



**SPECIAL MEETING**  
**ADMINISTRATIVE AND FINANCE COMMITTEE**

**Board Room**

**NOVEMBER 14, 2013**

**2:30 p.m. or immediately following the Imported Water Committee meeting**

Javier Saunders – Chair  
Gary Arant – Vice Chair  
Barbara Wight – Vice Chair  
Ed Gallo  
Frank Hilliker  
Michael Hogan

Keith Lewinger  
Dennis Sanford  
Bob Topolovac  
Mark Watton  
Mark Weston  
Ken Williams  
Doug Wilson

1. Call to order.
2. Roll call – determination of quorum.
3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
4. Chair’s report.

**I. CONSENT CALENDAR**

**II. ACTION/DISCUSSION**

- 1 Fiscal Sustainability Task Force.
  - 1-A Fiscal Sustainability Overview and Process. Dave Barnum
  - 1-B Perspective on Past and Future Rate Setting Environment. Ken Weinberg/  
Tracy McCraner
  - 1-C Proposed Fiscal Sustainability Guiding Principles. Dave Barnum/  
Task Force Recommendation: Approve the Fiscal Sandy Kerl  
Sustainability Guiding Principles as recommended by the  
Fiscal Sustainability Task Force. (Action)

**III. INFORMATION**

**IV. CLOSED SESSION**



V. ADJOURNMENT

Doria F. Lore  
Clerk of the Board

**NOTE:** This meeting is also called and noticed as a meeting of the Board, but will be conducted as a meeting of the Administrative & Finance Committee. 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 Water Authority Administrative Code. All items on the agenda, including information items, may be deliberated and become subject to Committee action. All public documents provided to the Committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.



November 4, 2013

**Attention: Administrative and Finance Committee**

**Approve the Fiscal Sustainability Task Force's recommended Guiding Principles for Fiscal Sustainability as defined. (Action)**

**Purpose**

To approve the Fiscal Sustainability Task Force Guiding Principles that were developed to aid the Board and staff when recommending new, or changes, to the Water Authority's rate and charge structure, or financial policies, with the objective of ensuring the long term fiscal sustainability of the Water Authority.

**Fiscal Sustainability Task Force Recommendation**

Approve the proposed Fiscal Sustainability Guiding Principles.

**Alternatives**

Adopt modifications in the Fiscal Sustainability Guiding Principles.

**Fiscal impact**

There is no fiscal impact associated with this action.

**Background**

During the March, 2011 Board Planning Retreat, it was agreed that a focus of the Board going forward would be on ensuring the fiscal sustainability of the Water Authority. This was a proactive response to the severe economic downturn, the largest since the Great Depression, as well as the significant challenges facing the water industry. The environment in which we operate has changed with unprecedented reductions in water sales, a challenging economic environment with a very slow recovery, significant restrictions on water from the Bay-Delta, as well as increases in water efficiency and conservation programs.

Soon after the Fiscal Sustainability Task Force (FSTF) was created, the process was delayed to allow staff resources to focus on the Carlsbad Seawater Desalination Project as well as time for the General Manager's Office to complete the recruitment and selection of a new Finance Director/Treasurer for the Water Authority. The Task Force was re-initiated in January, 2013 when Chair Wornham selected the seven new Task Force members, Barbara Wight (Chair), Gary Arant, David Barnum, Gary Croucher, DeAna Verbeke, Mark Weston and Tom Wornham.

The FSTF held its initial meeting on May 29, 2013 to discuss a timeline, project overview, rate-setting principles, the history of our rates and charges and strengths of our existing rate structure. Dr. Thomas W. Chesnutt from A&N Technical Services and Robert Grantham of Carollo Engineers have been hired to assist the FSTF with all technical advice and industry best practices. The FSTF has met seven times thus far and areas they have focused on include, but are not limited to:

- Defining and Measuring Fiscal Sustainability
- Rating Agency Metrics
  - Strengths and costs of maintaining a strong credit rating
  - Metrics are just one factor when valuing credit quality
- Cost of Service Study 2000 & Cost of Service Study 2013
- Emerging Issues Impacting Fiscal Sustainability:
  - Allocation of Storage
    - Emergency Storage Project (ESP)
    - Carryover Storage Project (CSP)
    - Seasonal
  - Consistently applying revenue offsets to Treatment Rate Category
  - Balancing Fixed Revenues with Fixed Obligations
  - IAC – Policy and metrics
  - Peaking
  - Rate Stabilization Fund Reserves
  - Stored Water Reserves
- Equity and Fairness among member agencies and generations

Overall, the Water Authority's existing rate and charge structure is robust and has performed well to provide a diverse revenue stream which results in a strong ratio of fixed revenues to fixed expenses. This stability is one of the leading criteria rating agencies have recently cited in affirming the Water Authority's high credit ratings. Along with our prudent financial management practices and comprehensive long-term planning these qualities have ensured our strong credit ratings and debt service coverage levels, low cost of funds and access to public markets during difficult economic times. Looking forward to the challenges that remain i.e. increased long-term financial commitments, the Water Authority is invested in a process of continuous improvement, and although the rate and charge objectives are the same, the way the Water Authority achieves these goals may need to be changed or refined.

### **Discussion**

The FSTF has developed the attached proposed guiding principles to aid the Board and staff when recommending new, or changes, to the Water Authority's rates and charges structure, or financial policies, with the objective of ensuring the long term fiscal sustainability of the Water Authority.

The Fiscal Sustainability Task Force has recommended the proposed Guiding Principles and requests approval by the A&F Committee.

Respectfully submitted on behalf of the Fiscal Sustainability Task Force;

Prepared by: Tracy McCraner, Director of Finance/Treasurer  
Reviewed by: Sandra L. Kerl, Deputy General Manager  
Approved by: Maureen A. Stapleton, General Manager

Attachment: A) Proposed Guiding Principles

## *Proposed Guiding Principles*

These Guiding Principles shall:

**A. Contribute to maintaining a AA+ or better credit rating:**

- Maintaining a strong credit rating lowers interest cost, increases access to credit markets which gives greater flexibility to respond to market changes, and increases affordability
- Fundamental Strengths are not cost driven and are a mixture of
  - Board willingness to make tough rate decisions
  - Proven history of doing what we say we will do
  - Strong financial management and policies
- Measured by the following metrics:
  - Debt Service Coverage Ratio (DSCR)
  - Reserve Policies
  - Cash on Hand
  - Appropriate Fixed Revenue to Fixed Cost %

**B. Adhere to Industry Cost of Service Principles:**

- Must generate sufficient revenue to pay O&M expenses, costs of development and perpetuation of the system, and preservation of the utility's financial integrity (reserves, debt service coverage)
- Benefits bear a fair, reasonable, and logical relationship to burdens

**C. Ensure all beneficiaries of services pay a fair share of costs:**

- Nexus between level of service and cost of service
- Availability of system and supply
- Different customers generate different costs based on their pattern of use or demand (i.e. peaking, IID, other). Each customer group pays its own way – No free-ridership

**D. Provide Equity for all Member Agencies:**

- Fairness between and among Member Agencies in the short and long-term
- Ensure all regional interests are met

**E. Result in the consistent application of Board rate-setting and other financial policies:**

- Board has adopted comprehensive rate-setting and financial management policies which support fiscal sustainability. These policies need be applied consistently in future decision making

**F. Support intergenerational equity:**

- Water infrastructure assets have very long useful lives, some estimated at 100 years, both current and future users benefit
- There must be a proper funding mix of cash funding (existing users) and debt financing (future users) which results in a shared responsibility between current and future users

**G. Result in an appropriate level of fixed revenues for fixed obligations:**

- There should be a fixed revenue stream for a fixed obligation which takes into consideration reducing rate volatility, incorporating beneficiaries pay principles, member agency equity, and intergenerational equity

**H. Consider our dynamic environment:**

- Take into account the variability in long term weather patterns, supply availability and the changing nature of Water Authority and member agency water supply planning as well as future regulatory requirements

**I. Maintain or enhance our fundamental mission:**

- The Water Authority's fundamental mission is to provide its member agencies with a safe and reliable water supply. Additionally, our statutory obligation is to provide member agencies "with adequate supplies of water to meet their expanding and increasing needs"

**J. Fulfill all Legal Requirements:**

- State legal cost of service requirements
- County Water Authority Act
- Board Policies and Administrative Code

**K. Be consistent in the Water Authority's position on rate setting and fiscal sustainability here and at MWD**