Proposed Staff Recommendation Consent Calendar for February 27, 2014

**LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE**

9- 1. Adopt positions on various state bills.
   1. Adopt a position of Oppose on AB 1249 (Salas)
   2. Adopt a position of Oppose Unless Amended on AB 1331 (Rendon)
   3. Adopt a position of Oppose Unless Amended on AB 1445 (Logue)
   4. Adopt a position of Oppose Unless Amended on SB 848 (Wolk)
   5. Adopt a position of Support If Amended on SB 927 (Cannella)

   Adopt updated water bond priorities for 2014.

**ENGINEERING AND OPERATIONS COMMITTEE**

9- 3. Design-Build Performance Specifications for the Twin Oaks Valley Water Treatment Plant Expanded Service Area project.
   Approve the Design-Build Performance Specifications for the Twin Oaks Valley Water Treatment Plant Expanded Service Area project.

**ADMINISTRATIVE AND FINANCE COMMITTEE**

9- 4. Treasurer’s report.
   Note and file the monthly Treasurer’s report.

9- 5. Approve the Recommended Variable Rate Debt Management Strategy.
   Approve the recommended variable rate debt management strategy; and
   Approve the renewal of the Wells Fargo liquidity facility agreement and adopt Resolution 2014-___ authorizing the amendment of the Wells Fargo Bank agreement; and
   Approve the selection the Bank of Tokyo to replace the Bayerische Landesbank liquidity facility and adopt Resolution 2014-___ authorizing the issuance and sale of short-term Certificates and authorizing and approving certain actions in connection therewith; and
   Approve the selection of Morgan Stanley and Bank of America/Merrill Lynch to serve as dealers on the Extendable Commercial Paper series.
February 26, 2014

Attention: Imported Water Committee

Metropolitan Water District Delegates’ Report (Information)

Background
This report summarizes discussions held and key decisions made at the MWD committee and board meetings, as reported by the MWD delegates. The MWD committees and board met on February 10 and 11. The next regular MWD board and committee meetings are scheduled for March 10 and 11.

Discussion
The Water Authority delegation supported 13 out of 15 action items approved by the MWD board. The delegates opposed two items related to authorizing funds for an on-site retrofit pilot program and approving $20 million in additional funds for conservation activities and enhanced public outreach. The Water Authority delegates expressed their support for water conservation planning and implementation as a fundamental component of the region’s long-term water supply. However, the delegates stated that they are unable to support additional expenditures by MWD for programs where the Water Authority and its ratepayers are not fully entitled to receive program benefits, due to the MWD Board’s adoption and enforcement of the “Rate Structure Integrity” clause. The delegates’ letter also stated that they cannot support additional conservation or recycled water expenditures that are improperly assigned by MWD to the Water Stewardship Rate. For the delegates’ letter to MWD on these two issues, see Attachment 1. The delegates requested their letters be entered into the administrative record.

Attachment 2 is a copy of MWD’s February committee and board meeting agendas and summary report.

Communications and Legislation Committee
The committee and board heard a report on H.R. 3964 (Valadao, R-CA): Sacramento-San Joaquin Valley Emergency Water Delivery Act, which requires the Central Valley Project and the State Water Project (SWP) be prohibited from operating in a manner beyond the Bay-Delta Accord of 1994. Staff reported that the House of Representatives passed Valadao’s bill, but does not expect the bill to be taken up by the Senate. Staff added that California Senators Dianne Feinstein and Barbara Boxer, who do not support the bill, anticipate introducing their own drought-relief bill. Director Peterson (Las Virgenes Municipal Water District) said Valadao’s bill “guts” the Central Valley Project Improvement Act, which MWD and its member agencies supported. He suggested MWD eventually take a position other than its current “watch” position, which was based on the board’s adopted Delta Policy Principles.

The committee also received reports on other state and federal legislative activities.

Engineering and Operations Committee
The committee and board approved four items, related to infrastructure reliability projects, including the final design to replace fish screens on the inlet/outlet tower at Diamond Valley Lake.
The committee also received a report on the proposed transfer of the state’s Drinking Water Program from the California Department of Public Health (CDPH) to the State Water Resources Control Board (State Water Board). MWD is preparing to review Governor Brown’s Transition Plan and will make policy recommendations to the board on related legislation or budget bills.

The committee also heard a report on MWD’s Capital Investment Plan (CIP) process that includes evaluating project drivers, priorities, and budget development. The proposed CIP budget for fiscal years 2014/15 and 2015/16 combined is about $513 million. Staff said the details of the CIP budget would be the subject of the upcoming workshop (February 25). Because MWD has historically underspent its CIP budget, Lewinger asked what happens to the unspent CIP budgeted funds. Chief Operating Officer Man responded that needed projects (but not high on the priority list) would be included and identified in the CIP budget document and “teed-up” to move forward in the event CIP funds were not expended.

Finance and Insurance Committee

The committee and board set the public hearings date for proposed water rates and charges and suspension of the tax rate limit on March 11, 2014. The committee also heard a report on the proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16 and proposed water rates and charges for calendar years 2015 and 2016. The proposed average rate increases are 1.5 percent for each year and are based on annual water sales and exchanges of 1.75 million acre-feet. As part of the proposed package, staff also recommends that MWD continues to suspend the tax rate limitation and use $320 million from current year reserves which are projected to exceed the maximum “target” for unbudgeted purposes, including funding for the Other Post-Employment Benefit (OPEB) Trust, the replacement and refurbishment program and “water management and storage programs.” A detailed report on the budget and rates and charges are included in the board packet.

Following staff’s presentation, and in response to a question by Committee Chair Grunfeld (Los Angeles), Chief Financial Officer Breaux said that MWD’s OPEB annual premium is about $15 million and covers retired employees. He added that next year, MWD plans to fund its annual required contribution fully, and $100 million from the excess reserves to be transferred to the OPEB trust would be added to the assets in the plan accelerating pay-down of accumulated unfunded liabilities. Subsequently, Director Lewinger asked why staff was abandoning the board adopted plan to pay-down the OPEB unfunded liability. Breaux said the five-year plan adopted in 2012 would get MWD to the annual required contribution (ARC), and within 30 years pay down the unfunded liability. He said this new “choice” would accelerate the pace when MWD will fully fund at the ARC by 3 years, and by paying down the unfunded liability, MWD’s ARC would lower by $6.5 million each year; to which, Lewinger responded that an alternative option is to use some of the excess reserves to not raise rates, provide tax relief, and reduce costs for ratepayers.

Lewinger noted that MWD is proposing to fund 100 percent of the Capital Investment Plan (CIP) in 2015 through 2017 with cash, with a long-term plan to cash fund at 60 percent. He added a few months ago MWD Controller DeBacker indicated that it was the board’s policy to maintain around a 20% PAYGo level for the CIP program. Lewinger requested that at the next workshop, staff provide an in-depth presentation of why staff is proposing to triple the level of PAYGo and how the proposal would address the intergenerational responsibilities of our ratepayers. He asked that staff also provide data on other large agencies’ policies related to PAYGo/CIP ratio.
Subsequently, Director Wunderlich (Beverly Hills) questioned the trade-off between paying down OPEB more quickly versus putting more money into PAYGo since they both involve generational transfer issues. Breaux responded that paying down OPEB would probably be the most beneficial, but would like to model it.

Lewinger asked if staff planned to make the data and methodology used to generate the rates available to the board members. Deputy General Counsel Bennion said that MWD’s financial planning model is proprietary; MWD does not make it available to anyone, and noted that the matter is part of the rate litigation with the Water Authority. Lewinger clarified that his request is related to modeling and setting of rates for 2015 and 2016. Benion replied that “We (MWD) will provide the same response that we’ve provided in the past: that it’s a proprietary model.”

Following an inquiry from Lewinger, discussion ensued over staff’s use of “target” in lieu of “maximum” when describing reserves over the prescribed level defined in the Administrative Code. Breaux said he interpreted the Administrative Code as the board could consider, but it was not mandatory, using the funds over the reserve level to pay down debt, to fund the capital program, or to return funds to the member agencies. Also responding to another question by Lewinger, Breaux said that the 1.5 percent average rate increase and maintaining the ad valorem tax would generate about $22.5 million in additional revenues. Consequently, Lewinger pointed out that the 2014 average rate increase of 5 percent was not needed particularly since 2014 is projected to end with $320 million in excess reserves. He urged the board to consider not raising rates in 2015 and to adopt rates annually, rather than every two years, to accommodate for changing conditions. Consequently, Wunderlich stated he was open to considering this option. Subsequently, Touhey asked how much of the excess reserves were a result of water sales of water held in storage, to which Breaux responded that about two-thirds ($210 million) resulted from drawing down storage. Breaux’s response prompted Touhey to say that the excess reserves should be used to replace the water. Kightlinger added that the remaining one-third of the excess revenues resulted from “money we (MWD) didn’t spend on power because we had no water (SWP) to move.”

Lewinger commented that water conservation and recycling programs have controlled demand, thus reducing the amount of water MWD had to purchase and bring from the Colorado River or the SWP. Lewinger added that yet, 100 percent of these programs are paid for through transportation charges, and rather than on supply. Breaux countered and said that the costs are covered in the Stewardship rate, which is attached to every acre-foot MWD sells. Discussion segued to whether MWD’s water sales and exchange projection of 1.75 million acre-feet included in the 10-year rate forecast was consistent with its Integrated Resources Plan (IRP). General Manager Kightlinger said that the Water Planning and Resources Group reviewed the data and indicated it builds-up to about 1.85 million acre-feet through 2035, which is consistent with the IRP.

In response to Lewinger’s inquiry, Breaux indicated that staff anticipates applying the Bay Delta Conservation Plan (BDCP) costs to the System Access Rate, but would return with additional information on how much of the BDCP staff projects would be applied to the System Access Rate. Lewinger also pointed out that the water rates for CY 2015 is predicated on 50 percent of SWP deliveries, which is unlikely to happen due to dry conditions. He said that even with a 25 percent allocation MWD would avoid $80 million in variable costs, which more than covers the $25
million staff projects would be generated by the rate increase. As such, Lewinger suggested that staff adjust the SWP delivery expectation for next year. Subsequently, Director Peterson (Las Virgenes) agreed that staff’s estimated demand may need adjustment. Kightlinger said the Water Resources group would review the historic data.

Responding to Wunderlich, Breaux described how he envisioned the newly created Water Management Fund would be utilized. He said under normal conditions, he did not anticipate using that fund; however, given draws on storage, the fund would be used to move more SWP water when available to replenish storage. Kightlinger added that the fund would also be used in the event that allocation increases beyond what was projected, increasing power costs to move the water and therefore requiring additional funds. Breaux said that staff would return to the board as recommendations are developed. Wunderlich suggested that principles be shaped to define triggers for using the Water Management Fund. Wunderlich also commented that instituting a peaking charge would minimize water treatment rate increases. Financial Planning Manager Skillman said that the rate could be modified to include a separate charge that better reflect member agencies’ reliance on MWD treatment plants for peaking purposes. Consequently, Peterson added that treatment costs have grown “out of hand” because agencies roll-off the system. He suggested that the some of the excess revenue collected be used on water treatment costs. Peterson added that the rate system should include a readiness-to-serve charge to reserve use of treatment plants.

Legal and Claims Committee
In closed session, the committee discussed litigation with the Water Authority, the Consolidated Delta Smelt and Salmonid Cases, among other items. The Delegates did not participate in the discussion involving the Water Authority’s rate litigation. In open session, the committee and, subsequently, the board, approved three items – two items were related to increasing funds for legal services and the third item authorized the General Manager to accept proposed terms for removal of operational restrictions on the Garvey Reservoir and enter into an amendment to the settlement agreement.

Organization and Personnel Committee
The committee received an update on MWD’s Business Process Sustainability Program, which is focused on reducing MWD’s consumption of non-renewable resources while raising sustainability awareness. The program also includes implementing eco-friendly business practices. Staff also gave an update on MWD’s Business Outreach program and reported that more than $1 billion has been awarded to small business owners over the last 10 years.

Real Property and Asset Management Committee
During public comment, Michelle Staples, representing the Domenigoni-Bartons, who own about 1,700 acres near the West Dam of Diamond Valley Lake (DVL), reminded the committee that when MWD certified its Environmental Impact Report for DVL, MWD committed to mitigation measures. Ms. Staples indicated that the Domenigoni-Bartons’ family is willing to renegotiate a permanent mitigation plan as MWD pursues its interest in the area. Committee Chair Evans (Western Municipal Water District) requested staff to follow-up with Ms. Staples. The committee also heard a report from Keyser Marston Associates, Inc., a real estate advisory firm, contracted by MWD to research market conditions near Diamond Valley Lake and identify viable opportunities for its properties. Keyser reported that the market area is still recovering from the
recession, employment is lagging, and that generally the location is isolated from highway access. The latter item particularly impacts market demand. Staff will continue to monitor market conditions and potential uses for its properties and report back to the committee.

**Water Planning and Stewardship Committee**
The Water Planning and Stewardship Committee and board approved four items, including adopting resolutions to support MWD’s 2014 WaterSMART grant applications and Water Supply Alert. Planning and Resources Manager Goshi also gave an update on MWD’s 2014 projected water supply, demand and storage conditions. He reported that 1.8 million acre-feet of water supplies from imported sources (including both surface water and water from storage) are available to meet projected demand of 2.0 million acre-feet for 2014. In basin storage would make up the approximate 200,000 acre-feet gap between imported supplies and demand. Goshi said that in response to the Governor’s emergency drought declaration, staff recommended declaring a Water Supply Alert to support a 20 percent reduction in water use, doubling its conservation budget to $40 million, and exploring potential projects to address statewide water supply challenges.

Project Manager Mokhtari described the On-site Retrofit Pilot Program for converting sites to receive recycled water. Mokhtari said the incentives would be provided directly to the property owners to convert potable water irrigation or industrial systems to recycled water use. He added the program would provide $195 per acre-foot up to actual retrofit costs. Director Edwards (Foothill) asked if there were already projects in the cue. Water Resources Manager Upadhyay replied that the program is intended to spur new recycled project hookups. In response to Director Griset (Santa Ana), Upadhyay added that if the prospective projects exceeded the $3 million, staff would return to the committee and board for further consideration. Lewinger asked if it were possible for a project to receive this pilot program incentive as well as Local Resources Program (LRP) incentive. Upadhyay replied that the incentives are two different targets – this pilot program is focused on customers to defray their costs to utilize recycled water, while the LRP provides incentives to the member agencies. Subsequently, Upadhyay agreed that if the on-site recycling project produces additional water beyond a contracted LRP program, MWD may provide additional funding. The delegates did not support this item because the pilot program funding source is the Water Stewardship Rate, which improperly charges water supply programs to transportation rates rather than the supply rate.

Staff also gave a presentation to the committee on increasing conservation incentives and enhancing public outreach in MWD’s service area as a result of the Governor’s emergency drought declaration. Staff reported that the current tracking of the conservation budget through December 2013 is about $5 million; but projected to increase up to $18.5 million by the end of the fiscal year. Staff explained that significant activity traditionally occurs at the end of the fiscal year. Staff added that the projection does not include any activity that would result from drought messaging. Lewinger questioned if this conservation program rewards agencies that are not currently meeting its 20x2020 mandate by state law. Kightlinger said staff recommends a regional approach to achieving conservation. Lewinger also said that agencies should be exceeding its mandate to receive the incentive. In response to a question by Lewinger, Upadhyay said that San Diego is eligible for this program. Subsequently, Lewinger asked for clarification since the Water Authority is not eligible to receive incentives for member agency administered programs. Upadhyay responded that the limitations on the member agency administered programs would
continue to be in place, but incentives available to regional incentive programs would be available. Upadhyay added that it was MWD’s intent that the incentives be appended to the regional program; however, MWD would not limit the incentives to only the regional program, in which case the Water Authority would not be eligible if portions of the funds are applied to the member agency administered programs.

Expressing the delegates’ support for conservation, Lewinger made a motion to amend staff’s recommendation, which was seconded by Director Steiner. The amendment included:

1) The additional $20 million will be applied solely to conservation programs above the retail 20x2020 mandate;
2) The MWD board rescinds its adoption and enforcement of the Rate Structure Integrity clause and restores the Water Authority to full eligibility to receive all conservation program benefits;
3) The MWD board agrees that, absent any specific evidence of transportation benefits being presented at the February 10 and 11, 2014 committee and board meetings, the $20 million shall be allocated as supply costs and not to transportation for purposes of rate-setting and cost recovery; and
4) A separate conservation fund will be established for the $20 million to ensure the funds are actually spent on conservation and will not be transferred to, or commingled with the Water Stewardship Rate fund and thereby become eligible to be spent on member agency project subsidies.

The amendments sought by the delegates were included in their letter to Chair Foley. The delegates’ motion failed following a substitute motion made by Director Morris’ (San Marino) to support staff’s recommendation. The substitute motion passed.

**Board Meeting**

Jennifer Fitzgerald was inducted to the Board of Directors representing the City of Fullerton. The board also held a public hearing related to the standby charge levy supporting annexation of property to Calleguas Municipal Water District and MWD. There were no public comments related to the annexation.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Approved by: Communications and Legislation Committee by Vincent Mudd
Finance and Insurance Committee by Keith Lewinger
Engineering and Operations Committee by Fern Steiner
Legal and Claims Committee by Vincent Mudd and Fern Steiner
Organization, Personnel and Technology Committee by Michael Hogan
Water Planning and Stewardship Committee by Keith Lewinger and Fern Steiner

Attachment 2: MWD’s committee and board meeting agendas and Summary of Actions dated February 10-11, 2014.
February 10, 2014

John (Jack) V. Foley and
Members of the Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

RE: Board Memo 8-2 – Authorize $3 million for an On-Site Retrofit Pilot Program: TABLE PENDING DEVELOPMENT OF PROGRAM CRITERIA AND COST OF SERVICE ANALYSIS, OR IN THE ALTERNATIVE, OPPOSE

Board Memo 8-7 – Authorize an increase of $20 million for conservation incentives and outreach: OPPOSE UNLESS AMENDED TO ALLOW THE WATER AUTHORITY TO RECEIVE PROGRAM BENEFITS AND COMPLY WITH COST OF SERVICE REQUIREMENTS

Dear Chairman Foley and Board Members:

The Water Authority and its member agencies have an outstanding record of leadership in water conservation planning and implementation. We strongly support investments in water conservation and recycled water, not just during times of shortage such as we are experiencing now, but as a fundamental component of the region’s long term water supply.

That stated, we cannot support additional expenditures by MWD for programs where the Water Authority and its ratepayers are not fully entitled to receive program benefits, due to the MWD Board’s adoption and enforcement of the “Rate Structure Integrity” clause. Further, we cannot support additional conservation or recycled water expenditures that are improperly assigned by MWD to the Water Stewardship Rate and thus charged to transportation rather than supply rates.¹

We have identified several additional concerns with MWD’s Long Term Conservation Plan, upon which the conservation program initiatives are based (see letters listed at the end of this correspondence, copies of which have all been included in MWD’s Administrative Record at the time of submittal, the contents of which are incorporated herein by reference). One basic example is MWD’s refusal to develop a baseline its member agencies must meet in order to qualify for regional funding for conservation programs. This impedes, rather than expands water conservation in Southern California, because instead of adding to
what retail agencies are already legally required to do, MWD substitutes regional funding to pay for programs below the baseline that are properly the responsibility of the retail agencies. MWD’s Long Term Conservation Plan is also inconsistent with the requirements of the Water Conservation Act of 2009. In order to promote conservation and meet the requirements of Proposition 26, MWD must develop and implement a regional water conservation plan that is more appropriate for its role as a wholesale water provider and which acknowledges the need to provide proportional benefits to MWD’s member agencies. As in the past, Board Memo 8-7 focuses more on spending money through “incentives” than on identifying appropriate criteria by which the effectiveness and proportional benefits of MWD’s Plan, initiatives and subsidies may be assessed.

While we wish to remain on record as to all of the concerns we have expressed regarding MWD’s conservation plan and programs, we would be willing to support the $20 million funding increase for conservation on condition that the MWD Board, as part of a motion to approve the action, includes the following requirements:

1) The additional $20 million will be applied solely to conservation programs above the retail 20x2020 mandate;
2) The MWD board rescinds its adoption and enforcement of the RSI clause and restores the Water Authority to full eligibility to receive all conservation program benefits;ii
3) The MWD board agrees that, absent any specific evidence of transportation benefits being presented at the February 10 and 11, 2014 committee and board meetings, the $20 million shall be allocated as supply costsiii and not to transportation for purposes of rate-setting and cost recovery; and
4) A separate conservation fund will be established for the $20 million to ensure the funds are actually spent on conservation and will not be transferred to, or commingled with the Water Stewardship Rate fund and thereby become eligible to be spent on member agency project subsidies.

We believe that MWD, its member agencies and ratepayers would benefit greatly if the MWD board would adopt a long term conservation plan that takes into account the provisions of the Water Conservation Act of 2009, particularly as related to retail and wholesale agency requirements and reporting. MWD must acknowledge the importance of measurement of conservation programs and take responsibility to account for conservation at the member agency level and within its own programs. If measurement and accounting are really “too difficult” for MWD to accomplish, as MWD has asserted, then it should retain a consultant with expertise in this area to design and assist MWD implementing such a program (such expertise is readily available). There is no evidence that accounting for conservation would “threaten the efficacy of MWD’s Integrated Resources Plan, Water Supply Allocation Plan and other programs,” as MWD has claimed (August 2010 Board
Memo 9-1, MWD Conservation Program). If every drop of water is precious, as we all believe, then it is certainly worth the time and trouble to account for it.

Board Memo 8-2, which authorizes MWD to pay up to $39,000 in subsidies to property owners, is problematic for similar reasons. While we believe that MWD could design a legitimate program that would allow for the payment of costs to retrofit potable water systems to use recycled water based on cost of service principles, it has not done so here. Instead, we are presented with a proposal for a $3 million unbudgeted expenditure to be made pursuant to an undefined program, for which no criteria are provided to ensure that the program will be applied in a non-discriminatory manner in the MWD service area." We also believe very strongly that MWD’s proper role is as a wholesale water agency and that it should work through its member agencies rather than embark upon a series of handouts to property owners. We cannot support Board Memo 8-2 for these reasons.

We look forward to discussion of this important issue at the committee and board meetings in February.

Sincerely,

Michael T. Hogan  
Director

Keith Lewinger  
Director

Vincent Mudd  
Director

Fern Steiner  
Director

Past Water Authority letters RE conservation:

5. August 15, 2011 letter RE Board Memo 8-7 – Adopt the Long-Term Conservation Plan and revised policy principles on water conservation – OPPOSE
6. November 23, 2011 letter RE Turf Replacement Grant Programs
7. May 7, 2012 letter RE Board Memo 8-4 - OPPOSE (authorize changes to water conservation incentives (subsidies) as described
Board Memo 8-2 Option #1 states that the On-Site Retrofit Program (Retrofit Program) will be funded “from general operating reserves” rather than from the Water Stewardship Rate, where these programs have been funded in the past. Hence, it is possible that the costs of the Retrofit Program would be assigned to supply. However, since MWD does not track the source of its over-collected revenues, and because the magnitude of its over-collections is so large (cumulatively, exceeding $600 million), it is impossible to know where the costs of the Retrofit Program have been or will be allocated. Given these facts and the ex post facto recommendation to fund another unbudgeted program, MWD precludes the possibility of any cost of service analysis to support these expenditures.

While the trial court ruled that San Diego does not have standing to raise the constitutional RSI claim, it also found that San Diego, “wins on the merits of the claim” (Order on Summary Adjudication Motions dated December 4, 2013, page 15). Specifically, the court found that 1) payments under the program contracts are “public benefits;” San Diego did not waive its rights or consent to the RSI condition by signing agreements and accepting funding; MWD could use other, less onerous means to achieve revenue stability to pay for water conservation and local supply projects; and any “public benefit” from the RSI clause is insubstantial and not sufficient to justify the burden on the exercise of a constitutional right. Order at pages 15-21 (copies attached).

While we are willing to support the single proposed action to increase conservation incentives in order to support the water supply emergency that has been declared by the Governor, the question whether these programs actually produce any benefits to MWD must be addressed as part of the current cost of service analysis. Although the Water Authority believes that MWD could establish conservation programs and criteria that could meet cost of service requirements, we do not believe that MWD has done so with the current conservation plan and programs. Indeed, MWD’s attorney stated during the trial that MWD’s position is that any water supply benefits of its demand management programs is merely “speculative” (Reporters’ Transcript of Proceedings, Vol. VI, January 23, 2014 at page 945, line 7 (“January 23 Transcript”)). “...whether there would be a supply benefit is unknown. There is – that would just be speculation.” (January 23 Transcript, page 945, lines 16-19)....”whether there would be any supply benefit at all is speculative.” (January 23 Transcript, pages 945-946, lines 25-1). This type of speculative benefit cannot meet cost of service requirements.

Board Memo 8-2 states under the “policy” section that, “Additional enhancements that could complement Metropolitan’s participation in local resource development are being considered, including opening participation for other water resources, payment restructuring, financial investments, and partnerships.” No information has been provided to the board on this subject matter; accordingly, we request that you bring back next month, prior to any specific project being recommended, an explanation of what these “additional enhancements” consist of and what the source of revenues will be used to pay for them.
Summary Report for
The Metropolitan Water District of Southern California
Board Meetings
February 11, 2014

INDUCTION OF NEW DIRECTOR

Director Jennifer Fitzgerald was inducted to the Board of Directors representing the City of Fullerton. (Agenda Item 5C)

COMMITTEE ASSIGNMENTS

Director Paul Koretz was assigned to the Water Planning and Stewardship Committee and the Agriculture and Business Outreach Committee. (Agenda Item 5F)

FINANCE AND INSURANCE COMMITTEE AND BUDGET AND RATE WORKSHOP #1

Reviewed proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16; and proposed water rates and charges for calendar years 2015 and 2016; and set public hearings. (Agenda Item 8-1)

WATER PLANNING AND STEWARDSHIP COMMITTEE

Authorized $3 million for an On-site Retrofit Pilot Program for converting sites to receive recycled water. (Agenda Item 8-2)

Adopted the proposed Water Supply Alert Resolution. (Agenda Item 8-3)

Authorized an increase of $20 million for additional conservation activities and enhanced public outreach. (Agenda Item 8-7)

LEGAL AND CLAIMS COMMITTEE

Authorized increase in maximum amount payable under contract with Morrison & Foerster LLP for legal services by $500,000 to a maximum of $7,425,000; and reported on Consolidated Delta Smelt Cases, USDC Case No. 1:09-CV-407 LJO-DLB, and Consolidated Salmonid Cases, USDC Case No. 1:09-CV-1053 LJO-DLB. (Agenda Item 8-4 heard in closed session)

Reported on existing litigation, Oscar Renda Contracting, Inc. v. Metropolitan Water District of Southern California, Riverside County Superior Court Case No. RIC 1213525; and authorized increase in maximum amount payable under contract with Atkinson, Andelson, Loya, Ruud & Romo PC for legal services by $500,000 to an amount not to exceed $600,000. (Agenda Item 8-5 heard in closed session)

Authorized the General Manager to accept the city of Monterey Park’s proposed terms for removal of operational restrictions on the Garvey Reservoir as set forth in an existing settlement agreement and to enter into an amendment to the settlement agreement to incorporate the new terms. (Agenda Item 8-6 heard in closed session)
CONSENT CALENDAR

In other action, the Board:

Granted conditional approval for Annexation No. 99 concurrently to Calleguas and Metropolitan, conditioned upon receipt in full of annexation fee of $9,992.78 to Metropolitan if completed by December 31, 2014, or if completed later, the current annexation charge applies; approved Calleguas’ Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines in Attachment 2 of the Board letter; and adopted resolution of intention to impose water standby charge at a rate of $9.58 per acre, or per parcel of less than one acre, within the proposed annexation area in Attachment 3 of the Board letter. (Agenda Item 7-1)

Appropriated $1 million; and awarded $671,853 contract to Environmental Construction, Inc. to install cathodic protection on the Sepulveda Feeder. (Approp. 15441) (Agenda Item 7-2)

Appropriated $1.95 million; and authorized construction to relocate a portion of the Orange County Feeder. (Approp. 15441) (Agenda Item 7-3)

Appropriated $380,000; and authorized final design to replace the fish screens on the Inlet/Outlet Tower at Diamond Valley Lake. (Approp. 15441) (Agenda Item 7-4)

Appropriated $1.94 million; authorized preliminary design to replace discharge valves and repair the Lake Mathews forebay; and authorized final design to repair the Lake Mathews hydroelectric plant building. (Approp. 15441) (Agenda Item 7-5)

Adopted resolutions to support 2014 WaterSMART grant applications; authorized the General Manager to accept potential grant funding of up to $1 million; delegated authority to the General Manager to enter into grant contract(s) with the U.S. Bureau of Reclamation, subject to the approval of the General Counsel, if awarded; agreed to fulfill the grant contract(s), including provision of matching funds up to $1 million through existing Metropolitan programs; and stated that Metropolitan, if awarded a grant, will work with Reclamation to meet established deadlines upon entering into a cooperative agreement. (Agenda Item 7-6)

THIS INFORMATION SHOULD NOT BE CONSIDERED THE OFFICIAL MINUTES OF THE MEETING.

Board letters related to the items in this summary are generally posted in the Board Letter Archive approximately one week after the board meeting. In order to view them and their attachments, please copy and paste the following into your browser http://edmsidm.mwdh2o.com/idmweb/home.asp.
Finance and Insurance Committee

And

Budget and Rate Workshop #1

Meeting with Board of Directors*

February 10, 2014

9:00 a.m. -- Board Room

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

* The Metropolitan Water District’s Finance and Insurance Committee meeting is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to the Finance and Insurance Committee may attend and participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to the Finance and Insurance Committee will not vote on matters before the Finance and Insurance Committee.

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

2. Approval of the Minutes of the meeting of the Finance and Insurance Committee held January 13, 2014

3. MANAGEMENT REPORTS
   a. Report on investment activity
   b. Financial highlights

Date of Notice: January 30, 2014
4. CONSENT CALENDAR ITEMS — ACTION

7-1 Grant conditional approval for Annexation No. 99 to Calleguas Municipal Water District and to Metropolitan Water District; and adopt resolution for imposition of water standby charges. (F&I)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and is categorically exempt, and

a. Grant conditional approval for Annexation No. 99 concurrently to Calleguas and Metropolitan, conditioned upon receipt in full of annexation fee of $9,993.78 to Metropolitan if completed by December 31, 2014, or if completed later, the current annexation charge applies.

b. Approve Calleguas’ Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines.

c. Adopt resolution of intention to impose water standby charge at a rate of $9.58 per acre or per parcel of less than one acre, within the proposed annexation area.

5. OTHER BOARD ITEMS — ACTION

8-1 Proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16; proposed water rates and charges for calendar years 2015 and 2016; and setting public hearings. (F&I)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and set a public hearing for the March 2014 meeting of the Board at which interested parties may provide input regarding Metropolitan’s rates and charges to be effective January 1, 2015 and January 1, 2016, and input regarding action on ad valorem tax rates pursuant to Section 124.5 of the MWD Act.

6. BOARD INFORMATION ITEMS

None

7. COMMITTEE ITEMS

None
8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEMS

10. ADJOURN TO BUDGET AND RATE WORKSHOP #1

BUDGET AND RATE WORKSHOP #1

11. WORKSHOP ITEMS

a. Proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16, and ten-year financial forecast

b. Proposed rates for calendar years 2015 and 2016

12. ADJOURNMENT

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Date of Notice: January 30, 2014
REVISED AGENDA

Water Planning and Stewardship Committee

Meeting with Board of Directors*

February 10, 2014

10:30 a.m. – Room 2-456

---

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

2. **Approval of the Minutes of the joint meeting of the Water Planning and Stewardship Committee and Special Committee on Bay-Delta held January 13, 2014**

3. **CONSENT CALENDAR ITEMS — ACTION**

   **7-6** Adopt resolutions to support Metropolitan’s 2014 WaterSMART grant applications; and authorize General Manager to accept funding and enter into contract(s) if awarded. (WP&S)

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* The Metropolitan Water District’s Water Planning and Stewardship Committee and the Special Committee on Bay-Delta are noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to the Water Planning and Stewardship Committee and the Special Committee on Bay-Delta may attend and participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committees as advisory to the Board, members of the Board who are not assigned to the Water Planning and Stewardship Committee and the Special Committee on Bay-Delta will not vote on matters before the Water Planning and Stewardship Committee and the Special Committee on Bay-Delta.
Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and resolutions to:

a. Support grant applications;

b. Authorize the General Manager to accept potential grant funding of up to $1 million;

c. Delegate authority to the General Manager to enter into grant contract(s) with Reclamation, subject to the approval of the General Counsel, if awarded;

d. Agree to fulfill the grant contract(s), including provision of matching funds up to $1 million through existing Metropolitan programs; and

e. State that Metropolitan, if awarded a grant, will work with Reclamation to meet established deadlines upon entering into a cooperative agreement.

4. OTHER BOARD ITEMS — ACTION

8-2 Authorize $3 million for an On-site Retrofit Pilot Program for converting sites to receive recycled water. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize $3 million for an On-site Retrofit Pilot Program for converting sites to receive recycled water.

8-3 Adopt Water Supply Alert Resolution. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt from CEQA and adopt the proposed Water Supply Alert Resolution.

Corrected 8-7 Authorize an increase of $20 million for conservation incentives and outreach. (WP&S)
Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and authorize
a. Implementation of an outreach campaign in response to the drought; and
b. An increase of $20 million over two years for the conservation incentive program.

5. BOARD INFORMATION ITEMS

None

6. COMMITTEE ITEMS

a. Oral report on Water Surplus and Drought Management

b. Oral report on 2013 Innovative Conservation Program

c. Oral report on Pilot system Conservation Project

7. MANAGEMENT REPORTS

a. Bay-Delta Matters

b. Colorado River Matters

c. Water Resource Management Manager’s report

8. ADJOURNMENT

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REVISED: Date of Notice: February 4, 2014
Engineering and Operations Committee

Meeting with Board of Directors*

February 10, 2014
12:30 p.m. -- Room 2-145

Monday, February 10, 2014
Meeting Schedule

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

2. Approval of the Minutes of the meeting of the Engineering and Operations Committee held January 13, 2014

3. CONSENT CALENDAR ITEMS — ACTION

7-2 Appropriate $1 million; and award $671,853 contract to Environmental Construction, Inc. to install cathodic protection on the Sepulveda Feeder (Approp. 15441). (E&O)
Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
   a. Appropriate $1 million; and
   b. Award $671,853 contract to Environmental Construction, Inc. to install cathodic protection on the Sepulveda Feeder.

7-3 Appropriate $1.95 million; and authorize construction to relocate a portion of the Orange County Feeder (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is statutorily exempt, and
   a. Appropriate $1.95 million; and
   b. Authorize construction to relocate a portion of the Orange County Feeder.

7-4 Appropriate $380,000; and authorize final design to replace fish screens on the Inlet/Outlet Tower at Diamond Valley Lake (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
   a. Appropriate $380,000; and
   b. Authorize final design to replace the fish screens on the Inlet/Outlet Tower at Diamond Valley Lake.

7-5 Appropriate $1.94 million; and authorize design of two rehabilitation projects at Lake Mathews (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
   a. Appropriate $1.94 million;
   b. Authorize preliminary design to replace discharge valves and repair the Lake Mathews forebay; and
   c. Authorize final design to repair the Lake Mathews hydroelectric plant building.
4. OTHER BOARD ITEMS — ACTION
None

5. BOARD INFORMATION ITEMS
None

6. COMMITTEE ITEMS
a. Update on the Transfer of the State’s Drinking Water Program
b. Update on Capital Investment Plan
c. Oral report on water system deliveries for 2014

7. MANAGEMENT REPORTS
a. Water System Operations Manager’s report
b. Engineering Services Manager’s report

8. FOLLOW-UP ITEMS
None

9. FUTURE AGENDA ITEMS

10. ADJOURNMENT

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Date of Notice: January 30, 2014
Organization, Personnel and Technology Committee

Meeting with Board of Directors*

February 10, 2014

1:30 p.m. -- Room 2-456

Monday, February 10, 2014
Meeting Schedule

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

2. Approval of the Minutes of the meeting of the Organization, Personnel and Technology Committee held December 9, 2013

3. CONSENT CALENDAR ITEMS — ACTION

   None

4. OTHER BOARD ITEMS — ACTION

   None

5. BOARD INFORMATION ITEMS

   None

Date of Notice: January 30, 2014
6. **COMMITTEE ITEMS**

   a. Business Process Sustainability Program Update
   
   b. Southern California Business Demographics and Benefits of Outreach

7. **FOLLOW-UP ITEMS**

   None

8. **FUTURE AGENDA ITEMS**

9. **ADJOURNMENT**

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Date of Notice: January 30, 2014
**Legal and Claims Committee**

Meeting with Board of Directors*

**February 11, 2014**

9:00 a.m. -- Room 2-145

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### Meeting Schedule

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

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

2. **Approval of the Minutes of the meeting of the Legal and Claims Committee held January 14, 2014**

3. **CONSENT CALENDAR ITEMS — ACTION**

   None

4. **OTHER BOARD ITEMS — ACTION**

   **8-4** Authorize increase in maximum amount payable under contract with Morrison & Foerster LLP for legal services by $500,000 to a maximum of $7,425,000; and report on Consolidated Delta Smelt Cases, USDC Case No. 1:09-CV-407 LJO-DLB, and Consolidated Salmonid Cases, USDC Case No. 1:09-CV-1053 LJO-DLB. (L&C) [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]
8-5 Report on existing litigation, *Oscar Renda Contracting, Inc. v. Metropolitan Water District of Southern California*, Riverside County Superior Court Case No. RIC 1213525; and authorize increase in maximum amount payable under contract with Atkinson, Andelson, Loya, Ruud & Romo PC for legal services by $500,000 to an amount not to exceed $600,000. (L&C)  
[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]

8-6 Authorize the General Manager to accept the city of Monterey Park’s proposed terms for removal of operational restrictions on the Garvey Reservoir as set forth in an existing settlement agreement and to enter into an amendment to the settlement agreement to incorporate the new terms. (L&C)  
[Conference with legal counsel—anticipated litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(2)]

5. BOARD INFORMATION ITEMS

None

6. COMMITTEE ITEMS

a. General Counsel’s report of monthly activities

b. Report on *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, San Francisco County Superior Court Case No. CPF-10-510830 and No. CPF-12-512466.  
[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]

7. FOLLOW-UP ITEMS

None

8. FUTURE AGENDA ITEMS

9. ADJOURNMENT
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1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))

2. Approval of the Minutes of the meeting of the Real Property and Asset Management Committee held January 13, 2014

3. CONSENT CALENDAR ITEMS -- ACTION

   None

4. COMMITTEE ITEMS

   a. Diamond Valley Lake Economic Strategy
   
   b. Real Estate Activities Quarterly Report Presentation

Date of Notice: January 30, 2014
5. MANAGEMENT REPORT
   
   a. Real Property Development and Management Manager's Report

6. FUTURE AGENDA ITEMS

7. ADJOURNMENT

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Date of Notice: January 30, 2014
REVISED AGENDA

Communications and Legislation Committee

Meeting with Board of Directors*

February 11, 2014

10:30 a.m. -- Room 2-456

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Tuesday, February 11, 2014

Meeting Schedule

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---

1. **Opportunity for members of the public to address the committee on matters within the committee's jurisdiction** (As required by Gov. Code Section 54954.3(a))

2. **Approval of the Minutes of the meeting of the Communications and Legislation Committee held January 14, 2014**

3. **CONSENT CALENDAR ITEMS — ACTION**
   
   None

4. **OTHER BOARD ITEMS — ACTION**
   
   None

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**REVISED:** Date of Notice: February 3, 2014
5. BOARD INFORMATION ITEMS

Added  9-1  Report on H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Valley Emergency Water Delivery Act. (C&L)  *(To be mailed separately)*

6. COMMITTEE ITEMS

   a. Report on activities from Washington, D.C.

   b. Report on activities from Sacramento

7. MANAGEMENT REPORT

   a. External Affairs Management report

8. FUTURE AGENDA ITEMS

9. ADJOURNMENT

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REVISED AGENDA

Regular Board Meeting

February 11, 2014
12:00 p.m. -- Board Room

<table>
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<th>MWD Headquarters Building</th>
<th>700 N. Alameda Street</th>
<th>Los Angeles, CA 90012</th>
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**Meeting Schedule**

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**1. Call to Order**

(a) Pledge of Allegiance: Director Vincent Mudd

(b) Invocation: Benita L. Horne, Principal Public Affairs Representative, External Affairs

**2. Roll Call**

**3. Determination of a Quorum**

_____________________________

**PUBLIC HEARING**

Comments on the standby charge levy supporting Annexation No. 98 to Calleguas Municipal Water District and Metropolitan

_____________________________

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

REVISED: Date of Notice: February 4, 2014
5. OTHER MATTERS

A. Approval of the Minutes of the Meeting for January 14, 2014. (A copy has been mailed to each Director)
   Any additions, corrections, or omissions

B. Report on Directors’ events attended at Metropolitan expense for month of January

C. Induction of new Director, Jennifer Fitzgerald, from city of Fullerton
   (a) Receive credentials
   (b) Report on credentials by General Counsel
   (c) File credentials
   (d) Administer Oath of Office
   (e) File Oath

D. Presentation of five-year service pin to Director Fern Steiner, representing San Diego County Water Authority

E. Presentation of five-year service pin to Director Keith Lewinger, representing San Diego County Water Authority

F. Approve committee assignments

G. Chairman's Monthly Activity Report

6. DEPARTMENT HEADS' REPORTS

A. General Manager's summary of Metropolitan's activities for the month of January

B. General Counsel's summary of Legal Department activities for the month of January

C. General Auditor's summary of activities for the month of January

D. Ethics Officer's summary of activities for the month of January
7. CONSENT CALENDAR ITEMS — ACTION

7-1 Grant conditional approval for Annexation No. 99 to Calleguas Municipal Water District and to Metropolitan Water District; and adopt resolution for imposition of water standby charges. (F&I)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and is categorically exempt, and
a. Grant conditional approval for Annexation No. 99 concurrently to Calleguas and Metropolitan, conditioned upon receipt in full of annexation fee of $9,993.78 to Metropolitan if completed by December 31, 2014, or if completed later, the current annexation charge applies.
b. Approve Calleguas' Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines.
c. Adopt resolution of intention to impose water standby charge at a rate of $9.58 per acre or per parcel of less than one acre, within the proposed annexation area.

7-2 Appropriate $1 million; and award $671,853 contract to Environmental Construction, Inc. to install cathodic protection on the Sepulveda Feeder (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
a. Appropriate $1 million; and
b. Award $671,853 contract to Environmental Construction, Inc. to install cathodic protection on the Sepulveda Feeder.

7-3 Appropriate $1.95 million; and authorize construction to relocate a portion of the Orange County Feeder (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is statutorily exempt, and
a. Appropriate $1.95 million; and
b. Authorize construction to relocate a portion of the Orange County Feeder.
7-4 Appropriate $380,000; and authorize final design to replace fish screens on the Inlet/Outlet Tower at Diamond Valley Lake (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
a. Appropriate $380,000; and
b. Authorize final design to replace the fish screens on the Inlet/Outlet Tower at Diamond Valley Lake.

7-5 Appropriate $1.94 million; and authorize design of two rehabilitation projects at Lake Mathews (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
a. Appropriate $1.94 million;
b. Authorize preliminary design to replace discharge valves and repair the Lake Mathews forebay; and
c. Authorize final design to repair the Lake Mathews hydroelectric plant building.

7-6 Adopt resolutions to support Metropolitan’s 2014 WaterSMART grant applications; and authorize General Manager to accept funding and enter into contract(s) if awarded. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and resolutions to:
 a. Support grant applications;
b. Authorize the General Manager to accept potential grant funding of up to $1 million;
c. Delegate authority to the General Manager to enter into grant contract(s) with Reclamation, subject to the approval of the General Counsel, if awarded;
d. Agree to fulfill the grant contract(s), including provision of matching funds up to $1 million through existing Metropolitan programs; and
e. State that Metropolitan, if awarded a grant, will work with Reclamation to meet established deadlines upon entering into a cooperative agreement.

(END OF CONSENT CALENDAR)
8. OTHER BOARD ITEMS — ACTION

8-1 Proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16; proposed water rates and charges for calendar years 2015 and 2016; and setting public hearings. (F&I)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and set a public hearing for the March 2014 meeting of the Board at which interested parties may provide input regarding Metropolitan’s rates and charges to be effective January 1, 2015 and January 1, 2016, and input regarding action on ad valorem tax rates pursuant to Section 124.5 of the MWD Act.

8-2 Authorize $3 million for an On-site Retrofit Pilot Program for converting sites to receive recycled water. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to the provisions of CEQA and authorize $3 million for an On-site Retrofit Pilot Program for converting sites to receive recycled water.

8-3 Adopt Water Supply Alert Resolution. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt from CEQA and adopt the proposed Water Supply Alert Resolution.

8-4 Authorize increase in maximum amount payable under contract with Morrison & Foerster LLP for legal services by $500,000 to a maximum of $7,425,000; and report on Consolidated Delta Smelt Cases, USDC Case No. 1:09-CV-407 LJO-DLB, and Consolidated Salmonid Cases, USDC Case No. 1:09-CV-1053 LJO-DLB. (L&C)

[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]
8-5 Report on existing litigation, *Oscar Renda Contracting, Inc. v. Metropolitan Water District of Southern California*, Riverside County Superior Court Case No. RIC 1213525; and authorize increase in maximum amount payable under contract with Atkinson, Andelson, Loya, Ruud & Romo PC for legal services by $500,000 to an amount not to exceed $600,000. (L&C)

[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]

8-6 Authorize the General Manager to accept the city of Monterey Park’s proposed terms for removal of operational restrictions on the Garvey Reservoir as set forth in an existing settlement agreement and to enter into an amendment to the settlement agreement to incorporate the new terms. (L&C)

[Conference with legal counsel—anticipated litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(2)]

Corrected 8-7 Authorize an increase of $20 million for conservation incentives and outreach. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and authorize

a. Implementation of an outreach campaign in response to the drought; and

b. An increase of $20 million over two years for the conservation incentive program.

9. BOARD INFORMATION ITEMS

Added 9-1 Report on H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Valley Emergency Water Delivery Act. (C&L) (To be mailed separately)

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 parentheses at the end of the description of the agenda item e.g. (E&O, F&I). 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.
February 27, 2014

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 February 12, 2014 CRB meeting held in Blythe, California. The meeting also included a tour of the Palo Verde Irrigation District.

Discussion
The CRB heard informational reports from CRB staff on activities discussed below:

Drought Declaration
The National Weather Service’s Monthly Precipitation Maps for December 2013 and January 2014 continued to demonstrate extensive areas of extreme drought within the Colorado River Basin. Within California, the Drought Monitor map for January 28, 2014 indicates that 97% of the State is in some level of drought—with two-thirds at the extreme/exceptional drought levels (Attachment 1). On January 17, 2014 Governor Brown declared a State of Emergency drought and identified 20 actions to address the conditions. In December 2013, the California Department of Water Resources (DWR) mobilized its drought management team who will issue weekly Drought Briefs to provide updates on current conditions and key action items. The Weekly Drought Brief and other drought information are provided in Attachment 2.

On January 31, 2014, the DWR announced a “Zero” percent allocation of water from the State Water Project for 2014 based on the current drought conditions, reservoir storage, and snowpack levels.

Drought conditions have had severe impacts on the agricultural sector. The US Department of Agriculture (USDA) issued Emergency Declarations for 53 California counties. As of February 3, 2014, Imperial County was the only county in California not declared by the USDA as having drought emergency conditions. There are several types of State and Federal assistance that are available within California to help address the drought conditions, including a recent $14 million WaterSMART grant opportunity for irrigation efficiency improvement projects within California that was announced by Reclamation on February 5.

Water Supply and Reservoir Operations
As of February 3, 2014 total system storage was 29.03 million acre-feet (maf), or 49 percent of capacity, which is about 3.74 maf less than a year ago. Lake Mead was at 48 percent of capacity with 12.55 maf, and Lake Powell was at 40 percent capacity with 9.81 maf. The Colorado River Basin saw recent storms that precipitation at 94% of average for the water year and the snowpack at 100% of average.
Official accounting of the Lower Basin water uses for calendar year 2013 is currently being compiled and will be published by the Bureau of Reclamation (Reclamation) in the upcoming months.

**Colorado River Basin Water Supply and Demand Study**
The Basin Study Workgroups are finalizing their respective data collection efforts which will be utilized in their Phase I reports, expected in April. Draft outlines for each workgroup report will be reviewed by the Coordination Team later this month. The Basin States are finalizing a funding agreement with Reclamation to provide 50% of consulting costs for the Basin Study Next Steps process.

**Minute 319**
A draft Delivery Plan for Environmental Flows to the Colorado River Riparian Corridor Pursuant to Minute No. 319 was submitted to the US International Boundary and Water Commission (IBWC) on January 14, 2014. The proposed Delivery Plan represents the efforts of federal, state, local and non-governmental entities in both countries and consists of a schedule of monthly flows, delivery points, and volumes in an amount of approximately 105,000 acre-feet, as required by Minute 319 for environmental enhancement. This one-time high-volume pulse flow will re-water dry areas along the Colorado River delta riparian corridor to create and restore wetlands. The pulse flow is proposed for late-March and early-April of 2014 and will be used to help guide future environmental releases. The proposed Delivery Plan also includes a plan for delivery of a base flow of approximately 52,000 acre-feet of water augmenting the pulse flow to maintain active and passive restoration areas between 2014 and 2017. Water for the pulse and base flows is being contributed by the U.S., Mexico, and environmental organizations. Reclamation will work closely with the Imperial Irrigation District on the Delivery Plan details to ensure that the pulse flow will not disrupt regularly scheduled deliveries in the U.S.
Reclamation, IBWC, CILA and Basin State representatives are also working on a monitoring plan to evaluate the operational, hydrologic and ecological conditions relative to the pulse flow.

**Colorado River Basin Salinity Control Program**
The Colorado River Basin Salinity Control Advisory Council met on December 11, 2013. The Advisory Council approved recommendations for continued federal funding by the Department of Interior (DOI) and USDA. In 2014, Reclamation anticipates approximately $10 million for Basinwide Program expenditures (including Basin States’ cost share); the Bureau of Land Management projects $750,000 for the Soil, Water and Air Program; and the Natural Resource Conservation Service anticipates $12 million through the recently signed Agricultural Act of 2014 for the Environmental Quality Incentives Program (EQIP).

The US Geological Survey rescheduled the Pah Tempe Springs pump test for February 10-14. The initial pump test in November 2013 was stopped-short due a large storm that damaged equipment. Replacement equipment and additional pumps are in place for the February test.

The Salinity Control Work Group is scheduled to meet on February 26-27 to continue preparation of the 2014 Triennial Review; review Reclamation’s preparation of the Paradox Alternatives Studies and Environmental Impact Statement (EIS) Process; review planning studies for the Lower Gunnison and Uinta Basins; and receive budget and activity reports from each of the federal agencies.
Glen Canyon Dam Adaptive Management Program
Reclamation and the National Park Service continue to prepare the draft EIS for the Long-Term Experimental and Management Plan (LTEMP) of Glen Canyon Dam. The DOI Management Team has been working closely with all stakeholders regarding a potential next round of a “Structured Decision Analysis” (SDA) process that is being proposed to help evaluate alternatives based on the relative values of various natural, physical, and cultural resources of the Glen and Grand Canyon reaches of the Colorado River below Glen Canyon Dam. DOI is proposing to conduct the SDA exercise in April.

Lower Colorado River Multi-Species Conservation Program

Lower Colorado River Water Supply Project Update
The Lower Colorado Water Supply Project (Project) was originally authorized in 1986 as a mechanism to enable water users within California without contracts or with contracts for an insufficient amount of water to obtain Colorado River water rights for existing and future uses within California. The Project consists of well-field facilities in the Sand Hills area along the All-American Canal in Imperial County that are used to provide exchange water to offset the water uses through the Project. The purpose of the Project is to supply water for domestic, municipal, industrial, and recreational purposes. The Project authorization was amended in 2005 to authorize the Secretary of the Interior to enter into an agreement with the City of Needles for the design and construction of Stage II of the Project to add 5,000 acre-feet of capacity, and bring the Project to its full, 10,000 acre-feet authorized capacity. On December 31, 2013, the Bureau of Reclamation and the City of Needles finalized the agreement for the funding, design and construction of Stage II of the Project.

The CRB provides a screening function for Reclamation and evaluates whether a potential applicant for a subcontract through the Project meets the statutory eligibility criteria. To date, the total amount of water that has been allocated through the Project is approximately 5,875 acre-feet for current and future uses.

Prepared by: Kara Mathews, Assistant Water Resources Specialist
Reviewed by: Dan Denham, Acting Colorado River Program Director
Approved by: Doug Wilson, CRB Representative

Attachment 1: Colorado River Basin Summary Water Supply Report
Attachment 2: CRB Drought Report Packet
Attachment 3: The Yuma Clapper Rail—A Marsh Bird in the Desert
### LOWER COLORADO WATER SUPPLY REPORT

**River Operations**

**Bureau of Reclamation**

**Questions:** BCOOWaterops@usbr.gov

(702) 293-8373

http://www.usbr.gov/lc/region/g4000/weekly.pdf

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<td>TOTAL SYSTEM CONTENTS **</td>
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As of 02/02/2014

SYSTEM CONTENT LAST YEAR 55% 32,773

* Percent based on capacity of 26,120 kaf or elevation 1219.6 feet.

** TOTAL SYSTEM CONTENTS includes Upper & Lower Colorado River Reservoirs, less Lake Mead exclusive flood control space.

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Estimated Actual Water Use for Calendar Year 2013 (as of 01/06/2014) (values in kaf)

| Nevada                  | 222     |
| SOUTHERN NEVADA WATER SYSTEM | 194   |
| OTHERS                  | 29      |

| California             | 4,467   |
| METROPOLITAN WATER DISTRICT OF CALIFORNIA | 1,012 |
| IRRIGATION DISTRICTS   | 3,367   |
| OTHERS                 | 88      |

| Arizona                | 2,775   |
| CENTRAL ARIZONA PROJECT | 1,649 |
| OTHERS                 | 1,126   |

TOTAL LOWER BASIN USE 7,464

DELIVERY TO MEXICO - 2013 (1.50 MAF Scheduled + Preliminary Yearly Excess)¹ 1,572

OTHER SIGNIFICANT INFORMATION

UNREGULATED INFLOW INTO LAKE POWELL - JANUARY MID-MONTH FORECAST DATED 01/16/2014

| FORECASTED WATER YEAR 2014 | 10.073 | 93% |
| FORECASTED APRIL-JULY 2014 | 6.810  | 95% |
| DECEMBER OBSERVED INFLOW  | 0.294  | 81% |
| JANUARY INFLOW FORECAST   | 0.280  | 78% |

| WATER YEAR 2014 PRECIP TO DATE | 94% (11.1") | 56% (6.0") |
| CURRENT BASIN SNOWPACK        | 100% (9.8") | 38% (1.9") |

¹ Delivery to Mexico forecasted yearly excess calculated using year-to-date observed and projected excess.
Upper Colorado Region Water Resources Group

River Basin Tea-Cup Diagrams

Data Current as of: 02/02/2014

Upper Colorado River Drainage Basin

Fontenelle 160399/344600 47% Full

Flaming Gorge 2847910/3749000 76% Full

Morrow Point 103099/117190 92% Full

Blue Mesa 389294/829500 47% Full

Navajo 963211/1696000 57% Full

Lake Powell 9809031/24322000 40% Full

Drainage Area 278,300 Square Kilometers
Monthly Precipitation for December 2013
(Averaged by Hydrologic Unit)

% Average
- > 150%
- 120 - 150%
- 110 - 129%
- 100 - 109%
- 90 - 99%
- 70 - 89%
- 50 - 69%
- < 50%
- Not Reported

Monthly Precipitation for January 2014
(Averaged by Hydrologic Unit)

% Average
- > 150%
- 120 - 150%
- 110 - 129%
- 100 - 109%
- 90 - 99%
- 70 - 89%
- 50 - 69%
- < 50%
- Not Reported

Prepared by:
NOAA, National Weather Service
Colorado River Forecast Center
Salt Lake City, Utah
www.cfrf.noaa.gov
GOVERNOR BROWN DECLARES DROUGHT STATE OF EMERGENCY

1-17-2014

SAN FRANCISCO – With California facing water shortfalls in the driest year in recorded state history, Governor Edmund G. Brown Jr. today proclaimed a State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions.

“We can’t make it rain, but we can be much better prepared for the terrible consequences that California’s drought now threatens, including dramatically less water for our farms and communities and increased fires in both urban and rural areas,” said Governor Brown. “I’ve declared this emergency and I’m calling all Californians to conserve water in every way possible.”

In the State of Emergency declaration, Governor Brown directed state officials to assist farmers and communities that are economically impacted by dry conditions and to ensure the state can respond if Californians face drinking water shortages. The Governor also directed state agencies to use less water and hire more firefighters and initiated a greatly expanded water conservation public awareness campaign (details at saveourh2o.org).

In addition, the proclamation gives state water officials more flexibility to manage supply throughout California under drought conditions.

State water officials say that California’s river and reservoirs are below their record lows. Manual and electronic readings record the snowpack’s statewide water content at about 20 percent of normal average for this time of year.

The Governor’s drought State of Emergency follows a series of actions the administration has taken to ensure that California is prepared for record dry conditions. In May 2013, Governor Brown issued an Executive Order to direct state water officials to expedite the review and processing of voluntary transfers of water and water rights. In December, the Governor formed a Drought Task Force to review expected water allocations, California’s preparedness for water scarcity and whether conditions merit a drought declaration. Earlier this week, the Governor toured the Central Valley and spoke with growers and others impacted by California’s record dry conditions.

Photo captions and the full text of the emergency proclamation are below:

1.) Governor Brown announces Drought State of Emergency with Natural Resources Agency Secretary John Laird, Department of Water Resources Director Mark Cowin, Water Resources Control Board Chair Felicia Marcus and Governor’s Office of Emergency Services Director Mark Ghilarducci (left to right). Photo Credit: Justin Short, Office of the Governor.

2.) Governor Brown signs proclamation declaring Drought State of Emergency. From left to right: CAL FIRE Director Chief Ken Pimlott, Department of Food and Agriculture Secretary Karen Ross, Secretary Laird, Director Cowin, Chair Marcus and Director Ghilarducci. Photo Credit: Justin Short, Office of the Governor.

For high resolution copies of these photos, please contact Danella Debel, Office of the Governor at Danella.Debel@gov.ca.gov.

A PROCLAMATION OF A STATE OF EMERGENCY

WHEREAS the State of California is experiencing record dry conditions, with 2014 projected to become the driest year on record; and

WHEREAS the state’s water supplies have dipped to alarming levels, indicated by: snowpack in California’s mountains is approximately 20 percent of the normal average for this date; California’s largest water reservoirs have very low water levels for this time of year; California’s major river systems, including the Sacramento and San Joaquin rivers, have significantly reduced surface water flows; and groundwater levels throughout the state have dropped significantly; and

WHEREAS dry conditions and lack of precipitation present urgent problems: drinking water supplies are at risk in many California communities; fewer crops can be cultivated and farmers’ long-term investments are put at risk; low-income communities heavily dependent on agricultural employment will suffer heightened unemployment and economic hardship; animals and plants that rely on California’s rivers, including many species in danger of extinction, will be threatened; and the risk of wildfires across the state is greatly
NOW, THEREFORE, I, EDMUND G. BROWN JR., Governor of the State of California, in accordance with the authority vested in me by the state Constitution and statutes, including the California Emergency Services Act, and in particular, section 8625 of the California Government Code HEREBY PROCLAIM A STATE OF EMERGENCY to exist in the State of California due to current drought conditions.

IT IS HEREBY ORDERED THAT:

1. State agencies, led by the Department of Water Resources, will execute a statewide water conservation campaign to make all Californians aware of the drought and encourage personal actions to reduce water usage. This campaign will be built on the existing Save Our Water campaign (www.saveourwater.org) and will coordinate with local water agencies. This campaign will call on Californians to reduce their water usage by 20 percent.

2. Local urban water suppliers and municipalities are called upon to implement their local water shortage contingency plans immediately in order to avoid or forestall outright restrictions that could become necessary later in the drought season. Local water agencies should also update their legally required urban and agricultural water management plans, which help plan for extended drought conditions. The Department of Water Resources will make the status of these updates publicly available.

3. State agencies, led by the Department of General Services, will immediately implement water use reduction plans for all state facilities. These plans will include immediate water conservation actions, and a moratorium will be placed on new, non-essential landscaping projects at state facilities and on state highways and roads.

4. The Department of Water Resources and the State Water Resources Control Board (Water Board) will expedite the processing of water transfers, as called for in Executive Order B-21-13. Voluntary water transfers from one water right holder to another enables water to flow where it is needed most.

5. The Water Board will immediately consider petitions requesting consolidation of the places of use of the State Water Project and Federal Central Valley Project, which would streamline water transfers and exchanges between water users within the areas of these two major water projects.

6. The Department of Water Resources and the Water Board will accelerate funding for water supply enhancement projects that can break ground this year and will explore if any existing unspent funds can be repurposed to enable near-term water conservation projects.

7. The Water Board will put water right holders throughout the state on notice that they may be directed to cease or reduce water diversions based on water shortages.

8. The Water Board will consider modifying requirements for reservoir releases or diversion limitations, where existing requirements were established to implement a water quality control plan. These changes would enable water to be conserved upstream later in the year to protect cold water pools for salmon and steelhead, maintain water supply, and improve water quality.

9. The Department of Water Resources and the Water Board will take actions necessary to make water immediately available, and, for purposes of carrying out directives 5 and 6, Water Code section 13247 and Division 13 (commencing with section 21000) of the Public Resources Code and regulations adopted pursuant to that Division are suspended on the basis that strict compliance with them will prevent, hinder, or delay the mitigation of the effects of the emergency. Department of Water Resources and the Water Board shall maintain on their websites a list of the activities or approvals for which these provisions are suspended.

10. The state’s Drinking Water Program will work with local agencies to identify communities that may run out of drinking water, and will provide technical and financial assistance to help these communities address drinking water shortages. It will also identify emergency interconnections that exist among the state’s public water systems that can help these threatened communities.

11. The Department of Water Resources will evaluate changing groundwater levels, land subsidence, and agricultural land fallowing as the drought persists and will provide a public update by April 30 that identifies groundwater basins with water shortages and details gaps in groundwater monitoring.

12. The Department of Water Resources will work with counties to help ensure that well drillers submit required groundwater well logs for newly constructed and deepened wells in a timely manner and the Office of Emergency Services will work with local authorities to enable early notice of areas experiencing problems with residential groundwater sources.

13. The California Department of Food and Agriculture will launch a one-stop website (www.cdfa.ca.gov/drought) that provides timely updates on the drought and connects farmers to state and federal programs that they can access during the drought.

14. The Department of Fish and Wildlife will evaluate and manage the changing impacts of drought on threatened and endangered species and species of special concern, and develop contingency plans for state Wildlife Areas and Ecological Reserves to manage reduced water resources in the public interest.
15. The Department of Fish and Wildlife will work with the Fish and Game Commission, using the best available science, to determine whether restricting fishing in certain areas will become necessary and prudent as drought conditions persist.

16. The Department of Water Resources will take necessary actions to protect water quality and water supply in the Delta, including installation of temporary barriers or temporary water supply connections as needed, and will coordinate with the Department of Fish and Wildlife to minimize impacts to affected aquatic species.

17. The Department of Water Resources will refine its seasonal climate forecasting and drought prediction by advancing new methodologies piloted in 2013.

18. The California Department of Forestry and Fire Protection will hire additional seasonal firefighters to suppress wildfires and take other needed actions to protect public safety during this time of elevated fire risk.

19. The state’s Drought Task Force will immediately develop a plan that can be executed as needed to provide emergency food supplies, financial assistance, and unemployment services in communities that suffer high levels of unemployment from the drought.

20. The Drought Task Force will monitor drought impacts on a daily basis and will advise me of subsequent actions that should be taken if drought conditions worsen.

I FURTHER DIRECT that as soon as hereafter possible, this Proclamation be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this Proclamation.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 17th day of January, 2014.

______________________________
EDMUND G. BROWN JR.,
Governor of California

ATTEST:

______________________________
DEBRA BOWEN,
Secretary of State

###
SACRAMENTO, Calif. – As California experiences one of the driest winters on record, the California Natural Resources Agency, the California Environmental Protection Agency, and the California Department of Food and Agriculture released the final California Water Action Plan, laying out goals and vision for the next five years. The plan will guide state efforts to enhance water supply reliability, restore damaged and destroyed ecosystems, and improve the resilience of our infrastructure.

At the direction of Gov. Edmund G. Brown Jr., a collaborative effort of state agencies, and nearly 100 substantive public and stakeholder comments formed a plan to set direction for a host of near- and long-term actions on water issues for the state.

“It is a tall order. But it is what we must do to get through this drought and prepare for the next,” said Gov. Brown in his 2014 State of the State address.

The Governor’s proposed 2014-15 budget lays a solid fiscal foundation for implementing near-term actions for the plan, recommending $618.7 million in funding for water efficiency projects, wetland and watershed restoration, groundwater programs, conservation, flood control, and integrated water management.

“As we work on emergency actions to manage through one of the driest winters on record, we are also taking proactive, long-term steps to prepare California for future droughts and flood,” said Secretary for Natural Resources John Laird. “Each decade brings improvements, but also significantly highlights what we can do better. The California Water Action Plan gives us clear focus and vision for the next five years.”

Final revisions to the draft plan, released in October, include an expanded section on drought response and a new effort focused on better management of Sierra Nevada headwaters that helps water storage and quality, and ecosystems. Public comment on the draft plan made it clear that California must better understand the economic and ecological harm of sustained dry weather. The Governor’s proposed budget would provide $472.5 million in Proposition 84 funds to the Department of Water Resources (DWR) for integrated regional water management. The bond funds would leverage local and federal investment in projects that reduce demand, build supply, and offer additional benefits such as wildlife habitat and flood management. The budget also placed immediate emphasis on water and energy use efficiency and wetlands and coastal watershed restoration to further support the resiliency of water supply and ecosystems during this dry weather period.
The governor’s budget also would allow DWR to better monitor the groundwater resources that provide more than one-third of California’s supplies in dry years, and supports the development of a state backstop for sustainable groundwater management practices by the State Water Resources Control Board, should local efforts to do so not materialize.

“Together, the Governor’s proposed budget and this finalized plan provide the State with practical solutions to the state’s most critical problems; the proposals on groundwater are a good example,” said Cal/EPA Secretary Matt Rodriquez. “Data collection and monitoring are crucial to sustainable management of our unseen but incredibly important aquifers.”

All of the near-and long-term actions in the plan center on sustaining supplies of water for people, the environment, industry and agriculture. This year’s severe dry conditions highlight the stakes. Drought threatens to force the fallowing of hundreds of thousands of acres of farmland, throw thousands of people out of work, and potentially raise supermarket food prices.

“Our severe dry conditions are alarming for California’s agricultural industry,” said California Department of Food and Agriculture Secretary Karen Ross. “In the near term, we must do all we can to keep our fields productive. In the long term, we have a once-in-a-generation opportunity to make the investments that will allow us to stay productive in the face of a changing climate.”

Key actions identified in the Plan include:
- Make conservation a California way of life.
- Increase regional self-reliance and integrated water management across all levels of government.
- Achieve the co-equal goals for the Delta.
- Protect and restore important ecosystems.
- Manage and prepare for dry periods.
- Expand water storage capacity and improve groundwater management.
- Provide safe water for all communities.
- Increase flood protection.
- Increase operational and regulatory efficiency.
- Identify sustainable and integrated financing opportunities.

The report is available here.

# # #
CURRENT CONDITIONS

Recent Precipitation: California received a small amount of rain and snow in the last week. Precipitation amounts (in inches) between January 27 and February 2 are as follows:

- Folsom Dam: .40
- Fresno: .63
- Hetch Hetchy Reservoir: 2.42
- Lake Aloha: 4.27
- Modesto: .50
- Oroville: .56
- Redding: .34
- Sacramento: .22
- Shasta Dam: .27

Near-term Outlook for Precipitation: A change in weather pattern may develop over the Pacific Ocean in the coming days that would allow wetter Pacific storms back into California starting Sunday, February 9 and proceeding on-and-off for several days. Forecast confidence remains on the low side, considering that these potential storms are still several days away and could dissipate or shift north into Oregon and Washington.

** Heavy rain and snow would have to fall throughout California every other day from now until May to reach average annual rain and snowfall. Even with such precipitation, California would remain in drought conditions.**

Snow survey: The most recent snowpack survey, conducted on January 30, shows California snow pack at 12% of normal.

Snow water content: Current update shows 15% of normal.

Reservoir Levels (% capacity): Reservoir Levels as of February 2 are very low, including:
- Don Pedro 51%; Exchequer 21%; Folsom Lake 17%; Lake Oroville 36%; Millerton Lake 38%; New Melones 43%; Pine Flat 18%; San Luis 30%; Shasta 36%; and Trinity Lake 48%.

Vulnerable Water Systems: The Department of Public Health has identified several communities with potential drinking water shortages in the coming months. As of January 31, 17 systems have been identified at various stages of risk. The Department of Public Health is working closely with those communities to ensure continued drinking water availability and refining its list to focus on those water agencies with the most acute needs. Information can be found at the CDPH Drinking Water Program website.

KEY ACTION ITEMS FOR THE WEEK

Federal Government

- USDA Emergency Designations: The U.S. Department of Agriculture has issued Emergency Declarations in 53 California counties, with contiguous designations for a total of 57 counties. Imperial County is the only county not declared by the USDA. A
USDA Emergency Declaration initiates the availability of low-interest emergency loans to eligible producers in all primary and contiguous counties.

- **USSBA Emergency Designations:** Emergency declarations have been established by the [U.S. Small Business Administration](https://www.sba.gov) that cover 57 counties. Imperial County is the only county not declared by U.S.SBA.

- **Federal Agency Support:** Cal OES met with federal agencies on January 30 to discuss potential drought emergency assistance to California state agencies. A matrix is currently being developed to identify all of the federal programs that can provide assistance to California. It was noted that a significant amount of federal assistance is dependent upon the passage of the Farm Bill.

**State Government**

- **Conservation Campaign:** State government continues to amplify the Governor’s call for 20% water use reduction through its [Save our Water](https://www.saveourwater.ca.gov) campaign. Radio advertising, social media outreach and other forms of public awareness building are underway.

- **Conserving Water in Reservoirs:** The State Water Resources Control Board approved on Friday, January 31 a petition from the California Department of Water Resources and Bureau of Reclamation to adjust flows into the Sacramento-San Joaquin Delta from state and federal reservoirs. This action allows for the California State Water Project and the federal Central Valley Project to conserve water supplies upstream in reservoirs.

- **State Water Project:** Based on lack of water availability, the Department of Water Resources [dropped its projected allocation](https://www.waterboards.ca.gov) amount to customers of the California State Water Project from 5% to 0% to conserve current water supply.

- **Water Curtailments:** The Water Resources Control Board [announced that notices would be issued](https://www.waterboards.ca.gov) to certain junior water right holders to curtail their diversions of water from the Sacramento and San Joaquin River systems.

- **Fire Staffing:** [CAL FIRE](https://www.fire.ca.gov) is maintaining fire season staffing in Southern California and immediately re-staffing seasonal fire fighters in areas of Northern California.

- **Fishing Closures:** The [California Department of Fish and Wildlife](https://www.fishandgame.ca.gov) announced on January 29 the closure of some waters to fishing in order to protect native salmon and steelhead from low water flows in California streams and rivers that have been significantly impacted by drought. The Department also recommended to the [California Fish and Game Commission](https://www.fishandgame.ca.gov) the immediate adoption of emergency regulations on other rivers at its next meeting, February 5..

- **Cost Data:** Cal OES is working with state agencies and local governments to gather drought-related costs, which is reported weekly to the Drought Task Force.

- **Water Transfers:** The Department of Water Resources has posted [Water Transfer Status](https://www.waterboards.ca.gov/watertransferstatus) fact sheets to their website, developed action plans to expedite the processing of water transfer proposals, and is completing updates to the [California Data Exchange Center](https://data.waterboards.ca.gov) to identify statewide storage conditions.

The California Department of Food and Agriculture created a [one-stop website](https://www.cdfa.ca.gov) that provides timely updates on the drought and connects farmers to state and federal programs that they can access during the drought.

The Governor’s Drought Task Force continues to meet daily to take actions that conserve water and coordinate state response to the drought.
Local Government

- **Water Agency Conservation Efforts**: Many local water agencies are implementing conservation programs, which include voluntary calls for reduced water use and conservation.

- **Local Emergency Proclamations** (County, City, Tribal): A total of 11 local emergency Proclamations have been received to date from city, county or tribal governments, including:
  - **Counties**: Glenn County, Inyo County, Kern County, Madera County, Mendocino County, Santa Barbara County, San Joaquin County
  - **Cities**: Brookside Township-Mendocino County, City of Willits in Mendocino County (2)
  - **Tribes**: Hoopa Valley Tribe in Humboldt County

**Pending local proclamations include**: Tulare County (February 4), Tuolumne County (February 4) and Placer County Water Agency (February 6).

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**DROUGHT RELATED WEBSITES FOR MORE INFORMATION**

Governor’s [Proclamation of Drought Emergency](#)
State’s [Water Conservation Campaign](#), [Save our Water](#)
California Department of Food and Agriculture, [Drought information](#)
California Department of Water Resources [Current Water Conditions](#)
California Data Exchange Center, [Snow Pack/Water Levels](#)
California State Water Resources Control Board, Water Rights, [Drought Info and Actions](#)
California Natural Resources Agency, [Drought Info and Actions](#)
California Department of Public Health, Drinking Water [CDPH Drinking Water Program](#)
California State Water Project, [Information](#)
USDA Drought Designations by County [CA County Designations](#)
USDA Disaster and Drought Assistance Information [USDA Programs](#)
Jan. 30, 2014

METROPOLITAN GENERAL MANAGER ISSUES STATEMENT REGARDING GOVERNOR BROWN’S MEETING WITH SOUTHERN CALIFORNIA WATER LEADERS

Jeffrey Kightlinger, general manager of the Metropolitan Water District of Southern California, issued the following statement regarding today’s meeting with Gov. Edmund G. Brown Jr. to provide an overview of statewide drought conditions and water management actions:

“The dry conditions facing California are unprecedented, and this region stands united with the governor in supporting his call for a statewide approach to a statewide problem. His message shows that California must be serious about addressing its short- and long-term water problems.

“We recognize the importance of approaching this challenge as one state with a common purpose. Metropolitan plans to respond in the coming weeks with the following proposed water management actions in consultation with the leadership of our Board of Directors:

- Declaring a formal water supply alert that embraces the governor’s call on all Californians to voluntarily reduce water use by 20 percent.
- Doubling Metropolitan’s conservation budget from $20 million to $40 million to provide more incentives for reducing water use.
- Exploring all achievable means to utilize Metropolitan’s water and other resources to help address water supply challenges elsewhere in the state.

“Southern California water agencies have aimed to make conservation a local way of life. The city of Los Angeles, as a shining example, has maintained mandatory conservation measures since 2009. But what the state is facing right now is truly unprecedented. Southern California must continue to lead by example and partner with the rest of the state by all means feasible.”

###

The Metropolitan Water District of Southern California is a cooperative of 26 cities and water agencies serving nearly 19 million people in six counties. The district imports water from the Colorado River and Northern California to supplement local supplies, and helps its members to develop increased water conservation, recycling, storage and other resource-management programs.
The Yuma Clapper Rail
_A Marsh Bird in the Desert_

by Lesley Fitzpatrick

Through the late 1800s, the Colorado River flowed unimpeded from the Rocky Mountains south through the Grand Canyon to its delta on the Gulf of California in Mexico. In the cattail marshes of the delta lived the Yuma clapper rail (*Rallus longirostris yumanensis*), a chicken-sized bird for which the security of the cattails provided places to rest, hunt, and raise their young. Historically, the river corridor in the U.S. did not support the extensive areas of cattail marshes needed by the Yuma clapper rail. The first Yuma clapper rail in the U.S. was found in 1902 near Bard, California; other individuals were collected nearby in Yuma, Arizona in 1921. Over the next 40 years, Yuma clapper rails were found more and more frequently on the Colorado River in Arizona and California.

With the completion of the Hoover Dam in 1935, the chain of water development that dried up most of the delta’s marshes was virtually complete. Most of the water of the Colorado River no longer reached the delta, but was instead taken from the River by diversions to water the new, large agricultural fields in Arizona, California, and Mexico. Without the delta marshes to support them, Yuma clapper rails began to spread north and west. Fortunately, the changes to the River in the U.S. allowed new cattail marshes to form behind diversion dams and secondary channels. In southern California, marshes around the Salton Sea also expanded and became available. These two areas came to support the pioneering birds from Mexico, and now serve as core habitat areas for the rare birds.
The Yuma clapper rail was listed as endangered in 1976 under the Endangered Species Preservation Act, based on its precariously small population size in the U.S. and the threats to the new marsh habitat from channelization and dredging of the river in Arizona and California. In addition, very little of the marshes in the delta in Mexico remained by the mid-1960s, with just a few irrigation drains and ponded areas remaining in cattail habitat.

The species' recovery plan identifies protection and management of habitats as crucial for the survival and recovery of the species. Along the Colorado River, a number of national wildlife refuges supported cattail marshes, as did the California Department of Fish and Wildlife's Imperial Wildlife Area-Wister Unit (IWA) at the Salton Sea. As a by-product of efforts to reduce salinity of the Colorado River water diverted for agriculture in Mexico in the 1970s, the Bureau of Reclamation began diverting saline agricultural return flows to the then nearly dry Santa Clara Wetland. Within a few years, the water created a large marsh complex that not only supported clapper rails, but millions of other migratory waterfowl and shorebirds.

The 21st Century brought three important conservation plans. First, the Lower Colorado River Multi-Species Conservation Program, a joint state and federal program, addresses the effects of water diversions and Colorado River management programs to the clapper rail and 26 other southwestern species. The plan calls for the creation of 512 acres (207 hectares) of cattail marsh along the river for clapper rail habitat. The 255-acre (103-ha) Hart Mine Marsh, on the U.S. Fish and Wildlife Service’s Cibola National Wildlife Refuge, is the first created habitat under the program, which also contains a $25 million habitat maintenance fund designed to support maintenance activities on existing marsh habitats along the river.

The second plan is being undertaken by the Imperial Irrigation District at and around the southern end of the Salton Sea, as part of the Quantification Settlement Agreement Water Transfers. The first phase of the Managed Marsh project was completed in 2009, and the second phase will begin construction in 2014, with the remaining acreage completed by 2019. These measures will provide a total of 618 acres (250 ha) of cattail marsh and open water to benefit the clapper rail.
The Coachella Valley Multiple Species Habitat Conservation Plan has also helped to dramatically improve the fortunes of the clapper rail and other rare species. The plan calls for the conservation of 697 acres (282 ha) of marsh and open water habitats at the northern end of the Salton Sea.

While prospects for the Yuma clapper rail have improved with these new habitats, the species continues to face a number of challenges. Active management is needed on existing marshes at Salton Sea and along the Colorado River to maintain high-quality habitat for these birds. Staff at the Sonny Bono Salton Sea National Wildlife Refuge and the Wister IWA are working to re-establish suitable marsh habitat through controlled burns and earthwork to re-shape and contour some units.

At the Santa Clara Wetland, the 100,000-acre (40-ha) feet of irrigation return flows from the U.S. are at risk from operation of the Bureau of Reclamation's Yuma Desalting Plant. The plant, which has never been operated, was built in 1992 to desalinate the irrigation return flows that now run to the wetland. Starting in 2010, the plant was run for 11 months as a test, and may in the future be operated full-time. International discussions are ongoing to identify a solution that would provide adequate water for the wetland.

While the status of the Yuma clapper rail has improved since it first gained federal protection in 1967, with several hundred individuals counted in the U.S. annually and several thousand more at Santa Clara, full recovery is not yet in hand. To ensure the survival of this species in the U.S., conservation partners must continue to maintain the three primary habitat areas, and gain a better understanding of the use of those habitats and dispersal and movements of clapper rails between them. The progress made in the last decade must be carried forward in the next to achieve recovery of this secretive resident of the cattail marsh.

Lesley Fitzpatrick, a biologist in the Service's Arizona Ecological Services Field Office, can be reached at lesley_fitzpatrick@fws.gov or 602-242-0210, ext. 236.
To: San Diego County Water Authority Board Members
From: Ken Carpi, Washington Representative
Subject: Federal Legislative Update

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Congress Works Toward Stalemate on Drought Response

On February 5 the House of Representatives passed H.R. 3964, the Sacramento-San Joaquin Valley Emergency Water Delivery Act, by a vote of 229-121. The bill would authorize the construction of dams on the Upper San Joaquin River and the raising of Shasta Dam, repeal the San Joaquin River restoration program, and lengthen irrigation contracts to 40 years. With the exception of Rep. Jim Costa (D-Fresno), every Democrat in the state’s delegation voted against the bill. Senators Feinstein and Boxer called the bill “divisive” and President Obama said he would veto it if it reaches him.

Later in the month, Senators Boxer and Feinstein – joined by Oregon Senators Ron Wyden (D) and Jeff Merkley (D) – introduced competing legislation to address drought throughout the West, but focused on California and the Klamath Valley in Oregon. The bill would authorize $300 million in drought aid and would require that federal officials be more flexible in managing pumping through the Delta without impinging on Endangered Species Act requirements. However, the bill declares that the drought “fully satisfies” the requirements for initiating emergency procedures under the ESA and other environmental laws. The bill would also allow water districts to delay their federal contract payments and would streamline the federal review process for water supply projects. Senate action on the bill is possible later this spring.

Representative Costa introduced a companion bill to Feinstein et al., and other Democrats in the state’s congressional delegation are considering the introduction of their own bills, none of which are likely to move forward, but could factor into crafting compromise legislation. House Democrats have also called for additional hearings to examine the drought in Western states and options for responding to it. No hearings have been scheduled, but it is likely that any such hearing would also address the Bay-Delta Conservation Plan – including financing it.

With Congress unlikely to provide any assistance soon, President Obama is utilizing his new approach to bypass Congress whenever possible. While touring the Fresno area, he offered a financial assistance package to help address some of the economic losses associated with the drought and to help local governments respond. He has also tasked
federal agencies to use existing authorities to work more closely with California officials to coordinate a response and to find ways to improve water transfers and other steps that might improve operations between state and federal water projects.

**Senate Committee Leadership Shakeup**

The Senate voted to confirm Finance Committee Chairman Senator Max Baucus (D-MT) to be the next Ambassador to China. This allowed Ron Wyden (D-OR) to take over as chairman of the Finance Committee and Mary Landrieu (D-LA) to become the new chairman of the Energy and Natural Resources Committee. Landrieu, who stands for reelection this November, has a strong record on Gulf energy and water issues, but is a relative unknown on broader resource issues, including California’s multiple water concerns. Senator Lisa Murkowski (R-AK) remains as the Energy Committee’s ranking Republican member.

**Confirmation for Two Water Officials Possible This Week**

Barring further last minute holdups, the Senate is poised to confirm Mike Connor for the position of Deputy Secretary of the Interior and Ken Kopocis as the Assistant Administrator for Water at the U.S. Environmental Protection Agency. Connor’s final vote has been on hold since last year, while President Obama first nominated Kopocis in 2011.
Attention: Administrative and Finance Committee

Continuing discussion of the Fiscal Sustainability Task Force Recommendations to ensure the long-term fiscal sustainability of the Water Authority and the fair and proportionate recovery of long-term water supply and infrastructure investments. (Discussion)

Purpose
To review and discuss final draft recommendations of the Fiscal Sustainability Task Force for changes and additions to the Water Authority’s existing rate and charge structure and financial policies to ensure fair and proportionate recovery of long-term water supply investments. Action not requested with this item until future Board meeting.

Fiscal impact
There is no fiscal impact with this information item to the Water Authority. Depending upon the final action of the Board of Directors, the method of revenue collection may change, but would not result in an increase in overall Water Authority revenue. If these changes are approved, individual Member Agencies’ rates and charges will be impacted.

Background
In January 2012 the Chairman of the Water Authority Board established the Fiscal Sustainability Task Force (FSTF) to implement the Board’s directive at the Planning Retreat. Shortly after the FSTF was created the process was delayed to allow staff resources to focus on the Carlsbad 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 by Chair Wornham and is comprised of the following Board Members (with agency representation):

<table>
<thead>
<tr>
<th>Board member</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbara Wight</td>
<td>City of San Diego</td>
</tr>
<tr>
<td>Gary Arant</td>
<td>Valley Center Municipal Water District</td>
</tr>
<tr>
<td>David Barnum</td>
<td>Ramona Municipal Water District</td>
</tr>
<tr>
<td>Gary Croucher</td>
<td>Otay Water District</td>
</tr>
<tr>
<td>Deana Verbeke</td>
<td>Helix Water District</td>
</tr>
<tr>
<td>Mark Weston</td>
<td>City of Poway</td>
</tr>
<tr>
<td>Thomas Wornham</td>
<td>City of San Diego</td>
</tr>
</tbody>
</table>

The FSTF was appointed to provide a broad geographical cross section of member agencies that would also represent small and large agencies, agricultural and municipal and industrial (M&I) agencies, and agencies with various amounts of existing and future planned local supplies. With such a representative group of Board members it was felt that Task Force deliberations and
recommendations would be better balanced by reflecting the diversity of member agency purchase profiles both now and in the future.

In total the FSTF met 11 times before presenting their initial recommendations to the A&F Committee on January 23, 2014. Those meetings involved intense deliberations and candid discussion and contributions from all members. The development by the FSTF of its initial recommendations was based upon input from a variety of sources in determining the areas to focus its efforts upon. These sources included comments from previous discussions at Water Authority Board meetings and input from member agencies in a variety of settings as well as the views and concerns of Task Force members.

Summary of Initial Task Force Recommendations
At the January 23, 2014 meeting of the Administrative & Finance Committee FSTF presented four recommendations which the members believed would support the long-term fiscal sustainability of the Water Authority and represent a fair and proportionate cost recovery of the significant capital investments made in water supply diversification and reliability projects for the region. A summary of these recommendations are as follows:

- No Changes
  - Debt Service Coverage Ratio of 1.5 times
  - Capacity Charges

- Changes to rates and charges or financial policies
  Recommendation #1 - Clarify Fixed Cost Definition
  Recommendation #2 - Change Storage Allocation to 10 year rolling average
  Recommendation #3 - Consistently apply non-commodity revenue offsets to all rate categories, including the treatment rate

- Addition to rate and charge structure
  Recommendation #4 - Establish a Supply Reliability Charge using 10 year non-concurrent peak

**DISCUSSION**

The January meeting provided the Board with an opportunity to have a robust discussion of the process, analysis, and the FSTF’s recommendations. After receiving significant feedback from the Board, staff then met with Member Agencies on February 4, 2014 to provide an additional opportunity to discuss the process, analysis, and recommendations and receive feedback.

On February 13, 2014 the FSTF met to review all Board and Member Agency feedback; discuss each area of concern, including potential alternatives; and deliberate policy considerations. In addition, a significant amount of data summarizing the financial impact by member agency of the different recommendations was provided by staff and reviewed with the FSTF. Following the FSTF meeting, a copy of the financial impacts by member agency was provided to the General Managers and Finance Officer’s. In conjunction with the Cost of Service Phase 2 Workgroup
meeting on February 18, 2014, Member Agencies were provided an update on the FSTF and an opportunity to discuss the financial impacts.

The purpose of this memo is to summarize the key comments and input provided by the Board and Member Agencies and includes Task Force responses.

**Definition of Water Authority Fixed Costs**

1. The Fiscal Sustainability Task Force recommends that the Board determine that the definition of Water Authority fixed costs include all Water Authority payments towards the cost of Debt Service associated with the Carlsbad Desalination Project; Fixed Operations and Maintenance costs of the Carlsbad Desalination Project; Fixed Operations and Maintenance (O&M) costs associated with the All-American and Coachella Canal lining projects; and the take-or-pay purchase price of conserved Colorado River Water associated with the SDCWA-IID Water Transfer Agreement. [ORIGINAL RECOMMENDATION]

The original recommendation recognized that as a result of the Water Authority’s supply diversification efforts the Water Authority’s contractual financial obligations related to the Quantification Settlement Agreement (QSA) Colorado River water supplies and the Carlsbad Desalination Project met the definition of fixed costs. These were costs the Water Authority would incur regardless of whether the Water Authority took the water and the cost did not vary with the volume of water taken.

As noted in previous memos and presented to the Committee at the November 14, 2013 Special meeting, the Task Force developed policy guidelines to assist them and the Board in evaluating recommendation and potential changes to the rate and charge structure. One of those guidelines required that any fixed costs of the Water Authority have an appropriate level of fixed revenue. This led to the determination by the Task Force that the existing Board policy on the calculation of the Infrastructure Access Charge would include payments made servicing the debt and equity of the Carlsbad Desalination Plant and the contractually identified fixed operations and maintenance costs of the Desalination Plant and the All American and Coachella Canal Lining projects. The relevant part of the IAC resolution that guides calculation of the charge identifies fixed charges as including:

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“annual payments on principal and interest on debt of the Authority, and eighty percent of all operation and maintenance expenses as established by the Board in the annual Budget”
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1998 Revenue Plan Established IAC
As the basis of its recommendation the Task Force believed that it was the intent of the IAC to provide a fixed revenue source related to debt payments on physical assets and for fixed operating expenses. The Task Force did not believe that the take or pay water purchase price for the IID water transfer was within the purview of the IAC calculation. This was primarily because the transfer does not have a debt component or an operations or maintenance component. The intent of the IAC can be seen in the original Revenue Plan prepared by the consulting firm of RW Beck in 1998 that led to adoption of the IAC:
“...fixed cost is being driven primarily by increases in debt service. This increase in fixed costs coupled with normal fluctuations in annual water sales, supports a need to obtain a larger share of revenues that do not vary with commodity deliveries. However, the need for action is compounded by fundamental changes in the water industry in California. These changes are driven by limitations on increased water production coupled with increasing demands to supply a growing population and the potential for water transfers and water wheeling.”

The RW Beck Report went on to establish two primary objectives of the IAC:

- To partially protect against the potential for normal fluctuations in water deliveries that can result in annual deficits of funds required to pay fixed costs, primarily debt service.
- To avoid financial instability and to assure equity for Member Agencies

The Task Force believed that the intent and purpose of the IAC remains relevant and that inclusion of the Desalination Plant fixed costs and the Canal Lining O&M is consistent with that intent. It is apparent from the increasing amount of fixed cost obligations and the expansion of member agency local supply development rather than transfers and wheeling that the circumstances under which the IAC was instituted remain and will continue into the future.

Board Member Comments/Questions
The following is a summary of Board member feedback at the January 23, 2014 Administrative & finance Committee meeting:

- Not including MWD wheeling charges as a fixed cost is inconsistent as it is unavoidable
- Both the IID water transfer and Carlsbad Desalination are water purchase contracts and not distinguishable
- Water Authority doesn’t own the Carlsbad Desalination Plant, Debt service and O&M are Poseidon’s responsibility not the Water Authority
- Why discount the desal fixed O&M by 20% when we know it is contractually defined as fixed
- Is collecting fixed charges for Desal the same as MWD allocation of State Water Project costs to transportation

Member Agency Representatives Comments/Input
- The following is a summary of input provided by member agency General Managers and Finance Officers on Recommendation #1 at the February 4, 2014 meeting:
- If Carlsbad Desalination Plant O&M is included in IAC why not Twin Oaks Water Treatment Plant O&M
- Having untreated water customers pay for treatment O&M is a concern
- Are we setting a precedent for supply related O&M that could include adding MWD O&M to the IAC
- Look at Take or Pay contracts for a percentage of total sales e.g. 30%
- What is the definition of stable revenues that Water authority is trying to achieve
- Should discuss all fixed charges at the same time, IAC and Reliability Charge
At its February 13, 2014 meeting the Task Force continued to support its initial recommendation to define fixed costs as including desalination debt charges and fixed O&M as well as canal lining O&M and the take or pay purchase price of IID transfer water. The Task Force also maintained its interpretation of the Desal debt payments and the fixed O&M for the desalination plant and the canal lining projects as being appropriately part of the IAC calculation. In regard to ownership of an asset being a requirement for inclusion the IAC calculation, the Task Force found that there are several circumstances where the Water Authority makes debt payments towards assets it does not own, as summarized in the table below:

<table>
<thead>
<tr>
<th>Facility</th>
<th>Owned by Water Authority</th>
<th>Not Owned by Water Authority</th>
<th>Debt Paid by Water Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAC-Coachella Canal</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Levy WTP &amp; Related Facilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>IID On-farm Conservation Improvements</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Desal Conveyance</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>San Vicente Dam Raise</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Lake Hodges Pumped Storage</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

In the above circumstances, it was the nature of the payment of debt and its fixed obligation that warranted inclusion in the IAC rather than ownership. The Task Force believed the same interpretation of the IAC policy applied to the capital charges related to debt on the Carlsbad Desalination Plant.

However, in light of concern expressed over the inclusion of any supply O&M in the calculation of the IAC and the lack of clarity on the subject in the IAC Resolution, the FSTF asks that the Committee and the Board provide direction on interpreting whether these costs should be included.

As recommended by the FSTF, the inclusion of the desalination and canal related expenses in the fixed costs definition does not increase revenue to the Water Authority; it reallocates approximately $17 million or 2% of variable costs to fixed and impacts each member agency differently. The estimated impact to each agency was provided and is attached. Since the impact on variable costs to each member agency is dependent on volumes two analyses were performed: (Attachment A) utilizing a current snapshot and (Attachment B) utilizing water sales volumes reflecting a dry year (2009). Additionally, in response to discussions, staff prepared a financial analysis excluding desalination and canal O&M in the IAC calculation. Attachment C includes the estimated impact by member agency utilizing a current snapshot and Attachment D utilizes water sales volumes reflecting a dry year (2009).
Allocation of Storage Charge to Member Agencies

2. The Fiscal Sustainability Task Force recommends that the allocation of storage charge costs to member agencies be revised from a prior three-year rolling average of Municipal & Industrial water deliveries to a prior 10-year rolling average of Municipal & Industrial water deliveries. [ORIGINAL RECOMMENDATION]

The FSTF originally recommended changing the current allocation of the Water Authority’s Storage Charge from a three-year rolling average of Municipal & Industrial (M&I) deliveries to a 10-year rolling average. This recommendation was made to provide a more accurate estimate of member agencies need for emergency and carryover storage by expanding the amount of years making up the average to produce a better picture of weather variability and to better match a member agencies need for storage water with their cost responsibility. A minority opinion was expressed and is detailed in the January 16, 2014 Board memo, Attachment H.

The FSTF determined that the three-year average no longer captures this widening variability. Additionally, since both ESP and CSP are designed to protect the region’s economy in the event of water shortages the benefits are long-term. To better match the long-term benefits, a longer period of time to calculate an average amount of deliveries is a better indicator of member agency’s need and the benefits derived balanced with the Water Authority’s obligation to serve its member agencies regardless of past water use or payment. A longer period over which to average will capture the greater variability in weather and water use especially given the impacts of climate change and will better match the availability of storage water to serve all member agencies.

Board Member Comments/Questions
The following is a summary of Board member feedback at the January 23, 2014 Administrative & Finance Committee meeting:

- Want analysis of member agency roll off for local supplies in the 3 year vs. 10 year calculation
- As a Metro wastewater agency also want to avoid impacting Indirect Potable Reuse (IPR)
- Look at alternatives to 10 year average, e.g. 5 year rolling average
- Exclude 2007 as high water year of water deliveries in storage charge calculation
- If a local supply project fails can we reduce benefit to member agency from storage
- Don’t piecemeal recommendations
- Can parks and other institutional customers get Special Ag water discount for lesser service from storage

Member Agency Representatives Comments/Input
The following is a summary of input provided by member agency General Managers and Finance Officers on Recommendation #2 at the February 4, 2014 meeting

- Need to see impact of cost responsibility percentages with roll-off
- Want alternative approach to protect local supply development
- Want any extension of rolling average to be phased in
Fiscal Sustainability Task Force Response
In an effort to better balance strengthening the nexus for the benefits all member agencies receive from emergency and carryover storage with encouraging and supporting greater regional reliability through member agency development of local supplies the FSTF discussed amending its recommendation. The Task Force revised its recommendation to change the basis of calculating the Storage Charge from a three-year rolling average of historic M&I deliveries to a five-year rolling average of historic M&I deliveries. This will provide a more accurate estimate of member agency need and benefit while reducing the cost responsibility period for agencies developing their own local supplies. The Task Force also discussed another previously identified option of adjusting a member agency’s 10 year average to account for new local supply development. It was determined by the Task Force that the added complexity of such an option was not necessary and that the same objective could be accomplished by adjusting the rolling average to five years.

In response to discussions, the financial impact of extending the allocation basis was provided. This analysis, Attachment E, quantified the impact of utilizing a three and 10-year basis, as originally recommended, to allocate storage costs and provided an estimate of what this change would like in ten years to account for projected local supply development and hydrology on anticipated water demand. In addition, based on the discussion and feedback the financial analysis was modified to compare a three and five-year basis of allocation, Attachment F.

The Fiscal Sustainability Task Force recommends that the allocation of storage charge costs to member agencies be revised from a prior three-year rolling average of Municipal & Industrial water deliveries to a prior 5-year rolling average of Municipal & Industrial water deliveries. [AMENDED RECOMMENDATION]

Consistent Application of Revenue Offsets

3. The Fiscal Sustainability Task Force recommends that the Water Authority consistently apply non-commodity revenue offsets to all revenue categories including Treatment. [ORIGINAL RECOMMENDATION]

The FSTF reviewed the current allocation methodology for non-commodity offsetting revenues and compared it to the Guiding Principles. After discussions with staff and cost of service consultants, the recommendation of the FSTF is to allocate non-commodity offsetting revenues to the Melded Treatment rate, the same as for other categories. The recommendation better ensures that cost allocations between treated and untreated customers fully reflect revenue contributions from non-commodity offsetting revenue sources.

Member Agency Representatives Comments/Input
The following is a summary of input provided by member agency General Managers and Finance Officers on Recommendation #3 at the February 4, 2014 meeting

- Why would untreated customers property taxes be taken to offset treatment expenses?
Fiscal Sustainability Task Force Response
All member agencies, with the exception of the City of Poway, have treated water access and have taken treated water. The treatment rate is based on the ability to take and is confirmed by the fact that all but one member agency does take treated water from the Water Authority.

The FSTF recommendation supports the Carollo finding that all non-commodity revenues be consistently applied to all revenue categories, including Treatment.

The estimated financial impact by member agency to apply the offset to all rate categories is included in Attachment G.

Establish a Supply Reliability Charge

4. The Fiscal Sustainability Task Force recommendation that the Water Authority establish a fixed Supply Reliability Charge allocated to member agencies on the basis of a prior 10 year non-concurrent peak amount of deliveries of Water Authority supplies. [ORIGINAL RECOMMENDATION]

Based on the feedback discussed below, the FSTF recommends deferring this recommendation until the later phase. In addition, to the three items previously identified in the January 16, 2014 Board Memo for review during a later phase (New Policy of Fixed Cost Coverage, Reserve Policies, and Customer Service Charge), a discussion of fixed purchase contracts and local supply development credits or exemptions be included in the discussions.

Board Member Comments/Questions
The following is a summary of Board member feedback at the January 23, 2014 Administrative & finance Committee meeting:

- Agree with reliability but concerned over impact to member agencies
- Agree with recovering some level of fixed revenue for QSA and Carlsbad desalination
- Requires detailed analysis of impact to member agencies
- This process feels rushed

Member Agency Representatives Comments/Input
The following is a summary of input provided by member agency General Managers and Finance Officers on Recommendation #2 at the February 4, 2014 meeting:

- What is the fixed percentage to be recovered?
- What is the impact on member agencies?
- Need to know the reliability benefits and how they are valued
- Factor in value of member agency local supply reliability to other member agencies
- What is the impact to each member agency with roll-off for local supply development
- Consider take or pay contracts
- Don’t split fixed charge discussion
- Need more time
Fiscal Sustainability Task Force Response
The Task Force members recognized the significance of this recommendation to both the Water Authority’s fiscal sustainability, equity to member agencies and the consistency of positions taken here with positions taken at MWD. The Task Force believes that this is not an issue that has an impact on 2015 rates and charges as has greater long term implications. In light of those factors the FSTF is amending its recommendation to defer the consideration of a reliability charge to a later date and also since it is of a longer term nature to include the discussion with member agencies over interest in long term take or pay contracts that could achieve the same the objective.

The Fiscal Sustainability Task Force recommends deferring the establishment of a Supply Reliability Charge until a later time and working with the member agencies also evaluate take or pay supply contracts with member agencies using 10 year non-concurrent peak as an alternative means of meeting the same objective.

Summary
The FSTF thoroughly discussed all Board and Member Agency feedback; they reviewed the financial analysis for each recommendation and alternative; and discussed policy considerations. They were impressed by the significant amount of feedback and thoughtful discussion by both Board Members and Member Agencies, and in response have made amendments to their original four recommendations as detailed in this report.

The FSTF has amended their original four recommendations to three, which in their opinion are an immediate need as they impact the 2015 rate and charge development. These three recommendations stand on their own to address our diversified water supply costs now, but they should be reviewed continually, and may need to be adapted for future Board decisions and changes in strategic direction.

As noted in the memo, the FSTF maintains the original recommendation for the Definition of Water Authority Fixed Costs and Consistent Application of Revenue Offsets; recommends amending the Allocation of Storage Charge to Member Agencies from a three to five-year basis; and defer the recommendation to Establish a Supply Reliability Charge until a later date.

The Task Force will return to the Administrative and Finance Committee on March 27, 2014 for approval of the three final draft recommendations detailed in this report.

Respectfully submitted on behalf of the Fiscal Sustainability Task Force;

Prepared by: Lisa Celaya, Financial Resources Manager
Ken Weinberg, Director of Water Resources

Reviewed by: Sandra L. Kerl, Deputy General Manager

Approved by: Maureen A. Stapleton, General Manager

Attachment A: Financial Impact – Incremental Increase in IAC
Attachment B: Financial Impact – Incremental Increase in IAC (Dry Year)
Attachment C: Financial Impact – Incremental Increase in IAC, Excludes Desal and Canal O&M
Attachment D: Financial Impact – Incremental Increase in IAC, Excludes Desal and Canal O&M (Dry Year)
Attachment E: Financial Impact – Allocation of Storage Charge, 3 Year vs 10 Year
Attachment F: Financial Impact – Allocation of Storage Charge, 3 Year vs 5 Year
Attachment G: Financial Impact – Allocation of Offsetting Revenues to all Rate Categories
Attachment H: January 16, 2014 Board Memo
## Incremental Increase in IAC

### Estimated Impact by Member Agency

**(FOR ILLUSTRATIVE PURPOSES ONLY)**

<table>
<thead>
<tr>
<th>Agency</th>
<th>IAC Meter Equivalents</th>
<th>Estimated M&amp;I Demand for CY2014 (438,500 AF)</th>
<th>Estimated Transportation Demand CY2014 (448,210 AF)</th>
<th>Increase to IAC (^1) ($1.55/ME/Month)</th>
<th>Change in Supply Costs ($35/AF)</th>
<th>Change in Transportation Costs ($4/AF)</th>
<th>Net Change to Member Agencies</th>
<th>Net Change as a % of Estimated Financial Contribution (^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>36,533</td>
<td>16,672</td>
<td>16,672</td>
<td>$679,514</td>
<td>($685,015)</td>
<td>($60,019)</td>
<td>$34,480</td>
<td>0.13%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>2,502</td>
<td>1,074</td>
<td>1,074</td>
<td>$46,537</td>
<td>($37,701)</td>
<td>($3,868)</td>
<td>$4,968</td>
<td>0.35%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>34,861</td>
<td>18,645</td>
<td>21,062</td>
<td>$648,415</td>
<td>($654,244)</td>
<td>($75,823)</td>
<td>($81,653)</td>
<td>-0.35%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>11,645</td>
<td>7,418</td>
<td>1,074</td>
<td>$216,597</td>
<td>($260,308)</td>
<td>($3,867)</td>
<td>($47,578)</td>
<td>-0.36%</td>
</tr>
<tr>
<td>Helix W.D.</td>
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<td>32,936</td>
<td>32,936</td>
<td>$1,202,713</td>
<td>($1,155,716)</td>
<td>($118,569)</td>
<td>($71,572)</td>
<td>-0.18%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
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<td>3,441</td>
<td>3,441</td>
<td>$147,572</td>
<td>($120,759)</td>
<td>($12,389)</td>
<td>$14,425</td>
<td>0.27%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>55,959</td>
<td>22,618</td>
<td>23,037</td>
<td>$1,084,004</td>
<td>($1,091,620)</td>
<td>($111,993)</td>
<td>($120,609)</td>
<td>-0.24%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>28,215</td>
<td>20,224</td>
<td>20,322</td>
<td>$524,799</td>
<td>($709,676)</td>
<td>($73,161)</td>
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</tr>
<tr>
<td>Otay W.D.</td>
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<td>31,109</td>
<td>31,109</td>
<td>$1,083,004</td>
<td>($1,091,620)</td>
<td>($111,993)</td>
<td>($120,609)</td>
<td>-0.24%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>26,124</td>
<td>10,893</td>
<td>11,201</td>
<td>$485,906</td>
<td>($382,250)</td>
<td>($40,323)</td>
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</tr>
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<td>Pendleton Military Reservation</td>
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<td>42</td>
<td>42</td>
<td>0</td>
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<td>($151)</td>
<td>($1,619)</td>
<td>-2.33%</td>
</tr>
<tr>
<td>Poway, City of</td>
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<td>11,972</td>
<td>12,006</td>
<td>$316,181</td>
<td>($420,104)</td>
<td>($43,222)</td>
<td>($147,145)</td>
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</tr>
<tr>
<td>Rainbow M.W.D.</td>
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<td>10,864</td>
<td>3,440</td>
<td>$241,502</td>
<td>($210,759)</td>
<td>($20,743)</td>
<td>($135,672)</td>
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</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>10,156</td>
<td>5,285</td>
<td>6,501</td>
<td>$188,902</td>
<td>($185,440)</td>
<td>($3,460)</td>
<td>($134,008)</td>
<td>-0.22%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,573</td>
<td>6,309</td>
<td>6,508</td>
<td>$178,058</td>
<td>($211,366)</td>
<td>($23,428)</td>
<td>($66,737)</td>
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</tr>
<tr>
<td>San Diego, City of</td>
<td>393,769</td>
<td>179,582</td>
<td>179,653</td>
<td>$7,324,103</td>
<td>($6,301,525)</td>
<td>($646,752)</td>
<td>$375,827</td>
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</tr>
<tr>
<td>San Dieguito W.D.</td>
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<td>4,373</td>
<td>4,373</td>
<td>$278,461</td>
<td>($153,459)</td>
<td>($15,744)</td>
<td>$109,257</td>
<td>2.00%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10,430</td>
<td>8,521</td>
<td>8,521</td>
<td>$193,998</td>
<td>($298,995)</td>
<td>($105,077)</td>
<td>($135,672)</td>
<td>-1.34%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>42,434</td>
<td>4,731</td>
<td>4,731</td>
<td>$789,272</td>
<td>($166,006)</td>
<td>($17,031)</td>
<td>$606,235</td>
<td>7.08%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>25,889</td>
<td>15,572</td>
<td>16,090</td>
<td>$481,535</td>
<td>($546,417)</td>
<td>($59,791)</td>
<td>($124,672)</td>
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</tr>
<tr>
<td>Valley Center M.W.D.</td>
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<td>8,927</td>
<td>24,383</td>
<td>$274,257</td>
<td>($313,235)</td>
<td>($87,777)</td>
<td>($126,755)</td>
<td>-0.53%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>35,094</td>
<td>16,636</td>
<td>16,713</td>
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<td>($583,757)</td>
<td>($60,168)</td>
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<tr>
<td>Yuima M.W.D.</td>
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<td>2,702</td>
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<td>($9,729)</td>
<td>($11,889)</td>
<td>-0.67%</td>
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<tr>
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<td>350</td>
<td>0</td>
<td>($12,282)</td>
<td>($1,260)</td>
<td>($13,542)</td>
<td>-2.63%</td>
<td></td>
</tr>
</tbody>
</table>

Total: 914,166 438,500 448,210 $17,003,488 ($15,386,965) ($1,613,556) $2,967

\(^1\)Estimated incremental increase in IAC includes desalination plant and pipeline debt, and fixed O&M for the desalination plant and canal lining

\(^2\)Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
### Incremental Increase in IAC (Dry Year Based on 2009 M&I Demand)

**Estimated Impact by Member Agency**

*(FOR ILLUSTRATIVE PURPOSES ONLY)*

<table>
<thead>
<tr>
<th>Agency</th>
<th>IAC Meter Equivalents</th>
<th>Estimated M&amp;I Demand (Dry Year)</th>
<th>Increase to IAC(^1) ($1.55/ME/Month)</th>
<th>Change in Supply Costs ($35/AF)</th>
<th>Change in Transportation Costs ($4/AF)</th>
<th>Net Change to Member Agencies</th>
<th>Net Change as a % of Estimated Financial Contribution(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>36,533</td>
<td>19,297</td>
<td>$679,514</td>
<td>($677,142)</td>
<td>($69,470)</td>
<td>($67,099)</td>
<td>-0.23%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>2,502</td>
<td>1,200</td>
<td>$46,537</td>
<td>($42,101)</td>
<td>($3,887)</td>
<td>$549</td>
<td>0.04%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>34,861</td>
<td>17,611</td>
<td>$648,415</td>
<td>($617,984)</td>
<td>($57,061)</td>
<td>($26,630)</td>
<td>-0.12%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>11,645</td>
<td>9,106</td>
<td>$216,597</td>
<td>($319,533)</td>
<td>($29,504)</td>
<td>($132,440)</td>
<td>-0.86%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>64,662</td>
<td>37,485</td>
<td>$1,202,713</td>
<td>($1,315,335)</td>
<td>($121,450)</td>
<td>($234,072)</td>
<td>-0.53%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>7,934</td>
<td>3,858</td>
<td>$147,572</td>
<td>($135,381)</td>
<td>($12,500)</td>
<td>($309)</td>
<td>-0.01%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>55,959</td>
<td>28,757</td>
<td>$1,040,837</td>
<td>($1,009,076)</td>
<td>($93,172)</td>
<td>($61,411)</td>
<td>-0.16%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>28,215</td>
<td>22,352</td>
<td>$524,799</td>
<td>($784,321)</td>
<td>($72,420)</td>
<td>($132,440)</td>
<td>-1.18%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>58,226</td>
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<td>($1,225,259)</td>
<td>($113,133)</td>
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</tr>
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<td>($487,319)</td>
<td>($44,996)</td>
<td>($46,409)</td>
<td>-0.22%</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
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<td>14,238</td>
<td>$316,181</td>
<td>($499,611)</td>
<td>($46,131)</td>
<td>($229,561)</td>
<td>-1.36%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>12,984</td>
<td>12,750</td>
<td>$241,502</td>
<td>($134,626)</td>
<td>($12,431)</td>
<td>$131,404</td>
<td>2.69%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,573</td>
<td>7,154</td>
<td>$178,058</td>
<td>($251,044)</td>
<td>($23,180)</td>
<td>($96,167)</td>
<td>-0.88%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>393,769</td>
<td>201,903</td>
<td>$7,324,103</td>
<td>($7,084,780)</td>
<td>($654,166)</td>
<td>($414,842)</td>
<td>-0.16%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>14,971</td>
<td>3,837</td>
<td>$278,461</td>
<td>($134,626)</td>
<td>($12,431)</td>
<td>$131,404</td>
<td>2.69%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10,430</td>
<td>7,906</td>
<td>$193,998</td>
<td>($277,408)</td>
<td>($25,614)</td>
<td>($109,024)</td>
<td>-1.16%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>42,434</td>
<td>13,059</td>
<td>$789,272</td>
<td>($458,237)</td>
<td>($42,311)</td>
<td>$288,725</td>
<td>1.75%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>25,889</td>
<td>17,367</td>
<td>$481,535</td>
<td>($609,394)</td>
<td>($56,268)</td>
<td>($184,126)</td>
<td>-0.68%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>14,745</td>
<td>9,190</td>
<td>$274,257</td>
<td>($322,488)</td>
<td>($29,777)</td>
<td>($78,007)</td>
<td>-0.35%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>35,094</td>
<td>15,330</td>
<td>$652,748</td>
<td>($537,933)</td>
<td>($49,670)</td>
<td>$65,146</td>
<td>0.31%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>461</td>
<td>138</td>
<td>$8,575</td>
<td>($4,839)</td>
<td>($447)</td>
<td>$3,289</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>914,166</td>
<td>497,166</td>
<td>$17,003,488</td>
<td>($17,445,565)</td>
<td>($1,617,766)</td>
<td>($2,059,844)</td>
<td></td>
</tr>
</tbody>
</table>

---

\(^1\)Estimated incremental increase in IAC includes desalination plant and pipeline debt, and fixed O&M for the desalination plant and canal lining

\(^2\)Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
<table>
<thead>
<tr>
<th>Agency</th>
<th>IAC Meter Equivalents</th>
<th>Estimated M&amp;I Demand for CY2014 (438,500 AF)</th>
<th>Estimated Transportation Demand CY2014 (448,210 AF)</th>
<th>Increase to IAC&lt;sup&gt;1&lt;/sup&gt; ($1.10/ME/Month)</th>
<th>Change in Supply Costs ($25/AF)</th>
<th>Change in Transportation Costs ($33/AF)</th>
<th>Net Change to Member Agencies</th>
<th>Net Change as a % of Estimated Financial Contribution&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>36,533</td>
<td>16,672</td>
<td>16,672</td>
<td>$482,236</td>
<td>(415,296)</td>
<td>(42,513)</td>
<td>$24,427</td>
<td>0.09%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>2,502</td>
<td>1,074</td>
<td>1,074</td>
<td>$33,026</td>
<td>(26,764)</td>
<td>(2,740)</td>
<td>$3,523</td>
<td>0.25%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>34,861</td>
<td>18,645</td>
<td>21,062</td>
<td>$460,165</td>
<td>(464,441)</td>
<td>(53,708)</td>
<td>(57,984)</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>11,645</td>
<td>7,418</td>
<td>1,074</td>
<td>$153,714</td>
<td>(184,790)</td>
<td>(2,739)</td>
<td>$33,815</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>64,662</td>
<td>32,936</td>
<td>32,936</td>
<td>$853,538</td>
<td>(820,430)</td>
<td>(83,986)</td>
<td>$50,878</td>
<td>-0.13%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>7,934</td>
<td>3,441</td>
<td>3,441</td>
<td>$104,729</td>
<td>(85,725)</td>
<td>(8,776)</td>
<td>$10,228</td>
<td>0.19%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>55,959</td>
<td>22,618</td>
<td>23,037</td>
<td>$738,659</td>
<td>(563,411)</td>
<td>(58,745)</td>
<td>$116,502</td>
<td>0.36%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>28,215</td>
<td>20,224</td>
<td>21,062</td>
<td>$372,438</td>
<td>(503,791)</td>
<td>(51,822)</td>
<td>(183,175)</td>
<td>-0.70%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>58,226</td>
<td>31,109</td>
<td>31,099</td>
<td>$768,583</td>
<td>(774,929)</td>
<td>(79,328)</td>
<td>(85,674)</td>
<td>-0.17%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>26,124</td>
<td>10,893</td>
<td>11,201</td>
<td>$344,837</td>
<td>(271,355)</td>
<td>(28,562)</td>
<td>$44,920</td>
<td>0.24%</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>42</td>
<td>42</td>
<td>42</td>
<td>$0</td>
<td>($1,042)</td>
<td>($107)</td>
<td>($1,149)</td>
<td>-1.65%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>16,999</td>
<td>11,972</td>
<td>12,006</td>
<td>$224,387</td>
<td>(298,227)</td>
<td>(30,616)</td>
<td>($104,456)</td>
<td>-0.70%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>12,984</td>
<td>10,864</td>
<td>3,440</td>
<td>$171,389</td>
<td>(270,628)</td>
<td>(8,771)</td>
<td>($108,010)</td>
<td>-0.51%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>10,156</td>
<td>5,285</td>
<td>6,250</td>
<td>$134,059</td>
<td>(131,641)</td>
<td>(15,417)</td>
<td>($13,520)</td>
<td>-0.16%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,573</td>
<td>6,309</td>
<td>6,508</td>
<td>$126,364</td>
<td>(157,145)</td>
<td>(16,595)</td>
<td>($47,377)</td>
<td>-0.46%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>393,769</td>
<td>179,582</td>
<td>179,653</td>
<td>$5,197,751</td>
<td>(4,473,382)</td>
<td>(458,116)</td>
<td>$266,253</td>
<td>0.11%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>14,971</td>
<td>4,737</td>
<td>4,737</td>
<td>$197,617</td>
<td>(108,939)</td>
<td>(111,152)</td>
<td>$77,526</td>
<td>1.42%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10,430</td>
<td>8,521</td>
<td>8,521</td>
<td>$137,676</td>
<td>(212,253)</td>
<td>(21,728)</td>
<td>($96,305)</td>
<td>-0.95%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>42,434</td>
<td>4,731</td>
<td>4,731</td>
<td>$560,129</td>
<td>(117,846)</td>
<td>(12,064)</td>
<td>$430,219</td>
<td>5.03%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>25,889</td>
<td>15,572</td>
<td>16,609</td>
<td>$341,735</td>
<td>(387,895)</td>
<td>(42,352)</td>
<td>($88,512)</td>
<td>-0.34%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>14,745</td>
<td>8,927</td>
<td>24,383</td>
<td>$194,634</td>
<td>(222,362)</td>
<td>(62,175)</td>
<td>($89,903)</td>
<td>-0.38%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>35,094</td>
<td>16,636</td>
<td>16,713</td>
<td>$463,241</td>
<td>(414,403)</td>
<td>(42,619)</td>
<td>$6,219</td>
<td>0.03%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>461</td>
<td>306</td>
<td>2,702</td>
<td>$6,085</td>
<td>($7,621)</td>
<td>($8,427)</td>
<td>($9,611)</td>
<td>-0.47%</td>
</tr>
<tr>
<td>Contract Water</td>
<td>350</td>
<td>350</td>
<td>350</td>
<td>$0</td>
<td>($8,719)</td>
<td>($893)</td>
<td>($9,611)</td>
<td>-1.87%</td>
</tr>
</tbody>
</table>

<sup>1</sup>Estimated incremental increase in IAC includes desalination plant and pipeline debt only

<sup>2</sup>Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
### Incremental Increase in IAC - Excludes Desal and Canal O&M (Dry Year Based on 2009 M&I Demand)

#### Estimated Impact by Member Agency

**(FOR ILLUSTRATIVE PURPOSES ONLY)**

<table>
<thead>
<tr>
<th>Agency</th>
<th>IAC Meter Equivalents</th>
<th>Estimated M&amp;I Demand (Dry Year)</th>
<th>Increase to IAC(^1) ($1.10/ME/Month)</th>
<th>Change in Supply Costs ($25/AF)</th>
<th>Change in Transportation Costs ($3/AF)</th>
<th>Net Change to Member Agencies</th>
<th>Net Change as a % of Estimated Financial Contribution(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>36,533</td>
<td>19,297</td>
<td>$482,236</td>
<td>$(480,696)</td>
<td>$(49,208)</td>
<td>$(47,668)</td>
<td>-0.16%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>2,502</td>
<td>1,200</td>
<td>$33,026</td>
<td>$(29,887)</td>
<td>$(3,059)</td>
<td>$(80)</td>
<td>0.01%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>34,861</td>
<td>17,611</td>
<td>$460,165</td>
<td>$(438,700)</td>
<td>$(44,909)</td>
<td>$(23,444)</td>
<td>-0.11%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>11,645</td>
<td>9,106</td>
<td>$153,714</td>
<td>$(226,833)</td>
<td>$(23,221)</td>
<td>$(96,340)</td>
<td>-0.62%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>64,662</td>
<td>37,485</td>
<td>$853,538</td>
<td>$(933,741)</td>
<td>$(95,586)</td>
<td>$(175,789)</td>
<td>-0.40%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>7,934</td>
<td>3,858</td>
<td>$104,729</td>
<td>$(96,105)</td>
<td>$(9,838)</td>
<td>$(1,215)</td>
<td>-0.02%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>55,959</td>
<td>28,757</td>
<td>$738,659</td>
<td>$(716,332)</td>
<td>$(73,330)</td>
<td>$(51,003)</td>
<td>-0.14%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>28,215</td>
<td>22,352</td>
<td>$372,438</td>
<td>$(345,943)</td>
<td>$(35,414)</td>
<td>$(36,519)</td>
<td>-0.17%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>58,226</td>
<td>34,918</td>
<td>$768,583</td>
<td>$(869,797)</td>
<td>$(89,040)</td>
<td>$(190,254)</td>
<td>-0.35%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>26,124</td>
<td>13,888</td>
<td>$344,837</td>
<td>$(354,943)</td>
<td>$(35,414)</td>
<td>$(36,519)</td>
<td>-0.17%</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>83</td>
<td>0</td>
<td>$224,387</td>
<td>$(212)</td>
<td>$(2,287)</td>
<td>-2.11%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>16,999</td>
<td>14,238</td>
<td>$224,387</td>
<td>$(212)</td>
<td>$(2,287)</td>
<td>-2.11%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>12,984</td>
<td>12,750</td>
<td>$171,389</td>
<td>$(178,729)</td>
<td>$(79,412)</td>
<td>$(79,412)</td>
<td>-0.84%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>10,156</td>
<td>5,740</td>
<td>$134,059</td>
<td>$(142,993)</td>
<td>$(14,638)</td>
<td>$(23,572)</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>9,573</td>
<td>7,154</td>
<td>$126,364</td>
<td>$(118,214)</td>
<td>$(18,243)</td>
<td>$(70,093)</td>
<td>-0.64%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>393,769</td>
<td>201,903</td>
<td>$5,197,751</td>
<td>$(5,029,406)</td>
<td>$(145,336)</td>
<td>$(346,508)</td>
<td>-0.13%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>14,971</td>
<td>3,837</td>
<td>$197,617</td>
<td>$(190,254)</td>
<td>$(79,412)</td>
<td>$(79,412)</td>
<td>-0.84%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10,430</td>
<td>7,906</td>
<td>$137,676</td>
<td>$(134,059)</td>
<td>$(14,638)</td>
<td>$(23,572)</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>42,434</td>
<td>13,059</td>
<td>$560,129</td>
<td>$(325,297)</td>
<td>$(33,300)</td>
<td>$201,531</td>
<td>1.22%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>25,889</td>
<td>17,367</td>
<td>$341,735</td>
<td>$(432,602)</td>
<td>$(44,285)</td>
<td>$(135,152)</td>
<td>-0.50%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>14,745</td>
<td>9,190</td>
<td>$194,634</td>
<td>$(228,930)</td>
<td>$(23,435)</td>
<td>$(57,732)</td>
<td>-0.26%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>35,094</td>
<td>15,330</td>
<td>$463,241</td>
<td>$(381,873)</td>
<td>$(39,092)</td>
<td>$(42,276)</td>
<td>0.20%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>461</td>
<td>138</td>
<td>$6,085</td>
<td>$(3,435)</td>
<td>$(352)</td>
<td>$2,298</td>
<td>0.17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>914,166</strong></td>
<td><strong>497,166</strong></td>
<td><strong>$12,066,991</strong></td>
<td>$(12,384,413)</td>
<td><strong>$(1,585,195)</strong></td>
<td><strong>$(1,267,774)</strong></td>
<td><strong>-0.13%</strong></td>
</tr>
</tbody>
</table>

\(^1\)Estimated incremental increase in IAC includes desalination plant and pipeline debt only

\(^2\)Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
## Allocation of Storage Charge Comparison 3 Year vs. 10 Year
*(FOR ILLUSTRATIVE PURPOSES ONLY)*
**(FY 2004 - FY 2013)**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Share of 3 Year Average</th>
<th>Share of 10 Year Average</th>
<th>3 Year Average Fixed Storage Cost¹</th>
<th>10 Year Average Fixed Storage Cost¹</th>
<th>Current Change from 3 to 10 Year Average</th>
<th>Net Change as a % of Estimated Financial Contribution²</th>
<th>Estimate of Change from 3 to 10 Year Average in 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>4.01%</td>
<td>3.92%</td>
<td>$2,534,188</td>
<td>$2,478,538</td>
<td>($55,650)</td>
<td>-0.19%</td>
<td>$21,565</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>0.27%</td>
<td>0.26%</td>
<td>$171,161</td>
<td>$163,321</td>
<td>($7,840)</td>
<td>-0.52%</td>
<td>$5,379</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>3.57%</td>
<td>3.90%</td>
<td>$2,253,183</td>
<td>$2,467,224</td>
<td>$214,042</td>
<td>0.98%</td>
<td>($7,926)</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>1.92%</td>
<td>1.84%</td>
<td>$1,213,652</td>
<td>$1,165,697</td>
<td>($47,955)</td>
<td>-0.31%</td>
<td>$81,229</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>5.86%</td>
<td>6.55%</td>
<td>$3,700,376</td>
<td>$4,137,153</td>
<td>$436,777</td>
<td>0.99%</td>
<td>$465,035</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>0.84%</td>
<td>0.73%</td>
<td>$530,735</td>
<td>$462,039</td>
<td>($68,696)</td>
<td>-1.22%</td>
<td>$37,363</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>5.56%</td>
<td>5.65%</td>
<td>$3,516,677</td>
<td>$3,570,546</td>
<td>$53,869</td>
<td>0.14%</td>
<td>($64,378)</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>4.76%</td>
<td>4.46%</td>
<td>$3,005,267</td>
<td>$2,820,234</td>
<td>($185,033)</td>
<td>-0.66%</td>
<td>$40,654</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>7.53%</td>
<td>7.46%</td>
<td>$4,759,242</td>
<td>$4,715,542</td>
<td>($43,700)</td>
<td>-0.08%</td>
<td>($248,611)</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>2.71%</td>
<td>2.87%</td>
<td>$1,711,519</td>
<td>$1,816,234</td>
<td>$104,715</td>
<td>0.50%</td>
<td>$102,528</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>0.01%</td>
<td>0.01%</td>
<td>$7,814</td>
<td>$8,271</td>
<td>$458</td>
<td>0.42%</td>
<td>$0</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>2.76%</td>
<td>2.69%</td>
<td>$1,744,743</td>
<td>$1,700,774</td>
<td>($43,970)</td>
<td>-0.26%</td>
<td>($19,994)</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>2.92%</td>
<td>2.29%</td>
<td>$1,842,663</td>
<td>$1,448,348</td>
<td>($394,315)</td>
<td>-1.68%</td>
<td>($114,263)</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>1.15%</td>
<td>1.33%</td>
<td>$726,740</td>
<td>$842,482</td>
<td>$115,742</td>
<td>1.31%</td>
<td>($16,083)</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>1.45%</td>
<td>1.44%</td>
<td>$915,447</td>
<td>$912,948</td>
<td>($2,499)</td>
<td>-0.02%</td>
<td>($125,147)</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>42.29%</td>
<td>41.13%</td>
<td>$26,730,061</td>
<td>$25,996,964</td>
<td>($733,096)</td>
<td>-0.28%</td>
<td>$299,916</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>0.57%</td>
<td>0.83%</td>
<td>$358,909</td>
<td>$527,069</td>
<td>$168,160</td>
<td>3.45%</td>
<td>($76,260)</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>1.28%</td>
<td>1.68%</td>
<td>$806,588</td>
<td>$1,059,713</td>
<td>$253,125</td>
<td>2.69%</td>
<td>($177,941)</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>1.24%</td>
<td>1.94%</td>
<td>$784,566</td>
<td>$1,226,151</td>
<td>$441,586</td>
<td>2.68%</td>
<td>$146,253</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>3.76%</td>
<td>3.47%</td>
<td>$2,377,071</td>
<td>$2,193,514</td>
<td>($183,557)</td>
<td>-0.68%</td>
<td>($12,778)</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>2.23%</td>
<td>2.03%</td>
<td>$1,406,913</td>
<td>$1,280,160</td>
<td>($126,753)</td>
<td>-0.57%</td>
<td>($226,067)</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>3.30%</td>
<td>3.48%</td>
<td>$2,084,430</td>
<td>$2,197,660</td>
<td>$113,230</td>
<td>0.54%</td>
<td>($85,057)</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>0.03%</td>
<td>0.01%</td>
<td>$18,056</td>
<td>$9,416</td>
<td>($8,641)</td>
<td>-0.65%</td>
<td>($25,419)</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>$63,200,000</td>
<td>$63,200,000</td>
<td>$0</td>
<td>0.00%</td>
<td>$0</td>
</tr>
</tbody>
</table>

¹Based on CY 2014 Storage Charge revenue requirement of $63.2 million

²Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
## Allocation of Storage Charge Comparison 3 Year vs. 5 Year

**(FOR ILLUSTRATIVE PURPOSES ONLY)**

**(FY 2009 - FY 2013)**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Share of 3 Year Average</th>
<th>Share of 5 Year Average</th>
<th>3 Year Average Fixed Storage Cost¹</th>
<th>5 Year Average Fixed Storage Cost¹</th>
<th>Current Change from 3 to 5 Year Average</th>
<th>Net Change as a % of Estimated Financial Contribution²</th>
<th>Estimate of Change from 3 to 5 Year Average in 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>4.01%</td>
<td>3.95%</td>
<td>$2,534,188</td>
<td>$2,497,682</td>
<td>($36,506)</td>
<td>-0.12%</td>
<td>($14,119)</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>0.27%</td>
<td>0.26%</td>
<td>$171,161</td>
<td>$164,599</td>
<td>($6,563)</td>
<td>-0.43%</td>
<td>($3,568)</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>3.57%</td>
<td>3.59%</td>
<td>$2,253,183</td>
<td>$2,271,195</td>
<td>$18,012</td>
<td>0.08%</td>
<td>$128,439</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>1.92%</td>
<td>1.90%</td>
<td>$1,213,652</td>
<td>$1,201,727</td>
<td>($11,926)</td>
<td>-0.08%</td>
<td>($34,525)</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>5.86%</td>
<td>6.37%</td>
<td>$3,700,376</td>
<td>$4,026,076</td>
<td>$325,700</td>
<td>0.08%</td>
<td>$168,636</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>0.84%</td>
<td>0.81%</td>
<td>$530,735</td>
<td>$509,482</td>
<td>($21,253)</td>
<td>-0.38%</td>
<td>($11,865)</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>5.56%</td>
<td>5.57%</td>
<td>$3,516,735</td>
<td>$3,518,195</td>
<td>($2,460)</td>
<td>0.01%</td>
<td>($55,364)</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>4.76%</td>
<td>4.62%</td>
<td>$3,005,267</td>
<td>$2,922,419</td>
<td>($82,847)</td>
<td>-0.30%</td>
<td>($36,689)</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>7.53%</td>
<td>7.30%</td>
<td>$4,759,242</td>
<td>$4,615,319</td>
<td>($143,923)</td>
<td>-0.27%</td>
<td>($4,985)</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>2.71%</td>
<td>2.71%</td>
<td>$1,711,519</td>
<td>$1,712,255</td>
<td>($736)</td>
<td>0.00%</td>
<td>$40,478</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>0.01%</td>
<td>0.01%</td>
<td>$7,814</td>
<td>$8,770</td>
<td>$956</td>
<td>0.88%</td>
<td>$0</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>2.76%</td>
<td>2.68%</td>
<td>$1,744,743</td>
<td>$1,692,786</td>
<td>($51,958)</td>
<td>-0.31%</td>
<td>($25,810)</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>2.92%</td>
<td>2.87%</td>
<td>$1,842,663</td>
<td>$1,811,911</td>
<td>($30,752)</td>
<td>-0.13%</td>
<td>($50,778)</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>1.15%</td>
<td>1.16%</td>
<td>$726,740</td>
<td>$732,195</td>
<td>$5,455</td>
<td>0.06%</td>
<td>($37,972)</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>1.45%</td>
<td>1.42%</td>
<td>$915,447</td>
<td>$899,507</td>
<td>($15,940)</td>
<td>-0.15%</td>
<td>($18,722)</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>42.29%</td>
<td>41.83%</td>
<td>$26,730,061</td>
<td>$26,437,604</td>
<td>($292,457)</td>
<td>-0.11%</td>
<td>$153,025</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>0.57%</td>
<td>0.60%</td>
<td>$358,909</td>
<td>$377,489</td>
<td>$18,580</td>
<td>0.38%</td>
<td>$18,085</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>1.28%</td>
<td>1.35%</td>
<td>$806,588</td>
<td>$850,177</td>
<td>$43,589</td>
<td>0.46%</td>
<td>$42,199</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>1.24%</td>
<td>1.97%</td>
<td>$784,566</td>
<td>$1,248,101</td>
<td>$463,535</td>
<td>2.82%</td>
<td>($15,154)</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>3.76%</td>
<td>3.62%</td>
<td>$2,377,071</td>
<td>$2,290,195</td>
<td>($86,875)</td>
<td>-0.32%</td>
<td>($62,737)</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>2.23%</td>
<td>2.11%</td>
<td>$1,406,913</td>
<td>$1,331,857</td>
<td>($75,056)</td>
<td>-0.34%</td>
<td>($65,287)</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>3.30%</td>
<td>3.27%</td>
<td>$2,084,430</td>
<td>$2,069,421</td>
<td>($15,009)</td>
<td>-0.07%</td>
<td>($108,673)</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>0.03%</td>
<td>0.02%</td>
<td>$18,056</td>
<td>$10,364</td>
<td>($7,692)</td>
<td>-0.58%</td>
<td>($4,615)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$63,200,000</strong></td>
<td><strong>$63,200,000</strong></td>
<td><strong>$0</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹Based on CY 2014 Storage Charge revenue requirement of $63.2 million

²Financial Contribution based on estimates for calendar year 2014 adjusted to include a full year of desal revenues
<table>
<thead>
<tr>
<th>Agency</th>
<th>Change to CS Charge</th>
<th>Change to Storage Charge</th>
<th>Change to Supply Costs</th>
<th>Change to Transportation Costs</th>
<th>Change to Treatment Costs</th>
<th>Net Change</th>
<th>Net Change as a % of Estimated Financial Contribution¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>$17,728</td>
<td>$52,104</td>
<td>$13,004</td>
<td>$37,678</td>
<td>($286,790)</td>
<td>($166,276)</td>
<td>-0.65%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>$1,193</td>
<td>$3,498</td>
<td>$838</td>
<td>$2,428</td>
<td>$0</td>
<td>$7,958</td>
<td>0.61%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>$17,663</td>
<td>$43,947</td>
<td>$14,543</td>
<td>$47,600</td>
<td>$0</td>
<td>$123,753</td>
<td>0.66%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>$13,364</td>
<td>$26,097</td>
<td>$5,786</td>
<td>$2,428</td>
<td>($200,949)</td>
<td>($153,274)</td>
<td>-1.15%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>$25,989</td>
<td>$76,201</td>
<td>$25,690</td>
<td>$74,435</td>
<td>($283)</td>
<td>$202,032</td>
<td>0.53%</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>$3,600</td>
<td>$10,555</td>
<td>$2,684</td>
<td>$7,778</td>
<td>($39,780)</td>
<td>($15,164)</td>
<td>-0.31%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>$25,268</td>
<td>$72,467</td>
<td>$17,642</td>
<td>$52,064</td>
<td>($117,418)</td>
<td>$50,023</td>
<td>0.15%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>$20,875</td>
<td>$60,602</td>
<td>$15,775</td>
<td>$45,929</td>
<td>($42,048)</td>
<td>$101,133</td>
<td>0.42%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>$33,110</td>
<td>$97,050</td>
<td>$24,265</td>
<td>$70,307</td>
<td>($535,083)</td>
<td>($310,351)</td>
<td>-0.67%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>$12,787</td>
<td>$35,529</td>
<td>$8,497</td>
<td>$25,314</td>
<td>($193,605)</td>
<td>($111,478)</td>
<td>-0.62%</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>$63</td>
<td>$184</td>
<td>$33</td>
<td>$95</td>
<td>($720)</td>
<td>($345)</td>
<td>-0.37%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>$11,549</td>
<td>$33,736</td>
<td>$9,338</td>
<td>$27,134</td>
<td>$0</td>
<td>$81,757</td>
<td>0.56%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>$22,316</td>
<td>$40,366</td>
<td>$8,474</td>
<td>$7,773</td>
<td>($358,711)</td>
<td>($279,781)</td>
<td>-1.38%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>$6,903</td>
<td>$14,969</td>
<td>$4,122</td>
<td>$14,125</td>
<td>($84,157)</td>
<td>($44,038)</td>
<td>-0.58%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>$6,508</td>
<td>$18,270</td>
<td>$4,921</td>
<td>$14,708</td>
<td>($112,519)</td>
<td>($68,112)</td>
<td>-0.73%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>$189,284</td>
<td>$554,633</td>
<td>$140,074</td>
<td>$406,016</td>
<td>($304,016)</td>
<td>$985,992</td>
<td>0.44%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>$2,430</td>
<td>$7,124</td>
<td>$3,411</td>
<td>$9,884</td>
<td>($3,993)</td>
<td>$18,855</td>
<td>0.45%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>$5,572</td>
<td>$16,238</td>
<td>$6,646</td>
<td>$19,257</td>
<td>($7,794)</td>
<td>$39,919</td>
<td>0.49%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>$9,811</td>
<td>$28,765</td>
<td>$3,690</td>
<td>$10,692</td>
<td>($5,246)</td>
<td>$47,712</td>
<td>0.34%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>$17,324</td>
<td>$47,732</td>
<td>$12,146</td>
<td>$37,535</td>
<td>($288,665)</td>
<td>($173,928)</td>
<td>-0.74%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>$29,980</td>
<td>$29,328</td>
<td>$6,963</td>
<td>$55,105</td>
<td>($463,608)</td>
<td>($342,233)</td>
<td>-1.80%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>$13,923</td>
<td>$40,656</td>
<td>$12,976</td>
<td>$37,772</td>
<td>($93,495)</td>
<td>$11,831</td>
<td>0.07%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>$1,930</td>
<td>$51</td>
<td>$239</td>
<td>$6,108</td>
<td>($53,338)</td>
<td>($45,113)</td>
<td>-3.94%</td>
</tr>
<tr>
<td>Contract Water</td>
<td>$831</td>
<td>$0</td>
<td>$273</td>
<td>$791</td>
<td>($6,021)</td>
<td>($4,126)</td>
<td>-2.79%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$490,000</strong></td>
<td><strong>$1,310,000</strong></td>
<td><strong>$342,030</strong></td>
<td><strong>$1,012,955</strong></td>
<td><strong>($3,198,240)</strong></td>
<td><strong>($43,255)</strong></td>
<td></td>
</tr>
</tbody>
</table>

¹Financial Contribution based on estimates for calendar year 2014 does not include desal
January 16, 2014

Attention: Administrative and Finance Committee

Review the Fiscal Sustainability Task Force Recommendations to ensure the long-term fiscal sustainability of the Water Authority and the fair and proportionate recovery of long-term water supply and infrastructure investments. (Information)

Purpose
To review and discuss the recommendations of the Fiscal Sustainability Task Force for changes and additions to the Water Authority’s existing rate and charge structure and financial policies to ensure fair and proportionate recovery of long-term water supply investments.

Task Force Recommendation:
Review and discuss the following recommendations for changes and additions to the Water Authority’s existing rate and charge structure and financial policies:

1. The Fiscal Sustainability Task Force recommends that the Board determine that the definition of Water Authority fixed costs include all Water Authority payments towards the cost of Debt Service associated with the Carlsbad Desalination Project; Fixed Operations and Maintenance costs of the Carlsbad Desalination Project; Fixed Operations and Maintenance costs associated with the All-American and Coachella Canal lining projects; and the take-or-pay purchase price of conserved Colorado River Water associated with the SDCWA-IID Water Transfer Agreement.

2. The Fiscal Sustainability Task Force recommends that the allocation of storage charge costs to member agencies be revised from a prior three-year rolling average of Municipal & Industrial water deliveries to a prior 10-year rolling average of Municipal & Industrial water deliveries.

3. The Fiscal Sustainability Task Force recommends that the Water Authority consistently apply non-commodity revenue offsets to all revenue categories including Treatment.

4. The Fiscal Sustainability Task Force recommends that the Water Authority establish a fixed Supply Reliability Charge allocated to member agencies on the basis of a prior 10 year non-concurrent peak amount of deliveries of Water Authority supplies.

Fiscal impact
There is no fiscal impact with this information item to the Water Authority. Depending upon the final action of the Board of Directors, the method of revenue collection may change, but would not result in an increase in overall Water Authority revenue. If these changes are approved, individual Member Agencies’ rates and charges may be impacted.
Background
During the March 2011, Board Planning Retreat, the Board determined that ensuring the fiscal sustainability of the Water Authority was an important focus. Like many other water suppliers, the Water Authority's water supply and business environment has changed in unprecedented ways. Major reductions in water sales, a struggling economy, significant restrictions and future risks on Bay-Delta imported water supplies, increased emphasis on local supply development, and water use efficiency have all contributed to changing dynamics in how the Water Authority conducts its business and manages its finances. Not only has the external environment changed creating new fiscal challenges, the Authority must also manage the commitments and obligations of the past. The Water Authority Board has made numerous decisions over the last 20 years to invest in supply diversification and facility improvements to enhance the region's water supply reliability. These decisions include the Emergency Storage Project (ESP) and Carryover Storage Program (CSP), Colorado River supplies resulting from the Quantification Settlement Agreement (QSA) and the Carlsbad Desalination Project. These long-term investments to meet the region's future water supply needs represent long-term contractual obligations of the Water Authority.

In January 2012 the Chairman of the Water Authority Board established the Fiscal Sustainability Task Force (FSTF) to implement the Board's directive at the Planning Retreat. Shortly after the FSTF was created the process was delayed to allow staff resources to focus on the Carlsbad 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 and held its initial meeting on May 29, 2013. Dr. Thomas W. Chesnutt from A&N Technical Services and Robert Grantham of Carollo Engineers were hired to assist the FSTF with technical advice and industry best practices. In total the FSTF has met 11 times. These meetings have involved intense deliberations and candid conversations from all members. The FSTF have considered input from a variety of sources in determining the areas to focus its efforts upon. These sources included comments from previous discussions at Water Authority Board meetings and input from member agencies in a variety of settings as well as the views and concerns of Task Force members. The areas of discussion have focused on, but were not limited to:

- Defining and Measuring Fiscal Sustainability
- Rating Agency Metrics
  - Strengths and costs of maintaining a strong credit rating
  - Acknowledgement that metrics are just one factor when valuing credit quality
- Cost of Service Study 2000 & Cost of Service Study 2013
- Emerging Issues and Changing Environment Impacting Fiscal Sustainability:
  - Allocation of Storage Costs
    - Emergency Storage Project (ESP)
    - Carryover Storage Project (CSP)
    - Seasonal
  - Consistent Application of Revenue Offsets to Treatment Rate Category
  - Balancing Fixed Revenues with Fixed Obligations
  - Infrastructure Access Charge (IAC) – Policy and metrics
  - Peaking Impacts and Costs
General Conclusion on Existing Rate and Charge Structure and Financial Policies

Initially, the FSTF examined the effectiveness of the Water Authority’s current rate and charge structure and it’s supporting financial policies. The Task Force was provided a detailed presentation outlining the 20 year history of the Water Authority’s rate and charge structures which included the background and the challenges that led to the unbundling of the rates and charges. In addition, the Task Force analyzed market comparisons of other wholesale and retail agency ratings, reserves, and revenue structures and were provided with industry best practices in financial management, rating agency metrics and long-range planning standards. Overall, the Task Force found that the Water Authority’s existing rate and charge structure and financial policies have served the Water Authority and its member agencies well through the challenging conditions over the last decade for the following reasons:

- Comprehensive and integrated revenue stream resulting in significant financial stability to the Water Authority. This stability is in large part due to the mix of volumetric based commodity charges and non-volumetric charges as well as the mix of fixed charges and variable charges summarized in Table 1.

Table 1

<table>
<thead>
<tr>
<th>Rate/Charge</th>
<th>Allocation</th>
<th>Type of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volumetric</td>
<td>Non-Volumetric</td>
</tr>
<tr>
<td>Supply</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Treatment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Transportation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Storage</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Customer Service</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Infrastructure Access Charge (IAC)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Stand-By Parcel Charge</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Property Tax</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

- Consistent credit agency rating of AA+
- Payments from member agencies are proportional to the benefits they receive; thus meeting cost of service requirements
- Ability to access financial markets by refinancing bonds in a very difficult market; as exemplified during the Water Authority’s recent refunding opportunity in February 2013 which saved the region’s ratepayers $60 million dollars.
Task Force Process for Evaluating Recommendations

An initial effort of the Task Force was to identify Guiding Principles to assist in the evaluation of proposals and recommendations for changes to existing rates and charges or financial policies with the objective of ensuring the long-term fiscal sustainability of the Water Authority, and consistent with cost of service and legal requirements. The Guiding Principles, as included in Attachment A, have been used by the Task force in its deliberations and are proposed to aid the Board and staff when recommending changes or additions to the Water Authority’s rates and charges structure, or financial policies in the future.

On November 14, 2013, a Special Administrative and Finance Committee meeting was held to provide an overview of the Fiscal Sustainability Task Force processes and to review and approve the Task Force Guiding Principles. The Guiding Principles were approved by the Committee in concept with one modification to Principle D, which was modified to read “Ensure all regional interest are considered including those of the Water Authority and its member agencies.”

DISCUSSION

The FSTF utilized the Guiding Principles throughout its comprehensive review to focus discussions. Areas of discussion were judged against the Guiding Principles; those that violated or were inconsistent with any one principle had to be modified in such a way to achieve compliance. The outcome of this analysis and discussion is included in this report and are summarized as follows:

- No Changes
  - Debt Service Coverage Ratio of 1.5 times
  - Capacity Charges

- Changes to rates and charges or financial policies
  Recommendation #1 - Clarify Fixed Cost Definition
  Recommendation #2 - Change Storage Allocation to 10 year rolling average
  Recommendation #3 - Consistently apply non-commodity revenue offsets to all rate categories, including the treatment rate

- Addition to rate and charge structure
  Recommendation #4 - Establish a Supply Reliability Charge using 10 year non-concurrent peak

- Future Task Force Topics
  - Overall Fixed Cost Coverage Target
  - Reserve Policies
  - Customer Service Charge Allocation

No Changes to Existing Specific Components of the Rate Structure and Financial Policies.

After careful deliberation and discussion, the Task Force has concluded that the following topics should remain as currently structured in the Water Authority’s rate structure and financial policies.
A. **Policy on Enhanced Debt Service Coverage Ratio (DSCR) of 1.5 times.** In August 2006, the Board adopted a DSCR policy target of 1.50 times. While this ratio is above the legal requirement of 1.20 times, it is lower than the rating agency median coverage for an AA+ agency (2.25 times). The FSTF evaluated the cost benefit of raising or lowering the DSCR and recommends no change at this time as the enhanced DSCR in combination with the Water Authority’s strong financial management policies, record of performance, long-term planning, reserve policies, and fixed cost coverage provides a good balance when considered with other rating indicators.

B. **Capacity Charges.** The Water Authority Capacity Charges allocate a proportionate share of the capital costs of the water delivery system (System Capacity Charge) and treatment facilities (Treatment Capacity Charge) to new service connections within its service territory. During Phase I of the 2013 Cost of Service Study, Carollo Engineers performed an independent review of both these capacity charges and determined that these charges continued to be fair, proportional, and consistent with cost of service principles and legal requirements.

### Changes to Existing Specific Components of the Rate Structure and Financial Policies

The FSTF concluded that the existing rate structure is appropriate and well grounded; however it identified elements of the existing rate structure and/or financial policies that could be improved in order to address the changed circumstances, meet fiscal sustainability objectives, and ensure continued compliance with all cost of service and legal requirements.

After thorough review of the data, analysis and discussion the FSTF has identified changes to either the existing rate structure or financial policies with the objective of ensuring recovery of fixed costs consistent with proportional benefits the member agencies will receive from these investments, and the long-term fiscal sustainability of the Water Authority. The following three areas of topics have been recommended for change:

- Defining Fixed Costs/Obligations and its Impact on the IAC Policy
- Storage Charge Allocation Formula
- Non-Commodity Revenue Offset to Treatment Rate

**1. The Fiscal Sustainability Task Force recommends that the Board determine that the definition of Water Authority fixed costs include all Water Authority payments towards the cost of Debt Service associated with the Carlsbad Desalination Project; Fixed Operations and Maintenance costs of the Carlsbad Desalination Project; Fixed Operations and Maintenance costs associated with the All-American and Coachella Canal lining projects; and the take-or-pay purchase price of conserved Colorado River Water associated with the SDCWA-IID Water Transfer Agreement.**

A. **Defining Fixed Costs/Obligations.** For nearly 20 years, the Water Authority Board's strategy has been to enhance the region's water supply reliability through supply diversification. The Board has approved the Emergency Storage Project (ESP), Carryover Storage Project (CSP), QSA water transfer and canal lining agreements, and most recently the seawater desalination water purchase and design build agreements.
Each project involves large contractual obligations, including debt-service for capital construction and guaranteed payment obligations for supply costs.

**It is important to note that for this area and discussion the focus is only on costs and the characteristics of “fixed” costs. The Task Force will address fixed revenue and cost allocation cost of service methodology later in the report.**

Dr. Chesnutt assisted the FSTF through several meetings in these discussions. Dr. Chesnutt referred Task Force members to the following definition: “Fixed costs are expenses that remain relatively unchanged throughout the year, irrespective of the volume of water produced”. Dr. Chesnutt further explained that because large up-front capital costs are required to build capacity for meeting demand, some traditional costing methods classify all system costs as fixed and refer to them as demand costs. He also provided two key lessons regarding fixed costs. First, the definition of fixed varies with the period of time under consideration. A cost can be fixed, say for the life of a contract, and then become completely variable. “Fixity” is an attribute that can vary through time. Second, the nature of payment does not change the nature, or “fixity” of the cost.

B. **Water Authority’s Fixed Costs.** The Water Authority’s current fixed costs include debt service, a portion of operation and maintenance costs, and payments to member agencies for reclaimed water projects.

Because the new QSA and desalinated water supplies have been secured under long-term contract obligations, costs associated with those new supplies were analyzed to determine whether they should be included as fixed costs. After analyzing these costs associated with new water supply sources, the FSTF recommends that the Water Authority’s definition of fixed cost include the following:

- **Water Authority payments for the cost of Debt Service associated with the Carlsbad Desalination Project (both plant and pipeline)** – the Debt Service Charge and Equity Return Charge, defined expenses under the Water Purchase Agreement with Poseidon, are set costs that will not vary with volume. They are also intentionally and specifically related to the cost of capital related to the project and are payable by the Water Authority, if water can be produced at an acceptable quality, whether the Water Authority takes it or not.

- **Water Authority payments for the cost of fixed operations and maintenance costs associated with desalinated water and the canal linings** – these fixed O&M expenses will not increase/decrease with volume and will be incurred regardless of whether desalinated water is taken or canal water conserved.

- **Contract costs associated with the purchase of IID water supply** – although expressed on a volumetric basis, these costs are incurred as water is produced, whether the Water Authority takes the water or not.
This recommendation reflects the Committee’s deliberations as to whether the current definition of fixed cost obligations is adequate and simply defines the fixed costs of the Water Authority and nothing else. As stated earlier, fixity is an attribute that can vary with time and can change over time, such as when a contract expires or is cancelled. As events transpire the fixed costs the Water Authority has today may become variable and action will need to be taken to ensure they are treated as such as those events are triggered. This process, like the cost of service process in rate-setting, is dynamic and must adjust to take into account changing circumstances.

Graph 1 illustrates the impact of the Task Force’s recommendation to include IID water supply, canal O&M and desalination costs to the definition of fixed costs.

Graph 1. Water Authority Fixed Costs (in millions $)

C. **Additional Obligations that should not be included in Definition.** Furthermore, the Task Force members determined that it was critical that those costs that either vary with volume or are avoidable after taking into consideration the take-or-pay obligation be excluded from the definition. In addition to the fixed costs discussed in this section, it is important to note the other types of costs reviewed and discussed by FSTF but not recommended for change, including:

- The variable costs associated with operating and maintaining the Carlsbad Desalination Plant and Pipeline, as defined in the Water Purchase Agreement. Unlike the types of desalinated water-related expenses described previously, the variable O&M costs (i.e. energy and chemicals) will vary with the volume.

- MWD Wheeling - MWD’s wheeling rate is unavoidable in order for the Water Authority to receive water from the canal lining projects and the IID water
transfer supply. However, it too varies with volume and is avoided if water is not conserved, or if water is not transferred, unlike the canal lining fixed O&M.

The FSTF did not recommend these items for inclusion in the fixed cost definition.

D. Recovery of Fixed Costs through the IAC Policy. On June 11, 1998 the Board approved a monthly infrastructure access charge (IAC) to be collected from each member agency beginning January 1, 1999. This decision came after consideration of the results of an independent report prepared by R. W. Beck engineers which recommended an Implementation Plan for Proposed Changes to the Water Authority’s Revenue Structure. The Beck study found the proposed IAC was prudent and equitable in conjunction with other fixed revenue; it also recommended the IAC be charged to all member agencies based on meter equivalents. The IAC would be a fixed charge (revenue) for the Water Authority and when combined with water standby charges and property tax revenues was intended to provide at least 25% of the estimated annual fixed costs of the Water Authority. This new revenue component was intended to provide stability and protection against rate spikes from prolonged reductions in water sales. Also in June 1998, the Board approved implementation of the ESP adding $730 million to the CIP budget for Fiscal Year 1999. While the ESP was the impetus for implementing the revised revenue structure, the definition of fixed costs as described above was not limited to ESP costs.

Other than the annual recalculation of the IAC charge, the existing IAC policy has not been amended since its inception in 1998. Under the current IAC policy, the annual fixed costs of the Water Authority for the purposes of calculating the charge include payments of principal and interest on all debt, 80% of all operation and maintenance costs, and payments to member agencies for production of reclaimed water. In addition, under the current IAC policy, 25% of these annual fixed costs are recovered by a combination of property taxes, water standby availability charges, and infrastructure access charges.

The FSTF analyzed the existing IAC, the history behind the charge, the calculation itself, the actual true-up of the costs compared to estimates used in rate setting and found that the IAC, as established, is still a critical component of the Water Authority's rates and charges. The FSTF also found that the intent of the IAC is to provide a revenue stream for fixed cost obligations which the Task Force has determined includes those items outlined in the fixed cost definition discussed above. Given:

a) the intent of the IAC policy to cover fixed obligations of debt payments and fixed cost O&M and,

b) Guiding Principle E which the states the need to have “Consistent application of board rate-setting and financial policies.”

The Task Force opinion is that the current IAC Policy would include the calculation of the following fixed cost components in the IAC beginning in CY 2015:

1. Debt Service * 25%
a. Includes payments for the cost of Desal Plant & Pipeline Debt Service

2. (80% O&M) * 25%
   a. Includes payments for the cost of Desal Fixed O&M
   b. Includes payments for the cost of Canal Lining O&M

As referenced above, the Debt Service Charge and the Equity Return charge for the Desalination Plant are specifically a pass through of the debt and equity capital cost of the desal plant. The charges are structured as debt payments and are paid to a trustee which then pays bondholders and controls distribution of equity. The Water Purchase Agreement establishes a firm contractual obligation to pay for desalinated water that meets the specified quality and quantity requirements, even if the Water Authority does not actually take the water. Given the long-term contractual obligation, including the contract provisions for potential early and contract termination take-over, the Task Force concluded that the intent of the IAC was to provide a portion of the revenue needed for debt service payments through the fixed charge IAC. The similarity of the Carlsbad Desalination Plant debt to other debt obligations, given the long-term purchase obligation for desalinated water, the FSTF believed it consistent with IAC policy and intent to apply IAC revenue towards those charges as all member agencies will have access to that supply produced by the facility. The fact that the Water Authority does not own the plant at this time was considered but found not to limit the intent of the IAC to provide revenue for fixed cost obligation related to infrastructure used entirely by the Water Authority.

The Task Force also concluded that the intent of the IAC to produce revenue for fixed O&M expenses would include the fixed O&M component of the Carlsbad Desalination plant as well as the O&M cost for the All-American and Coachella Canals attributable to the conserved water. As discussed above in reference to the definition of fixed costs, the Task Force did not believe that including variable desalination O&M costs for power or chemicals was appropriately part of the IAC or the intent of the IAC policy and therefore excluded those costs.

The FSTF did not recommend the IID water supply fixed cost (take or pay supply amount) be included in the existing calculation either. While this remains a fixed cost to, and a contractual obligation of the Water Authority, the Task Force concluded that since the purchase price of IID water is not tied to the cost of a physical asset nor to debt service, or reflects the cost of any O&M expense, the IAC was not the appropriate fixed revenue source. The cost of the IID water does not have the features of obligations associated with debt service or O&M and is a market or negotiated price for water that will be addressed separate in the reliability section of this report.

2. The Fiscal Sustainability Task Force recommends that the allocation of storage charge costs to member agencies be revised from a prior three-year rolling average of Municipal & Industrial water deliveries to a prior 10-year rolling average of Municipal & Industrial water deliveries.
A. Existing Storage Charge. The Water Authority’s Storage Charge is a single fixed charge that recovers costs associated with ESP, CSP and operational storage collectively. With the impending completion of the San Vicente Dam Raise project and the addition of 100,000 AF of new carryover storage to the Water Authority storage program the FSTF evaluated whether the existing Storage Charge should remain a singular charge and if the current allocation formula should continue to be the method by which the Water Authority collects revenue for storage related costs.

B. Single Storage Charge. Because of the different uses of storage, the FSTF considered whether the existing single Storage Charge should be separated into different charges. After detailed discussions and review of data regarding the Water Authority's operations and use of storage by its member agencies, the Task Force members found that the different uses of storage did not necessitate different methods to collect revenue. Additionally, the allocation of storage costs to member agencies by historic water use was an appropriate way to allocate the storage charge because as applied it ensures member agencies pay their proportionate share of the costs. If the fundamental method of allocation was not going to change, then the complexity of having different storage charges was not justified or necessary.

The Task Force recommends leaving the Storage Charge as a single charge collected on a fixed basis and apportioned based on water deliveries to member agencies.

C. Allocation Basis of Storage Charge. Currently, the Storage Charge is allocated to member agencies based on a three-year rolling average of Municipal & Industrial (M&I) deliveries. Although Agricultural users in the Water Authority’s Transitional Agricultural Water Rate (TSAWR) program pay the same IAC per meter amount that M&I customers pay they are not subject to the Storage Charge. Agricultural customers enrolled in the TSAWR program receive 50% of the level of service that M&I customers receive from ESP and are not allocated any water from Carryover Storage by Board policy. In exchange for that lesser level of service and reliability, the agricultural users in TSAWR pay a lesser amount than M&I.

The FSTF did evaluate whether the historic average of deliveries should be expanded from the current three-year rolling average of M&I deliveries to a longer term of 10 years. In originally allocating storage on a three-year rolling average the intent was to capture indication of varying water use due to weather variability. Over the last 10+ years there has been a greater variability in weather. The three-year average no longer captures this widening variability. Additionally, since both ESP and CSP are designed to protect the region’s economy in the event of water shortages the benefits are long-term. To better match the long-term benefits, a longer period of time to calculate an average amount of deliveries is a better indicator of member agency need and the benefits derived balanced with the Water Authority’s obligation to serve its member agencies regardless of past water use or payment. A longer period over which to average will capture the greater variability in weather and water use especially given the impacts of climate change and will better match the availability of storage water to serve all member agencies.
The Task Force did agree to recommend that the allocation basis be changed to a 10-year allocation basis, however it should be noted that a minority opinion was expressed. That opinion raised a concern that the longer 10 year time period and resultant member agency financial obligation could negatively impact a member agency’s economic decision to develop a new reliable local supply which would benefit the region. An alternative was put forward, but not supported by the Task Force as a whole, to consider the 10 year rolling average but identify ways to make adjustments to encourage local supply development. If adjustments to encourage local supply were not possible the opinion was to retain the 3 year average. The objective of these options was to support local supply development by lessening or shortening the length of financial responsibility of a member agency to pay the storage charge.

3. **The Fiscal Sustainability Task Force recommends that the Water Authority consistently apply non-commodity revenue offsets to all revenue categories including Treatment.**

1. **Existing Methodology to Calculate Melded Treatment Rate.** Currently, the methodology to calculate the Melded Treatment Rate sums up all treatment costs and that total is reduced by offsetting non-commodity revenues generated by the Treatment Capacity Charge. The Treatment Capacity Charge is a form of non-commodity revenue, which includes revenues not generated through the sale of water, such as property taxes and standby charges. This methodology is detailed in the Phase 1 Cost of Service Study Report that was approved by the Board in June 2013.

2. **Cost of Service Study, Phase 1, Findings.** While the current methodology was determined to meet cost of service requirements during Phase 1 of the Cost of Service Study, it was noted that the application of non-commodity revenues was inconsistent across rate and charge categories.

3. **Consistent Application.** The FSTF reviewed the current allocation methodology for non-commodity offsetting revenues and compared it to the Guiding Principles. After discussions with staff and cost of service consultants, the recommendation of the FSTF is to allocate non-commodity offsetting revenues to the Melded Treatment rate, the same as for other categories. *Table 2* illustrates the application of the recommended methodology on current rates and charges. The recommendation better ensures that cost allocations between treated and untreated customers fully reflect revenue contributions from non-commodity offsetting revenue sources. As illustrated in the table, the recommendation results in a slight reduction of the Melded Treatment Rate and an increase in all the other rate categories; however, the net impact on revenue to the Water Authority is zero because the increase to fixed revenue is completely offset by the decrease in the supply revenue.
Table 2. Recommended Non-Commodity Revenue Allocation ($ in Millions)

<table>
<thead>
<tr>
<th>Offsets (Capital Only)</th>
<th>Total Revenue Offsets (1)</th>
<th>Customer Service</th>
<th>Storage</th>
<th>Transportation</th>
<th>Supply</th>
<th>Treatment</th>
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</thead>
<tbody>
<tr>
<td>System Capacity Charge(2)</td>
<td>14.53</td>
<td>1.61</td>
<td>7.09</td>
<td>4.53</td>
<td>1.30</td>
<td>-</td>
</tr>
<tr>
<td>Treatment Capacity Charge(3)</td>
<td>0.36</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.36</td>
</tr>
<tr>
<td>Standby Availability Charge</td>
<td>11.28</td>
<td>1.17</td>
<td>5.14</td>
<td>3.29</td>
<td>0.94</td>
<td>0.74</td>
</tr>
<tr>
<td>PAYGO Earnings</td>
<td>1.49</td>
<td>0.15</td>
<td>0.68</td>
<td>0.43</td>
<td>0.12</td>
<td>0.10</td>
</tr>
<tr>
<td>Offsets (Capital and O&amp;M)</td>
<td>$11.16</td>
<td>1.81</td>
<td>4.33</td>
<td>3.27</td>
<td>1.22</td>
<td>0.54</td>
</tr>
<tr>
<td>IAC</td>
<td>29.4</td>
<td>4.77</td>
<td>11.40</td>
<td>8.61</td>
<td>3.20</td>
<td>1.41</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>3.17</td>
<td>0.51</td>
<td>1.23</td>
<td>0.93</td>
<td>0.35</td>
<td>0.15</td>
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<tr>
<td>Twin Oak Reimbursement</td>
<td>1.02</td>
<td>1.02</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Misc. Revenue</td>
<td>4.43</td>
<td>0.72</td>
<td>1.72</td>
<td>1.30</td>
<td>0.48</td>
<td>0.21</td>
</tr>
<tr>
<td>Estimate of Total Offsets(1)</td>
<td>$76.84</td>
<td>$11.78</td>
<td>$31.59</td>
<td>$22.35</td>
<td>$7.61</td>
<td>$3.52</td>
</tr>
<tr>
<td>Total Offsets for CY14 Rates &amp; Charges</td>
<td>$76.84</td>
<td>$12.27</td>
<td>$32.91</td>
<td>$23.36</td>
<td>$7.95</td>
<td>$0.36</td>
</tr>
<tr>
<td>Change in Offsets</td>
<td>$0.00</td>
<td>$0.49</td>
<td>$1.31</td>
<td>$1.01</td>
<td>$0.34</td>
<td>($3.16)</td>
</tr>
<tr>
<td>Estimated change in 2014 Rates and Charges</td>
<td>$0.49</td>
<td>$1.31</td>
<td>$2/AF(4)</td>
<td>$1/AF(4)</td>
<td>($16/AF)(4)</td>
<td></td>
</tr>
</tbody>
</table>

(1) Numbers may not foot due to rounding
(2) System Capacity Charge offsetting revenue not applied to Treatment
(3) Treatment Capacity Charge revenue only applied to Treatment
(4) Estimated increase/(decrease) in commodity rates in dollars

New Additions to the Rate Structure

As discussed earlier, the Task Force has identified changes to either the existing rate structure or financial policies with the objective of ensuring recovery of fixed costs consistent with proportional benefits the member agencies will receive from these investments, and the long-term fiscal sustainability of the Water Authority. However, the fixed cost obligations of desalinated and IID water supply are unique in that they provide reliability benefits to all member agencies but some of these fixed costs do not prove a strong nexus to the IAC policy. The Task Force recommends that those fixed costs not currently allocated to the IAC should have some appropriate and proportionate share allocated through a Supply Reliability Charge.

4. The Fiscal Sustainability Task Force recommends that the Water Authority establish a fixed Supply Reliability Charge allocated to member agencies on the basis of a prior 10 year non-concurrent peak amount of deliveries of Water Authority supplies.

A. Supply Reliability Charge. In 2012, during discussions with the Board and member agencies over incorporating the costs of Carlsbad Desalination into the Water Authority’s rates and charges, staff proposed the concept of collecting a portion of supply related revenue through a fixed supply reliability charge. It was proposed as a more equitable
means of collecting revenue that recognizes the supply reliability benefit of desalinated water that is realized not only steady purchasers but by more intermittent users of Water Authority supplies that may find themselves short of local supplies. A fixed charge component that supplements the volumetric-based melded supply rate would enhance the rate structure’s ability to ensure that all beneficiaries of the project pay a proportionate share of its costs.

During its deliberations, the FSTF evaluated the potential of establishing a fixed Supply Reliability Charge. The Task Force examined the different supply and demand profiles of the member agencies and saw that all agencies depend on Water Authority supplies to maintain reliability for their customers. This includes not only agencies that are 100% dependent upon the Water Authority supplies, but also agencies with their own local supplies. Agencies with access to surface water and groundwater are subject to variations in supply availability due to weather and other causes. Member agencies developing local supplies such as recycled water and brackish groundwater recovery projects may experience mechanical interruptions or regulatory agency imposed curtailments in use. In all those instances those agencies turn to the Water Authority for water. In fact, in the Water Authority’s shortage allocation methodology member agencies with local supply have losses they may experience in their local supplies “insured” through a loss of local supply adjustment that provides additional water to those agencies during an allocation. The ability to meet the water needs of those and all member agencies is significantly enhanced through investments the Water Authority has made in reliable supplies such as Carlsbad Desalination and the QSA imported water supplies. Other factors that supported the FSTF’s view on establishing the new charge include:

- Highly reliable supplies are available in times of shortages
- Ensures all beneficiaries of services pay their proportionate share of the costs of providing these services
- Fixed costs have appropriate and proportionate level of fixed revenue

Considering the establishment of a fixed supply reliability charge requires two additional steps that were discussed in detail by the FSTF members.

**B. Allocation of Supply Reliability Charge to Member Agencies.** First, the Task Force discussed the basis of allocating the revenue to be collected through the charge to the individual member agencies. Reviewing the data provided by staff during the 2012 Board discussions on Carlsbad desalination there were two general approaches: allocate to member agencies by their capacity to take water; equivalent meters, or by an historic amount of actual deliveries to a member agencies over an appropriate period of time. The Task Force concluded that the allocation of a supply charge based on a volumetric amount of water actually delivered to a member agency best reflected the standby supply benefit provided. The FSTF also determined that basing a supply charge on retail meters could result in agencies whose proportionate share of meters was greater than their proportionate share of water deliveries. The Task Force reviewed the allocation method proposed by staff in 2012 that the allocation of the charge to member agencies be based on a 10 year period of water deliveries to member agencies. The Task Force members agreed that the 10 year period was
appropriate given the longevity of the benefit provided and the obligation made for these highly reliable sources.

The Task Force considered whether the Supply Reliability Charge should be the non-concurrent peak amount of deliveries to an agency or the average. In deciding between average amount of deliveries and a single number representing a peak demand the Task Force found that the non-concurrent peak demand best represents member agency supply needs that the Water Authority needed to be prepared to serve and which supplies would be available to serve. Averaging demand over a period of time dampens rather than recognizes peak demand need and is not indicative of how much water a member agency may require. Adding all the non-concurrent peak demands and assigning a proportionate percentage to each member agency allows for a proportional allocation of those costs on a consistently applied basis. For those agencies that may be less frequent users of Water Authority supplies the 10 year period would recognize that if reliable local supplies were developed and consistently available to member agencies they would have demonstrated a long-term lesser reliance on the Water Authority and, therefore, would have less cost responsibility. The Task force also recognized that a similar position taken at MWD regarding peak supply use, would capture the kind of peak supply use by Los Angeles Department of Water & Power about which the Water Authority has expressed concerns both at MWD and in the litigation.

C. **Amount of Revenue Recovered by Supply Reliability Charge.** The second step in establishment of a new supply reliability charge is determining what amount of revenue should be collected through this new charge. A methodology provides a means to apportion a percentage of the supply cost to the melded supply rate and a percentage to the potential new fixed charge. The Task Force emphasized that the Supply Reliability Charge should take into account the reliability benefit to each individual member agencies. Although staff had proposed several different methodologies during 2012, the Task Force members did not determine that there was compelling information or sufficient due diligence for the Task Force to recommend any one method to determine that amount. Therefore the Task Force recommends that Water Authority staff should work with member agency staff and the rate consultants to develop for Board consideration an allocation formula for a Supply Reliability Charge that will recover a portion of the fixed cost associated with the IID water transfer and Carlsbad Desalination project that are not recovered by the IAC. However, it is important to re-iterate that whatever allocation percentage is determined appropriate in accordance with cost of service and legal requirements, the increase to the new reliability charge is completely offset with a like decrease in the supply rate.

**Topics for Future Discussion**

In addition to the items addressed in this report, the FSTF identified the following topic areas that require additional analysis and discussion in the future. These matters were not as time sensitive as those addressed in this report but do deserve additional review and analysis in a future phase.

A. **New Policy of Fixed Cost Coverage.** A primary concern discussed by the FSTF is the increasing amount of fixed cost obligations of the Water Authority in an environment of decreasing and potentially more volatile water sales. This concern is best expressed
through a financial metric that illustrates the ratio of fixed costs to fixed revenues. This relationship was considered by Task Force members to be a key element of long-term fiscal sustainability. As past Board decisions have significantly improved the region's water supply reliability for all member agencies, these decisions have also required the Water Authority to incur large long-term fixed obligations. Some of the long-term financial obligations approved by the Board are unique sources of supply using take or pay contracts that were not considered when the rate structure was developed and do not have fixed revenue offsets under Water Authority existing policies. This is similar to the State Water Project contract MWD has, involving take or pay contracts that do not have fixed revenue offsets. As noted above in the Guiding Principles, an important part of fiscal sustainability is to ensure that there is an appropriate fixed revenue source for a fixed financial obligation (Principle G).

B. Reserve Policies. Given the nature and degree of the financial risks facing the Water Authority, adequate financial reserves are essential to prudent financial management. The FSTF evaluated the Water Authority’s Reserve Policies for it Operating Fund, Rate Stabilization Fund and Stored Water Fund.

C. Customer Service Charge. The Customer Service Charge is a fixed charge that recovers functional costs associated with the Water Authority including development and implementation of policies and regional programs that that are designed to benefit each member agency proportionately. The existing basis for allocating this charge to member agencies is a three-year rolling average of all deliveries. In conjunction with the discussion on the basis of allocation basis of the Storage Charge (three-year versus ten-year), the FSTF considered that utilizing a shorter period may be appropriate given the lower costs being recovered, the low capital commitment and the short-term characteristic of this charge is a better nexus with this allocation basis.

Summary
The Task Force has thoroughly vetted and analyzed all fiscal sustainability focus areas requested by the Board and member agencies. The outcome of this analysis and discussion is summarized as follows:

- No Changes
  - Debt Service Coverage Ratio of 1.5 times
  - Capacity Charges
- Changes to rates and charges or financial policies
  Recommendation #1 - Clarify Fixed Cost Definition
  Recommendation #2 - Change Storage Allocation to 10 year rolling average
  Recommendation #3 - Consistently apply non-commodity revenue offsets to all rate categories, including the treatment rate
• Addition to rate and charge structure
  Recommendation #4 - Establish a Supply Reliability Charge using 10 year non-concurrent peak

• Future Task Force Topics
  ▪ Overall Fixed Cost Coverage Target
  ▪ Reserve Policies
  ▪ Customer Service Charge Allocation

The Task Force will return to the Administrative and Finance Committee on February 27, 2014 for approval of the four recommendations detailed in this report.

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: Guiding Principles
Fiscal Sustainability Guiding Principles

The following Guiding Principles have been defined 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.

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
     o Board willingness to make tough rate decisions
     o Proven history of doing what we say we will do
     o Strong financial management and policies
   • Measured by the following metrics:
     o Debt Service Coverage Ratio (DSCR)
     o Reserve Policies
     o Cash on Hand
     o 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 considered including those of the Water Authority and its member agencies

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