Proposed Staff Recommendation Consent Calendar for March 27, 2014

WATER PLANNING COMMITTEE

9-  1. Agreement with the Sweetwater Authority regarding water storage at Sweetwater Reservoir.
   Authorize the General Manager to execute an agreement for reservoir storage capacity with Sweetwater.

9-  2. Resolution Certifying the Final Supplemental Program Environmental Impact Report for the 2013 Regional Water Facilities Optimization and Master Plan Update and Climate Action Plan; Adopting Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approving the Project; and Authorizing Filing of a Notice of Determination.
   It is recommended the Board adopt a Resolution that:
   Certifies the Final Supplemental Program EIR has been completed in compliance with the California Environmental Quality Act and State CEQA Guidelines, and reflects the independent judgment of the Board; and Concurrently adopts the Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; and Approves the Proposed Project modifications and the Climate Action Plan; and Approves the 2013 Regional Water Facilities Optimization and Master Plan Update; and Authorizes the filing of a Notice of Determination.

IMPORTED WATER COMMITTEE

9-  3. Construction contract with Four M Contracting, Inc. for Wister Sport Fishery Project.
   Authorize the General Manager to waive any inconsequential variance in the bid documents and award a construction contract to Four M Contracting, Inc. in the amount of $2,798,000 for the Wister Sport Fishery project.

   Authorize the General Manager to submit a formal comment letter on the Bay Delta Conservation Plan Draft Environmental Impact Report/Environmental Impact Statement.
ENGINEERING AND OPERATIONS COMMITTEE

9- 5. Professional services contracts with HDR Engineering, Inc., for Corrosion Engineer and Corrosion Technician Support Services and V&A Consulting Engineers, Inc. for Corrosion Technician Support Services. Authorize the General Manager to award a professional services contract to HDR Engineering, Inc. to provide Corrosion Engineer and Corrosion Technician support services for an amount not-to-exceed $1,950,000, and for up to a four-year term. Authorize the General Manager to award a professional services contract to V&A Consulting Engineers, Inc. to provide Corrosion Technician Support Services for an amount not-to-exceed $435,000, and for up to a four-year term.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

9- 6. Adopt positions on various state bills.
1. Adopt a position of Oppose Unless Amended on AB 1731 (Perea)
2. Adopt a position of Support if Amended on AB 2043 (Bigelow)
3. Adopt a position of Support and Seek Amendments on AB 2100 (Campos)
4. Adopt a position of Support on AB 2104 (Gonzalez)
5. Adopt a position of Support and Seek Amendments on AB 2636 (Gatto)
6. Adopt a position of Support if Amended on AB 2686 (Perea)
7. Adopt a position of Support and Seek Amendments on SB 992 (Nielsen)
8. Adopt a position of Support if Amended on SB 1049 (Pavley)
9. Adopt a position of Support and Seek Amendments on SB 1144 (Galgiani)
10. Adopt a position of Oppose Unless Amended on SB 1370 (Galgiani)
11. Adopt a position of Support on SB 1420 (Wolk)

ADMINISTRATIVE AND FINANCE COMMITTEE

9- 7. Treasurer’s report.
Note and file the monthly Treasurer’s report.
March 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 March 10 and 11. The next regular MWD board and committee meetings are scheduled for April 7 and 8.

Discussion
The Water Authority delegation supported 13 of 14 action items approved by the MWD board, including a substitute motion related to H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Valley Emergency Water Delivery Act. Staff’s recommendation, supported by the Communications and Legislation Committee, was to take a “Watch” position; however, during the board meeting, Director Koretz (Los Angeles) moved to “Oppose” the bill because it “preempts California sovereignty… and attempts to circumvent the Endangered Species Act,” which garnished enough support from the board to pass. The delegates opposed MWD entering into a Water Savings Incentive Program (WSIP) agreement to provide financial subsidies for a water use efficiency project with Altman Specialty Plants, Inc. In the Water Planning and Stewardship committee, Director Lewinger made a motion to table the item pending receipt of further information on cost of service, policy implications of MWD providing financial support to meet private entities’ stormwater compliance requirements, and the terms of the proposed agreement with Altman. The motion failed. As a result, the delegates opposed the item. The delegates submitted a letter on the WSIP, which stated that the Water Authority would seek to be relieved of any financial responsibility for this project based on the misallocation of costs and failure by MWD to provide a cost of service analysis of the project (see Attachment 1).

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

Communications and Legislation Committee
The committee and board approved three of five items. The committee and board approved expressing support, if amended, for S. 2016 (Feinstein, D-CA) and H.R. 4039 (Costa, D-CA) – California Emergency Drought Relief Act of 2014, which would provide $300 million in aid and speed up environmental reviews of water projects, so state and federal officials have "operational flexibility" to move water from the Delta to San Joaquin Valley farms. In addition, the committee and board approved entering into a three-year agreement with Fraser Communications for regional communications and advertising services and media buys related to water awareness and conservation. Two bills – SB 103 (Senate Committee on Budget and Fiscal Review) – Budget Act of 2013 and SB 104 (Senate Committee on Budget and Fiscal Review) – Drought Relief – that were to be considered, had already been signed into law on March 1, 2014; therefore General Manager Kightlinger stated it was no longer necessary for the committee and board to take a position.

The committee also received reports on other state legislative activities.
Engineering and Operations Committee

The committee and board approved three items related to infrastructure rehabilitation and regulatory compliance projects, such as the construction of a chlorine containment system at MWD’s Chemical Unloading Facility. The committee also heard a report on MWD’s Proposed Biennial Budget for fiscal years 2014/15 and 2015/16 including the biennial budget for its Capital Investment Plan (CIP). Staff reported that the proposed CIP budget for fiscal years 2014/15 and 2015/16, estimated to be $245 million and $268 million, respectively, is based upon anticipated costs, including: labor and administrative overhead, construction, professional services, right of way, materials, operating equipment, and incidental expenses.

The committee also received an update on anticipated water system deliveries for 2014. Staff reported that the 2014 SWP allocation is currently zero percent of the SWP contractors’ 2014 request for SWP water. In order to conserve available SWP water to ensure its exclusive SWP areas have adequate supplies, MWD plans three operational actions: 1) defer shutdowns that would require use of SWP water; 2) request those agencies able to shift demand away from SWP to utilize Colorado River water connections; and 3) by April 1, expand delivery of Colorado River water through MWD’s Greg Avenue Pumping Plant (modifying the far northwest portion of MWD’s service area, which currently receives 100 percent SWP to receive up to 15 percent Colorado River water) and move Diamond Valley Lake water into the Mills service area. In addition, the Colorado River Aqueduct will be operated at the maximum eight-pump flow from March through December. Staff also said that as a result of drought conditions, computer modeling has shown that under certain scenarios, the total dissolved solids (TDS) at the Delta export pumps may reach 1,000 milligrams per liter (mg/L) later this summer. Subsequently, at the March State Water Contractors’ board meeting, California Department of Water Resources (DWR) staff reported that TDS at Banks Pumping Plant is currently at about 450 mg/L. Staff also reported that the DWR is working to install temporary barriers to keep increased salinity from migrating into the central Delta, thus protecting the fresh water supply for export purposes. MWD’s operating goal is to maintain a TDS target of 500 mg/L at a running annual average at its blend plants, which include Skinner. Skinner is currently receiving zero percent SWP water (as a result, it is unlikely to meet the TDS goal in 2014). According to MWD’s water quality report, as of March 12, 2014, Skinner water quality TDS is 504 mg/L.

Finance and Insurance Committee

The committee and board approved two items related to annexation. The committee also received a report on MWD’s financial highlights. Chief Financial Officer Breaux reported that sales through February were about 250,800 acre-feet higher than budget, resulting in revenues coming in about $250.8 million (or 33%) ahead of budget. In response to Lewinger’s inquiry on whether MWD is still tracking $320 million in excess of the maximum reserves by the end of the current fiscal year, Breaux affirmed that it is.

In addition, the committee heard an update on the 2013 Other Post Employee Benefits (OPEB) Actuarial Valuation. MWD’s net OPEB obligation (the cumulative difference between the annual OPEB cost and the actual contributions made by MWD) is $196.3 million. As of June 30, 2013, MWD’s OPEB unfunded actuarial accrued liability totaled $315.3 million. Beginning in fiscal year 2011/12, MWD began prefunding a portion of the unfunded liability, starting at $5 million. To-date, it had set aside about $40 million in an OPEB trust, including a one-time infusion of $25 million from excess reserves from fiscal year 2012/13. John E. Bartel, MWD’s actuarial consultant, reported that if MWD were to approve contributing an additional $100 million in the current fiscal year to the
OPEB trust (from the anticipated excess reserves), the funded ratio would increase by more than 28 percent to 45 percent by June 30, 2015. In response to Lewinger’s inquiry on whether there was a standard “percent funded” ratio used by large agencies, such as MWD, Bartel responded that there exists a slow movement towards pre-funding OPEB unfunded liabilities, but there is no legal requirement to do so; nor is there an industry standard funding ratio.

**Budget and Rate Discussion.** The committee heard a presentation and discussed the proposed biennial budget, and alternative rates and charges options. The committee voted to present at the April Board meeting three board actions, which include staff’s recommended rates and charges along with the two alternatives presented in the committee meeting. During the committee’s public comment, Water Authority Assistant General Manager Cushman commented on the state law requirement that water rates and charges be based on “cost causation,” which was confirmed by San Francisco Judge Karnow (see Attachment 3 for Cushman Testimony). A copy of the court’s ruling, along with a Compact Disc (CD) that includes copies of the ruling and the closing briefs filed by MWD and the Water Authority were provided to the committee and the F&I committee secretary. Cushman reiterated the Water Authority’s prior written request seeking all information the board is relying upon for its decisions on the 2015 and 2016 rates. Subsequent to the committee meeting, on March 10, 2014, the Water Authority received a response from MWD General Counsel Scully indicating that the data and material used to develop the recommended rates and charges will be provided. However, the information will not include the financial planning model itself because it is a “proprietary software program…which is not subject to the Public Records Act” (see Attachment 4).

During the regular board meeting’s public hearing on the proposed rates and charges held the following day, Cushman commented that the rates and charges recommended by MWD staff are based on the “same flawed cost allocation that the court has already determined improperly assigns State Water Project and other supply costs to MWD’s transportation rates.” Cushman reminded MWD that the data requested by the Water Authority has still not been provided and repeated the request for information. Cushman also asked that a letter and CD with documents submitted to Board Secretary Dawn Chin, as well as his testimony, be included in the public hearing record (see Attachment 5 for Cushman Testimony). He added that the Water Authority would augment its comments on rates based on data provided by MWD. Further, on March 19, 2014, the Water Authority received data and material from MWD with a cover letter, which staff is currently reviewing (see Attachment 6 for the cover letter).

**Operations and Maintenance Budget.** When asked by Director Hogan why the February board memo showed the O&M budget total at $490.5 million while in staff’s presentation, it was $390 million, Financial Planning Manager Skillman said that the data in the presentation reflected the assumed additional pre-funding of $100 million into the OPEB trust and reduced annual required contribution per the revised actuarial report. In response to Director Steiner’s inquiry on staffing requests, Skillman clarified that the budget seeks funding for 41 existing but previously unfunded positions and three new positions. Director Mudd commented that the 11 positions for succession purposes appeared to have overlapping work and may be excessive. During this discussion, staff referred to MWD as a supplemental water provider, causing Director Peterson (Las Virgenes) to comment that he would like to revisit the “MWD Act,” which he said mischaracterizes MWD’s role as a supplemental supplier; Las Virgenes relies on MWD for 100 percent of its water and it does not view MWD as a “supplemental” supplier, he said.

**Capital Investment Program.** Lewinger requested that staff provide additional details on the CIP
budget. Following Engineering Service Group Manager Johnson’s description of each CIP category, Lewinger asked how each CIP category is classified in the Cost-of-Service report, i.e. supply, transportation, or other. Skillman said that the Engineering Service Group provides the information in a detailed table. Johnson added that the table is a “very detailed project by project worksheet;” he will coordinate providing the information, which Breaux concurred and Kightlinger added (the staff was) “happy to bury you in paper.”

*Treatment Cost Recovery.* Staff provided an alternative rate structure to recover treatment costs, which included Treatment Surcharge, Treatment Capacity Charge and Treatment Readiness-to-Serve charge. In response to Director Evans (Western) inquiry on whether the treated water rate restructuring, as presented by staff, is included in the proposed budget and rates, Breaux responded that because it would only impact how treatment costs are recouped, it has no overall impact on “the revenues other than making some of them more fixed.” Director Edwards (Foothill) indicated his preference to incorporate the alternative treatment cost recovery into the rates effective January 1, 2015. Breaux commented that the discussion on alternative treatment cost recovery could continue, as the board could amend any rate action taken in April until “later this summer” and still have the rates become effective in 2015. Lewinger reminded the committee that at last month’s Budget and Rates and Charges workshop, some directors asked staff to conduct a fuller analysis of alternatives to generate more fixed revenues, rather than just focusing on treated water costs. After a series of comments from other directors, Lewinger made a motion that staff returns to the committee with an assessment of various forms of fixed revenue for committee’s and board’s consideration; his motion failed. Subsequently, Director Barbre (Municipal Water District of Orange County) agreed with Lewinger that other directors, including Director Wunderlich (Beverly Hills) who was absent at this meeting, had requested that other options to generate fixed revenues be discussed.

*Ad Valorem Tax.* Committee Chair Grunfeld (Los Angeles) asked what the ramifications to the budget for both fiscal years 2014/15 and 2015/16 would be if the board adopts staff’s recommended 1.5 percent rate increases, but not suspend the ad valorem tax rate. Breaux responded that the $65 million anticipated to be generated from tax rate suspension would instead be made up from withdrawals from reserves. Responding to Steiner’s questions, Breaux said that the two-year budget assumes the ad valorem tax rate limit continues to be suspended and the tax rate set at the current level will be formally adopted in August of each year. Lewinger asked, and Bennion confirmed, that the board has the discretion to set the tax levy at any point in time to ensure the fiscal integrity of MWD.

*Excess Reserves.* In response to Lewinger’s inquiry on whether a portion of the $320 million in excess reserves could be used to offset rate increases, Breaux replied that a lower rate increase now could lead to a higher rate increase later. In responding to Edwards’ inquiry on whether a policy exists on how to use excess reserves, General Manager Kightlinger said that in the Administrative Code the board established priorities for use of funds above the maximum reserve. Kightlinger added that the Administrative Code section could be brought before the committee for discussion.

*Long-Range Finance Plan.* Because the current Long Range Finance Plan (adopted in 2004) is now ten-years-old, Lewinger asked if staff plans to update it. Breaux responded that the proposed budget integrates MWD’s 10-year rate forecast. Peterson said that a long-range finance plan is needed “that respects the whole bucket theory.” Lewinger added that if MWD wants to adopt budgets based on 1.75 million acre-feet of water sales -- which staff had stated that anticipated sales would exceed that amount by 75 percent of the time -- then there should be a balancing account set for each rate
category, so that excess revenue collected by rates could be placed into the respective balancing accounts for future rate calculations so there would be no cross subsidization between rates. Evans commented that the current Administrative Policy in-effect already utilizes a balancing principle, allowing excess revenues be applied to paying down PAYGo and replenishing storage. (Under MWD’s existing Administrative Code, all of MWD’s excess revenue collections – with the exception of treatment and water stewardship collections – now flow to the Water Rate Stabilization Fund, which does not offer the rate balancing concept Lewinger described.)

Average Rate Increases. In response to Grunfeld, Breaux confirmed that all three rate increase options (zero percent, 0.75 percent, and 1.5 percent in the calendar year 2015 followed by 1.5 percent, 1.25 percent and 1.5 percent in 2016, respectively) presented via a PowerPoint presentation during the committee meeting would meet MWD’s defined “fiscal integrity.” Mudd expressed support for a two-year rates that includes “truing up” every year or an annual rate setting process. He also said that a zero percent average rate increase in calendar year 2015 is appropriate. Lewinger agreed that MWD does not need any rate increases in calendar year 2015. He said with the likelihood of a low SWP delivery next year, adopting a zero percent average rate increase in calendar year 2015 is appropriate, and that calendar year 2016 rate setting should be deferred until next year (allowing for potential changed conditions). Subsequently, during the March Executive meeting, Grunfeld directed staff to add an additional rate option for consideration in April, which would include an average rate increase of 1.5 percent in calendar year 2015 followed by another 1.5 percent increase in 2016, while permitting the ad valorem tax rate to decrease per MWD Act.

As the committee meeting came to a close, Evans opined that an additional workshop later in March is not necessary because he did not think anything more would be discussed in the next month that has not been heard “today and at the prior workshops;” Lewinger disagreed. The tentatively scheduled March workshop subsequently did not take place.

Legal and Claims Committee

General Counsel Scully reported on the Consolidated Delta Smelt Cases. She said that the district court (that faulted the U.S. Fish and Wildlife Service biologists of ignoring the “best science available” in their 2008 delta smelt biological opinion) further extended the deadline for the regulatory agencies to complete a new biological opinion for the delta smelt for one year. Scully added that the regulatory agencies are required to submit interim joint status reports every four months, with the first report due in June 2014. However, subsequent to the committee meeting, on March 13 a three-judge panel of the Ninth Circuit Court of Appeals reversed in large measure Judge Wanger’s district court decision relating to the 2008 delta smelt biological opinion. The ruling validates the biological opinion and the Reasonable and Prudent Alternatives, which include the pumping and export restrictions imposed to protect the delta smelt.

In closed session, the committee discussed the litigation with the Water Authority. The delegates did not participate in the rate case discussion. 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.
Water Planning and Stewardship Committee
The Water Planning and Stewardship Committee and board approved two items, including an agreement for a pilot program to fund water use efficiency measures for the Colorado River for up to $2 million. The committee also received a report on the Governor’s California Water Action Plan, which includes: managing headwaters for greater benefits, an increased focus on conservation and water energy efficiency, and more dialogue on drought measures. The Governor’s 2014/15 budget proposes $618 million to finance for the Water Action Plan, which includes funding for water efficiency projects, wetland and watershed restoration, groundwater programs, conservation, flood control, and integrated water management.

Bay-Delta Initiatives Manager Arakawa reported that the State Water Resources Control Board (State Water Board) issued a Temporary Order approving the requests of DWR and United States Bureau of Reclamation to conserve water in upstream storage for use later in the season to protect and improve water quality, maintain critical water supplies, and provide minimum flows for fisheries. This Order will continue to be reviewed and amended as conditions warrant. In addition, the State Water Board is expediting water transfers at the direction of the Governor’s Proclamation of a State of Emergency. Water Resource Manager Upadhyay also reported that a tentative agreement between DWR and the SWP Contractors to extend the term and amend the SWP contracts has been reached. The existing SWP contracts will generally expire in 2035.

The committee also heard a report on 2014 water supply, demand, and storage conditions. Following staff’s presentation, Lewinger renewed the delegates’ prior request that a board policy discussion be held on a prudent storage withdrawal strategy to allow the region to ease into a shortage allocation.

Board Meeting
Steve Blois and Yvonne Arceneaux were inducted to the Board of Directors representing Calleguas Municipal Water District and the city of Compton, respectively. In addition, Lewinger and Steiner were each presented with a five-year service pin.

Public Hearing Suspending the Tax Rate Limitations. The following community, business and public agency leaders provided comment and opposed suspending the tax rate limitations: Alan Smerican (Board Member, Santa Fe Irrigation District), Gary Feline (Councilmember, City of Oceanside), Jerry Kern (Councilmember, City of Oceanside), James Knott (Chairman of Utilities Commission, City of Oceanside), Tom Wornham (Chair, Water Authority Board), and Conner Everts (Southern California Watershed Alliance).

In response to Director Koretz (Los Angeles) inquiry on the impact of the tax to the average household, Breaux said that the tax would generate $30 million. MWD’s ad valorem tax roughly equates to $10.50 per homeowner, assuming a median assessed value of $300,000. Koretz asked if this source of funds were essential, since it was a modest revenue increase. Kightlinger said that the State Water Project was 50 years old, and the funds would be used to repair and rehabilitate it. Mudd asked if the tax rate limit suspension were not imposed, would it create a fiscal crisis for MWD, thus damaging its fiscal integrity. Kightlinger said he believed it would. Lewinger reminded the board that Breaux stated earlier that rate alternatives without tax increase would also enable MWD to maintain its fiscal integrity; thus the issue at hand is whether the suspension of tax rate is a preferred source of revenue, rather than needed to ensure its fiscal integrity.
Public Hearing on Comments on Proposed Water Rates and Charges. The following community, business, and public agency leaders opposed staff’s recommended rate increase: Jim Murtland (Board Member, Rincon del Diablo Municipal Water District), Mark Weston (Vice-Chair, Water Authority Board, and Board Member, City of Poway), Wornham, Knott, Smerican, Feline, Deanna Verbeke (Board Member, Helix Water District), Patricia Raetz (Utilities Commission, City of Oceanside), and Kern. Everts commented that the public needs to know MWD’s process, and while MWD fulfilled its obligation to hold a public hearing, it has not fulfilled (its duty) to the public.

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
Water Planning and Stewardship Committee by Keith Lewinger and Fern Steiner

Attachment 1: Letter on Water Savings Incentive Program Agreement, March 10, 2014
Attachment 2: MWD’s committee and board meeting agendas and Summary of Actions, March 10-11, 2014
Attachment 3: Testimony of Dennis Cushman at Finance and Insurance Committee Meeting, March 10, 2014
Attachment 4: Response letter from MWD regarding request for information, March 10, 2014
Attachment 5: Testimony of Dennis Cushman at Board Meeting, March 11, 2014
Attachment 6: Response from MWD regarding request for information, March 19, 2014
March 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 Item 8-3 – TABLE PENDING RECEIPT OF ADDITIONAL INFORMATION OR IN THE ALTERNATIVE, OPPOSE: Authorize entering into a Water Savings Incentive Program (WSIP) Agreement with Altman’s Specialty Plants, Inc. to provide financial incentives for a water use efficiency project

Dear Chair Foley and Members of the Board,

The Water Authority delegates suggest that this item be tabled pending receipt of additional information; in the alternative, it OPPOSES Board Item 8-3, relating to subsidies to be paid by MWD to Altman Specialty Plants, Inc. (Altman), for the reasons stated in this letter.

1) Supply costs are improperly assigned to a transportation rate that the Court has already invalidated based on the California Constitution, statutes and the common law.

MWD arbitrarily assigns 100% of the costs of this agreement to transportation through its Water Stewardship Rate. However, there is nothing in board memo 8-3 to suggest that the subsidies to be paid for this program have anything to do with transportation costs. Instead, it is clear from the board memo that the only benefit MWD even purports to receive is “regional water supply reliability.” MWD is requested to do a cost of service analysis to support any claimed transportation benefits of this project.

2) Costs of the agreement have not been assigned proportionally, based on benefits received.

Memo 8-3 attempts to justify the purported regional benefits to MWD based on the unsupported claim by MWD that the project will “increase regional water supply reliability within Metropolitan’s entire service area.” However, the record is devoid of any data to support this claim; to the contrary, it is apparent that the benefits of this project accrue exclusively to Altman’s Specialty Plants, Inc., not all of MWD’s ratepayers. MWD is requested to do a cost of service analysis to support any claimed regional water supply benefits of this project.
3) **Further information is needed to evaluate the merits of the project and its benefits.**

It appears from the minimal information that is provided about the project and contract terms, that the funding may be used by this private entity to meet storm water compliance requirements. MWD does not have a board policy allowing such funding or defining how the costs and benefits of any such funding should be allocated. The proposed contract terms are vague at best. The board memo states that MWD would be “reimbursed” by Western Municipal Water District for “up to” $100,000 of these costs but does not state or describe what the criteria is for reimbursement. Similarly, the four bullets at the bottom of page one of the board memo raise more questions than they answer.

- When will MWD provide funding? The board memo says, “partial payment upon installation and operation of equipment.” What is the amount of the partial payment and criteria for its receipt?
- Why is final payment being made after only a one-year monitoring period? How will actual water savings over the ten-year period be calculated and confirmed?
- What is the remedy if the actual amount of conserved water is less than the amount upon which the subsidy has been calculated?

We suggest this item be tabled pending receipt of further information on cost of service and regarding the terms of the proposed agreement with Altman. Should the board choose to vote to approve the project with the minimal information that has been provided, then we OPPOSE Board Memo 8-3. The Water Authority will seek to be relieved of any financial responsibility for this project based on the misallocation of costs and failure by MWD to provide a cost of service analysis of the project.

Sincerely,

Michael T. Hogan  
Director

Keith Lewinger  
Director

Vincent Mudd  
Director

Fern Steiner  
Director

cc: Jeff Kightlinger, MWD General Manager  
San Diego County Water Board of Directors and Member Agencies
REVISED AGENDA

(Change in time)

Finance and Insurance Committee

Meeting with Board of Directors*

March 10, 2014

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

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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 Finance and Insurance Committee held February 10, 2014

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

4. CONSENT CALENDAR ITEMS — ACTION
   7-1 Grant conditional approval for 43rd Fringe Area Annexation to Western Municipal Water District and Metropolitan; and adopt resolution of intention to impose water standby charge. (F&I)

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* 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.
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 the 43rd Fringe Area Annexation concurrently to Western and Metropolitan, conditioned upon receipt in full of annexation fee of $228,595.58 to Metropolitan if completed by December 31, 2014, or if completed later, at the then-current annexation charge rate;

b. Approve Western’s Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines; and

c. Adopt the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 to the board letter.

7-2 Adopt final resolutions for annexation and water standby charge levy for Annexation No. 98 to Calleguas Municipal Water District and to Metropolitan Water District. (F&I)

Recommendation:

Option #1:

Review and consider information provided in the certified Final Environmental Impact Report and adopt the Lead Agency's findings related to the proposed actions, and

a. Adopt resolution granting Calleguas' request for approval of Annexation No. 98 concurrently to Calleguas and Metropolitan and establish Metropolitan's terms and conditions for the annexation, conditioned upon approval by Ventura Local Agency Formation Commission, and upon receipt of annexation fee of $487,059.66; and

b. Adopt resolution 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

None

6. BOARD INFORMATION ITEMS

None
7. COMMITTEE ITEMS
   
a. Oral report on June 30, 2013 OPEB Actuarial Valuation

8. BUDGET AND RATE DISCUSSION
   
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

9. FOLLOW-UP ITEMS
   
   None

10. FUTURE AGENDA ITEMS

11. ADJOURNMENT

NOTE: At the discretion of the committee, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the committee.

This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

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.
REVISED AGENDA
(Change in time)

Water Planning and Stewardship Committee
Meeting with Board of Directors*

March 10, 2014

12:30 p.m. – Room 2-456

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1. Opportunity for members of the public to address the committees 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 Water Planning and Stewardship Committee held February 10, 2014

3. CONSENT CALENDAR ITEMS — ACTION

   None

4. OTHER BOARD ITEMS — ACTION

   8-3 Authorize entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc. to provide financial incentives for a water use efficiency project. (WP&S)
Revised:  March 4, 2014

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt and authorize entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc.

Corrected 8-4

Authorize entering into agreement for a pilot program to fund water use efficiency measures for the Colorado River and approve payment of up to $2 million. (WP&S)

Recommendation:

Option #1:

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

a. Authorize the General Manager to enter into an agreement for a pilot program for funding the creation of Colorado River system water through voluntary reductions in use on the terms described in the board letter and in a form approved by the General Counsel; and

b. Approve payment of up to $2 million for partially funding the program.

5. BOARD INFORMATION ITEMS

9-1 Transmittal of Governor’s California Water Action Plan. (WP&S)

6. COMMITTEE ITEMS

a. Oral report on Water Surplus and Drought Management


7. MANAGEMENT REPORTS

a. Bay-Delta Matters

b. Colorado River Matters

c. Water Resource Management Manager’s report
8. FOLLOW-UP ITEMS

9. FUTURE AGENDA ITEMS

None

10. ADJOURNMENT

NOTE: At the discretion of the committee, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the committee.

This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

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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.
REVISED AGENDA

(Change in time)

Engineering and Operations Committee

Meeting with Board of Directors*

March 10, 2014

2:00 p.m. -- Room 2-145

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

* The Metropolitan Water District’s Engineering and Operations 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 Engineering and Operations 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 Engineering and Operations Committee will not vote on matters before the Engineering and Operations 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 Engineering and Operations Committee held February 10, 2014

3. CONSENT CALENDAR ITEMS — ACTION

7-3 Appropriate $900,000; and authorize two rehabilitation projects at the Joseph Jensen Water Treatment Plant (Approps. 15371 and 15442). (E&O)

REVISED: Date of Notice: March 6, 2014
Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and
   a. Appropriate $900,000; and
   b. Authorize design to rehabilitate flocculators and traveling bridges at Jensen Modules Nos. 2 and 3.

4. OTHER BOARD ITEMS — ACTION

8-1 Appropriate $32.5 million; and award $22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a chlorine containment system at Metropolitan’s Chemical Unloading Facility (Approp. 15346) (E&O)

Recommendation:

Option #1:

Determine that the proposed action has been previously addressed in the 2011 categorical exemptions, and
   a. Appropriate $32.5 million; and
   b. Award $22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a containment system at the Chemical Unloading Facility.

8-2 Appropriate $8.5 million; and award $5,946,507 contract to J. F. Shea Construction, Inc. for prestressed concrete cylinder pipe repairs on the Second Lower Feeder (Approp. 15471) (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is statutorily exempt, and
   a. Appropriate $8.5 million; and
   b. Award $5,946,507 contract to J. F. Shea Construction, Inc. for PCCP repairs on the Second Lower Feeder.

5. BOARD INFORMATION ITEMS

6. COMMITTEE ITEMS
   b. Engineering Services Group Biennial Budget for 2014/15 and 2015/16
      Added
c. Capital Investment Plan for fiscal years 2014/15 and 2015/16

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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REVISED: Date of Notice: March 6, 2014
Legal and Claims Committee
Meeting with Board of Directors*
March 11, 2014
8:30 a.m. -- Board Room

Videoconference Participation:
500 New Jersey Avenue
Suit 500
Washington D.C.
20001

<table>
<thead>
<tr>
<th>MWD Headquarters Building</th>
<th>700 N. Alameda Street</th>
<th>Los Angeles, CA 90012</th>
</tr>
</thead>
</table>

* The Metropolitan Water District’s Legal and Claims 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 Legal and Claims Committee may 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 Legal and Claims Committee will not vote on matters before the Legal and Claims 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 Legal and Claims Committee held February 11, 2014

3. CONSENT CALENDAR ITEMS — ACTION
   None

4. OTHER BOARD ITEMS — ACTION
   None

Date of Notice: February 27, 2014
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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Date of Notice: February 27, 2014
UPDATED AGENDA

Communications and Legislation Committee

Meeting with Board of Directors*

March 11, 2014

10:00 a.m. -- Room 2-456

Tuesday, March 11, 2014
Meeting Schedule

<table>
<thead>
<tr>
<th>Time</th>
<th>Location</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>7:00-8:00 a.m.</td>
<td>Rm. 2-413</td>
<td>Dirs. Computer Training</td>
</tr>
<tr>
<td>8:30 a.m.</td>
<td>Board Room</td>
<td>L&amp;C</td>
</tr>
<tr>
<td>10:00 a.m.</td>
<td>Rm. 2-456</td>
<td>C&amp;L</td>
</tr>
<tr>
<td>12:00 p.m.</td>
<td>Board Room</td>
<td>Board Meeting</td>
</tr>
</tbody>
</table>

* The Metropolitan Water District's Communications and Legislation 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 Communications and Legislation 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 Communications and Legislation Committee will not vote on matters before the Communications and Legislation 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 Communications and Legislation Committee held February 11, 2014

3. CONSENT CALENDAR ITEMS — ACTION

None
4. OTHER BOARD ITEMS — ACTION

8-5 Authorize entering into a three-year agreement with Fraser Communications for regional communications and advertising services and media buys related to water awareness and conservation, not to exceed $5.5 million annually. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to enter into a three-year contract with Fraser Communications for regional communications, including advertising services and media buys related to water awareness and conservation, not to exceed $5.5 million annually.

8-6 Express a watch position for H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Valley Emergency Water Delivery Act. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to take a watch position on H.R. 3964.

8-7 Express support, if amended, for S. 2016 (Feinstein, D-CA) and H.R. 4039 (Costa, D-CA) – California Emergency Drought Relief Act of 2014. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to take support, if amended, positions on S. 2016 and H.R. 4039.

8-8 Express support for SB 103 (Senate Committee on Budget and Fiscal Review) – Budget Act of 2013. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to support SB 103.
8-9 Express support for SB 104 (Senate Committee on Budget and Fiscal Review) – Drought Relief. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to support SB 104.

5. BOARD INFORMATION ITEMS

None

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

NOTE: At the discretion of the committee, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the committee.

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REVISED AGENDA

Regular Board Meeting

March 11, 2014

12:00 p.m. -- Board Room

Videoconference Participation:

500 New Jersey Avenue
Suite 500
Washington D.C. 20001

<table>
<thead>
<tr>
<th>MWD Headquarters Building</th>
<th>•</th>
<th>700 N. Alameda Street</th>
<th>•</th>
<th>Los Angeles, CA 90012</th>
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</table>

1. **Call to Order**
   
   (a) Invocation: Elisa Giron, Human Resources Assistant, Human Resources Division
   
   (b) Pledge of Allegiance: Director Glenn Brown

2. **Roll Call**

3. **Determination of a Quorum**

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**PUBLIC HEARINGS**

1. Public hearing to consider suspending the tax rate limitations in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem tax rate

2. Comments on proposed water rates and charges

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REVISED: Date of Notice: March 5, 2014
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))

5. **OTHER MATTERS**

   A. Approval of the Minutes of the Meeting for February 11, 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 February

   C. Induction of new Director, Steve Blois, from Calleguas Municipal Water District
      
      (a) Receive credentials
      
      (b) Report on credentials by General Counsel
      
      (c) File credentials
      
      (d) Administer Oath of Office
      
      (e) File Oath

   D. Induction of new Director, Yvonne Arceneaux, from city of Compton
      
      (a) Receive credentials
      
      (b) Report on credentials by General Counsel
      
      (c) File credentials
      
      (d) Administer Oath of Office
      
      (e) File Oath

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

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

   G. Approve committee assignments

   H. Chairman's Monthly Activity Report

6. **DEPARTMENT HEADS' REPORTS**

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

   B. General Counsel's summary of Legal Department activities for the month of February
C. General Auditor's summary of activities for the month of February

D. Ethics Officer's summary of activities for the month of February

7. CONSENT CALENDAR ITEMS — ACTION

7-1 Grant conditional approval for 43rd Fringe Area Annexation to Western Municipal Water District and Metropolitan; and adopt resolution of intention to impose water standby charge. (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 the 43rd Fringe Area Annexation concurrently to Western and Metropolitan, conditioned upon receipt in full of annexation fee of $228,595.58 to Metropolitan if completed by December 31, 2014, or if completed later, at the then-current annexation charge rate;

b. Approve Western’s Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines; and

c. Adopt the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 to the board letter.

7-2 Adopt final resolutions for annexation and water standby charge levy for Annexation No. 98 to Calleguas Municipal Water District and to Metropolitan Water District. (F&I)

Recommendation:

Option #1:

Review and consider information provided in the certified Final Environmental Impact Report and adopt the Lead Agency’s findings related to the proposed actions, and

a. Adopt resolution granting Calleguas’ request for approval of Annexation No. 98 concurrently to Calleguas and Metropolitan and establish Metropolitan’s terms and conditions for the annexation, conditioned upon approval by Ventura Local Agency Formation Commission, and upon receipt of annexation fee of $487,059.66; and

b. Adopt resolution 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.
7-3 Appropriate $900,000; and authorize two rehabilitation projects at the Joseph Jensen Water Treatment Plant (Approps. 15371 and 15442). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt, and

a. Appropriate $900,000; and

b. Authorize design to rehabilitate flocculators and traveling bridges at Jensen Modules Nos. 2 and 3.

(END OF CONSENT CALENDAR)

8. OTHER BOARD ITEMS — ACTION

8-1 Appropriate $32.5 million; and award $22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a chlorine containment system at Metropolitan’s Chemical Unloading Facility (Approp. 15346). (E&O)

Recommendation:

Option #1:

Determine that the proposed action has been previously addressed in the 2011 categorical exemptions, and

a. Appropriate $32.5 million; and

b. Award $22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a containment system at the Chemical Unloading Facility.

8-2 Appropriate $8.5 million; and award $5,946,507 contract to J. F. Shea Construction, Inc. for prestressed concrete cylinder pipe repairs on the Second Lower Feeder (Approp. 15471). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is statutorily exempt, and

a. Appropriate $8.5 million; and

b. Award $5,946,507 contract to J. F. Shea Construction, Inc. for PCCP repairs on the Second Lower Feeder.
8-3 Authorize entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc. to provide financial incentives for a water use efficiency project. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is categorically exempt and authorize entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc.

Corrected 8-4 Authorize entering into agreement for a pilot program to fund water use efficiency measures for the Colorado River and approve payment of up to $2 million. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA, and a. Authorize the General Manager to enter into an agreement for a pilot program for funding the creation of Colorado River system water through voluntary reductions in use on the terms described in the board letter and in a form approved by the General Counsel; and
b. Approve payment of up to $2 million for partially funding the program.

8-5 Authorize entering into a three-year agreement with Fraser Communications for regional communications and advertising services and media buys related to water awareness and conservation, not to exceed $5.5 million annually. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to enter into a three-year contract with Fraser Communications for regional communications, including advertising services and media buys related to water awareness and conservation, not to exceed $5.5 million annually.

8-6 Express a watch position for H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Valley Emergency Water Delivery Act. (C&L)
Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to take a watch position on H.R. 3964.

8-7 Express support, if amended, for S. 2016 (Feinstein, D-CA) and H.R. 4039 (Costa, D-CA) – California Emergency Drought Relief Act of 2014. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to take support, if amended, positions on S. 2016 and H.R. 4039.

8-8 Express support for SB 103 (Senate Committee on Budget and Fiscal Review) – Budget Act of 2013. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to support SB 103.

8-9 Express support for SB 104 (Senate Committee on Budget and Fiscal Review) – Drought Relief. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to support SB 104.

9. BOARD INFORMATION ITEMS

9-1 Transmittal of Governor’s California Water Action Plan. (WP&S)

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.

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PUBLIC HEARINGS

Public hearing to consider suspending the tax rate limitations in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem tax rate.

Public hearing to receive comments on proposed water rates and charges.

INDUCTION OF NEW DIRECTORS

Director Steve Blois was inducted to the Board of Directors representing Calleguas Municipal Water District. (Agenda Item 5C)

Director Yvonne Arceneaux was inducted to the Board of Directors representing the city of Compton. (Agenda Item 5D)

COMMITTEE ASSIGNMENTS

Director Steve Blois was assigned to the Engineering and Operations Committee and the Finance and Insurance Committee.

Director Jennifer Fitzgerald was assigned to the Legal and Claims Committee and the Real Property and Asset Management Committee. (Agenda Item 5F)

ENGINEERING AND OPERATIONS COMMITTEE

Determined that the proposed action has been previously addressed in the 2011 categorical exemptions, and appropriated $32.5 million; and awarded $22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a containment system at the Chemical Unloading Facility. (Approp. 15346) (Agenda Item 8-1)

Appropriated $8.5 million; and awarded $5,946,507 contract to J. F. Shea Construction, Inc. for PCCP repairs on the Second Lower Feeder. (Approp. 15471) (Agenda Item 8-2)

WATER PLANNING AND STEWARDSHIP COMMITTEE

Authorized entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc. to provide financial incentives for a water use efficiency project. (Agenda Item 8-3)

Authorized the General Manager to enter into an agreement for a pilot program to fund water use efficiency measures for the Colorado River System; and approved payment of up to $2 million for the program. (Agenda Item 8-4)

COMMUNICATIONS AND LEGISLATION COMMITTEE

Authorized the General Manager to enter into a three-year contract with Fraser Communications for regional communications, including advertising services and media buys related to water awareness and conservation, not to exceed $5.5 million annually. (Agenda Item 8-5)
Approved a substitute motion which authorized the General Manager to take an oppose position on H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Emergency Water Delivery Act. (Agenda Item 8-6)

Authorized the General Manager to take support, if amended, positions on S. 2016 (Feinstein, D-CA) and H.R. 4039 (Costa, D-CA) – California Emergency Drought Relief Act of 2014. (Agenda Item 8-7)

Discussion on Agenda Items 8-8 and 8-9 regarding SB 103 (Senate Committee on Budget and Fiscal Review) – Budget Act of 2013 and SB 104 (Senate Committee on Budget and Fiscal Review) – Drought Relief was suspended since the bills have already been chaptered. (Agenda Item 8-8 & 8-9)

CONSENT CALENDAR

In other action, the Board:

- Granted conditional approval for the 43rd Fringe Area Annexation concurrently to Western and Metropolitan, conditioned upon receipt in full of annexation fee of $228,595.58 to Metropolitan if completed by December 31, 2014, or if completed later, at the then-current annexation charge rate; approved Western’s Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines in Attachment 2 of the Board letter; and adopted the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 of the Board letter. (Agenda Item 7-1)

- Reviewed and considered information provided in the certified Final Environmental Impact Report (Final EIR) and adopted the Lead Agency’s findings related to the proposed actions, and adopted resolution granting Calleguas’ request for approval of Annexation No. 98 concurrently to Calleguas and Metropolitan and establish Metropolitan’s terms and conditions for the annexation in Attachment 2 of the Board letter, conditioned upon approval by Ventura Local Agency Formation Commission, and upon receipt of annexation fee of $487,059.66; and adopted resolution to impose water standby charge at a rate of $9.58 per acre, or per a parcel of less than one acre, within the proposed annexation area in Attachment 3 of the Board letter. (Agenda Item 7-2)

- Appropriated $900,000; and authorized design to rehabilitate flocculators and traveling bridges at the Joseph Jensen Water Treatment Plant Modules Nos. 2 and 3. (Approps. 15371 and 15442). (Agenda Item 7-3)

OTHER MATTERS

- Director Fern Steiner, representing San Diego County Water Authority, received a 5-year service pin. (Agenda Item 5D)

- Director Keith Lewinger, representing San Diego County Water Authority, received a 5-year service pin. (Agenda Item 5E)

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.
Good morning, Chair Grunfeld and members of the committee. I'm Dennis Cushman, assistant general manager of the San Diego County Water Authority.

Our Board representatives asked me to speak to you today about the legal requirement in California that water rates and charges be based on "cost-causation." The Judge in San Francisco has found that this requirement applies to MWD under the California Constitution -- Proposition 26 -- California statutes -- including the Government Code (§ 54999.7) -- and the common law.

The Judge found that MWD's rates also violate California's wheeling law (Water Code §1810 et. seq.) Specifically, he ruled that MWD's allocation of State Water Project costs and the Water Stewardship Rate to MWD's transportation charge violates California law.

This is important to know, because the rates you are now being asked to adopt are based on the same flawed cost allocation that the court found violates California law.

While we understand that MWD plans to object to the tentative ruling, our board representatives felt that you all would benefit from hearing both sides, and, most importantly, from the Court itself, the basis of its decision.

To this end, I have with me today for each of you, a copy of the court's ruling. I've also attached a CD that includes a copy of the ruling, along with a copy of the closing briefs that were filed by the Water Authority and MWD. The briefs are "hyper-linked," which means that you can click on the trial exhibits and go directly to the evidence presented at trial. You will note that the trial court based its decision largely on MWD's administrative record and gave MWD substantial deference -- but still found these rates violate California law.

We hope that, between now and the April board meeting, when you will vote to adopt rates for 2015 and '16, you will review and consider this information.

Several weeks ago, the Water Authority sent a written request to be provided with all information this board is relying upon for its decisions on the 2015 and '16 rates. This request was made in accordance with California law that requires MWD to provide that information. Included in the handout are: copies of the Water Authority's request; your general counsel's response refusing to provide the information; and our most recent letter renewing the request. The Water Authority again asks to be provided with a copy of the data and methodology upon which MWD's proposed rates for 2015 and '16 are based. It is not possible to know how costs are allocated without more information than MWD has made available to the public or even this Board of Directors.

Thank you.
March 10, 2014

Daniel Hentschke, Esq.
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA  92123-1233

Re:  Response to Request for Information Dated February 28, 2014

Dear Mr. Hentschke:

This letter responds to your “renewed written request” dated February 28, 2014, asking for records on behalf of San Diego County Water Authority (SDCWA) pursuant to Government Code Sections 54999.7(d) and (e) and 6250 et seq.

As members of the Metropolitan Board of Directors, the SDCWA Board delegation, along with SDCWA staff, are provided notice of all Board and committee meetings and receive copies, via mail, e-mail or posting on the Directors’ website (see example attached), of all documents provided to the Board for its review and consideration relative to all information and action items on the Board and committee agendas. My response to your prior letter (attached) also provided the time and date of the public meeting to establish Metropolitan’s 2015 and 2016 rates and charges.

My prior letter further noted that your agency and the public will continue to receive notice of all meetings and workshops on rates and the information and methodology supporting the rate proposal, in accordance with Metropolitan’s practices and the Brown Act.

The data and proposed methodology for the proposed rates and charges are detailed in the budget and rate Board letters, proposed budget, costs of services studies for various rate proposals, presentations and committee and Board meetings and workshops through which the rate proposals are developed and described to the Board and the public. Metropolitan’s budgeting and ratesetting process is an iterative one, involving member agency participation at the Board and staff levels and public input. Your agency’s representatives on Metropolitan’s Board and committees and SDCWA staff are active participants, as they have been from the initial development of the current rate structure, which has been in place since 2003.

As I noted in my prior response, Metropolitan disputes SDCWA’s current assertion as set forth in your correspondence and SDCWA’s litigation position that Section 54999.7 is applicable to Metropolitan’s rates. Your current position is directly contrary to SDCWA’s prior position as set
forth in correspondence from SDCWA to Metropolitan attached to SDCWA’s complaint in the pending litigation. Contrary to your statement regarding Judge Karnow’s tentative ruling, the Court’s tentative determination in the rate litigation is not final and is subject to appeal. It is not a final statement of the law. Nevertheless, Metropolitan has fully complied with Section 54999.7’s requirements through the budget and rates information provided and to be provided to the member agencies and the public.

Your letter includes a Public Records Act request for the “database, inputs, outputs, spreadsheets, and reports used or prepared by Metropolitan staff or consultants in the development of the recommended rates, charges, surcharges, or fees.” Data and other material used or prepared in connection with the proposed budget and rates and charges, whether or not incorporated in the actual budget and rate proposals presented to the Board, and to the extent material has not already been provided to the Board, is being collected and will be provided to SDCWA in electronic format on DVD(s); other than the financial planning model itself, which is a proprietary software program including formulas and programming code, and other material which is not subject to the Public Records Act. The voluminous amount of records and our need to remove the proprietary formulas and code from spreadsheets impact the timing for providing these. We expect to provide the records to you this week. We will also post this material on-line so it is available to all Metropolitan Board members, member agency staff and the public. In addition, if any Board member would like, we will provide the material to them on DVD(s).

Metropolitan’s financial planning model, which Metropolitan developed, is exempt from disclosure under Government Code Section 6254.9(a). While this Section permits a public agency to choose to sell, lease or license its proprietary software, Metropolitan is not currently doing so. The records we will be providing to you and publicly posting are responsive to your request.

Very truly yours,

Marcia Scully
General Counsel

Enclosures

cc: Members of the Metropolitan Board of Directors
    Member Agency Managers
    Jeffrey Kightlinger
    Maureen Stapleton

1 As you know, SDCWA already received the financial planning model through the rate litigation, subject to the parameters and restrictions of the Court’s protective order, so SDCWA has had full opportunity to view it and understand its operations.
From: Board Executive Secretary  
Sent: Thursday, January 30, 2014 1:57 PM  
(Koretz) andy.shrader@lacity.org; (Koretz) david.hersch@lacity.org; Aaron A. Grunfeld (agrunfeld@grunfeldlaw.com); Aldrete,Isabel; Arabawa,Stephen N; Atkins,Rosalind; Barrio, Virginia N; Beatty, Heather C; Bennion, Sydney B; Breaux, Gary M; Brett R. Barbre (bbrarbre@msn.com); Chin,Dawn; Clairday, John C; Cole, Kathy; Cynthia Kurtz (dirkurtz@gmail.com); Daniel E. Griset (dgriset@earthlink.net); De Jesus, David D; Dawn Chin (Business Fax); Diana Sanchez (dsanchez@foamfabricatorsinc.com); Donald Dear (ddlear@hotmail.com); Fern Steiner (dirstepher@gmail.com); Fern Steiner (FSteiner@sswlaw.com); Gagar Downing, Maria C; Gail Pringle (GPringle@calleguas.com); Ghaly, Deena R; Gil de Montes, Melani C; Glen D. Peterson (dirpeterson@lacity.org); Glenn A. Brown, Sr.; Glisson, Brenda S; Gloria Gray (gggray@aol.com); Gloria Gray (mgwdgray@gmail.com); Gonzales, Joann; Green, Jim; Hasencamp, William; Hiltcher, Brad L; Ivey, Gilbert F; jabdo@msn.com; Jackson, Ellen R; James T. Edwards (btinsur@sbcglobal.net); Jesus E. Quinonez (jquinonez@hmq.org); John T. Morris - MorrisWater@Earthlink.net; Morris, John T; John V. Foley (Home Fax); John V. Foley (jvfoley@cox.net); John W. Murray Jr. (jmurray@jwmjr.org); Keith Lewinger (preferred) (Keith.Lewinger@gmail.com); Kightlinger, Jeffrey; Larry Dick; Laura Friedman (lfriedman@ci.glendale.ca.us); Leticia Vasquez (dirlvasquez@gmail.com); Linda Ackerman (Dirackerman@gmail.com); Linda Ackerman (lindaackerman@cox.net); Lowenthal #2 (Heather.Burke@longbeach.gov); Man, Debra C; Mares, Feedy; Melendez, Jennie A; Michael Camacho (dircamacho@gmail.com); Michael Camacho (mcamacho@pacificaservices.com); Michael T. Hogan (solbch1@roadrunner.com); Michael Touhey (touhey@usgvmwd.org); Miyashiro, Jody M; Murray Kristine (kmurray@anaheim.net); Murray, K’s aide; Murray, K’s assistant; Patterson, Roger K; Philp, Thomas S; Randy A. Record (preferred) (dirrecord@gmail.com); Riss, Gerald C; Robert Apodaca (boba@centralbasin.org); Robert Wunderlich (nwunderlich@discoveryecon.com); Russell Lefevre Ph. D. (r.lefevre@ieee.org); Scully, Marcia L; Lowenthal, Suja; Suja Lowenthal (suja@longbeach.gov); Sylvia Ballin (dirballin@gmail.com); Thomas Babcock (dirbabcock@gmail.com); Thomas P. Evans (tevanswmwd@gmail.com); Tubbs, Brian A; Upadhyay, Devendra N; Vincent Mudd (ljm@carrierjohnson.com); Vincent Mudd ( vem@carrierjohnson.com); Vincent Mudd (vincentmudd1@gmail.com); Walters, Geraldine J; Westford, Meena; Wolfe, Roy L; Yamasaki, Edith K; Zinke, Dee

Subject: Schedule of Meetings – February 2014

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
700 N. Alameda Street, Los Angeles, California 90012

Schedule of Meetings – February 2014

1
Monday, February 10

9:00 a.m.  Finance and Insurance Committee and Budget and Rate Workshop #1  Board Room
10:30 a.m. Water Planning and Stewardship Committee  Rm. 2-456
12:30 p.m. Engineering and Operations Committee  Rm. 2-145
1:30 p.m.  Organization, Personnel and Technology Committee  Rm. 2-456

Tuesday, February 11

9:00 a.m.  Legal and Claims Committee  Rm. 2-456
10:00 a.m. Real Property and Asset Management Committee  Rm. 2-145
10:30 a.m. Communications and Legislation Committee  Rm. 2-456
12:00 p.m. Board Meeting  Board Room

Monday, February 17

PRESIDENTS’ DAY--DISTRICT HOLIDAY--OFFICES CLOSED

Tuesday, February 25

9:00 a.m.  Budget and Rate Workshop #2  Board Room
10:30 a.m. Special Committee on Bay-Delta  Rm. 2-456
12:00 p.m. Executive Committee  Board Room

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Subject: Feb 10 & 11 BOD & Committee Mtg Materials
I. The following item(s) have been added to Metropolitan's "Meetings & Agendas – Live & on Demand" page on the MWDh2o.com website:

a. **February 10 & 11 Committee and Board Meeting Board Reports and Materials:**  
   (Click here for Meeting Materials)

   **Agendas**
   - Finance and Insurance Committee Meeting Agenda
   - Water Planning and Stewardship Committee Meeting Agenda
   - Engineering and Operations Committee Meeting Agenda
   - Organization, Personnel and Technology Committee Meeting Agenda
   - Legal and Claims Committee Meeting Agenda
   - Real Property and Asset Management Committee Meeting Agenda
   - Communications and Legislation Committee Meeting Agenda
   - Board Meeting Agenda

II. The following item(s) have been added to Metropolitan's "Board of Director's Secured Site" only:

   (Click here for Confidential Board Letters)

   **Confidential Board Letters**
   - **L&C #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. [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]
   - **L&C #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. [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]

   (Click here for Current Draft BOD Minutes)

   **Draft Meeting Minutes**
   - Finance and Insurance Committee Meeting – 1/13/2014
   - Engineering and Operations Committee Meeting – 1/13/2014
   - Real Property and Asset Management Committee Meeting – 1/13/2014
   - Organization, Personnel and Technology Committee Meeting – 12/9/13
confidential or legally protected. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying, dissemination, distribution or use of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail message and delete the original and all copies of the communication, along with any attachments or embedded links, from your system.
January 27, 2014

Dawn Chin
Clerk of the Board
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Written Request for Notice (Government Code Section 54999.7 (d)) Request for Data and Proposed Methodology for Establishing Rates and Charges (Government Code Section 54999.7 (e))

Dear Ms. Chin:

The San Diego County Water Authority hereby requests notice of the public meetings and to be provided with all of the data and proposed methodology MWD will rely upon for establishing rates, charges, surcharges or fees for 2015 and 2016 (and any other years that may be before the board during the current rate cycle), in accordance with Government Code Section 54999.7 (d) and (e).

Please contact me if you have any questions.

Sincerely,

Daniel S. Hentschke
General Counsel

cc: Maureen Stapleton, SDCWA General Manager
Jeffrey Kightlinger, MWD General Manager
Marcia Scully, MWD General Counsel

A public agency providing a safe and reliable water supply to the San Diego region
February 5, 2014

Daniel Hentschke
General Counsel
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123-1233

Re: Written Request for Notice Regarding Rate Setting
   (Government Code Section 54999.7 (d) and (e))

Dear Dan:

We have received your request, on behalf of the San Diego County Water Authority (SDCWA), for notice of the public meetings relating to establishment of Metropolitan’s 2015 and 2016 rates and the data and proposed methodology relating to such rates pursuant to Government Code Section 54999.7. As set forth in the rate letter posted to the Director’s website last week, Metropolitan expects that the Board will hold its public meeting to establish 2015 and 2016 rates and charges on Tuesday, April 8, 2014, at noon in the Board Room. Your agency and the public will receive further notice of all meetings and workshops on the rates as well as the information and methodology supporting the rate proposal, as it always has, in accordance with Metropolitan’s practices and the Brown Act.

I note that Government Code Section 54999.7 is not applicable to Metropolitan’s rates. This has been detailed both in Metropolitan’s briefs in the pending rate litigation and in a document prepared by counsel for SDCWA and attached by SDCWA as an exhibit to its petition/complaint in the litigation.

Very truly yours,

Marcia Scully
General Counsel

cc: Jeffrey Kightlinger
    Maureen Stapleton
February 28, 2014

Marcia Scully
General Counsel
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Renewed written request for data and proposed methodology for establishing rates and charges (Government Code §§ 54999.7 and 6250 et seq.).

Dear Marcia:

This letter responds to your correspondence of February 5, 2014 and is a renewed request for all of the data and proposed methodology MWD will rely upon for establishing rates, charges, surcharges, or fees for 2015 and 2016 (and any other years that may be before the board during the current rate cycle), in accordance with Government Code §54999.7 (d) and (e). A copy of the prior request is attached for your reference, along with a copy of your reply. Contrary to your assertion, Government Code §54999.7 does apply to Metropolitan’s rates, as recently confirmed by Judge Karnow. Furthermore, not only is Metropolitan required to make the data and proposed methodology available to affected public agencies, such as the Water Authority, under §54999.7, it is required to do so under the California Public Records Act.

Therefore, to be clear, this request is made pursuant to both §54999.7 and Government Code §§ 6250 et seq. The request is for the database, inputs, outputs, spreadsheets, and reports used or prepared by Metropolitan staff or consultants in the development of the recommended rates, charges, surcharges, or fees. The information should be provided in an electronic format pursuant to Government Code § 6253.9. If provision of the information in an electronic format would jeopardize or compromise the security or integrity of the original record or any proprietary software in which it is maintained, then the information may be provided in another format in accordance with § 6253.9(f).
Marcia Scully  
Re: Request under Gov’t Code §§54999.7 and 6250 et seq.  
February 28, 2014  
Page 2

Also, we understand that Metropolitan claims that the financial planning model computer program is computer software developed by Metropolitan and, thus, is not itself a public record under the Public Records Act. Nevertheless, we believe the financial planning model computer program should be provided in the interest of making review of the data and proposed methodology easier and more transparent. If Metropolitan claims a proprietary interest in the software that precludes its release upon payment of the statutory copying charge under the Public Records Act, we would like to talk to you about purchase the software as contemplated in § 6254.9.

As to all other information relating to the financial planning model, it is not exempt from disclosure merely because it is stored in a computer. As you know, in a somewhat similar context of GIS mapping and GIS data, the Supreme Court held that “although GIS mapping software falls within the ambit of this statutory exclusion, a GIS-formatted database like the OC Landbase does not. Accordingly, such databases are public records that, unless otherwise exempt, must be produced upon request at the actual cost of duplication.” Sierra Club v. Superior Court (2013) 57 Cal. 4th 157, 162.

Please provide all the requested information no later than ten days of the date of this letter; sooner if possible. Although this letter includes a formal request for this information under the Public Records Act the initial request citing § 54999.7 was made more than 30 days ago. As you know, a request for records does not need to specifically invoke the Public Records Act to be effective. We are very concerned about the passage of time and having an adequate opportunity to review the information prior to the public meeting in March and the board’s adoption of rates in April. We assume this information is readily available and would therefore appreciate receiving it promptly.

Sincerely

Daniel S. Hentschke  
General Counsel

cc: Dawn Chin, MWD Clerk of the Board  
Maureen Stapleton, SDCWA General Manager
Good afternoon Chair Foley and members of the board. I'm Dennis Cushman, assistant general manager of the San Diego County Water Authority.

I spoke to the Finance and Insurance Committee yesterday about the legal requirement in California that water rates and charges be based on “cost-causation,” and the tentative decision by Judge Karnow that MWD’s rates violate this requirement.

The rates you are being asked to adopt next month are based on the same flawed cost allocation that the Court has already determined improperly assigns State Water Project and other supply costs to MWD’s transportation rates.

MWD refuses to make meaningful cost of service determinations based on data and reasoned analysis. Instead, it continues to rely on unsupported theories, self-serving “findings” and sweeping statements, such as, “all the member agencies benefit equally from MWD programs and services.” That is simply not true as a matter of fact and it is not supportable as a matter of law. It is far past time for MWD to abandon this practice.

Several weeks ago, the Water Authority sent a written request to be provided with all information this board is relying upon for its decisions on the 2015 and 2016 rates. This request was made in accordance with California law that requires MWD to provide that information. But here we are today at the public hearing on the proposed rates and charges and the data we requested has still not been provided.

The pendency of litigation is no excuse for withholding this information from San Diego, or for that matter, withholding it from the more than 18 million ratepayers in the MWD service territory – all of your constituents, collectively.

The Water Authority again asks to be provided with a copy of all of the data and methodology upon which MWD’s proposed rates for 2015 and 2016 are based. It is not possible to know how costs are allocated without more information than MWD has made available to the public or this Board of Directors.

I have provided Ms. Chin with a letter and CD with documents that we ask be included in today’s public hearing record. We will augment this submission based on the data MWD provides – or does not provide – in order to analyze the proposed rates and charges. I ask that a copy of this testimony also be included in today’s public hearing record.

Thank you.
VIA FEDERAL EXPRESS

March 19, 2014

Daniel Hentschke, Esq.
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123-1233

Re: Response to Request for Information Dated February 28, 2014

Dear Daniel,

Enclosed is a DVD containing Metropolitan records provided in response to San Diego County Water Authority’s (SDCWA) February 28, 2014 Public Records Act request for the “database, inputs, outputs, spreadsheets, and reports used or prepared by Metropolitan staff or consultants in the development of the recommended rates, charges, surcharges, or fees,” to the extent that such material has not already been provided to Metropolitan’s Board of Directors, including SDCWA’s delegates. Proprietary formulas and programming code have been removed from spreadsheets, and employee names and identifying employee numbers have been redacted.

As stated in my March 10 letter, although Metropolitan disagrees with SDCWA’s assertion that Government Code Section 54999.7 is applicable to Metropolitan (and SDCWA has agreed in the past that the Section does not apply to Metropolitan), Metropolitan has fully complied with Government Code Section 54999.7’s requirements through the proposed budget and rates information that has been provided and will continue to be provided to the Board, member agencies and the public. As part of its regular budget-setting and rate-setting process, Metropolitan provides to the Board, member agencies and the public the detailed data and proposed methodology for the proposed rates and charges, through the budget and rate Board letters, proposed budget, costs of services studies for various rate proposals, presentations and discussions at the multiple committee and Board meetings and workshops.

The DVD contains Metropolitan Finance staff’s working materials that underlie this detailed, previously-provided material. This includes drafts and calculations, and also includes materials concerning potential rate scenarios that were not presented to the Board. Metropolitan’s budget-setting and rate-setting process is still in progress. The DVD contains materials through the February 25, 2014 Board budget and rate workshop and some subsequent underlying materials. As the staff continues to work on rate scenarios in response to requests from the Board and
direction from management until final adoption of the budget and rates, we will provide one or more additional productions with later records as well.

As noted in my March 10 letter, we will post this material on-line so it is available to all Metropolitan Board members, member agency staff and the public. If any Board member requests, we will also provide the material on a DVD.

Very truly yours,

Marcia Scully
General Counsel

cc (without enclosure):
Members of the Metropolitan Board of Directors
Member Agency Managers
Jeffrey Kightlinger
Maureen Stapleton
March 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 March 12, 2014 CRB meeting held in Los Angeles, California. The meeting also included a tour of Metropolitan Water District (MWD) facilities and demonstration projects.

Discussion
CRB members and staff met at MWD headquarters and began a tour of local projects and MWD facilities. Water conservation demonstration projects such as the turf replacement project at Los Angeles City Hall and the recycled water reuse program at Griffith Park were highlighted on the way to the MWD Operations Center. A tour of the Operations Center provided an overview of the MWD distribution system network and SCADA system, as well as a look at the Emergency Response Center. The Board meeting was held in the afternoon following the tour.

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

Drought Update
After his drought declaration on January 17, Governor Brown continued his actions to address drought conditions by signing legislation on March 1 that provides $687.4 million in accelerated emergency relief funds for California. $160 million of the funds are earmarked for drought-impacted farmers and ranchers, which was promised during a mid-February visit by President Obama to the Central Valley.

The National Weather Service’s Monthly Precipitation Maps indicate extensive areas of extremely dry conditions within the Colorado River Basin, especially throughout the Lower Basin. Increased precipitation provided a slightly improved outlook for the Upper Basin compared to the January map. The Drought Monitor Map for February 25, 2014 shows most of the Western U.S. continues to face at least some level of drought conditions, with most of California remaining at extreme or exceptional levels.

Water Supply and Reservoir Operations
As of March 3, 2014, total system storage was 28.77 million acre-feet (maf), or 48 percent of capacity, which is about 3.64 maf less than a year ago. Lake Mead was at 48 percent of capacity with 12.44 maf, and Lake Powell was at 39 percent capacity with 9.56 maf. Unregulated inflow to Lake Powell forecasted for Water Year 2014 is 10.9 maf, or 101% of average. The Upper Basin snowpack was 115% of average and precipitation was at 106% of average for the water
year. Snow conditions currently indicate that virtually the entire Upper Basin is experiencing above average snowpack.

Provisional accounting data for Lower Basin water uses for 2014 is now available from the Bureau of Reclamation (Reclamation). Preliminary data for 2013 is also available, with adjustments expected through May when the official annual accounting report will be published.

**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. Each workgroup has identified areas of focus or case studies for further research.

**Minute 319**

On February 18, 2014, the U.S. International Boundary and Water Commission (IBWC) and its Mexican Counterpart, la Comisión Internacional de Límites y Aguas (CILA), approved the Delivery Plan for Environmental Flows to the Colorado River Riparian Corridor Pursuant to Minute No. 319. The Delivery Plan consists of a schedule of monthly flows, delivery points, and volumes for the delivery of the pulse flow of approximately 105,000 acre-feet, as required by Minute 319 for environmental enhancement. The pulse flow will initiate at Morelos Dam on March 27 and will continue through mid-April. The pulse flow is designed to re-water dry areas along the Colorado River delta riparian corridor to enhance active restoration, promote passive restoration, provide water for recruitment of native trees, and allow tree root development. The Delivery Plan also includes a plan for delivery of a base flow of approximately 52,000 acre-feet of water through 2017 to maintain restoration areas after the pulse flow. Hydrologic, wildlife, and vegetation monitoring throughout the pulse and base flow deliveries will provide a better understanding of how water moves through the Colorado River delta and will help guide future environmental flows.

**Colorado River Basin Salinity Control Program**

The Salinity Control Work Group met on February 26-27 and continued preparation of the 2014 Triennial Review (Review). The Review will not propose any change to the existing Numeric Criteria at the three salinity monitoring stations: flow-weighted average annual salinity below Hoover Dam: 723 mg/L, below Parker Dam: 747 mg/L, and at Imperial Dam: 879 mg/L. The draft Review will be available in June.

For 2014, the Salinity Control Program expects approximately $10 million for its Basinwide Program from Reclamation (including Basin States’ cost share); $750,000 for the Soil, Water and Air Program by the Bureau of Land Management; and $12 million through the Natural Resource Conservation Service’s Environmental Quality Incentives Program (EQIP). At the current rate of projected funding, short-term and long-term shortfalls exist. A funding workgroup has been meeting regularly to develop strategies to address potential funding issues to ensure continued fiscal integrity of the Lower Basin Fund and implementation of the Salinity Control Program.
Glen Canyon Dam Adaptive Management Program
The Glen Canyon Dam Adaptive Management Work Group (AMWG) met on February 19-20. Reclamation reported that current hydrologic projections indicate that the most probably release from Glen Canyon Dam in 2015 is 9.0 maf.

The AMWG received a preliminary report on the results of the November 2013 High-Flow Experiment (HFE). On November 11-16, 2013, the Department of Interior conducted an HFE release from Glen Canyon Dam in accordance with the 2012 High-Flow Experimental Release Protocol to redistribute approximately one million metric tons of sediment from the Paria River watershed that was deposited during a mid-September monsoonal storm event. The February report indicates that some of the sediment was successfully redistributed but a substantial amount remains near the confluence of the Colorado and Paria Rivers because the volume of the HFE was not large enough to mobilize a large portion of the available sediment.

Lower Colorado River Multi-Species Conservation Program
The Lower Colorado River Multi-Species Conservation Program met on March 12-13 to review minor modifications to the conservation measures for the western yellow bat, Arizona Bell’s vireo, and the Colorado River cotton rat. The meeting also included a tour of the Laguna Habitat Conservation Area, which is a 1,300 acre project on the Colorado River between Imperial and Laguna Dams.

The next CRB meeting will be held in the Imperial Valley and include a tour hosted by the Imperial Irrigation District.

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

Attachment 1: CRB Water Supply Report
Attachment 2: CRB Drought Report
## 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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<th>Content</th>
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<th>Release</th>
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<td>sea level</td>
<td>(CFS)</td>
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**TOTAL SYSTEM CONTENTS **  
As of 03/02/2014  
**54% 32,411**

- **LAKE MEAD**  
  48%  
  12,439  
  1107.76  
  14,400

**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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<th>PERCENT</th>
<th>Content</th>
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### Forecasted Water Use for Calendar Year 2014 (as of 03/03/2014) (values in kaf)

#### NEVADA
- Southern Nevada Water System  
  258
- Others  
  32

#### CALIFORNIA
- Metropolitan Water District of California  
  606
- Irrigation Districts  
  3,395
- Others  
  107

#### ARIZONA
- Central Arizona Project  
  1,506
- Others  
  1,260

**TOTAL LOWER BASIN USE**  
7,163

**DELIVERY TO MEXICO - 2014**  
(1.50 MAF Scheduled + Preliminary Yearly Excess)  
1,527

### OTHER SIGNIFICANT INFORMATION

**UNREGULATED INFLOW INTO LAKE POWELL - FEBRUARY MID-MONTH FORECAST DATED 02/18/2014**

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<tbody>
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<td>Forecasted Water Year 2014</td>
<td>10.918</td>
<td>101%</td>
</tr>
<tr>
<td>Forecasted April-July 2014</td>
<td>7.700</td>
<td>108%</td>
</tr>
<tr>
<td>January Observed Inflow</td>
<td>0.270</td>
<td>75%</td>
</tr>
<tr>
<td>February Inflow Forecast</td>
<td>0.320</td>
<td>81%</td>
</tr>
</tbody>
</table>

**Upper Colorado Basin**  
106% (15.4")  
60% (8.3")

**Current Basin Snowpack**  
115% (15.0")  
16% (0.9")

1 Delivery to Mexico forecasted yearly excess calculated using year-to-date observed and projected excess.
USDA United States Drought Monitor Map

U.S. Drought Monitor

February 25, 2014
(Released Thursday, Feb. 27, 2014)
Valid 7 a.m. EST

Drought Impact Types:
- D2 Abnormally Dry
- D1 Moderate Drought
- D0 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:
Brad Rippey
U.S. Department of Agriculture

http://droughtmonitor.unl.edu/

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U.S. Drought Monitor

West

February 25, 2014
(Released Thursday, Feb. 27, 2014)
Valid 7 a.m. EST

Drought Conditions (Percent Area)

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>D0-D1</th>
<th>D2-D3</th>
<th>D4-D5</th>
<th>D6-D8</th>
<th>D9-D10</th>
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<tr>
<td>Current</td>
<td>22.41</td>
<td>77.59</td>
<td>59.51</td>
<td>40.34</td>
<td>15.87</td>
<td>4.12</td>
</tr>
<tr>
<td>Last Week</td>
<td>21.76</td>
<td>78.24</td>
<td>59.88</td>
<td>40.17</td>
<td>14.89</td>
<td>2.58</td>
</tr>
<tr>
<td>3 Months Ago</td>
<td>20.93</td>
<td>79.07</td>
<td>59.39</td>
<td>40.61</td>
<td>15.56</td>
<td>3.43</td>
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<tr>
<td>Start of Year</td>
<td>22.28</td>
<td>77.92</td>
<td>51.44</td>
<td>31.11</td>
<td>17.75</td>
<td>0.50</td>
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<tr>
<td>Start of Year</td>
<td>22.28</td>
<td>77.72</td>
<td>50.92</td>
<td>31.58</td>
<td>17.06</td>
<td>0.50</td>
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<td>One Year Ago</td>
<td>21.53</td>
<td>78.47</td>
<td>64.32</td>
<td>42.23</td>
<td>10.92</td>
<td>3.47</td>
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</table>

Intensity:
- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:
Brad Rippey
U.S. Department of Agriculture

http://droughtmonitor.unl.edu/
ARIZONA, CALIFORNIA, NEVADA, MEXICO
FORECAST OF END OF YEAR CONSUMPTIVE USE
FORECAST BASED ON USE TO DATE AND APPROVED ANNUAL WATER ORDERS /1
(ACRE-FEET)

WATER USE SUMMARY

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<thead>
<tr>
<th>State</th>
<th>Use To Date CY2014</th>
<th>Approved Use CY2014</th>
<th>Excess to Approval CY2014</th>
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<td>ARIZONA</td>
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<tr>
<td>NEVADA</td>
<td>16,616</td>
<td>289,270</td>
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STATES TOTAL /3

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<th>Use To Date CY2014</th>
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<th>Excess to Approval CY2014</th>
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</thead>
<tbody>
<tr>
<td>884,106</td>
<td>7,162,973</td>
<td>43,039</td>
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MEXICO IN SATISFACTION OF TREATY (Including downward over-run paybacks).
BYPASS PURSUANT TO MINUTE 242

TO MEXICO AS SCHEDULED
1,188,695
2,600,000

MEXICO IN EXCESS OF TREATY
1,711
26,550

Lower Basin & Mexico
1,188,695
8,806,775

Use to date estimated for users reporting monthly and annually.

Graph notes: Jan 1 forecast use is scheduled use in accordance with the Annual Operating Plan’s state entitlements, available unused entitlements, and over-run paybacks. A downward sloping line indicates use at a lower rate than scheduled, upward sloping is above schedule, and a flat line indicates a use rate equal to schedule. Lower priority users such as CAP, MWD, and Robt.B.Griffith may adjust use rates to meet state entitlements as higher priority use deviates from schedule. Abrupt changes in the forecast use line may be due to a diversion schedule change or monthly updating of provisional realtime diversions.
California Water Users
Forecast of End of Year Consumptive Use
Forecast Based on Use to Date and Approved Annual Water Orders

Historic Use Records (Water Accounting Reports)

<table>
<thead>
<tr>
<th>WATER USER</th>
<th>CY2014 Use To Date</th>
<th>CY2014 Use Forecast</th>
<th>CY2014 Use Estimated</th>
<th>CY2014 Use Excess To Estimated</th>
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<td>California Pumpers</td>
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<td>---</td>
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<tr>
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<td>863 6,606</td>
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<td>---</td>
<td>1,604 14,996</td>
<td>16,720</td>
<td>-724</td>
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<tr>
<td>City of Needles (includes LCWSP use)</td>
<td>254 1,931</td>
<td>1,931</td>
<td>0</td>
<td>358 2,720</td>
<td>2,720</td>
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<td>Metropolitan Water District</td>
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<td>149,420 609,482</td>
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<td>Colorado River Indian Reservation, CA</td>
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<td>778 5,909</td>
<td>5,909</td>
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<tr>
<td>Palo Verde Irrigation District</td>
<td>26,528 449,548</td>
<td>454,108</td>
<td>---</td>
<td>1,604 15,996</td>
<td>16,720</td>
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<tr>
<td>Yuma Project Reservation Division</td>
<td>254 1,931</td>
<td>1,931</td>
<td>0</td>
<td>358 2,720</td>
<td>2,720</td>
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<tr>
<td>Yuma Project Reservation Division - Indian Unit</td>
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<td>1,931</td>
<td>0</td>
<td>358 2,720</td>
<td>2,720</td>
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<tr>
<td>Yuma Island Pumpers</td>
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<td>5,412 52,596</td>
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<tr>
<td>Fort Yuma Indian Reservation - Ranch 5</td>
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<td>675</td>
<td>0</td>
<td>0 972</td>
<td>1,221</td>
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<td>Imperial Irrigation District</td>
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<td>33,401 298,367</td>
<td>2,641,468</td>
<td>2,607,017</td>
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<td>90,000</td>
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<td>11,873 93,383</td>
<td>93,451</td>
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<td>Coachella Valley Water District</td>
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<td>366,370</td>
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<td>Other LCWSP Contractors</td>
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<td>69</td>
<td>---</td>
<td>14 104</td>
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<tr>
<td>City of Winterhaven</td>
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<td>69</td>
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<td>14 104</td>
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<td>1,492 11,340</td>
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</table>

TOTAL CALIFORNIA 527,773 4,108,095 4,026,233 81,862 627,011 4,859,733 4,765,332 ---

California Adjusted Apportionment Calculation

Payback of IOPP Overrun (IID) -154,738
Intentionally Created Surplus Water (IID) -25,000
Total State Adjusted Apportionment 4,020,262

ISG Annual Target Comparison Calculation
Priorities 1, 2, 3b Use (PVID+YPRD+Island+PVID Mesa) 503,044
MWD Adjustment -83,044
Total California Agricultural Use (PVID+YPRD+Island+IID+CVWD) 3,394,658
California Agricultural Paybacks -154,738
Misc. PPRs Covered by IID and CVWD 14,500
California ICS Creation (IID ICS) 25,000
Total Use for Target Comparison 3,196,376
Amount over/(under) ISG Annual Target (265,624)

Notes:
1/ Fort Yuma Indian Reservation includes Yuma Project Reservation Division Indian Unit, Ranch 5, an estimate of domestic use and pumpers.
2/ Includes MWD Adjustment, California Agricultural Use and Paybacks, IID-CVWD covered PPRs, and taking out the MWD-CVWD Exchange
Weekly Drought Brief
Monday March 10, 2014

CURRENT CONDITIONS

Recent Precipitation: Varied amounts of rain and snow fell over the past week across much of the state. Precipitation totals (in inches) from Monday, March 3 through Sunday, March 9:

- **Folsom**: 0.75” in the last week. 11.77” since July 1, 69% of normal by this date.
- **Fresno**: 0.00” in the last week. 3.40” since July 1, 40% of normal by this date.
- **Hetch Hetchy**: 1.50” in the last week. 14.44” since July 1, 53% of normal by this date.
- **Los Angeles**: 0.00” in the last week. 5.47” since July 1, 46% of normal by this date.
- **Modesto**: .31” in the last week. 4.92” since July 1, 49% of normal by this date.
- **Oroville**: 2.72” in the last week. 15.04” since July 1, 60% of normal this date.
- **Pollock Pines**: 2.08” in the last week. 18.92” since July 1, 47% of normal by this date.
- **Redding**: 3.48” in the last week. 16.64” since July 1, 63% of normal by this date.
- **Sacramento**: 0.45” in the last week. 6.98” since July 1, 42% of normal by this date.
- **Shasta**: 5.12” in the last week. 25.52” since July 1, 52% of normal by this date.
- **Willits**: 4.48” in the last week. 24.12” since July 1, 60% of normal by this date.

Near-term Outlook for Precipitation: After scattered showers end on Monday, the rest of the week will likely be dry across California, as a strong high pressure area develops over the West Coast.

**Despite above average rain and snow in February, much of California has received only about 50% of normal precipitation for this rainy season. Heavy rain and snow would have to fall throughout California very frequently from now until May to reach average annual rain and snowfall levels. Even with such precipitation, California would remain in drought conditions, due to low water supplies in reservoirs from the two previous dry years.**

Snow survey: The most recent snowpack survey, conducted on February 27, recorded California snowpack at 24% of normal. A more recent update using automated devices shows snowpack at 31% of normal as of March 9.

Reservoir Levels (% capacity): Reservoir Levels as of March 1 are very low, including: Don Pedro 53%; Exchequer 22%; Folsom Lake 38%; Lake Oroville 44%; Millerton Lake 32%; New Melones 44%; Pine Flat 20%; San Luis 36%; Shasta 43%; and Trinity Lake 50%. An update of water levels at other smaller reservoirs is also available.

Vulnerable Water Systems: The California Department of Public Health is providing technical and funding assistance to help several communities facing near-term drinking water shortages and is monitoring water systems across the state to determine where else it can provide support. Updated information can be found at the CDPH Drinking Water Program website.

Fire Danger: 665 fires have been reported across the state since January 1, burning 1,388 acres. CALFIRE reports that this current fire activity is well above the year-to-date average of 223 fires, burning 773 acres. 22 new fires were reported over the past week.
KEY ACTION ITEMS FROM LAST WEEK

Federal Government
≠ **President signs the Drought Information Act:** Congress passed and the President signed last week a federal bill to reauthorize the [National Integrated Drought Information System Reauthorization Act](https://www.doi.gov/nidis/nidis-act) (NIDIS). This act enables a federal early warning system for droughts by providing information, forecasts and assessments to vulnerable states. NIDIS was championed by the Western Governors Association, based on the drought vulnerability of western states.

State Government
≠ **Real-time water management leads to post-storm water supply:** State and federal water management agencies working together late last week allowed exports of additional water from the Delta based on the recent storm. This recent precipitation provided a small window of opportunity to capture additional water for storage both north and south of the Delta, so state and federal water projects have increased pumping for a limited time to capture as much water as possible under current regulatory standards. This action is being closely coordinated with state and federal fishery agencies and the State Water Board, which is exercising flexibility allowed under law. This real-time water management will continue to adjust operations to maximize water for beneficial uses.
≠ **Local Drought Clearinghouse:** The Governor’s Office of Planning and Research has organized an information clearinghouse to help local governments and water agencies with drought related questions or requests. Debbie Davis, Local Drought Liaison, is leading this effort ([drought.clearinghouse@opr.ca.gov](mailto:drought.clearinghouse@opr.ca.gov), 1-916-327-0068). The Clearinghouse plans to publish a drought toolkit for local governments later this week.
≠ **Outreach to home improvement stores:** The California Department of General Services is contacting home improvement companies to request that they promote water conservation products at their stores and amplify the state’s water conservation message in the coming months.
≠ **Government Facilities Training Workshop:** The Department of General Services is also holding a water conservation training workshop for managers of government facilities on Wednesday (March 12th), which will help facility managers take short and longer term actions to conserve water in government facilities across the state.
≠ **State Funding:** The Department of Finance is helping several state agencies and departments expedite preparation of emergency drought funding, so that support will be available to impacted individuals and communities in the coming weeks and months.
≠ **Food assistance system being developed:** The California Department of Social Services and the Office of Emergency Services are establishing a drought related food assistance system to ensure that needy communities can access emergency food as the drought intensifies and agricultural related unemployment grows.
≠ **Cost Data:** Cal OES continues to gather drought-related costs from state agencies and local governments, which is reported weekly to the Drought Taskforce.
≠ **Governor’s Drought Task Force:** The Taskforce continues to meet daily to take actions that conserve water and coordinate state response to the drought.
Local Government

≠ Local Emergency Proclamations: A total of 29 local Emergency Proclamations have been received to date from city, county, and tribal governments, as well as special districts:
  o Counties: Glenn, Inyo, Kern, Kings, Lake, Madera, Mendocino, Merced, Modoc, Santa Barbara, San Joaquin, Sonoma, Sutter, Tulare, Tuolumne, Yuba
  o Cities: Brookside Township-Mendocino County, City of Willits-Mendocino County, City of St. Helena-Napa County, City of Calistoga-Napa County, City of American Canyon-Napa County
  o Tribes: Hoopa Valley Tribe in Humboldt County, Yurok Tribe in Del Norte County, Tule River Indian Tribe in Tulare County, Karuk Tribe in Siskiyou/Humboldt Counties
  o Special Districts: Lake Don Pedro Community Services District, Placer County Water Agency (PCWA), Twain Harte Community Services District, Carpinteria Valley Water District

≠ Water Agency Conservation Efforts: The Association of California Water Agencies has identified over 100 local water agencies that have implemented water conservation actions. These water agencies are responding to the drought by implementing conservation programs, which include voluntary calls for reduced water usage and mandatory restrictions where water shortages are worst.

≠ County Drought Taskforces: A total of 24 counties have established drought task forces to coordinate local drought response. These counties include: Amador, Butte, Fresno, Madera, Mendocino, Merced, Modoc, Monterey, Nevada, Placer, Plumas, Sacramento, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Siskiyou, Solano, Stanislaus, Sutter, Tehama, Tulare, and Tuolumne.

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
  Small Business Administration Disaster Support: www.sba.gov/disaster.
SACRAMENTO – As part of ongoing work to improve California’s drought preparedness and better adapt to climate change, the Department of Water Resources (DWR) today released a report examining tree-ring data to help better understand historic periods of drought. The report helps develop long-term reconstructions of streamflow or precipitation for the Klamath, Sacramento, and San Joaquin river basins. The report, prepared for DWR by researchers at the University of Arizona, is available here. Funding for part of the Klamath Basin work was provided by the U.S. Bureau of Reclamation under its WaterSMART program.

Initial work on the reconstruction project began in 2010, at a time when California was just emerging from the 2007-09 drought. Completion of the final report coincides with a new three-year drought and a Water Year 2014 that so far is one of the driest years in the historical record.

California’s roughly one hundred years of observed data are, however, only a small subset of the hydrologic record that can be reconstructed by measuring tree rings and calibrating them to observed data. The tree-ring measurements made for this project allowed development of reconstructions that begin in the year 900 for the Sacramento River and San Joaquin River systems, and in the 1500s for various sites in the Klamath Basin.

“Streamflow reconstruction from tree rings takes advantage of the great longevity and climate sensitivity of several tree species in California and Oregon,” said lead author David Meko, a University of Arizona research professor of dendrochronology. “The tree-ring patterns record unusual climate events and modes of variability that occurred before the short period of gaged streamflow.”
Drought is a recurring part of California’s climate. The report’s reconstructions show numerous periods of four or more years when streamflows were below median conditions.

In addition, the report reveals that all three river basins share common major periods of extreme low flow conditions, although the degree of severity varies from river to river. The most severe shared periods were the 1100s (20 – 50 year sustained dry periods), 1570 to early 1580s (up to decades-long periods), and 1920s -1930s (up to 20-year periods). The Sacramento and San Joaquin basins shared 1580 as the single driest year of record. The driest single year for Klamath River streamflow was 1655 (1580 was 17th driest). The graphic below illustrates notable low-flow periods in the river basins. A tabulation listing all dry periods of four or more years is attached.

Paleoclimate information such as these reconstructed streamflows captures a broader range of hydrologic variability than provided in the historical record, thereby putting our short period of observed droughts in perspective.

A repeat of the “Dustbowl Drought” of the 1920s and 1930s (our most severe historical event in terms of duration) with today’s urban and agricultural development would sorely challenge California’s infrastructure and institutional framework for water management. That challenge would pale in comparison to the time of the Medieval Climate Anomaly, when sustained severe drought gripped much of the western United States.

Paleoclimate information is useful in helping to understand and model natural variability in the climate system that may provide clues for improving drought prediction at the seasonal time scales important for water management.

Jeanine Jones of DWR said, “Drought prediction skillful enough to use for water management decision-making remains a research challenge for the science community. Having improved climate forecasting capabilities at time scales of months to a year in advance would provide great benefit for drought preparedness.”

Looking into the future, the reconstructions also help provide context for expected impacts of climate change. The report compares drought durations seen in the paleoclimate record with those projected by downscaled global climate change models run to simulate conditions by the end of the century. The results indicate that the paleoclimate data may be useful for assessing future climate projections in the context of past centuries.

Report co-author Connie Woodhouse, professor and interim head of the University of Arizona School of Geography and Development, said, “These tree-ring records document the range of drought characteristics, including duration, that have occurred in the past, under natural climate variability. These droughts could occur in the future, but under warmer temperatures that will further exacerbate their impacts.”
Klamath = Klamath River at Keno
Sacramento River = Sacramento River runoff
San Joaquin River = San Joaquin River runoff
Sacramento River runoff is the sum of unimpaired flow in million acre-feet at:
Sacramento River above Bend Bridge
Feather River at Oroville (aka inflow to Lake Oroville)
Yuba River near Smartville
American River below Folsom Lake
San Joaquin River Runoff is the sum of unimpaired flow in million acre-feet at:
Stanislaus River below Goodwin Reservoir (aka inflow to New Melones Res.)
Tuolumne River below La Grange (aka inflow to New Don Pedro Reservoir)
Merced River below Merced Falls (aka inflow to Lake McClure)
San Joaquin River inflow to Millerton Lake

Runs with length ≥4 years in three flow reconstructions
<table>
<thead>
<tr>
<th>Years</th>
<th>Klamath b</th>
<th>Sacramento c</th>
<th>San Joaquin d</th>
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a runs defined as consecutive years below median  
b Klamath River at Keno, 1507-2003; median =1113 thousand acre-feet (TAF)  
c Sacramento River runoff, 900-2012, median=17800 TAF  
d San Joaquin River runoff, 900-2012, median=5598 TAF

With California facing one of the most severe droughts on record, Governor Brown declared a drought State of Emergency and directed state officials to take all necessary actions to prepare for water shortages. The Governor signed legislation to immediately help communities deal with the devastating dry conditions affecting our state and to provide funding to increase local water supplies after it was passed with bipartisan support in the legislature.

Governor Brown met with President Obama about crucial federal support during the ongoing drought, and the state continues to work with federal partners to ensure coordinated drought monitoring and response. Governor Brown and the administration have also expressed support for federal legislation introduced by Senators Feinstein and Boxer and Representatives Jim Costa, Tony Cárdenas and Sam Farr.

Across state government, action is being taken. The Department of General Services is leading water conservation efforts at state facilities, and the California State Architect has asked California school districts and Community Colleges to act on the Governor’s call to reduce water usage. The Department of Transportation is cutting water usage along California’s roadways by 50 percent. Caltrans has also launched a public awareness campaign, putting a water conservation message on their more than 700 electronic highway signs.

In January, the state took action to conserve water in numerous Northern California reservoirs to meet minimum needs for operations impacting the environment and the economy, and recently the Department of Water Resources and U.S. Bureau of Reclamation announced they would seek the authority to make water exchanges to deliver water to those who need it most. The State Water Resources Control Board announced it would work with hydropower generators and the Federal Energy Regulatory Commission to preserve water in California reservoirs, and the California Department of Fish and Wildlife and the California Fish and Game Commission restricted fishing on some waterways due to low water flows worsened by the drought.

The state is working to protect local communities from the dangers of extreme drought. The California Department of Public Health identified and offered assistance to communities at risk of severe drinking water shortages and is working with other state and local agencies to develop solutions for vulnerable communities. CAL FIRE hired additional firefighters and is continuously adjusting staffing throughout the state to help address the increased fire threat due to drought conditions. The California Department of Food and Agriculture launched a drought website to help farmers, ranchers and farmworkers find resources and assistance programs that may be available to them during the drought.
Even as the state deals with the immediate impacts of the drought, it’s also planning for the future. In 2013, the California Natural Resources Agency, the California Environmental Protection Agency and CDFA released the California Water Action Plan, which will guide state efforts to enhance water supply reliability, restore damaged and destroyed ecosystems and improve the resilience of our infrastructure.

Governor Brown has called on all Californians to voluntarily reduce their water usage by 20 percent, and the Save Our Water campaign launched four public service announcements encouraging residents to conserve and has resources available in Spanish. Last December, the Governor formed a Drought Task Force to review expected water allocations and California’s preparedness for water scarcity. 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.

The Department of Water Resources operates and maintains the State Water Project, provides dam safety and flood control and inspection services, assists local water districts in water management and water conservation planning, and plans for future statewide water needs.
Date: March 25, 2014
To: San Diego County Water Authority Board Members
From: Ken Carpi, Washington Representative
Subject: Federal Legislative Update

Connor Confirmed at Interior, López Nominated for Reclamation

The Senate unanimously confirmed Michael Connor to serve as Deputy Secretary of the Department of the Interior. Connor, the former Commissioner of the Bureau of Reclamation, will be the second highest-ranking official at Interior and will oversee all of Interior’s operations. The final Senate vote was 97-0.

Following Connor’s confirmation, President Obama nominated Estevan López to serve as Commissioner of the Bureau of Reclamation. López is currently the Director of the New Mexico Interstate Stream Commission. No confirmation hearings or votes have been scheduled.

President’s Budget

President Obama submitted his FY 2015 budget request to Congress. The document should be viewed more for outlining the President’s vision of his preferred budget priorities rather than a practical guide to next year’s spending. Nonetheless, proposed funding amounts can help shape – rather than dictate – congressional negotiations in many areas.

Some items to note from the President’s request:

- $52.1 million for the WaterSMART program, including $21.5 million for Title XVI programs; $19 million for grants; and $3 million for proposed programs to assist with drought response and infrastructure resilience
- $118.6 million for the Central Valley Project
- $28.3 million for Lower Colorado River Operations
- $37 million for Bay-Delta Restoration, including $27.4 million for habitat
- $1.175 billion for the Clean Water and Safe Drinking Water SRFs – a $580 million cut from current funding
- $4.5 billion for the U.S. Army Corps of Engineers, a cut of 17 percent from current funding.
Competing Legislative Approaches to the California Drought

In the attempt to address the ongoing drought in California and the Western United States, two competing approaches are under debate in Congress. Supporters of a House-passed plan hope that they can eventually work out a compromise with Senate opponents and opposition from President Obama, but whether such a compromise could win congressional approval or a Presidential signature is in doubt.

House Republican Plan

The Sacramento-San Joaquin Valley Emergency Water Delivery Act (H.R. 3964) was introduced by Representative David Valadao (R-CA) and cosponsored by all of the members of the California Republican delegation and also by Reps. Andy Barr (R-KY) and Rodney Davis (R-IL). The bill passed the House on February 5 by a 229-191 margin. Rep. Jim Costa (D-Fresno) was the only California Democrat to vote in favor of the bill. Before the vote, President Obama said he would veto it if it came to him. The Senate has indicated it will not consider the bill, despite calls from House supporters urging prompt action.

Supporters of H.R. 3964 begin with the premise that the current drought in California is mostly the result of legal and regulatory restrictions on managing existing water supplies. As such, the bill does not authorize funding for new storage facilities. If enacted, supporters believe the bill would provide up to 2.4 MAF of water to State Water Project and Central Valley Water contractors shortly after enactment. To accomplish this, the bill would:

- Require operation of the CVP and the SWP pursuant to the Bay-Delta Accords of 1994, without regard to the Endangered Species Act or any other law pertaining to the operation of the CVP and the SWP
- Mandate a maximum of 800,000 acre-feet of water will be dedicated to fish, wildlife, and habitat restoration purposes under the CVPIA.
- Repeal the San Joaquin River Restoration Act and preempt and supersede any state law, regulation, or requirement that imposes more restrictive requirements or regulations of managing water in or feeding into the San Joaquin River;
- Subject to “the absolute priority of Sacramento River settlement contractors,” require the allocation to contractors of: (1) not less than 100% of their contract quantities in a wet, above normal, or below normal year; (2) not less than 75% in a dry year; and (3) not less than 50% in a critically dry year; and
- Require the assertion of federal supremacy to protect existing water rights throughout the SWP and CVP systems;
- Extend CVP contracts to 40 years from the current 25-year limit

The preemption of state and federal environmental laws, particularly regarding the Endangered Species Act, is a non-starter in the Senate and would guarantee a Presidential veto in any eventual compromise. Removing this, however, would likely reduce the bill’s promised water yields substantially.
Feinstein Approach

Introduced by Senator Feinstein on February 11, the California Emergency Drought Relief Act of 2014 (S. 2016) has not been scheduled for any further action, either in committee or on the Senate floor. Rep. Jim Costa (D-Fresno) introduced a companion bill in the House (H.R. 4039), but that bill will not be considered for any further action in the House.

S. 2016 assumes the drought is caused primarily by a lack of precipitation and strives to achieve better management of scarce supplies. It would encourage greater collaboration between federal and state water managers, expedite reviews of operations changes, and facilitate greater operational flexibility between the state and federal water projects within the bounds of current.

The bill requires federal agencies operate the pumps within the range established under the Delta smelt biological opinion to maximize water supplies without violating the biological opinion or the Endangered Species Act. It also directs the Department of the Interior to maintain in April and May a 1:1 “inflow-to-export ratio” for San Joaquin River flows that result from water transfers and exchanges.

Estimates of maximum additional water availability following enactment of the bill top out at approximately 600,000 acre/feet in California. It would not waive or repeal any state or federal law, but it would prioritize water deliveries to users by need, principally to users in the Sacramento and San Joaquin River watersheds.

The bill would authorize $300 million in emergency funding for projects to maximize water supplies for agriculture and communities (including Title XIV projects) and to provide economic assistance to those suffering due to the drought. This funding is available to recipients throughout the Western United States, although most funding, including Title XVI and other WaterSMART grants, is targeted at northern and central California. The bill would also allow individuals and businesses suffering economic hardship due to the drought to qualify for federal assistance under the Stafford Act, which governs assistance by the Federal Emergency Management Agency (FEMA).

Alternatives

Rep. Jared Huffman introduced legislation (H.R. 4239) that largely mirrors the Feinstein bill, with a few important caveats. Cosponsored by his northern California Democratic colleagues, Rep. Huffman’s bill includes the funding authorizations of the Feinstein bill, but also includes additional funding for markets to fight illegal water diversions that support marijuana cultivation. The bill does not mandate flow volumes through the Bay-Delta pumps and focuses more resources on preserving and restoring species important to the fisheries of northern California and the Pacific Coast.

While no action is expected on the Huffman bill, many of its unique provisions are likely to win inclusion in any future compromise legislation.
On March 15, Rep. Grace Napolitano introduced H.R. 4258, the SECURE Water Amendments Act. The bill is a companion to S. 2019, sponsored by Sen. Brian Schatz (D-HI), although neither California senator is a cosponsor. Many California Democrats, primarily from Southern California, have agreed to cosponsor H.R. 4258.

The bill would reauthorize the SECURE Water Act of 2009 through 2023 and increases the authorization level for WaterSMART grants to “such sums as necessary. The previous authorization, from FY 2009 through FY 2013, was for $200 million. It would also add eligibility for Hawaii to seek WaterSMART grants. The bill would also reauthorize the USGS to give grants to state water resource agencies to develop better data about water availability and usage while increasing the authorization level to “such sums as necessary” from the FY 2009-2013 level of $12.5 million.

Like the Huffman legislation, this bill is unlikely to move independently this year, but could contribute to an eventual drought compromise if its potential costs are limited. Expanding eligibility to Hawaii would increase competition for scarce Title XVI and other WaterSMART funding, but California projects should continue to enjoy a competitive advantage for limited grant funding through 2023.

**Outlook**

Senate Republicans are unlikely to support the Feinstein bill unless it is merely to advance to a conference with the House-passed bill. At this point, not enough Senate Democrats support the bill to overcome a Republican filibuster. Some are simply reluctant to wade into a generally parochial water fight, while others have serious reservations about the approach the Feinstein bill takes to addressing water management, even with its deference to state and federal environmental statutes and regulatory guidelines.

Westlands Water District, the Western Growers Association, and the California Farm Bureau Federation have endorsed the Feinstein bill, but environmental groups – both national and local – seem wary of the bill’s approach. They certainly prefer it to the House-passed bill, but that support seems soft and they can be expected to weigh in with their concerns during future Senate consideration.

A greater challenge awaits any compromise that might return to the Senate for final passage. While Senator Feinstein is perhaps sympathetic to some of the criticisms of current policies that underlie the House-passed bill’s approach, she must keep a close eye on achieving 60 votes in the Senate, both for passage of her bill and for any future compromise. It is unclear if even Senator Boxer, a cosponsor of S. 2016, would support passage of a bill that includes any of the demands by House Republicans for an eventual compromise.

**Bill Introduced to Lift Private Activity Bond Cap for Water Projects**

Representatives John Duncan (R-TN) and Bill Pascrell (D-NJ) introduced HR 4237, the Sustainable Water Infrastructure Act, a bill that would eliminate state-based caps on the amount of private activity bonds (PABs) that can be used to finance water and wastewater infrastructure. Under current law, private entities may issue PABs to fund a variety of
infrastructure projects that deliver a public benefit, but the total amount of PABs that may be issued annually in each state is limited.

President Obama’s FY 2015 budget proposes to eliminate the state volume cap on PABs issued for water and wastewater projects. However, the budget plan drafted by House Ways & Means Chairman David Camp (R-MI) would phase out federal tax benefits for all newly issued PABs. HR 4237 is unlikely to move through Congress independently, but will help shape discussion over water infrastructure investments and broader tax reform legislation that is more likely to advance in 2015-2016.
March 24, 2014

Attention: Administrative and Finance Committee

Approval of the Fiscal Sustainability Task Force Final 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. (Action)

Purpose
To consider and approve final 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
In regard to Calendar Year 2015 rate and charge development, the Task Force recommends the Board approve the following changes to the Water Authority’s existing rate and charge structure and financial policies:

1. Confirmation of the application of the existing IAC Policy to include Water Authority payments for the debt and equity on the Carlsbad Desalination Plant.

2. Approval of the application of non-commodity revenue offsets to all revenue categories, including Treatment.

In regard to Calendar Year 2016 rate and charge development the Task Force recommends:

3. Defer to the Administrative & Finance Committee all other Task Force recommendations including modification of allocation of storage charge and consideration of a Supply Reliability Charge concept.

Alternatives

a. Do not apply Water Authority payments for debt and equity for the Carlsbad Desalination Plant into the IAC for Calendar Year 2015 rates and charges and defer discussion of the application to development of the Calendar Year 2016 rates and charges.

b. Do not modify existing application of non-commodity revenues to include Treatment for Calendar Year 2015 rates and charges and defer discussion to development of the Calendar Year 2016 rates and charges.
Fiscal Impact
There is no fiscal impact to the Water Authority. If approved, the method of revenue collection will change, but would not result in an increase in overall Water Authority revenue. Individual Member Agencies’ rates and charges will be impacted.

Background
The Fiscal Sustainability Task Force (FSTF) has been meeting since May 2013 with an overall purpose of ensuring the fiscal sustainability of the Water Authority due to the changing nature of the Water Authority’s costs, water supply, and business environment. During the January 23, 2014 Administrative and Finance (A&F) Committee meeting, the FSTF presented their initial recommendations to 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. Discussions with the Board and member agencies have continued at the February 27, 2014 Board meeting and March 20, 2014 Special A&F Committee meeting. The January 16, 2014 and February 21, 2014 Board Memos on fiscal sustainability are attached for reference.

DISCUSSION
On March 18, 2014 the FSTF met to review and discuss Board and member agency feedback; discuss areas of concern, including potential alternatives; and deliberate policy considerations. In addition, a Special Administrative and Finance (A&F) Committee meeting was held to continue the Board’s discussion on March 20, 2014. Based on the discussions held at the special A&F meeting on March 20th and previous Board and member agency input, the FSTF has finalized its recommendations and completed the Task Force’s work.

Based on input and discussions at the previous meetings the Task Force believes that the key question before the Board concerning its recommendations is the matter of timing of decision making and the preference by Board members and some member agencies to consider the recommendations in a more comprehensive manner. The Task Force is recommending that the Board and member agencies have additional time to discuss and analyze the recommendations pertaining to 1) inclusion of fixed O&M costs related to the Carlsbad Desalination plant and the Coachella and All American Canal linings in the Infrastructure Access Charge (IAC); 2) changing the rolling average of Municipal & Industrial deliveries used in calculating the Storage Charge from three years to five years; and 3) consideration of a fixed supply reliability charge, or take-or-pay contracts with member agencies for water purchases, that would pay a portion of supply costs related to Carlsbad desalination and the fixed costs associated with the QSA Colorado River supplies. The Task Force has also identified the development of Calendar Year 2016 rates to be an appropriate timeline for this process to take place and that it should be conducted under the auspices of the Administrative & Finance Committee as a whole.

The Task Force has identified two areas related to its recommendations, as presented to the A&F Committee at the January, February and March special meetings that have a more immediate impact to the development of CY 2015 rates and charges. The Task Force believes that under current Board policy concerning the IAC that the debt for the Carlsbad Desalination Plant should be included in
the calculation of the IAC. Staff also concurs with the Task Force interpretation of the IAC policy. The Task Force is asking the Board to affirm that interpretation.

Additionally, in its review of the Phase 1 Cost of Service Study conducted by Carollo Engineers for the Water Authority’s 2014 rates and charges the Task Force determined that by excluding the Treatment service category form the allocation of non-commodity charge the Board’s policy is being implemented in an inconsistent manner as described in the January and February Task Force reports. The Task Force is recommending that the Board provide direction to staff to apply non-commodity revenue offsets to all rate service categories, including Treatment, according to existing board policy.

Summary
The FSTF thoroughly discussed all Board and member agency feedback; they reviewed the financial analysis, 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 modified the original recommendations and proposed alternative timing as 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

Attachments: February 21, 2014 Board Memo
January 16, 2014 Board Memo
February 21, 2014

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):

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<th>Agency</th>
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<tr>
<td>Barbara Wight - Chair</td>
<td>City of San Diego</td>
</tr>
<tr>
<td>Gary Arant</td>
<td>Valley Center Municipal Water District</td>
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<td>David Barnum</td>
<td>Ramona Municipal Water District</td>
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<td>Gary Croucher</td>
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<td>Deana Verbeke</td>
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<td>Mark Weston</td>
<td>City of Poway</td>
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<tr>
<td>Thomas Wornham</td>
<td>City of San Diego</td>
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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:

> “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”

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
Fiscal Sustainability Task Force Response
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:

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<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>X</td>
<td>X</td>
</tr>
<tr>
<td>San Vicente Dam Raise</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Lake Hodges Pumped Storage</td>
<td>X</td>
<td>X</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 form 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>($585,015)</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>($564,244)</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>
<td>64,662</td>
<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>$1,040,837</td>
<td>($1,091,620)</td>
<td>($111,993)</td>
<td>($120,609)</td>
<td>0.51%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>28,215</td>
<td>20,224</td>
<td>21,062</td>
<td>$524,799</td>
<td>($593,661)</td>
<td>($22,135)</td>
<td>($73,161)</td>
<td>-0.98%</td>
</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>($82,935)</td>
<td>$164,241</td>
<td>0.51%</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>
<td>$63,334</td>
<td>0.35%</td>
</tr>
<tr>
<td>Pendleton Military Reservation</td>
<td>42</td>
<td>42</td>
<td>42</td>
<td>$0</td>
<td>($1,468)</td>
<td>($151)</td>
<td>($1,619)</td>
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</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>($43,923)</td>
<td>($147,145)</td>
<td>-0.99%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>12,984</td>
<td>10,864</td>
<td>3,440</td>
<td>$241,502</td>
<td>($238,126)</td>
<td>($136,182)</td>
<td>($128,720)</td>
<td>-0.72%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>10,156</td>
<td>5,285</td>
<td>6,250</td>
<td>$188,902</td>
<td>($185,440)</td>
<td>($22,500)</td>
<td>($19,038)</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>($221,366)</td>
<td>($43,308)</td>
<td>($66,737)</td>
<td>-0.65%</td>
</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>
<td>14,971</td>
<td>4,373</td>
<td>4,373</td>
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<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>($30,067)</td>
<td>($135,672)</td>
<td>-1.34%</td>
</tr>
<tr>
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<td>4,731</td>
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<td>($166,006)</td>
<td>($17,031)</td>
<td>$606,235</td>
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</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>25,889</td>
<td>15,572</td>
<td>16,069</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>
<td>14,745</td>
<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>
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<td>16,636</td>
<td>16,713</td>
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<td>($583,757)</td>
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<td>$8,823</td>
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</tr>
<tr>
<td>Yuima M.W.D.</td>
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<td>306</td>
<td>2,702</td>
<td>$8,575</td>
<td>($10,735)</td>
<td>($9,729)</td>
<td>($11,889)</td>
<td>-0.67%</td>
</tr>
<tr>
<td>Contract Water</td>
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<td>350</td>
<td>350</td>
<td>$0</td>
<td>($12,282)</td>
<td>($1,260)</td>
<td>($13,542)</td>
<td>-2.63%</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
## 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>
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</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>$524,799</td>
<td>$(319,533)</td>
<td>$(29,504)</td>
<td>$(132,440)</td>
<td>-0.86%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>58,226</td>
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<td>$(1,225,259)</td>
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<td>$(255,388)</td>
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</tr>
<tr>
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<td>$(487,319)</td>
<td>$(44,996)</td>
<td>$(46,409)</td>
<td>-0.22%</td>
</tr>
<tr>
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<td>83</td>
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<td>0</td>
<td>$(2,923)</td>
<td>$(270)</td>
<td>$(3,193)</td>
<td>-2.94%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>16,999</td>
<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>Rainbow M.W.D.</td>
<td>12,984</td>
<td>12,750</td>
<td>$241,502</td>
<td>$(447,401)</td>
<td>$(41,310)</td>
<td>$(247,209)</td>
<td>-1.05%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>10,156</td>
<td>5,740</td>
<td>$188,902</td>
<td>$(201,431)</td>
<td>$(18,599)</td>
<td>$(31,128)</td>
<td>-0.35%</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>$131,406</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>
</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
## Incremental Increase in IAC - Excludes Desal and Canal O&M

### 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) ($1.10/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(^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>$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>($53,986)</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>20,322</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>$0</td>
<td>($1,042)</td>
<td>($107)</td>
<td>($1,149)</td>
<td>-1.65%</td>
<td></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>($15,418)</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>4,373</td>
<td>4,373</td>
<td>$197,617</td>
<td>($108,939)</td>
<td>($11,152)</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>($517,846)</td>
<td>($12,604)</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>($6,891)</td>
<td>($8,427)</td>
<td>-0.47%</td>
</tr>
<tr>
<td>Contract Water</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>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>914,166</td>
<td>438,500</td>
<td>448,210</td>
<td>$12,066,991</td>
<td>($10,923,035)</td>
<td>($1,142,936)</td>
<td>$1,021</td>
<td></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
## 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>$344,837</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>($345,943)</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>$0</td>
<td>($2,075)</td>
<td>($212)</td>
<td>($2,287)</td>
<td>-2.11%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>16,999</td>
<td>14,238</td>
<td>$224,387</td>
<td>($354,669)</td>
<td>($36,307)</td>
<td>($166,589)</td>
<td>-0.98%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>12,984</td>
<td>12,750</td>
<td>$171,389</td>
<td>($317,605)</td>
<td>($32,513)</td>
<td>($178,729)</td>
<td>-0.76%</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>Rincn Del Diablo M.W.D.</td>
<td>9,573</td>
<td>7,154</td>
<td>$126,364</td>
<td>($178,214)</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>($346,508)</td>
<td>-0.13%</td>
<td></td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>14,971</td>
<td>3,837</td>
<td>$197,617</td>
<td>($95,570)</td>
<td>($9,783)</td>
<td>$92,264</td>
<td>1.89%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>10,430</td>
<td>7,906</td>
<td>$134,059</td>
<td>($142,993)</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>914,166</td>
<td>497,166</td>
<td><strong>$12,066,991</strong></td>
<td><strong>($12,384,413)</strong></td>
<td><strong>($1,267,774)</strong></td>
<td><strong>($1,585,195)</strong></td>
<td></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 Cost</th>
<th>10 Year Average Fixed Storage Cost</th>
<th>Current Change from 3 to 10 Year Average</th>
<th>Net Change as a % of Estimated Financial Contribution</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</td>
<td>0</td>
</tr>
</tbody>
</table>

1. Based on CY 2014 Storage Charge revenue requirement of $63.2 million
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>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>0.73%</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>$3,516,777</td>
<td>$3,518,870</td>
<td>$2,193</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>$1,712,555</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>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>$63,200,000</td>
<td>$63,200,000</td>
<td>0</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
## Allocation of Offsetting Revenues Applied to All Rate Categories
(for illustrative purposes only)

<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 % of Estimated Financial Contribution(^1)</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 Diego 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>$29,880</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>

\(^1\)Financial 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
Rate Stabilization Fund Reserves
- Stored Water Reserves
- Compliance with Cost of Service and Legal Requirements, and Proportional Equity and fairness among Member Agencies and generations

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></th>
<th>Total Revenue Offsets (1)</th>
<th>Customer Service</th>
<th>Storage</th>
<th>Transportation</th>
<th>Supply</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Offsets (Capital Only)</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>System Capacity Charge(2)</td>
<td>$14.53</td>
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<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>
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<tr>
<td>Standby Availability Charge</td>
<td>11.28</td>
<td>1.17</td>
<td>5.14</td>
<td>3.29</td>
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<tr>
<td>PAYGO Earnings</td>
<td>1.49</td>
<td>0.15</td>
<td>0.68</td>
<td>0.43</td>
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<td>0.10</td>
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<tr>
<td><strong>Offsets (Capital and O&amp;M)</strong></td>
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<tr>
<td>Property Tax</td>
<td>$11.16</td>
<td>$1.81</td>
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<td>$3.27</td>
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<td>IAC</td>
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<td>Interest Earnings</td>
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<td>1.23</td>
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<td>Twin Oak Reimbursement</td>
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<td>1.02</td>
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<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>
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<tr>
<td><strong>Estimate of Total Offsets(1)</strong></td>
<td>$76.84</td>
<td>$11.78</td>
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<td><strong>Total Offsets for CY14 Rates &amp; Charges</strong></td>
<td>$76.84</td>
<td>$12.27</td>
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<td>Change in Offsets</td>
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<td>Estimated change in 2014 Rates and Charges</td>
<td>$0.49</td>
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<td>$2/AF(4)</td>
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(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
The mission of the San Diego County Water Authority is to provide a safe and reliable supply of water to its member agencies serving the San Diego region.

March 27, 2014

3:00 p.m.

1. Call to Order.

2. Salute to the flag.

3. Roll call, determination of quorum.
   3-A Report on proxies received.

4. Additions to agenda. (Government code Sec. 54954.2(b)).

5. Approve the minutes of the Special Board meeting of February 13, 2014, the Special meeting of the Imported Water Committee of February 13, 2014 and the Formal Board of Directors’ meeting of February 27, 2014.

6. Opportunity for members of the public who wish to address the Board on matters within the Board’s jurisdiction.

7. PRESENTATIONS & PUBLIC HEARINGS
   7-A Valley Center Municipal Water District Overview – Gary Arant, General Manager.
   7-B Retirement of Director. Adopt Resolution 2014-__ honoring Farrah Douglas upon her retirement for the Board of Directors.

8. REPORTS BY CHAIRS
   8-A Chairs report: Chair Wornham

   8-B Report by Committee Chairs
      Water Planning Committee Director Tu
      Imported Water Committee Director Saxod
      Engineering and Operations Committee Director Brady
      Legislation, Conservation and Outreach Committee Director Croucher
      Administrative and Finance Committee Director Saunders
9. CONSENT CALENDAR

9- 1. Agreement with the Sweetwater Authority regarding water storage at Sweetwater Reservoir.
Authorize the General Manager to execute an agreement for reservoir storage capacity with Sweetwater.

9- 2. Resolution Certifying the Final Supplemental Program Environmental Impact Report for the 2013 Regional Water Facilities Optimization and Master Plan Update and Climate Action Plan; Adopting Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; Approving the Project; and Authorizing Filing of a Notice of Determination.
It is recommended the Board adopt a Resolution that:
Certifies the Final Supplemental Program EIR has been completed in compliance with the California Environmental Quality Act and State CEQA Guidelines, and reflects the independent judgment of the Board; and Concurrently adopts the Environmental Findings of Fact and a Mitigation Monitoring and Reporting Program; and Approves the Proposed Project modifications and the Climate Action Plan; and Approves the 2013 Regional Water Facilities Optimization and Master Plan Update; and Authorizes the filing of a Notice of Determination.

9- 3. Construction contract with Four M Contracting, Inc. for Wister Sport Fishery Project.
Authorize the General Manager to waive any inconsequential variance in the bid documents and award a construction contract to Four M Contracting, Inc. in the amount of $2,798,000 for the Wister Sport Fishery project.

Authorize the General Manager to submit a formal comment letter on the Bay Delta Conservation Plan Draft Environmental Impact Report/Environmental Impact Statement.

Authorize the General Manager to award a professional services contract to HDR Engineering, Inc. to provide Corrosion Engineer and Corrosion Technician support services for an amount not-to-exceed $1,950,000, and for up to a four-year term.
Authorize the General Manager to award a professional services contract to V&A Consulting Engineers, Inc. to provide Corrosion Technician Support Services for an amount not-to-exceed $435,000, and for up to a four-year term.
9-6. Adopt positions on various state bills.
   1. Adopt a position of Oppose Unless Amended on AB 1731 (Perea)
   2. Adopt a position of Support if Amended on AB 2043 (Bigelow)
   3. Adopt a position of Support and Seek Amendments on AB 2100 (Campos)
   4. Adopt a position of Support on AB 2104 (Gonzalez)
   5. Adopt a position of Support and Seek Amendments on AB 2636 (Gatto)
   6. Adopt a position of Support if Amended on AB 2686 (Perea)
   7. Adopt a position of Support and Seek Amendments on SB 992 (Nielsen)
   8. Adopt a position of Support if Amended on SB 1049 (Pavley)
   9. Adopt a position of Support and Seek Amendments on SB 1144 (Galgiani)
  10. Adopt a position of Oppose Unless Amended on SB 1370 (Galgiani)
  11. Adopt a position of Support on SB 1420 (Wolk)

9-7. Treasurer’s report.
Note and file the monthly Treasurer’s report.

10. ACTION / DISCUSSION

10-A Approval of the Fiscal Sustainability Task Force Final 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.
In regard to Calendar Year 2015 rate and charge development, the Task Force recommends the Board approve the following changes to the Water Authority’s existing rate and charge structure and financial policies:
   1. Confirmation of the application of the existing IAC Policy to include Water Authority payments for the debt and equity on the Carlsbad Desalination Plant.
   2. Approval of the application of non-commodity revenue offsets to all revenue categories, including Treatment.
In regard to Calendar Year 2016 rate and charge development the Task Force recommends:
   3. Defer to the Administrative & Finance Committee all other Task Force recommendations including modification of allocation of storage charge and consideration of a Supply Reliability Charge concept. (Action)

11. CLOSED SESSION(S)

11-A CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1)
SDCWA v Metropolitan Water District of Southern California;
Case Nos. CPF-10-510830 and CPF-12-512466
11-B  CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1) -
SDCWA v Eastern Municipal Water District;
Riverside Superior Court Case No. RIC1300887

11-C  CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1) - SDCWA v MWH Americas, Inc. et al
Case No. 37-2011-00090504-CU-BC-CTL

12.  Action following Closed Session

13.  SPECIAL REPORTS
13-A  GENERAL MANAGER’S REPORT – Ms. Stapleton
13-B  GENERAL COUNSEL’S REPORT – Mr. Hentschke
13-C  SANDAG REPORT – Chair Wornham
      SANDAG Subcommittee: Borders/Regional Planning Committee –
      Director Saxod
13-D  AB 1234 Compliance Reports – Directors

14.  OTHER COMMUNICATIONS

15.  ADJOURNMENT

Doria F. Lore
Clerk of the Board

NOTE: The agendas for the Formal Board meeting and the meetings of the Standing Committees
held on the day of the regular Board meeting are considered a single agenda. All information or
possible action items on the agenda of committees or the Board may be deliberated by and become
subject to consideration and action by the Board.