Agreements w/ RSI

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Max. Amount</th>
<th>Agreement Status</th>
<th>MWD June Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Commercial Program*</td>
<td>N/A</td>
<td>Active</td>
<td>Partially terminated</td>
</tr>
<tr>
<td>Regional Residential Program*</td>
<td>N/A</td>
<td>Active</td>
<td>Partially terminated</td>
</tr>
<tr>
<td>Landscape Auditor Interns</td>
<td>$143k</td>
<td>Closed</td>
<td>–</td>
</tr>
<tr>
<td>Smart Landscape Grant Program</td>
<td>$1.12M</td>
<td>Active</td>
<td>Terminated</td>
</tr>
<tr>
<td>Enhanced conservation Program (Rincon)</td>
<td>$91.4k</td>
<td>Closed</td>
<td>–</td>
</tr>
<tr>
<td>San Vicente Recycling (Ramona)</td>
<td>$1.3M</td>
<td>Active</td>
<td>Terminated</td>
</tr>
</tbody>
</table>

* Only direct consumer and business conservation rebates remain
### Pending Agreements

<table>
<thead>
<tr>
<th>Pending Agreement</th>
<th>Max. Amount</th>
<th>Agreement Status</th>
<th>MWD June Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad Seawater Desalination Project*</td>
<td>$350M</td>
<td>Pending</td>
<td>Do not enter</td>
</tr>
<tr>
<td>Agricultural Conservation</td>
<td>&lt; $2M/yr</td>
<td>Pending</td>
<td>Do not enter</td>
</tr>
<tr>
<td>Innovative Conservation – flow control value study</td>
<td>&lt; $0.1M</td>
<td>Pending</td>
<td>Do not enter</td>
</tr>
</tbody>
</table>

* MWD June 2011 memo states Carlsbad project would be considered a “new agreement” that would have to be brought back for board consideration
Update on MWD’s Blue Ribbon Committee

Imported Water Committee

June 23, 2011
Background and Purpose

- 2010 MWD then-Chairman Brick announced the formation of a new Blue Ribbon Committee to project a vision of MWD’s business model in 2060
- Consider trends and uncertainties over the next 50 years that may affect MWD
- Consider whether the present business model would be reliable, resilient, and robust under a wide range of future conditions
BRC Membership and Process

- BRC Membership
  - 27 diverse members
- BRC members met 12 times from March 2010 to April 2011
  - BRC divided into 6 working groups based on 6 key focus areas
- Final report presented in April
  - Assessed MWD’s business model; governance structure; economic, regulatory and environmental conditions
  - Envisioned the type of organization MWD might need to become to meet the regions future needs
  - Recommended actions MWD might consider now to prepare for the future
Vision for MWD in 2060

- Helps the region achieve “security through diversity”
- Serves as developer and manager of a regional system for conveyance and storage and a regional integrator for water services
- Relies on a self-sustaining financial and pricing model
- Serves as a cooperative of member agencies management for the common benefit
Major Issues Discussed in Report

- Role for imported supplies
  - Did not reach consensus on support of Delta Conveyance
- Role of local supplies and water use efficiency
  - Did not discuss who pays
- Role of water trading market
  - Identify barriers and implement a pilot
- Need for a new vision and mission statement
  - Initiate an external review of its governance structure
- New partnerships
  - Improve public’s understanding of the value of water
- Need for a new pricing structure
  - Recognized Fixed Costs vs Variable Revenues not sustainable
### BRC Recommends.....

<table>
<thead>
<tr>
<th>Evaluation of selected demand management programs in US</th>
<th>Invest in new out-of-basin agricultural water sources from conservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop and implement proactive communication strategies</td>
<td>Assess potential partnerships and funding opportunities for energy efficiency, reliability, and greenhouse gas emissions</td>
</tr>
<tr>
<td>Expand public education</td>
<td>Expand partnerships</td>
</tr>
<tr>
<td>Endorses MWD’s leadership in BDCP processes</td>
<td>Evaluate potential benefits and cost of water trading amongst member agencies</td>
</tr>
<tr>
<td>Supports MWD keeping CRA full</td>
<td>Consider new vision and mission statement</td>
</tr>
<tr>
<td>Evaluate the LRP and develop and adaptive long-range financial plan</td>
<td>Review its current pricing structure</td>
</tr>
<tr>
<td>Consider co-pilot projects</td>
<td>External review of its governance structure</td>
</tr>
<tr>
<td>Accelerate assessments of the costs and benefits of small distributed surface storage and expand groundwater storage</td>
<td>Identify potential elements for regionally connected systems</td>
</tr>
</tbody>
</table>
In conclusion.....

- Not all BRC members happy with outcome of report
  
- April 12, 2011 report was finalized and transmitted to MWD Board
  
- MWD may establish a review committee to consider or respond to BRC findings
Commercial Paper Program Update and Debt Refunding Recommendation

Administrative and Finance Committee

June 23, 2011
Agenda

• Update on Variable-Rate Debt Strategy Execution

• Discussion of Fixed-Rate Note

• Refunding Opportunity (Fixed-Rate Long-Term Debt)
### Variable Rate Debt Strategy Execution Schedule

**Board Actions**
- **Approved Variable Rate Debt Management Strategy**
- **Approve Documents Including NOS (if competitive)**
- **Board Updates**

<table>
<thead>
<tr>
<th>Month</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TECP</strong></td>
<td>Negotiate bank agreements</td>
<td>Execute Revolving Credit &amp; Term Loan Agreements (TECP)</td>
<td>Get credit ratings assigned</td>
<td>Post TECP CP Offering Memorandum</td>
<td>Close transaction</td>
<td>Transition TECP notes to new facilities</td>
<td></td>
</tr>
<tr>
<td><strong>FIXED</strong></td>
<td>Document development &amp; ratings procurement</td>
<td>Posting of POS for Fixed Rate Notes &amp; Refunding Revenue Bonds</td>
<td>Pricing of Fixed Rate Notes &amp; Refunding Revenue Bonds</td>
<td>Closing of Fixed Rate Notes &amp; Refunding Revenue Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Debt Management Strategy Will Diversify the Debt Portfolio

Existing Debt Portfolio Structure

- Commercial Paper 19%
- Fixed Rate 81%

Proposed Debt Portfolio Structure

- Commercial Paper 15%
- Fixed Rate 81%
- Fixed Rate Note 4%
## Overview of New Commercial Paper Program

<table>
<thead>
<tr>
<th>Series</th>
<th>Size ($millions)</th>
<th>Replacement Bank</th>
<th>Expiration Date</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Series 1</td>
<td>$110</td>
<td>BayernLB</td>
<td>June 2013</td>
<td>50 bps</td>
</tr>
<tr>
<td>Series 4</td>
<td>$100</td>
<td>Barclays</td>
<td>June 2013</td>
<td>60 bps</td>
</tr>
<tr>
<td>Series 5</td>
<td>$100</td>
<td>Wells Fargo</td>
<td>June 2014</td>
<td>60 bps</td>
</tr>
<tr>
<td>Series 6</td>
<td>$50</td>
<td>Citibank</td>
<td>June 2014</td>
<td>60 bps</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$360M</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Series 1 is existing debt

### Dealers/Remarketing Agents

<table>
<thead>
<tr>
<th>Merrill Lynch</th>
<th>Barclays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goldman, Sachs &amp; Co.</td>
<td>J.P. Morgan Chase</td>
</tr>
<tr>
<td>Citicorp Global</td>
<td></td>
</tr>
</tbody>
</table>
Fixed-Rate Note Market Fundamentals

• Currently, supply and demand conditions are very favorable:
  - Supply is low
    - 2011 supply running at about 50% of 2010 supply, year-to-date
  - Demand for shorter term municipal bonds is strong
    - Shorter-term maturities are particularly attractive
• 5-year MMD has the most favorable ratio to Treasuries

Historical 5-Year MMD - Ten Year History
May 2001 - May 2011

5-Year MMD Statistics

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>3.98%</td>
</tr>
<tr>
<td>Low</td>
<td>1.05%</td>
</tr>
<tr>
<td>Average</td>
<td>2.76%</td>
</tr>
<tr>
<td>Current</td>
<td>1.18%</td>
</tr>
</tbody>
</table>
Fixed-Rate Note Fundamentals

**Structure**
- Not-to-exceed par amount of $100 million
- Secured on the subordinate lien on parity with the existing commercial paper
  - ➢ 1.05x Additional Bonds Test (ABT) requirement
- Five year final maturity (may include an optional call provision to enhance flexibility)

**Benefits**
- Reduces renewal/rollover risk
- Eliminates third-party credit risk – Bank risk
- Improves budget certainty
- Provides a low cost of funds
- Minimizes impact on rates and charges
Fixed-Rate Note Method of Sale

• Recommended method of sale is negotiated
  ➢ First subordinate lien debt without bank support
  ➢ Intensive marketing effort

• Benefits of a negotiated sale:
  ➢ Controlled marketing message
  ➢ Pre-marketing activities to create investor demand
  ➢ Flexible structuring to appeal to the broadest investor base
  ➢ Flexible market entry to optimize timing
Revenue Bond Refunding Fundamentals

• As of June 1, 2011, $236.75 million of the Series 2002A Water Revenue COPs are outstanding

• Under current market conditions,
  ➢ The 2014 through 2024 maturities can be called
  ➢ Produce approximately $8.4 million in present value debt service savings

Structure

• The Refunding bonds will be issued with a 10-year call option

• Bonds are not expected to be structured with a reserve fund

• Bonds will be structured for level savings
Revenue Bond Refunding Method of Sale

• Competitive sale is recommended
  ➢ Water Authority is a highly rated entity
  ➢ Senior lien – familiar to investors
  ➢ Favorable market conditions exist

• If the market becomes volatile or credit spreads widen, a negotiated sale may be executed as provided in the Resolution
Summary

• Today’s actions:

  ➢ Reduce the risks associated with traditional variable-rate debt (rollover/renewal/bank risk)

  ➢ Diversifies the Water Authority’s debt portfolio

  ➢ Provides more stability in the Water Authority’s variable-rate portfolio over the next five years

  ➢ Takes advantage of current market rates and fundamentals to realize debt service savings
Board Action

1) Adopt a resolution authorizing the issuance of Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1, in an aggregate principal amount not to exceed $100 million for the purpose of refunding $100 million in outstanding tax-exempt commercial paper; authorize a negotiated method of sale for the issuance; and approve the selection of firms to serve as the underwriting team.

2) Adopt a resolution authorizing the issuance of Senior Lien Water Revenue Refunding Bonds, Series 2011A, for the purpose of refunding certain existing long-term debt; and authorize the Director of Finance to determine the method of sale for the issuance closer to the pricing date.

3) Approve the forms of financing documents for both refunding bond issuances, including the Preliminary Official Statements for the 2011S-1 Bonds and the Series 2011A Bonds.
General Manager’s Recommended Budget
Fiscal Years 2012 and 2013

Administrative and Finance Committee
June 23, 2011
Budget Review

- **January 27th**
  - Board Input on FYs 2012 & 2013 Budget

- **May 26th**
  - GM presented Recommended Budget to Board
  - Noticed public hearing for 2012 Rates & Charges
Budget Review

- June 7th – Special A&F Committee
  - Sources/Uses of Funds
  - Operating Department Detail
    - Water Supplies Portfolio
      - Colorado River Program
      - MWD Program
      - Water Resources
    - Water Facilities
      - Engineering
      - Operations and Maintenance
Budget Review

- June 9th – Special A&F Committee
  - Operating Department Detail (cont.)
    - Core Business
      - General Counsel
      - General Manager/Board of Directors
    - Administrative Services
    - Finance
    - Human Resources
    - Public Outreach and Conservation
  - Capital Improvement Program
  - Debt Service
Budget Review

- June 23rd
  - Budget Workshop Presentations (cont. from June 9th)
    - Lake Hodges Pumped Storage Operations
    - Grants
  - Board consideration/adoption of Recommended Budget
Lake Hodges Pumped Storage Operations

Frank Belock, Deputy General Manager
Gary Eaton, Director of Operations & Maintenance
Hodges Pumped Storage

- Potential for operating or maintaining externally
  - RFP release pending
- Transitional staffing (internal)
- Estimated timing for operation
  - Turbine 1 – October 2011
  - Turbine 2 – May 2012
Internal vs. External Operation

Options

- **Internal Operation**
  - Flexibility & staff opportunity
  - May facilitate improved integration with Authority system

- **External Operation**
  - Capitalize on external operator expertise
  - Transfer of risk
  - Allows draw from variety of part-time specialists as needed
  - Keeps Water Authority focus on core business
Preliminary Cost Estimate

- O&M OT/DT during initial operating period = $0.10 M
- Contractor 2 yr contract period = $4.80 M
- Utilities (pumping, facility power) = $1.15 M

Total = $6.05 M
Next Steps

- July – Request for Proposals (RFP)
- September – Review and analysis of submitted proposals
- October – Board consideration and action regarding operational structure
Grants

Ken Weinberg, Director of Water Resources
Grant Administration

- Previous Decentralized Grant Administration/ Management Structure
  - Departments had own process and procedures for managing grants.
  - Limited costs and benefits analyses during grant acquisition phase.
  - No lead in the coordination efforts for implementation systems, policies and procedures affecting all aspects of a grant.
  - Effective when grants were limited and more focused
Grant Administration Program

- Grant Management Efficiency Project (Aug. 2009)
  - Off budget year project
  - Participation by staff members from core departments

- Current Grant Administration Program
  - Centralized and coordinated Water Authority Grants Administration
  - Process supports grant exploration and management.
  - Grant Review Committee
    - Provides objective evaluation and recommendations on benefits to the organization and provide guidance on grant policies and procedures.
  - Led by Grant Administrator (Water Resources Dept.) and supported by Grant Analyst (Finance Department)
    - Grant funded LDE positions
Ongoing and Upcoming Grants

- **Ongoing Grants**
  - IRWM Proposition 50 Grants - $25M
  - Conservation Grants - $6.2M

- **Grants Awarded Under New Program**
  - USBR WaterSmart Title XVI Grant - $150K
  - IRWM Proposition 84 Planning Grant - $1M
  - IRWM Proposition 84 Implementation Grant - $8M
  - Hans Doe Grants - $31K

- **Upcoming Grants**
  - IRWM Proposition 84 Implementation Grants - $59M (Multiple Rounds to be Scheduled)
  - USBR Grants – WaterSmart (Title XVI and Water & Energy Efficient)
Recommended Action

- Approve adoption of Resolution No. 2011-_____, a Resolution of the Board of Directors of the San Diego County Water Authority approving the General Manager’s Recommended Budget for Fiscal Years 2012 and 2013, for operations and capital improvements and appropriating $1.417 billion consistent with the approved budget.
Recommended CY 2012 Rates and Charges

Administrative and Finance Committee
June 23, 2011
Agenda

- Timeline
- Rate and Charge Drivers
- Recommendation
- Financial Performance Metrics
- Estimated Impacts
2012 Rate and Charge Setting Timeline

- Board adopts the Deferral of 14 CIP Projects
- High/Low Rate and Charge Forecast Presented to GMs
- Notice of Public Hearing

Jan 11
- Board Meetings
- MAFO Meetings
- GM Meetings

Feb 11
- High/Low Rate and Charge Forecast Presented to Finance Officers

Mar 11
- Recommended Rates and Charges Presented to Finance Officers

Apr 11
- Recommended Rates and Charges Presented to Board

May 11
- Recommended Rate and Charge Presentations at Board Budget Workshops

June 11
- Public Hearing for Recommended Rates and Charges

July 11
- Board Action on Rates and Charges
Key Rate Drivers

- Water sales volumes
- Increasing cost of water
- Planned debt service payments
Water Sales Forecast

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>High-rate Scenario</th>
<th>2012 Rates</th>
<th>Low-rate Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>397,672</td>
<td>422,857</td>
<td>431,559</td>
</tr>
<tr>
<td>2012</td>
<td>417,707</td>
<td>452,631</td>
<td>479,675</td>
</tr>
<tr>
<td>2013</td>
<td>442,439</td>
<td>475,223</td>
<td>502,859</td>
</tr>
<tr>
<td>2014</td>
<td>469,842</td>
<td>496,890</td>
<td>529,190</td>
</tr>
<tr>
<td>2015</td>
<td>488,242</td>
<td>510,351</td>
<td>542,808</td>
</tr>
<tr>
<td>2016</td>
<td>502,077</td>
<td>520,011</td>
<td>547,294</td>
</tr>
</tbody>
</table>

- 7% increase over current CY 2011 estimated sales
### MWD CY 2012 Rate Increases

<table>
<thead>
<tr>
<th>Adopted MWD</th>
<th>CY 2011</th>
<th>CY 2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Supply</td>
<td>$155</td>
<td>$164</td>
<td>5.8%</td>
</tr>
<tr>
<td>System Access</td>
<td>$204</td>
<td>$217</td>
<td>6.4%</td>
</tr>
<tr>
<td>Water Stewardship</td>
<td>$41</td>
<td>$43</td>
<td>4.9%</td>
</tr>
<tr>
<td>System Power</td>
<td>$127</td>
<td>$136</td>
<td>7.1%</td>
</tr>
<tr>
<td>Treatment</td>
<td>$217</td>
<td>$234</td>
<td>7.8%</td>
</tr>
<tr>
<td>Tier 1 Untreated</td>
<td>$527</td>
<td>$560</td>
<td>6.3%</td>
</tr>
<tr>
<td>Tier 1 Treated</td>
<td>$744</td>
<td>$794</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

- MWD’s rate increases are more uniform than past
- Average overall increase including RTS & CRC is 7.5%

Transportation increase of 6.5%

RTS – Readiness-to-Serve  
CRC – Capacity Charge
MWD is Largest Share of Water Cost

Projected CY 2012 M&I Cost of Water Purchases/ QSA Exchange

- MWD Costs (Tier 1 & QSA Exchange) 82%
- IID Water Purchases* 18%
- Canal Water Purchases* <1%

Total Cost - $247M

- MWD represents 82% of the Water Authority’s cost of water purchased

* Excludes the debt service for capital projects and recovery of settlement expenditures.
Existing Debt Service Payments (2011–2016)

Net Debt Service

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>in Millions</td>
<td>$109</td>
<td>$114</td>
<td>$138</td>
<td>$144</td>
<td>$148</td>
<td>$153</td>
</tr>
</tbody>
</table>

1 Excludes capitalized interest and commercial paper program related fees
## Recommended Rates & Charges

<table>
<thead>
<tr>
<th>Water Authority Rates and Charges</th>
<th>CY 2010 Previous</th>
<th>CY 2011 Current</th>
<th>CY 2012 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable Rates</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melded M&amp;I Supply Rate ($/AF)</td>
<td>$532</td>
<td>$597</td>
<td>$638</td>
</tr>
<tr>
<td>Melded M&amp;I Treatment Rate ($/AF)</td>
<td>$215</td>
<td>$215</td>
<td>$234</td>
</tr>
<tr>
<td>Transportation Rate ($/AF)</td>
<td>$67</td>
<td>$75</td>
<td>$85</td>
</tr>
<tr>
<td><strong>Fixed Charges</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Storage Charge (million)</td>
<td>$34.0</td>
<td>$44.3</td>
<td>$54.2</td>
</tr>
<tr>
<td>Customer Service Charge (million)</td>
<td>$18.0</td>
<td>$23.2</td>
<td>$26.4</td>
</tr>
<tr>
<td><strong>Other Rates and Charges</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Untreated Special Agricultural Water Rate ($/AF)</td>
<td>$484</td>
<td>$527</td>
<td>$560</td>
</tr>
<tr>
<td>Treated Special Agricultural Water Rate ($/AF)</td>
<td>$699</td>
<td>$742</td>
<td>$794</td>
</tr>
<tr>
<td>IAC</td>
<td>$2.02/ME</td>
<td>$2.49/ME</td>
<td>$2.60/ME</td>
</tr>
<tr>
<td>Standby Availability Charge per parcel or acre, whichever is greater(^1)</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
</tr>
</tbody>
</table>

\(^1\) Fiscal Year Charge.

\(^2\) ME means meter equivalent as defined in the resolution establishing the Infrastructure Access charge.
Recommended “All-in” CY 2012 Water Authority Water Rate

<table>
<thead>
<tr>
<th>Rates and Charges ($/AF)</th>
<th>CY 2011 Rate Projection</th>
<th>CY 2011 Rate Estimate</th>
<th>Recommended CY 2012 Rates</th>
<th>Proposed CY 2012 Increase</th>
<th>Proposed CY 2012 Increase (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melded Supply Rate</td>
<td>$597</td>
<td>$597</td>
<td>$638</td>
<td>$41</td>
<td>6.9%</td>
</tr>
<tr>
<td>Melded Treatment Rate</td>
<td>215</td>
<td>215</td>
<td>234</td>
<td>19</td>
<td>8.8%</td>
</tr>
<tr>
<td>Transportation</td>
<td>75</td>
<td>75</td>
<td>85</td>
<td>10</td>
<td>13.3%</td>
</tr>
<tr>
<td>Storage *</td>
<td>95</td>
<td>123</td>
<td>133</td>
<td>10</td>
<td>8.1%</td>
</tr>
<tr>
<td>Customer Service *</td>
<td>44</td>
<td>56</td>
<td>58</td>
<td>2</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Total Cost of Treated Water</strong></td>
<td><strong>$1,026</strong></td>
<td><strong>$1,066</strong></td>
<td><strong>$1,148</strong></td>
<td><strong>$82</strong></td>
<td><strong>7.7%</strong></td>
</tr>
<tr>
<td><strong>Total Cost of Untreated Water</strong></td>
<td><strong>$811</strong></td>
<td><strong>$851</strong></td>
<td><strong>$915</strong></td>
<td><strong>$64</strong></td>
<td><strong>7.5%</strong></td>
</tr>
</tbody>
</table>

*Fixed charges converted to $/AF and may not foot due to rounding
Breakdown of the CY 2012 Water Rate and Charge increases

“All-in” Increase Distribution
$82/AF

Melded Supply Rate Increase
$41/AF

- Storage *
  12% ($10)

- Transportation
  12% ($10)

- Customer Service *
  3% ($2)

- Treatment
  23% ($19)

- Supply
  50% ($41)

- MWD Increase
  71% ($29)

- Water Authority
  29% ($12)

*Converted to $/AF based on sales forecast
2011 Rate Forecasts
“All-in” Treated Water Rate

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>High-rate Scenario</th>
<th>Percent Increase</th>
<th>Low-rate Scenario</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$1,066</td>
<td></td>
<td>$1,066</td>
<td></td>
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<tr>
<td>2012</td>
<td>$1,213</td>
<td>13.8%</td>
<td>$1,115</td>
<td>4.6%</td>
</tr>
<tr>
<td>2013</td>
<td>$1,305</td>
<td>7.6%</td>
<td>$1,176</td>
<td>5.4%</td>
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<tr>
<td>2014</td>
<td>$1,418</td>
<td>8.6%</td>
<td>$1,231</td>
<td>4.7%</td>
</tr>
<tr>
<td>2015</td>
<td>$1,559</td>
<td>9.9%</td>
<td>$1,280</td>
<td>3.9%</td>
</tr>
<tr>
<td>2016</td>
<td>$1,648</td>
<td>5.7%</td>
<td>$1,404</td>
<td>9.7%</td>
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</tbody>
</table>
2011 Rate Forecasts
“All-in” Untreated Water Rate

Recommended
$915
(7.5% change)

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>High-rate Scenario</th>
<th>Percent Increase</th>
<th>Low-rate Scenario</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$851</td>
<td></td>
<td>$851</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>$955</td>
<td>12.2%</td>
<td>$888</td>
<td>4.6%</td>
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<tr>
<td>2013</td>
<td>$1,033</td>
<td>8.2%</td>
<td>$939</td>
<td>5.4%</td>
</tr>
<tr>
<td>2014</td>
<td>$1,121</td>
<td>8.4%</td>
<td>$986</td>
<td>4.7%</td>
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<tr>
<td>2015</td>
<td>$1,208</td>
<td>7.8%</td>
<td>$1,033</td>
<td>3.9%</td>
</tr>
<tr>
<td>2016</td>
<td>$1,273</td>
<td>5.4%</td>
<td>$1,146</td>
<td>9.7%</td>
</tr>
</tbody>
</table>
Financial Performance Metrics – Debt Service Coverage Ratios

Projected Debt Service Coverage Ratios

Coverage projected to fall slightly below Board target level of 1.50x
Financial Performance Metrics

Year-end RSF Fund Balance

Projected FY 2011: $5.4M draw from the RSF
Impact of CY 2012 Rate Increase on Composite Monthly Residential Bill

5 Retail Agency Average Composite Cost

- Fixed Charge: $19.50 monthly
- Commodity Charge: $50.25
- Composite Monthly Residential Bill: $69.75

<table>
<thead>
<tr>
<th>Wholesale Charges</th>
<th>Recommended Rates Monthly Retail Cost</th>
<th>Percent Retail Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Untreated</td>
<td>$2.37</td>
<td>3.4%</td>
</tr>
<tr>
<td>Treated</td>
<td>$3.01</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Actual rate impact will vary by member agency
Recommended Rates and Charges

- All-in treated water rates—$1,148/acre-foot
- Increase in overall water rates & charges of:
  - 7.7% treated
  - 7.5% untreated
- Overall rate and charge increase will vary by member agency depending upon the fixed charge allocations
- Fiscal Sustainability project
  - Cost of service report
Today’s Action

- Adopt the Water Authority’s rates and charges for calendar year 2012 and continue the annual Standby Availability Charge for fiscal year 2011–2012 as currently imposed (Action).
Construction Contract for
Relining Pipelines 3 and 4 from
Miramar Hill to Scripps Ranch

Engineering & Operations
Committee Meeting

June 23, 2011
Agenda

- Overview of Relining Program
- Bid and Bid Protest
- Recommendation for Board Action
NOT A PART OF PROJECT

LEGEND
- Access Portals (Approximate)
- Existing Water Authority Untreated Water Pipelines
- Scheduled Pipelines 3 & 4 Reline

PROJECT:
Pipelines 3 & 4 Relining
Miramar Hill to Scripps Ranch
Figure 2
Key Elements

- Next priority project in the Pipeline Relining/Replacement Program
- Includes relining 15,000 feet of PCCP
- Coordinated five separate shutdowns with Member Agencies to maintain untreated water services during construction
## Bid Summary

**SPECIFICATION 606**

<table>
<thead>
<tr>
<th>NO.</th>
<th>GENERAL CONTRACTOR</th>
<th>BID AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADVERTISED BID RANGE</td>
<td>$20M - $23M</td>
</tr>
<tr>
<td>1.</td>
<td>Creamer-Spiniello, JV</td>
<td>$18,964,750</td>
</tr>
<tr>
<td>2.</td>
<td>LH Woods &amp; Sons, Inc.</td>
<td>$19,689,000</td>
</tr>
<tr>
<td>3.</td>
<td>J.F. Shea Construction, Inc.</td>
<td>$20,649,000</td>
</tr>
<tr>
<td>4.</td>
<td>CCL Contracting, Inc.</td>
<td>$22,434,750</td>
</tr>
</tbody>
</table>
Bid Evaluation & Bid Protest

- Parallel investigative effort on Bid Evaluation and Bid Protest
  - Supervisor’s experience
  - Qualifications of steel liner installer
Steel Liner Qualifications

- 2 successful projects in past 10 years
  - Pipe diameter 60-inches or greater
- Transportation and mating of the liner
- Blocking and securing the liners
- Fit-up, welding and grouting liners in place
Bid Evaluation & Bid Protest

- Bid Complied with Contract Documentation Requirements
- Creamer-Spiniello is the Lowest Responsive and Responsible Bidder
Recommendations

1. Deny the Bid Protest.

2. Award a Construction Contract to J. Fletcher Creamer & Sons, Inc. and Spiniello Companies, a Joint Venture in the amount of $18,964,750 for the Pipelines 3 and 4 from Miramar Hill to Scripps Ranch Relining Project.
2010 UWMP Plan Development Activities

**Oct 1, 2009**
- Kick-off meeting with member agencies

**Aug 26, 2010**
- Report to Board on schedule for preparation of 2010 Plan

**Feb 10, 2011**
- WP Committee workshop on preliminary baseline demand forecast & supply mix

**Feb 25, 2011**
- Preliminary demand forecast distributed to member agencies

**Mar 7, 2011**
- Hosted DWR workshop on 2010 Plan preparation

**Mar 31, 2011**
- Admin. Draft distributed to MA for technical review

**Apr 28, 2011**
- Update to Board on schedule and release of 2010 Plan

**May 6, 2011**
- Release of public review draft 2010 Plan to Board & public

**May 23, 2011**
- WP Committee workshop on draft 2010 Plan

**May 26, 2011**
- Public hearing to receive comments on draft 2010 Plan

**Jun 6, 2011**
- Comments due on draft 2010 Plan

**Jun 23, 2011**
- Board adoption of final 2010 Plan

San Diego County Water Authority
Public comments received on draft 2010 Plan

- **Written comments**
  - 4 entities, 1 individual
    - California Coastal Coalition
    - Equinox Center
    - San Diego County Taxpayers Association
    - San Diego Coastkeeper

- **Oral comments**
  - 6 public speakers
Public comments received on draft 2010 Plan (continued)

- **Topic areas:**
  - Demand management and programs to assist compliance with SBX7-7
  - Scenario Planning and uncertainty risk assessments
  - Support for supply diversification strategy for water resources mix and seawater desalination

- **Written and oral comments incorporated into 2010 Plan, where appropriate**
DWR initial review of 2010 Plan

- DWR initially reviewed 2010 Plan for completeness and compliance with Act
  - Meeting with Water Authority staff
  - Provided comprehensive comments
- All DWR comments incorporated
- Submit 2010 Plan to DWR by July 23, 2011
Adopt the resolution approving the Water Authority’s 2010 Urban Water Management Plan (2010 Plan) and submit the 2010 Plan to the State of California by July 23, 2011, in order to comply with the Urban Water Management Planning Act of the California Water Code.
Background

- Board approved Term Sheet and directed staff to begin drafting water purchase agreement (WPA) based on the key terms and conditions contained in the Term Sheet (July 2010)
- Provided Draft WPA to Poseidon (December 2010)
- Binding equity commitment secured from Blackstone Infrastructure Partners L.P. (December 2010)
- Conducting financial and corporate due diligence
- Water Authority better defined connection to Aqueduct and related improvements
  - Pipeline 3 to Twin Oaks Valley WTP
- Poseidon completed competitive procurement process
  - Finalizing pricing with successful bidders
- Direct negotiations on WPA contingent on Poseidon fulfilling all conditions precedent outlined in Term Sheet
Current Status

- Blackstone Infrastructure Partners separated from parent, Blackstone, earlier this year
- Now called Stonepeak Infrastructure Fund
- Primary Investor is TIAA-CREF, a large and well established pension and investment fund
  - Poseidon has updated its equity commitment letter to reflect change
- Selected team led by Kiewit Infrastructure West Co. and J.F. Shea Construction
  - IDE Technologies is the process designer and operator
  - Other key subs include Malcolm Pirnie (non-process design) and Tetratech (conveyance pipeline design)
Status Of Conditions Precedent For Negotiation of WPA

- Water Authority Board Approved Term Sheet
- Water Authority develop first draft of WPA
- Poseidon/Water Authority cancel all prior Confidentiality Agreements
- Poseidon provides binding equity investor commitment
- Poseidon documents intent to cancel existing WPA
Status Of Conditions Precedent For Negotiation of WPA

☐ Member Agencies document intent to cancel existing WPAs

☐ Carlsbad
☑ Oceanside
☑ Olivenhain
☑ Rainbow
☑ Rincon
☑ Santa Fe ID
☑ Vallecitos
☑ Valley Center
Status of Discussions with Carlsbad

- Water Authority and Carlsbad working to meet condition precedent

- Shared information and draft agreements with Carlsbad
  - Held multiple meetings with Carlsbad staff
  - Chair Hogan and staff have met with Carlsbad elected officials and their Management staff

- Received direction from Board Desalination Advisory Group
  - Last meeting with Carlsbad officials June 14, 2011
  - Reported status to Board Desal Advisory Group June 17, 2011
Approval Process

- **Conditions precedent to Board consideration of final agreement**
  - Water Authority conduct due diligence
    - Financial, technical, and legal
  - Price of water is finalized except for interest rate of debt
  - All construction and operating agreements signed
  - Financing documents finalized and accepted by Water Authority
  - Only marketing Private Activity Bonds remains

- **Two public workshops will be held prior to Board consideration of a Final Agreement**
  - Water Planning Committee
  - Full Board of Directors
Next Steps

- Continue to work with Carlsbad to meet final condition precedent
- Conclude development of a draft agreement
- If remaining condition precedent is satisfied, complete project due diligence
- Negotiate a final draft agreement with Poseidon
- Final pricing with exception of interest rate on debt
- Schedule two workshops
  - Water Planning Committee
  - Board of Directors
- Board consideration of final agreement
Guiding Principles for Member Agency Purchases of potential Water Authority-owned supplies from the Carlsbad Desalination Project

Water Planning Committee
June 23, 2011
Member agencies interested in subcontracting with the Water Authority for local water from the Carlsbad project at full cost

- Several Desal Partner agencies expressed interest during discussions preceding approval of Water Authority/Poseidon Term Sheet in July 2010

- General Manager directed staff to work on a program that would accommodate the agencies’ request
Member agency purchase policy guidelines considered by the Board in March 2011

- Proposed purchase policy guidelines covered Carlsbad Project and other future Water Authority local supplies
- A number of questions/concerns were raised including:
  - Definition of a local supply vs. a regional supply
    - Impacts to regional reliability and potential future cost savings
  - The applicability of these supply purchases to the voting entitlement all-in financial contribution
  - How to deal with exchanges and over-subscription
Key Questions/Concerns raised regarding purchase principles proposed in March

- Definition of a local supply vs. regional supply
  - Staff asked to revisit previous Board discussions on “choice”
    
    **“Choice” concept:** member agencies would choose their supplies, the amounts of supply, desired reliability and decide whether or not to participate in regional projects (ESP)

- 1996 Custom Service Plan / Lead-up to IID Transfer agreement
  - Workshop minutes indicate Board expressed both interest and concern
    - Interest in potential flexibility offered – pay for what you want
    - Concern over creation of differential service levels, based on ability to pay (“haves” and “have-nots”)

  - Board ultimately did not advance the “choice” concept
    - IID and ESP were to enhance overall regional reliability
    - Access to economies of scale / regional rate base minimizes impact to individual consumer
Applicability of purchase revenue to member agency voting entitlement calculation

- General Counsel has determined that purchases count toward agency “total financial contribution”
- Insignificant impact, even after 30 years, on “total financial contribution” percentages used to calculate voting entitlement
  - Only net revenue above current rates and charges impacts calculation going forward
  - Total financial contribution > $8 billion
    - Requires a significant change in revenue to move the percentages
Vote Entitlement Change due to Proposed Local Supply Purchase

Assumptions:
1) CY 2011 vote entitlement percentages used as baseline
2) Analysis based on year 2016 rates (excluding the melded treatment rate)
3) Rate escalation: All-In at 6% and Desal at 5% per year
Key Questions/Concerns raised regarding purchase principles proposed in March

- How to deal with over-subscription and exchanges
  - **Over-subscription** – What happens if there is more demand than supply available for purchase?
    - Pro-rata allocation based on objective measure to be developed
  - **Exchanges** – Could purchased water be sold to another member agency?
    - Yes. Such a sale would be handled as an exchange between the two agencies, similar to current practice
Revised Purchase Principles – June 2011

In response to input received, proposed purchase principles revised

- Application solely to be limited to Carlsbad Desalination Project
  - Unique circumstance – shifted from member agency sponsored to Water Authority sponsored project
    - Requires regional economies of scale to implement
  - Not establishing a precedent for purchase of other existing or future Water Authority supplies
    - Corresponding language to be included in the individual agency agreements
    - Available to all member agencies

- Broader application does not require near-term attention
CDP Water Authority-Owned Supply
Member Agency Purchase Purchase Principles

- Requires separate purchase agreement between member agency and the Water Authority
  - Board consideration and approval

- Requires full cost recovery pricing
  - Reduces Water Authority revenue requirement and lessens impact on rates and charges

- Requires commitment to purchase a fixed annual amount
  - One-time determination
  - Fixed term equal to WPA term
  - Decision within 60 days from release of final draft agreement for public review
    - Final price and terms available
CDP Water Authority-Owned Supply
Member Agency Purchase Principles

- Purchase limits
  - Max. of 49% of the total expected annual supply
  - Majority of benefits accrue to the region

- Includes transportation charge for water conveyed through Water Authority system

- A separate administration fee will be imposed to recover costs associated with managing the supply and transportation aspect

- Purchased water treated as a local supply under Water Shortage Management and Drought Response Plan
CDP Water Authority-Owned Supply
Member Agency Purchase Principles

- Purchased water will not be included in the calculation of the Storage Charge (Highly reliable supply)
  - Offsets a need for emergency service
- Purchased water may be blended with other supplies prior to delivery to member agency
- Purchased water is not eligible for Water Authority local supply incentives
  - Purchase price will be reduced by MWD subsidy, if obtained
- If Water Authority receives grant funding that results in reduced cost to Water Authority, that reduced cost will be incorporated in member agency’s purchase price
Staff Recommendation

1. Adopt the proposed guiding principles solely for allowing member agency purchases of potential Water Authority-owned local water supplies from the Carlsbad Desalination Project.

2. Approve corresponding revisions to the Local Supply Conveyance and Exchange Policy.