Chair Weston addresses the media regarding water restrictions following the Special Board Meeting on Drought Management of May 14, 2015.
NOTICE TO THE PUBLIC

BOARD OF DIRECTORS’ AND STANDING COMMITTEES’ REGULAR MEETING
MAY 28, 2015
BOARD ROOM
WATER AUTHORITY HEADQUARTERS BUILDING
4677 OVERLAND AVENUE, SAN DIEGO, CALIFORNIA

1. **UNIFIED AGENDA:** This unified agenda provides a brief description of each item to be considered by the Board and its Administrative and Finance, Engineering and Operations, Imported Water, Legislation, Conservation and Outreach, and Water Planning Committees. For convenience, the agenda for each of the Committees and for the formal Board meeting are stated separately; however, all agendas shall be considered as a single agenda and any item listed on the agenda of any Committee may be acted upon by the Board. All items on the agenda of any Committee, including information items, may be deliberated and become subject to action by the Board.

2. **DOCUMENTS:** Staff reports and any other public information provided to the Board or Committee before the meeting relating to items on the agenda are available for public review at the San Diego County Water Authority 4677 Overland Avenue San Diego, CA 92123 during normal business hours. Additional documents may be distributed at the meeting. Copies of individual items, including the background information, are available through the Clerk of the Board at (858) 522-6614.

3. **MEETING TIMES:** The morning session of Standing Committees will commence at 9:00 a.m. on May 28, 2015 the afternoon session of Standing Committees will commence at 1:00 p.m. Please see the meeting schedule. The full Board may begin as early as 3:00 p.m. or as soon thereafter as the last Committee meeting is completed.

4. **ACTION AT COMMITTEE MEETINGS:** Committee meetings are also noticed as meetings of the Board because a quorum of the Board may be present. Members of the Board who are not members of the Committee may participate in the meeting, but only members of the Committee may make, second or vote on any motion or other action of the Committee unless the Board determines to convene for consideration of action on an item or items on the Committee agenda. If a quorum of the Board is present during a Committee meeting, upon approval of a motion by any Board member to convene for consideration of action on an item or items on the Committee agenda, the Board may take action on that item or items. If the Board takes action on an item during a Committee meeting, the matter will not be subject to further action at the Formal Board meeting unless a motion to reconsider is approved according to the provisions of the Water Authority Administrative Code. Persons interested in an item and wishing to hear the staff report, present oral or written comments and hear the deliberations should attend the Committee meeting. Closed Sessions also occur at Committee meetings and may not be repeated at the formal Board meeting.
5. **CONSENT CALENDAR:** The agenda contains items listed on a consent calendar which is for matters considered routine or otherwise not requiring further deliberation. A committee or the Board will take action as recommended by one motion. There will be no individual discussion on such items prior to the vote unless an item is removed for discussion. If a member of the public wishes to talk about a consent calendar item, please notify the Chair before the calendar is called. Persons who wish to be heard on an item are encouraged to speak before the assigned committee.

6. **PUBLIC HEARINGS:** It is not necessary to notify the Chair if a member of the public wishes to speak on items listed on the agenda as public hearings. Public hearings will begin at the time stated in the notice, or as soon thereafter as the matter can be heard. When the Chair opens the hearing, upon invitation of the Chair, step to the podium and begin by giving your name and address for the record. Each speaker has 3 minutes to address the Board.

7. **PUBLIC COMMENT ON MATTERS NOT ON THE AGENDA:** The agenda provides an opportunity for members of the public to address the Committees and Board on matters of interest within the jurisdiction of the Committee or Board that are not listed on the agenda. The Brown Act does not allow any discussion or action by the Board or staff on matters raised during public comment except: 1) to briefly respond to statements made or questions posed; 2) ask a question for clarification; 3) receive and file the matter; 4) if it is within staff's authority, refer it to them for a reply; or, 5) direct that it be placed on a future board agenda for a report or action.

A reasonable amount of time will be allocated by the Chair for public comment. Persons wishing to speak should notify the Chair before the meeting by filling out a "Speaker Request Form" and give it to the secretary. Individual speakers are requested to be as brief as possible and are encouraged to address the appropriate committee who is best able to respond. When the Chair calls, please immediately step to the podium and begin by giving your name and address for the record. Each speaker has 3 minutes to address the Board.

8. **PUBLIC COMMENT ON AGENDA ITEMS:** Persons wishing to speak to an item that is listed on the agenda should notify the Chair before the meeting by filling out a speaker request form and giving it to the secretary. Step to the lectern when asked to do so by the Chair and begin by giving your name and address for the record. Remarks should be limited to three minutes.

9. **INFORMATION ITEMS:** Items are listed on the agenda as information based on staff's judgment. Circumstances or the committee's or Board's judgments may require deliberation or, if necessary, action on these items. Any member of the public with an interest in one of these items should review the background material and request information on the possible action that could be taken.

10. **ASSISTANCE FOR THE DISABLED:** If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Clerk of the Board at (858) 522-6614 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.

11. **RULES GOVERNING MEETINGS:** The Water Authority’s Administrative Code Chapter 2.00 governs conduct of meetings of the Board and the Committees. The Administrative Code is available on line at [www.sdcwa.org](http://www.sdcwa.org) or at the Water Authority Headquarters.
MEETING SCHEDULE
MAY 28, 2015

MORNING SESSION 9:00 a.m. to 12:00 p.m.
Administrative & Finance Committee
Legislation, Conservation & Outreach
Water Planning Committee

Estimated time: 1 hour 25 minutes
Estimated time: 30 minutes
Estimated time: 55 minutes

LUNCHEON FOR DIRECTORS 12:00 p.m. to 1:00 p.m.

AFTERNOON SESSION 1:00 p.m. to 3:00 p.m.
Imported Water Committee
Engineering & Operations Committee

Estimated time: 55 minutes
Estimated time: 55 minutes

FORMAL BOARD MEETING 3:00 p.m.

* Time estimates are for convenience only and do not constitute part of the schedule. The first morning session will commence at 9:00 a.m., and the following morning sessions may start at any time after 9:00 a.m. The first afternoon session will commence at 1:00 p.m., and the following afternoon sessions may start at any time after 1:00 p.m. The Board meeting will start no earlier than 3:00 p.m., or following the conclusion of the last committee meeting.
ADMINISTRATIVE AND FINANCE COMMITTEE

AGENDA FOR

MAY 28, 2015

Gary Arant – Chair
Doug Wilson – Vice Chair
Halla Razak – Vice Chair
Lois Fong-Sakai
Ed Gallo
Frank Hilliker
Tom Kennedy
Keith Lewinger

Mark Muir
DeAna Verbeke
Ron Watkins
Mark Watton
Mark Weston
Ken Williams
Tom Wornham

1. Roll call – determination of quorum.
2. Additions to agenda (Government Code Section 54954.2(b)).
3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.
   4-A Directors’ comments.

I. CONSENT CALENDAR

1. Treasurer’s Report.
   Staff Recommendation: Note and file the monthly Treasurer’s report.
   (Action)
   Lisa Marie Harris

2. Professional services contract with Alliant Insurance Services, Inc., to provide Health Insurance Broker Services.
   Staff Recommendation: Authorize the General Manager to award a Professional Services contract to Alliant Insurance Services, Inc. to provide Health Insurance Broker Services for a three-year term, beginning July 1, 2015 through June 30, 2018, at a cost of $55,000 per year, for a total not-to-exceed amount of $165,000. The Water Authority will have the option for a two-year extension at a cost of $58,000 per year. (Action)
   Gretchen Spaniol
II. ACTION/DISCUSSION

1. Presentation of General Manager’s Recommended Budget for Fiscal Years 2016 and 2017 for review by the Administrative and Finance Committee and the Board of Directors. (Information)

   Maureen Stapleton

2. Resolution setting a Public Hearing date for the Water Authority’s proposed calendar year 2016 Rate and Charge increases.  
   Staff Recommendation: Adopt Resolution No. 2015-__ setting the time and place for a public hearing on June 28, 2015, at or after 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2016. (Action)

   Lisa Marie Harris
   David Shank

III. INFORMATION

   Rod Greek

2. Board Calendar.

IV. CLOSED SESSION

V. ADJOURNMENT

   Melinda Cogle
   Clerk of the Board

NOTE: This meeting is called as an Administrative and Finance Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
May 20, 2015

Attention: Administrative and Finance Committee

Treasurer’s Report

Attached for review by the Administrative and Finance Committee and the Board of Directors is the Treasurer’s Report as of April 30, 2015. The reports are formatted to provide information as required by the California Government Code and the San Diego County Water Authority’s Annual Statement of Investment Policy, which was last adopted by the Board on January 22, 2015. A brief description of each report follows:

Portfolio Master Summary: This one page report summarizes all cash and investments held by the Water Authority.

Portfolio Characteristics: This one page snapshot shows the Water Authority’s portfolio holdings by type and percentage; the maturity distribution of the portfolio; the portfolio yield for the past twelve months, with and without bond-related funds, compared to a rolling average yield of the Board adopted benchmark; the credit quality of the portfolio’s holdings; the cash flow projections for the next six months; and relevant market information.

Chandler Portfolio Summary: This one page snapshot shows the Chandler Asset portfolio holdings including average duration, coupon, yield and ratings; account summary; top issuers; issuer allocation; maturity distribution; and the managed portfolio yield compared to the benchmark.

Portfolio Details - Investments: This report takes the summary information listed in the Portfolio Master Summary and provides details of active investments.

Activity Summary: This one page report produces a thirteen-month rolling summary of portfolio investment activity.

The Water Authority’s portfolio is diversified among investment types, with a current concentration toward short-term maturities. This concentration is the result of cash flow needs, as well as the current historic low interest rate environment. The portfolio is comprised of high quality investments, with 76 percent currently invested in AAA rated or AAA/AA+ split-rated securities. In April 2015 the Water Authority’s overall portfolio yield increased to 0.71 percent and continues to exceed the investment benchmark of 0.44 percent. Bond Fund proceeds are expected to fund Capital Improvement Program expenditures for the next several years.

All investments have been made in accordance with the San Diego County Water Authority Statement of Investment Policy. This report provides documentation that the Water Authority has sufficient funds to meet the financial obligations for the next six months. The market value information is provided by Bloomberg L.P. and is as of the report date.

Lisa Marie Harris, Director of Finance/Treasurer
## PORTFOLIO MASTER SUMMARY
### as of April 30, 2015

### PORTFOLIO PERCENTAGES

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Permitted By</th>
<th>Portfolio Percentage</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>$50 Million</td>
<td>14.03%</td>
<td>$49,677,609</td>
</tr>
<tr>
<td>Banker's Acceptances</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Treasury Securities</td>
<td>15% - Minimum</td>
<td>17.23%</td>
<td>61,019,426</td>
</tr>
<tr>
<td>Agency Securities</td>
<td>85%</td>
<td>54.81%</td>
<td>194,093,669</td>
</tr>
<tr>
<td>Supranational Securities</td>
<td>10%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Reverse Repurchase Agreements</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Placement Service Certificates of Deposit</td>
<td>15%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>15%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>25%</td>
<td>7.04%</td>
<td>24,931,083</td>
</tr>
<tr>
<td>Medium Term Notes/Corporates</td>
<td>30%</td>
<td>3.41%</td>
<td>12,066,963</td>
</tr>
<tr>
<td>Municipal Securities</td>
<td>20%</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>JPA Pools (CAMP)</td>
<td>25%</td>
<td>3.34%</td>
<td>11,837,357</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>15%</td>
<td>0.14%</td>
<td>503,301</td>
</tr>
</tbody>
</table>

**Total Portfolio Percentage: 100.00% $354,129,408**

Accrued Interest (unavailable for investing)

Checking/Petty Cash/Available Funds (unavailable for investing)

**Subtotal for Pooled Funds:** $354,721,084

### Bond/CP Fund Excluded from Portfolio Percentages:

- Treasury Securities
- Agency Securities
- Placement Service Certificates of Deposit
- Commercial Paper
- Local Agency Investment Fund (LAIF) 93,998,587
- JPA Pools (CAMP) 3,473,794
- Money Market Funds and Cash 3

**Accrued Interest (unavailable for investing)**

**Subtotal for Bond/CP Fund (available for CIP expenditures):** $97,472,384

### Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:

- Trinity Plus - Reserve (GIC) - Series 1998A COPs 12,240,775

**Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):** $12,240,775

**Total Cash and Investments:** $464,434,243

### PORTFOLIO INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>Pooled Funds **</th>
<th>Bond/CP Fund</th>
<th>Debt Service Reserve</th>
<th>Total *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Yield to Maturity - 365 Days</td>
<td>0.66%</td>
<td>0.27%</td>
<td>5.55%</td>
<td>0.71%</td>
</tr>
<tr>
<td>Average Term</td>
<td>894</td>
<td>1</td>
<td>1</td>
<td>683</td>
</tr>
<tr>
<td>Average Days to Maturity (730 Days Maximum)</td>
<td>473</td>
<td>1</td>
<td>1</td>
<td>361</td>
</tr>
</tbody>
</table>

* "The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity" per SDCWA Investment Policy

** Pooled Funds include Operating, Pay Go, RSF, Equipment and Stored Water funds.
On April 29th, the FOMC maintained the target for the federal funds rate at a range of 0-25 basis points. The next meeting is June 17th.

### Asset Allocation

#### Pooled Funds

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury (AAA/AA+)</td>
<td>17.2%</td>
</tr>
<tr>
<td>Agency (AAA/AA+)</td>
<td>54.8%</td>
</tr>
<tr>
<td>Other (AAA)*</td>
<td>4.1%</td>
</tr>
<tr>
<td>AA**</td>
<td>9.9%</td>
</tr>
<tr>
<td>not rated ***</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

*Includes money market funds & JPA pools (CAMP)

**Includes commercial paper and medium term notes/corporates; the Water Authority's Investment Policy does not permit investments with a rating below A-

***Includes LAIF, which is part of the state investment pool, and is not rated

### Maturity Distribution

#### Pooled Funds

- Commercial Paper: 7.1%
- Medium Term Notes/Corporates: 3.4%
- LAIF: 14.0%
- Money Market: 0.1%
- Treasuries: 17.2%
- FNMA: 28.4%
- FHLMC: 13.5%
- FHLB: 6.1%
- FFCB: 6.1%
- Other (AAA)*: 4.1%
- AA**: 9.9%
- not rated ***: 14.0%

#### Bond/CP Fund

- Commercial Paper: 6.1%
- Medium Term Notes/Corporates: 3.4%
- LAIF: 14.0%
- Money Market: 0.1%
- Treasuries: 17.2%
- FNMA: 28.4%
- FHLMC: 13.5%
- FHLB: 6.1%
- FFCB: 6.1%
- Other (AAA)*: 4.1%
- AA**: 9.9%
- not rated ***: 14.0%

### Projected Cash Flows (in Millions) *

#### Pooled Funds

<table>
<thead>
<tr>
<th>Month End</th>
<th>Investment Maturities</th>
<th>Projected Receipts</th>
<th>Projected Disbursements</th>
<th>Reinvestment/ (Use) of Liquid Funds</th>
<th>Projected Cash &amp; Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 15</td>
<td></td>
<td></td>
<td></td>
<td>$ 354.72</td>
<td></td>
</tr>
<tr>
<td>May 15</td>
<td>-</td>
<td>49.78</td>
<td>34.03</td>
<td>15.75</td>
<td>370.47</td>
</tr>
<tr>
<td>Jun 15</td>
<td>1.59</td>
<td>92.32</td>
<td>85.09</td>
<td>8.81</td>
<td>377.70</td>
</tr>
<tr>
<td>Jul 15</td>
<td>-</td>
<td>64.21</td>
<td>47.45</td>
<td>16.77</td>
<td>394.47</td>
</tr>
<tr>
<td>Aug 15</td>
<td>-</td>
<td>62.15</td>
<td>48.39</td>
<td>13.76</td>
<td>408.22</td>
</tr>
<tr>
<td>Sept 15</td>
<td>-</td>
<td>60.39</td>
<td>44.15</td>
<td>16.25</td>
<td>424.47</td>
</tr>
<tr>
<td>Oct 15</td>
<td>42.00</td>
<td>63.38</td>
<td>91.01</td>
<td>14.36</td>
<td>396.84</td>
</tr>
</tbody>
</table>

#### Bond/CP Fund

<table>
<thead>
<tr>
<th>Month End</th>
<th>Investment Maturities</th>
<th>Projected Receipts</th>
<th>Projected Disbursements</th>
<th>Reinvestment/ (Use) of Liquid Funds</th>
<th>Projected Cash &amp; Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 15</td>
<td></td>
<td></td>
<td></td>
<td>$ 97.47</td>
<td></td>
</tr>
<tr>
<td>May 15</td>
<td>-</td>
<td>0.02</td>
<td>5.71</td>
<td>(5.69)</td>
<td>91.78</td>
</tr>
<tr>
<td>Jun 15</td>
<td>-</td>
<td>0.02</td>
<td>3.77</td>
<td>(3.75)</td>
<td>88.03</td>
</tr>
<tr>
<td>Jul 15</td>
<td>-</td>
<td>0.02</td>
<td>3.62</td>
<td>(3.60)</td>
<td>84.42</td>
</tr>
<tr>
<td>Aug 15</td>
<td>-</td>
<td>0.02</td>
<td>3.24</td>
<td>(3.22)</td>
<td>81.20</td>
</tr>
<tr>
<td>Sept 15</td>
<td>-</td>
<td>0.02</td>
<td>3.75</td>
<td>(3.73)</td>
<td>77.48</td>
</tr>
<tr>
<td>Oct 15</td>
<td>-</td>
<td>0.02</td>
<td>3.52</td>
<td>(3.51)</td>
<td>73.97</td>
</tr>
</tbody>
</table>

*Includes money market funds & JPA pools (CAMP)

**Includes commercial paper and medium term notes/corporates; the Water Authority's Investment Policy does not permit investments with a rating below A-

***Includes LAIF, which is part of the state investment pool, and is not rated

### U.S. Treasury Yield Curve

#### Market Notes

On April 29th, the FOMC maintained the target for the federal funds rate at a range of 0-25 basis points. The next meeting is June 17th.
## Portfolio Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Duration</td>
<td>3.39</td>
</tr>
<tr>
<td>Average Coupon</td>
<td>1.68%</td>
</tr>
<tr>
<td>Average Purchase YTM</td>
<td>1.42%</td>
</tr>
<tr>
<td>Average Market YTM</td>
<td>1.39%</td>
</tr>
<tr>
<td>Average S&amp;P/Moody Rating</td>
<td>AA+/Aa1</td>
</tr>
<tr>
<td>Average Final Maturity</td>
<td>3.56 yrs</td>
</tr>
<tr>
<td>Average Life</td>
<td>3.53 yrs</td>
</tr>
</tbody>
</table>

## Account Summary

<table>
<thead>
<tr>
<th></th>
<th>Beg. Values as of 3/31/15</th>
<th>End Values as of 4/30/15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Value</strong></td>
<td>8,070,506</td>
<td>12,072,621</td>
</tr>
<tr>
<td><strong>Accrued Interest</strong></td>
<td>45,652</td>
<td>72,415</td>
</tr>
<tr>
<td><strong>Total Market Value</strong></td>
<td>8,116,358</td>
<td>12,145,036</td>
</tr>
<tr>
<td><strong>Income Earned</strong></td>
<td>7,415</td>
<td>12,496</td>
</tr>
<tr>
<td><strong>Cont/WD</strong></td>
<td>4,036,468</td>
<td></td>
</tr>
<tr>
<td><strong>Par</strong></td>
<td>7,950,000</td>
<td>11,950,000</td>
</tr>
<tr>
<td><strong>Book Value</strong></td>
<td>8,044,563</td>
<td>12,066,963</td>
</tr>
<tr>
<td><strong>Cost Value</strong></td>
<td>8,044,563</td>
<td>12,066,963</td>
</tr>
</tbody>
</table>

## Top Issuers

<table>
<thead>
<tr>
<th>Issuer</th>
<th>% Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc</td>
<td>33.0%</td>
</tr>
<tr>
<td>Procter &amp; Gamble Company</td>
<td>16.8%</td>
</tr>
<tr>
<td>ChevronTexaco Corp</td>
<td>16.8%</td>
</tr>
<tr>
<td>Berkshire Hathaway</td>
<td>16.7%</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

## Issuer Allocation

- Berkshire Hathaway: 16.72%
- Exxon Mobil Corp: 16.68%
- Procter & Gamble Company: 16.01%
- ChevronTexaco Corp: 16.78%
- Apple Inc: 33.01%

## Maturity Distribution

<table>
<thead>
<tr>
<th>Maturity (Yrs)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 25</td>
<td>16.7%</td>
</tr>
<tr>
<td>25 - 5</td>
<td>33.4%</td>
</tr>
<tr>
<td>5 - 1</td>
<td>49.9%</td>
</tr>
</tbody>
</table>

## 12-Month Yield Comparison

- SDCWA
- BAML 1-5 Year AAA - AA US Corp Index
# Portfolio Details - Investments

**April 30, 2015**

<table>
<thead>
<tr>
<th>CUSIP</th>
<th>Investment #</th>
<th>Issuer</th>
<th>Average Balance</th>
<th>Purchase Date</th>
<th>Par Value</th>
<th>Market Value</th>
<th>Book Value</th>
<th>Stated Rate</th>
<th>S&amp;P</th>
<th>YTM</th>
<th>Days to Maturity</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Managed Pool Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH35</td>
<td>73</td>
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**Subtotal and Average**: 37,789,109.91

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**SDCWA - Fiscal Year 2015**
**Portfolio Management**

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**Run Date**: 05/01/2015 - 11:45
SDCWA - Fiscal Year 2015
Portfolio Management

Page 2

Portfolio Details - Investments
April 30, 2015
CUSIP

Investment #

Average
Balance

Issuer

Purchase
Date

Par Value

Market Value

Book Value

10/28/2014
12/18/2014
03/18/2015
04/29/2015
04/29/2015
09/18/2012
10/17/2012
04/23/2013
08/09/2013
08/23/2013
08/23/2013
09/17/2013
12/19/2013
06/25/2012
06/25/2012
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05/15/2013
06/21/2013
07/16/2013
07/23/2013
09/17/2013
11/20/2013
12/19/2013
03/13/2014
03/13/2014
03/20/2014
04/15/2014
04/15/2014
04/15/2014
09/19/2014
12/18/2014

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S&P

YTM Days to
365 Maturity

Maturity
Date

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FEDERAL HOME LOAN BANK
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AA+
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04/20/2017

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167 10/15/2015

Treasury Securities - Coupon
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912828TT7

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Run Date: 05/01/2015 - 11:45

Page 12 of 334

UNITED STATES TREASURY
UNITED STATES TREASURY

04/19/2012
10/17/2012

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0.250

AA+
AA+

Portfolio CWA2
CC
PM (PRF_PM2) 7.3.0


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#### Portfolio Management
#### Portfolio Details - Investments
#### April 30, 2015

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<th>Book Value</th>
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- YTM: 0.657
- Days to Maturity: 612

**Total and Average:**
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## Portfolio CWA2

### SDCWA - Fiscal Year 2015

#### Portfolio Management

**Activity Summary**

**April 2014 through April 2015**

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Run Date: 05/01/2015 - 11:45

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May 20, 2015

Attention: Administrative and Finance Committee

Professional services contract with Alliant Insurance Services, Inc., to provide Health Insurance Broker Services. (Action)

Staff recommendation
Authorize the General Manager to award a Professional Services contract to Alliant Insurance Services, Inc. to provide Health Insurance Broker Services for a three-year term, beginning July 1, 2015 through June 30, 2018, at a cost of $55,000 per year, for a total not-to-exceed amount of $165,000. The Water Authority will have the option for a two-year extension at a cost of $58,000 per year.

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

Fiscal Impact
Funds for these services are included in the Recommended Budget for Fiscal Years 2016 & 2017, which is contingent upon Board approval. The rate category for this action is customer service.

Background
The existing contract with Mercer Health and Benefits, LLC for health insurance broker services expires on June 30, 2015. In March 2015, the Water Authority issued a request for proposals for these services and received eight responses. Based on the evaluation of written proposals and oral interviews, staff selected Alliant Insurance Services, Inc. as the most qualified firm to provide the services. Alliant has significant experience working in the public agency sector and demonstrated a thorough understanding of the required scope of services.

Discussion
The services to be provided by the health insurance benefit broker include identifying programs, products, and insurers capable of meeting the Water Authority’s employee benefit needs; preparing bid specifications and soliciting proposals; negotiating premium rates, benefit levels, performance standards and guarantees, and contractual terms and conditions on behalf of the Water Authority; resolving issues that arise regarding contract administration and service provisions; providing claims adjudication support with insurance carriers; and resolving disputes regarding coverage, billing questions and service delivery. The health insurance broker will also assist in the development of long-range goals and strategies for the Water Authority’s employee benefits.
It is recommended that the contract be awarded to Alliant Insurance Services, Inc. This action will not only save the Water Authority on fees over the next three-year period, but has the potential to save insurance costs as the Water Authority explores alternatives with stronger market purchasing power and other plan options.

Due to the limited subcontracting opportunities for this type of service, SCOOP outreach was not required.

Prepared by: Stacey Rule, Human Resources Analyst
Reviewed by: Gretchen Spaniol, Human Resources Manager
Matthew S. Brown, Director of Administrative Services
Approved by: Sandra L. Kerl, Deputy General Manager
May 20, 2015

Attention: Administrative & Finance Committee

Presentation of the General Manager’s Recommended Budget for Fiscal Years 2016 and 2017 for review by the Administrative and Finance Committee and the Board of Directors. (Information)

The General Manager’s Recommended Budget for Fiscal Years 2016 and 2017 is a reflection of the Water Authority’s ongoing efforts to enhance the organization’s legacy of leadership on water issues statewide, uphold the public trust as a partner with our member agencies and community stakeholders, and maintain operational excellence of the region’s large-scale water infrastructure. The budget will address the constraints imposed by unprecedented water-use mandates from state regulators and provides the necessary resources to support activities and goals in the 2014-2019 Business Plan.

The budget document will be delivered to Board members at the Administrative and Finance Committee meeting on May 28th and the General Manager will present an overview of the Fiscal Years 2016 and 2017 Budget at that committee meeting. For reference purposes, the General Manager’s message at the front of the document summarizes the key aspects of the fiscal plan for the next two years. The schedule below outlines key dates and activities in the consideration and adoption of the General Manager’s Recommended Budget:

May 28, 2015  General Manager to present budget overview
Set public hearing for 2016 rates and charges

June 9 & 11, 2015  Special Administrative and Finance Committee Meetings—budget hearings to review in greater detail the General Manager’s recommended budget including, water sales and purchases, capital improvement program, debt service, and operating departments budget.

June 25, 2015  Consideration to adopt Fiscal Years 2016 and 2017 budget
Hold public hearing on proposed rates and charges
Consideration to adopt proposed rates and charges

Prepared by: Lisa Celaya, Financial Resources Manager
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager
May 20, 2015

Attention: Administrative and Finance Committee

Resolution setting a Public Hearing date for the Water Authority’s proposed calendar year 2016 Rate and Charge increases (Action)

Purpose
The purpose of this report is to review the proposed rates and charges for calendar year 2016 and to adopt a resolution setting a time and place for a public hearing for the consideration and adoption of the proposed rate and charge increases for water, services and facilities.

Staff recommendation
a) Adopt Resolution Number 2015-__ setting the time and place for a public hearing on June 25, 2015, at or after 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2016.

Alternative
Direct staff to set a different time or date for the public hearing.

Fiscal Impact
The proposed water rates and charges, in combination with reserves, existing taxes, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income, the Standby Availability Charge, and the new Supply Reliability Charge, are expected to raise revenues sufficient to meet the Water Authority’s revenue requirement, bond covenants and other key fiscal policy goals. The TSAWR has been extended through December 31, 2020. The proposed M&I “all-in” rate increase for CY 2016 is $72/AF or 6.6% for untreated water and $74/AF or 5.4% for treated water. These increases are mitigated by rate relief measures that included the debt restructuring completed in FY 2015 and a projected draw of approximately $8 million from the Rate Stabilization Fund (RSF) in FY 2016.

Background
Metropolitan Water Rate Increases
On April 8, 2014, MWD’s Board of Directors adopted rate and charge increases for calendar years 2015 and 2016 resulting in a 1.5% annual “average” rate increase in each year. Based upon MWD’s adopted rate and charge schedule, the cost of both treated and untreated water will increase by 2.1% in CY 2016 (this excludes the impact of MWD’s fixed charges). While the overall cost of MWD supplies increased 2.1%, the costs of transporting the Quantification Settle Agreement (QSA) water to the region increased by 3.3%.

Integration of Desalination Costs into Rates and Charges
The financial impact of the Carlsbad Desalination Plant project (the Project) was an integral part of the Board’s evaluation. With the Project’s approval in December 2012, staff worked with a
member agency workgroup and cost of service consultants to integrate the Project’s costs into rates and charges. The process was both inclusive of a wide range of stakeholders and comprehensive in addressing each cost component of the Project. After a number of workshops and meetings, the Desalination Cost of Service Study Phase II Member Agency Workgroup recommended cost allocation methodology to be applied to the Project. The methodologies were then provided to an independent cost of service consultant, who conducted an analysis to ensure the desalination cost recovery proposed by the Workgroup for rates and charges was consistent with the formalized cost of service based methodologies, was proportionate to levels of service and was in compliance with California law. This methodology, along with other components of the fiscal sustainability effort, was approved by the Board.

**Fiscal Sustainability Process**

The Board, member agencies and Water Authority staff engaged in an 18-month collaborative process that identified issues related to the long-term fiscal sustainability of the Water Authority. Central to this effort was a detailed review of the Water Authority’s revenue structure and evaluating potential enhancements that would strengthen the Water Authority’s future fiscal health. The Board’s Fiscal Sustainability Task Force (FSTF) presented the initial analysis and recommendations at the March 2014 Board meeting. At that meeting, the Board deferred action on making any of the recommended changes to the existing rate and charge structure for CY 2015 and directed staff to continue to work with the Administrative and Finance (A&F) Committee and the member agency General Managers on the issues identified by the FSTF. While the A&F Committee led the effort, the Committee directed Water Authority staff to work with the member agency General Managers and Finance Officers (collectively “the Managers”) to develop a comprehensive recommendation for the deferred actions.

With the Board’s goal of addressing the deferred items prior to setting CY 2016 rates and charges, the A&F Committee and the Managers developed a complete package of recommendations that were approved at the March 2015 Board meeting.

One of the key actions taken as part of the fiscal sustainability review was the creation of the Supply Reliability Charge (SRC). This charge recognizes the importance of equitably recovering the cost of the Water Authority’s investments in long-term water supply reliability in accordance with cost of service principals and California law. As adopted by the Board, the SRC recovers a portion of the water supply costs associated with the Carlsbad Desalination Plant and the Imperial Irrigation District’s (IID) water transfers. Together these supplies are the cornerstones of the supply reliability diversification efforts and the Water Authority’s most reliable water supplies. The SRC calculation methodology is presented in detail in Attachment A. In addition to recovering a proportionate share of the cost of water supply reliability, the SRC also helps to reduce water sales revenue volatility by increasing the amount of fixed revenues.

**Comprehensive Cost of Service Reviews**

Consistent with best management practices, the Water Authority retained Carollo to perform a series of independent cost of service studies. The first engagement with Carollo was to conduct a comprehensive cost of service study to determine the Water Authority’s CY 2014 rates and charges. In 2014, Carollo, using the methodologies developed by the Desalination Cost of Service Study Phase II Member Agency Workgroup, conducted a cost of service study to determine the CY
2015 rates and charges and ensure proper implementation of the Project cost allocation methodologies.

In 2015, Carollo performed another comprehensive cost of service study to independently calculate the rates and charges for CY 2016 and ensure that the comprehensive fiscal sustainability recommendations of the A&F Committee and the Managers were implemented properly. This included calculating the SRC. The CY 2016 rate and charge cost of service study is included as Attachment A.

In each of these engagements, Carollo independently verified that the rates and charges were established in compliance with California legal requirements, cost of service standards, and Water Authority Board policies.

**Special Agricultural Water Rate Program**

In October 2008, faced with a prolonged drought, rising water costs and the realization that in the future, any “surplus” water should be stored in its own regional storage portfolio in order to meet variable municipal and industrial water demands, the MWD Board voted to terminate the Interim Agricultural Water Program (IAWP) through a five-year phase-out of the program resulting in termination December 31, 2012.

In response to MWD’s phase-out of IAWP, the Water Authority Board in October 2008 approved the TSAWR. The TSAWR program enables participants to purchase water at MWD’s full service Tier 1 rate, which is at a discounted rate from the Melded Supply Rate, in return for a lower level of water supply reliability. TSAWR deliveries are also not included in the Storage Charge allocation to member agencies. The Board also formed a Special Agricultural Water Rate (SAWR) Board Workgroup to develop a recommended permanent program to replace IAWP when it terminated at the end of 2012. Through the Workgroup’s recommendations and feedback from members of the agricultural community, the Board voted to extend the TSAWR program on April 26, 2012 for two additional years until December 31, 2014.

At the May 2014 Board meeting, the Board directed staff to provide the CY 2015 rates and charges with and without an extension of the current TSAWR Program and directed analysis of TSAWR program as part of the A&F Committee’s future work on fiscal sustainability. On May 22, 2014, the Board directed staff to prepare the CY 2015 rates and charges to include the continuation of the TSAWR program through December 31, 2015 and to mitigate the rate impact of this action by reducing the CY 2015 Rate Stabilization Fund (RSF) support by approximately $7.1 million.

As a part of the development and adoption of CY 2016 rates and charges, the staff provided analysis and the financial impacts of the TSAWR program at the March 6, 2015 Special Board meeting. On March 26, 2015, the Board approved the extension of the TSAWR program through December 31, 2020 based on the recommendation to continue the TSAWR program for the next five years and revisit the value of the program in conjunction with the review of the new Supply Reliability Charge. The recommendation recognized: 1) the benefits the M&I customers have been paying for by supporting the TSAWR program occur during supply shortages; 2) the new Supply Reliability Charge allocation methodology is impacted by the treatment of agricultural water demands; and 3) addressing the issue in one year increments is not efficient
and doesn’t provide a sufficient planning window for customers. The five year period will also provide a track record to ascertain what the frequency of shortage cutbacks would be over an extended time period (since the 2009 cutbacks) and allow for a better understanding of the cost and benefits of the program.

**Mandatory Restrictions and Water Demand Uncertainty**

On May 5, 2015, the State Water Resources Control Board (SWRCB) adopted an emergency regulation requiring a 25 percent reduction in overall potable urban water use statewide in accordance with Governor Brown's April 1, 2015, Executive Order. The emergency regulation places each urban water supplier into one of nine tiers based on an average of their July through September 2014 residential per-capita water use. The tiers are assigned to a conservation standard that range from a 12 percent to 36 percent reduction requirement for our member agencies. Starting June 1, 2015 and continuing through February 29, 2016, the SWRCB will compare water suppliers’ potable urban water use with their use for the same month in 2013 to determine if they are on track to meet their conservation standard.

On April 14, 2015 the Metropolitan Water District of Southern California (MWD) Board approved implementation of its Water Supply Allocation Plan at a Level 3 Regional Shortage Level in response to dwindling supplies. A Level 3 supply cutback equates to a 15 percent reduction in MWD deliveries to its member agencies – compared to agencies’ base period demands (FY 2013 and FY 2014). Unlike the nine month reduction period adopted by the SWRCB, MWD’s supply allocation will be in effect for fiscal year 2016 – spanning July 1, 2015 through June 30, 2016.

Forecasting water demands for calendar year 2016 is especially challenging given the impact of the prolonged drought on local storage supplies, uncertainty surrounding the continuance of below average annual precipitation and elevated monthly temperatures, and member agencies’ response to SWRCB regulations. Water Authority staff ultimately developed a conservative demand forecast for calendar year 2016 sales revenue based on the assumption of member agencies achieving their SWRCB conservation standards.

**Previous Board Actions**

On June 26, 2014, the Board authorized the following actions:
- Adopted rates and charges and extended the Transitional Special Agricultural Water Rate Program through December 31, 2015; and
- Accepted Carollo’s Engineer’s San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study dated May 13, 2014 and letter amending the study.

On March 26, 2015, the Board authorized the following actions:
- Approved the addition of the Supply Reliability Charge, as defined in the A&N Technical Service, Inc. memorandum, to the Water Authority’s rate and charge structure and direct staff to return with a comprehensive review of implementation of the charge by December, 2020;
- Approved the allocation of non-commodity revenues to all rate and charge categories including treatment;
• Approved the permanent application of the debt and equity payments for the Carlsbad Desalination Plant to the Supply Rate; and
• Approved the extension of the Transitional Special Agricultural Water Rate Program through December 31, 2020.

Discussion
Looking forward to CY 2016 rates and charges, the Water Authority faces two key challenges. These challenges include smoothing rates and charges as the cost of desalinated water impacts rates and charges and projecting water supply and demand as the historic drought gripping California continues to unfold. The main drivers behind the recommended CY 2016 rate and charge increases are:

• **First full year of desalinated water deliveries** – CY 2016 will be the first full year of production from the Project. The year-over-year net increase in the cost of water is $39.5M. The increase in costs can be split between supply ($34.1M) and transportation ($5.4M).

• **Reduced water sales** – The CY 2016 water sales projection is approximately 64,000 acre feet lower than the already reduced projected CY 2015 water sales. This 13% reduction in sales puts significant upward pressure on rates as more costs are spread onto each unit of sales.

• **MWD rate and charge increase** – While MWD’s rates and charges are reported to be going up an average of 1.5%, the cost of treated and untreated water increased 2.1% and the cost to transport QSA water to the service area went up 3.3%.

The recommended CY 2016 rate and charge increases have been mitigated by several critical proactive measures taken by the Board designed to smooth rates and charges. These actions include:

• **CY 2015 rate and charge increases** – The Board adopted CY 2015 rates and charges that provided for a significant RSF deposit to ensure funds are available to help smooth the required rate and charge increases in CY 2016.

• **Rate Stabilization Fund draw** – The CY 2016 rate and charge increases are mitigated by a projected $8M draw from the RSF in FY 2016.

• **Series 2004A Certificates of Participation (COPs)** – The defeasance of these bonds reduced FY 2016 debt service by $2.2M or provided approximately $8/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage.

• **Series 2008A COPs** – Restructured FY 2016 debt service payments by defeasing $12.1M in principal or provided approximately $52/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage. This action is a one-time reduction in debt service and only impacts FY 2016 debt service payments.

The debt optimization actions alone, based upon the current reduced CY 2016 water sales projections, have provided $60/AF in rate and charge relief. It is important to note that the debt actions significantly reduced the required FY 2016 draw from the RSF maintaining a higher balance in the RSF, which will provide critical financial resources for the Water Authority.
should the drought persist. Water Authority staff are currently evaluating additional opportunities to reduce debt service and the Water Authority’s cost of funds.

In May 2011, staff developed a high/low rate and charge forecast to support member agency financial planning efforts. The high/low rate and charge forecasts were based upon scenarios varying the level of water sales, MWD rate and charge increases, and CIP expenditures. The CY 2016 proposed rates and charges are within that guidance. The Water Authority’s M&I “all-in” rate for untreated water is increasing by 6.6% and the rate for treated water is increasing by 5.4%. It should be noted that the actual cost of water will vary by member agency based upon each agency’s fixed charge allocations. With the completion of the Fiscal Sustainability Process, the Water Authority’s Long-range Financing Plan will be updated over the next year and new rate and charge projections developed.

### Setting Water Rates and Charges

On an annual basis, the Water Authority staff develops proposed water rates and charges, which it presents to the Board of Directors for adoption. Water rates and charges include the Melded Supply, Melded Treatment, Transportation rates and the Customer Service, Storage and Supply Reliability charges. Each year the Water Authority undertakes the following cost of service analysis to determine water rates and charges.

- **Step 1.** Establish the revenue requirement—determine the total amount of revenue needed to recover the Water Authority’s annual operating (operations and maintenance of facilities, cost of water, treatment costs, etc.) and capital expenditures (cash and short and long-term debt)
- **Step 2.** Allocate the revenue requirement and offsetting non-commodity revenues (i.e. investment income, property tax, IAC, etc.) to rate categories (Melded Supply, Melded Treatment, Transportation, Storage, Customer Service and SRC) to determine the net revenue requirement for each rate category
- **Step 3.** Determine rates and charges based upon the net revenue requirements, water sales projections and other key financial management metrics (i.e. senior lien debt service coverage, fund deposits and withdrawals)
- **Step 4.** Allocate fixed charges (Storage, Customer Service and SRC) to member agencies based on specified allocation methodologies

Consistent with best management practices, the Water Authority retained Carollo to perform a comprehensive and independent Cost of Service Study (the Study) to determine CY 2016 rates and charges. The Study will ensure that the Fiscal Sustainability Recommendations are implemented in compliance with California legal requirements, cost of service standards, and Water Authority Board policies. The full Study is included as Attachment A.

### Prudent Financial Management and Long-Range Planning

In 2006, following the recommendations of a Rate Model Working Group and A&F Committee, the Board amended the Water Authority’s financial policies regarding the RSF and Debt Service Coverage Ratio (DSCR). As part of the amendments, the Board established a target funding level for the RSF that better protects the Water Authority against the financial impact of 2.5 years of wet weather (3.5 years max). In addition, it established a target DSCR of 1.50x.
The overall benefits of the amendments included reduced rate volatility, increased protection against wet weather, a transparent and flexible RSF framework, and increased cash funding of the CIP. Furthermore, it strengthened key financial ratios—higher debt service coverage ratio, decreased debt ratio and increased cash days—to support the maintenance of the Water Authority’s AA+ credit ratings and access to lower rates.

The Water Authority’s Long-Range Financing Plan, updated by the board of directors in 2008, requires the revenues of the Water Authority be sufficient to; pay operating expenses, provide for maintenance and repair of facilities, provide for payment of principle and interest on debt, and provide reasonable reserves consistent with bond covenants and sound fiscal management. As a public agency enterprise, the Water Authority does not generate a profit. Revenues are set to meet the reasonably anticipated costs of providing service to the member agencies and do not generate revenues that are unrelated to the accomplishment of the Water Authority’s purposes.

While the Water Authority’s revenue structure is enhanced by the SRC, the cost structure continues to evolve with increasing contractual obligations. These contractual obligations include the Water Purchase Agreement from the Carlsbad Desalination Plant and the QSA. With the QSA obligation beginning its final ramp up to the full transfer amount of 200,000 acre feet in FY 2018, revenue volatility and the target and maximum fund balance requirements for the RSF are expected to increase. The increase continues through FY 2021 when the full 200,000 acre feet will be delivered.

In an effort to meet the Board’s objective of smooth and predictable rates and charges, as requested by member agencies, the proposed increases for CY 2016 rates and charges mitigate the financial impact of both the full year of desalination costs and significant reductions in water sales levels while positioning the Water Authority to achieve and maintain the Board’s target RSF balance over near term. This includes the strategic build-up of the RSF balance in FY 2015 and the subsequent projected RSF drawdown over the next several years to maintain a smooth rate and charge profile.

**Description of Proposed Rates and Charges**

Table 1 summarizes the Water Authority’s proposed CY 2016 rates and charges. A description of the Water Authority’s rates and charges is provided in subsequent sections. In addition to the Water Authority’s rates and charges shown in Table 1, certain MWD rates and charges are passed through to the member agencies.
Table 1 – Summary of Water Authority Rates and Charges

<table>
<thead>
<tr>
<th>Water Authority Rates and Charges</th>
<th>CY 2014 Previous</th>
<th>CY 2015 Current</th>
<th>CY 2016 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melded Supply Rate ($/AF)</td>
<td>$732</td>
<td>$764</td>
<td>$780</td>
</tr>
<tr>
<td>Melded Treatment Rate ($/AF)</td>
<td>$274</td>
<td>$278</td>
<td>$280</td>
</tr>
<tr>
<td>Transportation Rate ($/AF)</td>
<td>$97</td>
<td>$101</td>
<td>$105</td>
</tr>
<tr>
<td>Untreated Transitional Special Agricultural Water Rate ($/AF)</td>
<td>$593</td>
<td>$582</td>
<td>$594</td>
</tr>
<tr>
<td>Treated Transitional Special Agricultural Water Rate ($/AF)</td>
<td>$867</td>
<td>$860</td>
<td>$874</td>
</tr>
<tr>
<td>Infrastructure Access Charge</td>
<td>$2.68/ME</td>
<td>$2.76/ME</td>
<td>$2.76/ME</td>
</tr>
<tr>
<td>Customer Service Charge</td>
<td>$26,400,000</td>
<td>$26,400,000</td>
<td>$26,400,000</td>
</tr>
<tr>
<td>Storage Charge</td>
<td>$63,200,000</td>
<td>$63,200,000</td>
<td>$63,200,000</td>
</tr>
<tr>
<td>Supply Reliability Charge</td>
<td>NA</td>
<td>NA</td>
<td>$26,000,000</td>
</tr>
<tr>
<td>Standby Availability Charge per parcel or acre, whichever is greater</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
</tr>
<tr>
<td>System Capacity Charge</td>
<td>$4,681/ME</td>
<td>$4,681/ME</td>
<td>TBD</td>
</tr>
<tr>
<td>Treatment Capacity Charge</td>
<td>$119/ME</td>
<td>$119/ME</td>
<td>TBD</td>
</tr>
</tbody>
</table>

1 Per current Board Policy, TSAWR is set to end December 31, 2020.
2 The Supply Reliability Charge will be implemented effective January 1, 2016.
3 Fiscal Year Charge.
4 ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.
5 Both the System and Treatment Capacity Charges will be administratively adjusted effective January 1, 2016 for inflation per Ordinance No. 2005-03

Table 2 summarizes MWD’s rates and charges that the Water Authority passes through to its member agencies.

Table 2 – Summary of Water Authority Pass Through Rates and Charges

<table>
<thead>
<tr>
<th>MWD Rates and Charges</th>
<th>CY 2014 Previous</th>
<th>CY 2015 Current</th>
<th>CY 2016 Adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Untreated Tier 2 Supply Rate $/AF¹</td>
<td>$735</td>
<td>$714</td>
<td>$728</td>
</tr>
<tr>
<td>Replenishment Water Rate Untreated ($/AF)²</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Replenishment Water Rate Treated ($/AF)²</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>MWD Capacity Charge $/AF</td>
<td>$8,268,900</td>
<td>$10,738,140</td>
<td>$12,406,380</td>
</tr>
<tr>
<td>Readiness-to-Serve Charge³</td>
<td>$24,498,074</td>
<td>$25,043,402</td>
<td>$22,145,912</td>
</tr>
</tbody>
</table>

¹ Agencies exceeding their Tier 1 allocation pay the MWD bundled Tier 2 Supply Rate (System Access Rate, System Power Rate and Water Stewardship Rate) instead of the Melded Supply Rate.
² Discussions on the future of the replenishment program are continuing.
³ Fiscal Year Charge.
The following rates and charges will be effective July 1, 2015:

**Standby Availability Charge.** The County Water Authority Act limits the maximum annual Standby Availability Charge to $10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual Standby Availability Charge should be levied on property within the Water Authority’s service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the $10 maximum for fiscal year 2015-2016. The Standby Availability Charge rate is effective July 1, 2015.

The following rates and charges are being proposed effective on January 1, 2016:

**Melded Untreated Supply Rate (exclusive of TSAWR deliveries).** The Melded Untreated Supply Rate (Melded Supply Rate) will be set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, desalinated water and the portion of the Water Authority’s revenue requirement allocated to the Supply rate. The revenue requirement may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, reserve withdrawals/deposits and coverage requirements.

Table 3 on the following page shows the calculation of the Melded Supply Rate.
Table 3 – Untreated Melded Supply Rate Calculation

<table>
<thead>
<tr>
<th></th>
<th>CY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Acre-Foot Sales (A/F) (000's)</td>
<td></td>
</tr>
<tr>
<td>MWD Tier I Deliveries</td>
<td>173.3</td>
</tr>
<tr>
<td>IID Deliveries</td>
<td>100.0</td>
</tr>
<tr>
<td>Canal Water Deliveries</td>
<td>80.2</td>
</tr>
<tr>
<td>Carlsbad Desalination Production</td>
<td>42.0</td>
</tr>
<tr>
<td><strong>TOTAL A/F SALES</strong></td>
<td><strong>395.5/AF</strong></td>
</tr>
<tr>
<td><strong>Water Purchase Cost (in Millions)</strong></td>
<td></td>
</tr>
<tr>
<td>MWD Tier 1 Water Purchases</td>
<td>$103.0</td>
</tr>
<tr>
<td>QSA Exchange with MWD Costs</td>
<td>78.9</td>
</tr>
<tr>
<td>IID Water Purchases</td>
<td>64.7</td>
</tr>
<tr>
<td>Canal Water Purchases</td>
<td>1.0</td>
</tr>
<tr>
<td>Desalinated Water Supply Costs</td>
<td>80.0</td>
</tr>
<tr>
<td><strong>Subtotal Water Purchases</strong></td>
<td><strong>$327.6</strong></td>
</tr>
<tr>
<td><strong>Additional Costs (in Millions)</strong></td>
<td></td>
</tr>
<tr>
<td>Supply Revenue Requirement</td>
<td>$17.2</td>
</tr>
<tr>
<td>IID Socioeconomic*</td>
<td>0</td>
</tr>
<tr>
<td>QSA Environmental*</td>
<td>0</td>
</tr>
<tr>
<td>Groundwater Storage</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Subtotal Other Costs</strong></td>
<td><strong>$17.7</strong></td>
</tr>
<tr>
<td><strong>Offsetting Revenues (in Millions)</strong></td>
<td></td>
</tr>
<tr>
<td>Supply Reliability Charge Revenues</td>
<td>(26.0)</td>
</tr>
<tr>
<td>Cash and Reserves</td>
<td>(10.7)</td>
</tr>
<tr>
<td><strong>Total Net Supply Costs</strong></td>
<td><strong>308.6</strong></td>
</tr>
<tr>
<td><strong>A/F RATE (Total Net Supply Cost /Total A/F Sales)</strong></td>
<td>$780/AF</td>
</tr>
</tbody>
</table>

*Cost recovery deferred to provide CY 2016 rate relief.

Based upon these options, the Melded Supply Rate will increase from its current level of $764/AF to $780/AF in CY 2016.

**Transitional Special Agricultural Water Program Rates.**
With the extension of the TSAWR program through December 31, 2020, the untreated TSAWR will be set to MWD’s Tier 1 rate and increase from its current level of $582/AF to $594/AF. In addition, the treated TSAWR will increase from $860/AF in CY 2015 to $874/AF in CY 2016. The TSAWR program rates correspond to a lower level of water supply reliability for its participants.

**Melded Treatment Rate.** The Melded Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, the Levy and Olivenhain treatment plants, the Water Authority’s Twin Oaks Valley Water Treatment Plant, desalinated water costs allocated to this rate and may recover certain other costs associated with the delivery of treated water. For CY 2016, the Melded Treatment Rate will increase from its current level of $278/AF to $280/AF. Table 4 shows the calculation of the Melded Treatment Rate.
**Table 4 – Melded Treatment Rate Calculation**

<table>
<thead>
<tr>
<th>Acre-Foot Sales (A/F) (000's)*</th>
<th>CY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD</td>
<td>57.7</td>
</tr>
<tr>
<td>Water Authority</td>
<td>43.4</td>
</tr>
<tr>
<td>Helix</td>
<td>25.6</td>
</tr>
<tr>
<td>Carlsbad Desalination Production</td>
<td>42.0</td>
</tr>
<tr>
<td><strong>TOTAL A/F SALES</strong></td>
<td><strong>168.7 /AF</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost (in Millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD</td>
<td>$20.1</td>
</tr>
<tr>
<td>Water Authority</td>
<td>11.5</td>
</tr>
<tr>
<td>Helix</td>
<td>3.9</td>
</tr>
<tr>
<td>Desalinated Water**</td>
<td>11.8</td>
</tr>
<tr>
<td><strong>TOTAL TREATMENT COSTS</strong></td>
<td><strong>$47.3</strong></td>
</tr>
</tbody>
</table>

| A/F RATE (Total Treatment Costs/Total A/F Sales) | $280/AF |
| * Includes treated water deliveries intended for agriculture |
| **Based on proposed cost of treated water (42,000AF*280 = $11.8M)** |

**Transportation Rate.** The Transportation rate is set to recover capital, operating, and maintenance costs of Water Authority-owned water delivery facilities, including facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Authority as it occurs. For CY 2016, the Transportation Rate will increase from its current level of $101/AF to $105/AF.

**Infrastructure Access Charge.** The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on water meters within each member agency. As the Desalination Pipeline Bonds debt service impacts the IAC, the methodology used to calculate the IAC was reviewed by Carollo as part of their Study and is provided in Attachment A. For CY 2016, the IAC will remain unchanged at $2.76/ME.

**Customer Service Charge.** The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority. The Customer Service Charge will be allocated among the member agencies on the basis of each agency’s three-year rolling average of member agency supply purchases from the Water Authority. For CY 2016, the Customer Service Charge will remain unchanged at $26.4M.

**Storage Charge.** The Storage Charge is set to recover costs associated with the Emergency Storage Program and the Carryover Storage Program. Because agricultural users that participate in the SAWR program agree to reduced or interrupted service during times of water emergencies, they will not receive benefit from the storage program; therefore, the Storage Charge is based on all non-SAWR water deliveries and will be allocated among the member agencies using a pro rata share of each agency’s three-year rolling average deliveries. For CY 2016, the Storage Charge will remain unchanged at $63.2M.
Supply Reliability Charge. The Supply Reliability Charge (SRC) is a new fixed charge created to recover a portion of the costs associated with the Water Authority’s highly reliable water supplies, which includes desalinated and IID transfer waters. The charge is allocated to member agencies based upon their pro rata share of the Water Authority’s 5-year rolling M&I deliveries (agricultural deliveries are not included). The SRC will be established effective January 1, 2016. The CY 2016 charge will be set at $26.0M.

Capacity Charges. Capacity charges are one time fees charged to new system connections. The fee is set to recover the proportionate cost of the system necessary to serve that connection.

System Capacity Charge. This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The current charge of $4,681 for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2016.

Water Treatment Capacity Charge. This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority’s policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Del Mar, City of Escondido, and City of Poway. The current charge of $119 for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2016.

Table 5 presents a summary of the current Capacity Charge schedule that went into effect on January 1, 2015 and will be administratively adjusted January 1, 2016.

<table>
<thead>
<tr>
<th>Meter Size (Inches)</th>
<th>Factor</th>
<th>System Capacity Charge</th>
<th>Water Treatment Capacity Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 1&quot;</td>
<td>1.0</td>
<td>$4,681</td>
<td>$119</td>
</tr>
<tr>
<td>1&quot;</td>
<td>1.6</td>
<td>7,490</td>
<td>190</td>
</tr>
<tr>
<td>1.5&quot;</td>
<td>3.0</td>
<td>14,043</td>
<td>357</td>
</tr>
<tr>
<td>2&quot;</td>
<td>5.2</td>
<td>24,341</td>
<td>619</td>
</tr>
<tr>
<td>3&quot;</td>
<td>9.6</td>
<td>44,938</td>
<td>1,142</td>
</tr>
<tr>
<td>4&quot;</td>
<td>16.4</td>
<td>76,768</td>
<td>1,952</td>
</tr>
<tr>
<td>6&quot;</td>
<td>30.0</td>
<td>140,430</td>
<td>3,570</td>
</tr>
<tr>
<td>8&quot;</td>
<td>52.0</td>
<td>243,412</td>
<td>6,188</td>
</tr>
<tr>
<td>10&quot;</td>
<td>78.0</td>
<td>365,118</td>
<td>9,282</td>
</tr>
<tr>
<td>12&quot;</td>
<td>132.0</td>
<td>$617,892</td>
<td>$15,708</td>
</tr>
</tbody>
</table>

The following MWD rates and charges are passed on directly or allocated to the Water Authority’s member agencies in the same manner as MWD applies them to the Water Authority.¹

¹ The Water Authority has opposed MWD’s cost of service methodology associated with these charges.
MWD Capacity Charge. For CY 2016, the Capacity Charge is $10,900 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency’s maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Authority is expected to reserve its full available capacity. The Capacity Charge will be set at $12,406,380. The Authority’s Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

Readiness-to-Serve Charge. MWD’s Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of $158 million to $153 million. The Authority’s share is set at $34,766,044 for Fiscal Year 2016-2017. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is $22,145,912. MWD’s Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency’s Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Authority’s Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

Summary
Staff is seeking Board direction for which rate and charge increases should be considered at the Public Hearing on June 25, 2015.

Prepared by: David G. Shank, Financial Planning Manager
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments: A) Carollo 2015 Cost Allocation Cost of Service Report
B) Resolution of the Board of Directors of the San Diego County Water Authority fixing the time and place for a public hearing to consider: (1) Changes to the rates and charges for delivery and supply of water; (2) Continuing the existing Standby Availability Charge; and (3) Changes to the system and treatment capacity charges.
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1 EXECUTIVE SUMMARY

The San Diego County Water Authority (Water Authority) is a public agency serving the San Diego region as a wholesale supplier of water. The Water Authority purchases water from the Metropolitan Water District of Southern California (MWD) and obtains additional supplies pursuant to agreements commonly referred to as the Quantification Settlement Agreement (QSA). The Water Authority also has a water purchase agreement for desalinated water with Poseidon Resources, LLC. The Water Authority’s mission is to provide a safe and reliable supply of water to its 24 member agencies serving the San Diego region.

The Water Authority engaged Carollo Engineers (Carollo) to perform a Cost-of-Service Study to review and validate the Proposed Calendar Year (CY) 2016 water rates and charges, as well as calculate the new Supply Reliability Charge based on the Board’s direction. In meeting this scope, Carollo developed an independent rate model and reviewed the Water Authority’s existing cost of service methodology and financial model for compliance with American Water Works Association (AWWA) cost-of-service standards, industry best practices, Board policies, as described in Report Section 2.3, and California legal requirements, as described in Report Section 2.4. Together, these establish the cost-of-service standard that is referenced throughout this report.

Based on our independent review and consistent with the finding in the 2014 Cost of Service Report, Carollo has determined that the amount of money reasonably anticipated to be generated through the Water Authority’s proposed CY 2016 water rates and charges, when combined with other Water Authority revenues, is reasonable to recover the costs of the Water Authority’s activities. It is our professional opinion that the manner in which each of the rates and charges are allocated to the Water Authority’s member agencies bears a fair, reasonable, and logical relationship to each member agency’s burdens on or benefits from Water Authority services, thus complying with legal requirements, cost-of-service standards, industry best practice, and Board policy requirements as discussed in this report.

1.1 FISCAL SUSTAINABILITY PROCESS

The Board, member agencies, and Water Authority staff engaged in an 18-month collaborative process to identify and address issues necessary to maintain the long-term fiscal sustainability of the Water Authority. Central to this effort was a detailed review of the Water Authority’s revenue structure, and evaluating potential enhancements that would strengthen the Water Authority’s future fiscal health. From this process, three rates and charges recommendations were unanimously approved by the Board and are being implemented in CY 2016. The modifications are as follows:
Supply Reliability Charge (SRC) – This charge recognizes the importance of equitably recovering the cost of the Water Authority’s investments in long-term water supply reliability in accordance with cost of service principals and California law. As adopted by the Board, the SRC recovers a portion of the water purchase agreement costs associated with the Carlsbad Desalination supply and the Imperial Irrigation District’s (IID) water transfers. In summary, the SRC is designed to:

- Recognize the cost and benefit of supply diversification
- Balance with local supply development
- Ensure member agency and inter-generational equity

The adopted SRC establishes a rate that benchmarks the cost differential between MWD water, the Water Authority’s least reliable water supply, and the new, firm supply.

Non-Commodity Revenue Offsets – Based on the CY 2014 Cost of Service recommendations, it was determined that the Treatment Rate should proportionally benefit from offsetting revenues to which the rate contributes. The Treatment Rate was implemented after the other four rate categories had been established and was originally considered as a separate and stand-alone charge. Beginning in CY 2016, the Treatment Rate will receive a revenue offset similar to all other rate categories.

Transitional Special Agricultural Water Rate (TSAWR) Program – The TSAWR provides a discounted cost of water to participating agricultural customers in exchange for a reduced level of water reliability. There are two components to the TSAWR rates - storage charge exemption and supply discount. TSAWR participants are exempt from funding the storage charge as they have agreed to curtail water demands during shortages. The supply discount also allows participants to purchase water at MWD’s Tier 1 rate, because these customers would be required to reduce demands to stay within the Tier 1 allocation.

Carollo believes that the three rates and charges recommendations proposed as part of the Fiscal Sustainability Process, and adopted by the Board, align with cost of service principles, and reflect the cost of providing services to different system users.

1.2 RATE AND CHARGES

The Water Authority imposes several different types of water rates and charges that are collected from the member agencies. These include volumetric commodity rates that are collected monthly per unit of metered water delivered to each agency (e.g., the supply, transportation, and treatment rates) and service charges that are apportioned among the member agencies according to their respective three or five-year rolling average of water
purchases from the Water Authority (e.g., three years for customer service and storage, and five years for supply reliability charges). The water rates are set as a unit price per acre-foot for actual water delivered. The customer service and storage charges recover costs for facilities and services that are provided generally and are apportioned in a manner that is designed to account for annual fluctuations in water demands and demand patterns commonly resulting from weather conditions and conservation requirements.\(^1\)

In addition to these water rates and charges, the Water Authority recovers at least 25 percent of fixed annual expenditures through a combination of ad valorem property taxes and a water availability standby charge, which are imposed on properties within the Water Authority’s service area, and through the Infrastructure Access Charge (IAC), which is an annual service charge imposed on member agencies and apportioned based on their respective total connected meter capacity, a measure of an agency’s maximum potential to take water from the Water Authority. The Water Authority also imposes System Capacity and Treatment Capacity Charges on ultimate users of water obtaining new and updated water meters in order to fairly and reasonably recover the cost to provide system capacity for new users and collects revenues through the Standby Availability Charge and property taxes.

A description of each water rate and charge category is as follows:

**Customer Service:**

The Customer Service charge is a commodity based fixed charge set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and to implement system-wide programs.

**Storage:**

The Storage charge is a commodity based fixed charge set to recover costs associated with the Emergency Storage Program (ESP) and Carryover Storage Program (CSP). The ESP and CSP are a system of reservoirs, interconnected pipelines, and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries and in the case of the CSP to provide operational flexibility and drought protection.

**Supply Reliability Charge:**

The Supply Reliability Charge is a new commodity based fixed charge established to recover a portion of the Carlsbad Desalination Plant and the IID transfer water costs. The charge is set equal to the difference between the supply cost of desalination and IID transfer water purchases and a like amount of water purchased at the MWD Tier 1 rate

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\(^1\) Customer Service Charge allocation excludes member agency wheeled water.
multiplied by 25% and apportioned according to a five-year rolling average of water purchases.

**Supply:**
The Supply rate is a volumetric charge that recovers the cost of water supply incurred by the Water Authority, including the full cost of purchase of water from MWD at the delivery point, payments to the IID for transfer of conserved water, costs associated with obtaining conserved water from the Coachella and All-American Canal Lining Projects, costs of MWD wheeling for non-MWD water supplies (e.g. QSA supply exchange costs), other costs associated with acquisition of supplies and implementation of the Quantification Settlement Agreement (QSA), and supply and acquisition costs related to the Poseidon water purchase agreement associated with the Carlsbad Desalination Project.

**Transportation:**
The Transportation rate is a volumetric charge set to recover capital, operating, and maintenance costs of the Water Authority’s water delivery facilities, including all facilities used to physically transport the water to member agency meters.2

**Treatment:**
The Treatment rate is a volumetric charge designed to recover the Water Authority’s cost of treating water. The Melded M&I Treatment Rate includes the costs of purchasing treated water from MWD, the operating and capital costs associated with the Water Authority’s agreement with Helix Water District’s Levy Water Treatment Plant, operating costs associated with the Olivenhain Treatment Plant, and the operating and capital costs associated with the Twin Oaks Valley Treatment Plant.

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2 Costs associated with facilities covered by the East County Facility Agreements are not included in Transportation, but relate to treatment services in connection with the Helix Water District’s Levy Water Treatment Plant and recovered through the Treatment rate.
1.3 WATER AUTHORITY RATE-SETTING PROCESS

On an annual basis, the Water Authority develops proposed rates and charges, which it presents to the Board of Directors for adoption. Each year, the Water Authority undertakes the following cost of service processes to determine water rates and charges:

**Step 1:**
Establish the revenue requirement – determine the total amount of revenues needed to recover the Water Authority’s annual operating and capital expenditures.

**Step 2:**
Allocate the revenue requirement and offsetting non-commodity revenues to rate categories to determine the net revenue requirement for each category.

**Step 3:**
Determine the legal rates and charges based upon the net revenue requirements, water sales projections, and other key financial management metrics.

**Step 4:**
Allocate fixed charges to member agencies based on specific allocation methodologies.

The Water Authority’s methodology and application remains consistent with the AWWA for cost-of-service guidelines, as well as existing Board policies and legal requirements stated herein. Rates are designed to recover all direct, indirect, and other costs of providing water and water services that are not recovered through other revenues such as taxes, assessments, or other charges. Throughout the process, the Water Authority identifies major cost drivers and aligns them to specific rate and charge categories.

1.4 CAROLLO INDEPENDENT REVIEW PROCESS

Carollo independently performed Steps 2 through 4 above, when developing the proposed CY 2016 rates and charges. The purpose of this cost-of-service process is to: (1) identify which costs are recovered through water rates and charges; (2) allocate the Water Authority costs into functional rate categories; (3) update the rates and use of offsetting revenues to fairly and reasonably recover system expenditures from member agencies; and, (4) appropriately calculate non-commodity revenues.

In order to determine the costs to be recovered by water rates and charges, Carollo relied upon cost projections, reserve requirements, and revenue policies provided by the Water Authority. To perform its analysis Carollo relied upon the proposed Fiscal Years (FY) 2016 and 2017 budget cost projections provided by the Water Authority’s Finance Department and reviewed the 2014 Comprehensive Annual Financial Report, debt service schedules, Board policies, bond official statements, and summary outputs from the Water Authority’s
rate model. Additionally, Carollo worked with the Water Authority’s Finance staff to review the cost-of-service methodology and process.

In our 2014 Cost of Service review, Carollo conducted interviews with select divisions within the Water Authority to discuss the functional allocation approach and metrics for assigning operating costs to rate categories. The Water Authority’s allocation approach is consistent with the 2014 study and remains unchanged.

The results of this independent review and analysis confirm the CY 2016 rates and charges calculated by the Water Authority. The details of this analysis are presented within the body of this report.

1.5 SUMMARY OF FINDINGS

The Water Authority has developed a clear and defensible process to allocate system expenditures to rate categories and fairly and reasonably recover those expenditures from member agencies. The analysis performed by Carollo has confirmed that the Water Authority’s cost-of-service approach and the proposed CY 2016 rates and charges as determined in this report comply with cost-of-service principles, industry best practices, and applicable legal requirements.

Based on our independent review and rate development, the proposed CY 2016 cost of service water rates and charges are illustrated in Table 1 below.

<table>
<thead>
<tr>
<th>TABLE 1 SUMMARY OF PROPOSED CY 2016 WATER RATES AND CHARGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service Charge ($M)</td>
</tr>
<tr>
<td>Storage Charge ($M)</td>
</tr>
<tr>
<td>Supply Reliability Charge ($M)</td>
</tr>
<tr>
<td>Melded M&amp;I Supply Rate ($/AF)</td>
</tr>
<tr>
<td>Melded M&amp;I Treatment Rate ($/AF)</td>
</tr>
<tr>
<td>Transportation Rate ($/AF)</td>
</tr>
</tbody>
</table>
2 Introduction

Carollo conducted an independent review of the Water Authority’s CY 2016 water rates and charges. The purpose of this Cost-of-Service Study was to calculate the proposed CY 2016 water rates and charges consistent with cost-of-service principles and the AWWA M1 guidelines, Board policy, and legal requirements. The results of this study are outlined within the body of this report.

The cost-of-service and rate development review process consisted of the following steps:

- **Revenue Requirement Analysis**
  - Reviewed the total revenues required to fund operations, capital, debt service and coverage, and policy requirements.

- **Functional Allocation by Rate Category**
  - Allocate the revenue requirements and offsetting revenues to the Water Authority's five water rate and charge categories in a fair and equitable manner.

- **Water Rates and Charges**
  - Set rates to recover the revenue requirements from member agencies based on water sales projections.

- **Member Agency Allocation**
  - Allocate expenditures to each member agency based on water demand patterns and other key metrics.

Based on this study review and in our professional opinion, we have concluded that the Water Authority’s CY 2016 rates and charges are consistent with AWWA cost-of-service principles, Board policies and legal requirements, and appropriately recover costs from Member Agencies as described herein.

2.1 Background on Existing Rates and Charges

The Water Authority sets water rates and charges, when combined with other revenues, which are sufficient to pay operating expenses, provide for maintenance and repair of facilities, provide for payment of principle and interest on debt, and provide reasonable reserves consistent with bond covenants and sound fiscal management. As a public agency, the Water
Authority sets rates and collects other revenues to meet all reasonably anticipated costs of its operations as required by law.

On June 27, 2002, the Water Authority adopted Ordinance No. 2002-03 establishing the current revenue structure, which consists of: ad valorem property taxes, including payments of member agencies in-lieu of taxes; a Water Standby Availability Charge levied pursuant to § 5.2 of the County Water Authority Act; an Infrastructure Access Charge imposed on member agencies as a condition of maintaining connections to Water Authority facilities; a capacity charge levied pursuant to § 5.9 of the County Water Authority Act; and rates and charges for delivery and supply of water, use of facilities, and provision of other services. This revenue structure is reflected in § 5.00.050 of the Water Authority Administrative Code.

The June 2002 Board action unbundled the then uniform commodity rate, creating separate commodity rates and charges for customer service, storage, supply, and transportation. This action was the result of a multi-year work effort involving the member agencies, Water Authority staff, and consultants. The unbundled rates and charges took effect January 1, 2003. With the development of the Twin Oaks Water Treatment Plant, treatment was later added as the final functional rate category in 2006. In March 2015, the Board added a Supply Reliability Charge for inclusion in CY 2016 rates and charges as described in this report.

2.2 CRITERIA FOR FINDINGS AND RECOMMENDATIONS

To confirm the appropriateness and general application of AWWA cost-of-service principles, Board policies, and legal requirements, Carollo applied the following framework throughout the review:

- Does the cost allocation approach result in a fair, reasonable, and quantifiable connection between cost of service and benefit received?
- Is the allocation approach and methodology consistent with standards established in the AWWA M1 manual, meet Board policies, and adhere to applicable legal requirements?
- Have the policies and standards been applied consistently by the Water Authority? Is it likely that the allocation approach will be appropriate for use by the Water Authority in the future?
- Are there issues or processes that may be appropriate to highlight for possible financial review?

The review presented in this report applies these criteria to the existing revenue requirement and water rate and charge methodology utilized by the Water Authority.
2.3 KEY GOVERNING BOARD POLICIES

In setting its rates and charges, the Water Authority must first meet cost-of-service requirements, in which rates and charges may not exceed the reasonable cost of providing the services, as well as clearly demonstrating the nexus between the costs allocated and services provided to customers. As this requirement is achieved, the rates must also adhere with adopted Board policies, which serve as the basis for the determination of the total revenue requirement as well as the proportion of the revenue requirement to be recovered by fixed charges and variable commodity rates. Several key Board Policies are highlighted below and can be found in the appendix of this report.

2.3.1 Infrastructure Access Charge

In 1998, Resolution No. 98-26, the Board established the Infrastructure Access Charge (IAC). The intent of the IAC is to provide the Water Authority with a more appropriate balance of fixed and commodity revenues. Prior to the implementation of the IAC, the Water Authority’s revenues had a greater dependency on variable revenues that fluctuated with demand and did not adequately align with the existing cost structure. As such, the IAC was designed to be independent of commodity sales and the new business development cycle and generate a minimum 25 percent ratio of fixed revenues to fixed expenditures. Resolution No. 98-26 is included as Appendix A.

2.3.2 Ordinance No. 2002-03

Following development and implementation of the IAC, the Water Authority reviewed the existing rate structure and redesigned the rate structure in 2002. Ordinance No. 2002-03 transitioned the rate structure from a historical unit price (“postage stamp”) water rate to assigning the revenue requirements to functional categories. The rate structure was split into fixed and variable components. The fixed water rate categories are comprised of the Storage and Customer Service charges. The variable water rate categories encompass the Transportation, Melded M&I treatment, and Melded M&I Supply rates. This transition further aligned the Authority’s expenditure and cost recovery nexus. The ordinance in its entirety is included as Appendix B.

2.3.3 Financial Management Amendment (2006)

In 2006, following the recommendations of the Rate Model Workgroup (RMWG) and Administrative and Finance Committee, the Board amended the Water Authority’s financial policies regarding the Rate Stabilization Fund (RSF) and Debt Service Coverage Ratio (DSCR). As part of the amendments, the Board established a target funding level for the RSF that better protects the Water Authority against the financial impact of 2.5 years of wet weather (3.5 years max). In addition, it established a target DSCR of 1.50x, which is above the minimum legal bond covenant of 1.20x.
The overall benefits of the amendments included reduced rate volatility, increased protection against wet weather, a transparent and flexible RSF framework, and increased cash funding of the Capital Improvement Program (CIP). The RSF also provides a mechanism for rate smoothing and source of emergency funding, as necessary. Furthermore, it strengthened key financial ratios—higher debt service coverage ratio, decreased debt ratio and increased cash days—to support the maintenance of the Water Authority’s AA+ credit ratings and access to lower interest rates. The Board Action, implementing the RMWG Financial Policy Proposal is included as Appendix C.

2.3.4 Administrative and Finance Committee Recommendations (March 2015)

Following a collaborative effort over the previous 18 months, on March 26, 2015, the Board approved the Administrative and Finance Committee’s Fiscal Sustainability and Transitional Special Agricultural Water Rate Program recommendations. The committee was tasked with identifying issues related to the long-term fiscal sustainability of the Water Authority’s revenue structure and evaluating enhancements that would strengthen the Water Authority’s fiscal health.

The resulting and approved recommendations included (1) the addition of the Supply Reliability Charge, as defined in the A&N Technical Services memorandum to the Water Authority’s rate and charge structure; (2) the allocation of non-commodity revenues to all rate and charge categories including treatment, as recommended in the 2014 Cost of Service Report; (3) the permanent application of the debt and equity payments for the Carlsbad Desalination Plant to the Supply Rate; and (4), the extension of the Transitional Special Agricultural Water Rate Program through December 31, 2020.

2.4 Overview of Legal Cost-of-Service Requirements

The Water Authority’s rates must adhere to California constitutional and statutory requirements. In general, California law requires agencies imposing water rates and charge to demonstrate a nexus between the cost of providing services and the service or benefits received. Beyond the cost-of-service requirements imposed by the constitution and general statutory law, the Water Authority must also adhere to the County Water Authority Act.

Section 7 (j) of the County Water Authority Act states that the “board of directors, so far as practicable, shall fix such rate or rates for water as will result in revenue which will pay the operating expenses of the authority, provide for repairs and maintenance, and provide for the payment of interest and principal of the bonded debt.” The revenue requirement (e.g., “costs”) described in this report is grounded on this statutory requirement, the Water Authority’s General Resolution, and sound fiscal management. These costs are then apportioned to the member agencies through the allocation of fixed charges and variable rates described in the adopted rate structure according to service function. The apportionment is accomplished in accordance with standards established by California law,
including the provisions summarized below, which, while stated a bit differently, essentially describe the same cost-of-service standard.

**Proposition 26** – This proposition was adopted by the voters in November 2010. Among other things, it amended California Constitution article XIII C, section 1 to add a definition of “tax.” As defined by Proposition 26, a tax means “any levy, charge, or exaction of any kind imposed by a local government” with certain enumerated exceptions. There are two applicable exceptions:

- The exception for a “charge imposed for a specific benefit conferred or a privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege,” and
- The exception for a “charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.”

Proposition 26 establishes that: “The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.”

**Government Code Section § 50076** – This section of the Government Code was adopted in 1979, following the adoption of Proposition 13 in 1978. It provides that special taxes “shall not include any fee which does not exceed the reasonable cost of providing the service or regulatory activity for which the fee is charged.”

**Government Code Section § 54999.7** – This is another section that grounds public agency rate-setting on cost-of-service principles and states that fees “for public utility service, other than electricity or gas, shall not exceed the reasonable cost of providing the utility service.” It also provides that the fees will be “established in consideration of service characteristics, demand patterns, and other relevant factors.”

**County Water Authority Act Section 5 (13)** – This provision of the County Water Authority Act provides that in setting rates, “the board may establish reasonable classifications among different classes and conditions of service, but rates shall be the same for similar classes and conditions of service.” The Water Authority’s General Counsel has advised Carollo that this provision requires that rates be non-discriminatory and that differences in rates or rate apportionment be based on service differences, such as with the non-allocation of storage charge to agricultural customers. The General Counsel has also advised that this section may be construed consistently with the Constitutional and statutory cost-of-service requirements described above.
2.5 OVERVIEW OF GENERALLY ACCEPTED RATE-SETTING STANDARDS

In addition to formal Board policies and objectives, the AWWA established a general set of principles used to guide the development of water rates. These principles were developed and published in the M1 Manual – *Principles of Water Rates, Fees, and Charges*. These guiding principles outline a consistent, universal approach and minimum standard that is employed by most agencies when setting rates and charges. The M1 Manual denotes that there is no prescribed single approach for establishing cost-based rates. Rather, agencies must exercise judgment to align rates and charges with local conditions and requirements, as well as applicable state law.

These guidelines, along with applicable California law, the Board’s policies, and industry best practices have been utilized within the Water Authority’s rate-setting framework to help develop water rates and charges that are cost based and fairly, reasonably, and lawfully quantified and allocated to comply with the legal requirements outlined in Report Section 2.4. Throughout this report, compliance with industry standards shall refer to the AWWA M1 manual and industry best practices.
3 REVENUE REQUIREMENTS

A revenue requirements analysis defines the annual system revenue to be recovered through water rates and charges. The revenue requirement is typically derived of five components: Operations & Maintenance Expenditures; Annual Debt Service; Policy Requirements & Coverage; Capital Expenditures; and, Offsetting Revenues.

Table 2 outlines the Water Authority’s CY 2016 revenue requirements.

<table>
<thead>
<tr>
<th>REVENUE COMPONENT</th>
<th>CY 2016 TOTAL</th>
<th>DESCRIPTION</th>
<th>REPORT SECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Costs</td>
<td>$47.07</td>
<td>The Operating Departments Budget funds the day-to-day operations of the Water Authority.</td>
<td>3.1</td>
</tr>
<tr>
<td>Debt Service (LTD + STD)</td>
<td>$122.80</td>
<td>The Water Authority uses debt to fund capital and refund previous debt (long-term debt only).</td>
<td>3.3.1</td>
</tr>
<tr>
<td>Offsetting Revenues</td>
<td>($75.95)</td>
<td>Additional revenues generated from sources, outside traditional water rates and charges are applied as a credit to reduce required rates and charges revenues. Includes the IAC, standby availability charges, system and treatment capacity charges, property taxes, interest earnings, and miscellaneous revenues.</td>
<td>3.4</td>
</tr>
<tr>
<td>Operating Rev Req Before Coverage</td>
<td>$93.92</td>
<td>Revenue requirements associated with the Water Authority’s operating costs, debt service, and offsetting revenues.</td>
<td></td>
</tr>
<tr>
<td>Misc. Cost Recovery</td>
<td>$17.55</td>
<td>Miscellaneous Cost Recovery includes seepage and evaporation, recovery of working capital for the San Vicente dam raise, local supply development, and Twin Oaks Valley WTP reimbursement</td>
<td>3.2</td>
</tr>
<tr>
<td>Rev Req Before Coverage</td>
<td>$111.47</td>
<td>Revenue requirements including miscellaneous cost recovery.</td>
<td></td>
</tr>
<tr>
<td>Remaining Coverage &amp; Reserve Driven Needs</td>
<td>$43.74</td>
<td>Revenue requirements associated with meeting the Water Authority’s Financial Management Policies.</td>
<td>3.7</td>
</tr>
<tr>
<td>Water Sales Rev Req</td>
<td>$155.21</td>
<td>Total required revenues including coverage and reserve needs.</td>
<td></td>
</tr>
</tbody>
</table>
The following Report Section delineates the cost categories included in the Water Authority’s annual revenue requirement analysis.

### 3.1 OPERATIONS AND MAINTENANCE COSTS

As part of the multi-year budget, an operating forecast is developed by the Water Authority’s various departments. For the Water Authority, operating budget expenditures account for most of the day-to-day expenditures for operation. The operating budget expenditures include: Administrative Services, Colorado River Program, Engineering, Finance, General Counsel, General Manager, MWD Program, Operations and Maintenance, Public Outreach and Conservation, and Water Resources. For CY 2016, the Water Authority’s operating costs are projected to be $47.07 million.

<table>
<thead>
<tr>
<th>TABLE 3 DETERMINATION OF OPERATING COST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEPARTMENT</strong></td>
</tr>
<tr>
<td>----------------------------------------</td>
</tr>
<tr>
<td>FY 2016 Operating Budget</td>
</tr>
<tr>
<td>FY 2017 Operating Budget</td>
</tr>
<tr>
<td>Total FY 2016 and 2017 Operating Costs used for rates and charges</td>
</tr>
<tr>
<td>Calculated CY 2016 Operating Costs(^{(2)})</td>
</tr>
</tbody>
</table>

**Notes:**

\(^{(1)}\) Presented in million dollars, calculations in tables may not foot due to rounding.

\(^{(2)}\) CY 2016 Operating Costs are calculated by dividing the Total FYs 2016 and 2017 Operating Costs used for rates and charges by two, as the calendar year rates will collect half of each fiscal year costs.

### 3.2 MISCELLANEOUS COST RECOVERY

Miscellaneous Cost Recovery consists of expenses not included in annual Operating Costs and other cost recoveries to the Water Authority. Miscellaneous Cost Recovery is an important element of the Water Authority’s annual revenue requirements.

Miscellaneous Cost Recovery totals $17.55 million in CY 2016, which is allocated to rate categories based on the nature of the cost that was incurred. Miscellaneous Cost Recovery includes the following:

**Stored Water Fund:** This is the working capital cost to purchased water for the filling of the San Vicente Dam. Due to the long-term benefit of water reliability, the cost of the dam fill is amortized over 6 years in order to fairly and reasonably spread the expenditure across member agencies based on a multi-year water demand trend. Costs are allocated to the storage rate component to adequately recover the associated cost while mitigating the overall rate impact. A total of $5.98 million will be recovered through the CY 2016 rates.

**Emergency Storage Project Evaporation:** This cost accounts for the cost of purchased water that is lost due to surface water evaporation. As this is a function of storage, the $6.77 million...
cost has been allocated to the storage rate component and will be recovered through the CY 2016 rates. The CY 2016 cost represents an increase from CY 2015 due to greater expected storage and evaporation levels.

**Local Water Supply Development:** This is the cost to implement local water supply projects within the Water Authority’s service area in order to provide a long-term reliable and sustainable supply. The cost is recovered through the Customer Service charge to recognize the general region benefit. A total of $4.03 million will be recovered through the CY 2016 rates.

**Twin Oaks Reimbursement:** This reimbursement reflects a 25-year payback to customer service for the upfront investment in the implementation of the Twin Oaks Valley Water Treatment Plant. This original investment was funded through use of Pay-as-you-Go (PAYGO) funds, which had been historically collected from the non-treatment functional rate categories. The cost is recovered through the treatment charge. A total of $0.77 million will be recovered through the CY 2016 rates.

### 3.3 Capital Costs

The Water Authority’s existing CIP is based on the results of planning studies, including the 2010 Urban Water Management Plan (UWMP) and the 2002 Regional Water Facilities Master Plan and extends through 2030. These CIP projects include a mix of new facilities that will add capacity to existing conveyance, storage, and treatment facilities, as well as repair and replace aging infrastructure. The Water Authority utilizes both PAYGO and debt financing to fund capital improvements.

#### 3.3.1 Annual Debt Service

The Water Authority finances major capital improvements, in part, by issuing debt for two primary reasons. First, given the size of recent capital projects, the Water Authority does not have the financial reserves available that would otherwise be required to fund the CIP nor would it be reasonable to increase the water rates and charges in order to cash fund these improvements. Secondly, spreading the debt service costs for the project over the repayment period provides intergenerational equity by effectively spreading the financial burden between both existing and future users of the system. This approach allows the Water Authority to better match the cost of improvements with those benefitting from the improvements. This methodology is internally consistent with the development of the Water Authority’s System and Treatment Capacity Charges.

Finally, as an auxiliary benefit to the use of debt, the cash generated from meeting the Water Authority’s coverage requirements provides additional cash that can be used to fund PAYGO projects.
Excluding the Build America Bonds (BABs) subsidy and Helix apportioned debt, the net FY 2016 long-term debt service expenditure for allocation is $115.62 million. Short-term debt service expenditures, excluding Helix, for FY 2016 are projected at $8.91 million. Helix related debt is $1.21 and $0.18 million for long-term and short-term debt service respectively. The sum of these debt obligations reflect the Water Authority’s recent debt restructuring and ability to take advantage of optimal market conditions in order to reduce its debt burden. These actions include the following:

- Series 2004A Certificates of Participation (COPs) – The defeasance of these bonds reduced FY 2016 debt service by $2.2 million or provided approximately $8/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage.
- Series 2008A COPs – Restructured FY 2016 debt service payments by defeasing $12.1 million in principal or provided approximately $52/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage. This action is a one-time reduction in debt service and only impacts FY 2016 debt service payments.
- Rate Stabilization Fund draw – With the recent debt reductions, the Water Authority is projected to be able to draw $8 million from the RSF in FY 2016, which will help to mitigate the CY 2016 rate and charge increases.

3.3.2 Non-Debt Capital Expenditures

To maintain its targeted capital structure, the Water Authority augments its use of short and long-term debt by funding a portion of its capital program with cash through its PAYGO Funds. The Water Authority amortizes the cash funds used for capital to reduce the immediate and cyclical impact on rates. In addition, as stated above, excess funds derived from meeting the Water Authority’s targeted debt coverage ratio enables cash funding of capital projects. The Water Authority is projecting an estimated $25 million in cash expenditures for capital projects.

3.3.3 Depreciation

The Water Authority does not adjust rates to recover system depreciation. Rather, the Water Authority operates on a cash basis and the cost to rehabilitate and improve the system is accounted for through direct capital reinvestments. The cost of renewing the system over time is captured in the on-going renewal and replacement related CIP as included in the 30-year budget. This approach also creates consistency with the Water Authority’s capacity charge methodology, which excludes depreciated asset values from the buy-in cost basis of the charge, and then recovers a proportionate share of the CIP through the charge. It is important to note that once a meter is connected to the system, the user is then obligated to fund a proportionate share of future capital improvements and ongoing debt obligations through the water rates and charges.
3.4 OFFSETTING REVENUES TO REDUCE REVENUE REQUIREMENTS

Beyond water rates and charges, the Water Authority collects revenues through other various funding sources. These revenues provide a credit against the total revenues that must otherwise be collected annually from rates. Offsetting revenues include the IAC, standby availability charges, system and treatment capacity charges, property taxes, interest earnings, and miscellaneous revenues.

Table 4 details the offsetting revenues and provides a brief description source of revenue.

<table>
<thead>
<tr>
<th>REVENUE COMPONENT</th>
<th>CY 2016 REVENUES</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Offsets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>System Capacity Charge</td>
<td>$13.84</td>
<td>The charge is designed to recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority’s service area.</td>
</tr>
<tr>
<td>Treatment Capacity Charge</td>
<td>$0.30</td>
<td>Helps fund the Water Authority’s regional water treatment facility. The charge recovers a portion of the capital costs from the future users of the Treatment facility.</td>
</tr>
<tr>
<td>Standby Availability Charge</td>
<td>$11.25</td>
<td>This fixed charge, which is in the nature of a special assessment, is limited by statute and funds some of the capital costs associated with maintaining the system and is $10 per acre per year, or $10 for a parcel less than one acre per year. The charge was first established prior to the adoption of Proposition 218, and has been continuously levied pursuant to law at pre-Proposition 218 levels.</td>
</tr>
<tr>
<td>PAYGO Earnings</td>
<td>$1.01</td>
<td>Interest earnings on the Water Authority’s PAYGO Fund.</td>
</tr>
</tbody>
</table>
### OPERATING OFFSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$11.82</td>
<td>The Water Authority receives a portion of the 1% property tax pursuant to the Revenue and Taxation Code.</td>
</tr>
<tr>
<td>IAC</td>
<td>$30.5</td>
<td>The IAC is an annual service charge that is imposed on member agencies and apportioned based on all retail water meters within the Water Authority's service area. The IAC maintains a minimum ratio of projected fixed revenues to projected fixed expenditures of 25% in any future fiscal year, excluding fixed water rate revenues.</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>$1.94</td>
<td>Interest earnings on operating funds.</td>
</tr>
<tr>
<td>Twin Oak Reimbursement</td>
<td>$0.77</td>
<td>Cost reflects a 25-year payback to customer service for the upfront investment in the implementation of the Twin Oaks Valley Water Treatment Plant.</td>
</tr>
<tr>
<td>Misc. Revenue</td>
<td>$4.33</td>
<td>Misc. Revenues primarily consists of revenues from the Water Authority’s long-term agreements to sell hydroelectric power generated from two locations to San Diego Gas and Electric (SDG&amp;E). In addition, it includes reimbursements for operating grants and other nominal revenues.</td>
</tr>
</tbody>
</table>

**Total Offsets** $75.95

### 3.5 INFRASTRUCTURE ACCESS CHARGE

In addition to revenues generated through the five rate and charge categories, the Water Authority has additional revenues used to meet the annual rate revenue requirements. The most significant of these offsetting revenues is the IAC. The IAC was implemented in 1998 by Board policy to reduce financial vulnerability due to fluctuations in annual Water Authority revenues. This is accomplished by increasing the amount of fixed expenditures recovered through fixed charges. The IAC was designed to generate a minimum 25 percent ratio of fixed revenues to fixed expenditures.

Consistent with the Board policy, the IAC is comprised of 25 percent of the forecasted four-year average of Debt Service (long- and short-term debt) and 80 percent of forecasted four-year average O&M costs, times 110 percent. Based on the results of an expenditures analysis at the time of implementation, the Water Authority concluded that roughly 80 percent of the agency’s operating costs were fixed (e.g., personnel costs) and did not vary based on water sales. Additionally, the level of fixed expenditures to be recovered through the IAC was established to mitigate fluctuations in net revenues due to water sales volatility that the Water Authority had experienced. Finally, in establishing the IAC Policy, the
Board increased the 25 percent fixed expenditure recovery by 10 percent to account for potential fluctuations in expenditures and offsetting revenues, as well as cost yet to be identified in the four year budget forecast.

From this, the forecasted four-year average of the Water Authority’s Standby Availability Charge and property tax revenues are credited to recognize other fixed revenues. As detailed below, the IAC provides $30.50 million in revenue offsets against the required water rate and charges required revenues. The IAC is allocated to each member agency based upon the previous year’s total household meter equivalents (as reported by the member agencies). A meter equivalent is based on a meter size less than 1-inch. For CY 2016, the monthly IAC is proposed at $2.76 per household meter equivalent. Table 5 illustrates the calculation of the proposed IAC.

**TABLE 5 INFRASTRUCTURE ACCESS CHARGE CALCULATION ($ IN MILLIONS)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Debt Service</td>
<td>$126.54</td>
</tr>
<tr>
<td>Misc LTD Fees</td>
<td>0.02</td>
</tr>
<tr>
<td>Total Short Term Debt Service and Costs</td>
<td>11.75</td>
</tr>
<tr>
<td>Administration and Maintenance times 80%</td>
<td>38.40</td>
</tr>
<tr>
<td>Transportation O&amp;M times 80%</td>
<td>0.04</td>
</tr>
<tr>
<td>Total Local Supply Development Costs times 80%</td>
<td>3.22</td>
</tr>
<tr>
<td>ESP Evaporation and System Losses times 80%</td>
<td>6.74</td>
</tr>
<tr>
<td>Desalination FY Pipeline Cost</td>
<td>8.95</td>
</tr>
<tr>
<td><strong>Total Fixed Costs</strong></td>
<td><strong>$195.66</strong></td>
</tr>
<tr>
<td>Total Fixed Costs Times 110% Times 25%</td>
<td><strong>$53.81</strong></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Other Tax Receipts</td>
<td>($12.06)</td>
</tr>
<tr>
<td>Standby Availability Charge Rev</td>
<td>(11.25)</td>
</tr>
<tr>
<td><strong>Remaining Fixed Cost Need (IAC Revenue)</strong></td>
<td><strong>$30.50</strong></td>
</tr>
<tr>
<td>Average Number of Meters Used in Calculation</td>
<td>920,190</td>
</tr>
<tr>
<td>Proposed CY 2016 IAC Per Meter Equivalent (Monthly in dollars)</td>
<td>$2.76</td>
</tr>
</tbody>
</table>
3.6 REVENUE SUFFICIENCY

Water Authority revenues must be sufficient on a fiscal year basis to meet two tests – (1) cash flow and (2) bond coverage. These sufficiency tests are commonly used to determine the amount of annual revenue that must be generated from an agency’s rates.

- **Cash Flow Sufficiency Test:**
  The cash flow test defines the amount of annual revenues that must be generated in order to meet annual expenditure obligations of the utility. These needs can include direct cash expenditures as well as planned transfers or additions to reserves.

- **Bond Coverage Sufficiency Test:**
  Bond coverage refers to the collection in revenues to meet all operating expenses and debt service obligations plus an additional multiple of that debt service. The Water Authority has a legally required minimum bond coverage ratio of 1.20x and a policy target of 1.50x. The Water Authority, as do many utilities, established a policy target in excess of legal requirements to retain or attain high bond ratings with correspondingly lower interest costs.

The revenue requirement analysis sets water rate and charge revenues at a level sufficient to pass both tests. Revenue requirements are considered either “cash flow” or “coverage” driven based on the test that requires a greater adjustment. The Water Authority’s current annual revenue requirements are coverage driven – it must generate revenues in excess of its cash needs in order to meet its legal and policy debt requirements. These excess revenues then become available to fund future capital projects, non-cash items, and reserves.

3.7 FINANCIAL POLICIES

The Water Authority has a legally required minimum bond coverage ratio of 1.20x on senior lien debt service. In order to maintain strong bond ratings and mitigate the impacts of annual water demand fluctuations, the Board sets rates to meet a senior lien debt service coverage target of 1.50x, inclusive of RSF transfers, and 1.00x excluding capacity charge revenues.

As shown on the figure below, the Water Authority is projected to meet the Board policy target of 1.50x for FY 2016 after having allowed short-term deviations from the Board target in order to mitigate rate increases due to water demand reductions associated with statewide drought conditions and water pumping restrictions from the Bay-Delta. Although the

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3 This requirement is established by the Water Authority General Resolution as amended. This resolution and amendments are attached as Appendix D of this report.
coverage ratio fell below the Board target, the Water Authority’s coverage ratio remained well above its legal requirement.

### SENIOR DEBT SERVICE COVERAGE

In addition to annual bond coverage requirements, the Water Authority sets aside money into the RSF, which, by covenant, may be used to meet the Water Authority’s legal bond coverage requirement in a year that other revenues are insufficient. The RSF is a critical short-term water rate management tool and helps the Water Authority manage weather-related revenue risk and stabilize annual revenue needs through rate smoothing. Given the forecasted loss of 100,000 AF in demands, as a result of the drought mandates, the Water Authority has forecasted a withdrawal of nearly $8.0 million in FY 2016.

Finally, for CY 2016, the Water Authority’s revenue requirements are coverage driven. In order to meet this policy bond coverage target and allocate revenues to the RSF, the Water Authority must collect an additional $43.74 million above its operating costs and debt service obligations. The bond coverage target is calculated based on net revenues, excluding capital expenses and policy requirements, such as additions to reserves. Revenues collected to fund these excluded expenditures help to meet the annual bond coverage requirement.

Rate setting cannot be viewed as a single year process nor in a vacuum. There are many variables that fluctuate from year to year causing changes to demands as well as expenditures. Additionally, there may be known costs in the future that need to be proactively funded to prevent rate shock. Reserve and rate smoothing policies provide a mechanism to normalize and smooth rates over a multi-year process. These policies prevent a whipsaw effect of rates and greater predictably to its member agencies.
4 Allocation of Revenue Requirements to Functional Categories

The purpose of a cost-of-service analysis is to provide a reasonable basis for distributing the full costs of the Water Authority’s operations and capital investments to rate categories and then the member agencies in proportion to the demands placed on or benefits received from the system. The Water Authority currently maintains five functional rate categories. These components are developed and designed to mirror the nature in which expenditures are incurred. The Water Authority’s operating budget is allocated, by division, to a specific rate category as part of the development of the two-year budget process. This process is based on clear, concise, and consistent rate and charge category definitions. In the allocation process, if work performed in a department or program is not specifically applicable to one of the five rate categories defined below, it is considered General and Administrative (G&A). This category is applicable to departments who support the internal operations of the Water Authority, such as Finance and Administrative Services.

Debt issuances and the associated annual debt services are allocated to rate categories based on the specific capital improvement projects financed through bond sales. Additionally, the Water Authority utilizes a combination of cash and PAYGO reserves to pay for capital projects. However, in an effort to minimize the immediate impact to rates, the Water Authority amortizes cash expenditures directly to the related rate category. The Water Authority uses its calculated weighted cost of capital as the interest rate on cash used for capital expenditures in each respective year. The Water Authority assumes a 1.5 percent reserve factor and a 30-year amortization term to calculate the projected annual cash payment stream. The annual cash payments are allocated to rate categories based on the same percentages developed to allocate long-term debt service.

4.1 Allocation Categories

The Water Authority allocates its annual operating budget to the five functional rate categories. As applicable and identifiable, these expenditures are assigned directly to rate categories. For expenditures incurred for the general operations of the Water Authority, costs are allocated to G&A and then redistributed to five functional categories based on their weighted average of directly assignable operating costs. A description of each category is as follows:

4.1.1 Customer Service

The Customer Service charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and to implement system-wide programs. Cost recovered through the customer service charge include, but are not limited to customer billing, public relations, and expenses associated with the Board of Directors.
4.1.2 Storage
The Storage charge is set to recover costs associated with the ESP and CSP. The ESP is a system of reservoirs, interconnected pipelines, and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries. An example of expenditures or programs allocated to this category would be a division which works in support of the ESP projects such as Olivenhain Dam and Reservoir Operations in the Operations and Maintenance Department. Agriculture customers do not benefit from the Storage charge as addressed in Report Section 5.3.

4.1.3 Supply
The Supply rate recovers the cost of water supply incurred by the Water Authority, including the purchase of water from MWD, the IID, the Coachella and the All-American Canals, costs of MWD wheeling for non-MWD water supplies, desalination water costs, and certain other costs associated with the Quantification Settlement Agreement (QSA).

4.1.4 Transportation
The Transportation rate is set to recover capital, operating, and maintenance costs of the Water Authority’s aqueduct system, including all facilities used to physically transport the water to member agency meters, excluding certain distribution facilities covered under the East County Treatment Agreement. An example of this category would be the maintenance division in the Operations & Maintenance Department. This division maintains the valves, pipelines, and facilities that are integral to the aqueduct system.

4.1.5 Treatment
The Treatment rate is designed to recover the Water Authority’s cost of treating water. The Melded M&I Treatment Rate includes the costs of purchasing treated water from MWD, the operating and capital costs associated with the Water Authority’s agreement with Helix Water District’s Levy Water Treatment Plant, operating costs associated with the Olivenhain Treatment Plant, and the operating and capital (debt service) costs associated with the construction of the Twin Oaks Valley Treatment Plant.

4.1.6 General & Administrative
Expenditures that cannot reasonably be allocated directly to a rate category are assigned to G&A, which supports the general function of the Water Authority. An example of a cost that is assigned to G&A is accounting. Approximately 25 percent of the operating budget is allotted to the G&A allocation category for the CY 2016 rates. As no rate component directly relates to G&A, these costs are reallocated to the other rate components based on total direct budget allocation to customer service, storage, supply, transportation, and treatment.
4.2 ALLOCATION SUMMARY

As part of the 2014 rate setting process, Carollo held interviews with select departments and divisions in order to confirm the appropriateness of the application of the annual budget allocation based on cost of service principles. The interviews evaluated the basis of the percentage allocations and developed the reasoning that allocations varied from the previous process, if applicable. In most cases, costs were allocated based on the historical and forecasted employee utilization and direct expenditures.

Based on Carollo’s review of FY 2016 and 2017 operating expenditures, the provided allocations appear reasonable and continue to be based on sound and defensible definitions.

4.2.1 Allocation of Operating Costs

Table 6 illustrates the allocation of CY 2016 operating costs to each rate category based upon the total weighted average FY 2016 and FY 2017 expenditure allocation.

<table>
<thead>
<tr>
<th>CY 2016 &amp; 17 ALLOCATION</th>
<th>CY 2016 EXPENDITURES</th>
<th>CUSTOMER SERVICE</th>
<th>STORAGE</th>
<th>TRANSPORTATION</th>
<th>SUPPLY</th>
<th>TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Allocation</td>
<td>100%</td>
<td>32.1%</td>
<td>6.6%</td>
<td>37.5%</td>
<td>22.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cost Allocation</td>
<td>$47.07</td>
<td>$15.11</td>
<td>$3.08</td>
<td>$17.67</td>
<td>$10.75</td>
<td>$0.47</td>
</tr>
</tbody>
</table>

4.2.2 Allocation of Debt Service

For each debt issuance, the Water Authority actively allocates its use of long-term and short-term debt. Each issuance is apportioned to rate components based on specific projects funded. As a result, the Water Authority’s debt service is allocated in a defensible and equitable manner. Table 7 provides a summary allocation of the total FY 2016 debt service by functional rate category. As noted earlier, debt service excludes super subordinate debt related to the Desalination Pipeline.
### TABLE 7 DEBT SERVICE ALLOCATION SUMMARY ($ IN MILLIONS)

<table>
<thead>
<tr>
<th>REVENUE REQUIREMENT</th>
<th>FY 2016 TOTAL</th>
<th>CUSTOMER SERVICE</th>
<th>STORAGE</th>
<th>TRANSPORTATION</th>
<th>AGRIC</th>
<th>TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTD Service</td>
<td>$113.70</td>
<td>$11.89</td>
<td>$50.03</td>
<td>$38.91</td>
<td>$7.27</td>
<td>$5.59</td>
</tr>
<tr>
<td>STD Service</td>
<td>9.10</td>
<td>0.78</td>
<td>3.98</td>
<td>2.38</td>
<td>0.96</td>
<td>0.99</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>$122.80</td>
<td>$12.67</td>
<td>$54.01</td>
<td>$41.29</td>
<td>$8.24</td>
<td>$6.59</td>
</tr>
</tbody>
</table>

Notes:
(1) Includes Super Subordinate rate for Desalination Pipeline (Transportation - LTD)

### 4.2.3 Allocation of Offsetting Revenues

Offsetting revenues provide a credit against rate revenue needs. Operating revenue offsets are allocated to each functional rate category proportionate to the two-year average expenditures by rate category. Based on the finding of the 2014 Report and the Board approved recommendations, these revenue offsets now incorporate treatment. As the treatment rate was implemented after the other four rate categories had been established, it was originally considered as a separate and stand-alone charge. However, this rate is now handled in a similar fashion to all other rate components.

Table 9 provides the allocation factors that are used to distribute each offsetting revenue.

### TABLE 8 ALLOCATION FACTORS FOR OFFSETTING REVENUES

<table>
<thead>
<tr>
<th>METHODOLOGY</th>
<th>APPLICABLE OFFSETTING REVENUES</th>
<th>CUSTOMER SERVICE</th>
<th>STORAGE</th>
<th>TRANSPORTATION</th>
<th>SUPPLY</th>
<th>TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Excluding Treatment</td>
<td>System Capacity Charges</td>
<td>10.4%</td>
<td>46.3%</td>
<td>35.2%</td>
<td>8.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Capital</td>
<td>Water Standby Charges</td>
<td>9.88%</td>
<td>44.08%</td>
<td>33.54%</td>
<td>7.78%</td>
<td>4.7%</td>
</tr>
<tr>
<td></td>
<td>PAYGO Earning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>IAC</td>
<td>15.8%</td>
<td>38.6%</td>
<td>31.7%</td>
<td>10.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td></td>
<td>Property Taxes &amp; In-Lieu Charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Operating revenue offsets include property taxes, IAC revenue, interest earnings, and miscellaneous revenues. The Water Authority also accounts for system capacity charge revenue, water standby availability charges, and interest earning on PAYGO reserves. These capital related offsets are allocated to the Water Authority’s customer service, storage, supply, transportation, and treatment rate components based on its respective share of the total capital expenditures for the two-year budget period. System capacity charge revenue continues to exclude treatment as no treatment costs are recovered in this charge. Finally, treatment capacity charges are allocated directly to the Water Authority’s treatment rate category as a reimbursement for treatment-related capital expenditures.

Table 9 illustrates the offsetting revenues and allocated offsets to each rate component.

<table>
<thead>
<tr>
<th>Capital Offset</th>
<th>TOTAL REVENUE OFFSETS</th>
<th>CUSTOMER SERVICE</th>
<th>STORAGE</th>
<th>TRANSPORTATION</th>
<th>SUPPLY</th>
<th>TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>System Capacity Charge</td>
<td>$13.84</td>
<td>$1.43</td>
<td>$6.40</td>
<td>$4.87</td>
<td>$1.13</td>
<td>$ -</td>
</tr>
<tr>
<td>Treatment Capacity Charge</td>
<td>0.30</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.30</td>
</tr>
<tr>
<td>Standby Availability Charge</td>
<td>11.25</td>
<td>1.11</td>
<td>4.96</td>
<td>3.77</td>
<td>0.88</td>
<td>0.53</td>
</tr>
<tr>
<td>PAYGO Earnings</td>
<td>1.01</td>
<td>0.10</td>
<td>0.45</td>
<td>0.34</td>
<td>0.08</td>
<td>0.05</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Offsets</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$11.82</td>
<td>1.87</td>
<td>4.56</td>
<td>3.74</td>
<td>1.23</td>
<td>$0.42</td>
</tr>
<tr>
<td>IAC</td>
<td>30.5</td>
<td>4.82</td>
<td>11.76</td>
<td>9.65</td>
<td>3.18</td>
<td>1.08</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>1.94</td>
<td>0.31</td>
<td>0.75</td>
<td>0.61</td>
<td>0.20</td>
<td>0.07</td>
</tr>
<tr>
<td>Twin Oak Reimbursement</td>
<td>0.77</td>
<td>0.77</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Misc. Revenue</td>
<td>4.33</td>
<td>0.68</td>
<td>1.67</td>
<td>1.37</td>
<td>0.45</td>
<td>0.15</td>
</tr>
<tr>
<td>Desal Offset</td>
<td>.23</td>
<td>.68</td>
<td>.12</td>
<td>.09</td>
<td>.02</td>
<td></td>
</tr>
<tr>
<td>Total Offsets</td>
<td>$75.95</td>
<td>$11.09</td>
<td>$30.54</td>
<td>$24.48</td>
<td>$7.23</td>
<td>$2.61</td>
</tr>
</tbody>
</table>

4.2.4 Additional Expenses
As described in Report Section 3.1, the Water Authority incurs costs beyond those captured within the core budget, such as expenditures which were initially funded using reserves and then recovered from member agencies over time through rates, such as with the filling of the
San Vicente Dam. When developing the rates and charges, the Water Authority accounts for these additional expenditures separately from the base operating expenditures, allocating these expenditures directly to each rate category based on direct benefit.

Table 10 details the additional expenditures that are incurred by each rate category outside the operating budget.

<table>
<thead>
<tr>
<th>TABLE 10 ADDITIONAL EXPENSES (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPENSE</td>
</tr>
<tr>
<td>Twin Oak Reimbursement</td>
</tr>
<tr>
<td>Local Water Supply Development</td>
</tr>
<tr>
<td>ESP Evaporation</td>
</tr>
<tr>
<td>Stored Water Fund</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
</tr>
</tbody>
</table>

### 4.2.5 Coverage Driven Requirements

The bond coverage target is calculated based on net revenues, excluding capital expenses and policy requirements, such as additions to reserves. Although the bond coverage requirement applies to all Water Authority rates and charges revenues in aggregate, the Water Authority establishes rates to separately meet the 1.50x coverage test by rate category, proportionate to its share of overall debt. This approach is designed to fairly and reasonably recover bond coverage and reserve costs by rate category.

Based on the revenues requirements defined above, the Water Authority must generate an additional $43.74 million through rates to achieve a 1.50x debt service coverage ratio and provide funding for the RSF. This is illustrated in Table 11.

<table>
<thead>
<tr>
<th>TABLE 11 REMAINING COVERAGE &amp; RESERVE ALLOCATION SUMMARY (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE REQUIREMENT</td>
</tr>
<tr>
<td>Remaining Coverage &amp; Reserve Driven Needs</td>
</tr>
</tbody>
</table>
4.2.6 Summary of Allocation

Table 12 provides a summary of the Water Authority’s revenue requirements and rate component allocations. The water sales revenues requirements reflect only the portion of water rates and charges related to direct Water Authority operating activities and do not include expenditures such as purchased water costs.

**TABLE 12  REVENUE REQUIREMENTS SUMMARY (IN $ MILLION)**

<table>
<thead>
<tr>
<th>REVENUE REQUIREMENT</th>
<th>CY 2016 TOTAL</th>
<th>CUSTOMER SERVICE</th>
<th>STORAGE</th>
<th>TRANSPORTATION</th>
<th>SUPPLY</th>
<th>TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Costs</td>
<td>$47.07</td>
<td>$15.11</td>
<td>$3.08</td>
<td>$17.67</td>
<td>$10.75</td>
<td>$0.47</td>
</tr>
<tr>
<td>Debt Service (LTD + STD)</td>
<td>122.80</td>
<td>$12.68</td>
<td>$54.01</td>
<td>$41.29</td>
<td>$8.24</td>
<td>$6.59</td>
</tr>
<tr>
<td>Offsetting Revenues</td>
<td>(75.95)</td>
<td>(11.09)</td>
<td>(30.54)</td>
<td>(24.48)</td>
<td>(7.23)</td>
<td>(2.61)</td>
</tr>
<tr>
<td>Operating Rev Req Before Coverage</td>
<td>$93.92</td>
<td>$16.70</td>
<td>$27.56</td>
<td>$34.48</td>
<td>$11.75</td>
<td>$4.44</td>
</tr>
<tr>
<td>Additional Expenses</td>
<td>17.55</td>
<td>4.03</td>
<td>12.75</td>
<td>-</td>
<td>-</td>
<td>.77</td>
</tr>
<tr>
<td>O&amp;M Rev Req Before Coverage</td>
<td>$111.47</td>
<td>$20.72</td>
<td>$39.31</td>
<td>$34.48</td>
<td>$11.75</td>
<td>$5.21</td>
</tr>
<tr>
<td>Remaining Coverage &amp; Reserve Driven Needs</td>
<td>$43.74</td>
<td>$5.68</td>
<td>$23.89</td>
<td>$8.76</td>
<td>$5.41</td>
<td>-$</td>
</tr>
<tr>
<td>Water Sales Rev Req</td>
<td>$155.21</td>
<td>$26.40</td>
<td>$63.20</td>
<td>$43.24</td>
<td>$17.16</td>
<td>$5.21</td>
</tr>
</tbody>
</table>
5 COST OF SERVICE WATER RATES AND CHARGES

Based on the resulting revenue requirements analysis and detailed cost of service allocations, the revenue requirements for each rate and charge category are recovered from the member agencies based on water demand and usage factors. The Water Authority serves two classes of customers: Full Service and Transitional Special Agricultural Water Rate (TSAWR) customers. The following Report Section summarizes the proposed CY 2016 water rates and charges and discusses the TSAWR rates.

5.1 COMMODITY BASED FIXED CHARGES

Fixed revenues are distinguished from variable revenues as they provide a known and predictable annual source of revenue for an upcoming calendar year. The fixed commodity charges are allocated to each agency based on their proportionate share of a three-year rolling average of water demands.

5.1.1 Customer Service Charge

Based on the cost of service analysis, $26.40 million must be recovered through the customer service water rate in CY 2016. These costs are recovered as an annual charge, as these costs do not vary based on current year water demand. Specifically, the costs are allocated among the member agencies based on each agency’s three-year rolling average of all deliveries, excluding member agency wheeled water.

<table>
<thead>
<tr>
<th>TABLE 13 CY 2016 CUSTOMER SERVICE REVENUE REQUIREMENT (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures (LTD &amp; STD)</td>
</tr>
<tr>
<td>O&amp;M + Share of Agency Operating Expenditures</td>
</tr>
<tr>
<td>Gross Revenue Requirements</td>
</tr>
<tr>
<td>Less: Offsetting Revenues</td>
</tr>
<tr>
<td>Capital Related</td>
</tr>
<tr>
<td>Operating Related</td>
</tr>
<tr>
<td>Specific Offsets - Treatment Payback</td>
</tr>
<tr>
<td>RR before Coverage and RSF Support</td>
</tr>
<tr>
<td>Additional Coverage</td>
</tr>
<tr>
<td>Total Revenue Requirement</td>
</tr>
</tbody>
</table>
5.1.2 Storage

Based on the cost of service analysis, $63.20 million is to be recovered through the storage charge in CY 2016. The storage charge is a flat annual charge that is applied to non-agricultural water deliveries. The storage charge is allocated among the member agencies using a pro rata share of each agency’s three-year rolling average of non-agricultural deliveries (including all users, member agencies, and third-party wheeling throughput). In return for not paying for storage, agricultural customers agree to receive a level of service during an emergency that is less than that received by the Water Authority’s municipal and industrial (M&I) customers.

The Water Authority’s ESP and Carry Over Projects are designed to make water available to the San Diego region in the event of an interruption in imported water deliveries. Because agricultural users that participate in the TSAWR program agree to reduced or interrupted service during times of water emergencies, they will not receive benefit from the Water Authority’s investment in its long-term storage program. It is therefore appropriate to exclude agricultural deliveries from the calculation of the storage rate.

<table>
<thead>
<tr>
<th>TABLE 14</th>
<th>CY 2016 STORAGE REVENUE REQUIREMENT (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures (LTD + STD)</td>
<td>$54.01</td>
</tr>
<tr>
<td>O&amp;M + Share of Agency Operating Expenditures</td>
<td>15.83</td>
</tr>
<tr>
<td>Gross Revenue Requirements</td>
<td>$69.85</td>
</tr>
<tr>
<td>Less Offsetting Revenues</td>
<td></td>
</tr>
<tr>
<td>Capital Related</td>
<td>$(11.81)</td>
</tr>
<tr>
<td>Operating Related</td>
<td>(18.73)</td>
</tr>
<tr>
<td>RR before Coverage and RSF Support</td>
<td>$39.31</td>
</tr>
<tr>
<td>Additional Coverage</td>
<td>23.89</td>
</tr>
<tr>
<td>Total Revenue Requirement</td>
<td>$63.20</td>
</tr>
</tbody>
</table>

5.1.3 Supply Reliability Charge

Based on recommendations from the A&F Committee and approval of the Board in March of 2015, the CY 2016 rates will include the addition of a Supply Reliability Charge. This charge will recover the functional incremental supply costs allocated to enhanced supply reliability. The Committee recognized the importance of equitably recovering the cost of the Water Authority’s investments in long-term water supply reliability in accordance with the cost of service requirements. The concept of a fixed charge for supply reliability was to balance the impact of the fixed costs on member agencies with the allocation of costs associated with long-term investments in supply reliability to member agencies based on a rolling average of M&I deliveries. Access to reliable supply benefits all member agencies regardless of whether the agency uses water every day or intermittently.
Four main rate structure alternatives were evaluated as part of the rate development process. The approved methodology is as follows:

\[
\text{Supply Reliability Charge} = \left[ \text{Desal Water Cost} + \text{IID Water Transfer Costs} \right] - \text{MWD Tier 1 Equivalent Cost} \times 25\%
\]

For a full detailing of the calculation, the Supply Reliability Charge report prepared by A&N Technical Services, Inc. is provided as Appendix E. Following this methodology, Table 20 details calculation of the proposed CY 2016 Supply Reliability Charge.

| TABLE 15 PROPOSED CALENDAR YEAR 2016 SUPPLY RELIABILITY CHARGE (IN $ MILLION) |
|---------------------------------|-------------------------------|
| Desal Water Costs              | 80.01                         |
| IID Water Cost                 | 108.50                        |
| MWD Tier 1 Equivalent Cost     | (84.35)                       |
| Differential                   | 104.17                        |
| Supply Reliability Needs       | 26.00                         |
|                                | 25%                            |

As used in this formula, Desalination Deliveries are 42,000 AF/Y and IID Water Transfer Deliveries are 100,000 AF/Y in CY 2016 and ramp up to 200,000 AF/Y according to the transfer schedule in the Transfer Agreement.

The revenue generated from this charge will only be applied to the supply revenue requirement prior to determining the volumetric Melded Supply Rate. This charge will be allocated to member agencies based on a five-year rolling average of applicable historical water deliveries. This charge will be zero when MWD’s Tier 1 costs are equal or greater than the combined Desalination and IID Water Transfer Costs.

The calculated Supply Reliability Charge follows general water industry cost-of-service-based rate-setting principles. By design, it cannot recover more than the costs allocated to the supply functional costs, as it is calculated as a portion of those functional supply costs. Further, it constitutes a reasonable allocation of functional supply costs in that it better aligns the fixed incremental supply costs incurred by the Water Authority to make highly reliable potable water supplies available to its member agencies with the benefits available to all water customers connected to the Water Authority integrated water system.

As detailed in the A&F findings, the proposed rate addresses fairness by allowing for predictability of incurred charges (based on a rolling five-year average of historical deliveries) and adjustments to future charges imposed on each member agency as demand requirements change in the future due to local supply development or demand management.
As approved, the Water Authority will spread the Supply Reliability cost to member agencies based upon their share of the rolling five-year average M&I deliveries.

5.2 COMMODITY BASED VARIABLE RATES

The commodity based variable water rates and charges are distinguished from fixed revenues as they are recovered based on annual water sales.

5.2.1 Supply (Melded M&I Supply Rate)

The Melded Untreated M&I rate is a volume rate assessed on an acre-foot basis. The rate is a combination of direct and indirect costs. The revenue requirement apportioned to the supply rate component is $17.16 million and is detailed in Table 15.

<table>
<thead>
<tr>
<th>TABLE 16</th>
<th>CY 2016 MELDED SUPPLY REVENUE REQUIREMENT (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures (LTD + STD)</td>
<td>$8.24</td>
</tr>
<tr>
<td>O&amp;M + Share of Agency Operating Expenditures</td>
<td>10.75</td>
</tr>
<tr>
<td>Gross Revenue Requirements</td>
<td>$18.98</td>
</tr>
<tr>
<td>Less Offsetting Revenues</td>
<td></td>
</tr>
<tr>
<td>Capital Related</td>
<td>$(2.08)</td>
</tr>
<tr>
<td>Operating Related</td>
<td>(5.15)</td>
</tr>
<tr>
<td>RR before Coverage and RSF Support</td>
<td>$11.75</td>
</tr>
<tr>
<td>Additional Coverage and RSF Support</td>
<td>5.41</td>
</tr>
<tr>
<td>Total Revenue Requirement</td>
<td>$17.16</td>
</tr>
</tbody>
</table>

For CY 2016, the total supply costs are projected to total $308.41 million. The Water Authority projected sales of 395,500 acre-feet at a cost of $327.60 million. An additional $25.90 million must be recovered through rates to fund supply’s revenue requirements and costs associated with the IID socioeconomic payment, storage, and QSA costs. Additionally, with the addition of the Supply Reliability Charge, a revenue offset of $26 million is applied. By dividing the total supply cost by total water sales, an acre-foot cost of $780 is calculated.
### TABLE 17 PROPOSED CALENDAR YEAR 2016 MELDED SUPPLY RATE

<table>
<thead>
<tr>
<th>Acre-Foot Sales (A/F) (000's)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD Tier I Deliveries</td>
<td>173.30</td>
</tr>
<tr>
<td>Carlsbad Desalination Water Production</td>
<td>42.00</td>
</tr>
<tr>
<td>IID Deliveries</td>
<td>100.00</td>
</tr>
<tr>
<td>Canal Water Deliveries</td>
<td>80.20</td>
</tr>
<tr>
<td>Total A/F Sales</td>
<td>395.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Water Purchase Costs ($ Millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MWD Tier 1 Water Purchases</td>
<td>$103.00</td>
</tr>
<tr>
<td>Carlsbad Desalination Water Supply Cost</td>
<td>80.00</td>
</tr>
<tr>
<td>IID Water Purchases</td>
<td>108.50</td>
</tr>
<tr>
<td>Canal Water Purchases</td>
<td>36.10</td>
</tr>
<tr>
<td>Subtotal Water Purchase Costs</td>
<td>$327.60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Costs($ Millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>QSA Environmental(1)</td>
<td>$-</td>
</tr>
<tr>
<td>Supply Revenue Requirement &amp; Canal Cost Differential</td>
<td>17.16</td>
</tr>
<tr>
<td>IID Socioeconomic Payment/Settlement &amp; Water Prepayment(1)</td>
<td>$-</td>
</tr>
<tr>
<td>Supply Augmentation Costs (Short and Long Term)</td>
<td>0.48</td>
</tr>
<tr>
<td>Total Additional Costs</td>
<td>$17.64</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Offsetting Revenues ($ Millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply Reliability Credit</td>
<td>$(26.00)</td>
</tr>
<tr>
<td>Cash &amp; Reserves(2)</td>
<td>(10.68)</td>
</tr>
<tr>
<td>Total Supply Cost</td>
<td>$308.56</td>
</tr>
</tbody>
</table>

Proposed A/F Rate (Total Supply Cost /Total A/F Sales) $780/AF

**Notes:**
(1) Cost repayment deferred to provide CY 2016 rate relief
(2) Consists of operating funds and rate stabilization funds

### 5.2.2 Treatment (Melded M&I Treatment Rate)

The Treatment rate is a volumetric rate, assessed on an acre-foot basis, designed to recover the Water Authority’s cost of treating water. The Water Authority’s direct cost related to Treatment is $5.21 million. In addition, the rate will be set to recover the costs of purchasing treated water from MWD, the Levy and Olivenhain treatment plants, the Water Authority’s Twin Oaks Valley Water Treatment Plant, desalinated water costs allocated to this rate and may recover certain other costs associated with the delivery of treated water.
Table 18 outlines the Water Authority’s forecasted treated acre-foot demand, incurred treatment costs, and corresponding melded treatment rate. Similar to the melded supply rate, the costs associated with the operation of the Twin Oaks Water Treatment Plant ($8.99 million) will be recovered through the CY 2016 rates outside the revenue requirements outlined in Table 17.

Table 19

### TABLE 18 CY 2016 MELDED TREATMENT REVENUE REQUIREMENT (IN $ MILLION)

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures (LTD + STD) $6.59</td>
</tr>
<tr>
<td>Treatment CWA Pre-Revenue Costs (constant payment) 0.77</td>
</tr>
<tr>
<td>O&amp;M + Share of Agency Operating Expenditures 0.47</td>
</tr>
<tr>
<td>Gross Revenue Requirements $7.82</td>
</tr>
</tbody>
</table>

**Less Offsetting Revenues**

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Related $(0.88)</td>
</tr>
<tr>
<td>Operating Related (1.73)</td>
</tr>
<tr>
<td>RR before Coverage and RSF Support $5.21</td>
</tr>
<tr>
<td>Coverage &amp; Reserve Usage</td>
</tr>
<tr>
<td>Total Revenue Requirement $5.21</td>
</tr>
</tbody>
</table>

### TABLE 19 PROPOSED CY 2016 MELDED TREATMENT RATE

**M&I Treatment Demands - (AF 000’s)**

- MWD 57.71
- Carlsbad Desalination Production 42.00
- CWA (Twin Oaks) 43.43
- Helix 25.62
- Total Demands 168.75

**M&I Treatment Costs ($ Millions)**

- MWD $20.08
- Desalination Water 11.76
- Treatment Revenue Requirement 5.21
- CWA Contract Treatment Cost 8.99
- Helix 4.03
- Sub-total Treatment Cost $50.07
- Cash & Reserves (2.71)
- Total Treatment Cost $47.36

Proposed A/F Rate (Total Supply Cost /Total A/F Sales) $280/AF
The Water Authority spreads the Melded Treatment costs over the forecasted acre-feet demands. The proposed CY 2016 Melded Treatment rate is $280 per acre-foot.

### 5.2.3 Transportation

The Transportation rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority’s aqueduct system, including all facilities used to physically transport the water to member agency meters. The transportation rate is charged to member agencies based on water deliveries.

<table>
<thead>
<tr>
<th>TABLE 20</th>
<th>PROPOSED CALENDAR YEAR 2016 TRANSPORTATION RATE (IN $ MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures (LTD + STD)</td>
<td>$41.29</td>
</tr>
<tr>
<td>O&amp;M + Share of Agency Operating Expenditures</td>
<td>17.67</td>
</tr>
<tr>
<td>Gross Revenue Requirements</td>
<td>$58.96</td>
</tr>
<tr>
<td>Less Offsetting Revenues</td>
<td></td>
</tr>
<tr>
<td>Capital Related</td>
<td>$(8.98)</td>
</tr>
<tr>
<td>Operating Related</td>
<td>(15.50)</td>
</tr>
<tr>
<td>RR before Coverage and RSF Support</td>
<td>$34.48</td>
</tr>
<tr>
<td>Additional Coverage &amp; RSF Support</td>
<td>8.73</td>
</tr>
<tr>
<td>Total Revenue Requirement</td>
<td>$43.24</td>
</tr>
</tbody>
</table>

The Water Authority spreads the Transportation cost over all forecasted acre-feet demands, less water taken directly from MWD, to generate the Transportation rate. The proposed CY 2016 Transportation rate is $105 per acre-foot.

### 5.3 SPECIAL AGRICULTURAL WATER RATE PROGRAM

In October 2008, faced with a prolonged drought and rising water costs, the MWD Board voted to terminate the Interim Agricultural Water Program (IAWP) through a five-year phase-out of the program ending December 31, 2012. The IAWP was discounted rate for surplus system supplies available for the purpose of growing agricultural, horticultural, or floricultural products.

In response to MWD’s phase-out of IAWP, in October 2008, the Water Authority Board approved the Transitional Special Agricultural Water Rate (TSAWR) and formed a SAWR Board Workgroup to develop a recommended permanent program. In March 2010, the Board approved the Workgroup recommendation for a permanent TSAWR that would begin January 1, 2013 and only include the storage charge exemption. On April 26, 2012, the Board voted to extend the TSAWR program for two additional years to provide agricultural
customers with additional time to transition to the higher cost of water. On March 26, 2015, the Board again voted to extend the TSAWR program through December 31, 2020.

Agricultural customers participating in the TSWAR program receive a reduced melded supply rate by agreeing to reduce or suspend water usage during shortages. These customers pay the MWD Tier 1 rate and do not share in the benefits of the QSA or Carlsbad Desalination supplies during water shortages. The second component of the TSAWR exempts agricultural customers from being subject to a member agency’s share of the Storage Charge. In return, agricultural customers receive half the level of service under the Emergency Storage Program (ESP) and no service under the Carryover Storage Program (CSP). This approach of providing a rate reduction is consistent with Cost of Service Principles, as the agricultural customers receive a commensurate reduced level of service. The customers are not provided supply reliability and do not contribute to storage costs.

Under the TSAWR program, agricultural users receiving raw water are charged the MWD full service Untreated Tier 1 water rate. In CY 2016, this rate is $594 per acre-foot. Agricultural users receiving treated water are also charged the MWD rate plus the Water Authority’s Melded Treatment Charge, which is proposed at $280 per acre-foot in CY 2016, as shown above. Transportation and customer service related costs are recovered through each member agency’s Transportation and Customer Service rates.
6 Findings

Based on the independent review performed for this rate study, Carollo confirms the Water Authority’s existing methodology, cost allocations, rate-setting principles, and proposed CY 2016 rates are reasonable and consistent with AWWA cost-of-service principles, Board policies, and California legal requirements. Carollo’s finding for this study are as follows:

- The Water Authority has significant detail and a sound basis for existing and proposed water rates and charges.
- The resulting cost of service allocations and existing methodology provide a clear, reasonable, and provide a defensible nexus between the cost of service provided and rates charged.
- Board policies and cost-of-service guidelines are applied consistently with industry best practices and AWWA M1 standards.
- The Water Authority’s rates and charges adhere to the legal requirements as described within this report.
- The IAC was calculated in compliance with Board policies and adheres to the legal requirements as described within this report.
- The existing methodology yields an appropriate and reasonable method for allocating costs, which could be sustained absent substantial changes in cost drivers or customer discharge patterns occur.
- Revenue adjustments are necessary to cover the Water Authority’s budget requirements. The revenue requirements for CY 2016 are coverage driven, as existing revenues fall below the desired DSCR target of 1.50x and necessary deposits into the RSF.
- The proposed CY 2016 water rates and charges necessitate roughly an $8 million utilization of the RSF and continue to meet the Board’s DSCR target of 1.50x.
7 Appendix

A. Infrastructure Access Charge Resolution
RESOLUTION NO. 98-26

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY SETTING THE AMOUNT OF THE INFRASTRUCTURE ACCESS CHARGE PURSUANT TO SECTION 15.3.5 OF THE ADMINISTRATIVE CODE

WHEREAS, on January 8, 1998, the Board of Directors adopted an Implementation Plan for Proposed Changes to the Authority's Revenue Structure; and

WHEREAS, on March 12, 1998, the Board of Directors conducted a public hearing duly noticed by publication to consider a revised revenue structure including a proposed infrastructure access charge; and

WHEREAS, on March 26, 1998, the Board of Directors adopted Resolution No. 98-10, amending Article 15 of the Administrative Code adding Section 15.3.5 establishing an infrastructure access charge the amount of which would be determined by later action of the Board of Directors; and

WHEREAS, Section 15.3.5 of the Administrative Code provides that the infrastructure access charge shall be set at an amount which, when added to the Authority's Water Standby Availability Charge and property tax revenues, will provide funding for at least 25 per cent of the Authority's estimated annual fixed costs, and further, that member agencies shall pay the infrastructure access charge based on the number and size of retail water meter connections within their respective jurisdictions; and

WHEREAS, on April 9, 1998, the Board of Directors established June 11, 1998, as the date for a public hearing to consider protests to the infrastructure access charge; and

WHEREAS, notice of the hearing to consider protests regarding the amount of the infrastructure access charge was mailed to owners of real property, as referred to in Articles XIIIb and XlIID of the California Constitution, not less than 45 days prior to the public hearing; and

WHEREAS, on June 11, 1998, the Board of Directors held a public hearing and considered the protests regarding the amount of the infrastructure access charge; and

WHEREAS, the Board of Directors did not receive a majority protest to the amount of the infrastructure access charge; and

WHEREAS, pursuant to Section 15.3.5 of the Administrative Code and as recommended by the "Final Report, Revenue Plan Review (Including Implementation
Steps* dated December 1997 prepared by R. W. Beck, consulting engineers, the Board of Directors hereby declares that the annual fixed costs of the Authority for the purposes of calculating the infrastructure access charge shall include annual payments of principle and interest on debt of the Authority, eighty percent of all operation and maintenance expenses as established by the Board in the annual budget, and payments to member agencies for generation of reclaimed water.

WHEREAS, the Board of Directors has considered the information relating to the infrastructure access charge and has determined that the revenue derived from the charge will, when combined with standby charges and property tax revenues, provide the sum necessary to pay at least twenty-five percent of the estimated annual fixed costs of the Authority, including but not limited to debt service; and

WHEREAS, the Board of Directors has determined that the amount of the infrastructure access charge for each member agency charge as set forth in this resolution complies with the requirements of Section 15.3.5 of the Authority's Administrative Code; and

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of the San Diego County Water Authority as follows:

1. The foregoing recitations are true and correct.

2. The monthly amount of the infrastructure access charge to be collected from each member agency pursuant to Section 15.3.5 of the Authority's Administrative Code, commencing on January 1, 1999, is established as follows:

   Carlsbad Municipal Water District $ 25,385
   City of Del Mar $ 2,442
   City of Escondido $ 30,744
   Fallbrook Public Utilities District $ 10,261
   Helix Water District $ 62,433
   City of National City (See Sweetwater Authority)
   City of Oceanside $ 49,222
   Olivenhain Municipal Water District $ 17,125
   Otay Water District $ 37,988
   Padre Dam Municipal Water District $ 24,678
   City of Poway $ 14,829
   Pendleton Military Reservation $ -0-
   Rainbow Municipal Water District $ 11,157
   Ramona Municipal Water District $ 9,967
   Rincon del Diablo Municipal Water District $ 8,938
   City of San Diego $354,539
   San Dieguito Water District $ 14,591
   Santa Fe Irrigation District $ 10,269
South Bay Irrigation District  (See Sweetwater Authority)
Sweetwater Authority  $ 43,373
Vallecitos Water District  $ 17,194
Valley Center Municipal Water District  $ 12,889
Vista Irrigation District  $ 31,946
Yuima Municipal Water District  $ 564

Pursuant to Section 15.3.5 of the Administrative Code, the Board of Directors, by resolution, may establish a system of credits that member agencies may offset against the charge set by this section.

3. The amount of the monthly infrastructure access charge for each member agency has been determined based upon information provided by member agencies summarized in the table attached hereto as Attachment 1, and is apportioned based upon anticipated water delivery measured by the number of "household meter equivalents" served by each member agency. The infrastructure access charge for the Pendleton Military Reservation has been established at $0.00 due to the unique circumstances and limitations of its current receipt of service from the Authority.

4. The General Manager shall require each member agency to provide sufficient information to permit the Manager, or the Manager's designee, to evaluate the water use potential of a member agency based upon the number and types of water meters within the member agency as of December 31 of each year. Thereafter the General Manager shall determine the infrastructure access charge according to the procedures set forth in Attachment 2 to this resolution and shall recommend any adjustments to the charge to the Board of Directors.

5. The Board of Directors, by resolution, may from time-to-time adjust the infrastructure access charge to account for changes in capital improvement costs, operation and maintenance expenses, and other fixed costs to assure revenue from the charge, when combined with revenue from property taxes and stand-by charges, is sufficient to pay at least twenty-five percent of the Authority's fixed costs as defined in this resolution. Based upon current capital improvement plans, it is estimated that the infrastructure access charge will increase to $2.00 per month per household meter equivalent over the next ten years. Further, the charge is subject to future adjustments for inflation and modifications of capital improvement plans. The procedure by which the Board of Directors established and set the infrastructure access charge, or adopted this resolution, shall not be deemed to establish a precedent for future proceedings of the Authority to establish, levy, set, or increase any fee or charge.

PASSED, APPROVED, AND ADOPTED this 11th day of June, 1998.

AYES: Unless noted below, all Directors voted aye.
NOES: Chenelle, Mason, & Pocklington

ABSTAIN:

ABSENT: Fowler, Krauel, Madigan, & McMillan

Chris Frahm, Chair
Board of Directors

ATTEST:

Harold W. Ball, Secretary
Board of Directors

I, Janet R. Maltman, Board Secretary of the Board of Directors of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of said resolution No. 98-26 of said Board and that the same has not been amended or repealed.

Janet R. Maltman, Board Secretary
Board of Directors

I:\IACRES.DOC
### SDCWA Active Retail Meters Equivalent to 3/4" or Smaller (as of 12/31/97)

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Attachment 2 to Resolution No.  

PROCEDURES FOR DETERMINING THE INFRASTRUCTURE ACCESS CHARGE

The Infrastructure Access Charge shall be adjusted each year to maintain an estimated income, when combined with estimate income from taxes and standby charges, sufficient to pay at least twenty-five percent of the Authority's annual fixed costs. The annual fixed costs of the Authority for the purposes of calculating the infrastructure access charge shall include annual payments of principle and interest on debt of the Authority, eighty percent of all operation and maintenance expenses as established by the Board in the annual budget, and payments to member agencies for generation of reclaimed water. The adjustment shall occur as a part of, and in the same manner as, the Authority's regular rate-setting process.

The steps for setting the IAC will be as follows:

1) In January of each year, the Authority will request each member agency to provide a count of retail water meters serviced by that agency and active as of December 31 of the previous year. The meter count shall be based on the number of equivalent household meters, using multiplication factors established by the Authority's Director of Engineering for each meter size to determine the number of household meter equivalents. (Criteria for including a meter in the active retail meter count are given later.)

2) The estimated average annual fixed capital and operating expenditures for the following four fiscal years will be established through the annual budgeting process by the end of March of each year.

3) The estimated average annual fixed capital and operating expenditures for the next four years will be multiplied by 25% to establish the minimum level of fixed revenues required for the next fiscal year. Since actual expenditures can vary from the budget estimates upon which the IAC will be based, the estimate of the minimum level of required fixed revenues will be increased by 10% to provide increased assurance that actual fixed revenues will be at least 25% of actual fixed expenditures.

4) Estimated income from the Authority's other fixed income sources (standby charges and property taxes) will be subtracted from the estimated minimum level of fixed revenues to establish the total revenue required from the IAC.

5) The total revenue required from the IAC will be divided by the sum of the meter counts of all the member agencies to establish the IAC for a household meter equivalent (the per-meter IAC).
6) The amount of the IAC charge to be levied against each member agency will be established by multiplying the member agency's meter count times the per-meter IAC.

7) The Board will adopt the fixed IAC charge for each member agency and the per-meter IAC at the same time the capacity charge and the water rate is set, typically in April.

8) Changes in the IAC will be effective the same date in the fiscal year that changes in the commodity rate are normally effective.

9) Meters will be counted using the following criteria and definitions:

   - All active retail water meters will be included in the meter count.
   - The meter count will be expressed as the number of household meter equivalents based on the same factors used for the capacity charge to compute the household meter equivalent for meters 1-inch and larger.
   - Active meters are defined as those meters which took water at any time during the preceding 12 months. If a meter is officially listed as inactive on a member agency's books on December 31, but has taken any amount of water during the previous 12 months, it must be included in the meter count.
   - Fire service and similar types of emergency meters are not counted, even if they have taken water during the previous 12 months.
   - Reclaimed water meters are not counted unless they are connected to a reclaimed water system that has used water from the Authority's system to meet more than 20% of that reclaimed water system's total demand during the past 12 months.
   - Meters of local distributors other than member agencies which receive water through a master meter from a member agency are not separately counted if the annual amount of water attributable to the Authority is less than or equal to 20% of the total annual amount of water distributed by the local distributor.
   - Mutual support meters between member agencies are not counted.
   - Master meters within a member agency are counted if they are used by a member agency to bill retail customers.
   - Individual meters within a master metered area are not counted unless they are used by the member agency to bill retail customers in lieu of the master meter.
   - Meters in areas outside the Authority's service area are not counted unless they are a net recipient of imported water through one of the member agencies.
   - Meters receiving the Special Agricultural Rate will be counted.
B. ORDINANCE NO. 2002-03
ORDINANCE NO. 2002-03

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY SETTING RATES AND CHARGES FOR THE DELIVERY AND SUPPLY OF WATER, USE OF FACILITIES AND PROVISION OF SERVICES.

WHEREAS, Subdivision (13) of Section 5 of the County Water Authority Act provides that the Authority may: "Fix, revise, and collect rates or other charges for the delivery of water, use of any facilities or property, or provision of services. In fixing rates the board may establish reasonable classifications among different classes and conditions of service, but rates shall be the same for similar classes and conditions of service." and

WHEREAS, Subdivision (11) of Section 5 of the County Water Authority Act provides, in part that, the Authority's Board of Directors, "as far as practicable, shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs;" and

WHEREAS, the Long-Range Financing Plan adopted by the Board of Directors contemplates the establishment of sufficient rates and charges, when considered along with taxes and other revenues of the Authority, to provide revenues for accomplishment of the Authority's purposes and programs as determined by the Board of Directors; and

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted ordinances and resolutions levying and fixing property taxes, water availability standby charges and other rates and charges for delivery and supply of water, use of facilities and provision of other services by the Authority, including, without limitation, a capacity charge, an infrastructure access charge, a readiness to serve charge and a water rate; and

WHEREAS, under direction of the Board and its Rate Structure Subcommittee, the Authority's staff and consultants have been working with member agencies over the past several years to develop a new rate structure; and

WHEREAS, the Rate Structure Subcommittee has recommended a new structure of rates and charges is designed to ensure that the Authority has sufficient revenue to fulfill its role as the regional wholesale water provider, support local resources development and provide a new class of service for agencies with connections not using Authority facilities; and

WHEREAS, under the new structure of rates and charges, taxes, the water availability standby charge, the infrastructure access charge, and the capacity charge are not affected and will continue as currently levied; and

WHEREAS, under the new structure revenue formerly collected from a uniform water rate for raw and treated water of $95 per acre foot and a special agricultural water rate of $80 per acre foot will instead be collected from rates and charges fixed according to four categories called: Customer Service, Storage, Transportation, and Supply; and
WHEREAS, pursuant to Resolution No. 2002-06 adopted May 23, 2002, the Clerk of the Board has caused legal notice of a public hearing to hear objections protests or comments from the public about the proposed new rate structure; and

WHEREAS, the Director of Finance has presented a report dated June 19, 2002 describing the proposed structure of fees and charges, including, without limitation, the revenue requirement, the reasonable allocation of the revenue requirement among the appropriate functional categories, and the reasonable apportionment of revenue requirement allocated to the four functional categories to rates and charges to be collected from the member agencies (the "Report"); and

WHEREAS, the Director of Finance has recommended approval of the new structure of rates and charges as set forth in the Report; and

WHEREAS, on May 21, 2002 the Authority filed a Notice of Exemption pursuant to the California Environmental Quality Act for the project described as "Establishment of water supply and delivery rates and charges including: Customer Service Charge, Emergency Storage Program Charge, Transportation Rate and Supply Service Charge, Capacity Reservation Charge and Readiness-to-Serve Charge, and maintaining the Infrastructure Access Charge and Standby Availability Charge" stating the project is exempt from the requirements of CEQA pursuant to the statutory exemption of Public Resources Code Section 21080(b)(8) and stating as the reason therefore: "Project involves establishment of water rates, tolls, fares, or other charges for the purpose of meeting operating expenses, including employee wages and benefits; purchasing and leasing supplies, equipment, or materials; meeting financial reserve needs and requirements; or obtaining funds for capital projects within existing service areas.", and

WHEREAS, the Board of Directors has considered the information contained in the Report, the testimony and other evidence presented during the public hearing, the recommendations of the Rate Study Subcommittee, the recommendations of the Fiscal Policy Committee, and other information presented to the Board during its consideration of a new rate structure; and

WHEREAS, the Board of Directors hereby makes the following legislative findings and determinations:

1. The foregoing recitals are true and correct;
2. The rates and charges as proposed and recommended in the Report are exempt from the requirements of the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8);
3. Any and all protests to the rates and charges as proposed and recommended in the Report are overruled;
4. The Report is approved;
5. The rates and charges as proposed and recommended in the Report are reasonable, fair, proper and necessary to meet the Authority's revenue requirements and fund its capital, operation, maintenance and other costs.

NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority does ordain as follows:
1. The Authority's revenues from taxes, water rates and charges consists of: ad valorem property taxes, including payments of member agencies in lieu of taxes; a standby availability charge levied pursuant to Section 5.2 of the County Water Authority Act, including payments of such charges pursuant to Section 5.3 if the County Water Authority Act; an infrastructure access charge levied and established pursuant to Resolution No. 98-10; a capacity charge levied pursuant to Section 5.9 of the County Water Authority Act and established by Ordinance No. 97-1 in an amount as amended by Ordinance No. 99-2; and water rates and charges having the following components as described in this ordinance: customer service, storage, transportation and supply.

2. Ad valorem taxes, the standby availability charge and the capacity charge are not affected by this ordinance. All other water rates and charges shall continue to be paid pursuant to existing authority until January 1, 2003.

3. Pursuant to Resolutions Nos. 98-10 and 2001-26, the Infrastructure Access Charge is based on a fixed amount per month per equivalent meter. The current charge of $1 per month per equivalent meter unit is not changed by this ordinance. Commencing January 1, 2003, the amount of the infrastructure access charge to be paid monthly by each member agencies of the Authority, shall be determined according to Table 1 attached hereto and made a part hereof.

4. Effective January 1, 2003, the Customer Service Charge is fixed at $13,753,401. Commencing January 1, 2003 the amount of the monthly Customer Service Charge to be paid by each member agency shall be determined according to Table 2 attached hereto and made a part hereof.

5. Effective January 1, 2003, the Storage Charge is fixed at $13,375,295. Commencing January 1, 2003 the amount of the monthly Storage Charge to be paid by each rate to the Authority for Storage as set forth in Table 3 attached hereto and made a part hereof.

6. Effective January 1, 2003, the Transportation Rate is fixed at $55 per acre-foot of water delivered by the Authority through Authority facilities. Member agencies shall pay the Transportation Rate in accordance with the procedures and processes of the Administrative Code relating to billing and payment of the Municipal and Industrial Water Rate.

7. (a) Effective January 1, 2003, as a Supply Charge, each member agency shall reimburse the Authority on a per-acre foot of water delivered basis, except as otherwise provided in subdivisions (b) and (c), for rates, fees and charges of the Metropolitan Water District of Southern California.

(b) Effective January 1, 2003 as part of the Supply Charge, each member agency shall pay to the Authority a Capacity Reservation Charge determined according to Table 4 attached hereto and made a part hereof.

(c) Effective July 1, 2002 to January 1, 2003 each member agency shall pay a Readiness-to-Serve Charge determined according to Table 5 attached hereto and made a part hereof, and effective January 1, 2003 as part of the Supply Charge, each member agency shall pay a Readiness-to-Serve Charge determined according to Table 5.
(d) The Authority has apportioned the Capacity Reservation Charge and the Readiness-to-Serve charge to member agency based upon historic water delivery information provided by the Metropolitan water district and historic water delivery information of the Authority. Any member agency, by October 1, 2002, may submit information to the Authority challenging the basis upon which the Capacity Reservation Charge and the Readiness-to-Serve Charge have been allocated. If justified by the information submitted by an agency, the board of directors may adjust the amount charged the agency. The information used to make an adjustment shall be used as the basis for future allocations.

(e) This section shall be administered in accordance with the Report approved by this Ordinance.

8. For the purposes of this ordinance, including the tables, the City of National City and the South Bay Irrigation District are collectively referred to as Sweetwater Authority. Any reference in this ordinance to Sweetwater Authority as a member agency shall be construed as a reference to the City of National City and the South Bay Irrigation District.

9. This ordinance shall be effective upon adoption. In lieu of publication of the text of this ordinance, the Clerk of the Board may publish a summary prepared by the General Counsel.

10. The provisions of this ordinance shall prevail over any provisions of the Administrative Code relating to rates and charges to the extent of any conflict. All existing rates and charges shall continue in effect until superseded on January 1, 2003 as provided in this ordinance.

11. To the greatest extent possible the provisions of this ordinance shall be construed to be compatible with the provisions of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Joint Use of Lake Hodges Dam and Reservoir and of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Expansion of San Vicente Reservoir; however, the contract provisions shall control in the event of a conflict.

12. For the purposes of Section 6 of this ordinance, water delivered by the Authority through the following turnouts is deemed not to be "water delivered by the Authority through Authority facilities" -- DeLuz 1, Fallbrook 3, Fallbrook 6, Rainbow 1, Rainbow 8, Rainbow 9 and Rainbow 10.

[Space intentionally left blank.]
PASSED, APPROVED AND ADOPTED, this 27th day of June 2002.

AYES: Unless noted below all Directors voted aye.

Broomell, Knutson, Mason, Quist, Williams

NOES:

ABSTAIN: Lewinger

ABSENT: Croucher, Haddad, Irvin, Jacob, Lopez, Tu

James F. Turner, Chairman
Board of Directors

ATTEST:

James Bond, Secretary

I, Vernice R. Hartman, Clerk of the Board of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of Ordinance No. 2002-03 of said Board and that the same has not been amended or repealed.

Vernice R. Hartman
Clerk of the Board
### Table 1. Calendar Year 2003 Infrastructure Access Charge per Member Agency

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</tr>
<tr>
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<td>13,214</td>
<td>$1</td>
<td>12</td>
<td>$158,568</td>
<td>$13,214</td>
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<tr>
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<td>$1</td>
<td>12</td>
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<td>$10,120</td>
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<tr>
<td>Rincon</td>
<td>9,213</td>
<td>$1</td>
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<tr>
<td>San Diego</td>
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<td>$1</td>
<td>12</td>
<td>$4,428,636</td>
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<tr>
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<td>$1</td>
<td>12</td>
<td>$171,744</td>
<td>$14,312</td>
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<tr>
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<td>$10,375</td>
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<tr>
<td>Sweetwater</td>
<td>43,062</td>
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<td>12</td>
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<td>$43,062</td>
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<td>12</td>
<td>$163,536</td>
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<td>Vista</td>
<td>33,302</td>
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<td>12</td>
<td>$399,624</td>
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<tr>
<td>Yuima</td>
<td>452</td>
<td>$1</td>
<td>12</td>
<td>$5,424</td>
<td>$452</td>
</tr>
<tr>
<td><strong>Grand Totals</strong></td>
<td><strong>846,566</strong></td>
<td></td>
<td></td>
<td><strong>$10,158,792</strong></td>
<td><strong>$846,566</strong></td>
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<tr>
<td>Table 2. Customer Service Charge Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal Years 1999</strong></td>
<td><strong>Customer Service</strong></td>
<td><strong>Monthly</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total AF</td>
<td>Charge Due</td>
<td>Charge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001 Average</td>
<td>$13,753,401</td>
<td>$1,146,117</td>
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<tr>
<td>Carlsbad M.W.D.</td>
<td>18,760</td>
<td>$467,078</td>
<td>$38,923</td>
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</tr>
<tr>
<td>Del Mar, City of</td>
<td>1,479</td>
<td>$36,827</td>
<td>3,069</td>
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<tr>
<td>Escondido, City of</td>
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<td>$574,634</td>
<td>$47,886</td>
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<tr>
<td>Fallbrook P.U.D.</td>
<td>15,382</td>
<td>$382,970</td>
<td>31,914</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>36,040</td>
<td>$897,289</td>
<td>$74,774</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>30,458</td>
<td>$758,315</td>
<td>63,193</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>18,061</td>
<td>$449,668</td>
<td>37,472</td>
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<td></td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>28,452</td>
<td>$708,364</td>
<td>59,030</td>
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</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>20,318</td>
<td>$505,851</td>
<td>42,154</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pendleton M.R.</td>
<td>100</td>
<td>$2,505</td>
<td>209</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poway, City of</td>
<td>14,231</td>
<td>$354,310</td>
<td>29,526</td>
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<td></td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>27,455</td>
<td>$683,558</td>
<td>56,963</td>
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<tr>
<td>Ramona M.W.D.</td>
<td>10,289</td>
<td>$256,164</td>
<td>21,347</td>
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<td></td>
</tr>
<tr>
<td>Rincon M.W.D.</td>
<td>8,426</td>
<td>$209,760</td>
<td>17,482</td>
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<td></td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>205,582</td>
<td>$5,118,420</td>
<td>426,535</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>4,559</td>
<td>$113,505</td>
<td>9,459</td>
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<td></td>
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<tr>
<td>Santa Fe I.D.</td>
<td>7,339</td>
<td>$182,714</td>
<td>15,226</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>6,657</td>
<td>$165,735</td>
<td>13,811</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>16,472</td>
<td>$386,202</td>
<td>32,101</td>
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<tr>
<td>Valley Center M.W.D.</td>
<td>44,114</td>
<td>$1,098,318</td>
<td>91,527</td>
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<td></td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>14,052</td>
<td>$349,846</td>
<td>29,154</td>
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<td></td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>2,102</td>
<td>$52,348</td>
<td>4,362</td>
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</table>

552,408 $13,753,401 $1,146,117

Note: Values in table contain greater precision than displayed.
## Table 3. Storage Charge Allocation

<table>
<thead>
<tr>
<th>Agency</th>
<th>Fiscal Years 1999-2001 Average Total Non-Agr AF</th>
<th>Calendar Year Storage Charge Due</th>
<th>Monthly Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>17,525</td>
<td>$ 498,514</td>
<td>$ 41,543</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>1,479</td>
<td>42,077</td>
<td>3,506</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>18,674</td>
<td>531,208</td>
<td>44,267</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>8,132</td>
<td>231,319</td>
<td>19,277</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>36,040</td>
<td>1,025,211</td>
<td>85,434</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>27,891</td>
<td>793,401</td>
<td>66,117</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>16,969</td>
<td>482,722</td>
<td>40,227</td>
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<tr>
<td>Otay W.D.</td>
<td>28,340</td>
<td>806,175</td>
<td>67,181</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>19,498</td>
<td>554,646</td>
<td>46,220</td>
</tr>
<tr>
<td>Pendleton M.R.</td>
<td>101</td>
<td>2,863</td>
<td>239</td>
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<tr>
<td>Poway, City of</td>
<td>13,748</td>
<td>391,089</td>
<td>32,591</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>8,192</td>
<td>233,039</td>
<td>19,420</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>7,159</td>
<td>203,654</td>
<td>16,971</td>
</tr>
<tr>
<td>Rincon M.W.D.</td>
<td>7,440</td>
<td>211,642</td>
<td>17,637</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>205,441</td>
<td>5,844,092</td>
<td>487,008</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>4,559</td>
<td>129,687</td>
<td>10,807</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>7,208</td>
<td>205,059</td>
<td>17,088</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>6,657</td>
<td>189,363</td>
<td>15,780</td>
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<tr>
<td>Vallecostos W.D.</td>
<td>13,092</td>
<td>372,433</td>
<td>31,036</td>
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<td>Valley Center M.W.D.</td>
<td>8,669</td>
<td>246,597</td>
<td>20,550</td>
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<tr>
<td>Vista I.D.</td>
<td>13,350</td>
<td>379,777</td>
<td>31,648</td>
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<tr>
<td>Yuma M.W.D.</td>
<td>25</td>
<td>727</td>
<td>61</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>470,189</strong></td>
<td><strong>$ 13,375,295</strong></td>
<td><strong>$ 1,114,608</strong></td>
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</table>

Note: Values in table contain greater precision than displayed.
<table>
<thead>
<tr>
<th>Agency</th>
<th>Coincident Peak Week Flows (cfs)</th>
<th>Annual CY 2003 Capacity Reservation Charge</th>
<th>Monthly CY 2003 Capacity Reservation Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8/12/97</td>
<td>9/1/98</td>
<td>7/20/99</td>
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<tr>
<td>Carlsbad M.W.D.</td>
<td>26.35</td>
<td>28.06</td>
<td>30.66</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>2.31</td>
<td>1.81</td>
<td>2.30</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>63.14</td>
<td>29.32</td>
<td>57.34</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>4.96</td>
<td>5.92</td>
<td>5.97</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>72.41</td>
<td>64.33</td>
<td>68.80</td>
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<td>Oceanside, City of</td>
<td>76.93</td>
<td>82.66</td>
<td>83.73</td>
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<td>30.71</td>
<td>32.04</td>
<td>33.48</td>
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<td>Otay W.D.</td>
<td>42.46</td>
<td>47.10</td>
<td>49.63</td>
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<td>Padre Dam M.W.D.</td>
<td>37.82</td>
<td>40.52</td>
<td>39.25</td>
</tr>
<tr>
<td>Pendleton M.R.</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>23.80</td>
<td>26.32</td>
<td>24.38</td>
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<tr>
<td>Rainbow M.W.D.</td>
<td>42.10</td>
<td>43.83</td>
<td>37.47</td>
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<tr>
<td>Ramona M.W.D.</td>
<td>7.83</td>
<td>8.79</td>
<td>7.42</td>
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<tr>
<td>Rincon M.W.D.</td>
<td>13.71</td>
<td>16.11</td>
<td>15.68</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>357.23</td>
<td>278.80</td>
<td>355.24</td>
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<td>San Miguelito W.D.</td>
<td>9.04</td>
<td>10.32</td>
<td>9.70</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>18.10</td>
<td>20.66</td>
<td>19.42</td>
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<tr>
<td>Sweetwater Authority</td>
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</tr>
<tr>
<td>Vallejo W.D.</td>
<td>25.14</td>
<td>32.81</td>
<td>37.08</td>
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<tr>
<td>Valley Center M.W.D.</td>
<td>93.38</td>
<td>93.25</td>
<td>90.71</td>
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<tr>
<td>Vista I.D.</td>
<td>16.80</td>
<td>15.13</td>
<td>16.99</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>3.77</td>
<td>3.16</td>
<td>3.43</td>
</tr>
</tbody>
</table>

**TOTALS**                          $7,905,600  $658,800

Note: Values in table contain greater precision than displayed.
<table>
<thead>
<tr>
<th>Agency</th>
<th>Current MWD Allocation Method</th>
<th>New MWD Allocation Method</th>
<th>Total Fiscal Year 2002-2003 RTS Charge*</th>
<th>Net Stand-by Charge Credit*</th>
<th>Net Fiscal Year 2002-2003 RTS Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Total Deliveries</td>
<td>10-yr RTS Due per MWD July 1 - December 31, 1996 (AF)</td>
<td>10-yr RTS Due per MWD July 1 - December 31, 1996 (AF)</td>
<td>Average Firm Deliveries</td>
<td>January 1 - June 30, 2003</td>
</tr>
<tr>
<td></td>
<td>Fiscal Years 94-96</td>
<td>(AF)</td>
<td>(AF)</td>
<td>(AF)</td>
<td>(AF)</td>
</tr>
<tr>
<td>Carlsbad M.W.D.</td>
<td>14,633</td>
<td>390,962</td>
<td>14,598 $378,978</td>
<td>769,940</td>
<td>$393,243</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>1,346</td>
<td>35,954</td>
<td>1,416 36,750</td>
<td>72,704</td>
<td>$(32,152)</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>12,930</td>
<td>345,469</td>
<td>14,119 366,562</td>
<td>712,031</td>
<td>$(214,967)</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>12,568</td>
<td>335,789</td>
<td>6,866 178,243</td>
<td>514,032</td>
<td>$(285,375)</td>
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<tr>
<td>Helix W.D.</td>
<td>25,427</td>
<td>679,375</td>
<td>30,376 788,609</td>
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<td>$(721,104)</td>
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<tr>
<td>Oceanside, City of</td>
<td>25,594</td>
<td>683,833</td>
<td>25,284 656,407</td>
<td>1,340,240</td>
<td>$(613,003)</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>12,364</td>
<td>330,330</td>
<td>13,519 350,974</td>
<td>681,304</td>
<td>$(400,469)</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>21,078</td>
<td>563,152</td>
<td>23,587 612,364</td>
<td>1,175,516</td>
<td>$(889,466)</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>18,086</td>
<td>482,678</td>
<td>17,866 463,836</td>
<td>946,514</td>
<td>$(710,041)</td>
</tr>
<tr>
<td>Pendleton M.R.</td>
<td>103</td>
<td>2,752</td>
<td>100 2,608</td>
<td>5,360</td>
<td>$(4,048)</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>10,949</td>
<td>292,529</td>
<td>11,827 307,042</td>
<td>599,571</td>
<td>$(291,942)</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>22,911</td>
<td>612,149</td>
<td>7,317 189,961</td>
<td>802,110</td>
<td>$(547,350)</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>8,241</td>
<td>220,191</td>
<td>6,171 160,208</td>
<td>380,399</td>
<td>$(433,882)</td>
</tr>
<tr>
<td>Rincon M.W.D.</td>
<td>6,119</td>
<td>163,489</td>
<td>6,356 165,014</td>
<td>328,503</td>
<td>$(310,797)</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>142,077</td>
<td>3,796,026</td>
<td>166,198 4,314,781</td>
<td>8,110,807</td>
<td>$(4,065,507)</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>3,870</td>
<td>103,399</td>
<td>4,035 104,766</td>
<td>208,165</td>
<td>$(143,927)</td>
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<tr>
<td>Santa Fe I.D.</td>
<td>5,979</td>
<td>159,743</td>
<td>6,423 166,741</td>
<td>326,484</td>
<td>$(149,199)</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>4,052</td>
<td>108,264</td>
<td>5,522 143,367</td>
<td>251,631</td>
<td>$(414,194)</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>12,662</td>
<td>322,279</td>
<td>11,036 286,503</td>
<td>608,782</td>
<td>$(393,563)</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>34,679</td>
<td>925,556</td>
<td>7,591 197,038</td>
<td>1,123,639</td>
<td>$(674,755)</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>7,228</td>
<td>194,067</td>
<td>10,003 269,816</td>
<td>464,805</td>
<td>$(326,521)</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>932</td>
<td>24,892</td>
<td>29 759</td>
<td>25,651</td>
<td>$(84,409)</td>
</tr>
</tbody>
</table>

**TOTALS**  $10,774,798  $10,141,374  $20,918,172  $(12,153,428)  $8,762,744

*Net of MWD Standby Charge Program Administrative Costs of $175,689.

Note: Values in table contain greater precision than displayed.
C. FINANCIAL POLICY AMENDMENT
August 16, 2006

Attention: Board of Directors

Adopt the Rate Model Work Group Financial Policy Proposal. (Action)

Purpose
To amend Water Authority financial policies regarding the Rate Stabilization Fund (RSF) and Debt Service Coverage Ratio (DSCR) as recommended by the Rate Model Work Group Proposal and the Administrative and Finance Committee.

Administrative and Finance Committee Recommendation
Adopt the Rate Model Work Group Proposal to amend financial policies regarding the RSF and DSCR.

Fiscal impact
The Rate Model Work Group (RMWG) Proposal will be phased in over a three-year period starting January 1, 2008. The phase-in will require that by June 30, 2011, the RSF have a balance approximately $10 million higher than the projected balance under the current policy. Starting January 1, 2008, water rates will need to include an additional increase of approximately one percent per year on average for the next three years; however, Infrastructure Access Charges (IAC) will decrease by approximately $3 per year per meter. Looking out to 2020-2021, the IAC will be approximately $6 per year per meter lower than projected under current policies, and the average annual increase in the water rate will decrease by approximately 0.40 percent.

Background
In December 2004, the Water Authority created the RMWG to promote financial transparency, to foster member agency relations and to create an open and collaborative process for discussing financial and rate management issues. The RMWG is made up of member agency general managers and finance officers. In 2005, the RMWG’s focus centered on understanding the inputs and outputs of the Financial Rate Modeling Program and how these were used to set rates and charges and prepare the Long Range Financing Plan. A workshop was then conducted with the member agencies to share this information. From this process, a list of parking lot items resulted. The analytical work surrounding these items formed the basis of the Proposal currently before the Board.

The Proposal is the result of six months of intensive, collaborative work among RMWG members, staff and Water Authority financial advisors. RMWG members included: Keith Lewinger (Fallbrook); Joe Beachem (Otay); Augie Caires and Doug Wilson (Padre Dam); Tom Brammell (Ramona); Charles Yackly, Christine Ruess and Cathy Pieroni (San Diego); Dennis Bostad and Debra Farrow (Sweetwater); Eldon Boone and Farrokh Shahamiri (Vista); and Linden Burzell (Yuima). The group met six times between January and June 2006. In these meetings, the group analyzed quantitative data related to Water Authority financial risks, reviewed studies of comparable agency financial ratios, evaluated 35 rate runs, identified common interests and barriers regarding policy development, developed and voted on specific recommendations, and drafted the policy recommendations contained in Attachment A. Staff presented the RMWG Proposal at the member agency general managers’ meeting on July 18, 2006 and at the quarterly meeting of member agency finance officers on August 3, 2006. Staff
also held a workshop on the RMWG Proposal at a special meeting of the Administrative and Finance Committee on August 10, 2006. At this meeting, by a unanimous vote, the Committee recommended adoption of the RMWG Proposal to the Board.

Previous Board Action: On August 10, 2006, the Administrative and Finance Committee recommended adoption of the RMWG Proposal.

Discussion
The key findings that drove the development of the Proposal are the result of a comprehensive risk analysis (including quantitative hydrologic data) and a comparative analysis of the financial ratios of other AA-rated water agencies. The risk analysis showed not only that hydrologic risk was significant, but also that the existing RSF minimum provides only one year of protection against the negative financial impacts of extreme wet weather. The RMWG considered this level of protection to be insufficient and chose to implement a target funding level that provides 2.5 years of protection against wet weather. In addition to the risk analysis, the comparative financial analysis revealed that with respect to the three financial ratios of greatest importance to investors and rating agencies, the Water Authority placed below the average of its AA rating category. After analyzing different scenarios and with extensive input from the Water Authority’s financial advisor, the RMWG recommended a DSCR policy target of 1.50x.

Attachment A contains the RMWG recommendations relating to the RSF and DSCR policies. In addition to policy statements, the attachment provides edited sections of the Water Authority’s Long Range Financing Plan which demonstrate how the policies will be “operationalized.” The primary elements of the RMWG Proposal are to:

- Establish a target funding level for the RSF that protects the Water Authority against the financial impact of 2.5 years of wet weather;
- Decrease the maximum funding level for the RSF to protect the Water Authority against the financial impact of 3.5 years of wet weather;
- Phase in the new target funding level of the RSF over three years and replenish any target level deficits over the same time period;
- Provide for the use of RSF funds to pay for O&M and debt service expenses, to smooth water rates and to meet Operating Fund and DSCR targets;
- Establish a separate fund for known, specific future expenses such as dam fills; and
- Establish a target DSCR of 1.50x, which is above the minimum bond covenant of 1.20x.

Benefits of the RMWG Proposal include reduced rate volatility, increased protection against wet weather, a transparent and flexible RSF framework, increased cash funding of the CIP and less outstanding debt. Moreover, the strengthening of key financial ratios—higher debt service coverage ratio, decreased debt ratio and increased cash days—support the maintenance of the Water Authority’s AA credit ratings.

Prepared by: Eric Sandler, Deputy Director of Finance
Reviewed by: Karen P. Brust, Director of Finance/Treasurer
Approved by: Paul A. Lanspery, Deputy General Manager

Attachment(s):
Attachment A - Rate Model Work Group Recommended Adjustments to Existing Water Authority Financial Policies
ATTACHMENT—A
RATE MODEL WORK GROUP RECOMMENDED ADJUSTMENTS TO EXISTING WATER AUTHORITY FINANCIAL POLICIES RELATED TO THE RATE STABILIZATION FUND AND DEBT SERVICE COVERAGE

Rate Stabilization Fund Policy Statement

The target funding level for the RSF is equal to the financial loss resulting from 2.5 years of above average rainfall, calculated at a 95% exceedence level. The maximum funding level for the RSF is equal to the financial loss resulting from 3.5 years of above average rainfall.

Transfers from the RSF to the Operating Fund may be made to meet annual O&M expenses, debt service expenses, stabilize water rates or to comply with debt service coverage and operating fund policies. Transfers from the Operating Fund to the RSF will be made as a closing audit adjustment if the Operating Fund maximum balance has been met.

Balances below the RSF target level are to be replenished within three years. The Board may also choose to budget for RSF deposits resulting in balances in excess of the target level but below the maximum level to provide for rate smoothing. The RSF is managed so that any funds above the maximum balance will be transferred to the Operating Fund—Operating Fund balances above the existing 45-day policy are subject to discretionary use by the Board.

Funds committed to specific future non-operating expenditures such as dam fills or QSA water pre-payments will be set-aside in either the Dam Fill Fund or QSA Commitment Fund.

Rate Stabilization Fund
Red-lined text from Water Authority’s Long Range Financing Plan for fiscal year 2004-2005

The Rate Stabilization Fund (RSF) was created in Fiscal Year 1989-1990 for the purpose of collecting amounts of water revenues greater than expenditures in years of strong water sales. Funds can then be used to mitigate “rate shock” in years of weak water sales and/or to manage debt service coverage, or to smooth out water rate increases. The RSF is a critical short-term water rate management tool that provides the necessary funds to maintain a smooth water rate pattern over a long period of time. With the new melded supply rate, and the expansion of the Water Authority’s functional areas with treatment and desalination, the RSF will have an increasingly important role in managing hydrology risk and stabilizing annual revenue needs.

The RSF has served the Water Authority well since it was created, providing a vehicle that collected approximately $60 million in the first three years of its existence. Revenues greater than expenditures were generated in those years from strong water sales during the drought, combined with relatively low debt service requirements because major funding for the CIP was just beginning. In Fiscal Year 1994-1995, approximately $6 million was withdrawn from the RSF to supplement operating revenues and mitigate the need for water rates to rise above $80 per acre-foot. A transfer of $19 million was made from the RSF to the Operating Fund, as directed by the Board in Fiscal Year 1996-1997, to more efficiently balance Rate Stabilization and Operating Funds. The RSF will supply approximately $10 million in water purchases for the Olivenhain reservoir in Fiscal Year 2003-2004. In addition, in Fiscal Year 2003-2004, $10 million of this fund has been placed in restricted investments to fund the IID socioeconomic payment obligation. As a part of the Long Range Financing Plan process, a “QSA Commitment Fund” will be established to recognize that these restricted investments are no longer available for rate stabilization purposes. The RSF is anticipated to have an ending balance of $55.7 million (inclusive of the remaining $8 million in IID-restricted investments), and a permitted maximum balance of $86.1 million at the close of Fiscal Year 2003-2004.
For long-range financial planning purposes, Board policy requires that the sets a target funding level for the RSF—be maintained at a minimum balance of at least 25 percent of the Water Authority's net water sales revenue, defined as total Water Authority water sales revenue less Water Authority water purchases from Metropolitan Water District. The RSF also has a maximum balance of 100 percent of the average annual water sales projected over the proceeding four years, equal to the financial loss resulting from 2.5 years of above average rainfall, calculated at a 95% exceedence level. Additionally, it establishes a maximum funding level equal to the financial loss resulting from 3.5 years of above average rainfall. The four-year forward-rolling average allows the RSF to gradually increase or decrease with respect to revenue coverage needs. Defining the target and maximum funding levels of the RSF in terms of the financial impact of above average rainfall matches the size of the fund to the primary risk it is designed to mitigate and provides additional capacity for rate smoothing.

As a general rule, the Water Authority will transfer portions of its net water revenues not required to meet either its debt service coverage ratio requirement or operating fund requirement into the RSF. The Board may choose to budget for RSF deposits resulting in balances in excess of the target level but not in excess of the maximum level for the purposes of rate smoothing. Balances below the target level are to be replenished within three years. As necessary, the Water Authority will transfer amounts from its RSF into net water revenues to meet its debt service coverage requirements, Operating Fund requirements or to smooth rate increases. Interest earnings accrue to the Rate Stabilization Fund unless the maximum balance is achieved, at which point they will be deposited into the Operating Fund. The RSF is managed so that any funds above the maximum balance will be transferred to the Operating Fund—Operating Fund balances above the existing 45-day policy are subject to discretionary use by the Board. Deposits are not made into the fund if the fund is at its maximum permitted balance.

In Fiscal Year 2003-2004, $10 million of the RSF was placed in restricted investments to fund the IID socioeconomic payment obligation. As a part of the Long-Range Financing Plan process, a “QSA Commitment Fund” was established to recognize that these balances are no longer available for rate stabilization purposes. Similarly, funds committed to specific future non-operating expenditures such as dam fills or QSA water pre-payments are to be set aside in the Dam Fill Fund or the QSA Commitment Fund. Planned non-operating expenditures in the future include San Vicente and Lake Hodges dam fill payments scheduled for 2012-2016 and a QSA Water Prepayment due in 2008.

The RSF was created to provide funds that would mitigate the need for an unanticipated rate increase in the event of an unexpected decline in water sales. As a result, the RSF is a critical short-term water rate management tool that provides the necessary funds to maintain a smooth water rate pattern over a long period of time.

With the new melded supply rate, and the expansion of the Water Authority’s functional areas with treatment and desalination, the RSF will have an increasingly important role in stabilizing annual revenue needs.
Debt Service Coverage Policy Statement
The Board will set rates to meet a senior lien debt service coverage target inclusive of RSF transfers of 1.50x as well as a senior lien debt service coverage target (excluding capacity charge revenues) of 1.00x. The 1.50x senior lien debt service coverage target is above the existing 1.20x bond covenant.

Debt Service Coverage
Red-lined text from Water Authority’s Long Range Financing Plan for fiscal year 2004-2005
Debt service coverage is another key constraint in the FRMP, and is mandated by the legal documents that govern the Water Authority’s outstanding debt issues. The Water Authority’s debt service coverage covenants require that the Water Authority’s net operating revenues, defined as operating revenues less operations and maintenance expenditures, equal a minimum of 120 percent of debt service on senior lien debt. The Water Authority has also covenanted to provide gross revenues of at least 100 percent of debt service on all Water Authority obligations. Senior lien refers to debt that has a legal first priority repayment after the Water Authority first pays its operations and maintenance expenditures. At the present time, all of the Water Authority’s outstanding fixed-rate debt is senior lien debt.

The projected senior lien debt service ratio, and overall debt service ratio are presented in Figures 5-3 and 5-4 respectively. The obligations that are subject to the 100 percent debt service coverage requirement consist of all Water Authority obligations, including operations and maintenance expenditures, long-term debt service, short-term debt service and any other obligations (e.g., leases, contracts, etc.)

In addition to the 120 percent and 100 percent requirements, the Water Authority has the ability to issue an intermediate lien that would require 110 percent coverage after the payment of senior lien obligations. The Water Authority currently has no intermediate lien obligations outstanding and no plan to issue such debt.

Highly-rated water utilities generally have actual debt service coverage ratios in excess of their legal obligations. The maintenance of the Water Authority’s high credit ratings requires debt service coverage ratios that generally exceed the minimum requirement. Though not a legal commitment, the Board has established that inclusive of RSF transfers, the Water Authority will maintain senior lien debt service coverage of 150% and senior lien debt service coverage of 100% after excluding capacity charge revenues.
D. GENERAL RESOLUTION 89-21 (W/ AMENDMENTS)
SAN DIEGO COUNTY WATER AUTHORITY

RESOLUTION NO. 89-21

A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues

(General Resolution)

Adopted May 11, 1989
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SAN DIEGO COUNTY WATER AUTHORITY

RESOLUTION NO. 89-21

A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues

(General Resolution)

WHEREAS, the San Diego County Water Authority owns and operates the Water System;

WHEREAS, the Authority expects to issue Bonds and enter into Contracts, including the 1989 Installment Sale Agreement and the 1989 Contract of Indebtedness, the obligations of the Authority under which will be payable from Net Water Revenues;

WHEREAS, the Authority now desires to provide for the allocation of revenues of the Water System; and

WHEREAS, the Authority also desires to establish covenants to secure the payment of obligations payable from Net Water Revenues;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY AS FOLLOWS:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any opinion or report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

Accreted Value

"Accreted Value" means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates, as of
the date of calculation, the initial amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the approximate interest rate thereof on each semiannual date specified with respect thereto, as determined in accordance with the table of accreted values for any Capital Appreciation Bonds or Capital Appreciation Certificates prepared by the Authority at the time of sale thereof, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

Accreted Value Payment Date

"Accreted Value Payment Date" means any Installment Payment Date on which Accreted Value is payable.

Authority

"Authority" means the San Diego County Water Authority, a county water authority duly organized and existing under and by virtue of the laws of the State of California.

Bond or Contract Reserve Fund

"Bond or Contract Reserve Fund" means any debt service reserve fund established to secure the payment of Bond Payments or Installment Payments.

Bond Payments

"Bond Payments" means the principal and interest payments scheduled to be paid by the Authority on Bonds.

Bonds

"Bonds" means all revenue bonds of the Authority authorized, executed, issued and delivered by the Authority under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Bonds and Contracts.

Capital Appreciation Bonds

"Capital Appreciation Bonds" means any Bonds described as such when issued.
Capital Appreciation Certificates

"Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when issued.

Certificate of the Authority

"Certificate of the Authority" means an instrument in writing signed on behalf of the Authority by the Chairman of the Board of Directors of the Authority, or by any other officer of the Authority duly authorized by the Board of Directors of the Authority to sign documents on its behalf with respect to the matters referred to therein.

Certificates

"Certificates" means any certificates of participation representing interests in payments to be made by the Authority pursuant to Leases, Installment Sale Agreements or Contracts of Indebtedness.

Contract Payments

"Contract Payments" means the contract payments scheduled to be paid by the Authority under and pursuant to Contracts of Indebtedness.

Contracts

"Contracts" means all Installment Sale Agreements, Leases and Contracts of Indebtedness.

Contracts of Indebtedness; 1989 Contract of Indebtedness

"Contracts of Indebtedness" means contracts of indebtedness or similar obligations of the Authority authorized and executed by the Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Contracts and Bonds. "1989 Contract of Indebtedness" means the contract of indebtedness by and between the Authority and Security Pacific National Bank, dated as of May 1, 1989, as originally executed and as it may from time to time be amended or supplemented and which constitutes a Contract of Indebtedness hereunder.

Current Water Revenues

"Current Water Revenues" means all gross income and revenue received or receivable by the Authority from the
ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and charges and standby charges) received by the Authority for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Authority from the ownership or operation of the Water System or arising from the Water System, and also including (1) all income from the deposit or investment of any money in the Water Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, and (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract Reserve Fund or other fund established pursuant to a Trust Agreement to the extent such income will be available to pay Bond Payments or Installment Payments, but excluding any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service

"Debt Service" means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation
Certificates, then the Accreted Value payment shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Bonds or if the Installment Payments due under any such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (1) the current interest rate calculated pursuant to the provisions of the terms of such Bonds or Contracts (with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02, the initial interest rate on such Bonds or Contracts), or, (2) if available, the average interest rate on such Bonds or Contracts during the thirty-six (36) months preceding the date of calculation or, (3) if such Bonds or Contracts have not been outstanding for such thirty-six month period (or with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02), such average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by the rating agencies rating such Bonds or Contracts in a rating category equivalent to the rating on such Bonds or Contracts; and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the Authority, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Contracts or twenty (20) years, whichever is greater; provided further, that "Debt Service" shall not include (1) payments due on voter-approved general obligation bonds and other voter-approved general obligation debts for which taxes are then being levied and collected or (2) interest on Bonds or Contracts which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Director of Finance

"Director of Finance" means the Director of Finance of the Authority or its successor designated by the Board of Directors of the Authority.

Fiscal Year

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Board of Directors of the Authority as the Fiscal Year of the Authority.
General Reserve Fund

"General Reserve Fund" means the fund by that name established pursuant to Section 2.01.

Generally Accepted Accounting Principles

"Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Installment Payment Date

"Installment Payment Date" means any date on which Bond Payments or Installment Payments are scheduled to be paid by the Authority under and pursuant to any Contract or Bonds.

Installment Payment Fund

"Installment Payment Fund" means the fund by that name established pursuant to Section 2.01.

Installment Payments

"Installment Payments" means Contract Payments, Installment Sale Payments or Lease Payments.

Installment Sale Agreements; 1989 Installment Sale Agreement

"Installment Sale Agreements" means installment sale agreements or similar obligations of the Authority authorized and executed by the Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Contracts and Bonds. "1989 Installment Sale Agreement" means the installment sale agreement by and between the Authority and Security Pacific National Bank, dated as of May 1, 1989, as originally executed and as it may from time to time be amended or supplemented and which constitutes an Installment Sale Agreement hereunder.

Installment Sale Payments

"Installment Sale Payments" means the installment sale or other periodic payments scheduled to be paid by the Authority under and pursuant to Installment Sale Agreements.
Interest Payment Date

"Interest Payment Date" means an Installment Payment Date on which interest is payable.

Law

"Law" means the County Water Authority Act, being California Water Code Appendix, Sections 45-1 et seq., and all laws amendatory thereof or supplemental thereto.

Lease Payments

"Lease Payments" means the rental payments scheduled to be paid by the Authority under and pursuant to Leases.

Leases

"Leases" means capital leases or similar obligations of the Authority authorized and executed by the Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of all other Contracts and Bonds.

Maintenance and Operation Costs

"Maintenance and Operation Costs" means all costs paid or incurred by the Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased by the Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Authority or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any bonds or of such bonds, such as compensation, reimbursement and indemnification of the trustee for any such Contracts or bonds and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).
Maximum Annual Debt Service

"Maximum Annual Debt Service" means the greatest total Debt Service payable in any Fiscal Year during the period commencing with the next ensuing Fiscal Year and terminating with the Fiscal Year in which payments are due under the last outstanding Bonds or the last outstanding Contract, whichever is later.

Monthly Accrued Debt Service

"Monthly Accrued Debt Service" means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts accrued and to accrue to the end of such month; provided, in calculating the amount of Monthly Accrued Debt Service (i) Accreted Value with respect to Capital Appreciation Bonds and Capital Appreciation Certificates shall be deemed to accrue over the twelve-month period immediately preceding the scheduled redemption or prepayment date of such Capital Appreciation Bond or Capital Appreciation Certificate, (ii) the adjustment to principal described in provision (c) of the definition of Debt Service shall not be made and (iii) if the interest on any Bonds or Installment Payments due under any Contract bear interest payable pursuant to a variable rate formula, the amount of interest deemed to accrue during any period shall be the actual interest borne by such Bonds or Installment Payments during such period.

Net Water Revenues

"Net Water Revenues" means, for any Fiscal Year or other period, the Water Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

Obligation

"Obligation" means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit or guaranty of debts, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operations Costs.

Opinion of Counsel

"Opinion of Counsel" means a written opinion of counsel of national representation generally recognized to be
well qualified in the field of law relating to municipal bonds, retained by the Authority.

Outstanding

"outstanding" means with respect to any Bonds or Contracts, Bonds or Contracts the payment obligations of the Authority under which are not deemed paid in accordance with the terms of such Bonds or Contracts or applicable Trust Agreement.

Principal Payment Date

"Principal Payment Date" means any Installment Payment Date on which principal is payable.

Rate Stabilization Fund

"Rate Stabilization Fund" means the fund by that name established pursuant to Section 2.01.

Reimbursement Agreement

"Reimbursement Agreement" means an agreement between the Authority and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments and requiring the Authority to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water Revenues on a parity with all Contracts and Bonds.

Reimbursement Payments

"Reimbursement Payments" means amounts payable by the Authority as compensation or reimbursement for a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments in accordance with any Reimbursement Agreement.

Subordinate Obligation Payment Fund

"Subordinate Obligation Payment Fund" means the fund by that name established pursuant to Section 2.01.

Subordinate Obligation Payments

"Subordinate Obligation Payments" means the payments scheduled to be paid by the Authority under and pursuant to Subordinate Obligations.
Subordinate Obligations

"Subordinate Obligations" means obligations of the Authority authorized and executed by the Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Bond Payments and Installment Payments.

Trust Agreement

"Trust Agreement" means any indenture or trust agreement providing for the issuance of Bonds or Certificates.

Trustee

"Trustee" means the trustee under any Trust Agreement.

Water Revenue Fund

"Water Revenue Fund" means the San Diego County Water Authority Water Revenue Fund established pursuant to Section 2.01.

Water Revenues

"Water Revenues" means Current Water Revenues plus deposits to the Water Revenue Fund from amounts on deposit in the Rate Stabilization Fund, but only as and to the extent specified in Section 2.03, less amounts transferred to the Rate Stabilization Fund.

Water Service

"Water Service" means the water service furnished, made available or provided by the Water System.

Water System

"Water System" means all property rights, contractual rights and facilities of the Authority, including all facilities for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith now owned by the Authority and all other properties, structures or works for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith hereafter acquired and constructed by or for the Authority and determined by the Authority to be a part of the Water System; together with all additions,
betterments, extensions or improvements to such facilities, properties structures or works or any part thereof hereafter acquired and constructed.

ARTICLE II
WATER REVENUES

SECTION 2.01. Establishment of Funds. The Authority hereby establishes and agrees to maintain, so long as any Bonds, Certificates or Subordinate Obligations remain outstanding, the following funds, each such fund to be held by the Director of Finance:

(1) Rate Stabilization Fund;

(2) Water Revenue Fund;

(3) Installment Payment Fund;

(4) Subordinate Obligation Payment Fund; and

(5) General Reserve Fund.

Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes hereinafter in this article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority. The Authority will only have such beneficial right or interest in such money as is provided herein.

SECTION 2.02. Allocation of Water Revenues. In order to carry out and effectuate the obligations of the Authority to make Bond Payments, Installment Payments, Reimbursement Payments and Subordinate Obligation Payments, the Authority agrees and covenants that all Current Water Revenues received by it shall be deposited when and as received in the Water Revenue Fund. The Authority may, to the extent provided in Section 2.03, transfer amounts in the Water Revenue Fund to the Rate Stabilization Fund or from the Rate Stabilization Fund to the Water Revenue Fund.

The Authority shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Water Revenue Fund as they become due and payable, and all remaining money on deposit in the Water Revenue Fund shall be set aside and deposited or transferred...
by the Authority, as the case may be, at the following times in the following order of priority:

(a) **Installment Payment Fund.** On or before the last business day of each month, beginning in May, 1989, the Authority shall deposit in the Installment Payment Fund, a sum equal to the Monthly Accrued Debt Service for such month, plus a sum equal to all Reimbursement Payments then due and payable; provided that no such deposit need be made if amounts on deposit in the Installment Payment Fund equal the amount of Bond Payments or Installment Payments due with respect to all Bonds and Contracts on the next succeeding Interest Payment Date (with respect to interest), Principal Payment Date (with respect to principal) and Accreted Value Payment Date (with respect to Accreted Value) for such Bonds or Contract, and the Reimbursement Payments then due and payable.

(b) **Bond or Contract Reserve Funds.** On or before the last business day of each month, the Authority shall transfer to each Trustee for deposit in the applicable Bond or Contract Reserve Fund an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Bond or Contract Reserve Fund as and to the extent required by the applicable Contract or Trust Agreement.

(c) **Subordinate Obligation Payment Fund.** On or before the last business day of each month, the Authority shall deposit in the Subordinate Obligation Payment Fund the sum or sums required to be deposited under or pursuant to the indenture, trust agreement or other instrument securing each Subordinate Obligation.

(d) **Subordinate Obligation Reserve Funds.** On or before the last business day of each month, the Authority shall transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or the indenture, trust agreement or other instrument securing such Subordinate Obligation.

(e) **General Reserve Fund.** On the last business day of each month, the Authority shall, after making each of the foregoing deposits and transfer, transfer all money remaining in the Water Revenue Fund to the General Reserve Fund.

SECTION 2.03. **Rate Stabilization Fund.** From time to time the Authority may deposit in the Rate Stabilization Fund from Current Water Revenues such amounts as the Authority
shall determine. All amounts transferred by the Authority from the Rate Stabilization Fund to the Water Revenue Fund shall be used by the Authority solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water Revenues.

SECTION 2.04. Installment Payment Fund. The Authority may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Bond Payments, Installment Payments and Reimbursement Payments at the times and in the amounts required by applicable Bonds, Contracts, Trust Agreements and Reimbursement Agreements.

SECTION 2.05. Subordinate Obligation Payment Fund. The Authority may withdraw amounts from the Subordinate Obligation Fund solely for the purpose of paying or providing for the payment of Subordinate Obligation Payments at the times and in the amounts required by applicable Subordinate Obligations or trust agreement or indenture securing such Subordinate Obligations.

SECTION 2.06. General Reserve Fund. The Authority may withdraw money in the General Reserve Fund for any lawful purpose of the Authority except to make transfers to the Rate Stabilization Fund.

ARTICLE III

BONDS AND CONTRACTS; OBLIGATIONS

SECTION 3.01. 1989 Installment Sale Agreement; 1989 Contract of Indebtedness. (a) The Authority may execute the 1989 Installment Sale Agreement and the 1989 Contract of Indebtedness without the necessity of complying with Section 3.02.

(b) The Authority may not execute any amendment to the 1989 Installment Sale Agreement or the 1989 Contract of Indebtedness if such amendment would increase the amount of Installment Payments thereunder; provided, the Authority may execute such an amendment if the requirements of Section 3.02 will be satisfied in connection therewith.

SECTION 3.02. Additional Bonds and Contracts. The Authority may at any time issue any Bonds the payments under and pursuant to which or execute any Contract the Installment Payments under and pursuant to which, as the case may be, are payable from the Net Water Revenues on a parity with the 1989 Installment Sale Agreement, the 1989 Contract of Indebtedness and all other Contracts and Bonds; provided:
(a) For any period of twelve (12) consecutive calendar months within the twenty-four (24) calendar month period ending on the last day of the month preceding the date of issuance of such Bonds or execution of such Contract, as evidenced by a Certificate of the Authority (together with supporting calculations prepared by the Authority) to the effect that (1) the Net Water Revenues shall have been equal to at least one hundred twenty per cent (120%) of the Maximum Annual Debt Service on all Bonds and Contracts outstanding after the issuance of such Bonds or the execution of such Contract, as the case may be, and (2) the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such twelve-month period and at least equal to one hundred twenty percent (120%) of Debt Service on all Bonds and Contracts outstanding during such twelve-month period, or

(b) (i) For any period of twelve (12) consecutive calendar months within the twenty-four (24) calendar month period ending on the last day of the month preceding the date of issuance of such Bonds or the execution of such Contract, as evidenced by a Certificate of the Authority (together with supporting calculations prepared by the Authority) to the effect that the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such twelve-month period and at least equal to one hundred twenty percent (120%) of Debt Service on all Bonds and Contracts outstanding during such twelve-month period, and

(ii) As evidenced by a Certificate of the Authority (together with supporting calculations and assumptions prepared by the Authority) to the effect that, in each of the five succeeding Fiscal Years, projected Net Water Revenues shall be sufficient for the payment of all amounts to be payable from Net Water Revenues in each such Fiscal Year and at least equal to one hundred twenty percent (120%) of Debt Service on all Bonds and Contracts to be outstanding in each such Fiscal Year, and

(c) The Authority shall file a Certificate of the Authority to the effect that the Authority is not then in default under any Trust Agreement or with respect to any Bonds or Contracts and

(d) Such Bond or Contract shall not allow the declaration of Bond Payments or Installment Payments
thereunder to be immediately due and payable in the event of a default by the Authority thereunder or under the applicable Trust Agreement unless such remedy is then allowed with respect to all Bonds and Contracts then outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the Authority to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contract or to execute Reimbursement Agreements.

SECTION 3.03. Obligations. Amounts to be paid by the Authority with respect to any Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is entered into the Authority shall deliver a Certificate of the Authority to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the Authority's ability to comply with the covenant set forth in Section 4.09 hereof during the next five Fiscal Years or five years beyond the commercial operation date of the project being financed with such Obligation, whichever is later and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the Authority. If the amounts to be paid by the Authority for an Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund.

ARTICLE IV

COVENANTS OF THE AUTHORITY

SECTION 4.01. Against Encumbrances. The Authority will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the Authority in, upon, about or relating to the Water System and will keep the Water System free of any and all liens against any portion of the Water System. In the event any such lien attaches to or is filed against any portion of the Water System, the Authority will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Authority desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay
thereafter expires, the Authority will forthwith pay or cause to be paid and discharged such judgment.

SECTION 4.02. Against Sale or Other Disposition of Property. The Authority will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Water Revenues, and will not enter into any agreement or lease which would impair the operation of the Water System or any part thereof necessary to secure adequate Net Water Revenues for the payment of Bond Payments, Installment Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates with respect to the Net Water Revenues or the operation of the Water System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water Revenues below the requirements to be maintained under Section 4.09.

SECTION 4.03. Maintenance and Operation of the Water System; Budgets. The Authority will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Not later than September 1 of each year, the Authority will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the Authority setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service and the estimated debt service payments on all Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to each Trustee.

SECTION 4.04. Compliance with Contracts. The Authority will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the Authority is a party thereto.

SECTION 4.05. No Superior Liens. The Authority will not create or allow any lien on or payment from the Net Water Revenues or any part thereof prior or superior to the
obligation to make the Bond Payments or Installment Payments as provided herein or which might impair the security of the Bond Payments or Installment Payments other than Subordinate Obligations.

SECTION 4.06. Insurance. The Authority will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water System; provided, the Authority shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Water System. All policies of insurance required to be maintained herein shall provide that each Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.


(a) The Authority will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

(b) The Authority will prepare and file with each Trustee annually within one hundred and twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1989):

(1) financial statements of the Authority for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that caused him to believe that the Authority was not in compliance with any of the agreements or covenants contained herein; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the Authority with respect to the Water
System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

(c) The Authority will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1989) a summary report showing in reasonable detail the results of the operations of the Authority for such Fiscal Year and containing a general statement of the physical condition of the facilities, properties, structures or works of the Authority. The Authority will furnish a copy of such summary report to each Trustee.

SECTION 4.08. Payment of Taxes and Compliance with Governmental Regulations. The Authority will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof when the same shall become due. The Authority will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the Authority shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

SECTION 4.09. Amount of Rates, Fees and Charges. The Authority will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during the next succeeding Fiscal Year of the Authority Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues during such Fiscal Year and at least equal to one hundred twenty per cent (120%) of the Debt Service on all Bonds and Contracts for such Fiscal Year. The Authority may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this section.

SECTION 4.10. Collection of Rates, Fees and Charges. The Authority will charge and collect or cause to be collected the rates, fees and charges applicable to the Water Service and will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of
California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the Authority may without charge use the Water Service.

SECTION 4.11. Eminent Domain and Insurance Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, or if the Authority receives any insurance proceeds resulting from a casualty loss to the Water System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed components of the Water System.

ARTICLE V
MISCELLANEOUS

SECTION 5.01. Benefits of 1989 Resolution Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the Authority, the Trustees, the other parties to any Trust Agreement, Contract or Reimbursement Agreement, or the holder of any Bonds, Certificates or Subordinate Obligations any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the Authority shall be for the sole and exclusive benefit of such other party.

SECTION 5.02. Successor Is Deemed Included in all References to Predecessor. Whenever the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the Authority shall bind and inure to the benefit of the successors thereof whether so expressed or not.

SECTION 5.03. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections," "Exhibits" and other subdivisions or clauses are to the corresponding articles, sections, exhibits, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Resolution as a whole and not to any particular article, section, exhibit, subdivision or clause hereof.
SECTION 5.04. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The Authority hereby declares that it would have adopted this Resolution, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 5.05. Funds. Any fund required to be established and maintained herein by the Director of Finance may be established and maintained in the accounting records of the Director of Finance either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the rights of the holders of Bonds, Certificates and Subordinate Obligations.

SECTION 5.06. Investments. Any money held by the Authority in any of the funds provided herein shall be invested in lawful investments of Authority funds, provided that money held in the Installment Payment Fund and the Subordinate Obligation Payment Fund shall be invested in lawful investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed to pay Bond Payments, Installment Payments, Reimbursement Payments or Subordinate Obligation Payments.

SECTION 5.07. Repeal of Inconsistent Resolutions. Any resolution of the Authority and any part of any resolution inconsistent herewith is hereby repealed to the extent of such inconsistency.

SECTION 5.08. Effective Date. This Resolution shall take effect from and after its passage and approval.
PASSED AND ADOPTED this 11th day of May, 1989, by
the following vote:

AYES:    29

NOES:    0

ABSENT:  6

Approved:

[Signature]
Chairman of the Board of Directors
of the San Diego County Water
Authority

[SEAL]

Attest:

[Signature]
Secretary of the Board of Directors
of the San Diego County Water
Authority
RESOLUTION NO. 97-52

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY PLEDGING NET WATER REVENUES TO SECURE THE PAYMENT OF OBLIGATIONS PAYABLE FROM NET WATER REVENUES

WHEREAS, the San Diego County Water Authority, a county water authority duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "Authority"), is authorized under provisions of the Constitution and laws of the State of California, and in accordance therewith, to incur indebtedness and to purchase real and personal property as the Authority may determine is necessary or proper; and

WHEREAS, the Board of Directors of the Authority adopted, on May 11, 1989, Resolution No. 89-21 of the Authority providing for the allocation of water system revenues and establishing covenants to secure the payment of obligations payable from the net water revenues of the Authority (the "General Resolution"); and

WHEREAS, it is now desirable to amend the General Resolution to pledge net water revenues to secure the payment of Bonds, Contracts, Reimbursement Payments and Subordinate Obligations (as defined in the General Resolution);

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the San Diego County Water Authority, as follows:

Section 1. The Authority hereby specifically finds and declares that the statements, findings and determinations of the Authority set forth above are true and correct.

Section 2. Section 2.07 is hereby added to the General Resolution to read in full as follows:

Section 2.07 Pledge of Net Water Revenues. Net Water Revenues are hereby pledged to secure the payment of all Bond Payments, Installment Payments and Reimbursement Payments and, subordinate thereto, the payment of all Subordinate Obligations."

Section 3. This resolution shall take effect upon receipt of the consent of all parties from whom consent is required for amendments to the General Resolution.
PASSED, APPROVED and ADOPTED this 11th day of December, 1997.

AYES:

NOES: Manning

ABSTAIN:

ABSENT: Broomell, Chenelle, Davis, Newton, Galt, Slater, R. Williams

Chris Frahm, Chair

ATTEST:

Harold W. Ball, Secretary

I, Janet R. Maltman, Board Secretary of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of said resolution No. 97-5 of said Board and that the same has not been amended or repealed.

Janet R. Maltman, Board Secretary
RESOLUTION NO. 09-23

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY ADDRESSING THE TREATMENT OF INTEREST SUBSIDY PAYMENTS UNDER RESOLUTION 89-21

WHEREAS, the San Diego County Water Authority, a county water authority duly organized and existing under and pursuant to the Constitution and the laws of the State of California (the "Water Authority"), is authorized under provisions of the Constitution and the laws of the State of California, and in accordance therewith, to incur indebtedness and to purchase real and personal property as the Water Authority may determine is necessary or proper; and

WHEREAS, the Board of Directors of the Authority adopted, on May 11, 1989, Resolution No. 89-21 of the Water Authority, amended by Resolution No. 97-52 of the Board of Directors of the Water Authority adopted on December 11, 1997, providing for the pledge and allocation of water system revenues and establishing covenants to secure the payment of obligations payable from the net water revenues of the Water Authority (the "General Resolution"); and

WHEREAS, the Water Authority may, from time to time, issue Bonds (as defined in the General Resolution) or execute Contracts (as defined in the General Resolution) with respect to which the Water Authority will be entitled to receive cash subsidy payments from the United States Treasury, such as “Build America Bonds” issued under the provisions of the American Recovery and Reinvestment Act of 2009 (“Interest Subsidy Payments”); and

WHEREAS, it is now desirable to amend the General Resolution to provide that Interest Subsidy Payments not constitute Current Water Revenues (as defined in the General Resolution) but instead constitute reductions in Debt Service (as defined in the General Resolution).

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the San Diego County Water Authority, as follows:

Section 1. The Water Authority hereby specifically finds and declares that the statements, findings and determinations of the Water Authority set forth above are true and correct.

Section 2. Section 1.01 of the General Resolution is hereby amended to add the following definition:

Interest Subsidy Payments

“Interest Subsidy Payments” means cash subsidy payments entitled to be received by the Authority from the United States Treasury with respect to Bonds issued and Contracts executed by the Authority, including, but not limited to, “Build America Bonds” issued as contemplated by the American Recovery and Reinvestment Act of 2009.
PASSED, APPROVED and ADOPTED this 17th day of December, 2009.

AYES: Unless noted below, all Directors present voted aye.

NOES:

ABSTAIN: Wornham

ABSENT: Bowersox (p)
        Johnson
        Martin
        Watton (p)

ATTEST:

Thomas V. Wornham, Secretary

I, Doria F. Lore, Board Secretary of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of said resolution No. 09-23 of said Board and that the same has not been amended or repealed.

Doria F. Lore, Board Secretary
Section 3. The definition of “Current Water Revenues” in Section 1.01 of the General Resolution is hereby amended to read in full as follows:

Current Water Revenues

“Current Water Revenues” means all gross income and revenue received or receivable by the Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and charges and standby charges) received by the Authority for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Authority from the ownership or operation of the Water System or arising from the Water System, and also including (1) all income from the deposit or investment of any money in the Water Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, and (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract Reserve Fund or other fund established pursuant to a Trust Agreement to the extent such income will be available to pay Bond Payments or Installment Payments, but excluding any Interest Subsidy Payments, any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

Section 4. The definition of “Debt Service” in Section 1.01 of the General Resolution is hereby amended to read in full as follows:

Debt Service

“Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Contract, as the case may be, provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value payment shall be deemed due on the
scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Bonds or if the Installment Payments due under such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (1) the current interest rate calculated pursuant to the provisions of the terms of such Bonds or Contracts (with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02, the initial interest rate on such Bonds or Contracts), or, (2) if available, the average interest rate on such Bonds or Contracts during the thirty-six (36) months preceding the date of calculation or, (3) if such Bonds or Contracts have not been outstanding for such thirty-six month period (or with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02), such average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by the rating agencies rating such Bonds or Contracts in a rating category equivalent to the rating on such Bonds or Contracts; and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the Authority, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Contracts or twenty (20) years, whichever is greater; provided further, that “Debt Service” shall not include (1) payments due on voter-approved general obligation bonds and other voter-approved general obligation debts for which taxes are then being levied and collected, (2) interest on Bonds or Contracts which is to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement or (3) interest on Bonds or Contracts which is to be paid from Interest Subsidy Payments.

Section 5. This resolution shall take effect upon receipt of the consent of all parties from whom consent is required for amendments to the General Resolution.
PASSED, APPROVED and ADOPTED this 17th day of December, 2009.

AYES: Unless noted below, all Directors present voted aye.

NOES:

ABSTAIN: Wornham

ABSENT: Bowersox (p)
        Johnson
        Martin
        Watton (p)

ATTEST:

Thomas V. Wornham, Secretary

I, Doria F. Lore, Board Secretary of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of said resolution No. 09-23 of said Board and that the same has not been amended or repealed.

Doria F. Lore, Board Secretary
RESOLUTION NO. 09-23

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY ADDRESSING THE TREATMENT OF INTEREST SUBSIDY PAYMENTS UNDER RESOLUTION 89-21

WHEREAS, the San Diego County Water Authority, a county water authority duly organized and existing under and pursuant to the Constitution and the laws of the State of California (the "Water Authority"), is authorized under provisions of the Constitution and the laws of the State of California, and in accordance therewith, to incur indebtedness and to purchase real and personal property as the Water Authority may determine is necessary or proper; and

WHEREAS, the Board of Directors of the Authority adopted, on May 11, 1989, Resolution No. 89-21 of the Water Authority, amended by Resolution No. 97-52 of the Board of Directors of the Water Authority adopted on December 11, 1997, providing for the pledge and allocation of water system revenues and establishing covenants to secure the payment of obligations payable from the net water revenues of the Water Authority (the "General Resolution"); and

WHEREAS, the Water Authority may, from time to time, issue Bonds (as defined in the General Resolution) or execute Contracts (as defined in the General Resolution) with respect to which the Water Authority will be entitled to receive cash subsidy payments from the United States Treasury, such as "Build America Bonds" issued under the provisions of the American Recovery and Reinvestment Act of 2009 ("Interest Subsidy Payments"); and

WHEREAS, it is now desirable to amend the General Resolution to provide that Interest Subsidy Payments not constitute Current Water Revenues (as defined in the General Resolution) but instead constitute reductions in Debt Service (as defined in the General Resolution).

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the San Diego County Water Authority, as follows:

Section 1. The Water Authority hereby specifically finds and declares that the statements, findings and determinations of the Water Authority set forth above are true and correct.

Section 2. Section 1.01 of the General Resolution is hereby amended to add the following definition:

Interest Subsidy Payments

"Interest Subsidy Payments" means cash subsidy payments entitled to be received by the Authority from the United States Treasury with respect to Bonds issued and Contracts executed by the Authority, including, but not limited to, "Build America Bonds" issued as contemplated by the American Recovery and Reinvestment Act of 2009.
Section 3. The definition of “Current Water Revenues” in Section 1.01 of the General Resolution is hereby amended to read in full as follows:

**Current Water Revenues**

“Current Water Revenues” means all gross income and revenue received or receivable by the Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and charges and standby charges) received by the Authority for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Authority from the ownership or operation of the Water System or arising from the Water System, and also including (1) all income from the deposit or investment of any money in the Water Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, and (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract Reserve Fund or other fund established pursuant to a Trust Agreement to the extent such income will be available to pay Bond Payments or Installment Payments, but excluding any Interest Subsidy Payments, any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

Section 4. The definition of “Debt Service” in Section 1.01 of the General Resolution is hereby amended to read in full as follows:

**Debt Service**

“Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value payment shall be deemed due on the
scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Bonds or if the Installment Payments due under such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (1) the current interest rate calculated pursuant to the provisions of the terms of such Bonds or Contracts (with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02, the initial interest rate on such Bonds or Contracts), or, (2) if available, the average interest rate on such Bonds or Contracts during the thirty-six (36) months preceding the date of calculation or, (3) if such Bonds or Contracts have not been outstanding for such thirty-six month period (or with respect to the issuance of Bonds or the execution of Contracts pursuant to Section 3.02), such average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by the rating agencies rating such Bonds or Contracts in a rating category equivalent to the rating on such Bonds or Contracts; and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the Authority, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Contracts or twenty (20) years, whichever is greater; provided further, that "Debt Service" shall not include (1) payments due on voter-approved general obligation bonds and other voter-approved general obligation debts for which taxes are then being levied and collected, (2) interest on Bonds or Contracts which is to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement or (3) interest on Bonds or Contracts which is to be paid from Interest Subsidy Payments.

Section 5. This resolution shall take effect upon receipt of the consent of all parties from whom consent is required for amendments to the General Resolution.
PASSED, APPROVED and ADOPTED this 17th day of December, 2009.

AYES: Unless noted below, all Directors present voted aye.

NOES:

ABSTAIN: Wornham

ABSENT: Bowersox (p)  
         Johnson  
         Martin  
         Watton (p)

ATTEST:

Thomas V. Wornham, Secretary

I, Doria F. Lore, Board Secretary of the San Diego County Water Authority, do hereby certify that the above and foregoing is a full, true and correct copy of said resolution No. 09-23 of said Board and that the same has not been amended or repealed.

Doria F. Lore, Board Secretary
E. A&N TECHNICAL SERVICES, INC — SUPPLY RELIABILITY CHARGE MEMO
A & N Technical Services, Inc.

Memorandum

To: Lisa Marie Harris, Director of Finance
    Dan Hentschke, General Counsel

From: Thomas W. Chesnutt, Ph.D., CAP®

Date: March 2, 2015

Re: Review of Proposed SDCWA - Supply Reliability Charge

Purpose

A & N Technical Services, Inc. has been retained by the San Diego County Water Authority to independently review and provide a professional opinion of whether the proposed Supply Reliability Charge as described later in this memorandum is consistent with recognized cost-of-service based rate setting principles, that the amount expected to be generated by the charge is no more than necessary to cover the reasonably anticipated revenue requirement (“costs”) for governmental services or products for which the charge is imposed, and that the manner in which the costs are generally allocated by the charge bears a fair or reasonable relationship to the payor’s burdens on or benefits received from the governmental services or products.1

Findings

The proposed Supply Reliability Charge comports with water industry cost-of-service-based rate-setting principles. By design, it cannot recover more than the costs allocated to the supply functional costs, since it is computed as a portion of those functional supply costs. Further, it constitutes a reasonable allocation of functional supply costs in that it better aligns the fixed incremental supply costs taken on by the Water Authority to make highly reliable potable water supplies available to its member agencies within the County of San Diego with the benefits available to all water customers connected to the SDCWA integrated water system.

The proposal addresses fairness by allowing for predictability of charge incidence (based on a rolling five year average of historical deliveries) and adjustments to future charge incidence if demand requirements of member agencies change in the future due to local supply

1 This analysis is limited to a review of the proposed charge in the context of the Water Authority rates structure. It does not include allocation of individual costs to functional rate categories. That aspect of the cost-of-service study for the determination and setting of the amount of the charge will be performed by others.
development or demand management. This reviewer approves of the stated intention to re-examine the Supply Reliability Charge in five years and to embed it as a fixed charge in fiscal procedures and policies intended to assure the SDCWA’s fiscal sustainability objectives.

**Description of the Supply Reliability Charge**

The proposed Supply Reliability Charge will create a new fixed charge for the functional incremental supply costs allocated to enhanced supply reliability. Under the proposed methodology the charge would be set annually. First the difference between the combined Desalination and IID Water Transfer Costs and a like amount of water purchased at the MWD Tier 1 Full Service Untreated Rate is determined. The calculated difference is then multiplied by 25% to determine the calendar year Supply Reliability Charge. A detailed calculation methodology is shown below:

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3 Functional incremental supply costs for this purpose are understood to be associated with the two highly reliable supplies available to the San Diego County Water Authority that constitute the new and forward-looking supplies—i.e., the supply costs incidental to IID Transfer water supply and the Carlsbad Desalination plant; these are a subset of SDCWA’s overall functional supply costs. The overall supply costs for the Water Authority, include the Tier 1 full service water rate payments made to MWD for purchase of MWD water (currently the total of MWD’s Tier 1 supply rate, system access rate, system power rate, and water stewardship charge), the cost of payments made to IID for transferred water under the IID/SDCWA Agreement for Transfer of Conserved Water plus the payments made to MWD for transportation of that water to the Water Authority service territory under the Exchange Agreement, the payments made for desalinated water under the Water Authority/Poseidon Water Purchase Agreement, and certain other costs of water. Because the Water Authority provides both treated and untreated water, its functional supply costs, by definition, exclude other functional costs such as the functional cost of treatment. The Water Authority’s functional cost categories are currently described in Water Authority Administrative Code section 5.00.050 and Water Authority Ordinance No. 2014-01.
Supply Reliability Charge = \[((\text{Desalination Water Cost} + \text{IID Water Transfer Cost}) - \text{MWD Tier 1 Equivalent Cost}) \times 25\%
\]

\text{Desalination Water Cost} = (\text{Water Purchase Agreement Contract Price}^4 - \text{Melded Treatment Rate}) \times \text{Desalination Deliveries}
\]

\text{IID Water Transfer Cost} = (\text{IID Water Contract Price} + \text{MWD Transportation Rate}) \times \text{IID Water Deliveries}
\]

\text{MWD Tier 1 Equivalent Cost} = (\text{MWD Tier 1 Full Service Untreated Rate} \times \text{Total Reliability Deliveries})
\]

\text{Total Reliability Deliveries} = \text{Desalination Deliveries} + \text{IID Water Transfer Deliveries}.
\]

As used in this formula, \text{Desalination Deliveries} are 42,000 AF/Y and \text{IID Water Transfer Deliveries} are 100,000 AF/Y in 2016 and ramp up to 200,000 AF/Y according to the transfer schedule in the Transfer Agreement.

The revenue generated from this charge will only be applied to the supply revenue requirement prior to determining the volumetric Melded Supply Rate. This charge will be allocated to member agencies based on a five year rolling average of applicable historical water deliveries\(^5\). This charge will be zero when MWD’s Tier 1 costs are equal or greater than the combined Desalination and IID Water Transfer Costs.

Criteria for Evaluation of the Supply Reliability Charge

This independent review will use the CUWA Public Investment Principles in its analysis of the Supply Reliability Charge. These principles were the product of a multiple agency working group at the California Urban Water Agencies and includes the following principles for publicly financed water projects:\(^6\)

\(^4\) The desalinated water contract price includes the following components:
WPA Article 17.4 Capital Charges
(Debt Service Charge + Equity Return Charge)
WPA Article 17.5 Operating Charge
(Fixed Operating Charge + Variable Operating Charge)
WPA Article 17.6 Electricity Charge
(Fixed Electricity Charge + Variable Electricity Charge)
WPA Article 8.14 Poseidon Management Fee
(Annual Management Fee)

\(^5\) A & N Technical Services has been informed by Water Authority staff that discussions regarding the future of the Transitional Special Agricultural Water Rate (TSAWR) are ongoing and may impact the allocation of the charge to member agencies.

\(^6\) See the CUWA Public Investment White Papers found at http://www.cuwa.org.
1. Inclusive of all beneficiaries
2. A clear nexus between charges and benefits received
3. Specificity, based on defined projects and costs
4. Transparency of benefit and cost allocation decisions, understandable to beneficiaries funding the efforts
5. Strict dedication of funds
6. Reasonable assurances that benefits will be delivered

**AWWA Manual M1. On Rate Making Objectives:** Accurate attribution of costs of service is not the only objective of water utility ratemaking. Derived from Bonbright et al. (1961, 1988) the Principles of Water Rates, Fees, and Charges, AWWA Manual M1, Sixth Edition (2012, p. 4) provides a more complete list of typical ratemaking objectives:

- Effectiveness in yielding total revenue requirements (full cost recovery)
- Revenue stability and predictability
- Stability and predictability of the rates themselves from unexpected or adverse changes
- Promotion of efficient resource use (conservation and efficient use)
- Fairness in the appointment of total costs of service among the different ratepayers
- Avoidance of undue discrimination (subsidies) within the rates
- Dynamic efficiency in responding to changing supply and demand patterns
- Freedom from controversies as to proper interpretation of the rates
- Simple and easy to understand
- Simple to administer
- Legal and defendable

**Analysis**

The Supply Reliability Charge reasonably comports with the CUWA principles cited above. The charge is inclusive of all customers that have recently taken SDCWA deliveries and could reasonably be expected to benefit from highly reliable incremental water supplies. There is a clear nexus between this fixed charge and the benefits of highly reliable incremental supplies received by SDCWA customers. The charge is quite specific, being based on two incremental water supplies (Carlsbad Desalination and IID Transfer) defined by contract and imported supplies from MWD (though currently non-contractual, these supply costs are specific.) The multiple year public process (Board hearings, Board Fiscal Sustainability Task Force, Member Agency Managers Workgroup, and public outreach) have provided transparency of benefit and cost allocation deliberation with ample opportunity to improve understanding to SDCWA member agencies and their customers (beneficiaries) about the funding of these highly reliable incremental water supplies. Funds collected from the charge are dedicated to recovering a
subset of functional supply costs and cannot be used for other purposes. The contracts for incremental supplies provide reasonable assurances that the benefits of highly reliable incremental supplies will be delivered.

The Supply Reliability Charge makes reasonable tradeoffs among cost-of-service-based ratemaking objectives cited above.

Precedence for Fixed Charges. The concept of levying fixed charges to recover the costs required for the capacity to deliver public service has a long history (Dupuit, 1844 and more recently Kahn, 1991) and is familiar to anyone who has paid access, standby, or “demand” capacity charges.
Bibliography


RESOLUTION NO. 2015-

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY FIXING THE TIME AND PLACE FOR A PUBLIC HEARING TO CONSIDER: (1) CHANGES TO THE RATES AND CHARGES FOR DELIVERY AND SUPPLY OF WATER, AND (2) CONTINUING THE EXISTING STANDBY AVAILABILITY CHARGE (3) CHANGES TO THE SYSTEM AND TREATMENT CAPACITY CHARGES.

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted resolutions and ordinances setting rates and charges for delivery and supply of water, use of facilities and provision of other services; and

WHEREAS, the Director of Finance has provided a report recommending increases of Water Authority rates and charges a copy of which has been filed with the Clerk of the Board; and

WHEREAS, the Board of Directors desires to set a public hearing to consider comments regarding continuing the existing rates and charges

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of the San Diego County Water Authority as follows:

1. The foregoing recitations are true and correct.

2. A public hearing will be held by the Board of Directors of the San Diego County Water Authority Administrative and Finance Committee on June 25, 2015, at 9:00 a.m., or as soon thereafter as the matter may be heard, in the Board Room of the Water Authority at 4677 Overland Avenue, San Diego, California 92123, to consider changes to the rates and charges for delivery and supply of water, use of facilities, and provision of other services as determined necessary by the Director of Finance

3. The Clerk of the Board is directed to cause the following notice to be published pursuant to Government Code Section 6066 in the newspapers of general circulation stated in paragraph 5, below:

Legal Notice

Notice is hereby given that the San Diego County Water Authority Board of Directors Administrative and Finance Committee will hold a public hearing at June 25, 2015, at 9:00 a.m. or as soon thereafter as may practically be heard, at its offices located at 4677 Overland Avenue, San Diego, CA 92123. The purpose of the hearing is to hear objections, protests or comments from the public about proposed and recommended water rates and charges as specified below. The Water Authority also intends to continue the water standby availability charge at its existing level, and to levy property taxes as authorized by law. For further details see the memorandum dated May 20, 2015 on file with the Clerk of the Board.
The following rates and charges will be effective July 1, 2015:

**Standby Availability Charge.** The County Water Authority Act limits the maximum annual Standby Availability Charge to $10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual standby availability charge should be levied on property within the Water Authority’s service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the $10 maximum for fiscal year 2015-2016. The Standby Availability Charge rate is effective July 1, 2015. The amount of this charge has not changed since the adoption of Proposition 218 in 1996. The justification for imposition of this charge is the same as for when the charge was initially levied and as it was imposed before November 6, 1996.

The following rates and charges are being proposed effective on January 1, 2016:

**Melded Untreated Supply Rate.** The Melded Untreated Supply Rate will be set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, costs for acquisition of desalinated water pursuant to a water purchase agreement, and other supply costs. For CY 2016, the Melded Supply Rate may increase from its current level of $764/AF to $780/AF.

**Melded Treatment Rate.** The Melded Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants and may recover certain other costs associated with the delivery of treated water, including certain costs of desalinated water. For CY 2016, the Melded Treatment Rate may increase from its current level of $278/AF to $280/AF.

**Transportation Rate.** The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority’s aqueduct system including all facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Water Authority as it occurs. For CY 2016, the Transportation Rate may increase from its current level of $101/AF to $105/AF.

**Transitional Special Agricultural Water Program Rates (TSAWR).** The untreated TSAWR may increase from its current level of $582/AF to $594/AF in CY 2016. The treated TSAWR may increase from $860/AF in CY 2015 to $874/AF in CY 2016.

**Infrastructure Access Charge.** The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on retail water meters within each agency. For CY 2016, the infrastructure access charge is recommended to remain at its current level.
of $2.76/ME. ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

**Customer Service Charge.** The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and implement programs that benefit the region as a whole. The Customer Service Charge will be allocated among the member agencies on the basis of each agency’s three-year rolling average of member agency purchases from the Water Authority (excludes member agency wheeled water). For CY 2016, the Customer Service Charge is recommended to remain at its current level of $26.4M.

**Storage Charge.** The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency’s three-year rolling average deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2016, the Storage Charge is recommended to remain at its current level of $63.2M.

**Supply Reliability Charge.** The Supply Reliability Charge (SRC) is a new fixed charge created to recover a portion of the costs associated with the Water Authority’s highly reliable water supplies, which includes desalinated water and IID transfer water. The charge is allocated to member agencies based upon their pro rata share of the Water Authority’s 5-year rolling M&I deliveries (agricultural deliveries are not included). The SRC will be effective January 1, 2016. The CY 2016 SRC will be set at $26.0M.

**System Capacity Charge.** This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2016.

**Water Treatment Capacity Charge.** This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority’s policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Escondido, City of Del Mar, and City of Poway. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2016.

*The following MWD rates and charges are passed on directly or allocated to the member agencies as follows;*

**MWD Capacity Charge.** For CY 2016, the Capacity Charge is $10,900 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency’s maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and
September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Water Authority is expected to reserve its full available capacity. The Capacity Charge will be set at $12,406,380. The Water Authority's Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

**Readiness-to-Serve Charge.** MWD’s Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of $158 million to $153 million. The Water Authority’s share is set at $34,766,044 for Fiscal Year 2015-2016. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is $22,145,912. MWD’s Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency’s Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Water Authority’s Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

The Water Authority also intends to continue the Water Standby Availability Charge at the existing level, and to levy property taxes as authorized by law.

By Order of the Board of Directors of the San Diego County Water Authority

Melinda Cogle,
Clerk of the Board

5. The newspapers in which said notice is to be published are:

San Diego Union-Tribune
350 Camino de la Reina
San Diego, CA 92108

North County Times
1722 S. Coast Hwy
Oceanside, CA 92054
PASSED, APPROVED AND ADOPTED, this 28th day of May 2015.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

___________________________
Mark Weston, Chair

ATTEST:

___________________________
Jim Madaffer, Secretary

I, Melinda Cogle, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2015—__ was duly adopted at the meeting of the Board of Directors on the date stated above.

___________________________
Melinda Cogle
Clerk of the Board
May 20, 2015

Attention: Administrative and Finance Committee

Controller’s Report on Monthly Financial Reports. (Information)

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

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

The Multi-Year Budget Status Report (Attachment D) compares actual revenues and expenditures, on a budgetary basis, for the twenty-one month period of July 1, 2013 through March 31, 2015, to the adopted budget, as amended by the Board. Budgeted amounts for the twenty-one month period are presented on a straight-line basis unless noted herein. Water sales and purchases are budgeted based on projected monthly volume in acre-feet. In addition, period-to-date budgeted amounts are presented to reflect the expected timing of certain revenue and expenditure categories. These include infrastructure access charges, property taxes and in-lieu charges, hydroelectric revenue, capacity charges, water standby availability charges, contributions in aid of capital improvement program (CIP), stored water purchases, debt service, QSA mitigation, annual insurance premiums, and contributions to the Six Agency Fund.

Net Water Sales Revenue
Net Water Sales Revenue is the Water Authority’s principal source of operating income. It is the difference between water sales revenue and cost of water sold. Water sales revenue includes variable volumetric charges for supply, treatment and transportation, and fixed charges for customer service and storage. Cost of water sold includes payments to water suppliers such as Metropolitan Water District (MWD) and Imperial Irrigation District (IID).

Net Water Sales Revenue for the twenty-one month period ended March 31, 2015 was $300.7 million, 14% higher than the budgeted amount of $263.5 million (Attachment D). Detailed information on Net Water Sales Revenue, shown on Attachments A, B, and C, is provided herein.

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1 All information regarding water sales volumes, revenues and costs are based on the adopted fiscal years 2014 and 2015 multi-year budget.
Budgeted water sales volume in acre-feet (AF) for the twenty-one month period ended March 31, 2015 was 824,404 AF. The actual water sales volume was 899,909 AF, 9% higher than budgeted (Attachment A). The variance is highly cyclical and correlated to weather patterns. The actual water sales volume for the first two months of the current budget cycle was 10,000 AF lower than budgeted because of the mild summer in 2013. The severe drought condition since September 2013 persisted through November 2014. During that 15-month period, total actual water sales volume exceeded budget by 72,500 AF. The 6,700 AF saved through effective conservation efforts and weather respite in December 2014 was more than offset by the usage spikes during the unseasonably warm January and February. Overall, during the most recent three months, the actual water sales volume was 19,800 AF higher than budgeted.

Cumulatively, total actual Water Sales revenue for the twenty-one month period ended March 31, 2015 was $1,034.8 million, 8% higher than the budgeted amount of $957.5 million for the same period (Attachment B).

Total Water Purchases and Treatment costs were budgeted at $694.0 million and the actual costs were $734.2 million, 6% over budget for the twenty-one month period ended March 31, 2015. Total Water Purchases and Treatment costs included $102.0 million for the 174,999 AF of water purchased from IID, and $140.7 million for MWD’s conveyance charges to transfer 315,599 AF of the water purchased from IID and conserved through the Coachella Canal and All-American Canal lining projects.

In summary, water sales volumes, Water Sales revenues, and Water Purchases and Treatment costs were 9%, 8%, and 6%, respectively, above the twenty-one month period-to-date budgets. This resulted in Net Water Sales Revenue to exceed the budget by 14%, or $37.2 million.

Revenues and Other Income
As shown in Attachment D, Total Revenues and Other Income were budgeted at $165.2 million for the twenty-one month period ended March 31, 2015. Actual revenues were $164.1 million, $1.1 million lower than budgeted. The variance is explained in detail below.

Categories of revenues in which actual revenues exceeded the twenty-one month period-to-date budgeted amounts included Contributions in Aid of CIP, Hydroelectric Revenue, Capacity Charges, Property Taxes and In-Lieu Charges, and Infrastructure Access Charges. In October 2014, $3.9 million in donated assets were received from Olivenhain Municipal Water District and recognized as Contributions in Aid of CIP. Actual Hydroelectric Revenue from the Rancho Penasquitos Pressure Control and Hydroelectric Facility (Rancho Hydro) and the Lake Hodges Pumped Storage Facility (Hodges Hydro) exceeded the period-to-date budget by $2.2 million. Actual Capacity Charges revenue was $1.4 million higher than budgeted primarily due to the $3.4 million received from Rincon Del Diablo Municipal Water District for a large developer project in September 2014. Actual Property Taxes and In-Lieu Charges and Infrastructure Access Charges revenues were higher than budget by $0.3 million and $0.2 million, respectively.

Categories of revenues in which actual revenues were lower than the twenty-one month period-to-date budgeted amounts included Grant Reimbursements, Investment Income, and Build
America Bonds Subsidy. Grant Reimbursements revenue for Integrated Regional Water Management (IRWM) Grants was $5.7 million below budget, the result of both lower-than-projected activity levels by grant recipients and the timing delay in reimbursement receipt and revenue recognition. Investment Income was $4.6 million lower than budgeted. The variance was attributed to lower-than-budgeted rates of return on investments. The actual Build America Bonds Subsidy was $18.1 million, $1.8 million lower than budgeted. Semi-annual subsidy payments from the United States Treasury were reduced following the Congressionally-mandated sequestration in 2013.

Expenditures
As shown in Attachment D, Total Expenditures were budgeted at $346.5 million for the twenty-one month period ended March 31, 2015. Actual expenditures were $313.2 million, $33.3 million lower than budgeted. The variance is explained in detail below.

Overall Operating Department expenditures were trending less than budgeted. This resulted primarily from personnel cost savings from unfilled vacancies throughout the period and the timing delay between cost incurrence and expenditure recognition.

Debt Service expenditures totaled $211.5 million for the twenty-one month period ended March 31, 2015, $9.6 million lower than budgeted. The variance was attributed to both the cash flow savings from FY 2013 refunding transaction and lower interest rates from the FY 2014 commercial paper program restructuring. Total actual Grant Expenditures were $9.4 million, or $9.0 million below the period-to-date budget. The variance resulted from the lower-than-projected activity levels and the timing delay in expenditure recognition of pass-through IRWM grants. Actual Hodges Pumped Storage and Equipment Replacement expenditures were lower than budget by $0.7 million and $0.4 million, respectively.

CIP Expenditures
Attachment D shows that CIP Expenditures were budgeted at $181.3 million for the twenty-one month period ended March 31, 2015. Actual expenditures were $163.9 million, $17.4 million, or 10%, lower than the period-to-date budgeted amount.

Actual CIP expenditures funded by Pay As You Go Fund and CIP/Bond Construction Funds for the twenty-one month period ended March 31, 2015 were $71.0 million (43%) and $92.9 million (57%), respectively.

Cash and Investments
As of March 31, 2015 and February 28, 2015, the overall balance in the Water Authority’s cash and investments was $510.6 million and $506.3 million, respectively (Attachment F). Of the March 31, 2015 overall cash and investments balance, approximately 53% of funds were unrestricted with the remaining 47% of funds restricted for specific purposes. To maximize investment returns, the Water Authority pools the cash of the Pay As You Go Fund with unrestricted funds. As of March 31, 2015, the Rate Stabilization Fund was funded at $86.6 million, approximately 79% of the maximum approved level of $109.0 million.
Rod Greek, Controller
*Budgeted amounts are based on the adopted two year budget, and do not reflect any projected revisions that may have previously been communicated to the Board.

Fiscal Year 2014 Cumulative Water Sales (AF)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>*Budget (a)</td>
<td>55,314</td>
<td>110,634</td>
<td>160,795</td>
<td>204,198</td>
<td>238,398</td>
<td>269,960</td>
<td>298,321</td>
<td>322,118</td>
<td>349,402</td>
<td>384,217</td>
<td>423,881</td>
<td>471,509</td>
</tr>
<tr>
<td>Actual</td>
<td>49,314</td>
<td>100,674</td>
<td>158,363</td>
<td>206,462</td>
<td>241,948</td>
<td>273,250</td>
<td>311,940</td>
<td>341,823</td>
<td>373,484</td>
<td>416,706</td>
<td>470,879</td>
<td>522,453</td>
</tr>
<tr>
<td>AF Difference (b)</td>
<td>(6,000)</td>
<td>(9,960)</td>
<td>(2,432)</td>
<td>2,264</td>
<td>3,559</td>
<td>3,290</td>
<td>13,619</td>
<td>19,705</td>
<td>24,082</td>
<td>32,489</td>
<td>46,998</td>
<td>50,944</td>
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<tr>
<td>Cum. Actual AF</td>
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<tr>
<td>% Difference (b/a)</td>
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<td>-9%</td>
<td>-2%</td>
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Fiscal Year 2015 Cumulative Water Sales (AF)

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<td>206,240</td>
<td>240,773</td>
<td>272,659</td>
<td>301,303</td>
<td>325,338</td>
<td>352,895</td>
<td>388,059</td>
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<td>277,465</td>
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<td>(2,432)</td>
<td>2,264</td>
<td>3,559</td>
<td>3,290</td>
<td>13,619</td>
<td>19,705</td>
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<tr>
<td>% Difference (b/a)</td>
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Fiscal Year 2014-2015 Cumulative Water Sales (AF)

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<td>522,453</td>
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<td>(9,960)</td>
<td>(2,432)</td>
<td>2,264</td>
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<tr>
<td>% Difference (b/a)</td>
<td>-11%</td>
<td>-9%</td>
<td>-2%</td>
<td>1%</td>
<td>1%</td>
<td>5%</td>
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*Budgeted amounts are based on the adopted two year budget, and do not reflect any projected revisions that may have previously been communicated to the Board.

### Fiscal Year 2014 Cumulative Water Sales (in Millions $)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><em>Budget (a)</em></td>
<td>59.0</td>
<td>118.0</td>
<td>172.3</td>
<td>220.2</td>
<td>259.9</td>
<td>296.6</td>
<td>332.2</td>
<td>363.6</td>
<td>398.8</td>
<td>441.1</td>
<td>488.4</td>
<td>542.8</td>
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<td>171.6</td>
<td>223.3</td>
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<td>386.9</td>
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<td>475.6</td>
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<td>593.7</td>
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<td>3.1</td>
<td>4.9</td>
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<td>50.9</td>
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<td>1%</td>
<td>2%</td>
<td>2%</td>
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<td>7%</td>
<td>8%</td>
<td>10%</td>
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### Fiscal Year 2015 Cumulative Water Sales (in Millions $)

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<tbody>
<tr>
<td><em>Budget (a)</em></td>
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<td>122.9</td>
<td>179.5</td>
<td>229.5</td>
<td>270.8</td>
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<td>345.8</td>
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<td>414.7</td>
<td>458.5</td>
<td>507.4</td>
<td>563.8</td>
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<td>61.6</td>
<td>121.2</td>
<td>179.0</td>
<td>232.9</td>
<td>281.7</td>
<td>314.8</td>
<td>353.0</td>
<td>394.3</td>
<td>441.1</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Difference (b)</td>
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<td>(0.5)</td>
<td>3.4</td>
<td>10.9</td>
<td>5.8</td>
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<td>16.0</td>
<td>26.4</td>
<td>-</td>
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</tr>
<tr>
<td>Cum. Actual</td>
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<td>-1%</td>
<td>0%</td>
<td>1%</td>
<td>4%</td>
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<td>4%</td>
<td>6%</td>
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### % Difference (b/a)

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15 through Mar-15</th>
<th>Total</th>
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<tbody>
<tr>
<td>Budget</td>
<td>542.8</td>
<td>414.7</td>
<td>957.5</td>
</tr>
<tr>
<td>Actual</td>
<td>593.7</td>
<td>441.1</td>
<td>1,034.8</td>
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<tr>
<td>Difference</td>
<td>50.9</td>
<td>26.4</td>
<td>77.3</td>
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<tr>
<td>% Difference</td>
<td>9%</td>
<td>6%</td>
<td>8%</td>
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</tbody>
</table>
*Budgeted amounts are based on the adopted two year budget, as amended by the Board.

### Fiscal Year 2014 Cumulative Cost of Water Purchases and Treatment (in Millions $)

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-14</th>
<th>Aug-14</th>
<th>Sep-14</th>
<th>Oct-14</th>
<th>Nov-14</th>
<th>Dec-14</th>
<th>Jan-14</th>
<th>Feb-14</th>
<th>Mar-14</th>
<th>Apr-14</th>
<th>May-14</th>
<th>Jun-14</th>
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</thead>
<tbody>
<tr>
<td><em>Budget (a)</em></td>
<td>42.8</td>
<td>85.5</td>
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<td>187.1</td>
<td>212.8</td>
<td>237.4</td>
<td>258.8</td>
<td>283.0</td>
<td>312.6</td>
<td>345.9</td>
<td>399.1</td>
</tr>
<tr>
<td>Actual</td>
<td>34.4</td>
<td>78.9</td>
<td>122.7</td>
<td>159.7</td>
<td>187.5</td>
<td>214.3</td>
<td>247.3</td>
<td>274.0</td>
<td>305.2</td>
<td>338.7</td>
<td>382.1</td>
<td>422.7</td>
</tr>
<tr>
<td>Difference (b)</td>
<td>(8.4)</td>
<td>(6.6)</td>
<td>(1.9)</td>
<td>0.7</td>
<td>0.4</td>
<td>1.5</td>
<td>9.9</td>
<td>15.2</td>
<td>22.2</td>
<td>26.1</td>
<td>36.2</td>
<td>23.6</td>
</tr>
<tr>
<td>Cum. Actual</td>
<td>-20%</td>
<td>-8%</td>
<td>-2%</td>
<td>0%</td>
<td>1%</td>
<td>4%</td>
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</tr>
<tr>
<td>% Difference (b/a)</td>
<td>-20%</td>
<td>-8%</td>
<td>-2%</td>
<td>0%</td>
<td>1%</td>
<td>4%</td>
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<td>8%</td>
<td>10%</td>
<td>6%</td>
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### Fiscal Year 2015 Cumulative Cost of Water Purchases and Treatment (in Millions $)

<table>
<thead>
<tr>
<th>Months</th>
<th>Jul-14</th>
<th>Aug-14</th>
<th>Sep-14</th>
<th>Oct-14</th>
<th>Nov-14</th>
<th>Dec-14</th>
<th>Jan-14</th>
<th>Feb-14</th>
<th>Mar-14</th>
<th>Apr-14</th>
<th>May-14</th>
<th>Jun-14</th>
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<tbody>
<tr>
<td><em>Budget (a)</em></td>
<td>44.3</td>
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<td>166.1</td>
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<td>225.9</td>
<td>253.6</td>
<td>276.4</td>
<td>311.5</td>
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</tr>
<tr>
<td>Difference (b)</td>
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<td>1.5</td>
<td>1.8</td>
<td>3.1</td>
<td>5.5</td>
<td>7.0</td>
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<td>16.6</td>
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<td>Cum. Actual</td>
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<td>6%</td>
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<tr>
<td>% Difference (b/a)</td>
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### FY14 - FY15 through Mar-15 - Total

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<th>FY14</th>
<th>FY15 through Mar-15</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Budget</td>
<td>399.1</td>
<td>294.9</td>
<td>694.0</td>
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<td>734.2</td>
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<td>Difference</td>
<td>23.6</td>
<td>16.6</td>
<td>40.2</td>
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<tr>
<td>% Difference</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>
### San Diego County Water Authority

**Fiscal Years 2014 and 2015 Budget Status Report**

**For the 21 Months Ended March 31, 2015**

<table>
<thead>
<tr>
<th>[A]</th>
<th>[B] = [A * 88%]</th>
<th>[C]</th>
<th>Revenues = [B + C]</th>
<th>[C / A]</th>
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</thead>
<tbody>
<tr>
<td>FY 14 &amp; 15 Amended Budget</td>
<td>FY 14 &amp; 15 Budget 21 Months (88%)</td>
<td>FY 14 &amp; 15 Actual 21 Months</td>
<td>Variance with Amended Budget</td>
<td>Actual/Amended Budget</td>
</tr>
</tbody>
</table>

#### Net Water Sales Revenue

| Water Sales | $1,106,663,719 | 957,524,909 (b) | $1,034,822,347 | $77,297,438 | 94% |
| Water Purchases & Treatment | 800,949,019 (r) | 693,992,979 (b) | 734,160,594 | (40,167,615) | 92% |
| **Total Net Water Sales Revenue** | 305,714,700 | 263,531,930 | 300,661,753 | 37,129,823 | 98% |

#### Revenues and Other Income

| Infrastructure Access Charges | 59,054,000 | 51,340,100 (m) | 51,503,436 | 163,336 | 87% |
| Property Taxes and In-Lieu Charges | 22,320,000 (c) | 18,168,317 (m) | 18,465,589 | 297,272 | 83% |
| Investment Income | 12,715,000 | 11,189,200 | 6,567,729 | (4,621,471) | 52% |
| Hydroelectric Revenue | 5,440,000 (e) | 4,488,132 (m) | 6,665,223 | 2,177,091 | 123% |
| Grant Reimbursements | 20,900,406 | 18,392,357 | 12,686,309 | (5,706,048) | 61% |
| Build America Bonds Subsidy | 22,605,916 | 22,109,360 | 18,125,238 | (4,584,122) | 80% |
| Other Income | - | - | 3,365,249 (q) | 3,365,249 | --- |
| **Capital Contributions:** | | | | |
| Capacity Charges | 29,784,000 (f) | 22,964,434 (m) | 24,323,779 | 1,359,345 | 82% |
| Water Standby Availability Charges | 22,549,000 (g) | 18,079,911 (m) | 18,153,148 | 73,237 | 81% |
| Contributions in Aid of Capital Improvement Program (CIP) | 15,860,000 (h) | 668,800 (m) | 4,241,536 | 3,572,736 | 27% |
| **Total Revenues and Other Income** | 211,228,322 | 165,184,457 | 164,097,236 | (1,087,221) | 78% |

#### Net Water Sales Revenue and Revenues and Other Income, net

| 516,943,022 | 428,716,387 | 36,042,602 | 90% |

#### Expenditures

| Stored Water Purchases | 30,090,000 (l) | - (m) | - (n) | - (o) | 0% |
| Debt Service | 281,531,000 (i) | 221,118,880 (m) | 211,540,670 | 9,578,210 | 75% |
| QSA Mitigation | 18,417,000 (j),(l) | 13,477,000 (m) | 13,477,190 | (190) | 73% |
| Hodges Pumped Storage | 4,133,000 | 3,637,040 | 2,954,084 | 682,956 | 71% |
| Equipment Replacement | 3,353,000 (r) | 2,950,640 | 2,521,338 | 429,302 | 75% |
| Grant Expenditures | 20,900,406 | 18,392,357 | 9,362,438 | 9,029,919 | 45% |
| Other Expenditures | - | - | 1,489,589 | (1,489,589) | --- |
| Operating Departments (see detail below) | 98,563,969 (p),(r) | 86,969,178 | 71,899,802 | 15,069,376 | 73% |
| **Total Expenditures** | 456,988,375 | 346,545,095 | 313,245,111 | 33,299,984 | 69% |

#### Net Revenues Before CIP

| $59,545,647 | $82,171,292 | $151,513,878 | $69,342,586 | 253% |

#### CIP Expenditures

| $206,002,357 (o),(r) | $181,282,074 | $163,923,818 | $17,358,256 | 80% |

#### CIP Expenditures by Funding Source

| Pay As You Go Fund | $71,000,019 |
| CIP/Bond Construction Funds | 92,923,799 |
| **Total CIP Expenditures by Funding Source** | **$163,923,818** |

#### Operating Departments Detail (see Attachment E)

| Administrative Services | $14,430,172 | 12,899,998 (m) | $11,085,872 | $1,804,124 | 77% |
| Colorado River Program | 2,822,421 | 2,525,170 (m) | 1,845,808 | 679,362 | 65% |
| Engineering | 7,488,364 | 6,589,760 | 5,657,067 | 932,693 | 76% |
| Finance | 4,802,577 | 4,226,268 | 3,771,381 | 454,887 | 79% |
| General Counsel | 14,927,219 | 13,135,953 | 8,587,154 | 4,548,799 | 58% |
| General Manager & Board of Directors | 5,350,948 | 4,708,834 | 3,863,498 | 845,336 | 72% |
| MWD Program | 3,568,954 | 3,140,880 | 2,585,283 | 555,397 | 72% |
| Operations & Maintenance | 30,458,234 | 26,803,246 | 23,351,666 | 3,451,580 | 77% |
| Public Outreach and Conservation | 7,357,143 | 6,474,286 | 5,627,742 (n) | 846,544 | 76% |
| Water Resources | 7,357,937 | 6,474,985 | 5,524,331 | 950,654 | 75% |
| **Total Operating Departments** | **$98,563,969 (k)** | **86,969,178** | **71,899,802** | **15,069,376** | **73%** |
Notes to the Budget Status Report:

a) Period-to-date budgeted amounts are 21/24ths (88%) of fiscal years 2014 and 2015 amended budget unless noted.
b) Water sales and water purchases period-to-date budgeted amounts are based on projected acre-feet calculated per month.
c) Property taxes are primarily received in December and April. In-lieu charges in the amount of $438,701 for fiscal year 2014 and $474,475 for fiscal year 2015 are received quarterly from the City of San Diego.
d) Investment income excludes unrealized gains or losses, which are non-cash transactions.
e) Hydroelectric revenue budget amount includes Rancho Penasquitos Pressure Control and Hydroelectric Facility (Rancho Hydro) and Lake Hodges Pumped Storage Facility (Hodges Hydro). Power generating from both locations are sold to San Diego Gas and Electric.
f) Capacity charges are primarily received in July, October, January and April, after the quarterly period ends, and accrued revenue are recorded for the quarter ending June.
g) Water standby availability charges are primarily received in January and May.
h) Contributions in aid of capital improvement program include planned reimbursements for the Second Aqueduct Pipeline - Caltrans Highway 76 Realignment CIP Project and other miscellaneous projects.

i) Bonds and Certificates of Participation debt service payments due semi-annually on November 1 and May 1. Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 debt service payments due semi-annually on July 1 and January 1. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to long-term debt, such as discounts, premiums, and deferred loss on refunding are excluded because they are non-cash transactions.
k) Amounts include capital equipment purchases.
l) Stored water purchases budgeted to purchase 50,000 acre-feet to begin the filling of San Vicente Dam upon significant completion of the Dam Raise project.
m) Period-to-date budgeted amounts adjusted based on items occurring on a periodic basis.
n) Fiscal Year 2014 actual amounts for Public Outreach and Conservation excludes expenses of $71,548 funded by the approved prior year carryover of funds.
o) The Board amended the current Capital Improvement Program two-year appropriation and lifetime budget for the Carlsbad Desalination Project by $124,300 in September 2013 and by $220,000 in April 2014, for a total of $344,300.
p) In March 2014, the Board amended the two-year operating department budget by $6,090,000 for services related to rate litigation.
q) In April 2014, Other Income increased $1 million due to the Lake Hodges Settlement Agreement.
r) In June 2014, the Board approved the mid-term budget adjustments.
s) The semi-annual subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the Series 2010B Bonds were reduced under Congressionally-mandated sequestration; $898,585 for Fiscal Year 2014 and $412,558 for Fiscal Year 2015.
San Diego County Water Authority
Comparison of Amended Budget and Period-to-Date Amended Budget (88% Overall) to Actual Operating Expenditures by Departments
For the 21 Months Ended March 31, 2015

Actual Operating Expenditures to Amended Budget in Percentages (%)

Two-Year Amended Budget $98.6 Million
Period-To-Date Amended Budget $87.0 Million
Period-to-Date Actual Operating Expenditures $71.9 Million
San Diego County Water Authority  
Schedule of Cash and Investments  
As of March 31, and February 28, 2015

<table>
<thead>
<tr>
<th>Fund</th>
<th>March</th>
<th>February</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td>$ 90,086,280</td>
<td>$ 79,519,042</td>
<td>$ 68,900,000</td>
</tr>
<tr>
<td>Stored Water Fund</td>
<td>86,329,571</td>
<td>86,333,346</td>
<td></td>
</tr>
<tr>
<td>Equipment Replacement Fund</td>
<td>5,386,938</td>
<td>5,388,255</td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>86,573,225</td>
<td>86,577,010</td>
<td>66,200,000</td>
</tr>
</tbody>
</table>

**Total Unrestricted Funds**  (1) 53% 268,376,014 257,817,653 66,200,000  

<table>
<thead>
<tr>
<th>Fund</th>
<th>March</th>
<th>February</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay As You Go Fund</td>
<td>130,436,917</td>
<td>131,871,580</td>
<td></td>
</tr>
<tr>
<td>CIP/Bond Construction Funds</td>
<td>99,525,744</td>
<td>104,378,118</td>
<td></td>
</tr>
<tr>
<td>Debt Service Reserve Funds</td>
<td>12,240,775</td>
<td>12,240,775</td>
<td></td>
</tr>
</tbody>
</table>

**Total Restricted Funds**  47% 242,203,436 248,490,473  

| Total Cash and Investments  | $ 510,579,450 | $ 506,308,126 |

Notes:

(1) Total Unrestricted Funds and the Pay As You Go Fund represent the Pooled Funds in the Treasurer's Report.

(2) The Operating Fund is set to equal 45-days of operating expenditures.

(3) In 2006, the Board adopted a policy governing the Rate Stabilization Fund (RSF). The policy created a target and a maximum RSF balance. The target balance is set equal to the negative financial impact of 2.5 years of extremely wet weather and the RSF maximum balance is set equal to the negative financial impact of 3.5 years of extremely wet weather. Wet weather adversely impacts the Water Authority by reducing water sales and net water sales revenue. The balance in this fund represents approximately 131% of the targeted value of $66,200,000 and 79% of the maximum balance of $109,000,000.
JUNE 2015
• 01  MWD Delegates – 11:00 a.m.
• 02  SCOOP Committee Meeting – 10:30 a.m.
• 09  Special Administrative and Finance Committee Meeting – Budget Workshop – 1:30 p.m. – 4:30 p.m.
• 11  Special Administrative and Finance Committee Meeting – Budget Workshop – 1:30 p.m. – 4:30 p.m.
• 25  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.

JULY 2015
• 08  MWD Delegates – 11:00 a.m.
• 09  Tentative Special Board Meeting -  1:30 p.m.
• 23  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.

AUGUST 2015
• 13  Tentative Special Board Meeting -  1:30 p.m.
• 12  MWD Delegates – 11:00 a.m.
• 27  Committees begin at 9:00 a.m.
      Formal Board meeting begins at 3:00 p.m.
LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

AGENDA FOR

MAY 28, 2015

Gary Croucher – Chair    Jim Madaffer
Christy Guerin – Vice Chair    Ron Morrison
Fern Steiner – Vice Chair    Mark Muir
David Barnum    Jose Preciado
Ed Gallo    Dave Roberts
Matt Hall    Elsa Saxod
Frank Hilliker    Yen Tu

1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

4. Chair’s report.
   4-A Directors’ comments.

I. CONSENT CALENDAR

1. Award a three-year professional services agreement with Mission Resource Conservation District in an amount not-to-exceed $470,000 to administer the Agricultural Water Management Program.
   Staff Recommendation: Authorize the General Manager to execute a three-year professional services agreement with Mission Resource Conservation District in an amount not-to-exceed $470,000 to administer the Agricultural Water Management Program. (Action)

   Lori Swanson

2. Amendment to Professional Services Contract with DeLorenzo International for Implementation of the WaterSmart Landscape Makeover Program.
   Staff Recommendation: Approve amendment to professional services contract with DeLorenzo International (DLI) to increase the contract value by $455,000 to a not-to-exceed amount of $744,000 and extend the term for two years from July 1, 2015 through June 30, 2017. (Action)

   Joni German
II. ACTION/DISCUSSION

1. Legislative issues. Glenn Farrel
   1-A Washington Report by Ken Carpi. (supplemental materials)
   1-C Adopt positions on various state bills.
      Staff Recommendation:
      1. Adopt a position of Support on AB 1139 (Campos).
      2. Adopt a position of Support and Seek Amendments on AB 1201 (Salas).
      3. Adopt a position of Support on AB 1325 (Salas).
      4. Adopt a position of Support on SB 286 (Hertzberg).
      5. Adopt a position of Support if Amended on SB 551 (Wolk).
         (Action)

III. INFORMATION

1. Presentation on Drought Response Communications and Outreach Update. Jason Foster
3. Government Relations Update. Glenn Farrel

IV. CLOSED SESSION

V. ADJOURNMENT

Melinda Cogle
Clerk of the Board

NOTE: This meeting is called as a Legislation, Conservation, and Outreach Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Revised). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Award a three-year professional services agreement with Mission Resource Conservation District in an amount not to exceed $470,000 to administer the Agricultural Water Management Program. (Action)

Staff recommendation: Authorize the General Manager to execute a three-year professional services agreement with Mission Resource Conservation District in an amount not to exceed $470,000 to administer the Agricultural Water Management Program.

Alternative
Do not authorize execution of the agreement.

Fiscal impact
Total contract capacity for the Agricultural Water Management Program (AWMP) is $470,000. A total of $180,000 to implement the agricultural audit component of AWMP is included in the proposed Public Outreach and Conservation Department’s fiscal years 2016-2017 operating budget and subject to Board approval of the fiscal years 2016-2017 operating budget. Another $90,000 for audits in fiscal year 2018 is subject to Board approval through the fiscal years 2018 and 2019 budget process. The recycled water retrofit component of the AWMP is funded by a $50,000 Department of Water Resources (DWR) Integrated Regional Water Management (IRWM) Proposition 84, Round 2, grant. The third component of the AWMP, electrical conductivity mapping and soil moisture sensor installations, would be funded through a pending $150,000 DWR IRWM Proposition 84, Final Round, grant application. Customer Service is the related rate category.

Background
The AWMP provides free irrigation system evaluations at agricultural properties with at least one acre of irrigated crops or trees. Emission uniformity and pressure readings are determined for each system and water use efficiency recommendations are provided, along with crop data and technical information about the types of irrigation equipment in use. Participants receive a written report that summarizes the findings, including the irrigation system’s hydraulic characteristics and soil profiles and provides recommendations to improve the irrigation system’s overall efficiency. Local weather data and crop water demands are also included in the report. Since program inception in 1990, more than 1,900 audits have been performed on more than 32,000 acres of avocados, citrus, field flowers, and other fruits and ornamentals.

The AWMP has been administered by the Mission Resource Conservation District (MRCD) since 1990. Between 1990 and 2011, the Water Authority board approved 10 agreements with MRCD. Of the 10 agreements, six were awarded on a sole-source basis based on MRCD’s unique qualifications to provide agricultural water management services. The remaining four agreements
were awarded through a competitive request-for-proposals (RFP) process, with MRCD the only respondent to three of the four competitive RFP processes. Additional information on the board actions is listed below.

Previous Board Actions:
From August 1990 – June 1997, the Board approved four sole-source agreements with MRCD. The combined value of the agreements was $192,150.

From June 1998 – May 2001, the Board approved three agreements in which MRCD was the only respondent to the competitive RFP process. The combined value of the agreements was $380,000.

From May 2004 – May 2007, the Board approved two sole-source agreements with MRCD. The combined value of the agreements was $360,000.

In May 2011, the Board approved a competitively bid three-year agreement with MRCD in the amount of $225,000. Program funding was provided by a DWR IRWM grant.

Discussion
In March 2015, the Water Authority issued a competitive RFP to administer the AWMP from fiscal year 2016 through fiscal year 2018. The RFP was distributed to 217 firms registered through the Network Bid System. A pre-proposal meeting was attended by three firms. Of the three firms that attended the pre-proposal meeting, one firm, MRCD, submitted a proposal.

The proposal was evaluated by a three-member panel with a representative from the Water Authority, Valley Center Municipal Water District, and Fallbrook Public Utility District. Based on an evaluation of MRCD’s proposal, including its technical expertise, experience performing agricultural audits, and the proposed costs to perform the work, the panel recommended MRCD to administer the program. MRCD is an independent unit of local government organized under the provisions of the Public Resources Code of the State of California. As a non-profit entity, its costs are based on the actual and documentable costs to administer the AWMP, therefore making it a highly cost-effective firm to perform the work.

The scope of work for the AWMP for the next three fiscal years consists of three components: 1) agricultural audits; 2) agricultural recycled water retrofits; and 3) electrical conductivity mapping and soil sensor installations. The first component, audits, provides free irrigation system evaluations at agricultural properties with at least one acre of irrigated crops or trees, as described in the Background section. The second component of the AWMP, agricultural recycled water retrofits, supports sites that convert from potable water to recycled water for agricultural irrigation. Qualified customers receive an incentive for design plans, materials, and equipment necessary to convert to recycled water. The final AWMP component, agricultural electrical conductivity mapping and soil sensor installations, allows growers to identify soil properties that can affect crop production. When combined with soil sensors, growers can increase water-use efficiency. The proposed AWMP funding sources are shown in Table 1.
Table 1 - Proposed Funding Sources for the AWMP

<table>
<thead>
<tr>
<th>AWMP Program Component</th>
<th>Funding Source</th>
<th>16/17 FY Proposed</th>
<th>18/19 FY Proposed</th>
<th>DWR Proposition 84, Round 2 Grant</th>
<th>Pending DWR Proposition 84, Final Round Grant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits</td>
<td></td>
<td>$180,000</td>
<td>$90,000</td>
<td></td>
<td></td>
<td>$270,000</td>
</tr>
<tr>
<td>Recycled Water Retrofits</td>
<td></td>
<td></td>
<td></td>
<td>$50,000</td>
<td></td>
<td>$50,000</td>
</tr>
<tr>
<td>Electrical Conductivity Mapping and Soil Sensor Installations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$150,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$180,000</td>
<td>$90,000</td>
<td>$50,000</td>
<td>$150,000</td>
<td>$470,000</td>
</tr>
</tbody>
</table>

1 Funds are included in the proposed Public Outreach and Conservation Department’s fiscal years 2016-2017 operating budget and subject to board approval of the fiscal years 2016-2017 operating budget.

2 Funding for fiscal year 2018 is subject to board approval through the fiscal years 2018-2019 budget process.

Due to the limited scope of this project, SCOOP outreach was not required.

Prepared by: Lori Swanson, Water Resources Specialist
Reviewed by: Jeff Stephenson, Principal Water Resources Specialist
Reviewed by: Jason Foster, Director of Public Outreach and Conservation
Approved by: Dennis A. Cushman, Assistant General Manager
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Amendment to Professional Services Contract with DeLorenzo International for Implementation of the WaterSmart Landscape Makeover Program. (Action)

Staff recommendation
Approve amendment to professional services contract with DeLorenzo International (DLI) to increase the contract value by $455,000 to a not-to-exceed amount of $744,000 and extend the term for two years from July 1, 2015 through June 30, 2017.

Alternatives
Do not approve the amendment to the professional services contract.

Fiscal Impact
The $455,000 contract amendment will be supported by a combination of state grant funds and the Water Authority’s operating budget. Specifically, staff expects $135,000 will be provided by a Prop. 84 IRWM Drought Round grant, and $110,000 will be provided by a Prop. 84 Round 1 Sustainable Landscapes Program grant. In addition, the amendment will be funded by approximately $195,000 in the Public Outreach and Conservation Department’s fiscal years 2016 and 2017 operating budget (pending approval of the budget by the Board) to serve as a required local match to the grant funds, and $15,000 from the Public Outreach and Conservation Department’s Fiscal Year 2015 operating budget. The rate category is customer service.

Background
The Water Authority conducted the WaterSmart Landscape Lab (WSLL) pilot program in fiscal years 2012 and 2013 in response to member agency requests for more-effective landscape water efficiency educational programs for customers. In collaboration with key partners, including the Hans and Margaret Doe Charitable Trust, San Diego Botanic Garden, and Mira Costa Community College, the WSLL pilot developed an innovative “hands-on” approach that empowered customers to implement water-saving landscape upgrades. Four complete workshop series were held as part of the initial WSLL pilot. Each series included 16 hours of instruction delivered through four workshops over the course of two months. A total of 82 homeowners from 16 member agencies enrolled in the WSLL pilot, which prepared many homeowners to take advantage of the Water Authority’s new turf replacement incentive program.

Following the successful WSLL pilot, the Water Authority established the WaterSmart Landscape Makeover Workshop Series. In fall 2013 the Water Authority conducted a competitive RFP process to secure the professional services necessary to implement the program, and the Board authorized the execution of a professional services agreement with the landscape architecture firm DeLorenzo International (DLI) in November 2013. From April 2014 through May 2015, 16 workshop series were held with nearly 300 participants from 18 member agencies. The workshop series now nearing completion were funded in part by a DWR grant (Prop. 50 Drought Response and Outreach Program) and through funds in the Public Outreach and Conservation Department’s fiscal years 2014 and 2015 operating budget.
As a condition for acceptance to the program, each participant is required to identify a specific landscape area to be converted from turf grass to WaterSmart landscape. The average size of the turf grass retrofits pledged by participants is 1,000 square feet. One measure of the effectiveness of the program is that following completion of the workshops, nearly 45 percent of graduates have enrolled in other turf replacement incentive programs offered by the Water Authority and/or the Metropolitan Water District.

A $25,000 grant from the Hans and Margaret Doe Charitable Trust also funded the development of a companion workbook, which is now complete. The WaterSmart Landscape Workbook has more than 200 pages and includes lecture information, lab worksheets, assignments and related resources. The workbook is provided to class participants to support the learning process and is also available online. The workbook is designed to directly support the WaterSmart Landscape Makeover Series coursework and activities.

Previous Board actions:

- In December 2010, the Board authorized the General Manager to apply for a Prop. 84 IRWM grant agreement with the California Department of Water Resources, which included funding for the Sustainable Landscapes Program.

- In February 2013, the Board authorized the General Manager to execute a Prop. 50 grant agreement with the California Department of Water Resources for the Drought Response and Outreach Program.

- In November 2013, the Board authorized the General Manager to execute a two-year professional services contract with DeLorenzo International to implement the WaterSmart Landscape Makeover Series.

- On May 14, 2015, the Board approved additional resources, programs and actions for drought response outreach and water conservation to help the Water Authority’s 24 member agencies achieve new state-mandated water use reductions scheduled to take effect June 1, 2015. These actions included developing an online “eLearning” version of the WaterSmart Landscape Makeover Series.

Discussion
The Water Authority’s WaterSmart Landscape Makeover Series has proven to be an effective program that empowers participants to pursue landscape retrofits through “hands-on” teaching methods and professional guidance and feedback to validate and refine conceptual water-saving landscape designs. Post-workshop surveys indicate that nearly all participants who completed the four-part series were making progress toward their turf replacement projects, and nearly 60 percent had already moved from planning into some stage of physical implementation.

Given the need to expand the reach and effectiveness of this educational tool as part of the Water Authority’s drought response efforts and to continue to advance long-term outdoor landscape transformation, staff is planning to enhance the program’s curriculum and potential audience moving forward. Thanks to the continued success of the WaterSmart Landscape Makeover
Series, staff has secured additional grant funding to offer more workshops throughout the region. To ensure the timely expenditure of these grants and enable the augmented program to be deployed as soon as possible to aid in drought response, staff recommends amending DLI’s contract to increase its capacity and extend its term. A summary of the amended scope and budget for DLI is provided in Table 1. Sources of funding to cover the proposed costs are provided in Table 2.

This will be accomplished by:

1) **Making curriculum updates:** As part of the grant-funded Sustainable Landscapes Program, the Water Authority and its five program partners are developing landscaping guidelines that further enhance water efficiency, including aspects of stormwater management and soil preparation. This new content will be integrated into the WaterSmart Landscape Makeover Series curriculum.

2) **Holding additional sessions of the WaterSmart Landscape Makeover Series:** The series, hosted at different locations around the region to improve customer access, includes four sequential workshops. The workshops provide homeowners an overview and the basic skills necessary for the successful conversion of a traditional turf grass yard into a WaterSmart landscape. Participants receive technical assistance that includes a professional site inspection and development of a base plan to scale, in addition to a professional design consultation. Upon conclusion of the course, participants will have developed a landscape design that is ready for implementation. Based on the size of turf replacement projects pledged by existing participants, the new series of classes could help lead to the replacement of more than 500,000 square feet of lawns.

3) **Developing and Implementing New Short-Format Class:** In response to the growing demand for these classes and to better accommodate people who are unable to make the time commitment needed to participate in the comprehensive WaterSmart Landscape Makeover Series, a condensed, one-session class format has been developed and is being piloted in collaboration with SDG&E. The short-format class, titled “WaterSmart Landscape Design for Homeowners,” consists of a three-hour classroom lecture and eligibility for a professional design consultation. The short-format class is able to accommodate more participants, increasing the number of homeowners who will be empowered to convert existing water-intensive yards into landscapes that can achieve significant water and embedded energy savings.

4) **Developing an “eLearning” version of the WaterSmart Landscape Makeover Series:** As part of the drought response measures approved by the Board on May 14, 2015, the series curriculum will be modified to be delivered in an online learning format. Staff estimates that up to 10 online learning sessions may be created, each about 20 to 30 minutes in length and focusing on one topic related to the landscape retrofit process. These modules will be self-paced and available 24/7 via the Water Authority’s WaterSmartSD.org regional water conservation website, enabling a much larger audience to access this key content at their convenience. The scope of DLI services funded by this contract amendment is limited to the conversion of workshop content to the online learning format.
**Table 1 – DLI Amendment Scope and Budget**

<table>
<thead>
<tr>
<th>Task</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Curriculum updates</td>
<td>$15,000</td>
</tr>
<tr>
<td>2. WaterSmart Landscape Makeover Series</td>
<td>$380,000</td>
</tr>
<tr>
<td>3. Short-Format WaterSmart Landscape Design for Homeowners Classes</td>
<td>$45,000</td>
</tr>
<tr>
<td>4. Technical support for conversion of workshops to online learning format</td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$455,000</strong></td>
</tr>
</tbody>
</table>

**Table 2 – Sources of Funding**

<table>
<thead>
<tr>
<th>Task</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prop. 84 IRWM, Round 1 – Sustainable Landscapes Program</td>
<td>$110,000</td>
</tr>
<tr>
<td>2. Prop. 84 IRWM, Drought Round – Regional Demand Management Program Expansion*</td>
<td>$135,000</td>
</tr>
<tr>
<td>3. Water Authority FY 2016-17 Operating Budget (POC)</td>
<td>$195,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$455,000</strong></td>
</tr>
</tbody>
</table>

*Pending execution of grant agreement.*

Prepared by: Joni German, Assistant Water Resources Specialist  
Reviewed by: Carlos Michelon, Principal Water Resources Specialist  
Reviewed by: Jason Foster, Director of Public Outreach and Conservation  
Approved by: Dennis A. Cushman, Assistant General Manager
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Adopt positions on various state bills. (Action)

Staff recommendation
1. Adopt a position of Support on AB 1139 (Campos)
2. Adopt a position of Support and Seek Amendments on AB 1201 (Salas)
3. Adopt a position of Support on AB 1325 (Salas)
4. Adopt a position of Support on SB 286 (Hertzberg)
5. Adopt a position of Support if Amended on SB 551 (Wolk)

Alternatives
1. Do not adopt one or more of the recommended positions.
2. Modify one or more of the recommended positions.

Fiscal Impact
There is no direct fiscal impact associated with the consideration of adopting policy positions on legislation.

Water Use Efficiency

AB 1139 (Campos) – Personal Income Taxes: Credit: Turf Removal
Existing law — the Personal Income Tax Law — allows various credits against income taxes from which taxpayers may benefit during annual income tax preparation.

AB 1139, as amended on March 26, 2015, would, for taxable years beginning on January 1, 2015, allow a credit to a taxpayer participating in a lawn replacement program, in an amount equal to $2 per square foot of conventional lawn removed from the taxpayer’s property, up to $50,000 per taxable year.

Income tax credits are one approach to incentivize action; the credit embodied in AB 1139 is focused on improving outdoor water use efficiency. AB 1139 is based on the experience that a homeowner may be more willing to make material modifications to landscaping to reduce water if there are financial incentives available to offset the costs of those improvements. For the purposes of AB 1139, “lawn replacement program” means a local water agency program that offers incentives to customers encouraging the replacement of conventional lawns with artificial lawns, drought-resistant plants, or other water-efficient landscaping.

Water conservation is a core element of the Water Authority's long-term strategy to improve the reliability of the region's water supply by diversifying water sources. Since 1991, the Water Authority's water use efficiency programs and initiatives cumulatively have conserved nearly 800,000 acre-feet of water. In fact, water use in the San Diego region today is less than water consumption in 1990, even though the region has grown by more than 700,000 residents during those two decades. Water savings in the San Diego region have been achieved through measures
ranging from incentives on water-efficient devices, to legislative efforts, to outreach campaigns and programs. At 161 gallons per capita per day, water use this year is below the state’s 2020 target of 167 gallons per capita per day in San Diego County.

During the March 26 Board meeting, the Water Authority Board of Directors adopted a Support position on similar legislation, AB 603 (Salas), which would also allow an income tax credit for a taxpayer participating in a lawn replacement program, in an amount equal to $2 per square foot of conventional lawn removed from the taxpayer’s property. AB 1139 however, would establish a cap on potential income tax credits per taxable year at $50,000, while AB 603 does not include such a provision.

The Water Authority’s legislative policy guidelines state that the Water Authority shall support legislation that:

- Provides incentives, funding, and other assistance where needed to facilitate market transformation and gain wider implementation of water-efficient indoor and outdoor technologies and practices.


**Staff recommends a position of Support on AB 1139.**

**SB 551 (Pavley) – State Water Policy: Water and Energy Efficiency**

Existing law establishes the policy that the water resources of the state be put to beneficial use to the fullest extent of which they are capable. In addition, existing law declares that electrical and natural gas utilities should have as a principal goal of their resource planning and investment to minimize the cost to society of reliable energy services, improve the environment, and encourage the diversity of energy sources.

SB 551 would declare the policy of the state that water use and water treatment shall be as energy efficient as is feasible and energy use and generation shall be as water efficient as feasible, and would require all relevant state agencies to consider this state policy when revising, adopting, or establishing policies, regulations, and grant criteria when pertinent to these uses of water and energy.

Each day in California, energy is needed to move, treat, and use water. Drought, climate change, water quality, and resource availability all affect when, where, and how much energy use occurs. According to a January 2015 briefing document prepared jointly by the California Urban Water Agencies and the California Municipal Utilities Association, entitled, “CUWA and CMUA Water-Energy Fact Sheet,” approximately 12 percent of the state’s total energy is used for distribution, treatment, and end uses of water; and, of this 12 percent, only approximately two percent is used for transporting and treating California’s water supplies – the remaining energy use is attributed to water end uses, such as in-home, business, and agricultural uses (see attached).
Given the ongoing and prolonged drought conditions in California, it is reasonable to thoroughly evaluate a broad range of opportunities for greater water use efficiency. Given the inextricable linkage between water and energy, pursuing opportunities for improved energy efficiencies while at the same time seeking improved water efficiencies from processes that utilize both resources, makes a great deal of sense and represents a wise approach to resource management.

While SB 551 appears to simply link the “efficiency” of energy consumption to water use, and does not appear to be targeted at directly reducing or limiting energy consumption associated with water production, the measure could raise concerns that it is an attempt to move down a path toward the establishment of a “loading order” for water. A “loading order” for water would essentially direct water managers to utilize the least energy-consuming water supplies first, and through a progression, only utilize the most energy-consuming water supplies (such as desalination and potable reuse) as a last resort. SB 551 should be amended to expressly provide that the state policy established in the measure is not intended to direct or impose a loading order for water and that the policy should not be interpreted by state agencies in that manner.

Within SB 551 is a series of legislative findings and declarations that support the advancement and establishment of the state policy relative to the water-energy nexus. One of the legislative findings indicates that: “Transportation and treatment of water, treatment and disposal of wastewater, and the energy used to heat and consume water account for nearly 20 percent of the total electricity and 30 percent of the nonpowerplant-related natural gas consumed in California.” SB 551 should be amended to more closely track the most current data regarding energy use within the water distribution and treatment processes and the energy use associated with end-user consumptive uses of water that has recently been published by the California Urban Water Agencies and the California Municipal Utilities Association.

The Water Authority’s legislative policy guidelines state that the Water Authority shall support legislation that:

- Provides incentives, funding, and other assistance to facilitate water use efficiency partnerships with the energy efficiency sector.


**Staff recommends a position of Support if Amended on SB 551.**

**Suggested amendments include:**

SB 551 should be amended to:

- Expressly provide that the state policy established in SB 551 is not intended to direct or impose a loading order for water and that the policy should not be interpreted by state agencies in a manner that promotes or advances a loading order for water.

- Closely track the most current data regarding energy use within the water distribution and treatment processes and the energy use associated with end-user consumptive uses of water.
Bay-Delta

**AB 1201 (Salas) – Fish and Wildlife: Sacramento-San Joaquin Delta: Predation by Nonnative Species.**

Existing law – the California Endangered Species Act – prohibits the taking of an endangered, threatened, or candidate species, unless otherwise authorized by the Department of Fish and Wildlife (DFW).

AB 1201, as amended on April 22, 2015, would require DFW, by June 30, 2016, to develop and initiate a science-based approach that addresses predation by nonnative species upon threatened or endangered species of fish that reside all or a portion of their lives in the Sacramento-San Joaquin Delta.

The Sacramento-San Joaquin Bay-Delta provides a significant portion of the water supply to an estimated 25 million Californians, including the 3.1 million residents of San Diego County. While amounts vary from year to year, the Bay-Delta, in some years, is the source of about 20 percent of San Diego County’s water supply. Conflicts between water supply reliability and ecosystem health have had varying degrees of impact on the Bay-Delta’s native fish, including salmon and Delta smelt.

Predation by non-native species, including striped bass, is a primary factor for the decline of native salmon in the Bay-Delta. Striped bass were introduced to the Sacramento-San Joaquin Delta in 1879 for popular sport fishing, and are among the most threatening predators for the native salmon because of their large numbers and feeding habits. The California Department of Fish and Game has estimated that striped bass may consume upwards of 25-50 percent of winter and spring-run Chinook salmon, when they are arguably most endangered. Yet striped bass populations are still growing, while the numbers of native salmon species in the Bay-Delta are decreasing.

AB 1201 would promote the long-term ecological health of the Sacramento-San Joaquin Delta and its native species, particularly Delta smelt and Chinook salmon, by requiring DFW to develop a science-based approach to predation of critical species of fish by nonnative species, and help to ensure a reliable and sustainable water supply for California and the San Diego region. AB 1201 has been crafted to be intentionally ambiguous with respect to the outcome selected by DFW to address predation by nonnative species. Rather than statutorily prescribe the control or eradication of the nonnative species, AB 1201 would allow sound science to guide the outcome to best protect the native species.

AB 1201 is also silent with regard to the source of funding for DFW to undertake the outlined process to address predation by nonnative species. AB 1201 should be amended to identify a funding source, and to ensure that the funds would not be borne through an assessment or fee on water users.
The Water Authority’s legislative policy guidelines state that the Water Authority shall support legislation that:

- Implements a long-term, comprehensive solution for the Bay-Delta that provides deliberative processes that are designed to ensure meaningful dialogue with all stakeholders in order to reduce future conflicts and challenges to implementation of a Bay-Delta solution.

- Implements a long-term, comprehensive solution for the Bay-Delta that restores the Bay-Delta ecosystem to a point where species listed under the state and federal Endangered Species Acts are no longer threatened or endangered, taking into account all factors that have degraded the Bay-Delta habitat and wildlife.

(2015 Legislative Policy Guidelines, Bay-Delta, Support, pages 7-8, item 4, sections b and h).

**Staff recommends a position of Support and Seek Amendments on AB 1201.**

**Suggested amendments include:**
AB 1201 should be amended to identify a source of funding for the science-based approach to address predation by nonnative species, and to ensure that the costs would not be an assessment or fee on water users.

**AB 1325 (Salas) – Delta Smelt.**
Under existing law, the Fish and Game Commission is required to establish fish hatcheries for the purposes of stocking the waters of California with fish, and the Department of Fish and Wildlife (DFW) is tasked with maintaining and operating those hatcheries.

AB 1325 would enact the Delta Smelt Preservation and Restoration Act of 2016 and require DFW to develop a Delta smelt hatchery program to preserve and restore the Delta smelt, and to provide state “mitigation credits” for mitigation banking partners.

The Delta smelt is a small native fish that lives within the Sacramento-San Joaquin Bay-Delta and is listed as an endangered and threatened species under state and federal Endangered Species Acts. Delta smelt generally live only one year, making its long-term survival very challenging and dependent on each year's offspring. Once a very abundant fish species in the Delta, recent monitoring indicates the smelt population has declined to the lowest levels in recorded history. The Delta smelt is a critical indicator species, whose existence has great influence on the operations of California's complex statewide water system.

Two Delta smelt hatcheries are already in existence and operational today - one at the U.C. Davis Fish Conservation and Culture Laboratory near the Delta, and the other is the U.S. Fish and Wildlife Livingston Stone National Fish Hatchery near Shasta Dam. Both hatcheries are tasked with raising Delta smelt as a back-up or refuge population should the fish become extinct in the
wild. The hatchery-raised Delta smelt have never been released in the wild and are currently destroyed at the end of each season.

AB 1325 would provide an important additional tool in attempting to develop a long-term comprehensive solution to improve ecosystem health and species recovery in the Bay-Delta system. While a Delta smelt hatchery is only a single element of a larger portfolio of actions that need to be developed to improve habitat conditions and species recovery, it can provide important near-term benefits to ensure the survival of this key Delta species.

During the 2008 legislative session, the Water Authority Board of Directors adopted a Support position on similar legislation, SB 994 (Florez), which would have required the Department of Fish and Game to develop a hatchery program to restore populations of Delta smelt. SB 994 eventually failed passage in the Legislature.

The Water Authority’s legislative policy guidelines state that the Water Authority shall support legislation that:

- Provides for development of a comprehensive state water plan that balances California’s competing water needs and results in a reliable and affordable supply of high-quality water for the San Diego region.


**Staff recommends a position of Support on AB 1325.**

**Energy**

*SB 286 (Hertzberg) – Electricity: Direct Transactions*

Existing law suspends the ability of retail end-use electricity customers of an investor-owned utility (IOU) to receive electrical services from an entity other than an IOU (this arrangement is commonly referred to as “direct access”). Existing law also makes an exception to this general direct access suspension by directing the California Public Utilities Commission (CPUC) to allow individual retail nonresidential end-use customers of an IOU to acquire electric service from an electric service provider (other than the IOU), up to a maximum allowable total kilowatt hour annual limit.

SB 286, as amended on April 29, 2015, would double the limit on direct access by directing the CPUC to adopt a schedule that phases-in new direct access transaction for individual retail nonresidential end-use customers over a period of not more than three years, and would provide that not less than 51 percent of new direct access transactions be for electricity products from renewable energy resources eligible for Renewable Portfolio Standard credit.

Direct access was first offered as part of a comprehensive restructuring of the California energy market in the mid-1990s. In 2000 and 2001, the state experienced extraordinary instability in the wholesale energy pricing market and the reliability of the statewide energy system was brought
into question as Californians experienced widespread power outages and rolling black-outs. This period of time became known as the “California energy crisis,” and during that time, Pacific Gas and Electric declared bankruptcy and Southern California Edison nearly took similar action. Uncertain of the factors that created instability in the California energy system and market, state regulators took a number of actions to stabilize the system, including the suspension of direct access.

In 2009, the Legislature passed SB 695 (Kehoe), which reopened direct access. More specifically, SB 695 directed the CPUC to allow nonresidential end-use customers to acquire electric service from energy service providers up to a set limit. The CPUC, in implementing SB 695, determined the direct access limit for each IOU and the then-existing direct access load for each IOU territory. With these two amounts quantified, the CPUC then determined the additional amount of direct access capacity that could be available in each IOU territory. Customers quickly enrolled in all available direct access service made newly available by SB 695. The following chart reflects the existing composition of direct access participation available today:

<table>
<thead>
<tr>
<th>Direct Access Participation¹</th>
<th>Residential</th>
<th>Small Commercial</th>
<th>Large Commercial</th>
<th>Industrial</th>
<th>Agriculture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Access Customers</td>
<td>9,671</td>
<td>17,230</td>
<td>15,742</td>
<td>1,351</td>
<td>426</td>
<td>44,420</td>
</tr>
<tr>
<td>% of Total IOU Customers</td>
<td>0.1%</td>
<td>1.5%</td>
<td>6.2%</td>
<td>22.5%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Direct Access Load (GWh)</td>
<td>77</td>
<td>250</td>
<td>9,268</td>
<td>15,139</td>
<td>117</td>
<td>24,851</td>
</tr>
<tr>
<td>% of Total IOU Load</td>
<td>0.1%</td>
<td>1.6%</td>
<td>16.7%</td>
<td>34.4%</td>
<td>1.0%</td>
<td>12.85%</td>
</tr>
</tbody>
</table>

At this time, no new customers may newly contract with an energy service provider for direct access service unless an existing customer drops out of a direct access arrangement. As of 2014, there was a considerable queue for direct access service, as shown below:

<table>
<thead>
<tr>
<th>Direct Access Queue (12/31/13)²</th>
<th>PG &amp; E</th>
<th>So Cal Edison</th>
<th>SDG &amp; E</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Customers on Waiting List</td>
<td>435</td>
<td>255</td>
<td>155</td>
<td>845</td>
</tr>
<tr>
<td>GWh of Associated Load</td>
<td>4,235</td>
<td>1,351</td>
<td>545</td>
<td>6,131</td>
</tr>
</tbody>
</table>
SB 286 would require the CPUC to reopen direct access so that, over a period of three years, additional nonresidential IOU customers may contract for direct access service. SB 286 would cap the additional direct access at two times the SB 695 cap. Based on the application of that limit, SB 286 would eventually result in a direct access cap of nearly 50,000 gigawatt hours (GWh), or approximately 26 percent of total IOU electricity load. Based on the latest known direct access queue figures, SB 286 would appear to easily accommodate the load associated with the direct access waiting list, and still provide even additional opportunities for new potential direct access arrangements.

Large-scale industrial processes that tend to be more energy intensive could be well-positioned to examine direct access opportunities under SB 286. The Carlsbad Desalination Project, the City of San Diego’s Pure Water Project, and a potential future Camp Pendleton Desalination Project could all benefit from the opportunity to evaluate and analyze the costs, benefits, and issues associated with a direct access arrangement. While a direct access arrangement may not even ultimately be the most prudent opportunity for these large projects, the energy costs associated with each of them warrants examining all available opportunities to improve the affordability of water for San Diego ratepayers.

The Water Authority’s legislative policy guidelines state that the Water Authority shall support legislation that:

- Provides opportunities for reduced energy rates under tariff schedules for the Water Authority and its member agencies.
- Provides greater flexibility in the utilization of Water Authority and its member agencies’ facilities for generation and acquisition of electrical power.
- Provides protection to water agencies in San Diego County from energy rate increases and provides rate relief for member agencies.

(2015 Legislative Policy Guidelines, Energy, Support, Page 25, items 1, 2, and 4).

**Staff recommends a position of Support on SB 286.**

Prepared by: Glenn A. Farrel, Government Relations Manager
Ivy Ridderbusch, Assistant Management Analyst

Approved by: Dennis A. Cushman, Assistant General Manager

Attachment: CUWA and CMUA Water-Energy Fact Sheet, January 2015
Ensuring a Sustainable Water and Energy Future for California

Each day in California, energy is needed to move, treat, and use water. Drought, climate change, water quality, and resource availability all affect when, where, and how much of this energy use occurs. While this issue can be complex, the graphic below helps to clarify the origin and purpose of the state’s overall water-related energy use.

As shown in the figure below, about 12% of the state’s total energy is used for the distribution, treatment, and end uses of water. Of this 12%, about 2% is used for transporting and treating California’s water supplies; the rest goes to water end uses (i.e., in-home, businesses, and farm uses).

Clarifying California’s Water-Related Energy Use*

*Based on the following:
A Diverse Water Portfolio is Needed to Reliably Meet California’s Water Needs

The water sector is different in many ways from the energy sector. The water sector requires site-specific, geographically based solutions to address factors such as water quality, reliability, infrastructure, operations, and energy intensity. In addition, water supplies cannot be generated on a real-time basis unlike energy supplies.

Water agencies rely on a diverse portfolio of sustainable supplies to ensure reliability in meeting water demands. To be resilient to future uncertainties, a portfolio requires a mix of sources, which could include groundwater, water reuse, stormwater, and desalination, as well as more traditional sources like surface water, some of which can be imported. In addition, conservation savings are the foundation of a diverse water supply portfolio. A diverse supply portfolio is particularly important to water agencies in drought years.

Water Agencies Need Flexibility to Address Local and Regional Factors for their Supplies

Numerous factors are considered when securing water supplies, as shown in the figure below, and energy intensity is merely one of the factors. For example, demand reduction is typically the least energy-intensive option, taking the place of supplies that would otherwise be needed to meet growing demands—but it must also be augmented by other new supplies. Furthermore, a water source that takes less energy to deliver may be in limited supply during droughts, or may be cost-prohibitive due to greater treatment requirements.

As a result, it is not feasible for California water agencies to rely upon a system that requires a utility to sequentially secure additional water supplies or develop a new resource based on a single factor, such as energy intensity. This concept, which has been referred to as a “loading order,” limits supply choices and could have serious unintended consequences for the communities we serve including water quality degradation, water infrastructure failures, and even interruption of service.

To avoid these consequences, future legislative and regulatory proposals should provide water agencies with flexibility to develop a water supply portfolio that is tailored to local and regional needs. A focused, local approach is the most effective way to not only save energy, but to also ensure a long-term, reliable, and efficient water supply for customers and the environment. Our agencies are committed to coordinating with state agencies, non-profit organizations, and other stakeholders to provide leadership in promoting water-energy efficiency.

Contacts:

CMUA | Danielle Blacet, Director for Water
916.326.5800 | dblacet@cmua.org

CUWA | Jenny Gain, Staff Engineer
925.210.2225 | jgain@brwnca.com
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Drought Response Communications and Outreach Update (Information)

Purpose
This report provides an update on drought management communications and outreach activities to promote increased conservation as part of the Water Authority’s Water Shortage and Drought Response Plan.

Background
On February 13, 2014, the Water Authority Board authorized entering into the Voluntary Supply Management stage of its Water Shortage and Drought Response Plan, which calls for increased voluntary water conservation. The Board also approved notifying the Water Authority’s 24 member agencies that the region was at the Drought Watch condition of the region’s Model Drought Response Ordinance. Following several months of worsening drought conditions and record-breaking heat, the Water Authority Board authorized entering into the Supply Enhancement stage of its Water Shortage and Drought Response Plan on July 24, 2014. The Board also declared a Drought Alert condition of the region’s Model Drought Response Ordinance, which calls for the implementation of mandatory water use restrictions to help manage available supplies. The Water Authority Board’s actions aim to help preserve stored water reserves in Southern California, and they are designed to help the region’s retail water agencies comply with emergency mandatory conservation measures imposed by the State Water Resources Control Board, which took effect on August 1, 2014 and were updated on May 5, 2015.

The Water Shortage and Drought Response Plan includes a communications strategy to help achieve increased water conservation by the public, and to enhance public understanding of how ratepayers’ investments in projects and their commitment to water conservation has reduced the region’s vulnerability to shortages from drought conditions.

Discussion
This reporting period covers mid-April through mid-May 2015. Staff conducted a variety of activities including media relations, advertising, community partnerships, coordination with member agencies, community events and presentations, as well as posting social media and online content. Highlights for this period include managing communications related to emergency water conservation regulations proposed and adopted by the State Water Resources Control Board to implement the Governor’s executive order to reduce urban water use statewide by 25 percent. Staff has handled a surge in media interviews, community presentation requests and phone calls from members of the public. In addition, staff developed new messaging for the “When in Drought” drought response outreach campaign in coordination with member agency staff, member agency management and the Board. Staff began to provide the updated messaging to member agencies and launched a new phase of advertising running in May and
June designed to increase awareness of the pending state-mandated water use cuts, promote water-saving tips that can apply broadly throughout the region, and encourage customers to seek additional information from their local water agency.

Community Events and Presentations:
More than 200 master gardeners and landscape-related professionals participated in two workshops on May 13 and 14 at San Diego Gas & Electric’s Energy Innovation Center. The workshops, titled “Strategies for Water Efficient Landscapes,” covered topics such as irrigation management and plant selection, with an emphasis on gardening during drought conditions. The University of California, Davis and SDG&E co-sponsored the event.

Staff also participated in a variety of events in the community or with industry groups to provide drought updates or share other information related to water supplies, water-use restrictions and conservation rebates. Many events during this period related to Earth Day. Event outreach included:

- Oceanside Business Expo
- San Diego County Garden-Friendly Plant Fair in Chula Vista
- Balboa Park Earth Day Earth Fair
- Earth Month 2015 in Oceanside
- ARRIS Earth Day Fair
- AMN Healthcare Employee Earth Fair
- UTAF Chula Vista Operations Employee Earth Fair
- Naval Air Station North Island Earth Fair
- Illumina Earth Week Vendor Fair
- San Ysidro Swap Meet Children’s Event
- Southwestern College Earth Day
- San Diego Hispanic Chamber of Commerce Mixer
- Interfaith Fair on Emergency Preparedness
- San Diego County Apartment Association Annual Conference
- Mission Hills Nursery Garden Festival
- Plumbing Heating Cooling Contractors Association Trade Show
- Butterfly Festival at the Water Conservation Garden
- American Society of Landscape Architects Garden Party

Staff delivered drought-related presentations to the following organizations:

- North San Diego Business Chamber’s Public Policy Committee
- Carlsbad City Council
- Sigma Alpha Epsilon Alumni Association of San Diego County
- BIOCOM
- Green Scene San Diego Community Meeting
- Cal State San Marcos Environmental Studies students
- San Diego Regional Chamber of Commerce Board of Directors
- San Diego Regional Chamber of Commerce Public Policy Committee
Media Relations:
As part of the Water Authority’s drought outreach, staff issued eight news releases and statements:

- “Second May Storm Offers Big Chance to Save Water”
- “Water Authority Recommends Regional Water-Use Reduction Strategies”
- “Water Authority Responds to State Water Board’s Adopted Water-Use Regulations”
- “Water–Efficient Landscape Workshops Offered for Industry Professionals”
- “Water Authority and SDG&E Streamline Rebate Process for Water-Saving Appliance”
- “Public Opinion Poll Shows Increasing Support for Water Supply Diversification Amid Drought”
- “MWD Approves 15 Percent Cuts to Water Supplies for San Diego County”
- “Water Authority Calls for More Equitable Approach to State Water-Use Regulations”

Staff continued to work with the news media, conducting interviews with most major media outlets in the region related to regulations issued by the State Water Resources Control Board to reduce water use by 25 percent statewide and related to the 15 percent water supply allocation from the Metropolitan Water District of Southern California. Staff assisted member agencies by providing key points about the regulations and supply allocations, and continued responding to public inquiries regarding water conservation as part of the Dear Drought Fighter column partnership with *U-T San Diego*. 
Staff also conducted a news conference following the May 14 special Board meeting to announce new Water Authority actions to respond to the extraordinary drought conditions and state-mandated water use cuts.

Advertising:
Starting in early May, staff began to place a new round of advertising to help raise public awareness of the pending state-ordered water use cuts and to encourage immediate increased water conservation. Staff placed traffic and weather report sponsorships that will run throughout the month of May. Staff also developed online ads that will run from mid-May through June, and began to develop radio and television ads that will run from late May through June. The Water Authority continues to coordinate advertising efforts with member agencies and the statewide “Save Our Water” drought response campaign to leverage resources and minimize duplication. The campaign is funded in part with state drought response grant funds.

Community Partnerships:
Staff worked with the local chapters of the California Restaurant Association and Food and Beverage Association to develop updated materials for restaurants and bars advising patrons of water restrictions. New versions of table tent cards, along with new check cards and coasters, will be distributed through the organizations to more than 2,500 establishments around the region.

Staff coordinated with the Port of San Diego to develop co-branded drought messaging materials that can be adapted for multiple uses, such as signs for medians and parks, fact sheets for cruise passengers, and brochures for Port tenants.

Staff distributed more than 400 When in Drought yard signs to organizations including Community HousingWorks and the San Diego County Apartment Association, and to member agencies such as the Otay Water District, Helix Water District and Lakeside Water District.

The San Diego Community College District began running “When in Drought” campaign messages on digital message signs inside buildings at its three campuses. Staff also coordinated with San Diego State University, Point Loma Nazarene University, University of California San Diego, and California State University San Marcos to distribute campaign messages via signs on campus, electronic newsletter articles, and on social media.

Staff also conducted an outreach effort to the superintendents of all school districts in the Water Authority’s service area. Staff sent campaign materials to the superintendents and encouraged them to share the materials with their school principals so the principals could share them with students and parents through their existing communication channels, such as school marquees, websites, newsletters and regularly scheduled automated email and phone announcements to parents.

Coordination with Member Agencies:
The Water Authority continues to coordinate with member agencies on drought response campaign issues. Staff hosted its monthly Joint Public Information Council/Conservation
Coordinators meeting with member agency representatives on May 4. Drought outreach materials, fact sheets and conservation devices were also distributed to the member agencies for use at community events.

**Social Media and Online Resources:**
May is Water Awareness Month. Staff developed a “Ways to Save Water” social media campaign that is sharing a water conservation tip every day during May and providing links to related resources or programs available through whenindrought.org, watersmartSD.org, the Water Authority’s award-winning *eGuide to a Water Smart Lifestyle*, or other sources. The campaign features the hashtag #waystosavewater and is being shared through the Water Authority’s Twitter and Facebook accounts.

Staff also made more than 100 Twitter posts to spread awareness of drought conditions, promote conservation programs and events, and to call attention to water supply reliability efforts. Members of the public tweeted and re-tweeted more than 250 messages related to drought management actions, water conservation-related events and promotions, and other topics related to conservation or drought. These messages came from civic organizations, public officials, media outlets, and individuals. Staff also posted more than 85 drought and conservation-related messages to Facebook.

Five issues of the WaterSource e-newsletter featuring conservation program or drought updates were distributed to community and business leaders.

After reviewing recent public inquiries related to the drought and new state restrictions and mandates, staff is making modifications to the organization and navigation of Water Authority’s drought web portal landing page, [www.whenindrought.org](http://www.whenindrought.org), and its regional water conservation resources website, [www.watersmartSD.org](http://www.watersmartSD.org). These modifications are designed to make it easier for the public to find links to the types of information they are seeking most, including conservation programs, water-saving tips and local water-use restrictions. Updates to [www.whenindrought.org](http://www.whenindrought.org) are expected to launch this month and updates to [www.watersmartSD.org](http://www.watersmartSD.org) are expected to launch next month.

The drought web portal landing page, [www.whenindrought.org](http://www.whenindrought.org), has received more than 54,400 page views since the site’s launch on April 29, 2014 through May 6, 2015. Meanwhile, [www.WaterSmartSD.org](http://www.WaterSmartSD.org) had more than 14,200 visits during the month of April, a 174 percent increase compared to March 2015. In addition, the Water Authority’s *eGuide to a WaterSmart Lifestyle* received a record 78,000 page views in April, a more than 330 percent increase from the previous month.

In coming months, staff will continue drought management communication activities and will provide regular updates to the Board.

Prepared by: Craig Balben, Public Affairs Representative II
Prepared by: Jason Foster, Director, Public Outreach and Conservation
Reviewed by: Dennis A. Cushman, Assistant General Manager
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Status Report on Legislation and Legislative Positions. (Information)

Background
Water Authority staff is currently reviewing 162 bills in the Legislature for potential impact on the organization and its member agencies.

The Water Authority’s staff and legislative advocates review each bill in the context of the adopted 2015 Legislative Policy Guidelines. The Legislative Policy Guidelines provide direction to staff and the Water Authority’s legislative advocates to communicate support of, or opposition to legislation and amendments. Bills for which staff recommends a position are brought before the Legislation, Conservation and Outreach Committee and the Board for consideration.

Discussion
On April 23, the Board adopted a position of Support for AB 723 (Rendon); a position of Support and Seek Amendments for SB 317 (De Leon) and SB 555 (Wolk); and a position of Support if Amended for AB 645 (Williams), AB 1095 (Garcia), AB 1332 (Quirk), AB 1333 (Quirk), and SB 350 (De Leon).

Water Authority staff and legislative advocates will continue to track and monitor bills throughout the legislative session to ensure consistency with Board policies, positions and the 2015 Legislative Policy Guidelines. Attached is a list of substantive legislation under review by Water Authority staff as of May 20, 2015.

Prepared by: Ivy Ridderbusch, Assistant Management Analyst
Reviewed by: Glenn Farrel, Government Relations Manager

Attachment: List of substantive legislation under review by Water Authority staff as of May 20, 2015
<table>
<thead>
<tr>
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Oppose (February 26 Board Meeting)
| SB 188 | Hancock | Municipal utility district: utility charges: delinquencies. | 02/09/15 Introduced 04/08/15 Governance and Finance 04/21/15 Judiciary 05/04/15 Appropriations |
| SB 201 | Wieckowski | California Public Records Act. | 02/10/15 Introduced |
| SB 207 | Wieckowski | California Global Warming Solutions Act of 2006: Greenhouse Gas Reduction Fund: investment plan. | 02/11/15 Introduced 04/15/15 Environmental Quality 04/27/15 Consent Calendar 04/30/15 Senate Floor |
| SB 208 | Lara | Integrated regional water management plans: grants: advanced payment. | 02/11/15 Introduced 03/24/15 Natural Resources and Water Environmental Quality |
| SB 215 | Leno | Public Utilities Commission. | 02/12/15 Introduced 04/21/15 Energy, Utilities, and Communications |
| SB 223 | Galgiani | Division of Boating and Waterways: oversight committee: invasive aquatic plants. | 02/13/15 Introduced 04/28/15 Natural Resources and Water |
| SB 226 | Pavley | Sustainable Groundwater Management Act: groundwater rights. | 02/13/15 Introduced 04/14/15 Natural Resources and Water 04/28/15 Judiciary |
| SB 228 | Cannella | Groundwater storage: beneficial use. | 02/13/15 Introduced 04/14/15 Natural Resources and Water |
| SB 233 | Hertzberg | Conduits and screens: fish screen monitoring. | 02/13/15 Introduced 04/14/15 Natural Resources and Water |
| SB 246 | Wieckowski | Climate Action Team. | 02/18/15 Introduced 04/29/15 Environmental Quality |
| SB 286 | Hertzberg | Electricity: direct transactions. | 02/19/15 Introduced 04/21/15 Energy, Utilities and Communications |

**Staff recommendation:** Support (May 28 Board Meeting)
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<td>SB 385</td>
<td>Hueso</td>
<td>Primary drinking water standards: hexavalent chromium.</td>
<td>02/24/15</td>
<td>Environmental Quality</td>
<td>Support (March 26 Board Meeting)</td>
</tr>
<tr>
<td>SB 551</td>
<td>Wolk</td>
<td>State water policy: water and energy efficiency.</td>
<td>02/26/15</td>
<td>Natural Resources and Water</td>
<td>Staff recommendation: Support and Seek Amendments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/28/15</td>
<td></td>
<td>(May 28 Board Meeting)</td>
</tr>
<tr>
<td>SB 552</td>
<td>Wolk</td>
<td>Disadvantaged communities drinking water standards.</td>
<td>02/26/15</td>
<td>Environmental Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/15/15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SB 553</td>
<td>Wolk</td>
<td>Water conservation.</td>
<td>02/26/15</td>
<td>Govern. Organization</td>
<td>Support and Seek Amendments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/28/15</td>
<td></td>
<td>(March 26 Board Meeting)</td>
</tr>
<tr>
<td>SB 555</td>
<td>Wolk</td>
<td>Water suppliers.</td>
<td>02/26/15</td>
<td>Natural Resources and Water</td>
<td>Support and Seek Amendments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/14/15</td>
<td></td>
<td>(April 23 Board Meeting)</td>
</tr>
<tr>
<td>SB 637</td>
<td>Allen</td>
<td>Water quality: suction dredge mining: permits.</td>
<td>02/27/15</td>
<td>Natural Resources and Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/14/15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/29/15</td>
<td>Environmental Quality</td>
<td></td>
</tr>
<tr>
<td>SB 664</td>
<td>Hertzberg</td>
<td>Water: Urban Water Management Planning</td>
<td>02/27/15</td>
<td>Natural Resources and Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>04/28/15</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>04/21/15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
May 20, 2015

Attention: Legislation, Conservation and Outreach Committee

Government Relations Update. (Information)

Discussion
This report is an update of the Water Authority’s government relations program.

The Legislature
Through early May, the Legislature has been actively engaged in hearing hundreds of bills in Senate and Assembly policy committees. Much of the month of May will involve the Assembly and Senate fiscal committees’ consideration of legislation, leading up to a deadline for bills to advance through their house of origin by June 5.

Assembly and Senate budget subcommittees are continuing to actively work on shaping the Legislature’s version of the State Budget. The May Revise of the State Budget was released on May 14, 2015, and final action on the budget is anticipated by the Legislature in mid-June.

Sponsored Legislation
At the November 20, 2014 Board of Directors’ meeting, the Board approved Water Authority sponsorship of three bills for the 2015 legislative session.

- Assemblymember Rocky Chavez introduced AB 149 on behalf of the Water Authority. AB 149 would change the 2020 urban water management plan approval deadline to from December 31, 2020 to July 1, 2021, to accommodate final reporting of water use data required under SBX7-7 (the “20X2020” legislation). AB 149 has passed through the Assembly Water, Parks, and Wildlife Committee and off the Assembly Floor, and is currently pending consideration in the Senate Natural Resources and Water Committee.

- Assemblymember Lorena Gonzalez introduced AB 349 on behalf of the Water Authority. AB 349 would authorize homeowners within common interest developments to install synthetic grass or artificial turf, within reasonable design and aesthetic standards, in lieu of conventional turf. AB 349 passed the Assembly Housing and Community Development Committee on a 7-0 vote on May 13, and is pending action on the Assembly Floor.

- Senator Ricardo Lara introduced SB 208 on behalf of the Water Authority. SB 208 would streamline the process by which non-governmental organizations and disadvantaged communities can be provided funding – through a combination of advanced payment and reimbursement – within the structure of the integrated regional water management program. SB 208 passed the Senate Natural Resources and Water Committee and the Senate Environmental Quality Committee, and has been placed on the
Senate Appropriations Committee suspense file to allow for full consideration of potential state costs associated with the measure.

**Board Member Advocacy Visit**

On May 5, the Water Authority’s Board officers and the Chair and Vice-Chairs of the LCO Committee visited Sacramento for a legislative advocacy day in the Capitol. Because the State Water Resources Control Board’s (SWRCB) hearing on mandatory water use restriction regulations also occurred on May 5, the group was split into a “State Water Board Team” and a “Capitol Team” to ensure appropriate and adequate coverage at each concurrent venue.

The Board members visited with nearly every member of the San Diego legislative delegation during the visit. Those discussions were largely focused on the Water Authority’s drought response and the SWRCB’s pending action on mandatory water use restriction regulations. Additional meetings were held with legislators to discuss the Water Authority’s perspective on Salton Sea restoration and the need to improve the state’s integrated regional water management program. The Board members conducted the following meetings:

- Senator Joel Anderson
- Senator Marty Block
- Senator Ricardo Lara
- Assemblymember Lorena Gonzalez
- Assemblymember Brian Mainschein
- Assemblymember Shirley Weber
- Senator Patricia Bates
- Senator Jean Fuller’s staff
- Assemblymember Rocky Chavez
- Assemblymember Brian Jones
- Assemblymember Marie Waldron
- Assemblymember Speaker Toni Atkins’ staff
- Assemblymember Eduardo Garcia

**State Budget**

On May 14, the Governor released the May Revise to the State Budget proposal. Overall, the May Revision reflects a $6.7 billion increase in General Fund revenues as compared to the Governor’s January proposed State Budget. Much of the proposed increase in projected revenue will trigger non-discretionary budget spending actions, including:

- Increases in general fund spending by for K-12 schools and community colleges as a result of Proposition 98 requirements.

- Increased savings in the “Rainy Day Fund” and a commensurate pay down of state debts and liabilities as a result of Proposition 2 requirements.

The Governor’s proposed May Revision also advances the following major policy objectives:

- Establishes the state’s first Earned Income Tax Credit to help Californians below the federal poverty line. This would be a targeted credit in the form of a refundable tax credit for earned wages for households with incomes less than $6,580 if there are no dependents and up to $13,870 if there are three or more dependents.
The May Revision proposes to hold tuition at the University of California and California State University for California undergraduate students flat through 2016-17.

The May Revision includes an additional $2.2 billion of one-time resources to continue the state’s response to drought impacts.

Attached is the complete chart contained in the Governor’s proposed May Revision that outlines the framework of proposed funding in the May Revision for emergency drought response. Notably, the proposed May Revision would provide funding in the following key areas:

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>ADMINISTERING AGENCY</th>
<th>PROPOSED MAY REVISION $</th>
<th>FUNDING SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Recycling</td>
<td>SWRCB</td>
<td>$475 million</td>
<td>Proposition 1</td>
</tr>
<tr>
<td>Desalination</td>
<td>DWR</td>
<td>$50 million</td>
<td>Proposition 1</td>
</tr>
<tr>
<td>Urban Water Conservation</td>
<td>DWR/Energy Commission</td>
<td>$104 million</td>
<td>$50 M from Cap and Trade Funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$50 M from Proposition 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$4 million from General Fund</td>
</tr>
<tr>
<td>Making Water Conservation a Way of Life</td>
<td>DWR/Energy Commission</td>
<td>$43 million</td>
<td>$30 M from Cap and Trade Funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$13 M from Proposition 1</td>
</tr>
<tr>
<td>Water Conservation at State Facilities</td>
<td>Department of General Services</td>
<td>$23.4 million</td>
<td>General Fund/Special Funds</td>
</tr>
<tr>
<td>Executive Order Implementation</td>
<td>SWRCB</td>
<td>$1.4 million</td>
<td>General Fund</td>
</tr>
</tbody>
</table>

The Governor’s proposed May Revision also indicates that the Administration will be proposing legislation:

“to enhance local enforcement authority by providing all water agencies and local governments a consistent, minimum set of enforcement authorities to achieve required water conservation. Local water agencies with existing authorities to enforce against water waste can continue to use those authorities. Under this proposed legislation, any monetary penalties from this enforcement will be used for local conservation efforts. Specifically, it allows penalties to be issued administratively by wholesale and retail water agencies, as well as city and county governments, and enables those entities to enforce local water waste restrictions and Water Board conservation restrictions.”
The Governor’s proposed May Revision also identifies new initiatives outside of the scope of the emergency drought response category. The proposed May Revision would provide $7.8 million and 16 new positions to the SWRCB to complete a comprehensive update of the Bay-Delta Water Quality Control Plan. This proposal is intended to develop flow criteria and an adaptive management framework that identifies water quality objectives needed to protect and balance competing uses of water, including municipal and agricultural supply, hydropower, fishery protection, and recreational uses.

In addition, the Governor’s proposed May Revision highlights Salton Sea restoration as a major initiative in the coming fiscal year. While not identifying any new funding for Salton Sea restoration, the May Revision indicates that:

“The Administration is pursuing a phased strategy to restore the Salton Sea. Working with partners and utilizing existing funds already appropriated, the construction of over 1,000 acres of habitat and dust abatement projects is scheduled to begin in 2015. In addition, the Administration has formed the Salton Sea Task Force with principals from the Natural Resources and Environmental Protection Agencies to develop new achievable medium and long-term restoration plans. The Task Force will develop these plans in coordination with stakeholders, and will be appointing a new position using existing resources to lead the work of the Task Force and manage expedited construction of projects that protect both wildlife habitat and air quality at the sea.”

Bay-Delta Conservation Plan
On April 30, state and federal lead agencies announced the proposal of a modified alternative to the Bay-Delta Conservation Plan (BDCP) framework. The new proposal includes the twin-tunnel conveyance facilities, but no longer includes the elements of a habitat conservation plan. Instead, the new proposed alternative advances a different regulatory approach for gaining permits and authorizations for implementation under the state and federal Endangered Species Acts that does not provide for a 50-year permit term, as was originally proposed in the BDCP.

This newly-proposed alternative will be evaluated in a Recirculated Draft EIR/Supplemental Draft EIS that, according to the BDCP website, “will be available for public review and comment in coming months.”

Lobbyist Activities
Steve Cruz of Gonzalez, Quintana & Hunter reports that he performed the following lobbying activities on behalf of the Water Authority over the past month:

- Provided strategic advice and information regarding the Water Authority’s legislative interests.
• Advocated the Water Authority’s interests relative to the QSA water transfers with the San Diego legislative delegation, legislative leadership, and the Administration.

• Worked with the Water Authority Government Relations Manager to advocate on behalf of the Water Authority’s three sponsored bills.

• Assisted in the planning, organizing, and execution of the May 5 Board member advocacy visit to Sacramento.

• Represented the Water Authority in a variety of venues on Water Authority issues.

• Coordinated with V. John White, Bob Giroux, and Water Authority staff on various legislative issues of importance to the Water Authority.

Bob Giroux of Lang, Hansen, O’Malley & Miller reports that he performed the following lobbying activities on behalf of the Water Authority over the past month:

• Provided strategic advice and information regarding the Water Authority’s legislative interests.

• Assisted in the planning, organizing, and execution of the May 5 Board member advocacy visit to Sacramento.

• Coordinated with V. John White, Steve Cruz, and Water Authority staff on various legislative issues of importance to the Water Authority.

• Conferred with the Assembly Speaker and the Senate President pro tem regarding the Water Authority’s interests.

V. John White reports that he performed the following lobbying activities on behalf of the Water Authority over the past month:

• Provided strategic advice and information regarding the Water Authority’s legislative interests.

• Assisted in the planning, organizing, and execution of the May 5 Board member advocacy visit to Sacramento.

• Coordinated with Bob Giroux, Steve Cruz, and Water Authority staff on various legislative issues of importance to the Water Authority.
Washington, D.C.,
Ken Carpi of Carpi & Clay will provide a separate written report of the firm’s monthly activities in Washington, D.C.

Prepared by: Glenn A. Farrel, Government Relations Manager
Reviewed by: Dennis A. Cushman, Assistant General Manager

Attachment: Emergency Drought Response Funding Chart – 2015-16 May Revision
Figure DRT-01
Emergency Drought Response
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Department</th>
<th>Program</th>
<th>May Revision</th>
<th>Fund Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting and Expanding Local Water Supplies</td>
<td>Water Board</td>
<td>Groundwater Contamination</td>
<td>$784.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Water Board</td>
<td>Water Recycling</td>
<td>$475.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Water Board</td>
<td>Safe Drinking Water in Disadvantaged Communities</td>
<td>$180.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Water Board</td>
<td>Wastewater Treatment Projects</td>
<td>$160.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Water Board</td>
<td>Stormwater Management</td>
<td>$100.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Department of Water Resources*</td>
<td>Groundwater Sustainability</td>
<td>$60.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td></td>
<td>Department of Water Resources*</td>
<td>Desalination Projects</td>
<td>$50.0</td>
<td>Proposition 1</td>
</tr>
<tr>
<td>Water Conservation</td>
<td>Department of Water Resources* / Energy Commission</td>
<td>Urban Water Conservation</td>
<td>$104.0</td>
<td>Proposition 1/ Cap and Trade</td>
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<tr>
<td></td>
<td>Department of Water Resources* / Department of Food and Agriculture</td>
<td>Agricultural Water Conservation</td>
<td>$75.0</td>
<td>Proposition 1/ Cap and Trade</td>
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<td></td>
<td>Department of Water Resources / Energy Commission</td>
<td>Make Water Conservation a Way of Life</td>
<td>$43.0</td>
<td>Proposition 1/ Cap and Trade</td>
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<tr>
<td></td>
<td>Department of General Services</td>
<td>Water Conservation at State Facilities</td>
<td>$23.4</td>
<td>General Fund/ Special Funds</td>
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<td>Emergency Response</td>
<td>Department of Forestry and Fire Protection**</td>
<td>Enhanced Fire Protection</td>
<td>$61.8</td>
<td>General Fund</td>
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<td>Office of Emergency Services</td>
<td>California Disaster Assistance Act</td>
<td>$22.2</td>
<td>General Fund</td>
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<td>Department of Water Resources</td>
<td>Removal of Emergency Salinity Barriers in the Delta</td>
<td>$22.0</td>
<td>General Fund</td>
</tr>
<tr>
<td></td>
<td>Department of Community Services and Development</td>
<td>Farmworker Assistance</td>
<td>$7.5</td>
<td>General Fund</td>
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<tr>
<td></td>
<td>Department of Housing and Community Development</td>
<td>Rental Relocation Assistance</td>
<td>$6.0</td>
<td>General Fund</td>
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<tr>
<td></td>
<td>Water Board</td>
<td>Executive Order Implementation</td>
<td>$1.4</td>
<td>General Fund</td>
</tr>
</tbody>
</table>

Total $2,175

* Amounts include funding proposed in Governor’s Budget and additional funding in May Revision.
** Proposed in the Governor's Budget
1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

4. Chair’s report.
   4-A Directors’ comments.

I. CONSENT CALENDAR
   1. Resolution for the Final Mitigated Negative Declaration for the Application of Copper-Based Algaecides at five reservoirs in San Diego County; adopting a Mitigation Monitoring and Reporting Program; approving the project; and authorizing Filing of a Notice of Determination.

   Staff Recommendation: It is recommended the Board adopt Resolution No. 2015-___ (attached) that:
   a) Finds that the project will not have a significant effect on the environment.
   b) Adopts the Final Mitigated Negative Declaration (MND).
   c) Adopts the Mitigation Monitoring and Reporting Program.
   d) Approves the Project.
   e) Authorizes filing of a Notice of Determination (NOD). (Action)

II. ACTION/DISCUSSION
   1. Update on Water Supply Conditions and Drought Response Activities.

(Discussion)
2. **Amend the memorandum of understanding with city of San Diego (City) and county of San Diego (County) for implementation of Integrated Regional Water Management activities.**

   **Staff Recommendation:** Approve the first amendment to the memorandum of understanding (MOU) with the city of San Diego and county of San Diego to extend the MOU term and maintain the financial commitment of the three agencies to the IRWM Program. (Action)

   Mark Stadler

### III. INFORMATION

1. **Presentation by San Diego Association of Governments on Draft San Diego Forward: The Regional Plan**
   Charles “Muggs” Stoll, Director of Land Use & Transportation

2. **Report on Adoption of Ocean Plan Amendment for Desalination.**
   Bob Yamada

3. **Water Resources Report.**
   Dana Friehauf

### IV. CLOSED SESSION

### V. ADJOURNMENT

Melinda Cogle
Clerk of the Board

**NOTE:** This meeting is called as a Water Planning Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
May 20, 2015

Attention: Water Planning Committee

Resolution for the Final Mitigated Negative Declaration for the Application of Copper-Based Algaecides at Five Reservoirs in San Diego County; adopting a Mitigation Monitoring and Reporting Program; approving the project; and authorizing Filing of a Notice of Determination. (Action)

Staff recommendation
It is recommended the Board adopt Resolution No. 2015-__ (attached) that:

a) Finds that the project will not have a significant effect on the environment.
b) Adopts the Final Mitigated Negative Declaration (MND).
c) Adopts the Mitigation Monitoring and Reporting Program.
d) Approves the Project.
e) Authorizes filing a Notice of Determination (NOD).

Alternatives
1) Do not adopt the recommended actions and direct staff to revise and recirculate the environmental compliance documents to include changes as directed by the Board.
2) Do not adopt the recommended actions and do not implement the Application of Copper-Based Algaecides at Five Reservoirs in San Diego County project.

Fiscal Impact
There is no fiscal impact.

Background
The San Diego County Water Authority, Helix Water District, City of Poway Public Works Department, Santa Fe Irrigation District, and Sweetwater Authority have identified the need to occasionally apply copper-based algaecides to their respective surface water reservoirs to control algae blooms. Algae blooms can lead to degradation of drinking water quality through presence of taste and odor compounds and production of algal toxins, and can clog filters in water treatment plants. Copper-based algaecide application is authorized by the State Water Resources Control Board under a statewide General Permit, Water Quality Order No. 2013-0002-DWQ (as amended by Order No. 2014-0078-DWQ). All five agencies have individually prepared an Aquatic Pesticide Application Plan (APAP) and submitted a Notice of Intent to the State Board to initiate the permit process.

The CEQA “project” addressed in this MND is the application of copper-based algaecides at each of the reservoirs, as implemented by the respective agencies, which may include periodic exceedances of the limitations stated in the General Permit. The Water Authority is the lead agency for CEQA administrative purposes, but does not have discretionary authority over project activities at the other reservoirs; the other four agencies’ decision-making bodies, as Responsible Agencies under CEQA, will separately consider adopting the MND and implementing the project and the mitigation program identified specific to their activities. Aside from this
combined MND, each participating agency will be individually responsible for complying with the terms and conditions specified by the State Board.

Discussion
The MND provides an analysis of the occasional application of copper-based algaeicides at the following reservoirs to control and prevent degradation of water quality resulting from algae blooms:

- Olivenhain Reservoir (Water Authority)
- Lake Jennings (HWD)
- Lake Poway (Poway)
- San Dieguito Reservoir (SFID)
- Sweetwater Reservoir (Sweetwater)

The MND identified potentially significant impacts with respect to Hazards and Hazardous Materials, and Hydrology and Water Quality. Also identified are mitigations measures that have been incorporated into the project to either avoid the project’s impacts or reduce them to a less-than-significant levels.

The public review period for the Draft MND extended from March 12, 2015 to April 13, 2015. The Draft MND was circulated to the Governor’s Office of Planning and Research, State Clearinghouse along with the required Notice of Completion (NOC). Copies of the Draft MND were also sent to responsible and trustee agencies, as well as other interested agencies, organizations, and individuals. The Draft MND was also posted on the Water Authority’s website. A public hearing on the Draft MND was held March 26, 2015, at which no speakers were present. One written comment letter was received questioning the selection and use of copper sulfate; responses are included in the Final MND.

The Final MND is comprised of the Draft MND, Comment letters and Responses to Comments, and the Mitigation Monitoring and Reporting Program (MMRP). It also includes revisions to clarify and correct the Draft MND, where necessary. No new significant information has been presented in the Final MND that would require recirculation of the Draft MND pursuant to Section 15073.5(a) of the CEQA Guidelines. The Final MND is available for inspection at www.sdcwa.org/environmental-impact-reports-and-mitigated-negative-declarations

The Board, as Lead Agency, needs to consider adoption of the attached Resolution that contains certain findings regarding environmental effects of the project. The Resolution also approves the project and authorizes the filing of a NOD. The CEQA process will be complete when staff files a NOD indicating adoption of the Final MND and approval of the project.

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

Attachment:   Resolution No. 2015-_______ adopting the Final Mitigated Negative Declaration for the Application of Copper-Based Algaecides at Five Reservoirs in San Diego County.
RESOLUTION NO. 2015-______

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY ADOPTING THE FINAL MITIGATED NEGATIVE DECLARATION FOR APPLICATION OF COPPER-BASED ALGAECIDES AT FIVE RESERVOIRS IN SAN DIEGO COUNTY; ADOPTING A MITIGATION MONITORING AND REPORTING PROGRAM; APPROVING THE PROJECT; AND AUTHORIZING FILING OF A NOTICE OF DETERMINATION.

WHEREAS, pursuant to the California Environmental Quality Act (CEQA), the State CEQA Guidelines, and the San Diego County Water Authority (Water Authority) Procedures Implementing the California Environmental Quality Act, an Initial Study was prepared regarding the Application of Copper-Based Algaecides at Five Reservoirs in San Diego County project; and

WHEREAS, as the result of the Initial Study, a Mitigated Negative Declaration was prepared for public review and consideration by the Board; and

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

WHEREAS, a draft of the Mitigated Negative Declaration was made available for a minimum 30-day public review period commencing on March 12, 2015, and ending on April 13, 2015, notice was published at least one time in a newspaper of general circulation as to the availability of the draft Mitigated Negative Declaration, and of a scheduled public hearing to receive public comments, and copies were distributed to the Governor’s Office of Planning and Research, State Clearinghouse along with the required Notice of Completion, and to responsible and trustee agencies, as well as other interested agencies, organizations, and individuals; and

WHEREAS, after review of all written comments and preparation of responses thereto, the Final Mitigated Negative Declaration was presented to the Board of Directors on May 28, 2015, as having been completed in compliance with CEQA and the State CEQA Guidelines; and

WHEREAS, having heard and considered the evidence, and being fully advised regarding the environmental consequences of the project, it is in the interest of the Water Authority and the people it serves to approve the Final Mitigated Negative Declaration, to make findings regarding the environmental effects of the project, to approve a Mitigation Monitoring and Reporting Program, and to approve the project.
NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority resolves:

1. That the foregoing recitals are true and correct.

2. That the Board, as the lead agency under CEQA, hereby finds that the Final Mitigated Negative Declaration has been completed in compliance with the California Environmental Quality Act, that the Final Mitigated Negative Declaration has been presented to the Board and reflects the independent judgment of the Board, that the Board adopt the Final Mitigated Negative Declaration, and that the Board has reviewed and considered the information contained therein prior to approving the project.

3. That all mitigation measures identified in the Final Mitigated Negative Declaration are hereby made conditions of approval of the project, that the Board approves the Mitigation Monitoring and Reporting Program, and that the General Manager or her designated representative be assigned the task of implementing the Mitigation Monitoring and Reporting Program.

4. That the Board, having reviewed and considered the information contained in the Initial Study, Final Mitigated Negative Declaration, and all pertinent documents, records, and comments, finds that measures have been incorporated into the project which mitigate or avoid significant environmental effects thereof; that the project will not have a significant effect on the environment and involves no potential for any adverse effect, either individually or cumulative, on wildlife resources, that it cannot be fairly argued on the basis of substantial evidence that the proposed project may have a significant effect on the environment, and that there is no serious public controversy concerning the environmental effect on the proposal.

5. That the Board approves the Application of Copper-Based Algaecides at Five Reservoirs in San Diego County project.

6. That the General Manager be authorized and is directed to file a Notice of Determination as provided in Section 15075 of the State CEQA Guidelines.
PASSED, APPROVED AND ADOPTED, this 28th day of May 2015, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

____________________________
Mark Weston, Chair

ATTEST:

__________________________________
Jim Madaffer, Secretary

I, Melinda Cogle, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2015- was duly adopted at the meeting of the Board of Directors on the date stated above.

__________________________________
Melinda Cogle, Clerk of the Board
May 20, 2015

Attention: Water Planning Committee

Update on water supply conditions and drought response activities. (Information)

Purpose
To monitor water supply, demand and storage conditions, and to provide an update on drought management activities in accordance with the Water Authority’s Water Shortage and Drought Response Plan.

Background
California is experiencing its fourth consecutive dry year, with the current water year considered critically dry. On May 5, 2015, the State Water Resources Control Board (SWRCB) adopted a final emergency regulation for statewide urban water conservation. The regulation requires an immediate 25 percent reduction in overall potable urban water use statewide in accordance with the Governor’s April 1, 2015 Executive Order, and was approved by the Office of Administrative Law on May 18, 2015. The SWRCB expects the regulations to become effective June 1, 2015. Urban water agencies will have 45 days after the regulations go into effect to adopt any necessary revisions to their ordinances to comply.

On April 14, 2015, the Metropolitan Water District (MWD) Board approved implementation of the Water Supply Allocation Plan (WSAP) Level 3 Regional Shortage Level, effective July 1, 2015, through June 30, 2016. A Level 3 equates to a 15 percent supply cutback of MWD supplies to the Water Authority.

In response to supply cutbacks from the Metropolitan Water District in fiscal year 2016 and the SWRCB Emergency Regulation for statewide urban water conservation, the Water Authority Board, at its May 14, 2015 meeting:

- Declared the Mandatory Supply Cutback Stage of the Water Authority’s Water Shortage and Drought Response Plan
- Adopted Ordinance No. 2015-02
  - Approves member agency municipal and industrial (M&I) and Transitional Special Agricultural Water Rate (TSAWR) supply allocations for fiscal year 2016
  - Restricts irrigation of ornamental landscapes and turf with potable water to no more than two days a week across the region
  - Sets penalties for local agencies that exceed their supply allocations
- Directed staff to investigate the potential of a regional demand offset framework for drought periods in coordination with the member agencies

Discussion
State Water Project (SWP)
Snow water content in the northern Sierra was at a record low level of five percent of average for April 1, the date which usually marks the maximum accumulation of snow pack before it begins to
melt. As of May 18, 2015, the northern California snow water equivalent was only two percent of normal. These low figures reflect California’s below average precipitation and the warming trend that made this winter the warmest in the state’s recorded history. What precipitation there was fell mostly as rain due to warmer temperatures. According to the Department of Water Resources (DWR), under normal conditions, California’s snowpack supplies about 30 percent of the state’s water needs as it melts in the spring and summer. The current State Water Project (SWP) allocation is at 20 percent of the contractors’ requested deliveries.

Precipitation at the Northern Sierra 8-station index measured 34.6 inches, or 74 percent of seasonal average to date. The Department of Water Resources’ forecast (May 1, 2015) for average statewide runoff is 40 percent of average for water year 2015. While storage levels have improved since last year, key reservoir storage on the State Water Project remains below average, as shown in Table 1.

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Storage in MAF</th>
<th>Percent of Capacity</th>
<th>Percent of Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oroville</td>
<td>1.64</td>
<td>46%</td>
<td>56%</td>
</tr>
<tr>
<td>San Luis*</td>
<td>1.17</td>
<td>57%</td>
<td>68%</td>
</tr>
<tr>
<td>Combined</td>
<td>2.81</td>
<td>50%</td>
<td>60%</td>
</tr>
</tbody>
</table>

*San Luis storage includes SWP and Central Valley Project. SWP share in San Luis was approximately 896 TAF.

**Colorado River**

On the Upper Colorado River Basin, precipitation for water year 2015 through May 11, 2015 is approximately 79 percent of average, and the basin snowpack is at 55 percent of average. The Bureau of Reclamation’s forecast (May 4, 2015) for unregulated inflow into Lake Powell is 59 percent of average for water year 2015. With 12 out of 16 years dry on the Colorado River Basin, reservoir storage in Lake Mead and Lake Powell remains low, as shown in Table 2. Taking into account current conditions, a shortage declaration is not expected on the Colorado River for 2015. According to the Bureau of Reclamation, there is however a 33 percent probability of a shortage declaration in 2016.

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Storage in MAF</th>
<th>Percent of Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Powell</td>
<td>10.9</td>
<td>45%</td>
</tr>
<tr>
<td>Lake Mead</td>
<td>9.8</td>
<td>38%</td>
</tr>
<tr>
<td>Combined</td>
<td>20.7</td>
<td>41%</td>
</tr>
</tbody>
</table>

**Local Supply and Demand Conditions**

Locally, precipitation in San Diego County for water year 2015 remains below average. Following above average precipitation in December, dry conditions returned in January and February. Some relief was provided by a storm system in early March, and storm systems to date in May have produced record rainfall at Lindbergh Field for the month (2.35 inches to date...
for May compared to an average of 0.08 inches. Accumulated total precipitation for two stations in San Diego County is shown in Table 3.

<table>
<thead>
<tr>
<th>Station</th>
<th>Inches</th>
<th>Percent Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lindberg Field</td>
<td>8.87</td>
<td>88%</td>
</tr>
<tr>
<td>Ramona Airport</td>
<td>9.24</td>
<td>60%</td>
</tr>
</tbody>
</table>

Total local reservoir storage on May 18, 2015 was approximately 244,858 AF (42 percent of capacity). This does not account for “dead storage,” capacity that is physically inaccessible, or for agency operating or emergency storage policies, which would impact the availability of stored supplies. The Water Authority’s Semitropic groundwater storage bank has 16,100 AF in storage.

**Total Potable Water Use**

Figure 1 shows a comparison of Water Authority member agencies’ total monthly water use, excluding recycled water use, for FY 2014 and FY 2015. Member agencies’ total potable use in April 2015 was approximately 42,433 AF. This represents a four percent decrease from the same period a year ago. As shown in Figure 2, the average daily maximum temperature in April 2015 was 4.4 degrees above normal, compared with 4.1 degrees above normal in April 2014. Temperatures have been above normal in San Diego for 18 months straight, since November 2013.
Outlook

The National Weather Service’s Climate Prediction Center (CPC) has predicted above average temperatures through July for the western states, based on its most recent forecast. The outlook for precipitation for the same time period shows all of California under the “equal chance” category, meaning there is not a strong enough climate signal at this time to make a prediction.

Scientists from the National Weather Service’s Climate Prediction Center have recently stated that El Niño conditions that were first identified in March are strengthening and have intensified from “weak” in April to “weak-to-moderate” in May. There is an 80 percent or greater chance that El Niño conditions will persist through the latter part of the year, up from more than 60 percent in April’s forecast. It is still too soon to know whether El Niño conditions will last into California’s next rainy season.

Staff will continue to closely track hydrologic conditions, and will monitor and regularly report to the Board on supply, demand and storage levels.

Prepared by:  Alexi Schnell, Water Resources Specialist
Reviewed by:  Ken Weinberg, Director of Water Resources
May 20, 2015

Attention: Water Planning Committee

Amend the memorandum of understanding with the city of San Diego (City) and county of San Diego (County) for implementation of Integrated Regional Water Management activities. (Action)

Staff recommendation
Approve the first amendment to the memorandum of understanding (MOU) with the city of San Diego and county of San Diego to extend the MOU term and maintain the financial commitment of the three agencies to the IRWM Program.

Alternative
Do not approve the first amendment to the MOU with the City and the County; recommend changes to the amendment that staff should make prior to returning this item to the Board for further consideration.

Fiscal Impact
Funding will depend on Board approval of proposed Operating Budgets, beginning in Fiscal Year 2016. There are sufficient funds in the Water Resources Fiscal Years 2016 and 2017 Operating Budget to support the Water Authority’s one-third share of the cost commitment established in the MOU. The related rate category is Customer Service.

Background
In 2005, the Board approved the Water Authority’s entrance into an MOU with the City and the to form a Regional Water Management Group (RWMG), write the first San Diego IRWM Plan and apply for IRWM implementation grant funding offered by the state. The RWMG agencies wrote additional MOUs in 2008 and 2011, each of which was approved by the Board and superseded its predecessor. Each MOU committed the three partners to provide funding to hire a consultant to assist in achieving the IRWM Program goals.

Under these MOUs, the Water Authority, the City and the County have spent $2,089,535 since FY 2005 to carry out IRWM activities and achieve program objectives. The one-third share contributed by each agency to date is $696,511.

With the funding that has been provided by the RWMG agencies, the San Diego IRWM Program has achieved a number of important accomplishments. DWR has awarded the San Diego IRWM Program four implementation grants worth $58.3 million and a $1 million planning grant. These funds are supporting 43 water management projects throughout the Region; the planning grant helped to pay for the update of the 2007 IRWM Plan.

The grant funding is supporting development of approximately 80,900 acre-feet per year in local supplies; given that the projects are on different development cycles, the total water generated each year will vary throughout the life of each project. The funded projects also are assisting the Water Authority in achieving its water supply goals for conservation, recycled water, seawater
Water Planning Committee  
May 20, 2015  
Page 2 of 3

desalination, local surface water and groundwater. Three percent of the grant funds go to the Water Authority to cover the cost of administering the grants.

The first San Diego IRWM Plan was adopted by the Water Authority Board in October 2007. In 2009, the program successfully gained acceptance of the plan by DWR, a necessary step to remain eligible for future grant awards. In 2011, the RWMG and RAC began a two-year process that culminated in a comprehensive update of the 2007 Plan. DWR approved the new and improved 2013 Plan in 2014; again, this step was necessary to maintain the San Diego Region’s eligibility to receive state grant funding.

The funding also has supported the ongoing activities of the RWMG and the RAC, including an interactive public outreach effort that gathers input from a wide range of stakeholders. In addition, the program joined with the other two planning regions in the San Diego Funding Area – the Upper Santa Margarita and South Orange County RWMGs – to develop the 2009 Tri-County MOU, which declares that the three RWMGs will work closely together to improve the reliability and quality of water supplies in the funding area. The Tri-County MOU also divides the total Proposition 84 IRWM funding available to the San Diego Funding Area using a mutually acceptable formula; the San Diego RWMG will receive 78 percent of the available funding under the formula.

**Previous Board Actions**

- In September 2011, the Board authorized the Water Authority to enter into an MOU with the City of San Diego and the County to conduct IRWM-related activities.
- In July 2010, the Board approved an amendment to the San Diego IRWM MOU.
- In August 2009, the Board approved an amendment to the San Diego IRWM MOU.
- In March 2009, the Board approved the Tri-County MOU.
- In December 2008, the Board approved a new San Diego IRWM MOU between the Water Authority, the City of San Diego and the County to continue conducting IRWM-related activities.
- In February 2007, the Board approved an amendment to the San Diego IRWM MOU.
- In March 2005, the Board authorized the Water Authority to enter into an MOU with the City of San Diego and the County to conduct IRWM-related activities.

**Discussion**

The three RWMG partners have drafted an amendment to the existing RWMG MOU (attachment). This agreement, approved by the Board in 2011, reaffirms that the Water Authority, the City and the County are equal partners in the development and submission of IRWM grant applications and in updates to the IRWM Plan. It notes that the Water Authority remains the RWMG lead agency for purposes of contracting with DWR and administering IRWM grant agreements. The MOU reiterates that the RWMG governing bodies will give primary consideration to the RAC’s recommendations regarding important IRWM decisions such as updates to the IRWM Plan, criteria for prioritizing projects for funding opportunities and approval and submittal of IRWM grant applications. Under the 2011 MOU, the three RWMG agencies agreed to provide equal shares of an amount not-to-exceed $1.47 million through FY 2016. This funding has been used to obtain consultant support for the plan update, grant applications, RWMG and RAC activities and outreach and education activities.
The proposed amendment to the 2011 RWMG MOU extends the agreement through June 2019 and commits the three RWMG agencies to provide equal shares of an amount that will not exceed $1,258,275, or up to $419,425 per partner. This amount equals the projected cost of a consultant that will assist in running the program, including new grant applications, over the life of the MOU. Staff anticipates that the Region is in line for approximately $31 million more from DWR’s Proposition 84 grant program and approximately $38 million from the Proposition 1 grant program.

The proposed amendment is necessary at this time, as opposed to waiting for the existing MOU to expire in 2016, because of unforeseen expenses that will exceed the funding authorized by the MOU now in place. The unexpected cost was caused primarily by DWR’s decision to move up a large grant program to FY 2015 and 2016, rather than in FY 2017. Staff expects the grant program to result in an additional $31 million in IRWM funding for the San Diego Region. Approval of the amendment is essential because it authorizes additional funding that will enable the RWMG to obtain consultant services necessary to apply for and receive grant funding, implement provisions of the 2013 IRWM Plan, support the RAC and carry out outreach and education activities.

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

Attachment:
First Amendment to Memorandum of Understanding Between the city of San Diego, county of San Diego and the San Diego County Water Authority for the Integrated Regional Water Management Grant Program for Fiscal Years 2012-2016 (includes Memorandum of Understanding Between the city of San Diego, county of San Diego and the San Diego County Water Authority for the Integrated Regional Water Management Grant Program for Fiscal Years 2012-2016)
First Amendment to Memorandum of Understanding
Between City of San Diego, County of San Diego and San Diego County Water Authority
for the Integrated Regional Water Management Program
for Fiscal Years 2012-2016

The Memorandum of Understanding that was executed on September 21, 2011 among the City of San Diego, County of San Diego and San Diego County Water Authority establishing the respective roles of the City, County and Water Authority regarding the San Diego Integrated Regional Water Management Grant Program is hereby amended as follows:

1. Recitals:
   a. Add new Recital 4 as follows:

   In November 2014, Proposition 1 (Assembly Bill 1471), the Water Quality, Supply, and Infrastructure Improvement Act (Chapter 188, Stats of 2014), authorized the Legislature to appropriate funding for competitive grants for IRWM programs.

   b. Amend Recital 9 as follows:

   The Parties, acting with support and positive recommendations from the RAC, completed the first San Diego IRWM Plan in 2007. Subsequently, the Parties revised and updated the Plan in 2013, again with support and positive recommendations from the RAC. The Parties have received funding for planning and implementation of projects from the California Department of Water Resources (DWR). Additional funding is available to the San Diego IRWM Program from Proposition 84 and Proposition 1, approved by California voters in 2006 and 2014, respectively.

   c. Amend Recital 10 as follows:

   To qualify for IRWM funding from Proposition 84 or Proposition 1, a planning region must have an IRWM Plan that complies with the requirements of California Water Code Section 10530.

   d. Amend Recitals 4-12 as Recitals 5-13.

2. Amend Section 5 (A), Funding, as follows:

   a. Funding for the period between April 1, 2015 and June 30, 2019 shall not exceed $1,258,275. Each Party shall provide an equal share of this funding in an amount not to exceed $419,425.

3. Amend Section 9, Term, as follows:

   The term of this MOU shall begin on the date of execution and expire on June 30, 2019 expressly contingent upon funding by Water Authority, City and County. The term may be extended by written agreement of all Parties. The Parties shall continue to participate in the planning, development and coordination of the Plan and Grants to the maximum extent possible. The Parties agree to notify one another in the event that their agency’s future budget...
appropriations impact Program funding continuity. If appropriations are different than anticipated, the MOU and Program funding shall be adjusted based on actual funding.

4. Amend Section 10, Notice, as follows:

City of San Diego Public Utilities Department
525 B St., Suite 300
San Diego, CA 92101
Attn: Goldamer Herbon

County of San Diego Watershed Protection Program
5510 Overland Ave., Suite 410
San Diego, CA 92123
Attn: Stephanie Gaines

This First Amendment to the MOU may be signed in counterpart by the Parties.

All other terms, covenants, and conditions in the original MOU as amended shall remain in full force and effect and shall be applicable to this amendment.

The individuals executing this amendment to the MOU represent and warrant that they have the legal capacity and authority to do so on behalf of their respective legal entities.
San Diego County
Water Authority

By: __________________________
   Ken Weinberg
   Director of Water Resources

City of San Diego

By: _________________________
   Stacey LoMedico
   Assistant Chief Operating Officer

County of San Diego

By: _________________________
   John M. Pellegrino, Director
   Department of Purchasing and Contracting

APPROVED AS TO FORM:

San Diego County
Water Authority

By: _________________________
   General Counsel
   San Diego County Water Authority

City of San Diego

By: _________________________
   Raymond C. Palmucci
   Deputy City Attorney

County of San Diego

By: _________________________
   Norman T. Deak
   County Council, Senior Deputy

Date: _________________________
This Memorandum of Understanding (MOU) between the San Diego County Water Authority (Water Authority); the City of San Diego, a municipal agency (City); and the County of San Diego, a political subdivision of the State of California (County), sets forth the respective roles of Water Authority, City and County in regard to the Integrated Regional Water Management (IRWM) Plan and Program. Water Authority, City and County are sometimes referred to in this MOU collectively as the “Parties” and individually as “Party.”

This MOU replaces the Memorandum of Understanding (March 25, 2009), as amended, between City, County, and Water Authority for Fiscal Years 2009-2013 for the IRWM Grant Program.

RECITALS:

1. The California Legislature enacted SBX2 1 (Perata, Chapter 1 Statutes of 2008), the Integrated Regional Water Management Planning Act, which repealed and re-enacted Part 2.2 of Division 6 of the Water Code relating to integrated regional water management plans. SBX2 1 provides that a regional water management group may prepare and adopt an integrated regional water management (IRWM) plan.

2. In November 2002, Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act, authorized the Legislature to appropriate funding for competitive grants for IRWM projects.

3. In November 2006, Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act, authorized the Legislature to appropriate funding for competitive grants for IRWM projects.

4. The intent of the IRWM Grant Program (Program) established in accordance with Proposition 50 and SBX2 1, is to encourage integrated regional strategies for management of water resources and to provide funding, through competitive grants, for projects that protect communities from drought, protect and improve water quality, promote environmental stewardship, and improve local water security by reducing dependence on imported water.

5. To qualify as a regional water management group (RWMG) and comply with the Program Guidelines (Guidelines) established under Proposition 50 and SBX2 1, at least three agencies must participate in the group; two of the agencies must have statutory authority over water management that may include water supply, water quality, flood control, or stormwater management.
6. In 2005, the Parties established an RWMG that consists of Water Authority, which has statutory authority over water management; City, which has statutory authority over water management, water quality, wastewater, flood management and stormwater; and County, which has statutory authority over water quality, stormwater and flood control in the unincorporated area.

7. The Parties understand that only through a collaborative effort with the many stakeholders involved in water management planning can the IRWM Plan process be successful in the San Diego region.

8. As part of the public outreach and stakeholder involvement effort, the Parties established the Regional Advisory Committee (RAC), which comprises up to 32 representatives appointed by the Parties from the water management areas of water supply, water quality and natural resources/watersheds management; and representatives of businesses, academia and tribes, as well as other interested members of the public. The purpose of the RAC is to make recommendations to the Parties on key issues related to IRWM planning and grant applications.

9. The Parties, acting with positive recommendations from the RAC, completed the first San Diego IRWM Plan (Plan) in 2007. Subsequently, the Parties have received funding for planning and implementation of projects from the California Department of Water Resources (DWR). Additional funding is available to the San Diego IRWM Program from Proposition 84, approved by California voters in 2006.

10. To qualify for Proposition 84 IRWM funding, a planning region must have an IRWM Plan that complies with the requirements of California Water Code Section 83002(b)(3)(B), or must have committed to bringing its plan into compliance within two years of receiving such funding.

11. A Local Project Sponsor (LPS) is a proponent of an individual project that will be funded as part of an IRWM Program grant from the State or other future funding agencies. An LPS may be Water Authority, County, City, a Water Authority member agency, a municipality, a local agency or a non-profit organization.

12. This MOU consists of five major components: general grant obligations, San Diego IRWM Plan update, IRWM grant administration, the role of the RAC, and funding for IRWM Program management.

Now, therefore, in consideration of the above incorporated recitals and mutual obligations of the Parties herein expressed, the Parties agree as follows:

1. **General Grant Obligations**

   a. The Parties are equal partners in the development and submission of IRWM grant applications. All Parties shall provide timely reviews and approvals before grant applications are submitted.

   b. Water Authority shall submit the grant applications to the funding agency on behalf of the Parties.
c. To expedite the grant application process, Water Authority shall provide initial funding for a consultant to develop the applications. The total cost of the consultant and applications shall be shared by the parties consistent with Section 5 of this MOU.

d. The funding commitment by the Parties under Section 5 of this MOU assumes that the Parties will continue to pay or provide in-kind services as allowed for the entire cost of grant applications for the IRWM Program. As part of the IRWM Plan Update described in Section 2 of this MOU, the Parties agree to study the concept of obtaining funding from other sources to fully or partially defray the cost of grant applications.

e. Water Authority shall be responsible for administering funding for projects that are receiving IRWM Program grant funding with respect to submitting invoices and quarterly reports to the funding agency, distributing funding to LPS, and processing contract amendments as applicable.

f. The Parties shall share equally in any and all contractual liability, regardless of nature or type, which arises out of or results from a LPS’s performance of services under its agreement with the Water Authority. The Parties shall share equally in any of the default provisions listed in the grant agreements received by the Parties. The Water Authority also agrees to pursue contractual remedies.

g. Each Party shall procure and maintain during the period of this MOU insurance from insurance companies admitted to do business in the State of California or shall self-insure to cover any contractual liability resulting from the conditions referenced in Section 1f.

2. San Diego IRWM Plan Update

a. The Parties are equal partners in the update of the Plan. Water Authority shall contract with a consultant to update the Plan in compliance with the Guidelines and schedule established by DWR, and submit the updated Plan to DWR.

b. The update of the Plan shall be contingent upon receipt of grant funding for this purpose.

3. IRWM Grant Contracts Administration

a. The Water Authority shall administer and manage IRWM grant agreements, administer the LPS contracts, develop and maintain a reporting and invoicing program, and communicate project and agreement progress to the RWMG, RAC, and the funding agency.

b. An LPS that has satisfied all invoicing requirements for a grant shall invoice the Water Authority, which shall in turn invoice the funding agency. The Water Authority shall, within 45 days of receipt of funds from the funding agency, disburse the funds to the LPS.

c. The Water Authority shall appropriate a percentage of the grant money allocated to each LPS project to fund administration of the IRWM grants. The Parties shall agree mutually to the percentage of the grant money that is to be appropriated for this purpose. To the extent that
costs exceed the amount in this fund, and that the Parties mutually agree to the additional cost, the Parties shall equally share the additional costs in accordance with Section 5a.

d. Where a labor compliance requirement has been established by the granting agency, Authority shall report to the granting agency the compliance status of LPS, as reported by LPS, with applicable public works laws.

4. **Role of Regional Advisory Committee (RAC)**

   The RAC shall be considered the project advisory committee. The Parties are committed to a cooperative relationship with the RAC and will incorporate the RAC’s consensus recommendations in documents prepared for presentations to the Parties’ governing bodies. The Parties’ governing bodies will give primary consideration to the recommendations of the RAC as part of any decision related to the following:

   a. Adoption of updates to the IRWM Plan for the San Diego Region.

   b. Criteria for prioritizing projects to be submitted for IRWM grant programs.

   c. Reevaluation of all projects submitted for grant funding if a funding agency funds the Program at a level lower than the requested grant amount and does not provide direction on which projects to fund. Parties shall fund the projects based on consultation with the RAC and the criteria for project prioritization (Section 4b).

   d. Approval and submittal of grant applications.

   e. Transition of responsibility for implementation of the IRWM Plan to a new institutional structure.

5. **Funding**

   a. Funding for FY 2012-2016 shall not exceed $1,470,000. Each Party shall provide an equal share of this funding in an amount not to exceed $490,000. If a Party’s contribution was not totally expended in the MOU (March 25, 2009), as amended, that Party shall be credited for the unexpended amount in this MOU.

   b. In-kind services provided by the Parties shall be considered in excess of the above funding amounts and are not reimbursable. The Parties’ staff shall separately document time spent on in-kind services for IRWM planning, administration and grant applications.

   c. The funding commitment described in 5a shall not include expenditures to administer the IRWM Grant Program.

   d. Water Authority shall invoice City and County on a quarterly basis along with supporting documentation of expenses. City and County shall remit payment within 60 days of receipt of invoice.
6. Assignment

Parties shall not assign or transfer this MOU or any rights under or interest in this MOU without written consent of all other Parties, which may be withheld for any reason.

7. Defense and Indemnity

Water Authority, City, and County each agree to mutually indemnify, defend at its own expense, including attorneys' fees, and hold each other harmless from and against all claims, costs, penalties, causes of action, demands, losses and liability of any nature whatsoever, including but not limited to liability for bodily injury, sickness, disease or death, property damage (including loss of use) or violation of law, caused by or arising out of or related to any negligent act, error or omission of that party, its officers or employees, or any other agent acting pursuant to its control and performing under this Agreement.

Nothing in the foregoing shall be construed to require any Party to indemnify another for any claim arising from the sole negligence or willful act of the Party to be indemnified.

8. Document Review

Water Authority, City and County each shall make available for inspection to the other Parties, upon reasonable advance notice, all records, books and other documents relating to the Plan and the Program, unless privileged.

9. Term

The term of this MOU shall begin on the date of execution by all Parties and expire on June 30, 2016 expressly contingent upon funding by Water Authority, City and County. The term may be extended by written agreement of all Parties. The Parties shall continue to participate in the planning, development and coordination of the Plan and Grants to the maximum extent possible. The Parties agree to notify one another in the event that their agency’s future budget appropriations impact Program funding continuity. If appropriations are different than anticipated, the MOU and Program funding shall be adjusted based on actual funding.

10. Notice

Any notice, payment, credit or instrument required or permitted to be given hereunder will be deemed received upon personal delivery or 24 hours after deposit in any United States mail depository, first class postage prepaid, and addressed to the Party for whom intended as follows:

If to the Water Authority: San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
Attn: Mark Stadler
Any Party may change such address or contact by notice given to the other Parties as provided herein.

11. Amendments

The MOU may be amended by written agreement of all Parties.

12. Severability

The partial invalidity of one or more parts of this MOU will not affect the intent or validity of this MOU.

13. Governing Law

This MOU shall be deemed a contract under the laws of the State of California and for all purposes shall be interpreted in accordance with such laws. Any action brought shall be in San Diego County, California.

14. Obligations

Nothing in this agreement shall create additional obligations with respect to the Plan or Program.

15. Termination of MOU

This MOU may be terminated by any Party with or without cause 30 days after notice in writing to the other Parties.

16. Signatures

The individuals executing this MOU represent and warrant that they have the legal capacity and authority to do so on behalf of their respective legal entities.

IN WITNESS WHEREOF, the Parties have executed this MOU as of the date below.
San Diego County
Water Authority

By: _________________________
    Ken Weinberg
    Director of Water Resources

City of San Diego

By: _________________________
    W. Downs Prior
    Principal Contract Specialist
    Purchasing and Contracting Department

County of San Diego

By: _________________________
    Richard Crompton
    Department of Public Works

By: _________________________
    Winston F. McColl, Director
    Department of Purchasing and Contracting
APPROVED AS TO FORM:

San Diego County Water Authority          City of San Diego

By: __________________________  By: ___________________________
   General Counsel                     Raymond C. Palmucci
   San Diego County Water Authority    Deputy City Attorney

County of San Diego

By: __________________________
   James O’Day
   County Council, Senior Deputy

Date: __________________________
May 20, 2015

Attention: Water Planning Committee

Adoption of Ocean Plan Amendment for Desalination (Information)

Purpose
This report provides updated information on the adoption of an amendment to the California Ocean Plan, by the State Water Resources Control Board, that will regulate ocean desalination facility intakes and discharges.

Background
The Ocean Plan establishes water quality objectives for California’s ocean waters and provides the basis for regulation of discharges into the California’s coastal waters. The Ocean Plan is typically implemented through National Pollutant Discharge Elimination System (NPDES) permits issued by the regional water boards for all discharges into ocean waters of the State. Since desalination facilities both draw in ocean water and discharge concentrated seawater (or brine) back to the ocean, they are subject to these regulations. As such, one of the key purposes of the Amendment is to provide statewide guidance and consistency regarding the permitting of desalination facility intakes and discharges.

The process to amend the Ocean Plan started in 2007, was then deferred, and then resumed in 2011. As part of the process, the State Board engaged expert panels to address intake impacts, mitigation and brine discharge impacts. The Water Authority and Poseidon, and CalDesal, along with other coastal water agencies pursuing seawater desalination, participated in multiple stakeholder meetings and public workshops and provided written comments to the State Board throughout the Amendment development process. Water Authority staff and Poseidon representatives also met with State Board staff and Board members on multiple occasions during the development of the Amendment to discuss its potential impact on the Carlsbad Desalination Project (CDP) and the need for the Amendment to recognize site-specific conditions and allow flexibility in how to comply with the new regulations. On May 6, 2015, the State Board adopted the final Amendment.

Even though the CDP intake and discharge is currently fully permitted through the San Diego Regional Board, the adopted Amendment, its regulations and requirements will apply to the CDP for two reasons:

1. The renewal of the project’s existing Regional Board permit (covering both intake and discharge) will require compliance with the Amendment.

2. The CDP will transition to “stand-alone” operations, pending the scheduled shutdown of the Encina Power Station and its associated cooling water flows in 2017. Planned upgrades to the intake system (addressed in the Water Purchase Agreement) will be regulated by the Amendment.
Discussion
On May 6, 2015, after almost six hours of discussion and testimony, the State Water Resources Control Board voted unanimously to adopt the final Ocean Plan Amendment for desalination. In doing so, the State Board’s action put into place some of the most protective desalination regulations in the world.

As discussed at the April 23, 2015 Water Authority Board meeting, the primary focus of the Water Authority’s effort throughout the development of the Ocean Plan Amendment was to ensure that there was a clear path forward for the Carlsbad Desalination Project to comply with the regulations. Over the last several weeks, Water Authority and Poseidon staff have been working with State Board staff to resolve the two outstanding issues discussed at the Water Authority’s April Board meeting, namely the lack of flexibility in determining a brine mixing zone and salinity regulations that readily account for natural variations in Pacific Ocean salinity.

The adopted amendment satisfactorily addresses these issues with language that specifically addresses Carlsbad’s unique brine mixing zone conditions and adds an alternative means to determine natural background salinity that captures the natural variation in the Pacific Ocean.

The final adopted amendment includes language that specifically addresses the Carlsbad project by providing an alternative compliance pathway for flow augmentation, the discharge strategy employed at Carlsbad, that includes the potential use of an “alternative brine mixing zone” that is different in shape, but equal or smaller in footprint to the area that would have been required with another discharge technology such as multiport diffusers.

The final adopted amendment also includes an alternative approach to determining natural background salinity for establishing receiving water limitations for brine discharges that recognizes the natural fluctuations in salinity of the Pacific Ocean. This approach allows for the potential use of a reference location, as long as it is without apparent human influence.

Staff believes that with these final changes incorporated into the final Ocean Plan Amendment that was adopted by the State Board, there is now a clear path forward to achieving a permit renewal for the Carlsbad project. With the regulations now in place, Poseidon plans to proceed with updating the permit for intake and discharge of the Carlsbad plant, in coordination with the schedule for decommissioning of the Encina Power Station.

Prepared by: Robert R. Yamada, Water Resources Manager
Reviewed by: Ken Weinberg, Director of Water Resources
May 20, 2015

Attention: Water Planning Committee

Water Resources Report

Purpose
This report includes the following exhibits for April 2015:

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

<table>
<thead>
<tr>
<th>Station</th>
<th>April 2015</th>
<th></th>
<th>2014-2015 WATER YEAR (October 2014 through September 2015)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Normal</td>
<td>Actual</td>
<td>Normal</td>
</tr>
<tr>
<td>Lindbergh Field (N.O.A.A.)</td>
<td>0.02</td>
<td>0.78</td>
<td>6.52</td>
<td>9.95</td>
</tr>
<tr>
<td>Lake Cuyamaca (Helix W.D.)</td>
<td>1.72</td>
<td>2.67</td>
<td>13.97</td>
<td>30.53</td>
</tr>
<tr>
<td>Lake Henshaw (Vista I.D.)</td>
<td>0.59</td>
<td>1.86</td>
<td>11.92</td>
<td>24.79</td>
</tr>
</tbody>
</table>

Sources: National Weather Service, Helix Water District, Vista Irrigation District.
## MONTHLY WATER RESOURCES REPORT

### Water Deliveries to Member Agencies

**acre-feet**

### APRIL 2015

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>April 2015</th>
<th>April 2014</th>
<th>12 Months Ended April 2015</th>
<th>12 Months Ended April 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>1,419.6</td>
<td>1,472.6</td>
<td>17,594.4</td>
<td>17,619.9</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>82.8</td>
<td>78.2</td>
<td>1,002.3</td>
<td>1,108.5</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>1,810.3</td>
<td>1,905.7</td>
<td>22,425.3</td>
<td>22,909.2</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>1,466.4</td>
<td>1,115.7</td>
<td>13,218.5</td>
<td>12,616.8</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>2,571.2</td>
<td>2,647.8</td>
<td>33,190.2</td>
<td>34,445.8</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>218.0</td>
<td>277.9</td>
<td>3,237.9</td>
<td>3,724.7</td>
</tr>
<tr>
<td>National City, City of</td>
<td>149.6</td>
<td>186.8</td>
<td>3,270.1</td>
<td>2,299.4</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>1,962.7</td>
<td>1,929.5</td>
<td>24,825.8</td>
<td>24,666.8</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>1,702.7</td>
<td>1,737.6</td>
<td>21,436.5</td>
<td>21,668.9</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>2,528.3</td>
<td>2,634.4</td>
<td>32,367.8</td>
<td>32,967.3</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>863.3</td>
<td>907.1</td>
<td>11,275.7</td>
<td>11,934.2</td>
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<tr>
<td>Pendleton Military Reservation</td>
<td>3.8</td>
<td>4.3</td>
<td>55.2</td>
<td>46.3</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>1,257.8</td>
<td>927.0</td>
<td>12,001.0</td>
<td>12,732.2</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>1,960.2</td>
<td>2,130.8</td>
<td>21,891.9</td>
<td>22,585.9</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>373.8</td>
<td>389.7</td>
<td>6,700.1</td>
<td>6,911.7</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>513.0</td>
<td>563.2</td>
<td>6,303.8</td>
<td>7,000.3</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>16,906.5</td>
<td>19,819.8</td>
<td>242,203.9</td>
<td>196,285.2</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>529.8</td>
<td>400.1</td>
<td>6,181.4</td>
<td>5,326.3</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>927.6</td>
<td>835.1</td>
<td>11,102.9</td>
<td>10,501.2</td>
</tr>
<tr>
<td>South Bay I.D.</td>
<td>1,062.7</td>
<td>1,122.6</td>
<td>11,930.1</td>
<td>7,314.3</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>1,282.6</td>
<td>1,377.8</td>
<td>16,651.4</td>
<td>17,733.2</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>2,214.3</td>
<td>2,270.1</td>
<td>28,121.1</td>
<td>29,315.0</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>1,502.0</td>
<td>1,567.0</td>
<td>17,532.9</td>
<td>17,820.2</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>400.6</td>
<td>328.8</td>
<td>4,969.7</td>
<td>4,043.7</td>
</tr>
<tr>
<td>Deliveries To SDCWA Agencies</td>
<td>43,709.6</td>
<td>46,629.6</td>
<td>569,489.9</td>
<td>523,577.0</td>
</tr>
<tr>
<td>Less: Deliveries to SDCWA Storage</td>
<td>1,079.7</td>
<td>3,416.6</td>
<td>43,635.9</td>
<td>10,562.5</td>
</tr>
<tr>
<td><strong>TOTAL MEMBER AGENCY DELIVERIES</strong></td>
<td><strong>42,629.9</strong></td>
<td><strong>43,213.0</strong></td>
<td><strong>525,854.0</strong></td>
<td><strong>513,014.5</strong></td>
</tr>
</tbody>
</table>

1. April 2015 storage account deliveries totaled 44 AF and 1,029 AF to City of San Diego Lower Otay and San Vicente Reservoirs, respectively. April 2014 storage account deliveries totaled 55 AF and 3,362 AF to City of San Diego Lower Otay and San Vicente Reservoirs, respectively.
### APRIL 2015

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>Imported Source</th>
<th>Local Sources</th>
<th>April Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S.D.C.W.A.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carlsbad M.W.D.</td>
<td>1,331.6</td>
<td>1,463.3</td>
<td>-</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>82.8</td>
<td>78.2</td>
<td>-</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>1,711.6</td>
<td>1,896.9</td>
<td>-</td>
</tr>
<tr>
<td>Fallbrook P.U.D.¹</td>
<td>1,032.2</td>
<td>981.5</td>
<td>-</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>2,651.7</td>
<td>2,665.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Lakeside W.D.</td>
<td>219.7</td>
<td>272.3</td>
<td>-</td>
</tr>
<tr>
<td>National City, City of ²</td>
<td>144.7</td>
<td>181.9</td>
<td>-</td>
</tr>
<tr>
<td>Oceanside, City of ²</td>
<td>1,962.7</td>
<td>1,929.5</td>
<td>-</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>1,702.7</td>
<td>1,737.0</td>
<td>-</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>2,528.3</td>
<td>2,634.4</td>
<td>-</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>856.7</td>
<td>906.1</td>
<td>-</td>
</tr>
<tr>
<td>Pendleton M.C.B.³</td>
<td>19.0</td>
<td>17.4</td>
<td>-</td>
</tr>
<tr>
<td>Poway, City of ⁴</td>
<td>887.5</td>
<td>945.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>1,881.2</td>
<td>1,880.8</td>
<td>-</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>436.1</td>
<td>454.0</td>
<td>-</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>513.0</td>
<td>563.2</td>
<td>-</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>15,224.4</td>
<td>13,494.5</td>
<td>3.6</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>529.8</td>
<td>400.1</td>
<td>-</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>929.6</td>
<td>836.4</td>
<td>-</td>
</tr>
<tr>
<td>South Bay I.D.²</td>
<td>1,027.4</td>
<td>1,103.1</td>
<td>-</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>1,258.3</td>
<td>1,373.4</td>
<td>-</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>2,214.3</td>
<td>2,270.1</td>
<td>-</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>1,502.0</td>
<td>1,567.0</td>
<td>-</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>400.7</td>
<td>328.8</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL USE</strong></td>
<td>41,048.0</td>
<td>39,981.1</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>PERCENT CHANGE</strong></td>
<td>3%</td>
<td>-100%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

¹ De Luz figures included in Fallbrook P.U.D. total.
² Brackish groundwater use included in groundwater totals.
³ Pendleton's imported water use includes water delivered by South Coast Water District.
⁴ Poway recycled use is reported quarterly.
## Exports C

**April 2015**

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Reservoir</th>
<th>Capacity</th>
<th>% of Change</th>
<th>APRIL 2015</th>
<th>Capacity</th>
<th>APRIL 2014</th>
<th>Capacity</th>
<th>Change During Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>Maerkle</td>
<td>600</td>
<td>36%</td>
<td>216</td>
<td>552</td>
<td>152</td>
<td>36%</td>
<td>67</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>Dixon</td>
<td>2,606</td>
<td>92%</td>
<td>2,406</td>
<td>1,805</td>
<td>2,454</td>
<td>94%</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Wohlford</td>
<td>6,506</td>
<td>30%</td>
<td>1,946</td>
<td>1,450</td>
<td>1,958</td>
<td>30%</td>
<td>-69</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>9,112</td>
<td>48%</td>
<td>4,352</td>
<td>3,952</td>
<td>4,412</td>
<td>48%</td>
<td>42</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>Red Mountain</td>
<td>1,335</td>
<td>60%</td>
<td>795</td>
<td>976</td>
<td>117</td>
<td>9%</td>
<td>355</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>Guymarca</td>
<td>8,185</td>
<td>6%</td>
<td>447</td>
<td>793</td>
<td>696</td>
<td>8%</td>
<td>(18)</td>
</tr>
<tr>
<td></td>
<td>Jennings</td>
<td>9,790</td>
<td>92%</td>
<td>9,004</td>
<td>1,958</td>
<td>8,804</td>
<td>90%</td>
<td>18</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>17,985</td>
<td>53%</td>
<td>9,451</td>
<td>7,897</td>
<td>9,500</td>
<td>53%</td>
<td>2</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>Poway</td>
<td>3,330</td>
<td>89%</td>
<td>2,952</td>
<td>1,776</td>
<td>3,006</td>
<td>90%</td>
<td>50</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>Beck</td>
<td>625</td>
<td>0%</td>
<td>625</td>
<td>625</td>
<td>0</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Morro Hill</td>
<td>465</td>
<td>34%</td>
<td>160</td>
<td>160</td>
<td>270</td>
<td>58%</td>
<td>65</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>1,090</td>
<td>15%</td>
<td>160</td>
<td>160</td>
<td>270</td>
<td>25%</td>
<td>65</td>
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<tr>
<td>Ramona M.W.D.</td>
<td>Ramona</td>
<td>12,000</td>
<td>20%</td>
<td>2,385</td>
<td>2,385</td>
<td>2,441</td>
<td>20%</td>
<td>(16)</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>Barrett</td>
<td>34,806</td>
<td>94%</td>
<td>1,959</td>
<td>1,959</td>
<td>9,488</td>
<td>27%</td>
<td>(51)</td>
</tr>
<tr>
<td></td>
<td>El Capitan</td>
<td>112,807</td>
<td>38%</td>
<td>32,101</td>
<td>32,101</td>
<td>39,311</td>
<td>35%</td>
<td>(524)</td>
</tr>
<tr>
<td></td>
<td>Hodges</td>
<td>30,251</td>
<td>10%</td>
<td>3,126</td>
<td>3,126</td>
<td>2,533</td>
<td>8%</td>
<td>(529)</td>
</tr>
<tr>
<td></td>
<td>Lower Otay</td>
<td>49,849</td>
<td>72%</td>
<td>36,033</td>
<td>36,033</td>
<td>33,434</td>
<td>67%</td>
<td>(566)</td>
</tr>
<tr>
<td></td>
<td>Miramar</td>
<td>6,682</td>
<td>84%</td>
<td>5,592</td>
<td>5,592</td>
<td>5,521</td>
<td>83%</td>
<td>(2)</td>
</tr>
<tr>
<td></td>
<td>Morena</td>
<td>50,694</td>
<td>3%</td>
<td>1,625</td>
<td>1,625</td>
<td>2,037</td>
<td>4%</td>
<td>(198)</td>
</tr>
<tr>
<td></td>
<td>Murray</td>
<td>4,684</td>
<td>87%</td>
<td>4,075</td>
<td>4,075</td>
<td>4,091</td>
<td>87%</td>
<td>(4)</td>
</tr>
<tr>
<td></td>
<td>San Vicente</td>
<td>89,312</td>
<td>53%</td>
<td>47,637</td>
<td>47,637</td>
<td>46,223</td>
<td>52%</td>
<td>(7)</td>
</tr>
<tr>
<td></td>
<td>Sutherland</td>
<td>29,508</td>
<td>8%</td>
<td>2,478</td>
<td>2,478</td>
<td>3,004</td>
<td>10%</td>
<td>(40)</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>408,593</td>
<td>33%</td>
<td>134,625</td>
<td>134,625</td>
<td>145,643</td>
<td>36%</td>
<td>(1,171)</td>
</tr>
<tr>
<td>San Diego W.D./Santa Fe I.D.</td>
<td>San Diego</td>
<td>883</td>
<td>49%</td>
<td>429</td>
<td>429</td>
<td>434</td>
<td>49%</td>
<td>145</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Loveland</td>
<td>25,400</td>
<td>33%</td>
<td>7,642</td>
<td>7,642</td>
<td>8,452</td>
<td>33%</td>
<td>(812)</td>
</tr>
<tr>
<td></td>
<td>Sweetwater</td>
<td>28,079</td>
<td>14%</td>
<td>3,563</td>
<td>3,563</td>
<td>3,919</td>
<td>14%</td>
<td>(356)</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>53,479</td>
<td>23%</td>
<td>11,205</td>
<td>11,205</td>
<td>12,371</td>
<td>23%</td>
<td>(1,161)</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>Turner</td>
<td>1,612</td>
<td>79%</td>
<td>1,125</td>
<td>1,125</td>
<td>1,275</td>
<td>79%</td>
<td>-</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>Henshaw</td>
<td>51,774</td>
<td>11%</td>
<td>5,257</td>
<td>5,257</td>
<td>5,896</td>
<td>11%</td>
<td>621</td>
</tr>
<tr>
<td><strong>Member Agency Total</strong></td>
<td></td>
<td>561,793</td>
<td>33%</td>
<td>172,951</td>
<td>172,951</td>
<td>185,516</td>
<td>33%</td>
<td>(394)</td>
</tr>
<tr>
<td>SDCWA Accounts (city evap/seepage losses estimated)</td>
<td>El Capitan</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Hodges</td>
<td>8,484</td>
<td>8%</td>
<td>8,484</td>
<td>8,484</td>
<td>8,488</td>
<td>8%</td>
<td>(205)</td>
</tr>
<tr>
<td></td>
<td>Olivenhain</td>
<td>20,856</td>
<td>10%</td>
<td>18,879</td>
<td>18,879</td>
<td>18,879</td>
<td>10%</td>
<td>(98)</td>
</tr>
<tr>
<td></td>
<td>Lower Otay</td>
<td>983</td>
<td>35%</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>35%</td>
<td>(5)</td>
</tr>
<tr>
<td></td>
<td>San Vicente</td>
<td>36,398</td>
<td>828</td>
<td>12,408</td>
<td>12,408</td>
<td>12,408</td>
<td>828</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Sweetwater</td>
<td>10</td>
<td>0%</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>66,741</td>
<td>521</td>
<td>39,830</td>
<td>39,830</td>
<td>39,830</td>
<td>521</td>
<td></td>
</tr>
<tr>
<td><strong>Total Water In Storage</strong></td>
<td></td>
<td>586,582</td>
<td>41%</td>
<td>239,692</td>
<td>239,692</td>
<td>225,346</td>
<td>38%</td>
<td>127</td>
</tr>
<tr>
<td><strong>Other Agencies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan Water District</td>
<td>Skinner</td>
<td>44,264</td>
<td>89%</td>
<td>33,974</td>
<td>33,974</td>
<td>39,421</td>
<td>89%</td>
<td>4,624</td>
</tr>
<tr>
<td></td>
<td>Diamond Valley</td>
<td>810,000</td>
<td>70%</td>
<td>381,661</td>
<td>381,661</td>
<td>567,127</td>
<td>70%</td>
<td>(7,517)</td>
</tr>
<tr>
<td>Water Project Project</td>
<td>Oroville</td>
<td>3,537,500</td>
<td>53%</td>
<td>1,782,496</td>
<td>1,782,496</td>
<td>1,876,552</td>
<td>53%</td>
<td>(11,156)</td>
</tr>
<tr>
<td><strong>Total Other Water In Storage</strong></td>
<td></td>
<td>4,391,864</td>
<td>57%</td>
<td>2,198,131</td>
<td>2,198,131</td>
<td>2,483,100</td>
<td>57%</td>
<td>(14,008)</td>
</tr>
</tbody>
</table>

1 Excludes storage allocated to Escondido Mutual Water Co. or its rights to a portion of the unallocated water in Lake Henshaw.
2 Includes reserves subject to city’s outstanding commitments to San Diego W.D., and California American Mutual Water Co. (Cal-Am)
SDCWA has storage contracts in City of San Diego reservoirs in the amount of 40,000 AF, if available capacity exists.
3 Includes allocated and unallocated water in Lake Henshaw.
## Tier 1 Estimated Deliveries to Member Agencies

(Figures in acre-feet)

### Calendar Year 2015 to Date (April)

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>CY2015 Tier 1 Threshold</th>
<th>CYTD Firm Deliveries</th>
<th>% of Tier 1 Threshold (Pre-QSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad M.W.D.</td>
<td>12,376.0</td>
<td>4,852.2</td>
<td>39.2%</td>
</tr>
<tr>
<td>Del Mar, City of</td>
<td>935.0</td>
<td>281.8</td>
<td>30.1%</td>
</tr>
<tr>
<td>Escondido, City of</td>
<td>17,859.0</td>
<td>5,791.3</td>
<td>32.4%</td>
</tr>
<tr>
<td>Fallbrook P.U.D.</td>
<td>10,325.0</td>
<td>3,682.0</td>
<td>35.7%</td>
</tr>
<tr>
<td>Helix W.D.</td>
<td>25,519.0</td>
<td>9,102.5</td>
<td>35.7%</td>
</tr>
<tr>
<td>Lakeside M.W.D.</td>
<td>3,168.0</td>
<td>752.2</td>
<td>23.7%</td>
</tr>
<tr>
<td>Oceanside, City of</td>
<td>19,383.0</td>
<td>6,477.6</td>
<td>33.4%</td>
</tr>
<tr>
<td>Olivenhain M.W.D.</td>
<td>13,071.0</td>
<td>5,463.0</td>
<td>41.8%</td>
</tr>
<tr>
<td>Otay W.D.</td>
<td>21,390.0</td>
<td>8,676.6</td>
<td>40.6%</td>
</tr>
<tr>
<td>Padre Dam M.W.D.</td>
<td>9,939.0</td>
<td>2,928.9</td>
<td>29.5%</td>
</tr>
<tr>
<td>Pendleton M.C.B./South Coast W.D.</td>
<td>758.0</td>
<td>61.9</td>
<td>8.2%</td>
</tr>
<tr>
<td>Poway, City of</td>
<td>9,348.0</td>
<td>2,889.0</td>
<td>30.9%</td>
</tr>
<tr>
<td>Rainbow M.W.D.</td>
<td>19,018.0</td>
<td>5,540.2</td>
<td>29.1%</td>
</tr>
<tr>
<td>Ramona M.W.D.</td>
<td>8,052.0</td>
<td>1,517.1</td>
<td>18.8%</td>
</tr>
<tr>
<td>Rincon Del Diablo M.W.D.</td>
<td>5,482.0</td>
<td>1,595.9</td>
<td>29.1%</td>
</tr>
<tr>
<td>San Diego, City of</td>
<td>144,555.0</td>
<td>58,336.0</td>
<td>40.4%</td>
</tr>
<tr>
<td>San Dieguito W.D.</td>
<td>3,116.0</td>
<td>1,575.5</td>
<td>50.6%</td>
</tr>
<tr>
<td>Santa Fe I.D.</td>
<td>5,226.0</td>
<td>2,505.0</td>
<td>47.9%</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>9,650.0</td>
<td>4,089.5</td>
<td>42.4%</td>
</tr>
<tr>
<td>Vallecitos W.D.</td>
<td>10,557.0</td>
<td>4,370.4</td>
<td>41.4%</td>
</tr>
<tr>
<td>Valley Center M.W.D.</td>
<td>29,774.0</td>
<td>6,725.5</td>
<td>22.6%</td>
</tr>
<tr>
<td>Vista I.D.</td>
<td>11,876.0</td>
<td>5,011.2</td>
<td>42.1%</td>
</tr>
<tr>
<td>Yuima M.W.D.</td>
<td>2,165.0</td>
<td>973.4</td>
<td>45.0%</td>
</tr>
</tbody>
</table>

**MEMBER AGENCY TOTALS**

<table>
<thead>
<tr>
<th>CY2015 Tier 1 Threshold</th>
<th>CYTD Firm Deliveries</th>
<th>% of Tier 1 Threshold (Pre-QSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>393,542.0</td>
<td>143,188.7</td>
<td>36.4%</td>
</tr>
</tbody>
</table>

Less: QSA deliveries calendar year to date  
(59,233.2)  

Less: ESP deliveries calendar year to date  
0.0  

Deliveries to CWA storage year to date  
8,610.9  

Deliveries from CWA storage year to date  
(7,476.5)  

Estimated Tier 1 deliveries calendar year to date  
85,089.9  

Invoiced Tier 1 deliveries calendar year to date  
84,505.3  

---

1 Tier 1 threshold is 60% of a member agency's historic maximum year firm demand.

2 Emergency Storage Program (ESP) deliveries under Metropolitan's program designated by city of San Diego.

3 Includes forced deliveries and deliveries made through temporary carryover storage agreements and to Olivenhain Reservoir.

4 Includes sales from Water Authority storage accounts.

5 Estimated Tier 1 deliveries are based on member agency deliveries net of QSA deliveries and storage puts/takes. Invoiced deliveries are as reported on Metropolitan's invoice. Difference between Estimated and Invoiced Deliveries is explained by deliveries stored in Twin Oaks Valley Water Treatment Plant (TOVWTP) or other treatment plants, and not yet sold to member agencies.
IMPORTED WATER COMMITTEE

AGENDA FOR

MAY 28, 2015

Mark Watton – Chair     Jim Madaffer
DeAna Verbeke – Vice Chair     Jim Murtland
Elsa Saxod – Vice Chair     Ken Olson
David Barnum     Dave Robert
Betty Evans     Fern Steiner
Christy Guerin     Mark Weston
Tony Heinrichs     Doug Wilson
Michael Hogan

1. Roll call – determination of quorum.

2. Additions to agenda (Government Code Section 54954.2(b)).

3. Public comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

4. Chair’s report.
   4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION
1. MWD Issues and Activities Update.
   1-A Metropolitan Water District Delegates Report.
   (Information) (Supplemental Materials)

2. Colorado River Programs.
   2-A Colorado River Board Representative’s Report.
   (Information) (Supplemental Materials)

III. INFORMATION
1. Metropolitan Water District Program Report.
   Amy Chen
IV. CLOSED SESSION

1. CLOSED SESSION: Dan Hentschke
   Conference with Legal Counsel - Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: SDCWA v. Metropolitan Water District of
   Southern California;
   Case Nos. CPF-10-510830; CPF-12-512466; and CPF-14-514004

2. CLOSED SESSION: Dan Hentschke
   Conference with Legal Counsel - Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: State Water Resources Control Board
   Petition of Imperial Irrigation District for Modification of Revised
   Water Rights Order 2002-0013

V. ADJOURNMENT

Melinda Cogle
Clerk of the Board

NOTE: This meeting is called as an Imported Water Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed
as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section
2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated
and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an
item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County
Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
May 20, 2015

Attention: Imported Water Committee

Metropolitan Water District Program Report (Information)

Purpose
This report summarizes activities associated with the Metropolitan Water District of Southern California and other imported water related agencies and organizations.

Discussion
Metropolitan Water District (MWD). This section provides a summary of key actions at the May 12 and 13 meetings of the MWD Board of Directors. A companion report, included in the Board supplemental materials – the MWD Delegates Report – provides information on discussions that occurred at the MWD Board and committee meetings as well as the Water Authority Delegates’ positions. The next committee and Board meetings will take place June 8 and 9.

Increase in Conservation Incentives and Turf Removal Program Modifications.
The Water Planning and Stewardship Committee and Board discussed staff’s recommendation to increase MWD’s conservation incentives program by $150 million to continue the program through fiscal year 2015 and into fiscal year 2016. Increased funding will come from MWD’s Water Stewardship Fund and Water Management Fund (WMF). The WMF was created in 2013 using a portion of excess revenues collected in fiscal years 2013 and 2014 that exceeded MWD’s maximum unrestricted reserve levels. Not including this action, MWD’s conservation incentives program budget for fiscal year 2015 has grown from $20 million to $100 million, generally to accommodate the upwelling participation in the Turf Removal Program. Staff’s recommendation also included setting incentive limits on the amount of turf removal funding made available to a single property, and tiered incentives based on the amount of turf being removed. Although staff’s recommended changes are expected to reduce projected Turf Removal Program expenditures by about $72 million over fiscal years 2015 and 2016, MWD staff anticipates further funding will be required and sought in fiscal year 2016 beyond this month’s additional $150 million request.

Following an extensive discussion, staff modified the recommendation to relax the funding limits on amount of turf removed, among other things. The Board ultimately voted to delay consideration of the conservation incentives and turf removal program modifications to a Special Board meeting to be held on May 26. In addition, the Board approved a motion that subjects Turf Removal Program applications received after this Board action to terms approved at the upcoming Special Board meeting.

Yuba County Water Agency Groundwater Substitution Water Purchase.
The Board authorized the General Manager to pay up to $9.975 million from the Water Management Fund to purchase groundwater substitution water from Yuba County Water Authority (YCWA) to improve its 2015 water supply reliability. In 2007, the Board authorized an agreement with the Department of Water Resources to purchase water supplies from YCWA. YCWA provides water to participating state and federal contractors (buyers). In October 2014, the Board amended
the agreement, which established a fixed price for surface transfer water through 2020, but also included retaining annual negotiations for groundwater substitution supplies.

MWD, along with other buyers, have tentatively agreed to pay YCWA $665 per acre-foot for the groundwater substitution supplies. YCWA anticipates the ability to generate 30,000 acre-feet of supplies, of which 25 percent (or up to 7,500 acre-feet before losses) would be available for MWD to purchase. Depending on participation levels, MWD may increase its purchase amount. This action allows MWD to purchase up to 15,000 acre-feet of the YCWA groundwater substitution supply before Delta carriage and conveyance losses. With conveyance and carriage losses, the costs could be $831 to $863 per acre-foot (20 percent to 23 percent, depending whether 3 percent conveyance loss is assessed).

The MWD Committees and Board also:
- Authorized the extension of the boat ramp at the Diamond Valley Lake East Marina;
- Adopted a resolution to continue MWD’s Water Standby Charge for fiscal year 2016;
- Heard a report on the In Re Tronox Incorporated, et al. bankruptcy case, and authorized an increase by $100,000 to a new maximum amount payable of $540,000 under contract with Manatt, Phelps and Phillips, LLP for legal services;
- Took positions on two federal bills relating to managing the risks of cyanotoxins – which are toxins produced by bacteria called cyanobacteria (also known as blue-green algae) – in drinking water. The Board expressed support for H.R. 212 (Latte, R-Ohio) and S. 460 (Portman, R-Ohio) – Drinking Water Protection Act;
- Expressed support, as proposed to be amended, for S.B. 485 (Hernandez, D-San Gabriel Valley) - County of Los Angeles: Sanitation Districts, which would allow Los Angeles County Sanitation Districts to divert, manage, treat, and discharge stormwater and runoff for beneficial uses;
- Heard a report on San Diego County Water Authority v. MWD, et al. Testimony in the Phase 2 Trial on the breach of contract and preferential rights causes of action concluded on April 29;
- Heard a report on Peter E. Von Haam v. MWD, et al., and authorized an increase in the maximum amount payable under contract with Seyfarth Shaw LLP for legal services by $200,000 to an amount not to exceed $300,000; and
- Heard a report on the renewal status of MWD’s Property and Casualty Insurance Program for fiscal year 2016. Staff will return to the Board in June to request authority to purchase insurance based on the quoted premiums for the various coverages, which is anticipated to increase by about $84,000 or 7.4 percent over fiscal year 2015.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Reviewed by: Amy Chen, Director of MWD Program
May 20, 2015

Attention: Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: SDCWA v. Metropolitan Water District of Southern California;
Case Nos. CPF-10-510830; CPF-12-512466; and CPF-14-514004

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(1), to discuss the above-referenced matter at the May 28, 2015 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Daniel S. Hentschke, General Counsel
May 20, 2015

Attention: Imported Water Committee

CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: State Water Resources Control Board
Petition of Imperial Irrigation District for
Modification of Revised Water Rights Order 2002-0013

Purpose
This memorandum is to recommend a closed session, pursuant to Government Code §54956.9(d)(1), to discuss the above-referenced matter at the May 28, 2015 meeting.

A closed session has also been included on the agenda of the formal Board of Directors’ meeting. Unless the Board desires additional discussion, it is not staff’s intention to ask for a closed session with the full Board at that time, but staff may request action to confirm directions given or action recommended by the committee.

Prepared by: Daniel S. Hentschke, General Counsel
ENGINEERING AND OPERATIONS COMMITTEE

AGENDA FOR

MAY 28, 2015

Ken Williams – Chair  Tony Heinrichs
Marty Miller – Vice Chair  Michael Hogan
Ron Watkins – Vice Chair  John Linden
Gary Arant  Ron Morrison
Jimmy Ayala  Ken Olson
Brian Boyle  Halla Razak
Brian Brady  John Simpson
Gary Croucher


2. Additions to Agenda (Government Code Section 54954.2(b)).

3. Public Comment – opportunities for members of the public to address the Committee on matters within the Committee’s jurisdiction.

   4-A  Directors’ Comments.

I. CONSENT CALENDAR

1. Notice of Completion for the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project.
   Staff Recommendation: Authorize the General Manager to accept the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods & Sons, Inc., following the expiration of the retention period. (Action)  Neena Kuzmich

II. ACTION/DISCUSSION

1. Presentation on Carlsbad Desalination Project Update. (Discussion)  Frank Belock

2. San Vicente Pumped Storage Study Update.
   Staff Recommendation: Approve the following actions to further advance the San Vicente Pumped Storage Study:  Kelly Rodgers
1. Authorize the General Manager to execute an Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project.
3. Approve starting the process for procuring an Owners’ Advisor Team to provide professional services for recommending a business model. (Action)

III. INFORMATION
1. Presentation on Right of Way and tree management. John Kross

IV. CLOSED SESSION

V. ADJOURNMENT

Melinda Cogle
Clerk of the Board

NOTE: This meeting is called as an Engineering & Operations Committee meeting. Because a quorum of the Board may be present, the meeting is also noticed as a Board meeting. Members of the Board who are not members of the Committee may participate in the meeting pursuant to Section 2.00.060(g) of the Authority Administrative Code (Recodified). All items on the agenda, including information items, may be deliberated and become subject to action. All public documents provided to the committee or Board for this meeting including materials related to an item on this agenda and submitted to the Board of Directors within 72 hours prior to this meeting may be reviewed at the San Diego County Water Authority headquarters located at 4677 Overland Avenue, San Diego, CA 92123 at the reception desk during normal business hours.
May 20, 2015

Attention: Engineering and Operations Committee

Notice of Completion for the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project (Action)

Staff recommendation
Authorize the General Manager to accept the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods & Sons, Inc., following the expiration of the retention period.

Alternative
Do not approve staff recommendation and provide direction to staff relative to issues requiring resolution.

Fiscal Impact
There are sufficient funds to support this action in the project budget and fiscal years 2014 and 2015 Capital Improvement Program appropriation. The rate category for this project is transportation.

Background
Caltrans is widening and realigning State Route 76 between South Mission Road and Interstate 15. The new alignment will cross the Water Authority’s Second Aqueduct in the San Luis Rey River Valley and includes the construction of a bridge spanning Pipelines 3, 4, and 5. When completed, the new bridge will provide approximately eight feet of vertical clearance between the bottom of the bridge and the ground level. Consequently, the new bridge crossing will restrict the Water Authority’s ability to maintain and repair its pipelines in the future. Therefore, Caltrans, SANDAG, and Water Authority staff negotiated an agreement to reline portions of Pipelines 3, 4, and 5 to mitigate the impacts from the new bridge crossing. As part of that agreement, Caltrans will reimburse the Water Authority for work necessary to protect the aqueduct and to allow for the widening and realignment of State Route 76. The Water Authority is working with Caltrans on final reimbursement payment.

Pipeline 4 in the San Luis Rey area was already scheduled to be rehabilitated in fiscal year 2017 as part of the overall Relining and Pipe Replacement Program. To increase economies of scale and efficiencies in reducing the frequency and number of shutdowns to the aqueduct system, staff added this section of the Pipeline 4 relining to this project. The Water Authority funded this portion of the project along with its proportional share related to the State Route 76 work via the Asset Management Program.
Previous Board actions: On July 24, 2014, the Board authorized the General Manager to award a construction contract to L.H. Woods & Sons, Inc. in the amount of $9,750,000 for the Pipelines 3, 4 and 5 San Luis Rey River project.

Discussion
Change Orders 1, 2, and 3 were executed under staff’s authority for a credit of $255,326. These items, summarized below and detailed in Table 1, include administrative changes, design modifications, and differing site conditions.

**Administrative:** Staff executed six administrative changes for a total credit of $398,553. The items include acceleration of a milestone date, reimbursement to the Water Authority related to in-plant inspection, and reconciling bid item allowances.

**Design Modifications:** Staff executed three design modifications for a total credit of $49,401. The items include credit for deleting an access portal to improve constructability; reducing the size of an access portal; and additional disinfection of pipe outside project limits to hasten shutdown completion, thereby restoring water deliveries to member agencies sooner.

**Differing Site Conditions:** Staff executed four differing site condition change orders for a total of $192,628. The items include modifications to the connection between the relined pipe and the existing pipe based on actual field conditions, removal and cap of irrigation lines not originally shown on the design drawings, dewatering a manway to install cathodic protection, and treatment of extracted groundwater.

The contractor has no open claims. The final construction contract price for the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project, including change orders is $9,494,674, a decrease of 2.6 percent from the original contract value.

During construction, 5 percent of the total contract amount was retained in accordance with the contract terms. Undisputed retention will be released after the General Manager’s acceptance, expiration of the 60-day period following recording of the Notice of Completion, and receipt of a signed Conditional Waiver and Release of Liens and Claims from the contractor. L.H. Woods & Sons, Inc. provided a bond for faithful performance at the time of bidding, which will remain in full force and effect for the contract’s two-year post-construction warranty period.

The small business participation on this project was 48 percent. There was no minority- or women-owned business participation. This information is provided for statistical purposes.

Prepared by: Neena Kuzmich, Senior Engineer
Reviewed by: William J. Rose, Director of Engineering
Approved by: Frank Belock, Jr., Deputy General Manager

Attachments:
1. Figure 1 – Location Map
2. Table 1 – Summary of Construction Change Orders
### TABLE 1
SUMMARY OF CONSTRUCTION CHANGE ORDERS
PIPLEINES 3, 4 AND 5 RELINING AT THE SAN LUIS REY RIVER
SPECIFICATION 624

<table>
<thead>
<tr>
<th>Change Order</th>
<th>Item No.</th>
<th>Description</th>
<th>Amount</th>
<th>Time Extension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Credit for resizing Portal 1 on Pipeline 3 based on Contractor’s efficiencies</td>
<td>($15,738)</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>Credit for deletion of Portal 4 on Pipeline 4 based on Contractor’s means and methods</td>
<td>($50,000)</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>Contractor’s use of the project site on a holiday to maintain schedule</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>Pipeline 4 disinfection allowing for service to be restored sooner</td>
<td>$16,337</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td>Replacement of starter ring on Pipeline 3 required based on actual field conditions</td>
<td>$2,851</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Contractor reimbursement to Water Authority for inspection of off-site fabrication</td>
<td>($385,938)</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>Accelerate Milestone Date Number Three to return Pipeline 5 to service sooner</td>
<td>$12,385</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>Remove and cap irrigation lines not identified on the contract drawings</td>
<td>$2,928</td>
<td>0</td>
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<tr>
<td>3</td>
<td>3</td>
<td>Dewater manway vault at Station 2204+40 to allow work to be performed</td>
<td>$1,265</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Groundwater treatment mitigation at Portals 1, 2 &amp; 3</td>
<td>$185,584</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>Credit for hydroseed work not required</td>
<td>($5,000)</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>Credit for partnering not used</td>
<td>($15,000)</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
<td>Credit for soil amendments based on actual amounts used</td>
<td>($5,000)</td>
<td>0</td>
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</tbody>
</table>

**Total Change Order Amount:** ($255,326)

**Total Time Extension:** 0 days

**Original Board Authorized Contract Amount:** $9,750,000

**New Contract Amount:** $9,494,674
May 20, 2015

Attention: Engineering and Operations Committee

San Vicente Pumped Storage Study Update. (Action)

Staff recommendation:
Approve the following actions to further advance the San Vicente Pumped Storage Study:

1. Authorize the General Manager to execute an Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project.
3. Approve starting the process for procuring an Owners’ Advisor Team to provide professional services for recommending a business model.

Alternatives:
Do not approve staff recommendations. This will jeopardize receiving a FERC preliminary permit and the eventual license, and delay the required studies and the overall project schedule.

Fiscal Impact
There are sufficient funds remaining in the approved project budget and Fiscal Years 2014 and 2015 Capital Improvement Program appropriation for the Phase 1 work on the FERC Preliminary Application Document/Notice of Intent. Funds for Phase 2 work are contingent upon Board approval of the Fiscal Years 2016 and 2017 recommended budget. Cost sharing for Phase 2 work will be in accordance with the Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project. The rate category for this project is customer service.

Background
Since the completion of the San Vicente Dam Raise project, the San Vicente Pumped Storage Team, consisting of Water Authority and City of San Diego staff and various consultants, has been collaborating on a potential up to 500 megawatts pumped storage facility at the San Vicente Reservoir. San Vicente Reservoir, owned and operated by the City of San Diego will serve as the lower reservoir for the project. The focus of the Team has been coordinating steps to advance the project, such as the siting of the upper reservoir, the FERC permitting/licensing processes, conducting a technical analysis of the compatibility of this project with Pure Water San Diego, and developing agreements that articulate the Water Authority’s and City’s roles and responsibilities. To oversee this work, a Hydropower Task Force of the Board was created in 2013. The Task Force, now structured as a Subcommittee of the Engineering and Operations Committee, continues to be chaired by Director Michael Hogan. The Subcommittee is overseeing the ongoing efforts by the Team. Water Authority and City staff members, as well as the necessary consultants, participate in the Subcommittee meetings.
Previous Board Actions: On February 26, 2015, the Board approved moving forward with all necessary Phase 1 work within the previously approved $525,000 appropriation, including the submittal of the City of San Diego as a co-applicant to the FERC preliminary permit; approval of the partnership agreement principles with the City of San Diego; and authorization of the General Manager to execute a contract for $150,000 to Harvey Consulting Group and Amendment #4 of the Black & Veatch contract for $250,000.

Discussion
On April 9, 2015, Water Authority and City staff provided the Hydropower Subcommittee with an update on Phase 1 work. This consists of finalizing an agreement with the City of San Diego; preparing an amended FERC preliminary permit application; and completing the FERC Preliminary Application Document/Notice of Intent, naming both Water Authority and City as co-applicants as further described in the recommended actions below.

Recommended Actions
1. The Water Authority and City are partners on this project and have been collaborating on an agreement that addresses subsequent project work, including procuring an Owners’ Advisor Team to assist in selection of a business model for the project. Staff used the following partnership principles, which were approved by the Board on February 26, 2015, as the framework for the agreement.

   • Establishes coordination protocol
   • Defines roles and responsibilities
   • Clarifies future cost sharing
   • Provides for the Parties to be co-applicants on FERC License
   • Establishes the Parties will procure an Owners’ Advisor Team if the Board authorizes procurement to begin
   • Defines decision-making process
   • Provides estimated project timeline
   • Establishes issues resolution process

   The agreement (attached) is now complete, was approved by the City Council Environmental Committee on May 20, 2015, and will be brought before City Council in June 2015. The City will also be requesting funding to support its share of this work. Staff recommends that the Board authorize the General Manager to execute an Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project.

2. Concurrently, Water Authority and City staff have been coordinating work on two items critical to advancing this project. First, the preliminary permit application was updated to include the City as co-applicant and was filed with FERC on April 7, 2015. Second, Water Authority and City staff and the consultants have also been working towards completion of the Preliminary Application Document/Notice of Intent. The PAD/NOI are on track for submission to FERC in July 2015, in accordance with FERC’s deadline. The PAD/NOI
initiates the FERC licensing process. Staff recommends the Board approve the submittal of the Preliminary Application Document/Notice of Intent to the Federal Energy Regulatory Commission.

3. Phase 2 work will now become the Water Authority and City’s next focus. As discussed at the February 26, 2015 E&O Committee meeting, Phase 2 work consists of procuring an Owners’ Advisor Team to identify potential partners and completing additional technical, power market, and financial studies; all of which will confirm the project’s marketability. This work will analyze various partnership arrangements and evolve into a recommendation for a preferred business model for Board consideration. Staff recommends the Board approve starting the process for procuring an Owners' Advisor Team to provide professional services for recommending a business model for Board consideration.

Next Steps
In June 2015, as part of the two-year budget process, the General Manager will request the Administrative and Finance Committee to approve funds in the amount of $2.51 million to support fiscal year 2016 Phase 2 work, including the Owners’ Advisor Team scope of work and additional reservoir modeling requested by the City. Per the agreement, the Water Authority and City will share the cost of the professional services associated with Phase 2 work.

Staff anticipates returning to the E&O Committee in late 2015 to recommend the award of a professional services contract for the Owners’ Advisor Team. In the interim, the Hydropower Subcommittee will meet regularly and update the E&O Committee periodically on Project status.

Prepared by:     Kelly Rodgers, Principal Engineer
Reviewed by:     Frank Belock, Jr., Deputy General Manager
Approved by:     Maureen A. Stapleton, General Manager

Attachment – Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project
AGREEMENT BETWEEN
THE CITY OF SAN DIEGO AND
THE SAN DIEGO COUNTY WATER AUTHORITY
FOR THE JOINT DEVELOPMENT OF THE SAN VICENTE PUMPED STORAGE
PROJECT

This Agreement is made and entered into by and between the City of San Diego (“City”), a
municipal corporation of the State of California, and the San Diego County Water
Authority, a county water authority (“Water Authority”) (herein after referred to as the
“Parties”) for the purpose of jointly developing the proposed San Vicente Pumped Storage
Project (“Project”), including without limitation, obtaining a joint preliminary permit and
joint license for the Project.

RECITALS

A. The City is the owner of the San Vicente Dam and the San Vicente Reservoir both of which are essential infrastructure to be used in the development of the Project. As currently proposed, the Project involves the construction and operation of a hydroelectric pumped storage facility, meeting peak electric loads, capable of generating up to 500 megawatts of electricity using the existing San Vicente Reservoir and the San Vicente Dam, and a contemplated new upper reservoir site, as a pump-back operation.

B. The Water Authority initially obtained a preliminary permit for the Project (Project No. 12747-000) from the Federal Energy Regulatory Commission (“FERC”) in March 2007 that secured municipal priority for development of the Project. This permit expired in February 2010, and the Water Authority applied for and was granted a second successive permit in July 2010. The second successive permit expired in June 2013, and in July 2013 the Water Authority applied for a third successive permit. FERC denied the Water Authority’s application for a third successive permit, but after hearing the Water Authority’s request for reconsideration, FERC granted the Water Authority’s request to submit a new application for a preliminary permit.

C. On October 16, 2014, the Water Authority filed a new application for a preliminary permit (Project No. 14642-000). However, because this new application fails to identify the City as a joint applicant, on December 29, 2014, the City filed with FERC a Motion to Intervene. As a means of addressing the issues in the City’s motion without FERC action, on January 15, 2015, the Parties submitted to FERC a joint letter requesting that FERC refrain from acting on either the Water Authority’s application for preliminary permit or the City’s motion for 90 days to allow the Parties time to negotiate and execute this Agreement. In the joint letter submitted to FERC, the parties state that after this Agreement is executed “the Parties intend to amend the pending preliminary permit application by naming the Water Authority and the City as joint applicants.”
D. The purpose of this Agreement is to establish the preliminary terms, conditions, and protocols for joint development of the Project. No determination has yet been made regarding how the Project will be financed, how the Parties will participate in financing the Project, or a number of issues regarding the construction and operation of the Project. These issues will be dealt with in a subsequent comprehensive agreement between the Parties. By executing this Agreement, the Parties agree to act in good faith to negotiate any amendments to this Agreement, or any subsequent agreement(s) relating to the Project.

E. While this Agreement is intended to allow the Parties to develop information for evaluation by the City through its Public Utilities Department and the Water Authority through its the Hydropower Subcommittee and Engineering and Operations Committee ("Subcommittee") as the lead bodies for the Project, final decision-making authority and approvals regarding the Project are reserved to the Parties’ governing authorities: the City Council, and the Water Authority’s Board of Directors.

F. Project work completed includes the San Vicente Pumped Storage Economic and Financial Feasibility Study and initial independent power market and economic reviews. On-going work includes the inlet/outlet study and the additional San Vicente Reservoir modeling pertaining to the compatibility of the Project with the Pure Water San Diego Project (Pure Water Project). This work is included in the Feasibility Study Agreement Between The City of San Diego And The San Diego County Water Authority For The San Vicente Pumped Storage Project executed on September 8, 2014

1. GENERAL TERMS:

1.1 Effective Date. This Agreement shall become effective on the last date when the Parties acquire approval from each Party’s appropriate governing authority, and the Agreement is signed by authorized representatives of both Parties.

1.2 Application for Preliminary Permit. No later than ten (10) working days of the Effective Date of this Agreement, the Water Authority will file with FERC an amended application for preliminary permit naming the City and the Water Authority as joint applicants.

1.3 Term. The term of this Agreement shall run from the Effective Date and shall continue until October 31, 2016, or until completion of all obligations under this Agreement, whichever occurs first. Both the Water Authority and the City acknowledge that the Project is a multi-year effort requiring a subsequent detailed and comprehensive construction and operation agreement between the Parties. Among other terms, the subsequent comprehensive agreement will address the Project’s governance structure,
budget development and approval protocols, operational decisions, and joint decision-making powers as applicable.

1.4 Initial Tasks and Phases. Prior to negotiating and executing a subsequent comprehensive agreement for the Project, the Parties must complete Phase 1 (covered by the Feasibility Study Agreement Between The City of San Diego And The San Diego County Water Authority For The San Vicente Pumped Storage Project executed on September 8, 2014) and Phase 2 as follows:

1.4.1 Phase 1 – Preliminary environmental assessments, engineering studies, resource agency and stakeholder outreach, preliminary upper reservoir site screening and administrative functions necessary to develop and submit a Notice of Intent (“NOI”) and Preliminary Application Document (“PAD”) to FERC by July 2015.

1.4.2 Phase 2 – Complete a Project Development Study (Study) which includes, without limitation, the development and articulation of Project ownership and contract structure(s) for consideration and approval, as necessary, by the Water Authority Board of Directors and City Council. This Study may involve continuing evaluations associated with determining Project feasibility, and arriving at a joint decision to advance the Project through the submittal of an interconnection application to the California Independent System Operator (“CAISO”), and tasks limited to the following:

   (1) Continued coordination of the Project with the City’s Pure Water Project, which may involve additional studies as necessary;
   (2) financial analysis; and (4) power market analysis. The Parties intend to complete this Study by obtaining the services of an outside consultant(s) with relevant energy market, engineering, financial, legal, and financial expertise (Owners’ Advisor) to advance the Project. Phase 2 will be comprised of two sub-phases:

1.4.2.1 Phase 2A is to identify the potential field of outside consultants qualified to act as Owners’ Advisor, and identify the specific tasks necessary for the Owners’ Advisor to perform. The Parties will comply with all applicable state laws to qualify potential consultants and solicit their views on appropriate consulting arrangements and structures.

1.4.2.2 Phase 2B is to develop bidding language reflective of energy market forces to procure Owners’ Advisor professional services and identify core tasks needed to advance the Project. The Owners’ Advisor’s efforts will culminate in drafting beneficial partnership contracts and structures reflective of California energy markets, and making recommendations as needed.
1.5 Owners’ Advisor Procurement. The Parties agree that the Water Authority will be the Party entering into the professional services agreement with the Owners’ Advisor(s). The Parties shall jointly develop the scope of work for the Owners’ Advisor(s). The City shall be afforded the right to attend project meetings, participate in selection panels with equal representation as the Water Authority, and review project deliverables as prescribed in this Agreement. The selection panel shall recommend the Owners’ Advisor(s) to the Executive Committee. If the Executive Committee disagrees with the selection of the Owners’ Advisor(s) and cannot resolve the issue at their level, the Parties may engage in mediation as provided in Section 8 of this Agreement.

1.6 Commitment of Parties for Project Costs. To the extent that any task(s) or phase(s) related to the Project is dependent on the development of data and/or information not known at this time, and therefore, it is not practical to estimate the cost of all task(s) or phase(s), the Parties agree that, to the best of their knowledge at this point in time, they are prepared to financially participate and contribute equally to these future tasks or phases as funds become necessary. In the event that either Party decides to no longer participate in or contribute to the Project, such Party agrees to not pursue the recovery of its prior funding contributions to the extent funds have been expended.

1.7 Future Project Revenue and Benefits. The Parties’ share of future Project revenue and benefits shall be based on their respective financial contribution to the Project costs, land ownership, and property rights. These financial contributions will include, without limitation, Project Costs relating to, but not limited to, permit and licensing fees and costs, land value, staff costs, consultant fees, and study costs. At the present time it is contemplated that both the financial contributions and revenues/benefits will be shared equally, excepting that each Party shall be responsible for its own staffing costs.

1.8 Receipt of Project Related Grant Funds. The Parties agree to disclose their application for any grant funds they intend to use for the Project, and to share such funds equally. Whenever possible, the Parties will jointly apply for available grant funds for the Project.

2. PROJECT MANAGEMENT PROVISIONS

2.1 Executive Committee. Under this Agreement, an Executive Committee is established and shall be comprised of no less than two (2) Authorized Representatives from each Party to provide oversight of activities that require consensus during the term of this Agreement. These Authorized Representatives are the Water Authority’s General Manager and the City’s Director of Public Utilities, or respective designees. Notice of designating an Authorized Representative other than the Water Authority’s General
Manager or the City’s Director of Public Utilities shall be made in the manner required under Section 14, below.

2.2 Authorized Representatives’ Scope and Authority. Each Authorized Representative shall be authorized and empowered by his/her governing authority (or authorities) to carry out the provisions of this Agreement on behalf of and for the benefit of the Party who she/he represents, and to provide liaison between the Parties, subject to the limitation of the maximum expenditures as approved by his/her governing authority (or authorities). The Authorized Representatives shall have no authority to alter, amend, modify, or delete any of the provisions of this Agreement.

2.3 Executive Committee Duties and Responsibilities. The Executive Committee shall have the following duties and responsibilities, among others:

2.3.1 The Executive Committee shall: (a) Oversee the tasks and phases identified in Section 1.4, above; (b) oversee the Parties’ performance of their respective obligations under Sections 3 and 4, below; (c) oversee the FERC permitting and/or licensing activities and report progress to the Parties; (d) oversee development of and approve Project costs; and (e) select Project Managers.

2.3.2 Subject only to any statutory requirements applicable to either Party and their respective governing authority, the Authorized Representatives shall have the authority to enter into contracts within the scope of this Agreement.

2.3.3 Unless the Authorized Representatives mutually agree otherwise, the Executive Committee shall have at least one standing meeting a month, with the Project Managers to discuss the progress of the Project, including, without limitation, FERC permitting and/or licensing issues. The Executive Committee shall establish a protocol for regularly scheduled meetings and conference calls, which may change in frequency over time, for the purposes of: (a) informing each other of the status of work and activities; (b) discussing overall schedule, progress towards meeting Project FERC permitting and/or licensing milestones, and any impediments to meeting the schedule; and (c) discussing key issues or Project FERC permitting and/or licensing strategy matters; and any other matters that require mutual decision making or agreement.

2.4 Project Managers. There shall be at least two Project Managers, one representing the Water Authority and one representing the City, each selected by the respective Party’s Authorized Representatives. The Party’s may mutually agree, in writing, to have more than two Project Managers. Each Party shall have the right to replace its respective Project Manager
with prior written notice to the other Party in the manner required under Section 14, below.

3. **WATER AUTHORITY’S OBLIGATIONS**

3.1 **Regulatory Compliance.** For purposes of this Agreement, the Water Authority is the lead Party for the Project, including but not limited to, FERC permitting and licensing, CEQA/NEPA compliance, and obtaining any necessary regulatory permits. City shall, however, be consulted and participate in all Project related regulatory compliance activities cited above, and in all related decisions. Furthermore, the Water Authority agrees that its efforts to fulfill its obligations under this Agreement will not interfere with the following: (a) the City's ownership or operation of San Vicente Reservoir and associated land ownership in proximity to the reservoir, or the City’s ownership or operation of the San Vicente Dam; or (b) the City’s ownership and operation of 90,000+ acre-feet (af) of storage in the San Vicente Reservoir for the term of this agreement and the term of any subsequent agreement related to the Project.

4. **CITY OBLIGATIONS**

4.1 **Contractual Arrangement.** The City shall be the lead Party in contracting for those services necessary to study the Project's impact on the Pure Water Project, any studies on San Vicente Reservoir water quality, or any San Vicente Reservoir water resource management studies and/or projects. Water Authority shall be consulted and participate in all activities cited above and in all related decisions. The City agrees that it will not interfere with the Water Authority's ownership of 152,000 af of storage in the reservoir.

4.2 **Access to City Property.** Upon reasonable notice and the City’s written consent, the Water Authority and its agents, employees, contractors may have access to City property for the purposes of performing its obligations under this Agreement.

4.3 **Pure Water Project.** The City shall be the Lead agency regarding compliance with applicable regulatory requirements for the Pure Water Project. The City shall be the lead in contracting for those services necessary for the Pure Water San Diego modeling that the Parties agree is necessary to study Project’s impact on the Pure Water San Diego Project. Water Authority shall be consulted and participate in all Project related Modeling decisions.

4.4 **Water Quality Modeling.** The City shall invoice the Water Authority its proportional share of the additional Pure Water San Diego modeling costs monthly. The City shall provide the Water Authority a monthly accounting and, upon request, all relevant supporting documents.
5. **MUTUAL OBLIGATIONS**

5.1 **Project Support.** The Parties agree to be advocates for the Project and the Project goals, and they will facilitate the necessary steps under their control so that the Project can be advanced in an expeditious manner.

5.2 **Exchange of Information, Data and Work Product.** The Parties will share all information (excluding information subject to the attorney-client or attorney work-product privileges), data, and work product with each other as necessary for performance under this Agreement. The Parties shall treat such information as proprietary information, and make the same efforts to keep and protect the information as it would its own proprietary information.

5.3 **Regulatory Agencies.** The Parties agree not to interact independently with FERC, CAISO, the California Public Utilities Commission, or other applicable regulatory agencies as well as Investor-Owned Utilities or other potential power off-takers regarding the Project without prior consultation and agreement of the other Party.

5.4 **Project Deliverables.** The Parties shall provide each other fourteen (14) working days or an agreed upon time to review the request for proposals, statement of qualifications, contracts, meeting minutes, and draft and final versions of any reports, studies, or Project design. The Parties shall review and address each other’s comments and respond to in writing within an agreed upon time frame or 14 calendar days from date of submittal.

5.5 **Partnership.** The Parties agree to remain partners, and shall not develop the project independently unless provisions of Sections 7 and 8 below are acted upon.

5.6 **Project Compatibility.** The Parties will ensure compatibility of the Project with the City's Pure Water Project requirements and mitigate any potential impacts.

5.7 **“One Voice.”** The Parties agree to coordinate with each other and speak with “one voice” when representing the Project to potential partners and the broader power market. Nothing herein is intended to restrict the Parties’ from informal discussions with their respective internal staff and governing bodies.

5.8 **Substitute Performance.** If a Party fails to perform its obligations in a timely manner such that a FERC-imposed or other regulatory deadline will be missed, the other Party may perform those duties, upon two (2) working days’ notice to the other Party in the manner provided under Section 14, to avoid missing such deadline, and shall be reimbursed by the other Party for expenses incurred in performing those obligations under the Cost Share provisions in this Agreement. Before performing any duties under this
section, the performing Party must provide reasonable notice in the manner
provided under Section 14, and provide an opportunity to the non-
performing Party to cure its non-performance

6. COST SHARE PROVISIONS

6.1 Process Costs. “Process Costs” are the costs to obtain a Project preliminary
permit, license or licenses from FERC, and all related permits, regulatory
approvals, and third party agreements, and include both Internal Costs and
Common Costs, as defined below.

6.2 Internal Costs. “Internal Costs” are those Process Costs incurred by the
Parties for internal permitting and/or licensing activities. “Internal
permitting and/or licensing activities” include, but are not limited to, staff
time and associated costs, administrative support and legal activities. Except
as provided in Section 6.5, the Parties are solely responsible for paying their
own Internal Costs.

6.3 Common Costs. “Common Costs” are Process Costs that must be mutually
agreed to in writing, in advance of either Party contracting for such cost,
and in any event, prior to performance of such activities. These include, but
are not limited to: (a) the cost of outside consultants, Owner-Advisors,
experts, and services for strategic planning, technical analyses, preparation
of the NOI and PAD, the preparation of required environmental documents,
participation in technical working groups and other meetings, study plan
development and implementation, preparation of study reports and other
FERC filings jointly submitted by the Parties in support of Project
permitting and/or licensing, preparation of the FERC license application,
post-application document preparation and analyses; and (b) miscellaneous
costs, such as costs incurred for public meetings and vendor services.

6.4 Equal Sharing of Common Costs. The Parties will equally share the
Common Costs for the Project. The Common Costs to be shared by the
Parties for Phase 2 work shall not exceed $1.8 million, inclusive of
$300,000 allocated for any additional PureWater project Modeling deemed
necessary by the Parties.

6.5 Party Performance of Common Cost Activities. The Parties may agree that
one of them has subject-matter expertise and available resources to carry
out a Common Cost activity. In situations where one of the Parties is
performing that Common Cost activity, the Internal Costs associated with
such activity may, by mutual written agreement, be classified as Common
Costs, in which case the billing and invoices for that work will be subject to
audit as specified in this Agreement. The billing Party shall bill for such
activity by written Work Order(s), and the Work Order(s) will be included
in Statements of Costs and invoices and paid as required under Section 6.8,
below.
6.6 **Reservation of Right to Hire Own Experts.** Nothing in this Agreement prevents either Party from hiring its own outside consultants or experts, at its own expense.

6.7 **Allocation of Common Costs.** Common Costs incurred by the Parties shall be reported monthly. On a quarterly basis, the Parties will calculate the equal share owed by each Party and determine the amount, if any, incurred by a Party in excess of the equal apportionment. Payments will be made as required under Section 6.8, below.

6.8 **Billing And Paying Eligible Costs:**

6.8.1 **Statements of Costs.** Within sixty (60) days after the end of each applicable calendar quarter, or such shorter or longer period of time as may be agreed to by the Parties, each Party shall submit to the other Party a detailed Statement which includes to the maximum extent practicable, the Common Costs (“Eligible Costs”) incurred by it during such calendar quarter. Each Party shall be entitled to such additional information in support of each such Statement as it may reasonably request from the other Party. To the extent that Eligible Costs are not included by a Party in its Statement for the time period covered by such Statement, it shall include such costs in the first Statement it issues after it becomes practicable to include such Eligible Costs, identifying the period in which such Eligible Costs were incurred.

6.8.2 **Payment of Eligible Costs.** Within forty-five (45) days of receipt of a Statement as provided in Section 6.8.1, above, or such longer period of time as may be agreed to in writing by the Parties, each Party shall: (a) pay the other Party its share of any unpaid and undisputed portion of Eligible Costs incurred by the other Party; and (b) provide notice of any dispute regarding the statement of costs, including whether costs were properly considered Eligible Costs. In the event that an invoice is disputed, the Parties shall resolve the dispute as provided in Section 8, below. Payment of the disputed amount shall not be required until the dispute is resolved. The Parties agree to use good faith efforts to resolve the dispute as soon as possible. Upon resolution of the dispute, any required payment shall be made within forty-five (45) days of such resolution. Overpayments shall be returned upon request or deducted by the Party receiving such overpayment from subsequent Statements until the overpayment is entirely reimbursed. The Parties may agree to methods of payment that do not require a paper check.

6.8.3 **Review Turnaround Time.** Each Party shall complete review and approval of any Statement to be paid by the other Party for Common Costs within ten (10) calendar days of receipt.
6.8.4 Statements and Payments:

Statements for the City shall be submitted to:
Public Utilities Department
9192 Topaz Way
San Diego, CA 92123
Re: P-14642-000 Permitting and/or Licensing Agreement

Statements for the Water Authority shall be submitted to:
General Manager’s Office
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Payments to the City shall be submitted to:
Public Utilities
9192 Topaz Way
San Diego, CA 92123
Re: P-14642-000 Permitting and/or Licensing Agreement

Payments to the Water Authority shall be submitted to:
Engineering Department
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

7. TERMINATION

7.1 Termination for Cause. Notwithstanding any other provision in this Agreement, either Party may, without prejudice to any other remedies available to it at law or in equity, terminate this Agreement in the event that the other Party shall have materially breached or defaulted in the performance of any of its material obligations, and (a) has not cured such breach or default within thirty (30) working days after notice of the breach or default, or (b) if a cure is not possible within thirty (30) working days, has failed to commence or diligently continue steps the Parties agree should result in a cure or prevent a similar subsequent breach. Termination for Cause includes any decision made by Parties’ respective governing bodies that prevents the Project from moving forward. Any termination pursuant to this Section shall become effective at the end of such thirty (30) working day period unless the party that has breached or defaulted (the “Breaching Party”) cures such breach or default during such thirty (30) working day period, or if such breach or default is not possible to cure within such thirty (30) working day period, the Breaching Party has commenced and is
diligently pursuing a mutually agreeable plan to effect a cure or prevent a similar subsequent breach or default.

7.2 **Termination by Mutual Agreement.** This Agreement shall terminate if both Parties agree in writing to terminate.

8. **Obligations Surviving Termination.** In the event of termination, unless otherwise mutually agreed, each Party shall remain obligated to the other Party for the share of all Common Costs incurred up to the date of termination. Termination or expiration of this Agreement, or any other agreements made a part hereof, for any reason shall not relieve either Party of its obligations in Section 6, above. The Party wishing to terminate the Agreement shall provide written notice to the other Party. The termination shall be effective upon receipt. The Party wishing to terminate the Agreement shall make available to the remaining Party any deliverables paid for by the Common Costs.

9. **NON-BINDING MEDIATION**

If a dispute arises out of, or relates to this Agreement, or the breach thereof, and if the dispute cannot be settled through informal negotiations, the Parties agree to first try to settle the dispute using mediation under the Construction Industry Mediation Rules of the American Arbitration Association, or other neutral organization agreed upon in writing, before having recourse in a court of law.

The expense for witnesses for either Party shall be paid by the Party producing the witnesses. All other expenses of the mediation, including required traveling and other expenses of the mediator, and the cost of any proofs or expert advice produced at the direct request of the mediator, shall be borne equally by the Parties, unless otherwise agreed.

Any agreements resulting from mediation shall be documented in writing. All mediation results and documentation, by themselves, shall be “non-binding.” Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery.

10. **INDEMNIFICATION**

The City and the Water Authority, agree to mutually indemnify, defend at their own expense, including attorneys' fees, and hold each other harmless from and against all claims, costs, demands, losses, and liability of any nature whatsoever, including but not limited to liability for bodily injury, sickness, disease or death, property damage (including loss of use) or violation of law, caused by or arising out of any error, omission, or negligent act of that party, its officers, directors, employees, agents, volunteers or any other person acting pursuant to its control in performing under this Agreement. Neither party shall indemnify the other for a party’s sole acts of negligence or willful misconduct.
11. **LAWS AND VENUE**

This Agreement shall be interpreted in accordance with the laws of the State of California. Notwithstanding the foregoing, the Federal Power Act, as amended from time to time, shall govern interpretation and meaning where required for FERC specific references. If any dispute, controversy, or claim is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court in the County of San Diego, State of California.

12. **NO CHANGE TO EXISTING AGREEMENTS**

This Agreement is entirely separate from and independent of other contracts and agreements between the Parties. Except for the matters expressly addressed in this Agreement, this Agreement does not supersede, modify, or amend any existing contracts or agreements between the Parties regarding the San Vicente Reservoir or the San Vicente Dam, and in no event shall either Party be required to act contrary to its own legal authority.

13. **AMENDMENT**

No amendment or variation of the terms of this Agreement shall be valid unless made in writing, signed by the Parties and approved as required by this Agreement and law. No oral understanding or agreement not incorporated in the Agreement is binding on either of the Parties. The terms of this Agreement are not severable one from the other. This Agreement is made on the understanding that each term is in consideration and support of every other term, and each term is a necessary part of the entire Agreement. If a court of competent jurisdiction rules that any provision in this Agreement is invalid, this Agreement will be deemed modified to conform to such ruling, unless either Party objects. If one or both Parties object, the Parties agree to confer on possible amendments to the Agreement that would allow the Agreement to continue in force. If the Parties cannot agree on an appropriate amendment, the Agreement shall terminate.

14. **SUCCESSIONS OR ASSIGNS**

No assignment or transfer of this Agreement or any part hereof, rights hereunder, or interest herein by either Party shall be valid unless and until it is approved by the other Party and made subject to reasonable terms and conditions as such other Party may impose, which approval shall not be unreasonably withheld. Such approval must be in writing. No assignment or transfer of this Agreement or any part hereof, rights hereunder, or interest herein by either Party shall be valid except as such assignment or transfer is made pursuant to and in conformity with applicable law. In the event of succession of either Party, whether by statute, executive order, or operation of law, the successor entity shall become a party to and be bound by the terms of this Agreement, to the extent permitted by law.
15. **NOTICES**

Any notice required under this Agreement shall be in writing and shall be delivered in person; or with proof of receipt by a nationally recognized delivery service; or by United States Certified Mail; or electronically. Notices are effective when received. Electronic notifications will be deemed received when the recipient confirms such receipt, or 3 business days after the electronic notification has been provided, whichever comes first. The designated person for receipt of notice for each Party shall be an Authorized Representative designated under Section 2.2, above, and delivered to the following address:

**CITY OF SAN DIEGO**
- Robert Mulvey, Assistant Director
- Public Utilities
- 9192 Topaz Way
- San Diego, CA 92123
- Re: P-14642-000 Permitting and/or Licensing Agreement
- (858) 292-6418
- RMulvey@sandiego.gov

**SAN DIEGO COUNTY WATER AUTHORITY**
- Frank Belock, Jr., Deputy General Manager
- General Manager’s Office
- San Diego County Water Authority
- 4677 Overland Avenue
- San Diego, CA 92123
- (858) 522-6788
- FBelock@sdcwa.org

16. **AUDIT**

The Parties agree that either Party or an Authorized Representative of either Party shall have the right to review and to copy any financial records and supporting documentation pertaining to those matters in which the reviewing Party has a financial interest. The Parties agree to maintain such records for possible audit for a minimum of three (3) years after final payment, unless a longer period of records retention is stipulated or required by law. The Parties agree to allow the auditor(s) access to such financial records during normal business hours and to allow interviews of any employees who might reasonably have information related to such records. Further, the Parties agree to include a similar right of either Party to audit financial records and interview staff in any Owner-Advisor contracts and/or subcontracts related to performance of this Agreement to which the auditing Party has a financial interest. Nothing in this Agreement is intended to diminish or otherwise affect the authority of either Party or any third party to implement its respective statutory functions.
17. MISCELLANEOUS PROVISIONS

17.1 No Third Party Beneficiaries. Without limiting the applicability of rights granted to the public pursuant to applicable law, this Agreement shall not create any right or interest in the public, or any member thereof, as a third party beneficiary hereof, and shall not authorize any non-party to maintain a suit at law or equity pursuant to this Agreement. The duties, obligations and responsibilities of the Parties with respect to third parties shall remain as imposed under applicable law.

17.2 Uncontrollable Forces. Neither Party shall be considered to be in default in respect to any obligation hereunder, if prevented from fulfilling such obligation by reason of uncontrollable force. For the purpose of this Agreement the term “uncontrollable force” means any cause beyond the control of the Party affected, including but not limited to, flood, earthquake, storm, landslides, fire, epidemic, war, riot, civil disturbance, labor disturbance, sabotage, and restraint by court or other public authority. Either Party rendered unable to fulfill any obligation by reason of an uncontrollable force shall exercise due diligence to remove such inability with all reasonable dispatch and keep the other Applicant fully informed of changes in conditions as far in advance as possible.

17.3 Elected Officials Not to Benefit. No elected officials shall be entitled to any share or part of this Agreement or to any benefit that may arise from it.

17.4 Timeliness. Time is of the essence in this Agreement.

17.5 Section Titles for Convenience Only. The titles for the Sections of this Agreement are used only for convenience of reference and organization, and shall not be used to modify, explain, or interpret any of the provisions of this Agreement or the intentions of the Parties. This Agreement has been jointly drafted by the Parties and therefore shall be construed according to its plain meaning and not for or against either Party.

IN WITNESS THEREOF, the Parties, through their duly authorized representatives, have caused this Agreement to be executed as of the date set forth in this Agreement.

DATE:__________ THE CITY OF SAN DIEGO

By: __________________________

Print name: ____________________
I HEREBY APPROVE the form and legality of the foregoing.

DATE:__________ SOMACH SIMMONS & DUNN

By:________________________

Michael E. Vergara
Attorney for City of San Diego

DATE:__________ SAN DIEGO COUNTY WATER AUTHORITY

By:________________________

Print name:________________________

Dan Hentschke
General Counsel
May 20, 2015

Attention: Engineering and Operations Committee

Annual Aqueduct Operating Plan (Information)

Background
This is the tenth year that the annual Aqueduct Operating Plan has been published. It was developed in June 2006 to coordinate Water Authority and Member Agency regional operating activities, including the delivery of treated and untreated water, aqueduct and treatment plant shutdowns, energy production and consumption, reservoir storage summaries and storage opportunities. This plan covers July 1, 2015 to June 30, 2016.

Discussion
The Aqueduct Operating Plan is used as a planning document to optimize the delivery, treatment, and storage of water in the Water Authority’s service area by means of coordination and communication between the member agencies and Metropolitan Water District.

The Aqueduct Operating Plan includes a summary of the Water Authority’s scheduled shutdowns that impact the delivery of treated and untreated water to the region, Water Authority pump station operating schedules, member agency major maintenance information, and the production and consumption of energy for the Water Authority’s hydroelectric facilities, water treatment plant, and pump stations. The plan was developed based on information received from member agencies, historical delivery data, constraints in the aqueduct system, and scheduled shutdowns.

Based on the projected allocation levels and the anticipated Carlsbad Desalination Plant start-up, average flows for the high-demand months of June through October are anticipated to range between 13 percent and 21 percent of the treated water capacity and 59 percent and 72 percent of the untreated water capacity of the aqueduct system.

The plan shows that, with effective communication and coordination, there is sufficient capacity to meet the region’s water supply demands for fiscal year 2016.

Prepared by: Jim Fisher, Operations and Maintenance Manager
Reviewed by: Gary A. Eaton, Director of Operations and Maintenance

Attachment:
1. Aqueduct Operating Plan
AQUEDUCT OPERATING PLAN

JULY 1, 2015 to JUNE 30, 2016
On the Cover

North County Distribution Pipeline - Remote Operated Vehicle Inspection

Carlsbad Desalination Construction (March 2015)

Pipeline 4 - Disinfection

Pipeline 4 - Ultrasonic Pipe Thickness Testing

San Vicente Reservoir Marina Construction (April 2015)

Untreated Water Quality Report: Online Operations Portal

San Diego 11 FCF 36-in Cone Valve Installation

Pipeline 3 Reline - Installation of Steel Liners
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Executive Summary

The annual Aqueduct Operating Plan (AOP) reflects on-going efforts to optimize the delivery, treatment, and storage of water in the San Diego region through coordination between member agency Operating Heads, Water Authority Staff, and the Metropolitan Water District of Southern California (MWD). Staff has updated the Aqueduct Operating Plan for fiscal year 2016 (FY 2016) to reflect anticipated operational opportunities and constraints, and to evaluate our performance for fiscal year 2015 (FY 2015).

The AOP includes the Water Authority’s anticipated pump station operating schedules and water treatment plant outages. The AOP was developed based on information received from member agencies, historical delivery/production data, capacity constraints within the Water Authority’s aqueduct system, and scheduled shutdowns. Highlights for fiscal year 2016 include:

- Anticipated allocation amounts have been considered in developing the fiscal year 2016 AOP
- System capacity will not be an issue in meeting the region’s anticipated treated and untreated water requests.
- Treated water system utilization is anticipated to be between 13 and 21 percent of treated aqueduct capacity for the high demand months of June through October.
- Untreated water system utilization is anticipated to be between 59 and 72 percent of untreated aqueduct capacity for the high demand months of June through October.
- There will be 4 treated water shutdowns and 2 treated water outages*.
- There will be 3 untreated water shutdowns and 2 untreated water outages*.

*Shutdowns affect large portions of the system and affect deliveries to a significant number of metered connections; outages are more localized and have considerably smaller impact on aqueduct deliveries.
Water Supply/Conveyance

Based on the projected allocation levels and the anticipated Carlsbad Desalination Plant start-up, it is expected that demand for both treated and untreated water for FY 2016 will not exceed system capacity and overall will be lower than the historically high demand year of FY 2004 (see Figure 1 and Figure 2). These projections indicate that treated water deliveries for the high demand months of June through October 2015 should result in flows ranging from 13 percent to 21 percent of the 650 cfs treated water pipeline capacity (Figure 1). Likewise, untreated deliveries for the high demand months of June through October 2015 should result in flows between 59 percent and 72 percent of the 780 cfs untreated pipeline capacity (Figure 2).

Figure 1 - FY 2016 Projected Treated Water System Utilization

Figure 2 - FY 2016 Projected Untreated Water System Utilization
FY 2015 Water Authority demands for treated water have generally followed projected trends; however due to drier than expected weather conditions untreated deliveries were above projected demands. Treated water volumes were generally at or below the historically high demand year of FY 2004 (see Figure 3); however due to the lack available local supplies untreated water volumes are beginning to exceed the high demand year of FY 2004 during the summer months (see Figure 4).

Figure 3 - FY 2015 AOP Treated Water Demand vs. Actual Deliveries

Figure 4 - FY 2015 AOP Untreated Water Demand vs. Actual Deliveries
Untreated Water Distribution Priorities

Through a series of discussions with member agency staff, key untreated operating concerns were identified and used to develop untreated water delivery priorities. These priorities are intended to provide a framework for Water Authority operators to deal with potential conflicts during untreated water high demand periods. The Board adopted interim untreated water delivery priorities at the September 8, 2005 Board meeting. This plan complies with the interim untreated water distribution priorities and is shown in Figure 5.

Figure 5 - Untreated Water Delivery Priorities
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Water Authority Aqueduct Shutdowns

The Water Authority conducts scheduled shutdowns of sections of pipeline for internal inspection, maintenance, and Capital Improvement Project (CIP) connections on an annual basis. These pipeline shutdowns are coordinated with MWD, member agencies, and all Water Authority Departments. The schedule includes three years of shutdowns to allow for the proper planning of maintenance and CIP activities for both the Water Authority and its member agencies. This three-year schedule is updated each January to facilitate the compilation of the Annual Aqueduct Operating Plan. At that time, the next fiscal year’s (July to June) Aqueduct shutdown schedules are made available to member agency personnel for review and comment, prior to inclusion in the AOP.

For FY 2016, there are 4 treated water shutdowns, 3 untreated water shutdowns, 2 treated water outages, and 2 untreated water outages scheduled between October 2015 and June 2016. While the O&M Department will be involved in additional maintenance activities that will maximize the benefits of the shutdowns planned for FY 2016, the primary reasons for these shutdowns are to support activities related to either asset management or warranty inspections. As noted in the Executive Summary, the difference between shutdowns and outages are a matter of “scale,” shutdowns affect large portions of the system and affect deliveries to a significant number of metered connections, while outages are more localized and have considerably smaller impact on aqueduct deliveries. A timeline and brief description of the shutdowns and outages are shown in Figure 6.

Based on the current construction schedule, the Carlsbad Desalination Plant and Conveyance Pipeline are projected to begin commissioning in summer/fall 2015. The facility commissioning will be conducted over a 3-4 month period and is expected to have minimal impact on the aqueduct system and our member agencies.
Figure 6 - Water Authority FY 2016 Pipeline Shutdowns and Outages

- Nov 3 – Nov 12, 2015: Untreated
  1. RPH internal inspection
  2. Lake Hodges Hydroelectric Facility annual maintenance

- Nov 1 – Nov 10, 2015: Untreated
  1. RPH internal inspection
  2. San Vicente Pipeline warranty inspection
  3. San Vicente Bypass Pipeline/ 1st Aqueduct connection

- Feb 28 – Mar 3, 2016: Treated
  1. Carlsbad Desalination Plant semi-annual maintenance

- Dec 6 – Dec 19, 2015: Treated
  1. Ramona Pipeline pump well and cathodic protection installation

- Mar 7 – Mar 16, 2016: Untreated
  4. Lake Hodges Hydroelectric Facility semi-annual maintenance

- Oct 2015 – May 2016: Treated
  1. Miramar Pump Station will be out of service for rehabilitation

- Feb 28 – Apr 3, 2016: Treated
  2. Pipeline 3 internal condition assessment (Diversion to Paint Mtn)
  3. CR1 FCF Replacement (Feb 28 – Mar 8 only)
  4. San Marcos Vent Modification warranty inspection (Feb 28 – Mar 8 only)
### November 1, 2015 through November 10, 2015 - Untreated Water

<table>
<thead>
<tr>
<th>Description</th>
<th>Rancho Peñasquitos Hydro Electric Facility will be isolated for an internal inspection. A warranty inspection of the San Vicente Pipeline from West Shaft to Central Shaft. 1st Aqueduct will be shutdown to allow final tie-in to new Terminal Structure and the City of San Diego’s Bypass pipeline.</th>
</tr>
</thead>
</table>
| Shutdowns                                                                 | 1. Internal inspection of Rancho Peñasquitos Hydro Electric Facility  
2. Warranty inspection of San Vicente Pipeline  
3. Complete tie-in of new terminal structure on 1st Aqueduct to existing San Vicente Bypass pipeline |
| Affects on MWD                                                            | Reduction in untreated flow demands from MWD |
| Member Agency Connections Affected | The following connections will be out of service and unavailable during this shutdown – SDSF4, SDSF5, SD5A-B-C, SD12, NCSB3, NCSB1, SD7, SD20, SD6A-B, H LX1, H LX6, H LX7, H LX8, SD9, POW3, RAM1, POW1, POW4, 1, SD2, and SD Weir. |

---

### December 6, 2015 through December 19, 2015 - Treated Water

<table>
<thead>
<tr>
<th>Description</th>
<th>Ramona Pipeline will be isolated from Pipeline 3 and Pipeline 4 at the takeoff structures and the Ramona Pipeline inline valve to allow for installation of a new pump well and bonding cables for cathodic protection on unwelded joints.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shutdowns</td>
<td>1. Installation of new pump well and bonding cables at pipe joints previously unwelded to ensure continuity of the Ramona Pipeline for cathodic protection purposes.</td>
</tr>
<tr>
<td>Affects on MWD</td>
<td>None, potential reduction in SDCWA system demand up to 104cfs</td>
</tr>
<tr>
<td>Member Agency Connections Affected</td>
<td>The following connections will be affected by this shutdown: Ramona Pipeline – OLIV5, SD14, SD15, RAM 3.</td>
</tr>
</tbody>
</table>
## February 28, 2016 through April 3, 2016 - Treated Water

| Description                                                                 | 31 day treated water shutdown on Pipeline 3 from Diversion to Terminus. Pipeline 4 shutdown from Point of Delivery to Diversion for first 10 days. This shutdown will have 3 phases with different impacts for each phase.  
- During Phase 1, all treated water flow from MWD, Carlsbad and Twin Oaks will be terminated from point of delivery to terminus.  
- During Phase 2, Pipeline 4 will be placed back in service and service to all flow control facilities will be restored. Carlsbad Desal and Twin Oaks TP will be back in normal operation.  
- Phase 3 will be to remove isolation on Pipeline 3 and will not impact Member Agencies. |
| Shutoffs                                                                    | 2. Internal condition assessment of 14 miles of Pipeline 3 (Diversion to Paint Mtn)  
3. Replacement of CR1 Flow Control Facility  
4. San Marcos Vent Modification warranty inspection |
| Affects on MWD                                                              | Pipeline 4 out of service, capacity of 450 cfs unavailable from February 28, 2016 to March 8, 2016. No impact for the duration of the shutdown. |
| Member Agency Connections Affected                                         | The following connections will be affected by Phase 1: DLZ1, RB9, FB6, RB8, RB7, FB4, RB6, VC8, RB3, VC7, NCDP1, RB11, VAL10, Twin Oaks TP, VID3, CR1, VAL9, VAL7, OLIV 1, OLIV3, SDSF3, OLIV2, SD10, Miramar Pump P1, SD11, PD4, SD18, SD21, HLX5, SD19, OTAY11, OTAY10, OTAY12, OTAY13, OTAY13SR, Tri Agency Pipeline – VID8, VID 9, VID 10, CR3, CR4, OCS4; Ramona Pipeline – OLIV5, SD14, SD15, RAM 3. Carlsbad Desal and Twin Oaks TP will be offline during Phase 1 of shutdown.  
During Phase 2, service to all flow control facilities will be restored and Carlsbad Desal and Twin Oaks TP will be back in normal operation.  
Phase 3 will be to remove isolation on Pipeline 3 and will not impact Member Agencies. |

## October 1, 2015 through May 1, 2016 – Treated Water

| Description                                                                 | 7 month outage for Miramar Pump Station Rehabilitation project |
| Outage                                                                      | 1. Miramar Pump Station will be isolated at Pipeline 4BI takeoff to allow for facility to be rehabilitated |
| Affects on MWD                                                              | None |
| Member Agency Connections Affected                                         | The following connections will be affected: Miramar P1 pump, P3 pump, C22 pump, and P2 gravity flow connection. |
### November 2 through November 11, 2015 – Untreated Water

<table>
<thead>
<tr>
<th>Description</th>
<th>A 10-day outage of Lake Hodges Hydroelectric Facility for annual maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outage</td>
<td>2. Lake Hodges Hydroelectric Facility Annual Maintenance</td>
</tr>
<tr>
<td>Affects on MWD</td>
<td>None</td>
</tr>
<tr>
<td>Member Agency Connections Affected</td>
<td>None</td>
</tr>
</tbody>
</table>

### February 28 through March 3, 2016 – Treated Water

<table>
<thead>
<tr>
<th>Description</th>
<th>A 5-day outage of Carlsbad Desalination Plant for semi-annual maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outage</td>
<td>3. Carlsbad Desalination Plant Semi-Annual Maintenance</td>
</tr>
<tr>
<td>Affects on MWD</td>
<td>None</td>
</tr>
<tr>
<td>Member Agency Connections Affected</td>
<td>The following connection will be affected by this shutdown: Desalination Conveyance Pipeline – VAL9 will not be able to receive desalinated water during shutdown; however imported treated will be available if required.</td>
</tr>
</tbody>
</table>

### March 7 through March 16, 2016 – Untreated Water

<table>
<thead>
<tr>
<th>Description</th>
<th>A 10-day outage of Lake Hodges Hydroelectric Facility for semi-annual maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outage</td>
<td>4. Lake Hodges Hydroelectric Facility Semi-Annual Maintenance</td>
</tr>
<tr>
<td>Affects on MWD</td>
<td>None</td>
</tr>
<tr>
<td>Member Agency Connections Affected</td>
<td>None</td>
</tr>
</tbody>
</table>
Member Agency Shutdowns

In order to optimize the delivery, treatment, and storage of water in San Diego County, a request was sent to the Member Agency Operating Heads to obtain schedules for member agency treatment plant expansions, CIP tie-ins, scheduled treatment plant maintenance, and shutdowns. The goal of this request is to facilitate the production of one schedule that the member agencies can use to schedule their work at times that will have the least impact on the region. Responses from member agencies confirmed upcoming maintenance activities including those shown in Figure 7. A number of other maintenance projects were also identified, but they either lacked firm schedules or did not have a significant operational impact to the region. These types of projects, as well as Treatment Plant Shutdown coordination, will be carried throughout the year as standing discussion items at the regularly scheduled Operating Head meetings.

Figure 7 - Scheduled Member Agency Maintenance Coordination
The Water Authority will have two power generation facilities operating during FY 2016. The Water Authority will continue operation of the Rancho Peñasquitos Hydroelectric Facility, with the Lake Hodges Pumped Storage Facility (LHH) operations contracted out to ProTrans USA. The Water Authority will be operating six pump stations and CH2M Hill/OMI will be operating the Twin Oaks Valley Water Treatment Plant in FY 2016. Following is a list of those facilities along with their anticipated operation schedules and costs:

- **Rancho Peñasquitos Pressure Control and Hydroelectric Facility**
  - Projected months of operation: July 2015 to June 2016
  - Power generating capacity: 4.5 megawatts.
  - Estimated Power: 16,800 megawatt (MW) hours
  - Estimated Revenue: $700,000
  - Projected power consumption cost per month: $1,680
  - Total operational power consumption cost per year: $20,174

- **Lake Hodges Pumped Storage Facility**
  - Projected months of operation: As dispatched
  - Power generating capacity: 20 megawatts (single turbine operation), 40 megawatts (two turbine operation)
  - Estimated Power: On call, based on SDG&E demands
  - Estimated Revenue (for availability): $2,800,000
  - Projected auxiliary power consumption cost per month: $17,744
  - Projected pump cost per year: $0
  - Total operational power consumption cost per year: $212,932

- **Olivenhain Pump Station**
  - Projected months of operation: None (only planned to be operated for quarterly maintenance)
  - Pumps (three available): One pump operation
  - Projected base facility operational power cost per month: $4,383
  - Projected pump test cost for FY 2016: $0 (runs on generators only)
  - Total operational power consumption cost per year: $52,590

- **Escondido Pump Station**
  - Projected months of operation: None (only planned to be operated if aqueduct flows are too high)
  - Pumps: Two pump operation
  - Projected base facility operational power cost per month: $760
  - Projected pump cost per month: $0
  - Projected pump cost for the year: $0
  - Total operational power consumption cost per year: $9,120
Pipeline 2A Pump Station
- Projected months of operation: October 2015 to June 2016
- Pumps: Three pump operation
- Projected base facility operational cost per month: $760
- Projected pump cost per month: $43,900
- Projected pump cost for the year: $395,100
- Total operational power consumption cost per year: $404,220

Miramar Pump Station (paid by the City of San Diego)
- Projected months of operation: July 2015 through June 2016
- Pumps: One pump operation
- Projected base facility operational cost per month: $0
- Projected Water Authority pump cost per month: $0
- Projected Water Authority pump cost for the year: $0
- Total operational power consumption cost per year: $0

San Vicente Pump Station
- Projected months of operation: (only planned to be operated for quarterly maintenance)
- Pumps (three available): Two pump operation
- Projected base facility operational cost per month: $3,590
- Projected quarterly pump test cost for FY 2016: $7,820
- Total operational cost per year: $50,907
- Total operational power consumption cost per year: $58,727

Twin Oaks Valley Pump Station
- Projected months of operation: None (only operated for monthly maintenance)
- Projected base facility operational cost per month: $0 (included in Twin Oaks Valley Treatment Plant costs)
- Projected pump test cost for FY 2016: $0 (runs on generators only)
- Projected pump cost for the year: $0
- Total operational power consumption cost per year: $0

Twin Oaks Valley Water Treatment Plant
- Projected months of operation: July 2015 to June 2016
- Projected operational cost per month (average): $84,230
- Total power consumption cost per year: $1,010,763

The total power cost to operate the LHH, Rancho Hydro facility, the six pump stations, and Twin Oaks Valley WTP are estimated to be $1,768,500 for FY 2016. The FY 2016 revenue for all Water Authority hydroelectricity generation is estimated to be $3,500,000.
As of the end of April, the Water Authority is projecting a $230,000 shortfall at the Rancho Hydro Facility from the FY 2015 forecast due to unplanned maintenance requirements and low flows (see Figure 8 and Table 1).

Figure 8 - Rancho Hydro Revenues vs. Projections FY 2015

Table 1 - Rancho Hydro Revenues vs. Projections FY 2015

<table>
<thead>
<tr>
<th>Month</th>
<th>Monthly Goal</th>
<th>Monthly Revenue</th>
<th>YTD Revenue</th>
<th>Goal</th>
<th>%</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>$128,664</td>
<td>$122,859</td>
<td>$122,859</td>
<td>14</td>
<td>%</td>
<td>Actuator Communication Errors</td>
</tr>
<tr>
<td>Aug</td>
<td>$134,034</td>
<td>$107,930</td>
<td>$230,789</td>
<td>26</td>
<td>%</td>
<td>Low Flows</td>
</tr>
<tr>
<td>Sept</td>
<td>$123,294</td>
<td>$31,940</td>
<td>$262,729</td>
<td>29</td>
<td>%</td>
<td>Forced Outage (Actuator Communication Errors)</td>
</tr>
<tr>
<td>Oct</td>
<td>$85,704</td>
<td>$62,201</td>
<td>$324,929</td>
<td>36</td>
<td>%</td>
<td>Cooling Water Modification, Inspection</td>
</tr>
<tr>
<td>Nov</td>
<td>$48,114</td>
<td>$116,186</td>
<td>$441,115</td>
<td>49</td>
<td>%</td>
<td>High Flows</td>
</tr>
<tr>
<td>Dec</td>
<td>$42,744</td>
<td>$0</td>
<td>$441,115</td>
<td>49</td>
<td>%</td>
<td>Actuator Repairs, Low Flows</td>
</tr>
<tr>
<td>Jan</td>
<td>$37,374</td>
<td>$0</td>
<td>$441,115</td>
<td>49</td>
<td>%</td>
<td>Low Flows</td>
</tr>
<tr>
<td>Feb</td>
<td>$0</td>
<td>$0</td>
<td>$441,115</td>
<td>49</td>
<td>%</td>
<td>2/5/15 – 3/30/15 Planned Pipeline 5 Shutdown</td>
</tr>
<tr>
<td>Mar</td>
<td>$0</td>
<td>$460</td>
<td>$441,575</td>
<td>49</td>
<td>%</td>
<td>2/5/15 – 3/30/15 Planned Pipeline 5 Shutdown</td>
</tr>
<tr>
<td>April</td>
<td>$85,704</td>
<td>$91,893</td>
<td>$533,468</td>
<td>59</td>
<td>%</td>
<td>Estimated Revenue</td>
</tr>
<tr>
<td>May</td>
<td>$96,444</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>$117,924</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Lake Hodges Pump Storage Facility has been operating well and has exceeded its revenue goal of $2,600,000 in April 2015 (Figure 9). FY 2015 revenues are projected to be approximately $3,000,000 for the year.

![Lake Hodges Pumped Storage Annual Revenue](image)

**Figure 9 - Annual revenue generated at Lake Hodges Pump Storage Facility.**

**Solar Generation**

In October of 2010, a Solar Power and Services Agreement was signed between the Water Authority and Borrego Solar Systems Incorporated (Borrego) which allowed Borrego to install solar systems at the Kearny Mesa Headquarters, Escondido Operations Center, and the Twin Oaks Valley Water Treatment Plant. The Water Authority purchases the power generated at these sites at rates lower than the projected utility rate. The systems are owned, financed, and maintained by Borrego so that there are no expenses to the Water Authority other than the staff time required to monitor the agreements. As SDGE rates have increased, the savings from solar have increased dramatically as the solar rate remains relatively stable. Following is a list of the three solar facilities along with their anticipated operation schedules, and estimated savings to the Water Authority based on Borrego’s contract:

- **Escondido Operations Center**
  - Projected Months of Operation: July 2015 to June 2016
  - Estimated Generation: 256,500 kWh
  - Estimated Savings: $17,470

- **Twin Oaks Valley Water Treatment Plant**
  - Projected Months of Operation: July 2015 to June 2016
  - Estimated Generation: 1,995,000 kWh
  - Estimated Savings: $207,000

- **Kearny Mesa Headquarters**
  - Projected Months of Operation: July 2015 to June 2016
  - Estimated Generation: 587,600 kWh
  - Estimated Savings: $40,400
Reservoirs and Storage Opportunities

Member agency and Water Authority reservoirs serve multiple functions including: surface water capture, seasonal shift water storage, carryover storage, and local sources of emergency water supplies. Member agency and Water Authority reservoirs function as system capacity buffers during peak demand periods and offer a level of security for short and long-term emergency situations. The size and location of each reservoir affects the extent to which it can perform the various functions, as does the individual agencies’ operational plan (Error! reference source not found. see Figure 10, Figure 11, and Table 2).

Figure 10 - Location and Relative Capacities of San Diego County Reservoirs
### Table 2 - Storage/Capacity in Member Agency and Water Authority Reservoirs (AF)

<table>
<thead>
<tr>
<th>Reservoir</th>
<th>Total</th>
<th>Usable</th>
<th>Dead (unusable)</th>
<th>Storage as of May 4, 2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Member Agency</td>
<td>Water Authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Carryover</td>
<td>ESP</td>
<td>Operational</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Henshaw</td>
<td>51,774</td>
<td>51,768</td>
<td>6</td>
<td>5,249</td>
<td>5,249</td>
</tr>
<tr>
<td>Wohlford</td>
<td>6,506</td>
<td>6,156</td>
<td>350</td>
<td>1,934</td>
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</tr>
<tr>
<td>Dixon</td>
<td>2,606</td>
<td>2,541</td>
<td>65</td>
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<tr>
<td>Sutherland</td>
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<td>29,396</td>
<td>112</td>
<td>1,975</td>
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</tr>
<tr>
<td>Hodges</td>
<td>30,632</td>
<td>28,422</td>
<td>1,829</td>
<td>3,145</td>
<td>11,620</td>
</tr>
<tr>
<td>San Dieguito</td>
<td>883</td>
<td>717</td>
<td>166</td>
<td>482</td>
<td>482</td>
</tr>
<tr>
<td>San Vicente</td>
<td>249,358</td>
<td>90,041</td>
<td>5,228</td>
<td>48,839</td>
<td>84,034</td>
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<tr>
<td>El Capitan</td>
<td>112,807</td>
<td>109,992</td>
<td>2,815</td>
<td>32,064</td>
<td>32,064</td>
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<td>Murray</td>
<td>4,684</td>
<td>4,292</td>
<td>392</td>
<td>4,067</td>
<td>4,067</td>
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<tr>
<td>Cuyamaca</td>
<td>8,195</td>
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<td>9,013</td>
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<td>Loveland</td>
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<td>175</td>
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<td>Sweetwater</td>
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<td>Morena</td>
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<td>50,020</td>
<td>674</td>
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<td>1,624</td>
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<tr>
<td>Barrett</td>
<td>34,806</td>
<td>34,207</td>
<td>599</td>
<td>1,958</td>
<td>1,958</td>
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<tr>
<td>Lower Otay</td>
<td>49,489</td>
<td>46,026</td>
<td>3,823</td>
<td>37,015</td>
<td>42,799</td>
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<tr>
<td>Miramar</td>
<td>6,682</td>
<td>5,774</td>
<td>908</td>
<td>5,465</td>
<td>5,465</td>
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<tr>
<td>Poway</td>
<td>3,330</td>
<td>2,560</td>
<td>770</td>
<td>3,072</td>
<td>3,072</td>
</tr>
<tr>
<td>Ramona</td>
<td>12,000</td>
<td>11,800</td>
<td>200</td>
<td>2,353</td>
<td>2,353</td>
</tr>
<tr>
<td>Turner</td>
<td>1,612</td>
<td>1,552</td>
<td>60</td>
<td>1,125</td>
<td>1,125</td>
</tr>
<tr>
<td>Olivenhain</td>
<td>24,789</td>
<td>24,746</td>
<td>43</td>
<td>-</td>
<td>18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,328</td>
</tr>
</tbody>
</table>

**Notes:**


2. Maximum reservoir elevation is limited to Elev. 650 (90,041 AF) until DSOD certification and completion of San Vicente By-Pass Pipeline Project.

In addition to meeting local storage and operational demands, Olivenhain, San Vicente, and Hodges reservoirs play a significant role in the Water Authority’s Emergency Storage Program (ESP), in response to regional emergency situations related to water supply availability. The San Vicente Reservoir will also be utilized as a regional carryover storage facility.
Figure 11- Regional Reservoir Levels (% of Capacity) as of May 1, 2015

(This Figure represents the Water Authority Carryover Storage and Regional ESP Storage)

Note: San Vicente Reservoir’s total storage capacity prior to the dam raise was 90,200 AF. Following the completion of the dam the total storage capacity will be 249,358 AF. Maximum reservoir elevation is limited to Elev. 650 until DSOD certification and completion of San Vicente By-Pass Pipeline Project.
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In addition to ongoing corrective maintenance (CM) that is undertaken in response to specific needs or events, the O&M Department is also engaged in a rigorous program of preventative maintenance (PM) that ensures optimal performance of Water Authority assets throughout their life cycles. These PM activities can include inspection, rehabilitation/upkeep, and/or lubrication of assets where appropriate. In addition to routine CM and PM work, the O&M Department undertakes additional Asset Management projects and “major” projects that fall outside the scope of routine maintenance. Some of the activities undertaken during FY2015 included:

- Installation of a new valve actuator at Oceanside 6 flow control facility
- Installation of new control valve and venturi meter at San Diego 11 flow control facility
- Demolition of Otay 9 flow control facility. This facility was no longer in service and was not needed by our Member Agency
- Cathodic protection repair of North County Distribution Pipeline Facilities
- Pipeline 5EII cathodic protection improvements at San Dieguito Creek
- Painting of San Diego 11 Flow Control Facility and Turnout
- Rancho Peñasquitos Hydroelectric Facility electric actuator replacements
- Pipeline 3 Comprehensive Condition Assessment (MFL) from Point of Delivery to Twin Oaks Diversion Structure
- Remote Operated Vehicle (ROV) and visual inspection of the North County Distribution Pipeline
- Leak Detection survey of the Tri-Agencies Pipeline (Smart Ball)

Figure 12 – San Diego 11 Meter and Control Valve Replacement
The Asset Management and major maintenance activities planned by the O&M Department for FY 2016 include:

- Pipeline 3 Comprehensive Condition Assessment San Marcos to Rancho Peñasquitos
- Ramona Pipeline Cathodic Protection Project
- Flow control facility electric actuator replacements (30 locations)
- Painting of Poway 2 Turnout, Ramona Pipeline P3 and P4 Turnouts, VID 3 Flow Control Facility, and Tri-Agency Pipeline P3 and P4 Turnouts
- Access road improvements at Otay 12FCF and along the Crossover Pipeline
- Conversion of 37 facilities to an encrypted 3G/4G wireless technology for communication to the SCADA system
- Condition assessment of turbines, generators, pumps and motors at Olivenhain Pump Station, San Vicente Pump Station and Rancho Peñasquitos Hydroelectric Facility.
4677 Overland Avenue
San Diego, California  92123

FORMAL BOARD OF DIRECTORS’ MEETING

The mission of the San Diego County Water Authority is to provide a safe and reliable supply of water to its member agencies serving the San Diego region.

MAY 28, 2015

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 Formal Board of Directors’ meeting minutes of April 23, 2015.

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

7. PRESENTATIONS & PUBLIC HEARINGS

   7-A Recognition of Chris Castaing, System OPS Supervisor, Employee of the 3rd Quarter.
   7-B Retirement of Director.  Adopt Resolution honoring Javier Saunders upon his retirement from the Board of Directors.
   7-C Re-Appointment of Director.  Re-Appointment of Yen Tu representing the City of San Diego.  Term ending January 30, 2021.
   7-D Re-Appointment of Director.  Re-Appointment of Fern Steiner representing the City of San Diego.  Term ending March 5, 2021.
   7-E Appointment of Director.  Appointment of Lois Fong-Sakai representing the City of San Diego.  Term ending October 27, 2018.
   7-F Appointment of Director.  Appointment of Tony Heinrichs representing the City of San Diego.  Term ending March 5, 2021.
   7-G Ramona Municipal Water District Overview – David Barnum, General Manager
8. REPORTS BY CHAIRS

8-A Chair’s Report: Chair Weston

8-B Report by Committee Chairs

Administrative and Finance Committee         Director Arant
Legislation, Conservation and Outreach Committee  Director Croucher
Water Planning Committee                  Director Tu
Imported Water Committee                   Director Watton
Engineering and Operations Committee        Director Williams

9. CONSENT CALENDAR

9-1. Treasurer’s Report.
Note and file the monthly Treasurer’s report.

9-2. Professional services contract with Alliant Insurance Services, Inc., to provide Health Insurance Broker Services. Authorize the General Manager to award a Professional Services contract to Alliant Insurance Services, Inc. to provide Health Insurance Broker Services for a three-year term, beginning July 1, 2015 through June 30, 2018, at a cost of $55,000 per year, for a total not-to-exceed amount of $165,000. The Water Authority will have the option for a two-year extension at a cost of $58,000 per year.

9-3. Resolution setting a Public Hearing date for the Water Authority’s proposed calendar year 2016 Rate and Charge increases. Adopt Resolution No. 2015-__ setting the time and place for a public hearing on June 28, 2015, at or after 9:00 a.m., or as soon thereafter as may practically be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2016.

9-4. Award a three-year professional services agreement with Mission Resource Conservation District in an amount not-to-exceed $470,000 to administer the Agricultural Water Management Program. Authorize the General Manager to execute a three-year professional services agreement with Mission Resource Conservation District in an amount not-to-exceed $470,000 to administer the Agricultural Water Management Program.

9-5. Amendment to Professional Services Contract with DeLorenzo International for Implementation of the WaterSmart Landscape Makeover Program. Approve amendment to professional services contract with DeLorenzo International (DLI) to increase the contract value by $455,000 to a not-to-exceed amount of $744,000 and extend the term for two years from July 1, 2015 through June 30, 2017.
9-6. **Adopt positions on various state bills.**
1. Adopt a position of Support on AB 1139 (Campos).
2. Adopt a position of Support and Seek Amendments on AB 1201 (Salas).
3. Adopt a position of Support on AB 1325 (Salas).
4. Adopt a position of Support on SB 286 (Hertzberg).
5. Adopt a position of Support if Amended on SB 551 (Wolk).

9-7. **Resolution for the Final Mitigated Negative Declaration for the Application of Copper-Based Algaecides at five reservoirs in San Diego County; adopting a Mitigation Monitoring and Reporting Program; approving the project; and authorizing Filing of a Notice of Determination.**

   It is recommended the Board adopt Resolution No. 2015-___ (attached) that:
   a) Finds that the project will not have a significant effect on the environment.
   b) Adopts the Final Mitigated Negative Declaration (MND).
   c) Adopts the Mitigation Monitoring and Reporting Program.
   d) Approves the Project.
   e) Authorizes filing of a Notice of Determination (NOD).

9-8. **Amend the memorandum of understanding with city of San Diego (City) and county of San Diego (County) for implementation of Integrated Regional Water Management activities.**

   Approve the first amendment to the memorandum of understanding (MOU) with the city of San Diego and county of San Diego to extend the MOU term and maintain the financial commitment of the three agencies to the IRWM Program.

9-9. **Notice of Completion for the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project.**

   Authorize the General Manager to accept the Pipelines 3, 4, and 5 Relining at the San Luis Rey River project as complete, record the Notice of Completion, and release funds held in retention to L.H. Woods & Sons, Inc., following the expiration of the retention period.

9-10. **San Vicente Pumped Storage Study Update.**

   Approve the following actions to further advance the San Vicente Pumped Storage Study:
   1. Authorize the General Manager to execute an Agreement between the City of San Diego and the San Diego County Water Authority for the Joint Development of the San Vicente Pumped Storage Project.
   3. Approve starting the process for procuring an Owners’ Advisor Team to provide professional services for recommending a business model.

10. **ACTION / DISCUSSION**
11. SPECIAL REPORTS
   11-A GENERAL MANAGER’S REPORT – Ms. Stapleton
   11-B GENERAL COUNSEL’S REPORT – Mr. Hentschke
   11-C SANDAG REPORT – Vice Chair Muir
       SANDAG Subcommittee: Borders/Regional Planning Committee –
       Director Saxod
   11-D AB 1234 Compliance Reports – Directors

12. CLOSED SESSION(S)

12-A CLOSED SESSION:
   Conference with Legal Counsel - Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: SDCWA v. Metropolitan Water District of Southern California;
   Case Nos. CPF-10-510830; CPF-12-512466; and CPF-14-514004

12-B CLOSED SESSION:
   Conference with Legal Counsel - Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: State Water Resources Control Board
   Petition of Imperial Irrigation District for Modification of Revised Water Rights
   Order 2002-0013

13. Action following Closed Session

14. OTHER COMMUNICATIONS

15. ADJOURNMENT

Melinda Cogle
Clerk of the Board

NOTE: The agendas for the Formal Board meeting and the meetings of the Standing Committees
held on the day of the regular Board meeting are considered a single agenda. All information or
possible action items on the agenda of committees or the Board may be deliberated by and become
subject to consideration and action by the Board.
MINUTES OF THE FORMAL BOARD OF DIRECTORS’ MEETING
APRIL 23, 2015

ENGINEERING AND OPERATIONS COMMITTEE
CALL TO ORDER / ROLL CALL

Chair Williams called the Engineering and Operations Committee meeting to order at
9:00 a.m. Committee members present were Chair Williams, Vice Chairs Miller and Watkins,
and Directors Arant, Ayala, Boyle, Brady, Hogan, Linden, and Olson. Committee members
absent were Directors Croucher, Morrison, Razak, Saunders, and Simpson. Also present were
Directors Barnum, Hall, Hilliker, Kennedy, Lewinger, Madaffer, Saxod, Verbeke, Weston, and
Wilson. At that time, there was a quorum of the Committee.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy
General Managers Belock and Kerl, Assistant General Manager Cushman, Deputy General
Counsel Gallien, Director of Operations and Maintenance Eaton, Director of Engineering Rose,
Operations and Maintenance Manager Faber, Engineering Manager Reed, and Senior
Construction Manager Griffis.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to speak.

DIRECTORS’ COMMENTS

There were no Directors’ comments.

CHAIR’S REPORT

Chair Williams announced that the Hydropower Subcommittee met April 9, 2015 where
staff provided updates regarding the San Vicente Pumped Storage Project. He stated staff would
provide an update to the Board at the May 28, 2015 Engineering and Operations Committee
Meeting.

Chair Williams also reported that the duck curve was starting to play a role at the Lake
Hodges Hydroelectric Facility since the Water Authority was asked to pump in the late morning
and early afternoon, meaning that renewables would likely be used for pumping for later
generations.

I. CONSENT CALENDAR

1. San Vicente Pumped Storage Study – Contract amendment with Van Ness
   Feldman for special counsel services.
   Staff recommendation:
   Authorize the General Counsel to execute a contract amendment with VanNess
   Feldman for special counsel services to increase the contract amount by $50,000.
Director Brady moved, Vice Chair Miller seconded, and the motion to approve staffs’ recommendation passed unanimously.

II. ACTION/DISCUSSION

1. Reimbursement agreement for street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline.

   Staff Recommendation:

   1. Authorize the General Manager to execute an agreement with the City of Carlsbad for reimbursable costs for street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline.
   2. Increase the FY 2014/2015 Capital Improvement Program appropriation and lifetime budget for the Carlsbad Desalination Project by $1,300,000 for reimbursable costs related to street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline.

   Mr. Belock gave a presentation on street paving work along a portion of the Carlsbad Desalination Project Conveyance Pipeline. He shared photographs of the trench zone to show where asphalt was disturbed, reviewed responsibilities of the agencies involved, and concluded with staff recommendations.

   Vice Chair Miller moved, Director Arant seconded, and the motion to approve staffs’ recommendation passed unanimously.

III. INFORMATION

1. Presentation on Pipeline Inspection Technology.

   Mr. Faber presented information on how Operations & Maintenance used pipeline inspection technology to reduce costs and water loss. He reviewed benefits, technologies, frequency and cost. He included a typical pipeline inspection animation and a remote operated vehicle animation. He concluded with inspection technology advances, future improvements, and leak detection technologies.

IV. CLOSED SESSION

Mr. Hentschke took the Committee into Closed Session at 9:16 a.m.

1. CLOSED SESSION:

   Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
Mr. Hentschke brought the Committee out of Closed Session at 9:25 a.m. and stated there was no reportable action.

Director Olson requested an opportunity to review San Vicente Pumped Storage Project’s list of existing questions prior to the May 28, 2015 Board Meeting. Mr. Belock responded that he would be available to review the list with him and other interested Board members.

V. ADJOURNMENT

There being no further business to come before the Engineering and Operations Committee, Chair Williams adjourned the meeting at 9:26 a.m.

IMPORTED WATER COMMITTEE

CALL TO ORDER / ROLL CALL

Chair Watton called the Imported Water Committee meeting to order at 9:30 a.m. Committee members present were Chair Watton, Vice Chairs Verbeke and Saxod, Directors Barnum, Guerin, Hogan, Murtland*, Olson, Steiner, Weston, and Wilson. Directors Evans, Madaffer, Roberts and Saunders were absent. Also present were Directors Arant, Ayala, Boyle, Brady, Hall, Hilliker, Kennedy, Lewinger, Linden, Miller, Tu, Watkins, and Williams. At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present included General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, MWD Program Director Chen, Colorado River Program Director Denham, and Assistant Water Resources Specialist Mathews.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to speak.

*Director Murtland arrived at 9:32 a.m.

CHAIR’S REPORT

Chair Watton announced that Director Wilson, the Water Authority’s Representative on the Colorado River Board of California (CRB), was elected Vice-Chairman of the Board at the April CRB meeting. He reminded the Board that the next CRB meeting would be hosted by the Water Authority on May 13, 2015 at 10:00 a.m. and anyone interested was welcome to attend.

DIRECTORS’ COMMENTS

There were no comments by Directors.
The following Consent Calendar items were pulled for Action/Discussion:

I. CONSENT CALENDAR
   1. Amend agreement for Consulting Services with SCN Strategies.
      Staff recommendation: Amend the agreement with SCN Strategies for continued consulting services to the Water Authority through June 30, 2016, for a period of 12 additional months, and increasing total contract funding to an amount not to exceed $839,050.

   2. Amend agreement for Consulting Services with Southwest Strategies.
      Staff recommendation: Amend the agreement with Southwest Strategies for continued consulting series to the Water Authority through June 30, 2016, for a period of 12 additional months, and increasing total contract funding to an amount not to exceed $327,000.

      The above two items were pulled off consent calendar to action and discussion.

ITEMS PULLED FROM CONSENT FOR ACTION/DISCUSSION
   1. Amend agreement for Consulting Services with SCN Strategies.
      Staff recommendation: Amend the agreement with SCN Strategies for continued consulting services to the Water Authority through June 30, 2016, for a period of 12 additional months, and increasing total contract funding to an amount not to exceed $839,050.

   2. Amend agreement for Consulting Services with Southwest Strategies.
      Staff recommendation: Amend the agreement with Southwest Strategies for continued consulting series to the Water Authority through June 30, 2016, for a period of 12 additional months, and increasing total contract funding to an amount not to exceed $327,000.

      Ms. Chen discussed services provided by SCN Strategies and Southwest Strategies and the benefit for continuing services. Following the presentation Directors made comments.

      Director Steiner moved, Director Saxod seconded, and the motion to approve staffs’ recommendation passed unanimously.

II. ACTION/DISCUSSION
   1. Metropolitan Water District Issues and Activities update.
      1-A Metropolitan Water District Delegates report.

      The delegates reported on discussion and actions taken at the recent MWD board meetings.

   2. Colorado River Programs.
      2-A Colorado River Board Representative’s report.
Director Wilson reported on discussions at the April 15, 2015 Colorado River Board meeting.

3. **Bay Delta Activities.**
   3-A State Treasurer’s Assessment of the Affordability and Financing Considerations of the Bay Delta Conveyance Facility.

Ms. Chen provided an overview of the State Treasurer’s financial assessment of the Bay Delta Conservation Plan and discussed impacts the report’s findings would have to the Water Authority.

**III. INFORMATION**

1. Presentation on Seven Basin States update.

Ms. Mathews provided an update on the Colorado River reservoir operations and current shortage projections on the river.

The following information item was received and filed:

2. Metropolitan Water District Program report.

Mr. Hentschke took the Committee into Closed Session at 10:29 a.m.

**IV. CLOSED SESSION**

1. **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; CPF-12-512466; and CPF-14-514004

2. **CLOSED SESSION:**
   Conference with Legal Counsel – Existing Litigation
   Government Code §54956.9(d)(1)
   Name of Case: State Water Resources Control Board
   Petition of Imperial Irrigations District for Modification of Revised Water Rights Order 2002-0013

   Mr. Hentschke brought the Committee out of Closed Session at 10:59 a.m. and stated there was no reportable action.

**V. ADJOURNMENT**

There being no further business to come before the Imported Water Committee, Chair Watton adjourned the meeting at 11:00 a.m.
ADMINISTRATIVE AND FINANCE COMMITTEE
CALL TO ORDER / ROLL CALL

Chair Arant called the Administrative and Finance Committee meeting to order at 11:05
a.m. Committee members present was Chair Arant, Vice Chair Wilson, Directors Fong-Sakai,
Gallo, Hilliker, Kennedy, Lewinger, Muir, Verbeke, Watkins, Watton, Weston, Williams and
Wornham. Vice Chair Razak was absent. Also present were Directors Ayala, Barnum, Boyle,
Brady, Guerin, Hall, Hogan, Linden, Madaffer, Miller, Murtland, Olson, Saxod, Steiner and Tu.
At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of
the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy
General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Finance
Harris, Controller Greek, Financial Planning Manager Shank, and Financial Resources Manager
Celaya. Also present were Kay Chandler and William Dennehy of Chandler Asset Management;
Stephen Spitz, Esq. of Orrick Herrington & Sutcliffe, LLP; and Doug Montague of Montague
DeRose.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to speak.

CHAIR’S REPORT
Chair Arant introduced Director Fong-Sakai as a new Board member of the
Administrative and Finance Committee, representing the city of San Diego.

Chair Arant congratulated the Finance Department on receiving the “Certificate of
Achievement for Excellence in Financial Reporting” from the Government Finance Officers’
Association for Fiscal Year ended June 30, 2014. He mentioned this was the 15th consecutive
year of receiving the award.

DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
   1. Treasurer’s Report.
      Staff recommendation: Note and file the monthly Treasurer’s report.

      Director Wornham moved, Director Kennedy seconded, and the motion to approve staffs’
      recommendation passed unanimously.
II. ACTION/DISCUSSION
1. Approve the Recommended Debt Management Activities.

   Staff Recommendations:
   1. Authorize the issuance of Senior Lien Water Revenue Refunding Bonds – Series 20105A to refund certain outstanding long-term debt to yield debt service savings.
      a. Adopt Resolution No. 2015-__ authorizing the issuance of Senior Lien Water Revenue Refunding Bonds, Series 2015A, for the purpose of refunding certain existing long-term debt; and authorize the Director of Finance to utilize a negotiated method of sale.
      b. Approve the forms of financing documents for the refunding bond issuances including the Preliminary Official Statement for the 2015A Bonds.
      c. Approve the selection of the underwriting team and US Bank of as trustee.
   2. Approve the extension of the JP Morgan liquidity facility agreement and adopt Resolution No. 2015-__ authorizing the amendment of the JP Morgan agreement.

   Director Wornham moved, Director Wilson seconded, and the motion to approve staffs’ recommendations passed unanimously.

III. INFORMATION
1. Presentation on changes to the Treasurer’s Report and First Quarter Investment Managers’ Performance report.

   Ms. Harris begin with a review of the external investment manager and progress to date. She pointed out additions and enhancements made to the Treasurer’s Report on the Portfolio Master Summary page, and the addition of the Investment Manager Summary page prepared by Chandler Asset Management. Ms. Harris then introduced Kay Chandler and Bill Dennehy of Chandler Asset Management to provide the investment update.

   Mr. Dennehy, Senior Portfolio Manager at Chandler Asset Management, described how the portfolio had changed from month to month with the addition of US Corporate Notes. He reviewed performance objectives, strategy, portfolio characteristics and overall maturity distribution.


   Mr. Greek reviewed the Controller’s report format thoroughly and described each attachment within the report. Director’s asked questions and staff provided answers.

   The following information items were received and filed:
   3. Board of Directors’ First Quarter 2015 Expenses and Attendance.
   4. Board Calendar.
Mr. Hentschke took the committee into closed session at 11:35 a.m.

IV. CLOSED SESSION
1. CLOSED SESSION:
   Conference with Labor Negotiator
   Government Code §54957.6
   Agency Designated Representatives: Frank Belock, Sandra Kerl,
   Gretchen Spaniol, Lisa Celaya, Rick Bolanos
   Employee Negotiator: Teamsters Local 911

   Mr. Hentschke brought the committee out of Closed Session at 12:00 p.m. and stated there was no reportable action.

V. ADJOURNMENT
   There being no further business to come before the Administrative and Finance Committee, Chair Arant adjourned the meeting at 12:01 p.m.

WATER PLANNING COMMITTEE
CALL TO ORDER/ROLL CALL
   Chair Tu called the Water Planning Committee Meeting to order at 1:02 p.m.
   Committee members present were Chair Tu, Vice Chair Brady, and Directors Ayala, Boyle, Fong-Sakai, Hall, Kennedy, Lewinger, Linden, Miller, Murtland, Preciado and Wornham. Vice Chair Evans and Director Simpson were absent. Also present were Directors Arant, Barnum, Gallo, Guerin, Hilliker, Hogan, Madaffer, Morrison, Muir, Olson, Saxod, Steiner, Verbeke, Watkins, Watton*, Weston, Williams* and Wilson, and Supervisor Roberts. At that time, there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

   Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Water Resources Manager Yamada and Acting Water Resources Manager Friehauf.

ADDITIONS TO THE AGENDA
   There were no additions to the agenda.

PUBLIC COMMENT
   There were no members of the public who wished to speak.

CHAIR’S REPORT
   Chair Tu remarked on Governor Brown’s recent executive order requiring 25 percent conservation statewide, the State Water Resources Control Board’s proposed emergency regulation to implement the order, and the Water Authority’s May 14, 2015 Special Board Meeting to consider staff’s recommended actions in response. She also recognized Padre Dam Municipal Water District for the recent successful startup of its Advanced Water Purification Demonstration Facility.
DIRECTORS’ COMMENTS
There were no Directors’ comments.

I. CONSENT CALENDAR
There were no Consent Calendar items.

II. ACTION/DISCUSSION
1. Update on Supply Conditions and Drought Response Actions by the State Water Resources Control Board and Metropolitan Water District of Southern California.

Ms. Friehauf provided a presentation that included current condition information on the Northern Sierra Snowpack and average statewide runoff. She then reviewed actions taken in accordance with the Water Authority’s Water Shortage and Drought Response Plan and the Model Drought Response Ordinance to lessen severity of shortage conditions. Also presented was information on actions that would be taken by Metropolitan and the State Board and the influence of those actions on the Water Authority’s regional drought response. The State Board’s assigned urban water supplier conservation standard for each Water Authority member agency was also reviewed, which required reductions ranging from 12 to 36 percent among member agencies. Ms. Friehauf concluded her presentation with a tentative schedule of drought management actions through July 1, 2015, at which time the Metropolitan allocation period would begin.

Staff responded to questions and comments from Chair Tu and Directors. Discussion followed pertaining to a regional coordinated approach to the State Board’s required reductions, as opposed to each agency meeting mandated reductions individually. Board Chair Weston directed staff to include the topic as a discussion item on the May 14, 2015 Special Board Meeting agenda.

* Director Watton arrived at 1:12 p.m. and Director Williams arrived at 1:30 p.m.

III. INFORMATION
1. Presentation on the Status of the Ocean Plan Amendment for Desalination.

Mr. Yamada provided a presentation on the status of the State Water Resources Control Board’s proposed final amendment to the Ocean Plan for desalination, including how the amendment applies to the Carlsbad Desalination Project, and how remaining concerns would continue to be addressed with State Board members and staff until the final amendment adoption in May 2015.

The following report was received and filed:

IV. CLOSED SESSION
There were no Closed Session items.

V. ADJOURNMENT
Chair Tu adjourned the meeting at 2:02 p.m.
LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE
CALL TO ORDER/ROLL CALL
Vice Chair Steiner called the Legislation, Conservation and Outreach Committee to order at 2:10 p.m. Committee members present were Vice Chairs Guerin and Steiner, and Directors Gallo, Hall, Hilliker, Madaffer, Morrison, Muir, Preciado, Saxod, Tu and Supervisor Roberts. Committee members absent were Chair Croucher and Director Barnum. Other Board members present were Directors Arant, Ayala, Brady, Hogan, Kennedy, Lewinger, Linden, Miller, Murtland, Olson, Verbeke, Watkins, Watton, Weston, Williams, Wilson and Wornham. At that time there was a quorum of the Board, and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present were General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Public Outreach and Conservation Foster and Public Affairs Representative Lee. Also present were legislative representatives Ken Carpi, Steve Cruz and guest Scott MacKay of Probe Research, Inc.

ADDITIONS TO AGENDA
There were no additions to the agenda.

PUBLIC COMMENT
There were no members of the public who wished to speak.

CHAIR’S REPORT
Vice Chair Steiner announced the Water Authority’s “eGuide to a WaterSmart Lifestyle” was awarded a 2015 Gold Quill Award of Excellence in the “digital communication vehicle” category by the International Association of Business Communicators. The program recognized business communication excellence globally, and is considered one of the most prestigious award programs in the industry.

I. CONSENT CALENDAR
1. Professional services agreement with Mission Resource Conservation District for WaterSmart Field Services.
   Staff recommendation: Authorize the General Manager to execute a two-year professional services agreement in an amount not-to-exceed $468,412 with Mission Resource Conservation District to implement the WaterSmart Field Services Program through June 30, 2017, with an option for a two-year extension.

   Director Madaffer moved, Director Hall seconded, and the motion to approve staffs’ recommendation passed unanimously.
2. Amendment to Professional Services Contract with Building Blocks Entertainment, Inc., to conduct assembly programs for elementary public and private schools in San Diego County.

   Staff recommendation: Approve an amendment to the professional services contract with Building Blocks Entertainment, Inc., to increase the contract value to a not-to-exceed amount of $230,000 and to extend the contract for two years. The amended contract would terminate on June 30, 2017.

   Director Madaffer moved, Director Hall seconded, and the motion to approve staffs’ recommendation passed unanimously.

3. Adopt positions of various state bills.

   Staff recommendation:
   1. Adopt a position of Support if Amended on AB 645 (Williams)
   2. Adopt a position of Support on AB 723 (Rendon)
   3. Adopt a position of Support if Amended on AB 1095 (Garcia)
   4. Adopt a position of Support if Amended on AB 1332 (Quirk)
   5. Adopt a position of Support if Amended on AB 1333 (Quirk)
   6. Adopt a position of Support and Seek Amendments on SB 317 (DeLeon)
   7. Adopt a position of Support if Amended on SB 350 (DeLeon)
   8. Adopt a position of Support and Seek Amendments on SB 555 (Wolk)

   Director Tu moved, Director Saxod seconded, and the motion to approve staffs’ recommendation passed unanimously.

II. ACTION/DISCUSSION

1. Legislative Issues.

   1-A Washington Report by Ken Carpi. (supplemental materials)

   Mr. White provided a Sacramento update that included a summary of the Governor’s drought response and water restrictions. He reported the Legislative Policy Committee deadline was May 1, 2015 which would contain the first round of cuts for legislative bills. He added that all the Water Authority supported bills were expected to move forward.

2. Presentation of 2015 Public Opinion Poll Results.

   Mr. Lee introduced Scott MacKay of Probe Research Inc., who gave a presentation on 2015 Public Opinion Poll results highlights.

III. INFORMATION

1. Presentation on Drought Response Communications and Outreach Update.
Mr. Foster provided an update on drought response communications and outreach efforts and highlighted recent activities of the “When in Drought” campaign. He reported that State actions created a surge in media inquiries, speaking requests, and phone calls. He also discussed regional messaging addressing state-mandated water-use cutbacks effective on June 1, 2015.

He stated staff was developing regional messaging that reflects statewide conditions, restrictions, and supply allocations. He presented the Board with drafts of messaging to be used in signage and online advertisements.

Mr. Foster reported staff had submitted a preliminary Proposition 84 grant application for approximately $7 million, to augment drought response outreach and conservation programs. He added that no funding was guaranteed any grant funds would require a 25 percent local match, and that staff should receive award notification around the end of 2015.

The following information items were received and filed:

IV. ADJOURNMENT
There being no further business to come before the Legislation, Conservation and Outreach Committee, Vice Chair Steiner adjourned the meeting at 3:25 p.m.
6. **OPPORTUNITY FOR MEMBERS OF THE PUBLIC WHO WISH TO ADDRESS THE BOARD ON MATTERS WITHIN THE BOARD’S JURISDICTION**

There were no members of the public who wished to speak.

7. **PRESENTATIONS AND PUBLIC HEARINGS**

7-A Science Fair Award Winners.

Chair Weston recognized the winners of the Science Fair. Public Affairs Representative I Jenkins introduced each of the winners to the Board, and they provided a brief explanation of their projects and project findings.

At that time Chair Weston took the agenda out of order.

10. **ACTION/DISCUSSION**

10-A Hearing of Necessity to consider adoption of a Resolution of Necessity and authorization of condemnation proceedings to acquire a permanent easement and a temporary property interest for the Nob Hill Improvements project on Assessor Parcel Number: 319-160-11 LAACO, Limited, A California Limited Partnership.

Staff Recommendations:

That the Board of Directors:

a. Receive public testimony.

b. Determine that an offer to acquire the necessary real property was made to the owner of the subject property pursuant to Section 7267.2 of the Government Code.

c. Adopt Resolution of Necessity No. 2015-___ pertaining to the acquisition of real property from the subject parcel in support of the Nob Hill Improvement Project, and find that:

   1) The public interest and necessity require the project.

   2) The project is planned or located in a manner that will be the most compatible with the greatest public good and lease private injury.

   3) The interest in the property sought to be acquired is necessary for the project.

Authorize staff to proceed with condemnation proceedings necessary to acquire the right-of-way on the subject property.

Chair Weston announced that no public testimony was received. Director of Engineering Rose provided a brief summary of the staff recommendation.

Secretary Madaffer moved, Director Lewinger seconded, and the motion to approve staffs’ recommendation passed unanimously.

7-B Vista Irrigation District Overview – Roy Coox

Chair Weston introduced Roy Coox, Vista Irrigation District General Manager, to the Board. Mr. Coox presented an overview of the district that included customer base and boundaries, owned and operated facilities, water supply portfolio, district history, service area and connections, and solar project. He briefly discussed drought impacts and
legislative issues affecting his district. He concluded his presentation with an overview of the Districts’ “Love Tap” campaign, an effort to promote the public on drinking tap water, and discussed hydration stations installed at local schools and parks.

8. **REPORTS BY CHAIRS**

8-A Chairs report: Chair Weston reported on various meetings and engagements that he attended in the month of April including meeting with representatives of the NAIOP Commercial Real Estate Association to discuss water issues and investments, interviews by New York Times and NBC Nightly News on the Carlsbad Desalination Project, and an emergency meeting at the Governors’ Office on April 8, 2015 regarding the 25% mandate and rules being generated by the State Board. He added that on May 5 – 6, 2015 the State Board would hold final hearings on comments for the draft regulations for the mandatory regulations. He stated the Water Authority would have a presence at the hearings and also thanked the member agencies and business associations who submitted letters. He also reported on attending and presenting at the Padre Municipal Water District Purified Water Project dedication.

8-B Report by Committee Chairs.
   - **Engineering and Operations Committee.** Director Williams reviewed the meeting and the actions taken.
   - **Imported Water Committee.** Director Watton reviewed the meeting and the action taken.
   - **Administrative and Finance Committee.** Director Wilson reviewed the meeting and the actions taken.
   - **Water Planning Committee.** Director Tu stated there was no reportable action.
   - **Legislation, Conservation and Outreach Committee.** Director Steiner reviewed the meeting and the actions taken.

9. **CONSENT CALENDAR**

Director Muir moved, Director Watkins seconded, and the motion carried at 81.59% of the vote to approve the consent calendar. Directors voting no or abstaining are listed under the item number.

9- 1. **San Vicente Pumped Storage Study – Contract amendment with Van Ness Feldman for special counsel services.**
    The Board authorized the General Counsel to execute a contract amendment with Van Ness Feldman for special counsel services to increase the contract amount by $50,000.

9- 2. **Reimbursement agreement for street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline.**
    The Board authorized the General Manager to execute an agreement with the City of Carlsbad for reimbursable costs for street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline; and
increased the FY 2014/2015 Capital Improvement Program appropriation and lifetime budget for the Carlsbad Desalination Project by $1,300,000 for reimbursable costs related to street paving work within the City of Carlsbad right-of-way work area of the Carlsbad Desalination Project Conveyance Pipeline.

**Director Hall did not participate in Consent Calendar Item 9-2.**

9- 3. **Amend agreement for Consulting Services with SCN Strategies.**
The Board amended the agreement with SCN Strategies for continued consulting services to the Water Authority through June 30, 2016, for a period of 12 additional months, and increased total contract funding to an amount not to exceed $839,050.

9- 4. **Amend agreement for Consulting Services with Southwest Strategies.**
The Board amended the agreement with Southwest Strategies for continued consulting services to the Water Authority through June 30, 2016, for a period of 12 additional months, and increased total contract funding to an amount not to exceed $327,000.

9- 5. **Treasurer’s Report.** The Board noted and filed the monthly Treasurer’s Report.

9- 6. **Approve the Recommended Debt Management Activities.**
The Board authorized the issuance of Senior Lien Water Revenue Refunding Bonds – Series 2015A to refund certain outstanding long-term debt to yield debt service savings; adopted Resolution No. 2015-08 authorizing the issuance of Senior Lien Water Revenue Refunding Bonds, Series 2015A, for the purpose of refunding certain existing long-term debt; authorized the Director of Finance to utilize a negotiated method of sale; approved the forms of financing documents for the refunding bond issuances including the Preliminary Official Statement for the 2015A Bonds; approved the selection of the underwriting team and US Bank as trustee; and, approved the extension of the JP Morgan liquidity facility agreement and adopted Resolution No. 2015-09 authorizing the amendment of the JP Morgan agreement.

9- 7. **Professional services agreement with Mission Resource Conservation District for WaterSmart Field Services.**
The Board authorized the General Manager to execute a two-year professional services agreement in an amount not-to-exceed $468,412 with Mission Resource Conservation District to implement the WaterSmart Field Services Program through June 30, 2017, with an option for a two-year extension.

9- 8. **Amendment to Professional Services Contract with Building Blocks Entertainment, Inc., to conduct assembly programs for elementary public and private schools in San Diego County.**
The Board approved an amendment to the professional services contract with Building Blocks Entertainment, Inc., to increase the contract value to a not-to-exceed amount of $230,000 and to extend the contract for two years. The amended contract would terminate on June 30, 2017.
9-9. **Adopt Positions on Various State Bills.**
   1. The Board adopted a position of Support if Amended on AB 645 (Williams)
   2. The Board adopted a position of Support on AB 723 (Rendon)
   3. The Board adopted a position of Support if Amended on AB 1095 (Garcia)
   4. The Board adopted a position of Support if Amended on AB 1332 (Quirk)
   5. The Board adopted a position of Support if Amended on AB 1333 (Quirk)
   6. The Board adopted a position of Support and Seek Amendments on SB 317 (DeLeon)
   7. The Board adopted a position of Support if Amended on SB 350 (DeLeon)
   8. The Board adopted a position of Support and Seek Amendments on SB 555 (Wolk)

9-10. **Hearing of Necessity to consider adoption of a Resolution of Necessity and authorization of condemnation proceedings to acquire a permanent easement and a temporary property interest for the Nob Hill Improvements project on Assessor Parcel Number: 319-160-11 LAACO, Limited, A California Limited Partnership.**

The Board received public testimony; determined that an offer to acquire the necessary real property was made to the owner of the subject property pursuant to Section 7267.2 of the Government Code; and, adopted Resolution of Necessity No. 2015-10 pertaining to the acquisition of real property from the subject parcel in support of the Nob Hill Improvement Project.

11. **SPECIAL REPORTS**
   11-A GENERAL MANAGER’S REPORT – Ms. Stapleton stated, in response to a question posed by Director Hogan earlier in the day, that the Water Authority got approximately two percent of its water from the Bay-Delta in 2014.
   11-B GENERAL COUNSEL’S REPORT – Mr. Hentschke stated there was nothing to report.
   11-C SANDAG REPORT – Vice Chair Muir stated there was nothing to report.
   SANDAG Subcommittee: Borders/Regional Planning Committee – Director Saxod stated there was nothing to report.
   11-D AB 1234 Compliance Reports – No reports were given.

12. **CLOSED SESSION(S)**
Mr. Hentschke announced there was no need for Closed Session.

12-A **CLOSED SESSION:**
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(d)(1)
12-B  CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: SDCWA v Metropolitan Water District of Southern California;
Case Nos. CPF-10-510830; CPF-12-512466; and CPF-14-514004

12-C  CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(d)(1)
Name of Case: State Water Resources Control Board
Petition of Imperial Irrigation District for Modification of Revised Water Rights
Order 2002-0013

12-D  CLOSED SESSION:
Conference with Labor Negotiator
Government Code §54957.6
Agency Designated Representatives: Frank Belock, Sandra Kerl, Gretchen Spaniol,
Lisa Celaya, Rick Bolanos
Employee Negotiator: Teamsters Local 911

13.  ACTION FOLLOWING CLOSED SESSION
There was no reportable action.

14.  OTHER COMMUNICATIONS

15.  ADJOURNMENT
The meeting was adjourned at 4:21 p.m.

Mark Weston, Chair               Mark Muir, Vice Chair

Melinda Cogle, Clerk of the Board
RESOLUTION NO. 2015-_______

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
SAN DIEGO COUNTY WATER AUTHORITY
HONORING JAVIER SAUNDERS
UPON HIS RETIREMENT FROM THE BOARD OF DIRECTORS

WHEREAS, Javier Saunders served as a member of the Board of Directors of the San Diego County Water Authority, representing the City of San Diego, from January 14, 2002 to his retirement on April 21, 2015; and

WHEREAS, he served as Chair on the Administrative and Finance Committee, Planning and Environmental Committee and Water Planning Committee, and as Vice-Chair on the Imported Water Committee and Water Planning Committee; and

WHEREAS, he served as a member on the Administrative and Finance Committee, Engineering and Operations Committee, Executive Committee, Imported Water Committee, and Water Planning Committee; and

WHEREAS, he served as a member on the Ad Hoc Committee on Binational Activities, Colorado River Programs Ad Hoc, Comprehensive Reliability & Cost Assessment Ad Hoc, Desalination Ad Hoc, Desalination Negotiation Advisory Team, and Twin Oaks Treatment Plant DBO Ad Hoc; and

WHEREAS, he served as an Alternate on the Colorado River Board and as a Representative and Alternate on SANDAG; and

WHEREAS, his contributions to the community extend beyond the activities with the San Diego County Water Authority; and

WHEREAS, his service, both public and private, has resulted in a benefit to all people of San Diego County.
NOW, THEREFORE, BE IT RESOLVED, that on behalf of its individual members, past and present, its staff, and the people of San Diego County, the Board of Directors offers its most sincere appreciation to Javier Saunders for his dedicated service to the San Diego region.

PASSED, APPROVED, and ADOPTED this 28th day of May, 2015.

Ayes:

Noes:

Abstain:

Absent:

____________________________________
Mark Weston,
Chair

ATTEST:

____________________________
Jim Madaffer,
Secretary

I, Melinda Cogle, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2015-_______ was duly adopted at the meeting of the Board of Directors on the date stated above.

____________________________
Melinda Cogle
Deputy Clerk of the Board
DATE:      May 28, 2015
TO:        Board of Directors
FROM:      Daniel S. Hentschke, General Counsel
RE:        Credentials of Yen Tu
            City of San Diego

Transmitted herewith is notification submitted by the City of San Diego reappointing Yen Tu to the Water Authority’s Board of Directors. Her term will expire on January 30, 2021.

The credentials furnished are sufficient for reappointment of Ms. Tu on the Water Authority Board.

Daniel S. Hentschke
General Counsel

mkc
Attachment
RESOLUTION NUMBER R-309621

DATE OF FINAL PASSAGE: APR 22 2015

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO CONFIRMING APPOINTMENTS AND REAPPOINTMENTS TO THE SAN DIEGO COUNTY WATER AUTHORITY BOARD OF DIRECTORS

WHEREAS, the San Diego County Water Authority Board of Directors (Board) is the governing body responsible for the oversight and allocation of the region's imported water supply; and

WHEREAS, the Board also advises on the diversification of the region's water supply portfolio, optimization of facilities, and development of local resources to ensure a safe and reliable water supply to its twenty-four member agencies; and

WHEREAS, the Board is composed of ten members (Directors) representing the City, all of whom are appointed by the Mayor and confirmed by the Council; and

WHEREAS, each Director is appointed to a six-year term and serves until a successor is appointed and qualified; and

WHEREAS, the Mayor now seeks Council confirmation of two appointments and two reappointments of Directors; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the following appointments and reappointments by the Mayor of the City of San Diego, to serve as Directors on the San Diego County Water Authority Board of Directors, for the terms ending as indicated, are made and hereby confirmed:

-PAGE 1 OF 3-
<table>
<thead>
<tr>
<th>NAME</th>
<th>TERM ENDING</th>
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<tbody>
<tr>
<td>Lois Fong-Sakai</td>
<td>October 27, 2018</td>
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<tr>
<td>(Poway)</td>
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<td>(Filling the remainder of the term in the seat previously held by Barbara Wight, who resigned)</td>
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<td>Tony Heinrichs</td>
<td>March 5, 2021</td>
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<td>(Rancho Bernardo, District 5)</td>
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<td>(Filling the seat previously held by Javier Saunders)</td>
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<td>Yen Tu</td>
<td>January 30, 2021</td>
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<td>(Miramar Ranch, District 5)</td>
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<td>(Reappointment)</td>
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<td>Fern Steiner</td>
<td>March 5, 2021</td>
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<tr>
<td>(Bankers Hill, District 3)</td>
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<td>(Reappointment)</td>
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BE IT FURTHER RESOLVED, that pursuant to Council Policy 000-13, for purposes of deliberation and consideration of appointments, it is determined that Lois Fong-Sakai is a resident of San Diego County, but not the City of San Diego, and has unique qualifications to serve as a member of the Board; therefore, a conscious exception to Council Policy 000-13 is hereby declared.

APPROVED: JAN I. GOLDSMITH, City Attorney

By [Signature]
Sharon B. Spivak
Deputy City Attorney

SBS:jdf
04/06/15
Or.Dept: Mayor
Doc. No.: 987887
I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of **APR 21 2015**.

ELIZABETH S. MALAND
City Clerk

By
Deputy City Clerk

Approved: **4/22/15**
(date)

KEVIN L. FAULCONER, Mayor

Vetoed: __________________________
(date)

KEVIN L. FAULCONER, Mayor

I, Elizabeth S. Maland, Clerk of the City of San Diego, California, hereby certify that this is a true copy of papers on file and of record in the office of the Clerk of said city.

ELIZABETH S. MALAND, City Clerk

By __________________________
Deputy

Dated **May 13, 2015**
Passed by the Council of The City of San Diego on **APR 21 2015**, by the following vote:

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<tr>
<th>Councilmembers</th>
<th>Yeas</th>
<th>Nays</th>
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<tr>
<td>Sherri Lightner</td>
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<td>Lorie Zapf</td>
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Date of final passage **APR 22 2015**

*(Please note: When a resolution is approved by the Mayor, the date of final passage is the date the approved resolution was returned to the Office of the City Clerk.)*

**KEVIN L. FAULCONER**  
Mayor of The City of San Diego, California.

**ELIZABETH S. MALAND**  
City Clerk of The City of San Diego, California.

By [Signature]  
Deputy

Office of the City Clerk, San Diego, California

Resolution Number R- **309621**
DATE: May 28, 2015
TO: Board of Directors
FROM: Daniel S. Hentschke, General Counsel
RE: Credentials of Fern Steiner
City of San Diego

Transmitted herewith is notification submitted by the City of San Diego reappointing Fern Steiner to the Water Authority’s Board of Directors. Her term will expire on March 5, 2021.

The credentials furnished are sufficient for reappointment of Ms. Steiner on the Water Authority Board.

[Signature]
Daniel S. Hentschke
General Counsel

mkc
Attachment
RESOLUTION NUMBER R-309621

DATE OF FINAL PASSAGE APR 22 2015

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO CONFIRMING APPOINTMENTS AND REAPPOINTMENTS TO THE SAN DIEGO COUNTY WATER AUTHORITY BOARD OF DIRECTORS

WHEREAS, the San Diego County Water Authority Board of Directors (Board) is the governing body responsible for the oversight and allocation of the region’s imported water supply; and

WHEREAS, the Board also advises on the diversification of the region’s water supply portfolio, optimization of facilities, and development of local resources to ensure a safe and reliable water supply to its twenty-four member agencies; and

WHEREAS, the Board is composed of ten members (Directors) representing the City, all of whom are appointed by the Mayor and confirmed by the Council; and

WHEREAS, each Director is appointed to a six-year term and serves until a successor is appointed and qualified; and

WHEREAS, the Mayor now seeks Council confirmation of two appointments and two reappointments of Directors; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the following appointments and reappointments by the Mayor of the City of San Diego, to serve as Directors on the San Diego County Water Authority Board of Directors, for the terms ending as indicated, are made and hereby confirmed:
<table>
<thead>
<tr>
<th>NAME</th>
<th>TERM ENDING</th>
</tr>
</thead>
</table>
| Lois Fong-Sakai  
(Poway)  
(Filling the remainder of the term in the seat previously held by Barbara Wight, who resigned) | October 27, 2018 |
| Tony Heinrichs  
(Rancho Bernardo, District 5)  
(Filling the seat previously held by Javier Saunders) | March 5, 2021 |
| Yen Tu  
(Miramar Ranch, District 5)  
(Reappointment) | January 30, 2021 |
| Fern Steiner  
(Bankers Hill, District 3)  
(Reappointment) | March 5, 2021 |

BE IT FURTHER RESOLVED, that pursuant to Council Policy 000-13, for purposes of deliberation and consideration of appointments, it is determined that Lois Fong-Sakai is a resident of San Diego County, but not the City of San Diego, and has unique qualifications to serve as a member of the Board; therefore, a conscious exception to Council Policy 000-13 is hereby declared.

APPROVED: JAN I. GOLDSMITH, City Attorney

By [Signature]
Sharon B. Spivak  
Deputy City Attorney

SBS:jdf  
04/06/15  
Or.Dept: Mayor  
Doc. No.: 987887

---PAGE 2 OF 3---
I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of **APR 21 2015**.

ELIZABETH S. MALAND
City Clerk

By ________________,
Deputy City Clerk

KEVIN L. FAULCONER, Mayor

Approved: 4/22/15
(date)

Vetoed: __________________
(date)

KEVIN L. FAULCONER, Mayor

I, Elizabeth S. Maland, Clerk of the City of San Diego, California, hereby certify that this is a true copy of papers on file and of record in the office of the Clerk of said city.

ELIZABETH S. MALAND, City Clerk

By ________________, Deputy
Dated **May 13, 2015**
Passed by the Council of The City of San Diego on **APR 21 2015**, by the following vote:

<table>
<thead>
<tr>
<th>Councilmembers</th>
<th>Yeas</th>
<th>Nays</th>
<th>Not Present</th>
<th>Recused</th>
</tr>
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<td>Myrtle Cole</td>
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<td>Mark Kersey</td>
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<tr>
<td>David Alvarez</td>
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<tr>
<td>Marti Emerald</td>
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Date of final passage **APR 22 2015**.

(Please note: When a resolution is approved by the Mayor, the date of final passage is the date the approved resolution was returned to the Office of the City Clerk.)

**KEVIN L. FAULCONER**  
Mayor of The City of San Diego, California.

**ELIZABETH S. MALAND**  
City Clerk of The City of San Diego, California.

By  
Deputy

Office of the City Clerk, San Diego, California

Resolution Number R- **309621**
DATE: May 28, 2015

TO: Board of Directors

FROM: Daniel S. Hentschke, General Counsel

RE: Credentials of Lois Fong-Sakai
     City of San Diego

Transmitted herewith is notification submitted by the City of San Diego appointing Lois Fong-Sakai to the Water Authority’s Board of Directors. Ms. Fong-Sakai replaces Barbara Wight. Her term will expire on October 27, 2018.

The credentials furnished are sufficient for the qualifications of Ms. Fong-Sakai as a member of the Water Authority Board.

[Signature]

Daniel S. Hentschke
General Counsel

mkc

Attachment
RESOLUTION NUMBER R-

309621

DATE OF FINAL PASSAGE APR 22 2015

A RESOLUTION OF THE COUNCIL OF THE CITY
OF SAN DIEGO CONFIRMING APPOINTMENTS AND
REAPPOINTMENTS TO THE SAN DIEGO COUNTY WATER
AUTHORITY BOARD OF DIRECTORS

WHEREAS, the San Diego County Water Authority Board of Directors (Board) is the
governing body responsible for the oversight and allocation of the region's imported water
supply; and

WHEREAS, the Board also advises on the diversification of the region's water supply
portfolio, optimization of facilities, and development of local resources to ensure a safe and
reliable water supply to its twenty-four member agencies; and

WHEREAS, the Board is composed of ten members (Directors) representing the City, all
of whom are appointed by the Mayor and confirmed by the Council; and

WHEREAS, each Director is appointed to a six-year term and serves until a successor is
appointed and qualified; and

WHEREAS, the Mayor now seeks Council confirmation of two appointments and two
reappointments of Directors; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the following
appointments and reappointments by the Mayor of the City of San Diego, to serve as Directors
on the San Diego County Water Authority Board of Directors, for the terms ending as indicated,
are made and hereby confirmed:

-PAGE 1 OF 3-
<table>
<thead>
<tr>
<th>NAME</th>
<th>TERM ENDING</th>
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<tbody>
<tr>
<td>Lois Fong-Sakai</td>
<td>October 27, 2018</td>
</tr>
<tr>
<td>(Poway)</td>
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<tr>
<td>(Filling the remainder of the term in the seat previously held by Barbara Wight, who resigned)</td>
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</tr>
<tr>
<td>Tony Heinrichs</td>
<td>March 5, 2021</td>
</tr>
<tr>
<td>(Rancho Bernardo, District 5)</td>
<td></td>
</tr>
<tr>
<td>(Filling the seat previously held by Javier Saunders)</td>
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<tr>
<td>Yen Tu</td>
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<td>(Miramar Ranch, District 5)</td>
<td></td>
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<tr>
<td>(Reappointment)</td>
<td></td>
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<td>Fern Steiner</td>
<td>March 5, 2021</td>
</tr>
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<td>(Bankers Hill, District 3)</td>
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<tr>
<td>(Reappointment)</td>
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</table>

BE IT FURTHER RESOLVED, that pursuant to Council Policy 000-13, for purposes of deliberation and consideration of appointments, it is determined that Lois Fong-Sakai is a resident of San Diego County, but not the City of San Diego, and has unique qualifications to serve as a member of the Board; therefore, a conscious exception to Council Policy 000-13 is hereby declared.

APPROVED: JAN I. GOLDSMITH, City Attorney

By  
Sharon B. Spivak  
Deputy City Attorney

SBS: jdf  
04/06/15  
Or.Dept: Mayor  
Doc. No.: 987887
I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of APR 21 2015.

ELIZABETH S. MALAND
City Clerk

By
Deputy City Clerk

KEVIN L. FAULKNER, Mayor

Approved: 4/22/15
(date)

Vetoed: ________________________
(date)

KEVIN L. FAULKNER, Mayor

I, Elizabeth S. Maland, Clerk of the City of San Diego, California, hereby certify that this is a true copy of papers on file and of record in the office of the Clerk of said city.

ELIZABETH S. MALAND, City Clerk

By ________________________, Deputy

Dated ________________________

May 13, 2015

-PAGE 3 OF 3-
Passed by the Council of The City of San Diego on **APR 21 2015**, by the following vote:

<table>
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<th>Councilmembers</th>
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Date of final passage **APR 22 2015**

(Please note: When a resolution is approved by the Mayor, the date of final passage is the date the approved resolution was returned to the Office of the City Clerk.)

---

**KEVIN L. FAULCONER**  
Mayor of The City of San Diego, California.

**ELIZABETH S. MALAND**  
City Clerk of The City of San Diego, California.

By  
Deputy

---

Office of the City Clerk, San Diego, California

Resolution Number R- 309621
DATE: May 28, 2015

TO: Board of Directors

FROM: Daniel S. Hentschke, General Counsel

RE: Credentials of Tony Heinrichs
    City of San Diego

Transmitted herewith is notification submitted by the City of San Diego appointing Tony Heinrichs to the Water Authority’s Board of Directors. Mr. Heinrichs replaces Javier Saunders. His term will expire on March 5, 2021.

The credentials furnished are sufficient for the qualifications of Mr. Heinrichs as a member of the Water Authority Board.

[Daniel S. Hentschke signature]

General Counsel

mkc

Attachment
RESOLUTION NUMBER R-309621

DATE OF FINAL PASSAGE APR 22 2015

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OF SAN DIEGO CONFIRMING APPOINTMENTS AND
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APPROVED: JAN I. GOLDSMITH, City Attorney

By [Signature]
Sharon B. Spivak  
Deputy City Attorney

SBS:jdf  
04/06/15  
Or.Dept: Mayor  
Doc. No.: 987887
I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of __APR 21 2015__.

ELIZABETH S. MALAND
City Clerk

By __[Signature]__
Deputy City Clerk

KEVIN L. FAULCONER, Mayor

Approved: __4/22/15__
(date)

Vetoed: __________
(date)

KEVIN L. FAULCONER, Mayor

I, Elizabeth S. Maland, Clerk of the City of San Diego, California, hereby certify that this is a true copy of papers on file and of record in the office of the Clerk of said city.

ELIZABETH S. MALAND, City Clerk

By __[Signature]__, Deputy

Dated __May 13, 2015__
Passed by the Council of The City of San Diego on APR 21 2015, by the following vote:

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</tbody>
</table>

Date of final passage APR 22 2015

(Please note: When a resolution is approved by the Mayor, the date of final passage is the date the approved resolution was returned to the Office of the City Clerk.)

AUTHENTICATED BY:

__________________________
KEVIN L. FAULCONER
Mayor of The City of San Diego, California.

__________________________
ELIZABETH S. MALAND
City Clerk of The City of San Diego, California.

By ________________________
Deputy

Office of the City Clerk, San Diego, California

Resolution Number R- 309621
May 20, 2015

Attention:  Board of Directors

General Counsel’s Report – April/May 2015

Purpose
This report discusses certain legal matters receiving attention during the months of April/May 2015.

Significant Developments in Pending Litigation

MWD Rate Cases
2010, 2012 Rate Cases: Testimony in the Phase II trial was completed in these cases on April 29, 2015. The Phase II trial addressed all the remaining issues in the 2010 and 2012 rate cases, including the Water Authority’s claim for breach of contract and damages, MWD’s affirmative defenses, and the Water Authority’s preferential rights claim.

Following the close of evidence, the parties agreed on a schedule for post-trial proceedings. On May 7, 2015, the Water Authority filed a motion to strike certain aspects of the testimony of two MWD witnesses. Metropolitan’s opposition to this motion is due on May 21, 2015. On May 22, 2015, both the Water Authority and Metropolitan will file their Phase II trial briefs. On June 5, 2015, Judge Karnow will hear oral argument on the Phase II briefs and evidence. We expect a preliminary statement of decision by the end of June 2015, after which the parties will have an opportunity to object and the Court will enter a final decision and final judgment in the rate cases. We expect that final judgment will be entered by the end of August 2015, after which the parties are expected to pursue appeals of adverse rulings.

2014 Rate Case: The new case filed on May 30, 2014 challenging MWD’s 2014 rate setting has been transferred to San Francisco Superior Court, assigned to Judge Karnow, and stayed for the time being by stipulation of the parties. The Water Authority has the option of moving to lift the stay at any time, or leaving the stay in place pending final resolution of the 2010 and 2012 cases.

CEQA Litigation
Coastkeeper filed its opening brief at the end of March. The Water Authority’s Opposition Brief is due on June 1 and Coastkeeper’s Reply Brief is due on July 10. Hearing has been set for July 21, 2015.
QSA Litigation
As previously reported, on February 3, 2015, IID announced that it had reached a settlement with the County of Imperial and the Imperial County Air Pollution Control District. Among other things, the settlement provided for the payment by IID of $750,000 jointly to the County and the APCD, as well as the joint filing of motions and stipulations to dismiss the appeals. IID, County of Imperial, and Imperial County Air Pollution Control District filed a stipulation and proposed order to dismiss pursuant to the settlement agreement. The Court of Appeal has not yet acted on the proposed order; however, we anticipate the court will ultimately order a dismissal as it did when IID reached a settlement with Cuatro del Mar, POWER, and the Barioni parties in September 2014.

Special Counsel Expenditures
Funds approved for payments to special counsel during April/May 2015 from the General Counsel’s Operating Budget totaled $667,624.86 for work related to the Metropolitan rate dispute, QSA litigation, and personnel issues. In addition, $11,145.20 was approved for payment from Colorado River Program’s Operating Budget for work related to QSA implementation and $7,511.50 was approved for payment from Human Resources’ Operating Budget for work related to labor negotiations. CIP expenditures during April/May 2015 were $235,409.31 for litigation expenses related to the San Vicente Dam Raise Project (Shimmick/Obayashi Joint Venture v. SDCWA) and the San Vicente Tunnel Project (Traylor/Shea Joint Venture v. SDCWA).

Prepared by:  Daniel S. Hentschke
Attachment:   Special Counsel Expenditure Report
<table>
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<tr>
<th>Special Counsel</th>
<th>Project</th>
<th>Total $ Expended FYs 12 &amp; 13 (Fees &amp; Costs)</th>
<th>OP Budget Invoices Approved for Payment this Period</th>
<th>CIP Budget Invoices Approved for Payment this Period</th>
<th>Total $ Expended FYs 14 &amp; 15 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 14 &amp; 15 for Legal Services $12,724,000.00</th>
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* Concluded matters or assignments.

1 These legal costs ($155,000 total) were reimbursed to the Water Authority by City of Los Angeles as part of the settlement in SDCWA v City of LADWP.
2 These legal costs ($95,808.26 total) were reimbur...in SDCWA v EMWD.
3 Not included in totals, these legal expenses related to QSA came out of Colorado River Program budget, not GC budget.
4 Not included in totals, these legal expenses related to San Vicente came out of Engineering budget, not GC budget.
5 Not included in totals, these legal expenses related to desalination came out of Water Resources budget, not GC budget.
6 Not included in totals, these legal expenses related to personnel issues/labor negotiations came out of Human Resources budget, not GC budget.
7 Not included in totals, these legal expenses related to bond counsel services came out of Finance budget, not GC budget.
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<th>Special Counsel</th>
<th>Project</th>
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<th>OP Budget Invoices Approved for Payment this Period</th>
<th>CIP Budget Invoices Approved for Payment this Period</th>
<th>Total $ Expended FYs 14 &amp; 15 (Fees &amp; Costs)</th>
<th>Budget Allocation FYs 14 &amp; 15 for Legal Services</th>
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1 These legal costs ($155,000 total) were reimbursed to the Water Authority by City of Los Angeles as part of the settlement in SDCWA v City of LADWP.