

Committee

Administrative and Finance

Engineering and Operations

Imported Water

Legislation, Conservation
and Outreach

Water Planning

Formal Board



Work Continues on the San Vicente Dam Raise
November 22, 2011



NOTICE TO THE PUBLIC
BOARD OF DIRECTORS' AND STANDING COMMITTEES'
REGULAR MEETING
DECEMBER 8, 2011
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 December 8, 2011** the afternoon session of Standing Committees will commence at **1:00 p.m.** Please see the meeting schedule. The full Board will convene in formal session at **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 or at the Water Authority Headquarters.

MEETING SCHEDULE

DECEMBER 8, 2011

MORNING SESSION

Imported Water
Engineering and Operations

9:00 a.m. to 12:00 p.m.

Estimated time: 1 hour 25 minutes

Estimated time: 1 hour 15 minutes

LUNCHEON FOR DIRECTORS

(Following lunch a presentation will be made regarding
the Injured Marine Semper Fi Fund)

11:50 a.m. – 1:00 p.m.

AFTERNOON SESSION

Administrative and Finance
Water Planning
Legislation, Conservation and Outreach

1:00 p.m. – 3:00 p.m.

Estimated time: 40 minutes

Estimated time: 40 minutes

Estimated time: 25 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.

IMPORTED WATER COMMITTEE

AGENDA FOR

DECEMBER 8, 2011

Mark Watton – Chair
Gary Arant – Vice Chair
Yen Tu – Vice Chair
Jim Bond
Jim Bowersox
Brian Brady
Lynne Heidel
Bill Knutson

Keith Lewinger
John Linden
Ralph McIntosh
Ron Morrison
Fern Steiner
Barbara Wight
Doug Wilson

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. Amend agreement for Special Consulting Services with SCN Strategies.
Staff recommendation: Amend the agreement with SCN Strategies for continued special consulting services to the Water Authority through June 30, 2013, for a period of 17 additional months, and increasing total contract funding to an amount not-to-exceed \$387,500. (Action)

Dennis
Cushman

II. ACTION/DISCUSSION

1. Metropolitan Water District Issues and Activities update.
1-A Metropolitan Water District Delegates report.
(Information) (pickup packet)



2. Colorado River Programs.
2-A Colorado River Board representative's report. Bill Knutson
(Information) (pickup packet)

III. INFORMATION

1. Presentation on Draft Environmental Impact report on Delta Plan. Jeff Volberg
2. 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(a)
Name of Case: QSA Judicial Council Coordination
Proceeding No. 4353
2. CLOSED SESSION: Dan Hentschke
Conference with Legal Counsel - Existing Litigation and Potential
Litigation
Government Code §54956.9(a) - SDCWA v Metropolitan Water
District of Southern California; Case No. CPF-10-510830
Government Code §54956.9(c) - One Case

V. ADJOURNMENT

Doria F. Lore
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.



November 30, 2011

Attention: Imported Water Committee

Amend agreement for Special Consulting Services with SCN Strategies. (Action)

Staff recommendation

Amend the agreement with SCN Strategies for continued special consulting services to the Water Authority through June 30, 2013, for a period of 17 additional months, and increasing total contract funding to an amount not to exceed \$387,500.

Alternatives

Do not amend the contract with SCN Strategies. Funding under the current contract will cover services through January 2012.

Fiscal Impact

If the staff recommendation is approved, the contract amount would be amended by \$242,500, for 17 additional months of service at \$12,500 a month, plus up to \$30,000 for reimbursable expenses over that period. The total amount of the contract is not to exceed \$387,500. The additional \$242,500 will come from the fiscal 2012 and 2013 operating budget for the MWD Program. Funds were budgeted for these services.

Background

The Water Authority utilizes consultants to assist in accomplishing Board-directed priorities and programs. Since March 2011, SCN Strategies has provided the Water Authority with specialized consulting services in support of the Water Authority's rate litigation against the Metropolitan Water District of Southern California. The Board has identified the rate litigation against MWD as a top budget and policy priority.

Discussion

SCN Strategies provides specialized consulting services, and advises the Water Authority's rate litigation team in a variety of areas, including public relations, media relations, litigation communication and support, message development, communication planning, coalition development and other outreach services. SCN Strategies is part of a larger team comprised of members of the Water Authority's Board of Directors, management, legal counsel, and other Water Authority consultants. Their role is an integral and critical component in support of the Water Authority's communications efforts related to the MWD rate litigation.

Costs for the amended contract will continue to include a \$12,500 monthly retainer fee, plus reimbursement for approved expenses. The amendment will extend the contract with SCN Strategies through June 30, 2013, and may be terminated by the Water Authority at any time upon delivery of written notice.

Prepared by: Alexandra Schnell, Management Analyst
Reviewed by: Denise Vedder, Senior Public Affairs Manager
Approved by: Dennis A. Cushman, Assistant General Manager



November 30, 2011

Attention: Imported Water Committee

Draft Environmental Impact Report on Delta Plan. (Information)

Background

In 2009, the California Legislature passed a package of legislation relating to the Sacramento-San Joaquin River Delta that included a Delta Reform Act and a water bond. The Delta Reform Act established the Delta Stewardship Council as the successor to the CalFED program and gave it the task of preparing a Delta Plan. The Delta Plan was to have been completed by the end of 2011, however, it is now scheduled for completion in early 2012.

The DSC has worked diligently throughout 2011 and has produced five drafts of the Delta Plan. The DSC released a draft Environmental Impact Report on November 4 for public comment. The comment period will extend until February 2, 2012.

Discussion

The draft EIR is based on the Fifth Staff Draft of the Delta Plan, which is referred to as the Proposed Project. The draft EIR also describes five alternatives to the Proposed Project, all of which it finds to be environmentally inferior to the Proposed Project.

The five alternatives include an alternative proposed by the state and federal water contractors; another alternative proposed by the ACWA Ag-Urban coalition; an environmentalist alternative that proposes decreasing exports and concentrating on ecosystem restoration throughout the state; an alternative that places increased emphasis on protection and enhancement of Delta communities, culture, and agriculture, with less ecosystem restoration; and a no-project alternative. The five alternatives are all rejected.

When it established the DSC, the Legislature charged the DSC with accomplishing the policy of the state to achieve the coequal goals providing a more reliable water supply and protecting, restoring, and enhancing the Delta ecosystem, while protecting and enhancing the unique cultural, recreational, natural resource, and agricultural values of the Delta as a place. Proponents of the Delta package understood that the DSC would combine and coordinate the plans and planning activities of the more than 200 government agencies that have responsibilities in the Delta, and would set forth a blueprint for proceeding with infrastructure projects that will help the state achieve the coequal goals. The DSC would have appellate powers to ensure that actions covered by the Plan would be consistent with the Plan.

Instead, the Fifth Staff Draft of the Delta Plan concentrates on regulatory actions to ensure that exporters of Delta water reduce their reliance on the Delta. The Plan also emphasizes increasing flows of freshwater into and through the Delta, to provide environmental improvements for species of fish that are listed under the state and federal Endangered Species Acts. The Plan does not provide at all for the building of water infrastructure. Under the Delta Reform Act, the Bay-Delta Conservation Plan will be incorporated into the Delta Plan, when it is completed and as long as it qualifies as a Natural Communities Conservation Plan under state law. The BDCP is the document and planning process that will propose an infrastructure project and will provide

permits for the projects under endangered species laws. The BDCP is scheduled to release a draft Plan and EIR in June 2012, with final approval scheduled for early 2013.

If the BDCP fails to qualify as an NCCP, the Delta Plan will have no provisions for infrastructure improvements and will largely rely on increased regional self-reliance and flow criteria. The Delta Plan also establishes a Delta Science Program and a system of adaptive management. The Draft EIR mainly examines the environmental impacts of these actions.

The Delta Plan establishes a series of policies, which are intended to have the force of regulatory law, and proposes a series of recommendations, which do not have the force of law. The policies include the following:

- Water suppliers who receive water from the Delta must include a Water Reliability Element in their Urban Water Management Plan or Agricultural Water Management Plan. This element must be in place by December 31, 2015. The element must detail how water suppliers are sustaining and improving their regional self-reliance and reducing reliance on the Delta.
- Update Delta flow requirements. The Delta Plan requires the State Water Resources Control Board to adopt and implement updated flow objectives for the Delta by June 2014, and for tributaries to the Delta by June 2018. The flow objectives are intended to control salinity in tidal waters and to provide fresh water conditions for spawning and migrating fish.
- All new water use from the Delta or transfers through the Delta for more than one year must be developed in a transparent manner consistent with Department of Water Resources and U.S. Bureau of Reclamation policies.
- Habitat restoration activities must be consistent with habitat type locations shown in an adopted Conservation Strategy.
- Actions other than habitat restoration activities must avoid or mitigate any loss of opportunity for habitat restoration.
- State and local agencies constructing new levees or substantially rehabilitating or reconstructing existing levees must incorporate alternatives that would increase the extent of floodplain and riparian habitats.
- Agencies proposing actions covered under the Delta Plan must show that they have fully considered whether their actions will cause the introduction of invasive species and shall prevent or mitigate any introduction of invasive species.
- Covered actions may not involve the unmitigated encroachment on floodways, floodplains, or potential future floodplain or bypass locations in the Delta.

The Delta Plan also includes a large number of recommendations, including the timely completion of the BDCP. The Delta Plan makes recommendations for storage facilities upstream of the Delta. Unfortunately, the Delta Plan does not directly provide for the construction of any water conveyance or storage infrastructure or institute a process to move toward construction. The draft EIR does not examine any environmental impacts construction would cause.

In the final analysis, the Delta Plan relies almost entirely on regional self-reliance and the reduction of dependence on the Delta to achieve the coequal goal of water supply reliability. It primarily uses flow requirements to achieve its ecosystem restoration objectives. ACWA and the state and federal water contractors have already commented that this plan and its attendant draft EIR do little to achieve the coequal goals, particularly with regard to water supply reliability. Water Authority staff will draft comments and submit them to the DSC by the February 2 deadline. The comments will address the following concerns, among others:

- The draft EIR does not address how the Delta Plan will achieve the coequal goals of water supply reliability and ecosystem restoration. It merely states that it will.
- The Delta Plan does not address, and the draft EIR does not analyze, construction of an infrastructure project to improve water supply reliability, other than to call for completion of the BDCP.
- The Delta Plan does not address, and the draft EIR does not analyze, any ecosystem restoration project or program other than merely increasing freshwater flows through the Delta.
- The draft EIR does not analyze how increasing freshwater flows through the Delta will achieve the goal of ecosystem restoration.
- The draft EIR dismisses the ACWA Ag-Urban Alternate Plan without analysis. The ACWA Alternate Plan lays out a process for achieving the coequal goals through the construction of water infrastructure based on the BDCP, and through habitat restoration through a combination of seasonal freshwater flows and wetlands restoration.
- The draft EIR and the Delta Plan assume a regulatory authority in the DSC that was not intended in the Delta Reform Act of 2009. The Legislature never intended that the DSC take a regulatory role in overseeing the efforts of local water suppliers outside of the Delta to reduce local and regional demand for water.

Prepared by: Jeffrey Volberg, Government Relations Manager

Reviewed by: Dennis Cushman, Assistant General Manager

November 30, 2011

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 agencies and organizations.

Discussion

Metropolitan Water District (MWD). This report provides a summary of key actions taken at the November 7 and 8 meetings of the MWD board of directors. The next committee and board meetings will take place on December 12 and 13, 2011. The Water Authority delegation supported 11 of 15 action items approved by the MWD Board. The delegates abstained on the city of Compton's request to withdraw its purchase order commitment. In addition, the delegates did not support three items – approving policy principles for a new replenishment program and adopting two resolutions establishing a new retirement health benefit vesting requirement and enacting changes to the MWD health benefits premium contained in the newly authorized Memoranda of Understanding.

City of Compton's Purchase Order Commitment. The delegates abstained from Compton's request to withdraw its purchase order. Several MWD member agencies, including Compton, voluntarily committed to purchase a minimum amount of MWD water over a 10-year period. In exchange for this commitment, the member agencies were able to purchase annually an amount of water equal to 90 percent of its base firm demand at the lower Tier 1 Supply Rate. The purchase order expires on December 31, 2012. Since signing its commitment, Compton has increased its use of local groundwater resources, lessened its need for imported water supplies, which led Compton's MWD purchases to track below its minimum purchase commitment. As a result, Compton asked to withdraw its purchase order commitment. Approval of this item permits all member agencies the ability to withdraw from its commitment in exchange for a \$5,000 administrative fee.

While the Water Authority's MWD delegates voiced their belief that Compton is doing the right thing by better managing its local water supplies and decreasing reliance on imported water, the delegates expressed concern with how MWD expects to sustain the multi-billion dollar investments it proposes to make, given the unwillingness or inability of its member agencies to commit to pay for these projects. The delegates emphasized the Water Authority long-held position that it is vitally important for MWD to require take-or-pay contracts or other firm contractual commitments with its member agencies. By allowing member agencies the ability to withdraw from its purchase order commitment as recommended, it means that the purchase orders are not real commitments and cannot be relied upon to ensure payments of MWD's current or future expenses.

Approve Policy Principles for a New Replenishment Services Program. In May 2011, the MWD Board directed staff to develop options to reform the existing replenishment program and address concerns over its performance, costs, and benefits to the region. MWD staff along with its member agencies, has been working on revamping the existing replenishment program, which is currently fraught with issues regarding failure to perform and demonstrating regional benefit. The delegates did not support this item because sufficient evidence establishing the need for a new program to sell discounted water has not been presented. In fact, MWD staff's proposed policy principles lacks specificity on fundamental issues brought up by the Water Authority, such as:

- Does MWD need additional storage?
- What impact would this have on full service sales?
- What costs would be avoided if a new program were implemented?
- Will the new program affect MWD's future budgets and water rates?
- If a program were implemented, how does MWD propose to ensure benefit to all member agencies when discounted water is selectively sold?

Adoption of Resolutions. In September, the board authorized the General Manager to enter into a multi-year successor Memorandum of Understanding (MOU) with the Supervisors Association. Thereafter, the board authorized the General Manager to enter into a similar agreement with the Management and Professional Employees' Associations. The resolutions are required in order to establish a new retirement health benefit vesting requirement and enact the changes to MWD health benefits premium resulted from the newly authorized MOU. The Water Authority delegates, along with directors representing Municipal Water District of Orange County, Pasadena, Burbank, Foothill, Torrance, San Marino, and Calleguas, did not support adoption because the resolution included what they believed was an unauthorized change. This change was related to the MOU phrase "whichever is higher," and according to staff, was originally requested by Public Employees Retirement System (PERS) upon their review of the MOU. PERS asked MWD to identify a region to add specificity to the resolution, resulting in the selection of the Bay-Area region because it is the "highest" cost region offered. According to MWD staff, this change does not impact the estimated cost approved by the board, because staff's estimate was based on the highest region.

The MWD committees and board also:

- Adopted a resolution implementing the Time-in-Grade Exception for employee member contribution to Public Employees Retirement System;
- Appropriated funds and awarded a contract for repairs to three siphons on the Colorado River Aqueduct; and
- Appropriated funds and awarded a contract for replacement of transition and manhole structure covers on the Colorado River Aqueduct;

State Water Contractors (SWC). The SWC met on October 20, 2011. Department of Water Resources staff provided an overview of current water supply and water operations conditions. Oroville Reservoir storage is 2.93 million acre-feet (maf), which is 83% of capacity. The SWP share at San Luis Reservoir is about 940 taf, and the Central Valley Project share is about 700 taf. While both shares continue to fill, staff reported that once the SWP share of San Luis Reservoir filled, Article 21 would become available. The amount would be dependent on

hydrologic and regulatory conditions. However, as San Luis Reservoir fills, the potential spilling of carryover storage on January 1 increases. DWR staff said that based on recent studies, there could be about 90 taf of Article 21 water made available through December. If DWR is unable to deliver this water, the 90 taf extra water will displace contractors' water stored in the carryover storage. DWR staff also reported that the initial allocation for 2012 would be announced by December 1. For other SWC actions, see Attachment 1.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Reviewed by: Amy Chen, MWD Program Chief

Attachment: SWC Board Actions, dated October 20, 2011.

**STATE WATER CONTRACTORS
BOARD OF DIRECTORS
REVISED
BOARD ACTIONS
OCTOBER 20, 2011**

The following actions were taken at the State Water Contractors (SWC) Board of Directors October 20, 2011 meeting upon motions duly made, seconded and unanimously passed.

1. Approved the Consent Calendar, including Draft Board Minutes for September 15, 2011, the Financial Report, and October 2011 Consultant Reports.
2. Authorized the General Manager to contract for up to \$150,000 for development of a Longfin life cycle model. The model will be cost shared 50% with San Luis & Delta-Mendota Water Authority, with a corresponding \$150,000 joint reduction in contributions to the State and Federal Contractors Water Agency.
3. Authorized the execution of a second grant agreement between the SWC and the California Department of Fish and Game to engage consultants to provide public outreach services for the Bay Delta Conservation Plan.
4. Authorized the General Manager to send a letter to DWR indicating that the Article 51(e) review consultation process is complete.
5. Directed the General Manager to send a letter to the DWR supporting Central Coast Water Authority's request for a three-for-two water exchange with Dudley Ridge Water District and the Kern County Water Agency.
6. Directed the General Manager to send a letter to the DWR supporting Castaic Lake Water Agency's request for a two-for-one water exchange with West Kern Water District, a member agency of KCWA.
7. Directed the General Manager to send a letter to the DWR supporting Palmdale Water District's request for a two-for-one water exchange with Antelope Valley East Kern involving up to 10,000 acre-feet of PWD's excess 2011 Table A.
8. Directed the General Manager to send a letter to the DWR supporting San Bernardino Valley Municipal Water District's request to bank up to 30,000 acre-feet of its 2011 Table A in the water bank of Kern Delta Water District, a member agency of KCWA.
9. Authorized the General Manager to contract with Kronick, Moskovitz, Tiedemann and Girard for up to \$120,000 for evaluation of water rights adequacy in the South Delta. The budget for this is derived from a reassignment of the previously committed \$70,000 for a contribution to a joint San Joaquin River Group, State Water Contractors and San Luis&Delta-Mendota Water Authority evaluation. The authorized funding will be cost matched by San Luis&Delta-Mendota Water Authority activities.

10. Authorized the State Water Contractors to join as a party to the amicus brief by Trout, Raley, Montano, Witwer and Freeman supporting the Environmental Protection Agency policy of not requiring a Clean Water Act permit for interbasin water transfers in an appeal before the District of Columbia Court of Appeals.
11. Directed the General Manager to send a letter to Senator Pavley in appreciation of her efforts in submitting Senate Bill 224 and successfully having the bill enacted into law.

Other Actions:

1. Requested that a meeting be set-up between State Water Contractors policy managers and DWR to discuss the assumptions being used in the 2011 State Water Project Delivery Reliability Report.
2. Requested that the Water Transfer Committee develop criteria to determine which water transfers can be approved by the General Manager and which should be taken to the board for approval.



November 30, 2011

Attention: Imported Water Committee

CLOSED SESSION:

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a)

Name of Case: QSA Judicial Council Coordination Proceeding No. 4353

Purpose

This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(a) to discuss the above-referenced matter at the December 8, 2011, Board 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



November 30, 2011

Attention: Imported Water Committee

CLOSED SESSION:

Conference with Legal Counsel - Existing Litigation and Potential Litigation

Government Code §54956.9(a) - SDCWA v Metropolitan Water District of Southern California; Case No. CPF-10-510830

Government Code §54956.9(c) - One Case

Purpose

This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §§54956.9(a) and 54956.9(c) to discuss the above-referenced matters at the December 8, 2011, Board 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



III. INFORMATION

1. Presentation on San Vicente Tunnel and Pipeline System Projects. Frank Belock
2. Proposed PUC modifications affecting existing solar projects. Frank Belock

IV. CLOSED SESSION

1. CLOSED SESSION: Dan Hentschke
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – Traylor-Shea Joint Venture v
SDCWA; Case No. 37-2009-00090545-CU-BC-CTL
Traylor-Shea Joint Venture v SDCWA;
Case No. 37-2011-00092666-CU-BC-CTL

V. ADJOURNMENT

Doria F. Lore
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.

November 30, 2011

Attention: Engineering and Operations Committee

Change Orders to Shimmick/Obayashi Joint Venture for the San Vicente Dam Raise Package 3 – Roller Compacted Concrete Dams and Appurtenant Facilities project. (Action)

Staff recommendation

Accept Shimmick/Obayashi Joint Venture Change Orders 17 and 18 for \$324,127; and authorize the General Manager to execute Change Orders for up to \$750,000 to address design modifications, differing site conditions and outside agency requirements, increasing the authorized contract amount from \$142,709,806.70 to \$143,783,933.70.

Alternatives

Do not accept this change order and provide direction to staff relative to issues requiring resolution.

Fiscal impact

There are sufficient funds in the approved project budget and in the Fiscal Years 2012 and 2013 Capital Improvement Program appropriation to support this action. The rate category for this project is storage.

Background

The San Vicente Dam will be raised 117 feet, providing an additional 152,000 acre-feet of combined emergency and carryover storage for the region per the April 2008, Board certified Carryover Storage Project Environmental Impact Report.

The Dam Raise project is being implemented through seven construction packages to expedite the construction schedule, as well as to promote opportunities for small businesses. The following is the project's implementation plan status:

- Package 1 - Test Quarry (complete)
- Package 2 - Foundation Preparatory Work (complete)
- Package 2B - Vegetation Cutting and Erosion Control (complete)
- Package 3 - Roller Compacted Concrete (RCC) Dams and Appurtenant Facilities (in construction)
- Package 4 - Bypass Pipeline (in design)
- Package 5 - Marina Improvements (in design)
- Package 6 - Post Construction Habitat Restoration (in planning)

The Package 3 scope of work includes raising the main dam, constructing a smaller saddle dam, building a new outlet tower, pipelines, access roads, and a control facility to regulate the flow of water from the expanded reservoir to Water Authority and City of San Diego facilities. The limits of work for Package 3 are shown in Figure 1.

The Package 3 contractor has completed the new marina access road and a portion of the saddle dam. He is currently placing RCC for the main dam, installing pipe in the outlet tunnel, and beginning construction activities for the outlet tower.

Previous Board Actions: In September 2011, the Board authorized the General Manager to execute a change order for up to \$1,476,000 to increase the quantity of RCC to fill foundation areas where unsuitable foundation material was removed, increasing the contract amount from \$140,977,220.70 to \$142,453,220.70.

Discussion

We are requesting the Board accept Change Orders 17 and 18 executed by staff under the General Manager's authority for \$324,127. These items are summarized below and include, differing site conditions, design modifications, administrative contract revisions and outside agency requirements. A full listing of contract modifications is attached as Table 1.

Differing Site Condition: Staff executed one differing site condition modification for \$220,000 to increase the quantity of shotcrete for stabilizing slopes excavated along the marina access road.

Design Modification: Staff executed one design modification for a credit of \$4,904 for deleting a standby generator platform that was not needed inside the downstream control facility.

Administrative: Staff executed one no cost schedule modification to extend the contract completion date by four days due to inclement weather.

Outside Agency Requirements: Staff executed two modifications for \$109,031 to address additional foundation cleaning, and additional RCC batch testing required by the Division of Safety of Dams (DSOD).

We are also requesting the Board authorize the General Manager to execute change orders for up to \$750,000 for a differing site condition and an outside agency requirement. The differing site condition for \$50,000 is required to change the grouting sequence for a small area on the right abutment foundation to address unexpected rock conditions. The outside agency requirement for up to \$700,000 provides additional erosion control measures to address revisions to the statewide Regional Water Quality Control Board General Construction Permit that occurred after Package 3 was bid and awarded to this contractor.

Approval of these recommendations will increase the Shimmick/Obayashi Joint Venture board authorized contract total by \$1,074,127 from \$142,709,806.70 to \$143,783,933.70, which brings the total change order percentage for Package 3 to 2.6 percent.

On this project, the small business participation is 11 percent. Minority and women-owned business participation for this project is 6 percent. This information is provided for statistical purposes.

Prepared by: J. Wade Griffis, Lead Construction Administrator

Reviewed by: William J. Rose, Director of Engineering

Approved by: Frank Belock Jr., Deputy General Manager

Attachments: Figure 1 – San Vicente RCC Dams and Appurtenant Facilities
Table 1 - Summary of Construction Change Orders

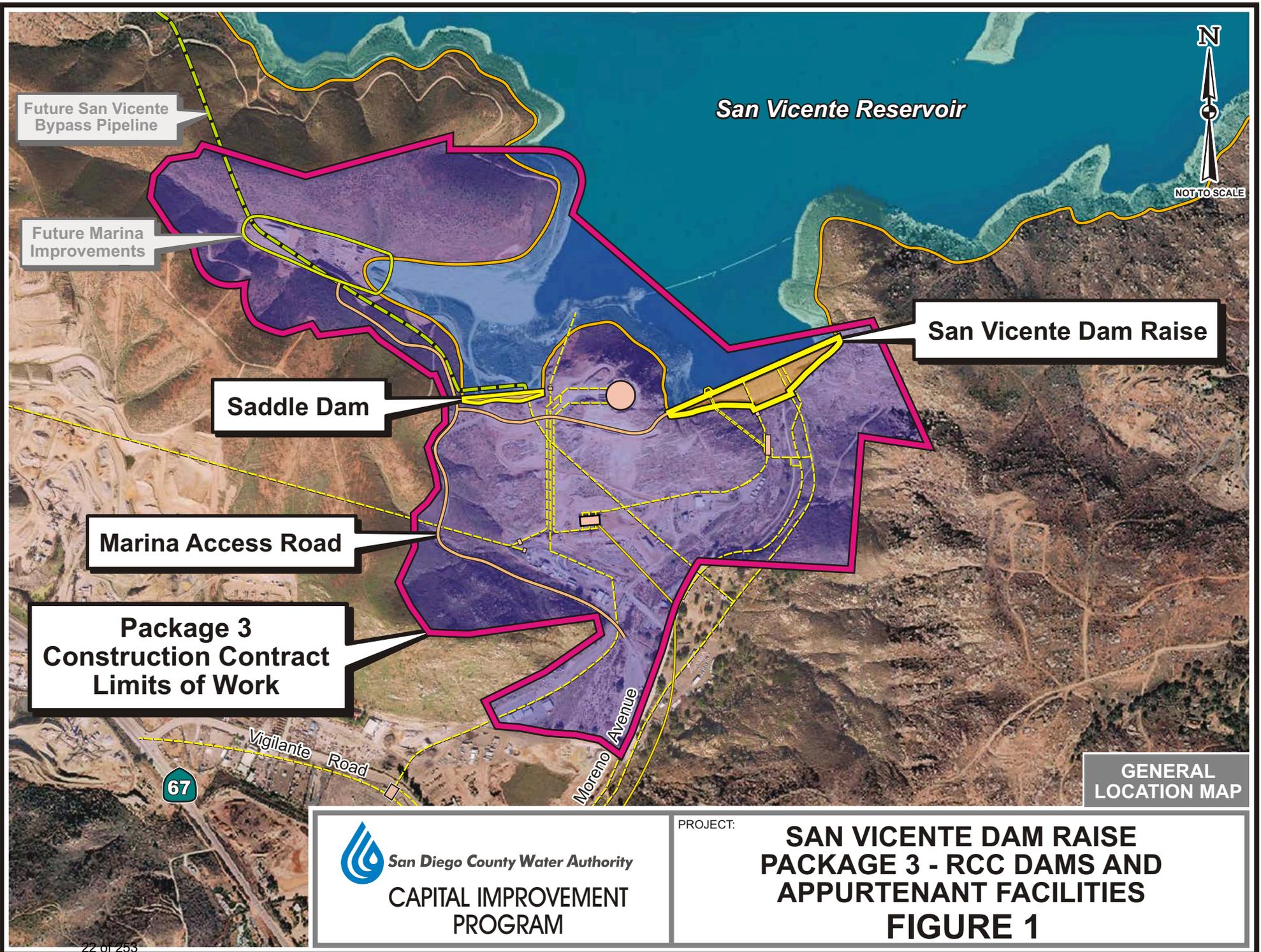


TABLE 1
SUMMARY OF CONSTRUCTION CHANGE ORDERS
SAN VICENTE DAM RAISE PACKAGE 3 CONTRACT
SPECIFICATION 592

Original Board authorized contract amount: \$140,206,050.00
Board authorized contract amount to date: \$142,709,806.70

Change Order	Item No.	Description	Amount	Milestone Time Extension	Contract Time Extension
1	1	Design Modification - Revise rock bolt bearing plate dimensions	\$8,756	0 days	0 days
1	2	Administrative Modification - Credit for deletion of copy machines.	(\$38,495)	0 days	0 days
2	1	Administrative Modification - Extend Milestone 2 and Milestone 3 for inclement weather.	\$0	9 days to M2 10 days to M3	10 days
2	2	Design Modification - Provide Gallery Access Building foundation leveling concrete.	\$40,500	0 days	0 days
2	3	Differing Site Condition - Revise marina access road overexcavation unit price quantity.	\$21,000	0 days	0 days
2	4	Differing Site Condition - Revise foundation excavation unit price quantity.	\$128,000	0 days	0 days
3	1	Design Modification - Provide verification hole for grout trial.	\$258	0 days	0 days
3	2	Design Modification - Perform additional verification hole drilling and testing.	\$39,830	0 days	0 days
3	3	Administrative Modification - Revise prequalification requirements for welding procedure.	(\$2,666)	0 days	0 days
3	4	Design Modification - Place foundation leveling concrete for upper level of Downstream Control Facility.	\$73,125	0 days	0 days
3	5	Differing Site Condition - Remove unsuitable material on marina access road	\$16,621	0 days	0 days
3	6	Design Modification - Reduce quantity for drill set up over curtain, stitch or consolidation (between stations 9+00 and 12+00) grout holes in raised and saddle dams foundation excavation- (bid item no. 29).	(\$8,700)	0 days	0 days
3	7	Design Modification - Reduce quantity for drilling rotary or percussion holes in rock- raised and saddle dams foundation excavation - (bid item no. 37).	(\$65,000)	0 days	0 days
4	1	Design Modification - Increase quantity for drill set up over grout holes on dam crest and encasements - (bid item no. 28).	\$12,000	0 days	0 days
4	2	Design Modification - Increase quantity for rock coring, NW-NQ size, from raised and saddle dam foundation excavation- (bid item no. 34).	\$155,000	0 days	0 days

Change Orders 1-4 approved at February 24, 2011 Board Meeting

Total change order amount through Change Order 4:

\$380,229

Total time extension:

10 days

Original Board authorized contract amount:

\$140,206,050.00

New executed contract amount:

\$140,586,279.00

M = Milestone

5	1	Design Modification - Cost Impacts for Missing Footpath on Left Abutment.	\$65,000	0 days	0 days
5	2	Administrative Modification - Extend Milestone 2 and Milestone 3 for inclement weather.	\$0	1 day to M2 1 day to M3	1 day
6	1	Administrative Modification - Credit for reduction of on-site laboratory technician services.	(\$150,000)	0 days	0 days
6	2	Design Modification - Revise grout mix for foundation grouting.	\$115,000	0 days	0 days
6	3	Administrative Modification - Extend Milestone 2 and Milestone 3 for inclement weather.	\$0	4 days to M2 2 days to M3	2 days
6	4	Administrative Modification - Revise description of site maintenance allowance to include other site maintenance deemed necessary by the Engineer.	\$0	0 days	0 days
6	5	Differing Site Condition - Credit for deletion of concrete demolition in the valve house.	(\$5,000)	0 days	0 days
6	6	Differing Site Condition - Provide additional raised dam excavation at the outlet tower.	\$3,855	0 days	0 days
6	7	Outside Agency Requirement - Provide telephone conduit modifications on the Marina Access Road.	\$16,867	0 days	0 days
7	1	Design Modification - Increase quantity for drill set up over grout holes on dam crest or encasements - (bid item no. 28).	\$6,000	0 days	0 days
8	1	Design Modification - Increase quantity for concrete or rock coring, NW-NQ size, from foundation gallery - (bid item no. 33).	\$280,410	0 days	0 days
8	2	Design Modification - Decrease quantity for drilling rotary or percussion holes in concrete or rock from foundation gallery or upper outlet tunnel - (bid item no. 36).	(\$195,927.50)	0 days	0 days
8	3	Design Modification - Increase quantity for dental concrete - (bid item no. 46).	\$57,000	0 days	0 days
9	1	Administrative Modification - In-plant source inspection credit.	(\$183,064)	0 days	0 days
9	2	Administrative Modification - Extend Milestone 2 and Milestone 3 for inclement weather.	\$0	1 day to M2 3 days to M3	3 days
10	1	Differing Site Condition - Increase quantity for Installation of Tensioned cut slope rock bolts - (bid item no. 59).	\$111,343.20	0 days	0 days
10	2	Differing Site Condition - Increase quantity for drill set up over curtain, stitch or consolidation grout holes in raised and saddle dam foundation excavation - (bid item no. 29).	\$18,850	0 days	0 days
11	1	Design Modification - Credit for deletion of concrete encasement at the Interconnect Pipeline	(\$1,200)	0 days	0 days
11	2	Differing Site Condition - Provide additional grout quantities on rock bolt installation at outlet tower excavation	\$4,491	0 days	0 days
11	3	Outside Agency Requirement - RCC trial placement modifications.	\$122,653	0 days	0 days
11	4	Design Modification - Increase quantity for drilling rotary or percussion holes in rock – raised and saddle dam foundation excavation (bid item no. 37).	\$117,000	0 days	0 days
12	1	Differing Site Condition - Decrease quantity for processing, mixing and injecting grout (bid item no. 41)	(\$305,250)	0 days	0 days
12	2	Design Modification - Re-drilling grout from holes (bid item no. 38).	\$19,500	0 days	0 days
13	1	Differing Site Condition - Increase quantity for Shotcrete (bid item no. 64)	\$200,000	0 days	0 days

Change Orders 5-13 approved at August 25, 2011 Board Meeting

Total change order amount through Change Order 13:

\$297,527.70

Total time extension:

16 days

Original Board authorized contract amount:

\$140,206,050.00

New executed contract amount:

\$140,883,806.70

14	1	Differing Site Condition - Grout Waterline in Existing Dam Gallery	\$5,851	0 days	0 days
14	2	Outside Agency Requirement - Revised Foundation Preparation Requirements for Raised Dam Foundation Shaping Concrete	\$87,563	0 days	0 days
15	1	Differing Site Condition - Provide Marina Access Road Brow Ditch Modifications	\$9,675	0 days	0 days
15	2	Outside Agency Requirement - Provide Additional RCC Trial Placement Cores	\$4,547	0 days	0 days
15	3	Administrative Modification - Extend Contract Milestone Completion Dates Due to Uncontrollable Circumstance	\$0	1 day to M 2 1 day to M3	0 days
16	1	Avenue/Vigilante Road Intersection Modifications	\$29,962	0 days	0 days

Change Orders 14-16 approved at August 25, 2011 Board Meeting

Total change order amount through Change Order 16: **\$137,598**
Total time extension: **1 day**
Original Board authorized contract amount: **\$140,206,050.00**
New executed contract amount: **\$141,021,404.70**

17	1	Modify Minimum Time Elapsing Between Placing of Successive Lifts on Concrete for Outlet Pipe Encasement	\$0	0 days	0 days
17	2	Design Modification - Delete Standby Generator Platform	(\$4,904)	0 days	0 days
17	3	Outside Agency Requirement - Provide Additional Foundation Preparation at Main Dam	\$99,314	3 days to M2 3 days to M3	3 days
17	4	Outside Agency Requirement - Provide RCC Batching for SE Testing	\$9,717	0 days	0 days
17	5	Administrative Modification - Extend Milestone 2 and Milestone 3 for inclement weather.	\$0	4 days to M2 4 days to M3	4 days
18	1	Differing Site Condition - Increase Quantity for Shotcrete (Bid Item No. 64)	\$220,000	0 days	0 days

Total amount of change orders 17 and 18: **\$324,127**
Total time extension: **7 days**
Original Board authorized contract amount: **\$140,206,050.00**
New executed contract amount: **\$141,345,531.70**

AUTHORIZED AMOUNTS NOT FULLY EXECUTED TO DATE

Board Approval Date	Authorized	Executed	Not Yet Executed
August 25, 2011	\$350,000.00	\$137,598.00	\$212,402.00
September 22, 2011	\$1,476,000.00	\$0.00	\$1,476,000.00



November 30, 2011

Attention: Engineering and Operations Committee

San Vicente Tunnel and Pipeline System Projects (Information)

Purpose

To provide the Board a comprehensive overview of the budget history related to the ESP- San Vicente Pipeline & Aqueduct Interconnect (SVPL) and San Vicente Pumping Facilities (SVPF) projects, which collectively make up the San Vicente Tunnel and Pipeline System.

Background

Two projects that are critical links in the Emergency Storage Project are the San Vicente Pipeline and the San Vicente Pumping Facilities, which represent the system responsible for carrying water to and from the San Vicente Reservoir and the Water Authority's Second Aqueduct. These two projects were budgeted, designed, bid, and constructed separately. This report provides the Board a comprehensive overview of the projects' budgets and the active role the Board played in the development of these projects.

Discussion

As with all projects in the Water Authority's Capital Improvement Program, the Board has been actively engaged and well informed in these two critical projects throughout their development, not only through presentations at its Engineering and Operations Committee, but special Board and committee workshops, project site tours (including those as part of our annual Engineering and Operations Tour), budget related discussions and, when appropriate, discussions in closed sessions. These two projects have been on the Board's agenda on more than 180 occasions from 1998 to this year; a detailed listing is provided in Attachment 1.

The SVPL and SVPF projects were first put into the Capital Improvement Program and adopted by the Board with its Fiscal Year 1998/1999 budget. Based upon the scope and schedule defined at the time, the projects were estimated to cost \$170.5 million and \$44.4 million, respectively; however, important issues such as pumping capacity, pipe size, alignment, and construction methodology had not yet been determined, nor factored into the initial estimates. Now, 13 years later, construction is complete and the system is ready to be placed in service when the San Vicente Dam Raise Project is complete. The current budgets are \$341.6 million and \$109.7 million. A complete history of all budget actions taken by the Board is provided in Attachments 2 and 3.

As with all large construction projects, the scope, schedule, and budget for the SVPL and SVPF continued to be refined throughout the design process, when numerous field investigations, engineering studies, and environmental review are performed. The Board provided direction relative to design, rising costs of construction materials, bidding strategies, and construction. When necessary, the Board modified the total budget of each project. The following is a

historical sampling of the discussions the Board was engaged in during the course of the SVPL and SVPF projects.

Project Development

The ESP EIR/EIS, certified by the Board of Directors and through the Record of Decision by the United States Army Corps of Engineers in 1996, included two alternative alignments for the SVPL. One alignment was primarily for trench construction and one was primarily for tunnel construction. While the EIR/EIS was certified for the trench construction alternative, the Record of Decision issued by the Army Corps of Engineers specified that the Water Authority needed to further evaluate the tunnel option as a way of reducing environmental impacts. The Board certified the ESP EIR/EIS based on this condition. Both the SVPL and SVPF projects were initially placed in the Water Authority's CIP in the FY 1998-1999 budget using placeholder cost estimates that were based on concept-level project definitions and based upon the SVPL trench alternative. Both projects were better defined over the following years as their designs were developed. As the projects proceeded from the concept phase to 100% design drawings, many important decisions were made by the Board, which provided directions relative to the projects' scope and design.

Examples of this are two modifications during the course of 2001. As a result of information developed in an optimization study for the entire Emergency Storage Project, it was recommended to the Board that the San Vicente pipeline be increased in size from 78 inches to 102 inches in diameter and utilize an alignment with a direct connection to Pipeline 5 in the Second Aqueduct; the Board approved the recommended action. Later that year, additional technical studies on the SVPL led to Board approval of tunnel construction in lieu of open-trench method of construction, based on several reasons. The first reason was that the tunnel option had less construction impacts to the Scripps Ranch and neighboring communities. When the EIR/EIS was approved in 1996, this area was rural and mostly undeveloped. However, due to increased development in the area during the mid- to late-90s, several houses were now in the path of the pipeline alignment and trenching methods would also require significant portions of two to three lanes of Scripps Poway Parkway to be closed for up to two years during construction. The second reason was that the increased diameter of the pipeline up to 102 inches increased the cost of the revised trench alternative several million dollars. A third reason was the tunnel option allowed the pipeline to be deeper and straighter, allowing for more efficient and effective operation. The fourth reason was a reduction in impacts to waters of the United States, as stipulated by the U.S. Army Corps of Engineers in its Clean Water Act Section 404 permit. These revisions to the pipe size, pipeline alignment, and type of construction required a \$30.7 million budget increase to the SVPL project. In June 2001, the Board increased the budget to reflect these decisions.

The SVPL project revisions, in conjunction with changes in the environmental baseline conditions since certification of the 1996 Final ESP EIR/EIS, warranted preparation of a Subsequent EIR (SEIR) to specifically examine the potential for any new or significantly increased environmental effects resulting from the project. The SEIR was circulated for public review in late 2003 and numerous comments were received from the public during the environmental process. Many of the comments related to air quality, traffic, and noise impacts to

the newly suburbanized community resulting from the anticipated tunnel mining operations and the location of one of the mining shafts. In response to these concerns, the Board directed staff to relocate one of the mining shafts and added \$6.8 million to the SVPL project in January 2004 to accommodate this and other associated changes for land acquisition, engineering and environmental services, and the repair of damage to existing facilities caused by construction activities.

Similar refinements occurred on the SVPF project. For example, in June 2001, when the project was developed to the degree where the needed capacity of the pump station had been determined, the Board was advised that there was insufficient existing power available to the site to operate the proposed pump station and the project scope and budget did not include the power line and substation necessary to provide electricity to the facility. Additionally, it was determined that the pump station required connections to the San Vicente/Moreno-Lakeside Pipeline. The Board voted to modify the budget by \$12.7 million to accommodate adding the power supply and connections to the project, and these changes were incorporated with the Board's approval of the FY2001-2002 budget.

Rising Costs of Construction

Keeping construction projects within budget was also a challenge due to external influences during the time these projects were being developed. In December 2004, the Board was briefed on the probable budget increases needed to the SVPL project due to a sharp rise in the price of steel, concrete, and energy. Final cost estimates for the SVPL project indicated a budget increase of approximately \$30.1 million would be required to account for the known market increases for the project. Also, during the project development phase, the designers determined a more robust surge control facility was needed to protect this vital emergency infrastructure from pressure surges. This work added an additional \$25 million to the estimated project cost, bringing the total increase to \$55.1 million. Construction bids for SVPL were opened on April 20, 2005, and the low bid received was significantly higher than the engineer's estimate. On May 16, 2005, the Engineering and Operations Committee held a special meeting where Board members discussed accepting the low bid or, alternatively, re-bidding the project. Ultimately, the Board accepted the low bid and increased the project budget to \$99.1 million, up from the previous \$55.1 million estimate. Notice of this budget revision was given to the Board at the time the project was awarded in June 2005, and this increase was adopted at the same Board meeting as part of the Board's approval of the Multi-Year Budget for FY 2006 & 2007.

Bidding Strategies

An example of measures the Water Authority employed to control rising costs during this time was the decision to use a pre-procured equipment model for the SVPF project. A value engineering study concluded that purchasing the pumps, motors, and drives in advance of the pump station construction contract would reduce costs and overall schedule risks. In this case, pre-procurement would reduce overall project cost by optimizing the design of the pump station building for the specific equipment. It also eliminated markup of this equipment by the construction contractor, thus further reducing costs and schedule risks. The Board was briefed on this recommendation in September 2004, and awarded a pre-procurement contract to Gierlich-Mitchell for this equipment in March 2005.

At the time the SVPL project was being designed and bid, many public works project bids throughout the country were costing more than estimated, due largely to sharply rising costs for steel and cement. This was discussed extensively with the Board. Following the bid opening for the SVPL project and the Lake Hodges projects, the Board formed a special committee called the Construction Costs Ad Hoc Committee to study these challenges and to help guide the development of future project cost estimates that would reflect these significant cost drivers. The Ad Hoc committee also sought input from the industry for ways to keep costs under control. Contractor open houses were held to solicit contractor interest and ideas for packaging future projects. More than 70 companies and organizations attended events hosted at the project site, and their input was evaluated for bidding future projects.

For example, the San Vicente Surge Control Facility was originally budgeted to be a separate construction contract phase of the SVPL project. Combining the San Vicente Surge Control Facility with the San Vicente Pump Station (thus creating the newly named San Vicente Pumping Facilities, or SVPF), into one construction contract was a result of direction from the Ad Hoc Committee, input from staff, and discussions with the contracting community. This was fully discussed by the Board and, in November 2006, the \$30 million budget for the surge control facility was transferred from the SVPL total budget to the SVPF total budget concurrent with the Board's approval of an increase to the budget for the SVPF of \$27 million due to the rising construction costs issue described earlier. This revised project bidding strategy proved highly successful, as the bid for this combined project came in significantly lower than the engineer's estimate. This favorable bid result was due, in part, to the efforts and direction of the Ad Hoc Committee to revise the bidding strategies for the project.

Construction

Construction also presented its own unique challenges for the SVPL project. Despite performing a thorough geologic testing and investigation program that was well within standard industry practice, differing ground conditions were encountered during construction, requiring more effort and time to complete the project. The Board was briefed on these differing site conditions on 26 occasions during the construction period in both open and closed sessions, and the Board approved related budget increases in June 2008 and June 2009.

The SVPF project was also dynamic during its construction phase. In September 2008, staff briefed the Board and sought authorization for the General Manager to execute several modifications to the SVPF construction contract. For example, due to the extended duration of the SVPL project, an alternative testing method was necessary for the pump station. Also, additional work that was originally anticipated to be included in the San Vicente Dam Raise Project was added to the SVPF to avoid conflicts later, when the dam work was under way. There were sufficient funds in the SVPF and San Vicente Dam Raise project budgets to support this action and the Board voted to authorize the General Manager to execute the contract modifications.

The original scope of the SVPF project also called for a future third pump drive. However, the recent decline in regional water demands prompted staff to reevaluate the timing and need for this pump drive. Staff also wanted to analyze the costs and reliability of grid-supplied power

versus on-site generation for the third pump drive. These items were discussed with the Board's Comprehensive Reliability and Cost Assessment (CRACA) Committee during the last budget process, from October 2010 through December 2010. The CRACA Committee recommended that these items be studied as part of the 2012 Facilities Master Plan Update and the Board voted to approve that recommendation in January 2011. The Board subsequently voted to transfer \$8 million from the SVPF project to the Master Planning activities with its adoption of the Fiscal Years 2012 & 2013 multi-year budget in June 2011.

A final issue that is commonly discussed in agencies with large Capital Improvement Programs is the percentage of non-construction costs that represent the CIP. Non-construction costs, which include planning, design, construction management, and staff time as well as reserves/contingencies, totaled \$127.6 million or 37.4% of the total project budget for the SVPL meaning that \$213.9 million or 62.6% was spent on construction. For the SVPF non-construction costs were \$32.4 million or 29.5%, with construction costs being \$77.3 million or 70.5%. For the two projects collectively, the construction costs were 64.5%. Water Authority capital projects have historically been in the 65% to 80% range for construction costs. Staff stays apprised of, and reviews industry standards. A 2005 paper by the Association for the Advancement of Cost Engineering International Project Cost Analysis shows that typical construction costs for water and wastewater projects such as these projects typically fall within a range of 63% to 82% (see Table 3 in Attachment 4).

As can be seen above, the array of the issues and challenges encountered during the development of projects such as the SVPL and SVPF can be significant. These projects, as well as others in the Water Authority's \$3.5 billion CIP, are considered to be highly complex in the engineering field and have garnered both national and international attention for their complexity and creativity. Because of the factors and cost implications involved in developing projects such as these, the active and timely involvement of the Board has been a hallmark of the Water Authority's successful Capital Improvement Program.

Prepared by: Frank Belock, Jr., Deputy General Manager

Reviewed by: Maureen A. Stapleton, General Manager

Attachments

1. San Vicente Pipeline & Aqueduct Interconnect and San Vicente Pumping Facilities - Summary of Board Updates
2. San Vicente Pipeline & Aqueduct Interconnect - Budget History
3. San Vicente Pumping Facilities - Budget History
4. 2005 Association for the Advancement of Cost Engineering International Project Cost Analysis

ATTACHMENT 1

**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
8/15/1996	Board of Directors	Approved Final EIR for Emergency Storage Project (Action)
5/20/1998	Special Budget Committee	Proposed Fiscal Year 1998-1999 Budget
6/11/1998	E&O Committee	Approve ESP Addition to CIP (Action)
6/11/1998	Fiscal Policy Committee	Fiscal Year 1998-1999 Budget (Action)
6/1/1999	Special Budget Committee	Proposed Fiscal Year 1999-2000 Budget
6/24/1999	Fiscal Policy Committee	Special Budget Committee Recommendation for Proposed Fiscal Year 1999-2000 Budget (Action)
3/9/2000	Special Board	CWA Rate Study and the Emergency Storage Project
5/25/2000	E&O Committee	FY1999-2000 Third Quarter Report on Capital Improvement Program (Information)
6/22/2000	E&O Committee	Approve Acquisition of portions of San Vicente Reservoir parcel (Action)
6/22/2000	Fiscal Policy Committee	Recommend Budget FY2000-2001 (Action)
10/26/2000	E&O Committee	FY1999-2000 Annual Budget Report on Capital Improvement Program (Information)
10/26/2000	E&O Committee	Emergency Storage Project Status Update (Information)
11/16/2000	E&O Committee	Emergency Storage Project Status Update (Information)
12/7/2000	E&O Committee	Report on Cost Estimates of the Emergency Storage Project Elements (Information)
1/25/2001	E&O Committee	Update of San Vicente Pipeline Design Issues (Information)
1/25/2001	E&O Committee	Emergency Storage Project Status Update (Information)
2/22/2001	E&O Committee	Emergency Storage Project Status Update (Information)
2/22/2001	E&O Committee	FY2000-2001 Second Quarter Report of Capital Improvement Program (Information)
3/22/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
4/26/2001	E&O Committee	Emergency Storage Project Cost Estimates (Information)
4/26/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
4/26/2001	E&O Committee	San Vicente to Second Aqueduct Pipeline Alternatives (Information)
5/24/2001	E&O Committee	Responses to key questions on the April 26 San Vicente Pipeline issues report (Information)
5/24/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
5/29/2001	Special Budget Committee	Proposed FY2001-2002 budget
6/28/2001	Fiscal Policy Committee	Adopting FY2001-2002 General Manager's recommended Operating and CIP Budgets (Action); Approved \$30.7M increase to San Vicente Pipeline budget due to increased pipe size (from 78-inch to 102-inch diameter) based upon ESP optimization study; Approved \$12.7M increase to pump station budget to include electrical substation and powerline

ATTACHMENT 1

**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
6/28/2001	E&O Committee	San Vicente Pump Station and Site Powerline - Professional Services Contract to Black & Veatch (Action)
6/28/2001	E&O Committee	Award of professional services agreement to Parsons Engineering Science, Inc. for project management and construction management services for the San Vicente to Second Aqueduct Pipeline (Action)
6/28/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
7/26/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
8/23/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
9/27/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
10/25/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
11/15/2001	E&O Committee	Surveying Services for San Vicente to Second Aqueduct Pipeline (Action)
11/15/2001	E&O Committee	Environmental Support Service for San Vicente to Second Aqueduct Pipeline (Action)
11/15/2001	Planning & Environmental Committee	Environmental support services for San Vicente to the Second Aqueduct Pipeline, San Vicente Pump Station and site powerline (Action)
11/15/2001	E&O Committee	FY2002 First Quarter Report on the Capital Improvement Program (Information)
12/6/2001	E&O Committee	Approve the tunnel alternative for San Vicente to Second Aqueduct Pipeline (Action)
12/6/2001	E&O Committee	Jacobs Associates - Engineering Design Services for the San Vicente to Second Aqueduct Pipeline (Action)
12/6/2001	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
1/24/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
2/28/2002	E&O Committee	Construction Management & Inspection Services for San Vicente Pump Station (Action)
2/28/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
3/28/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
4/25/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
5/23/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
5/23/2002	Public Affairs Committee	Katz & Associates Contract Amendment (Action)
5/28/2002	Special Budget Committee	Proposed FY2002-2003 Budget
6/27/2002	E&O Committee	City of San Diego Principles of Understanding
6/27/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
6/27/2002	Fiscal Policy Committee	Special Budget Committee Recommendation for Proposed Fiscal Year 2002-2003 Budget (Action)
7/25/2002	E&O Committee	San Vicente Pipeline - First Amendment to Project Design Consultants for mapping services
7/25/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
8/22/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)

ATTACHMENT 1

**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
9/26/2002	Public Affairs Committee	Emergency Storage Project public outreach support services activities update
9/26/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
10/24/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
11/14/2002	E&O Committee	FY2003 First Quarter Report of Capital Improvement Program (Information)
12/12/2002	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
1/23/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
2/27/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
2/27/2003	E&O Committee	FY2003 Second Quarter Report on Capital Improvement Program (Information)
3/27/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
4/24/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
5/22/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
5/22/2003	E&O Committee	FY2003 Third Quarter Report on Capital Improvement Program (Information)
5/22/2003	Water Planning Committee	Professional Services Agreement with HDR Engineering, Inc. (Action)
6/26/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
6/26/2003	Fiscal Policy Committee	Fiscal Years 2003-2004 and 2004-2005 General Manager's Recommended Operating and CIP Budgets (Action)
7/24/2003	E&O Committee	Third Amendment for San Vicente Pipeline/ tunnel design services (Action)
7/24/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
8/28/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
9/25/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
10/23/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
11/20/2003	Planning & Environmental Committee	San Vicente Pipeline - proposals for additional environmental mitigation at the Beeler Shaft (Action)
11/20/2003	E&O Committee	Oral update of the Emergency Storage Project -Schuler (Information)
12/18/2003	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
1/15/2004	Special Board	Approved project with relocated Beeler Mitigation Shaft; certified Final Supplemental EIR; adopted mitigation & monitoring program; Authorized agreement with Sycamore Estates LLC; Budget increase of \$6.779M; Amendments to professional services agreements with Jacobs Associates, Brierley Associates, EDAW and HDR
1/29/2004	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
2/26/2004	E&O Committee	Emergency Storage Project Monthly Status Report (Information)
2/26/2004	E&O Committee	FY2004 Semi Annual Report on the Capital Improvement Program
3/25/3004	E&O Committee	Presentation on FY2004 Semi Annual Report on the Capital Improvement Program (Information)

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**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
3/25/2004	E&O Committee	Status Report on Emergency Storage Project (Information)
4/22/2004	E&O Committee	Status Report on Emergency Storage Project (Information)
5/27/2004	E&O Committee	Emergency Storage Project Report (Information)
6/24/2004	E&O Committee	Fifth Amendment for Design Services - San Vicente Pipeline (Action)
6/24/2004	E&O Committee	Emergency Storage Project Report (Information)
7/22/2004	E&O Committee	Report on Emergency Storage Project (Information)
8/26/2004	E&O Committee	Report on Emergency Storage Project (Information)
9/23/2004	E&O Committee	Report on Emergency Storage Project (Information)
9/23/2004	E&O Committee	Advertisement for Bids - Pre-procurement for San Vicente Pump Station (Information)
10/28/2004	E&O Committee	Improve marketability and competition of Water Authority construction contracts - Material price adjustment clause for San Vicente to Second Aqueduct Pipeline (Discussion)
10/28/2004	E&O Committee	CLOSED SESSION: Acquisition of property interests for San Vicente Pipeline project
10/28/2004	E&O Committee	Report on Emergency Storage Project (Information)
10/28/2004	E&O Committee	Fiscal 2004 Annual Report on Capital Improvement Program (Information)
12/9/2004	E&O Committee	Update on Emergency Storage Project, related costs, and 24-hour operation (Information)
12/9/2004	E&O Committee	Advertise for Bids - San Vicente to Second Aqueduct Pipeline (Information)
12/9/2004	Public Affairs Committee	Professional Services Agreement for Emergency Storage Project Outreach - Katz & Associates (Action)
1/27/2005	E&O Committee	San Vicente to Second Aqueduct Pipeline - payment of \$154,000 to SDG&E for temporary power facilities (Action)
1/27/2005	E&O Committee	Report on Emergency Storage Project (Information)
2/24/2005	Formal Board	Hearing of Necessity to consider adopting Resolution declaring the public interest and necessity for the acquisition of property for San Vicente Pipeline (Action)
2/24/2005	Water Planning Committee	Certify the Supplemental Subsequent Environmental Impact Report for San Vicente Surge Control Facility (Action)
3/24/2005	E&O Committee	Award of professional services contract to Gierlich Mitchell, Inc. to purchase of pumps, motors, and drives for the San Vicente Pump Station; Increase San Vicente Pump Station budget by \$2.5M (Action)
3/24/2005	E&O Committee	FY2005 Semi Annual Report on Capital Improvement Program (Information)
5/16/2005	Special E&O Committee	San Vicente Pipeline bid results
5/26/2005	Water Planning Committee	Award a professional services contract to Helix Environmental to provide enviromental construction monitoring and support services

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San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items

Date	Board Meeting	Item
6/7/2005	Special A&F Committee	Review proposed FY2005-2006 and FY2006-2007 Budget (Action)
6/23/2005	E&O Committee	Construction Contract for San Vicente Pipeline and Aqueduct Interconnect and CIP Budget Increase (Action)
6/23/2005	A&F Committee	Adopt multi-year budget FY2005-2006 and FY2006-2007 (Action)
9/22/2005	E&O Committee	FY2005 Annual Report on Capital Improvement Program (Information)
12/8/2005	E&O Committee	Professional Services Contract for the San Vicente Pump Station, Surge Control Facility and Interconnect Pipelines (Action)
2/23/2006	E&O Committee	FY2006 Semi Annual Report on Capital Improvement Program (Information)
3/6/2006	Construction Costs Ad Hoc Committee	Cost escalation indices
3/20/2006	Construction Costs Ad Hoc Committee	External and internal factors affecting CIP Bids and Costs
4/3/2006	Construction Costs Ad Hoc Committee	Review of San Vicente Projects
4/20/2006	Construction Costs Ad Hoc Committee	Staff briefing of recent activities
5/25/2006	E&O Committee	Authorize acquisition of property and easement rights from the City of San Diego to operate and construct the San Vicente Surge Control Facility (Action)
6/1/2006	Construction Costs Ad Hoc Committee	ESP Labor Agreement; San Vicente Projects
6/8/2006	E&O Committee Inspection Tour	San Vicente Site projects
6/14/2006	Construction Costs Ad Hoc Committee	ESP Labor Agreement; Update on packaging efforts for San Vicente Super Project
9/6/2006	Construction Costs Ad Hoc Committee	Regional Procurement Committee; Construction Cost Estimates; CIP Construction Project Change Orders
9/28/2006	E&O Committee	Construction Contract Change Order for San Vicente Pipeline to Shea-Traylor Joint Venture (Action)
10/26/2006	E&O Committee	Capital Improvement Program Annual Report (Information)
10/26/2006	A&F Committee	Amend Professional Service Contract with Parsons Constructors Inc.; Transfer of funds from San Vicente Pipeline project (Action)

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**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
11/8/2006	Construction Costs Ad Hoc Committee	San Vicente Pumping Facilities Bid Results; CIP Re-cost Assumptions; Key Project Cost Changes; Next Steps - Comprehensive Reliability & Cost Assessment; Final Committee Report
11/30/2006	E&O Committee	Award San Vicente Pumping Facilities construction contract to Kiewit Pacific Company; Move the San Vicente Surge Control Facility budget of \$30,102,000 from San Vicente Pipeline and Aqueduct Interconnect project to San Vicente Pumping Facilities project; Increase San Vicente Pumping Facilities budget; Amend professional services contracts for the pump station designer and construction manager
11/30/2006	E&O Committee	Construction Costs Ad Hoc Committee Final Report (Information)
1/11/2007	Special Board	Comprehensive Reliability and Cost Assessment project
2/22/2007	E&O Committee	Presentation on construction of San Vicente Pipeline (Information) - Schuler
4/12/2007	Special Board	Completion of Comprehensive Reliability and Cost Assessment process; Prepare FY2007-2008 and 2008-2009 Recommended Budget based upon Revised Baseline alternative (Action)
5/16/2007	Special E&O Committee	San Vicente Pipeline tunneling conditions (Information)
5/24/2007	E&O Committee	CLOSED SESSION: Regional Water Quality Control Board Administrative Civil Liability Complaint No. R9-2007-0014
5/30/2007	Board E&O Tour	San Vicente Pipeline - West Shaft
6/7/2007	Special A&F Committee	Budget Overview of FY2007-2008 & 2008-2009 (Information)
6/28/2007	A&F Committee	Adopt multi-year recommended budget FY2007-2008 and FY2008-2009 (Action)
6/28/2007	E&O Committee	Change Orders to San Vicente Pumping Facilities (Action)
7/16/2007	Special E&O Committee	Update on Differing Site Conditions
7/26/2007	E&O Committee	Construction Contract Change Order for San Vicente Pipeline to Shea-Traylor Joint Venture (Action)
9/12/2007	Special E&O Committee	San Vicente Pipeline Budget status, Differing Site Conditions
9/27/2007	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
10/25/2007	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
12/6/2007	E&O Committee	Change Orders for the San Vicente Pumping Facilities project (Action)
12/6/2007	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)

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**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
12/6/2007	E&O Committee	CLOSED SESSION: Potential Litigation, Traylor Shea Joint Venture, Reach 4 West differing site condition certified claim, San Vicente to Second Aqueduct Pipeline
1/24/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
2/21/2008	Special E&O Committee	San Vicente Pipeline
2/28/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
3/27/2008	E&O Committee	Contract - Paladin Professional Consultants - San Vicente Pipeline (Action)
4/24/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
5/14/2008	Special E&O Committee	CLOSED SESSION: San Vicente Pipeline project potential litigation status
5/22/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture Construction Contract for San Vicente Pipeline (Action)
6/5/2008	E&O Committee Inspection Tour	San Vicente Projects
6/12/2008	Special A&F Committee	Consideration of FY2008-2009 Mid-Term Budget update (Action)
6/26/2008	Formal Board	FY2008-2009 Mid-Term Budget update (Action)
6/26/2008	E&O Committee	Amendment to professional services contract with Parsons Water & Infrastructure for ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)
6/26/2008	E&O Committee	Amendment to professional services contract with Jacobs & Associates for ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)
6/26/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture for ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)
7/24/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture for ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)
9/11/2008	Special E&O Committee	CLOSED SESSION: Potential Litigation - San Vicente ESP/ Second Aqueduct Pipeline
9/25/2008	E&O Committee	Change Order to Shea-Traylor Joint Venture for ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)
9/25/2008	E&O Committee	CLOSED SESSION: Potential Litigation - San Vicente ESP/ Second Aqueduct Pipeline
9/25/2008	E&O Committee	Modifications to San Vicente Pumping Facilities project (Action)
1/8/2009	Special Board	Summary of recent Comprehensive Cost and Reliability Assessment Ad Hoc Committee activities (Information)
1/22/2009	E&O Committee	Interim payment authorization for the ESP - San Vicente Pipeline and Aqueduct Interconnect project (Action)

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**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
4/7/2009	Special E&O Committee	CLOSED SESSION: Conference with Legal Counsel, Threatened Litigation - San Vicente ESP/ Second Aqueduct Pipeline
4/16/2009	Board E&O Tour	San Vicente Pipeline - Central Shaft
4/23/2009	E&O Committee	Change Orders for Shea Traylor Joint Venture for San Vicente Pipeline and Aqueduct Interconnect project (Action)
4/23/2009	E&O Committee	Change Orders for Kiewit Pacific Company for the San Vicente Pumping Facilities project (Action)
6/10/2009	Special A&F Committee	Consideration of General Manager's Recommended Budget for FY2010 and 2011 (Action)
6/25/2009	A&F Committee	General Manager's Recommended Budget for FY2010 and 2011 (Action)
12/17/2009	E&O Committee	CLOSED SESSION: Conference with Legal Counsel, existing litigation and potential litigation; San Vicente ESP/ Second Aqueduct Pipeline project
2/25/2010	E&O Committee	Notice of Completion for the San Vicente Pumping Facilities project (Action)
5/12/2010	Board E&O Tour	San Vicente site
5/19/2010	Special E&O Committee	Construction Update; CLOSED SESSION: Conference with Legal Counsel, Potential Litigation - San Vicente ESP/ Second Aqueduct Pipeline
9/9/2010	Special E&O Committee	Construction Update; CLOSED SESSION: Conference with Legal Counsel, Existing and Potential Litigation - San Vicente ESP/ Second Aqueduct Pipeline
9/23/2010	E&O Committee	CLOSED SESSION: Conference with Legal Counsel, potential litigation; San Vicente Pipeline mortar lining claim
10/11/2010	CRACA Ad Hoc Committee	CIP budget preparation
10/28/2010	E&O Committee	CLOSED SESSION: Conference with Legal Counsel, potential litigation; San Vicente Pipeline mortar lining claim
11/15/2010	CRACA Ad Hoc Committee	CIP budget preparation
12/9/2010	E&O Committee	Advertisement for Bids - San Vicente Landscaping (Information)
12/13/2010	CRACA Ad Hoc Committee	CIP budget preparation
1/13/2011	Special Joint Board and E&O Committee	Notice of Completion for ESP - San Vicente Pipeline and Aqueduct Interconnect Pipeline project (Action)
1/27/2011	A&F Committee	Completion of Comprehensive Reliability and Cost Assessment (CRACA) Process; deferral of 14 projects (Action)
1/27/2011	E&O Committee	Construction Contract for San Vicente Landscaping project (Action)
2/24/2011	E&O Committee	Notice of Completion for San Vicente Pump Station Pumps, Motors, and Variable Frequency Drives (Action)

ATTACHMENT 1

**San Vicente Pipeline and Aqueduct Interconnect and San Vicente Pumping Facilities
Summary of Related Board Meeting Items**

Date	Board Meeting	Item
6/7/2011	Special A&F Committee	Consideration of General Manager's Recommended Budget for FY2012 and 2013 (Information)
6/23/2011	A&F Committee	General Manager's Recommended Budget for FY2012 and 2013 (Action)
6/23/2011	E&O Committee	CLOSED SESSION: Conference with Legal Counsel, existing litigation, Shea Traylor Joint Venture vs. SDCWA
9/22/2011	E&O Committee	Advertisement for Bids - Alemania Road (Information)

ATTACHMENT 2 - San Vicente Pipeline Aqueduct Interconnect Budget History

Board Mtg. Month/Year	CIP	Budget Adjustment	Budget	Construction Contract	Board Action/ Justification/ Comment
Aug-96					Approval of Final EIR for Emergency Storage Project (ESP)
Jun-98	FY1998-1999 (1 Year)	N/A	\$ 170,400,000		Approved New project with adopted CIP Budget
Jun-99	FY1999-2000 (1 year)	(\$1,856,649)	\$ 168,543,351		Adopted CIP Budget; adjusted funding between ESP projects
Jun-00	FY2000-2001 (1 year)	\$0	\$ 168,543,351		Adopted CIP Budget
Jun-01	FY2001-2002 (1 year)	\$30,689,649	\$ 199,233,000		Approved \$30.7M increase with adopted CIP Budget based upon ESP Optimization Study with increased pipe size (from 78-inch to 102-inch diameter), finalized pipeline alignment, and tunneling technology as the preferred option.
Jun-02	FY2002-2003 (1 year)	\$0	\$ 199,233,000		Adopted CIP Budget
Jun-03	FY2004-2005 (2 year)	(\$293,000)	\$ 198,940,000		Approved transfer of \$293K from SVPL project budget to post-construction mitigation funds.
Jan-04		\$6,779,000	\$ 205,719,000		Approved Supplemental Environmental Impact Report (SEIR). Approved \$6.779M increase to fund additional mitigation measures recommended in SEIR.
Jun-05	FY2006-2007 (2 year)	\$99,100,000	\$ 304,819,000	\$ 198,366,900	Awarded construction contract and approved \$99.1M increase with adopted CIP Budget (had anticipated \$55.1M budget increase prior to bid opening: \$30.1M for SVPL escalated materials & energy costs + \$25M for Surge Control Facility (SCF) design modifications & escalated material costs); engineer's estimate was \$161 million
Oct-06		(\$387,000)	\$ 304,432,000		Approved decrease; Removed first aid and drug testing services from project (transfer within ESP projects)
Nov-06		(\$30,102,000)	\$ 274,330,000		Approved decrease; Removed surge control facility from project (transfer to San Vicente Pumping Facilities project)
Jun-07	FY2008-2009 (2 year)	\$50,000	\$ 274,380,000		Approved \$50K increase with adopted CIP Budget for park improvements (transfer from Rancho Penasquitos Hydro-electric Facility project)
Jun-08	Mid Cycle Adjustment	\$39,500,000	\$ 312,558,000		Approved \$39.5M increase with mid-cycle CIP Budget adjustment for differing site conditions
Jun-09	FY2010-2011 (2 year)	\$29,000,000	\$ 341,558,000		Approved \$29M increase with adopted CIP Budget for differing site conditions
Jun-11	FY2012-2013 (2 year)	\$0	\$ 341,558,000	\$ 213,948,763	Adopted CIP Budget; Construction contract closed

ATTACHMENT 3 - San Vicente Pumping Facilities Budget History

Board Mtg. Month/Year	CIP	Budget Increase	Budget	Construction Contract	Board Action/ Justification/ Comment
Aug-96					Certified Final EIR for Emergency Storage Project
Jun-98	FY1998-1999 (1 year)	N/A	\$ 44,400,000		Approved New project San Vicente Pump Station (G0600) with CIP Budget
Jun-99	FY1999-2000 (1 year)	(\$400,000)	\$ 44,000,000		Approved CIP Budget; adjusted funds between ESP projects
Jun-00	FY2000-2001 (1 year)	\$0	\$ 44,000,000		Approved CIP Budget
Jun-01	FY2001-2002 (1 year)	\$12,667,500	\$ 56,667,500		Approved \$12.7M increase with CIP Budget; Included electrical substation, powerline, and pipeline connections
Jun-02	FY2002-2003 (1 year)	\$0	\$ 56,667,500		Approved CIP Budget
Jun-03	FY2004-2005 (2 year)	(\$96,500)	\$ 56,571,000		Approved CIP Budget; transfer to fund post-construction mitigation
Mar-05		\$2,500,000	\$ 59,071,000		Increased budget by \$2.5M; Awarded major equipment contract to Gierlich Mitchell, Inc.
Jun-05	FY2006-2007 (2 year)		\$ 59,071,000		Approved CIP Budget
Nov-06		\$59,291,000	\$ 118,362,000	\$ 65,237,000	Increased budget by \$27.225M and transferred \$30.102M from San Vicente Pipeline for surge control facility and \$1.964M from San Vicente Dam Raise; awarded construction contract to Kiewit Pacific Company; engineer's estimate range was \$75M-\$87M
Jun-07	FY2008-2009 (2 year)	(\$230,000)	\$ 118,132,000		Approved CIP Budget; fund transfer for ESP support services
Jun-09	FY2010-2011 (2 year)	(\$387,000)	\$ 117,745,000		Approved CIP Budget; fund transfer for ESP support services/ Owner Controlled Insurance Program
Jun-11	FY2012-2013 (2 year)	(\$8,044,000)	\$ 109,701,000	\$ 69,660,419	San Vicente Pumping Facilities project closed out; fund transfer of \$8M for San Vicente 3rd Pump Power and Drive future project to Facilities Master Plan project

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Controlling Non-Construction Costs

Mr. Peter R. Bredehoeft, Jr.

The success of a capital project starts years prior to the actual design and construction of the project, during the capital improvement budgeting process. The cost estimating process can directly affect the budgeting of capital projects. Poor cost estimating processes or lack of a standard conceptual estimating process may adversely affect capital improvement projects. Owners' expectations revolve around accurate budgets that will not increase throughout the life of the project. Accurate budgets require a cost estimating methodology that is repeatable, defensible, and based on historical information. Owners seek funding through various sources, including working capital, revenue bonds, loans, or grants. Therefore, good estimating practices and methodology applied at the start of the project with the initial capital budget can be the success or failure of a project.

This paper will focus on the budgeting process and methodology for capital improvement projects, primarily for the water, wastewater, and public works market segments. However, the author feels these processes are applicable to all industries. The paper is written from an owner perspective through the eyes of a consultant. Historical costs for construction and non-construction (soft) costs can be a good indicator for future capital projects. In the public bidding process, non-construction costs are virtually the only costs the owner can control. By implementing various estimating validation processes, the owner can control these non-construction costs.

Approximately, 70 percent of the cost of a project is attributable to construction costs and the remaining 30 percent is attributable to non-construction cost for most water treatment processes, wastewater treatment processes, and conveyance type projects. In the late 1970s and early 1980s, the U.S. Environmental Protection Agency studied these types of projects and determined various non-construction percentages from these studies [10] [11]. Other water and wastewater programs have shown these costs to be similar [Table 3]. From a cost estimating perspective, the level of effort should be spent in determination of the construction cost estimate and then by factoring a percentage of construction costs for non-construction costs to determine the overall capital cost of a project. his methodology is an effective and accurate method of budgeting of capital projects.

Jelen's Cost and Optimization Engineering provides the following definition: "capital-cost estimating is essentially an intu-

itive process which attempts to predict the final outcome of a future capital expenditure program even though not all parameters and conditions concerning a project are known or are not fully defined when the cost estimate is prepared" [12]. The key word is "to predict the final outcome." Using historical factors for budgeting non-construction cost is an effective way to predict the final outcome of these costs. It should be stated that the author is only focusing on the initial capital cost of a project for the purposes of this paper. Included are direct project costs for construction and the indirect project cost, which include non-construction costs for design, engineering, and services during construction, plus other associated costs. However, the project contains other costs that must be considered through the life-cycle of the project, such as: operation and maintenance costs (such as labor, power, chemicals, and consumables), general expenses, and administrative expenses, all of which are a part of the total life-cycle costs [5]. Historical project construction and non-construction costs can be used to budget future capital projects. Use cost estimating best practices to determine a reliable construction cost estimate and then factor non-construction costs by applying historical percentages to determine the total capital cost of a project.

CAPITAL IMPROVEMENT BUDGETING METHODOLOGY

The capital improvement budgeting process involves the following major steps or processes.

Collect Historical Information

Owners and consultants should keep track of construction and non-construction costs for historical purposes. This information is derived from actual construction bids and the associated design or engineering services contracts or associated internal operational costs associated with the total project expenditures. Historical non-construction costs are determined by dividing the actual non-construction component of a project by the total construction cost of that project. Running averages for these non-construction costs should be kept for historical data and analyzed on a yearly basis. See historical cost information for non-construction costs for additional information.

Table 1—Typical Non-construction Cost.

<p>Owner or Agency - External Costs Planning or Study Services Pre-design Services (Schematic) Design Services (Design Development and Final) Design Oversight (Oversight or PM of Design) Geotechnical Testing Soil Testing Hydraulic Testing Permitting Fees Bid and Award Services Construction Management Services Construction Inspection Services Engineering Services During Construction Modeling Services</p>	<p>(Services performed by staff other than Owner's staff)</p>
<p>Owner or Agency - Internal Costs Planning or Study Services Advertising Costs Legal Fees Accounting Services Audit Fees Permitting Fees Relocation Costs Travel Costs Bond Fees Taxes Interest Costs Insurance Costs Start-up Costs Cost of Land & Easements Project Management of External Services</p>	<p>(Services performed by Owner's staff)</p>

Table 2—Typical Non-construction Costs and Percentage of Construction Ranges.

Item	Description or Component	Percent of Construction \$ ^A			Historical Average from Table 3
		Low Range	High Range	Typical Range ^B	
INDIRECT COSTS					
1.	Planning or Studies Services	0.5%	4.1%	1.5%	1.3%
2.	Pre-Design Services (Schematic)	1.5%	3.5%	2.0%	1.7%
3.	Design Services (Design Development and Final)	3.7%	12.3%	8.0%	7.2%
4.	Design Management (Oversight or PM of Design)	0.5%	4.5%	2.0%	0.6%
5.	Land and Easement	0.3%	5.2%	3.0%	1.8%
6.	Material Testing or General Testing	0.5%	1.0%	1.0%	0.1%
7.	Construction Management Services	3.5%	6.3%	4.0%	4.0%
8.	Construction Inspection Services	1.4%	5.0%	5.0%	3.8%
9.	Engineering Services During Construction	1.1%	4.0%	3.0%	2.5%
10.	Other Costs	1.1%	4.0%	0.5%	0.7%
	Subtotal	14.1%	49.9%	30.0%	23.8%
OTHER INDIRECT COSTS					
11.	Program Management	1.5%	9.7%	4.0%	3.2%
DIRECT COSTS					
12.	Construction Direct Cost	63.1%	90.9%	70.0%	73.0%

A = Typical for the Water, Wastewater and Conveyance industries. Other Industries may vary.
 B = Authors interpretation of typical range.

Estimate Construction Cost

The majority of the level of effort in the production of a capital cost estimate should be spent in the determination of the construction amount, since this represents approximately 70 percent of the total capital cost of a project. The cost estimates should be semi-detailed planning level estimates derived from project-specific scopes. The bottoms-up estimating process, standard cost models, or assembly costs can be used to develop a project-specific construction cost estimate. The contingency for the project should be included in the construction costs. See the construction cost estimates section for more information.

Budget for Non-Construction Costs

Once a construction cost is determined, budgets for non-construction cost can be determined by factoring from historical non-construction cost percentages to determine an overall capital budget. See capital improvement budgeting for additional information.

Perform Engineering Labor Fee Estimates

As a capital project is funded and moves forward in the implementation process, independent labor fee estimates can be developed as a comparison to proposed fees for design services, engi-

Table 3—Historical Percentages and Non-construction Costs.

Item	Description or Component	Percent of Construction \$ ^A							Average
		EPA Info WWTP ^B	EPA Info Sewers ^C	Water and Wastewater Program ^D	Wastewater Program ^E	Water and Wastewater Program ^F	Wastewater Program ^G	Water Program ^H	
INDIRECT COSTS									
1.	Planning or Studies Services	4.1%	0.7%	0.5%	2.0%	1.0%	0.0%	1.0%	1.3%
2.	Pre-Design Services (Schematic)	1.5%	0.0%	1.5%	2.0%	1.5%	2.0%	3.5%	1.7%
3.	Design Services (Design Development and Final)	7.6%	3.7%	12.3%	8.0%	4.0%	9.0%	6.0%	7.2%
4.	Design Management (Oversight or PM of Design)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	0.6%
5.	Land and Easement	5.2%	0.3%	4.7%	0.0%	0.0%	0.5%	1.9%	1.8%
6.	Material Testing or General Testing	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.1%
7.	Construction Management Services	6.3%	0.0%	0.0%	5.0%	3.5%	9.4%	3.5%	4.0%
8.	Construction Inspection Services	4.6%	1.5%	5.5%	4.0%	4.5%	1.4%	5.0%	3.8%
9.	Engineering Services During Construction	3.0%	1.1%	2.7%	3.0%	2.0%	1.4%	4.0%	2.5%
10.	Other Costs	2.5%	1.9%	0.0%	0.5%	0.0%	0.0%	0.0%	0.7%
	Subtotal	34.8%	9.1%	27.2%	25.5%	16.5%	23.8%	29.4%	23.8%
OTHER INDIRECT COSTS									
11.	Program Management	0.0%	0.0%	9.7%	3.0%	1.5%	4.0%	4.5%	3.2%
DIRECT COSTS									
12.	Construction Costs	65.2%	90.9%	63.1%	71.5%	82.0%	72.2%	66.1%	73.0%

A = Typical for the Water, Wastewater and Conveyance industries. Other Industries may vary.
B = EPA Doc #430/9-83-004, Table 3.1, June 1983. Construction Costs for Municipal Wastewater Treatment Plants, 1973-1982.
C = EPA Doc #430/9-77-015, Table 6.5, May 1978. Construction Costs for Municipal Wastewater Conveyance Systems, 1973-1977.
D = Large Water and Wastewater Program (\$3 billion) in Southeast, December 2004
E = Large Wastewater Program in Midwest, October 1978
F = Medium Water and Wastewater Program in Southeast, November 2001
G = Medium Wastewater Program in Southwest, November 1997
H = Large Water Program in Puerto Rico, April 2002

neering services, and services during construction. Performing an independent labor fee estimate serves as a benchmark for comparison of scope, level of effort, and man-hour pricing, which helps both the owner and consultant have a better understanding of the project and the labor fee. The labor fee estimate can be compared to the capital budget and the historical non-construction cost for reference in the negotiations process. See the controlling non-construction costs section for additional information.

Review Non-Construction Costs

Periodic review of the actual non-construction costs from previous contract expenditures should be performed as part of the annual capital improvement planning process. These actual percentage of construction costs should be compared with the percentages used in the budgeting process for non-construction budget and adjustments made accordingly. See capital improvement planning process for additional information.

simplified approach is the most advantageous. If internal operations costs for a city or government agency for items such as internal construction management or internal construction inspection services cannot be allocated back to the cost of a project from some sort of accounting system or ERP system, then these costs must be excluded from the historical non-construction cost analysis. Note that all owner costs could be included under a single line entry for "estimated owner's costs."

Table 1 illustrates the typical non-construction costs that are external and internal to an owner or agency for most capital projects. Table 2 shows various non-construction cost ranges of percentages. Table 3 illustrates various historical non-construction percentages from EPA documents in the 1970s and 1980s, as well as various program non-construction cost percentages. Although these EPA studies may be old, the percentages have remained approximately the same as construction costs have risen along with costs of labor.

CONSTRUCTION COST ESTIMATES

HISTORICAL COST INFORMATION FOR NON-CONSTRUCTION COSTS

Keeping accurate historical costs can be your greatest asset in the determination of capital budgets. Documentation of historical project contract expenditures is critical in the determination of historical percentages of construction costs. There must be a centralized collection system that is consistently the same from project to project. Categories for the types of projects, types of contract expenditures and definitions for these costs must be established and remain the same from year to year so that trends in the historical data can be determined. Only those costs that can be captured from actual contract expenditures can be considered. A

In the author's opinion, the bottom-up method of cost estimating is the best approach to cost estimating—even as a method for conceptual cost estimating for capital improvement projects. At the conceptual or planning stage of a treatment plant project, scope items are generally known or can be assumed. Therefore, these items can be estimated at some minimum level of detail, including: type of project, size or capacity of the project, existing facilities or process, new or planned process, location of project, and types of facilities. The estimate can be organized by facility type and then by CSI division of work. In the case of a conveyance project, the following information is generally known, or can be assumed, and can be estimated at some level of detail. For

Table 4—Contingency, Based Upon Recommended Practice 18R-97.

Estimate Class ^A	Project Definition		End Usage	Methodology	AACE 18R-97		Typical ^B	
	Start	End			Expected Accuracy		Contingency Range	
					Low	High	Low	High
Class 5	0%	2%	Concept Screening	Capacity Factor, Parametric Model, Judgement or Analogy	-50%	+100%	30%	35%
Class 4	1%	15%	Study or Feasibility	Equipment Factored or Parametric Model	-30%	+50%	25%	30%
Class 3	10%	40%	Budget, Authorization, or Control	Semi Detailed Unit Cost with Assembly Level Line Items	-20%	+30%	20%	25%

A = Only Class 2 and Class 1 Estimates are not relevant to Capital Budgeting or Master Planning estimates.
 B = For Water Treatment, Wastewater Treatment and Conveyance Type projects. Other industries may be similar.

example, type of fluid, flow, lineal feet of pipe and size of pipe can be calculated and a general route can be assumed. The estimate can be organized by major runs of pipe, trenchless technology, site work items, and general restoration items.

For water and wastewater treatment and conveyance projects, the following items should be estimated using a semi-detailed take-off, bottoms-up cost estimate:

Water and Wastewater Treatment—Cost Estimates:

- Division 2—detailed take-off of major site work components.
- Division 3—detail take-off of all concrete components by facility.
- Division 9—if specialty coatings are required.
- Division 11—equipment quotations for each major piece of process or mechanical equipment, based on the P&IDs.
- Division 15—detailed take-off of mechanical and yard piping greater than 0.1016 meters.
- Historical Percentage of Total—historical percentage of total calculations is used for the remainder of the associated divisions of work, based on the associated scope of work.

Water or Wastewater Conveyance—Cost Estimates:

- linear feet (LF) of pipe by each size of pipe;
- assumed material type of pipe;
- percentages for fittings;
- counts or allowances for valves;
- counts or allowances for manholes or catch basins;
- trenchless technology considerations (per LF);
- pavement restoration;
- landscape restoration;

- water crossings; and
- rock excavation allowance.

Cost Models based on definitive level cost estimates and standard design information can be used for various facility or plant costs at the planning stage, and are often used for conceptual cost estimating. Assemblies or historical unit prices can be used for estimating construction costs for conveyance-type projects early in the conceptual phase of a project.

Other methods for conceptual estimating include an exponent estimating Technique based on the ratio of the known cost with a known capacity to estimate an unknown cost for a given capacity. This is known in the industry as the six-tenths (0.6) factor rule [13]. It can be used to ratio historical construction cost of a given capacity and determine an unknown cost based on a given capacity. It can also be used for unit prices of a known size for determining the cost of an unknown size. For example:

$$C2 = \text{Known } \$ \left(\frac{\text{Desired Capacity}}{\text{Known Capacity}} \right)^{0.6}$$

equation 1

Example: a 10-million-gallon-per-day (mgd) water treatment plant costs \$10 million. Estimate the cost of a 15-mgd water treatment plant.

$$15\text{-mgd WTP} = \$10M \times \left(\frac{15\text{mgd}}{10\text{mgd}} \right)^{0.6} = \$12.745M \text{ for a } 15\text{-mgd plant}$$

example 1

When using historical cost for factoring, always remember to adjust the cost of an item from one time period to another, to account for inflation. The author considers the Engineering News-Record (ENR) Construction Cost Index for the 20-City Average [8], which includes components for both labor and mate-

rials, as an industry standard for the water and wastewater industry. If material costs only are being adjusted, then the ENR Material Index [9] should be used.

CONTINGENCY

The contingency of a project can be applied at various levels of a cost estimate. These include, at the bottom line of the estimate, allocated to all costs throughout the estimate or as part of the construction cost. The preferred approach to using contingency in a total capital cost estimate is to apply a separate contingency to the sub-total of the construction cost estimate and include the contingency as a part of the total construction cost, then factor for the non-construction costs to determine a total capital cost. Using this approach ensures that construction costs and non-construction both include contingency. The key in applying contingency is not to apply contingency twice or double counted. Table 4 demonstrates the use of various contingencies on water and wastewater treatment and conveyance projects, base on the AACE International Recommended Practice 18R-97 [7].

CAPITAL IMPROVEMENT BUDGETING

Cities, municipalities, and government agencies all perform some level of yearly capital improvement planning. The forecast for this planning horizon may be one year to three years, five years, 10 years and even 15 years. Some planning horizons go out 25 years for master plans. Capital projects are estimated, prioritized based on various internal factors, and then arranged in yearly categories. Some projects may span multiple years, as in the

case of large projects or annual contracts. Funding for design services and land acquisition services may occur in 1 year, and the construction and services during construction may occur in subsequent years. This should be a yearly process with various functional areas, such as engineering and construction departmental reviews, updating, and approving the updated capital budgets at the appropriate levels.

As the project moves forward in time and actual contract values are known for services such as design, bidding and award, and inspection, the actual costs should replace the budgeted non-construction costs and the overall capital budget should be updated in the capital improvement plan on a yearly basis.

USE OF FACTORING FOR NON-CONSTRUCTION COSTS

In addition to capital improvement budgeting, the technique of factoring for non-construction cost can be used in the master planning process for capital project. This technique can also be used for evaluating various alternative analyses, technology, or process selection, and value engineering processes. Construction cost estimates usually are generated for these types of analyses and then factored for non-construction cost to determine a total capital cost for each alternative or analysis. Factoring for non-construction costs is a cost-effective way of determining the overall capital cost of a project early on in the conceptual planning and budgeting phases of a project. See table 2 for percentages of construction cost guidelines.

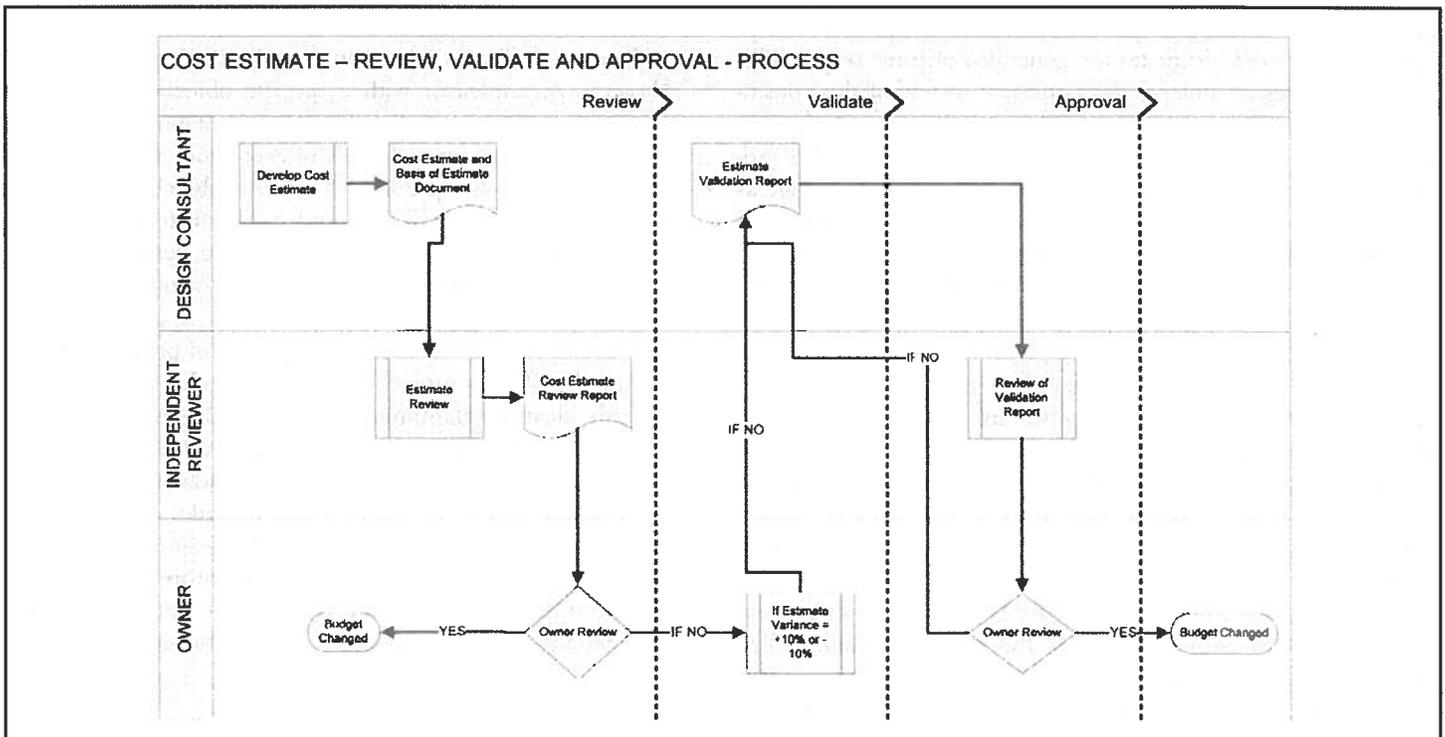


Figure 1—Cost Estimate—Review, Validate and Approval Process.

CONTROLLING NON-CONSTRUCTION COSTS

DEFINITIONS

Various government agencies, cities, and municipalities are required to follow public bidding processes and laws. Construction contracts are awarded to the lowest qualified bidder. A professional consultant's labor fee for design services, engineering services, and services during construction can be negotiated as professional services task orders between the owner and the consultant. These professional services contracts for non-construction costs represent the area that has the highest degree of control by the owner and should be an area of focus for the owners to help control the total project cost.

Independent Engineering Labor Fees

As the capital project gets underway, the owner should start to determine an independent labor fee associated with pending engineering services, rather than directly accepting the design consultant's labor fee proposal. By performing independent labor fee estimates for various design and engineering services, owners can use these labor fee estimates as a benchmark for negotiations with design consultants, in addition to the non-construction budget established at the CIP planning phase. Having an independent labor fee estimate will help identify areas of differences in opinion on scope items, level of effort, and labor rates. As a result, the owner and consultant will better understand the scope and each other's expectations about the project.

Estimate Review, Validation and Approval Process

When the project is in the design phase, an owner or agency can use a cost estimating review, validation, and approval process to control the overall capital cost of the project. This is typically performed at the 30 percent, 60 percent, and 90 percent design stages, because cost estimates are generated at these stages. This process involves an independent estimate review of the consultant's estimate. The owner or agency then either accepts the current estimate or requests additional information about the estimate. If the cost estimate varies by some specific percentage as specified by the owner or agency, typically 10 to 15 percent, a validation report from the design consultant may be required to explain the reasons for the change. The changes between estimates at various design milestones are generally caused by changes in scope or quantities, changes in unit prices, or changes in schedule. The owner or agency then reviews the validation report generated by the design consultant, with assistance from the independent reviewer. The owner or agency either approves or rejects the current cost estimate. If the estimate is approved, the owner should sign a budget change form and the CIP budget should be adjusted in the capital improvement plan. Figure 1 illustrates this process.

For additional information on the cost estimate review and validation of cost estimates, refer to the technical article called "The Estimate Review and Validation Process" [14]. The article is an excellent source and provides a good overview of the validation process of a cost estimate.

For the purpose of this paper, the following definitions are used:

- Construction cost—The sum of all costs, direct and indirect, inherent in converting a design plan for material and equipment into a project ready for startup, but not necessarily in production operation; the sum of field labor, supervision, administration, tools, field office expense, materials, and equipment [1].
- Capital, fixed—The total original value of physical facilities that are not carried as a current expense on the books of account and for which depreciation is allowed by the federal government. It includes plant equipment, building, furniture and fixtures and transportation equipment used directly in the production of a product or service. It includes all costs incident to getting the property in place and in operational condition, including legal costs, purchased patents, and paid-up licenses. Land, which is not depreciable, is often included. Characteristically it cannot be converted readily into cash [2].
- Indirect cost—All costs in construction that do not become a final part of the installation, but that are required for the orderly completion of the installation and may include, but are not limited to, field administration, direct supervision, capital tools, startup costs, contractor's fee, insurance, taxes, etc. [3].
- Non-construction—Often called soft costs, these costs are the indirect cost of a project, which for public works projects typically include planning, design services, material testing, land, right-of-way costs, inspection services, engineering services during construction, bid and award, legal costs, administration costs, and program management services.
- Soft-costs—Indirect costs or non-construction costs.
- Project—An endeavor with a specific objective to be met within the prescribed time and dollar limitations and which has been assigned for definition or execution [4].
- Total project cost—The sum of all costs, direct and indirect, including all construction and non-construction costs, throughout the life of the project for the design and construction phase. The total project cost is equal to the total capital cost of the project.
- Life cycle; project—The stages or phases of project progress during the life of a project. Project life-cycle stages typically include ideation, planning, execution, and closure [5].
- Operating costs—The expenses incurred during the normal operation of a facility or component, including labor, materials, utilities, and other related costs. Includes all fuel, lubricants, and normally scheduled part changes in order to keep a subsystem, system, particular item, or entire project functioning. Operating costs may also include general building maintenance, cleaning services, taxes, and similar items [6].

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4. AACE International, April 2004, Recommended Practice No. 10S-90, Project, Page 52, Morgantown, WV.
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6. AACE International, April 2004, Recommended Practice No. 10S-90, Operating Costs, Page 45, Morgantown, WV.
7. AACE International, September 12, 2003, Recommended Practice No. 18R-97, Figure 1, Page 2, Morgantown, WV.
8. Engineering News-Record (ENR), Construction Cost Index, 20-City Average, 2005.
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10. EPA Document #430/9-83-004, Table 3.1, June 1983, Construction Costs for Municipal Wastewater Treatment Plants, 1973-1982, Washington, D.C.
11. EPA Document #430/9-77-015, Table 6.5, May 1978, Construction Costs for Municipal Wastewater Conveyance Systems, 1973-1977, Washington, D.C.
12. Kenneth K. Humphreys, 1991, Jelen's Cost and Optimization Engineering, Third Edition, New York, McGraw-Hill, Inc., page 367.
13. Kenneth K. Humphreys, 1991, Jelen's Cost and Optimization Engineering, Third Edition, New York, McGraw-Hill, Inc., page 382.
14. Larry Dysert, CCC and Bruce G. Elliott, CCC, January 2002, "The Estimate Review and Validation Process," Cost Engineering, Vol. 44/No. 1, AACE International, Page 17, Morgantown, WV.

Mr. Pete Bredehoeft
CH2M Hill, Inc.
115 Perimeter Center Place, NE
Suite 700
Atlanta, GA 30346-1278

E-mail: pbredeho@ch2m.com



November 30, 2011

Attention: Engineering and Operations Committee

Proposed PUC Modifications Affecting Existing Solar Projects. (Information)

Background

In June of 2010 the Water Authority executed a power purchase agreement with Borrego Solar Systems for the installation of solar power projects at our Kearny Mesa, Escondido, and Twin Oaks facilities. These projects were completed and dedicated in August of 2011.

Discussion

An underpinning of the power purchase agreement was the understanding that 'net energy metering', a component of the existing rate structure, would be used by SDGE, the electricity provider for the county. This means that SDGE would charge us for the amount of electricity we use at all of our facilities less the amount of electricity we put on the grid from our three projects.

This past October, SDGE petitioned the Public Utilities Commission to change the existing rate structure and add a Network Use Charge (NUC). The proposed rate design changes would require solar installation owners to pay SDGE's transportation charges (a portion of their total charge) for electricity we take from the grid plus the transportation charges for the electricity we put on the grid. Currently it is unclear whether or not we or Borrego would bear these additional costs. In either respect, staff is concerned that changing the rules after the completion of our project is inequitable as it fundamentally changes the calculations that are made in determining whether or not to move forward with such a project.

Due to this proposed modification to the rules subsequent to the completion of our project, the Water Authority has joined six of our Member Agencies (Carlsbad, Fallbrook, Helix, Padre Dam, Valley Center, and Vallecitos) and three school districts in retaining joint legal counsel to resist these changes by filing a protest with the PUC. It is our understanding that the City of San Diego is filing their concerns separately. Additionally, Borrego has informed us they will also be filing a protest as a member of the Solar Alliance and the Utilities Consumers Action Network (UCAN) has filed also. In addition to challenging the proposed changes as being counter to the development of alternative forms of energy, the groups will be stating that they circumvent state policy favoring and encouraging distributed generation. If necessary to assure that our existing solar projects remain as viable as when developed, we will be advocating that projects that were completed prior to any change in the applicable regulations, such as ours, should be allowed to continue with the regulations that were in place at the time of our signing the power purchase agreement.

Prepared by: Gary Eaton, Director of Operations and Maintenance

Reviewed by: Frank Belock, Deputy General Manager



November 30, 2011

Attention: Engineering & Operations Committee

CLOSED SESSION:

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a) – Traylor-Shea Joint Venture v SDCWA; Case No. 37-2009-00090545-CU-BC-CTL

Traylor-Shea Joint Venture v SDCWA; Case No. 37-2011-00092666-CU-BC-CTL

Purpose

This memorandum is to recommend that the committee by motion hold a closed session, pursuant to Government Code §54956.9(a) to discuss the above-referenced matter at the December 8, 2011, Board 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

ADMINISTRATIVE AND FINANCE COMMITTEE

AGENDA FOR

DECEMBER 8, 2011

Barbara Wight – Chair
 Jim Bond – Vice Chair
 Gary Croucher – Vice Chair
 Gary Arant
 Roger Bailey
 Brian Brady
 Mitch Dion

Farrah Douglas
 Frank Hilliker
 Hershell Price
 Javier Saunders
 Richard Smith
 Robert Topolovac
 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. Chair’s report.
 4-A Directors’ comments.

I. CONSENT CALENDAR

1. Vote Entitlement Resolution for Calendar Year 2012. Rod Greek
Staff recommendation: Adopt Resolution No. 2011-___ establishing the vote and representative entitlements of each member agency to be effective January 1, 2012. (Action)

II. ACTION/DISCUSSION

1. Ordinance requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users. Dana Friehauf
Staff recommendation: Adopt Ordinance No. 2011-___ requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users. (Action)
2. Presentation on Fiscal Sustainability Project Overview. Eric Sandler/
 Ken Weinberg



- 3. Treasury Management.
 - 3-A Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012. David Shank
Staff recommendation: Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012. (Action)
 - 3-B Presentation on monthly Treasurer’s report. David Shank

III. INFORMATION

- 1. Controller’s report on monthly financial statements. Rod Greek
- 2. Board calendar.

IV. CLOSED SESSION

V. ADJOURNMENT

Doria F. Lore
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.

November 30, 2011

Attention: Administrative and Finance Committee

Adopt the Vote Entitlement Resolution for Calendar Year 2012. (Action)

Staff recommendation

Adopt the resolution establishing the vote and representative entitlements of each member agency effective January 1, 2012.

Alternative

None.

Fiscal Impact

None.

Background

In 1997, an amendment to the County Water Authority Act (Act) changed the basis for calculating member agency vote entitlement from assessed valuation of all property within the Water Authority service area to the total financial contribution of each member agency. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges paid to or on behalf of the Water Authority and the Metropolitan Water District with respect to property located within the boundaries of member agencies. These amounts include standby charges, capacity charges, infrastructure access charges, readiness-to-serve charges, connection and maintenance fees, annexation fees and charges for water delivered and sold to member agencies by the Water Authority. Total financial contribution excludes the cost of water treatment. Each year the Board of Directors reestablishes the vote entitlements of member agencies on January 1 based upon data from the recently completed fiscal year.

The Act provides for each member agency to have at least one representative on the Board of Directors. Member agencies may also designate and appoint one additional representative for each full five percent of Water Authority assessed value within the member agency service area. Each year the Board of Directors reestablishes the number of member representatives based upon the most recent assessed valuations that are certified by the County of San Diego Auditor and Controller.

Previous Board action: Adopted the Vote Resolution for Calendar Year 2011 on December 9, 2010.

Discussion

The vote entitlement of each member agency is determined based on one vote for each \$5 million of total financial contribution. Total financial contribution as of June 30, 2011 is calculated by adding the total financial contribution of each member agency for the fiscal year ending June 30, 2011 to its total financial contribution as of June 30, 2010.

Attachment A of the Resolution lists member agency total financial contribution as of June 30, 2011 and member agency vote entitlement for Calendar Year 2012.

The representative entitlement of each member agency is based on assessed valuation data from the County of San Diego as of June 30, 2011. The calculation resulted in a change to Carlsbad decreasing from two to one representative. However, per the County Water Authority Act, the term of office of any representative shall not be changed or terminated by reason of any future change in the assessed value of property within any member agency. Any reduction in representatives would not occur until either the earliest end of term of the existing representatives, January 15, 2016, or any unanticipated departure of a representative in advance of this date.

In summary, the City of San Diego has ten representatives; Carlsbad, Helix Water District and Otay Water District have two representatives and the remaining member agencies have one representative. The calculation is shown in Attachment B of the Resolution.

Prepared by: Jeanette Ziomek, Accounting Supervisor
Reviewed by: Rod Greek, Controller
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:

1. Resolution No. 2011-___Vote and Member Representative Entitlement
Resolution for Calendar Year 2012
 - Attachment A: Vote Entitlement Effective January 1, 2012
 - Attachment B: Representative Entitlement Effective January 1, 2012

RESOLUTION NO. 2011-

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY ESTABLISHING THE NUMBER OF VOTES BY REPRESENTATIVES OF MEMBER AGENCIES FOR CALENDAR YEAR 2012 AS DETERMINED BY TOTAL FINANCIAL CONTRIBUTION FOR THE FISCAL YEAR ENDING 2011 AND THE NUMBER OF MEMBER REPRESENTATIVES AS DETERMINED BY TOTAL ASSESSED VALUATIONS AS OF JUNE 30, 2011.

WHEREAS, pursuant to Subdivision (i) of Section 6 of the County Water Authority Act, the Board of Directors is required annually to determine the total financial contribution of each member agency and the number of member representatives; and

WHEREAS, the Finance Department has calculated and reported to the Board of Directors the total financial contribution and corresponding votes of each member agency of the Water Authority and the number of member representatives in accordance with the provisions of the law.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Water Authority, that the number of votes which the representatives of each public agency shall be entitled to cast as members of the Board of Directors shall be as shown in Attachment A and the number of member representatives for each public agency shall be as shown in Attachment B.

PASSED, APPROVED AND ADOPTED, this 8th day of December 2011.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Michael T. Hogan, Chair

ATTEST:

Richard K. Smith, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2011- was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore, Clerk of the Board

ATTACHMENT A

Vote Entitlement
Effective January 1, 2012

Member Agency	Total Financial Contribution*	Vote Entitlement	Percent
Carlsbad	\$ 324,942,220	64.988	3.49%
Del Mar	28,041,588	5.608	0.30%
Escondido	322,320,019	64.464	3.46%
Fallbrook	227,698,793	45.540	2.45%
Helix	658,835,806	131.767	7.08%
Lakeside	70,900,878	14.180	0.76%
National City	70,797,038	14.159	0.76%
Oceanside	467,227,839	93.446	5.02%
Olivenhain	278,600,163	55.720	2.99%
Otay	486,804,187	97.361	5.23%
Padre Dam	251,152,513	50.231	2.70%
Pendleton	11,768,921	2.354	0.13%
Poway	201,720,318	40.344	2.17%
Rainbow	382,189,219	76.438	4.11%
Ramona	148,093,796	29.619	1.59%
Rincon	140,511,744	28.102	1.51%
San Diego	3,720,046,634	744.009	39.99%
San Dieguito	101,264,410	20.253	1.09%
Santa Fe	142,927,739	28.586	1.54%
South Bay	215,528,816	43.106	2.32%
Vallecitos	231,088,772	46.218	2.48%
Valley Center	513,791,791	102.758	5.52%
Vista	274,698,913	54.940	2.95%
Yuima	32,407,927	6.482	0.35%
Total	\$ 9,303,360,044	1860.672	100.00%

*Total financial contribution equals base revenues as of July 1, 1997 plus total financial contribution for each successive fiscal year up to and including fiscal year ending June 30, 2011.

ATTACHMENT B

Representative Entitlement
Effective January 1, 2012

Assessed Valuation, June 30 2011					
Member Agency	Secured	Unsecured	Total	Percent	Member Representative
Carlsbad	\$ 18,322,127,606	\$ 810,241,460	\$ 19,132,369,066	4.99%	1
Del Mar	2,546,397,187	23,299,809	2,569,696,996	0.67%	1
Escondido	6,329,528,804	229,602,321	6,559,131,125	1.71%	1
Fallbrook	3,103,906,244	40,648,714	3,144,554,958	0.82%	1
Helix	19,226,039,578	712,085,381	19,938,124,959	5.20%	2
Lakeside	1,957,095,617	101,519,990	2,058,615,607	0.54%	1
National City	2,905,786,697	205,744,493	3,111,531,190	0.81%	1
Oceanside	17,193,960,016	384,082,205	17,578,042,221	4.59%	1
Olivenhain	17,861,263,922	253,721,933	18,114,985,855	4.73%	1
Otay	22,984,789,095	646,838,294	23,631,627,389	6.16%	2
Padre Dam	8,614,651,599	256,262,389	8,870,913,988	2.31%	1
Pendleton*	623,929,028	20,821,609	644,750,637	0.17%	1
Poway	8,199,199,333	332,300,846	8,531,500,179	2.23%	1
Rainbow	3,592,197,341	19,976,637	3,612,173,978	0.94%	1
Ramona	3,380,522,027	48,060,601	3,428,582,628	0.89%	1
Rincon	7,136,049,643	223,603,640	7,359,653,283	1.92%	1
San Diego	176,088,243,048	8,201,937,039	184,290,180,087	48.07%	10
San Dieguito	6,975,995,129	132,829,375	7,108,824,504	1.85%	1
Santa Fe	8,809,755,791	62,630,345	8,872,386,136	2.31%	1
South Bay	8,029,789,081	332,207,468	8,361,996,549	2.18%	1
Vallecitos	10,785,313,400	367,021,777	11,152,335,177	2.91%	1
Valley Center	3,831,355,703	25,075,396	3,856,431,099	1.01%	1
Vista	10,625,270,642	481,181,736	11,106,452,378	2.90%	1
Yuima	338,917,725	3,622,311	342,540,036	0.09%	1
Total	\$ 369,462,084,256	\$ 13,915,315,769	\$ 383,377,400,025	100.00%	35

5% of Total Assessed Valuation is: \$ 19,168,870,001

Note: County of San Diego – 1 Special Representative

*Pendleton Military Reservation is entitled to only one member representative notwithstanding total assessed valuation.

Source: Report from County of San Diego Auditor/controller - Property tax services dated 8/12/2011.

Report ID: Val File-01 PSVVP70@



November 30, 2011

Attention: Administrative and Finance Committee

Ordinance requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program Users. (Action)

Purpose

To ensure the Special Agricultural Water Rate (SAWR) program discount is passed on to the agricultural customers participating in the program through adoption of an ordinance requiring certification by the member agency manager that the discount is being provided to the agricultural customers.

Staff Recommendation

Approve the Ordinance (Attachment) requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program Users

Alternative

- 1) Approve the Ordinance, but modify operative date from April 1, 2012 to an alternative effective date.
- 2) Do not approve ordinance. No modifications made to SAWR program and leave responsibility to pass on discount to member agencies through cost of service requirements.

Fiscal Impact

There is no fiscal impact associated with the staff recommendation.

Background

In September 1998, the Board established the SAWR, available to agricultural customers participating in Metropolitan Water District's (MWD's) Interim Agricultural Water Program (IAWP). The components of the SAWR were later incorporated into the Water Authority's revised rate structure. IAWP customers receive a supply rate discount from MWD and receive a storage charge discount from the Water Authority. More specifically, the storage charge discount is achieved since agricultural deliveries are not included in the calculation of member agencies' proportional share of the Water Authority's fixed Storage Charge as set forth in the Water Authority's rate ordinances. The Storage Charge consists of costs associated with both the Emergency Storage Project (ESP) and Carryover Storage Project (CSP). Because they do not pay the storage charge, agricultural customers participating in the program are required to take a reduction in delivery of ESP supplies at double the system-wide reduction, up to 90 percent, with the commercial and industrial customers receiving the additional water. Agricultural customers participating in the program would also have no access to CSP supplies.

In October 2008, the Board approved a two-year transitional SAWR (TSAWR) for customers opting out of MWD's IAWP. The IAWP is being phased out and will terminate on December 31,

2012. In March 2010, the Board approved a continuation of the TSAWR for two additional years, until December 31, 2012, to coincide with termination of the IAWP. The TSAWR is a class of service comprised of two components:

- 1) Agricultural deliveries are not included in the calculation of member agencies' proportional share of the fixed Storage Charge. (Consistent with the Water Authority treatment of IAWP customers.)
- 2) Agricultural customers pay a special supply rate and, in return, take deeper cuts during shortage periods. The current rate is equal to MWD's M&I Rate. Deliveries are exempt from the Water Authority's melded supply rate. The supply reduction is equal to MWD's M&I cutback levels and the customers do not receive any Water Authority Quantification Settlement Agreement (QSA) supplies or dry-year supplies such as spot water transfers or carryover storage water.

Discussion

In establishing the SAWR for IAWP customers and approving the TSAWR, the Board identified agricultural customers as receiving the full cost benefit associated with the lesser level of reliability than M&I customers in times of shortage. At its October 2011 meeting, the Board directed staff to develop a recommendation to ensure that member agencies pass through the entire cost benefit to the agricultural customers participating in the program. This direction was in response to public testimony that some agencies were not providing both the supply and storage cost benefits to the agricultural customers.

Staff is recommending the Board approve the attached ordinance that will require member agencies, as part of receiving the credit, to pass-on both the supply and the storage charge cost benefits received from the Water Authority to eligible agricultural customers participating in the program. This includes agencies with customers participating in the TSAWR and IAWP. The action will provide an enforcement mechanism to ensure that the Board's intent is satisfied. Existing ordinances did not contain an enforcement process to explicitly document the pass-through requirement.

With passage of the ordinance, member agency managers will be required to provide a written statement that the cost benefits and service limitations of the agricultural water service programs are being passed through to the participating agricultural customers. The ordinance contains specific details on the information to be included in the written statement and that the written statement will be provided prior to or on June 30th.

Should the member agency not submit a written statement or the Board determines that the written statement fails to demonstrate compliance with the ordinance, the member agency will be deemed to have received full service and will pay the Water Authority the difference between the full water rate and amount paid under the applicable agricultural supply program for the period the agency failed to comply with the ordinance. In addition, if a member agency is deemed to have received full service, they will be eligible to participate in the TSAWR commencing

January 1 of the next calendar year, subject to compliance with the ordinance. The ordinance also requires member agencies to pay the reasonable Water Authority costs of enforcement of the ordinance in an amount determined by the Board. Details on these proposed enforcement actions are in the ordinance, which becomes operative on April 1, 2012. This will provide member agency staff time to review their rate structures to determine compliance and make any necessary revisions to avoid penalty.

The proposed requirements included in the ordinance address the concerns raised by the agricultural community that the program intent was not being satisfied by the member agencies participating in the program.

In March 2010, the Board revised the TSAWR, which will begin following termination of the IAWP, based upon input received from a Board Workgroup and agricultural industry representatives. Beginning January 1, 2013, agricultural customers will continue to be exempt from the Storage Charge, but will pay the Water Authority's melded supply rate. During 2012, staff will work with member agency staff to develop administrative guidelines for the program for Board consideration and approval prior to program start date of January 1, 2013. The Board also directed a comprehensive program review before January 1, 2016.

Prepared by: Dana L. Friehauf, Principal Water Resources Specialist

Reviewed by: Ken Weinberg, Director of Water Resources

Approved by: Sandra L. Kerl, Deputy General Manager

Attachment: An Ordinance of the Board of Directors of the San Diego County Water Authority Amending the Transitional Special Agricultural Water Rate Program

ORDINANCE NO. 2011-__

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY AMENDING THE TRANSITIONAL SPECIAL AGRICULTURAL WATER RATE PROGRAM

A. Ordinance No. 2008-08 adopted the transitional special agricultural water rate program in response to the decision of the Metropolitan Water District of Southern California to terminate its Interim Agricultural Water Program (IAWP). Ordinance No. 2009-07 amended the program for calendar year 2010 as set forth in the Updated 2010 Two-Year Transitional Special Agricultural Water Rate Program Report attached to that ordinance. On March 25, 2010 the board of directors approved the Special Agricultural Water Rate Board Workgroup recommendations for modification and extension of the program as set forth in the memorandum dated March 17, 2010 and included in the agenda packet for the March 25, 2010 meetings of the Administrative and Finance Committee and board of directors. Together these ordinances and actions comprise and are referred to in this ordinance as the Transitional SAWR.

B. The Transitional SAWR consists of two components summarily described in the March 17, 2010 board memo as follows:

“1) Agricultural customers pay a special supply rate and in return take deeper cuts during shortage periods. The current rate is equal to MWD’s M&I Rate. Deliveries are exempt from the Water Authority’s melded supply rate. The supply reduction is equal to MWD’s M&I cutback levels and the customers do not receive any Water Authority QSA supplies or dry year supplies such as spot water transfers or carryover storage water.

“2) Agricultural deliveries are not included in the calculation of member agencies’ proportional share of the fixed Storage Charge. The Storage Charge consists of costs associated with both the Emergency Storage Project (ESP) and Carryover Storage Project (CSP). In return for the storage discount, agricultural customers participating in the program would be required to take a reduction in delivery of ESP supplies at double the system-wide reduction, up to 90 percent, with the commercial and industrial customers receiving the additional water. Agricultural customers participating in the program would also have limited or no access to CSP supplies. The specific allocation methodology for CSP supplies would be developed over the coming year.”

C. By its action of March 25, 2010, the board of directors extended both components of the Transitional SAWR to January 1, 2013, to coincide with the termination of the IAWP. The board of directors also directed that commencing January 1, 2013 agricultural customers receiving the Transitional SAWR service will pay the Water Authority’s melded supply rate, but agricultural deliveries would continue to be exempt from the calculation of the fixed storage charge and subject to reduced ESP and CSP deliveries. The board also established January 1, 2016 as a deadline for a comprehensive review of the SAWR program.

D. The IAWP consists of a direct pass-through by the Water Authority to a participating member agency of the IAWP water rate. Further IAWP deliveries are not included

in the calculation of a member agency's proportional share of the Storage Charge. The IAWP program requires certification to the Metropolitan Water District of the pass-through to the retail agricultural water users.

E. The ordinances and reports that establish the Transitional SAWR establish service limitations on participating agricultural water users that correspond to the lower rates imposed for that level of service, and further evidence the intention of the board of directors that the cost benefits and associated service limitations will be reasonably allocated to agricultural water users through the water rates and charges of the Water Authority's member agencies for agricultural deliveries within their respective service territories.

F. The Water Authority currently requires monthly certification by its member agencies of the amount of SAWR water delivered to participating agricultural water users within the member agency. This information is used to determine the amount of member agency water subject to the limited service and cutback restrictions of the SAWR as well as the storage component of the Water Authority's rate structure. However, Water Authority member agencies have historically established and imposed local rates and charges on their respective participating agricultural water users that reflect the lower rates imposed by the Water Authority under the SAWR program, as well as the lower rates imposed under the IAWP. In consequence, the Water Authority had not found it necessary to establish a specific enforcement method to assure its intended benefit to participating agricultural water users within its territory.

Therefore, the Board of Directors of the San Diego County Water Authority does ordain as follows:

1. The Transitional SAWR is ratified. The programs available to agricultural water users are as set forth in Ordinances Nos. 2008-08, 2009-07, and this ordinance and include the IAWP and the Transitional SAWR.

2. On or before June 30, 2012, and on or before June 30 each year thereafter, a Water Authority member agency participating in the Transitional SAWR or the IAWP will provide to the Clerk of the Board a written statement signed by the member agency's general manager or water utility department head confirming that the cost benefits and associated service limitations of the Transitional SAWR or the IAWP are reasonably allocated by the member agency to its participating agricultural water users through the member agency's water rates, fees, or charges. The written statement shall include:

- a description of the member agency's method for allocating the cost benefits and associated service limitations to participating agricultural water users;
- a copy of the member agency's applicable ordinance, resolution, or schedule of rates, charges, or fees;
- a sample billing statement or statements that demonstrates the differential in rate, fees, or charges for participating agricultural water users.

The member agency may include additional information demonstrating compliance with this ordinance.

3. A member agency participating in the IAWP may satisfy the reporting requirements of section 2 of this ordinance by providing copies of the verification documents it provides to the Metropolitan Water District under the IAWP program and a statement demonstrating its reasonable allocation to agricultural water users of the benefits of the exclusion of agricultural water deliveries from the calculation of the Storage Charge paid by the member agency.

4. If a member agency fails to submit a written statement or, upon recommendation of the general manager, if the board of directors after a public meeting determines that the written statement is false or fails to demonstrate compliance with this ordinance, the member agency will be deemed to have received full service and will pay the Water Authority the difference between the full water rate and the amount paid under the applicable agricultural water supply program for the time period that the board determines the agency failed to comply with the requirements of this ordinance. In addition, the member agency will pay to the Water Authority the reasonable costs of enforcement of this ordinance in an amount determined by the board of directors. If a member agency is deemed to have received full service under this section, the member agency will be eligible to participate in the Transitional SAWR commencing January 1 of the next calendar year subject to compliance with this ordinance. This paragraph 4 becomes operative on April 1, 2012.

5. This ordinance shall be effective upon adoption.

6. The Clerk of the Board shall publish this ordinance or a summary prepared by the General Counsel pursuant to Section 1.00.040 of the Administrative Code.

PASSED, APPROVED AND ADOPTED, this 8th day of December, 2011.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Michael T. Hogan,
Chair

ATTEST:

Richard K. Smith,
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Ordinance No. 2011-__ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore,
Clerk of the Board



November 30, 2011

Attention: Administrative and Finance Committee

Fiscal Sustainability Project Overview (Discussion)

Purpose

Provide the Board with and an overview of the fiscal sustainability project's scope of work and completion schedule.

Background

Over the past 20 years, the Water Authority has charted a course of regional water reliability through a combination of efficient water use, supply portfolio diversification and facility improvements and additions. These activities have required significant, long-term financial commitments in the form of water purchases and debt service payments.

The Water Authority's current rate and charge structure was adopted in 2003 as the Water Authority increased its portfolio of services to the region. At that time, the Water Authority was executing the Quantification Settlement Agreement, planning a regional water treatment plant and building the emergency water storage facilities. Over the past eight years, the rate and charge structure has provided the financial foundation for the Water Authority to finance its \$3.8 billion Capital Improvements Program and maintain its excellent credit ratings.

The Water Authority is now operating in a newly defined environment of ongoing reduced water sales, continued economic challenges and long-term uncertainty about the availability of water from the Bay-Delta. At the Board's Annual Retreat on March 31, 2011, staff discussed this new environment and presented a retrospective of where the Water Authority has been with its planning efforts and rates and charges over time. This ultimately led to a discussion about long-term fiscal sustainability and the need to continue the long-held practice of innovation and continuous improvement in financial planning and rate and charge development.

Following the Board's Retreat, staff provided a summary of the major topic areas for further work, along with the Board Committee that would address the issue and an anticipated timeframe. Fiscal sustainability falls under the prevue of the A&F Committee. Chair Hogan will appoint a sub-committee of the A&F Committee (the Sub-committee) to focus on this issue. The work on fiscal sustainability will be presented to the full A&F Committee in October 2012 with Board consideration of any recommendations anticipated in December 2012.

Discussion

The Water Authority has a long history of strong financial performance on many levels and has been recognized by the Municipal Financial Officers Association for the last 11 years for its outstanding financial reporting and accountability. One of the Water Authority's core strengths is its ability to identify future challenges early and find innovative approaches to address them.

Evaluating the existing rates and charges with a focus on long-term fiscal sustainability is part of the Water Authority's continuous improvement efforts to ensure the financial infrastructure of today is able to meet the financial challenges of tomorrow.

The dramatic reduction in water demands over the past few years compounded by the prospect of additional reduced demands from local supply development highlight the need to address certain emerging issues. These focus areas are described in more detail below.

Costs of Infrastructure Investment—As the Water Authority completes the majority of its near-term CIP, the cost of financing CIP projects (i.e. debt service) is increasing significantly; resulting in a changing cost structure with an increased level of fixed expenditures. In addition, a large portion of this investment (i.e. ESP) relates to assets that provide regional benefits on a standby or intermittent basis. This focus area will address what improvements we might make to our revenue structure to ensure long-term, stable funding of Water Authority infrastructure investments, and continue to ensure that the costs of regional standby assets are appropriately allocated with the benefits.

Growth Related Variability—The existing mechanism for recovering the cost of future capacity is the Capacity Charge, which is a one-time charge levied on new meters. Prior financial planning was based on long-term projections of regional economic growth with a typical business cycle. With dramatically lower growth over the past several years, the Water Authority has had to quickly reduce its dependence on growth, driving an increase in current rates and charges. This focus area will address any enhancements to the revenue structure or financial policies that can mitigate extreme exposure to the ups and downs of the business cycle.

Over the next year, the Sub-committee will explore these two areas in detail, identify alternatives for addressing them and present its findings with any recommendations to the Board. The Sub-committee will be supported by staff, consultants and a technical committee made up of Member Agency General Managers and Finance Officers. The broad spectrum of participants will help ensure that any recommendations are fully vetted with member agencies.

Over the next year, the Sub-committee will provide the Board with periodic progress updates. Based upon the current timeline, any changes to the existing rate and charge structure won't be implemented until calendar year 2014.

Prepared by: David Shank, Financial Planning Manager
Reviewed by: Eric Sandler, Director of Finance
Approved by: Sandra L. Kerl, Deputy General Manager



November 30, 2011

Attention: Administrative and Finance Committee

**Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.
(Action)**

Staff recommendation

Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.

Alternative

Adopt the Annual Statement of Investment Policy, without amendments, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.

Fiscal impact

None.

Background

It is the policy of the Board to review and approve the Annual Statement of Investment Policy (Policy) and to delegate the investment authority to the Treasurer on an annual basis. Annual statements of investment policy and quarterly updates to the legislative body are optional per California Government Code section 53646. However, the Water Authority annually reviews, updates and adopts its Policy and submits a monthly Treasurer's Report to the Board. Staff believes that the annual review and adoption of the Policy by the Board, along with submission of the monthly Treasurer's Report to the Board, is central to a transparent portfolio management process.

The Water Authority engages an investment advisor on a bi-annual basis to perform a third party review of its Policy and investment portfolio. In September 2011, staff performed a solicitation of investment advisors and selected PFM Asset Management LLC (PFM), an independent SEC registered investment advisory firm specializing in public funds to perform this comprehensive review and analysis.

Discussion

PFM conducted an independent third party review of the Water Authority's investment portfolio and Policy for compliance with the California Government Code (Code) and also reviewed the Water Authority's reporting requirements and performance benchmark along with current market conditions. They used the September 30, 2011 Treasurer's Report for their assessment period to report to the Board their findings regarding compliance of the Water Authority's investment holdings with the Code and the Policy, and their evaluation of the current portfolio risk and performance benchmark (Attachment A). In addition, they provided a current market overview on the U.S. economy as background to support their recommendations.

PFM's findings are as follows:

- The Water Authority's portfolio is in full compliance with all applicable sections of the Code and with the Water Authority's own Policy, noting that the portfolio holdings reflect an overall prudent investment approach.
- The Policy is comprehensive, well written, and in compliance with the Code, reflecting an overall conservative investment approach.
- The portfolio is well diversified among a variety of sectors and issuers.
- The portfolio's credit quality is excellent, with 84.4% of the portfolio invested in securities rated "AA" or higher.
- The Policy's reporting requirements and the Water Authority's portfolio reports are comprehensive and exceed what is suggested by the Code.
- The portfolio has consistently outperformed the current benchmark over the past two years, while maintaining a high quality, liquid portfolio.

PFM noted three legislative revisions for the Water Authority's consideration; two of which they recommend incorporating into the Policy. PFM also provided several recommendations to enhance the overall consistency and clarity of the Policy, which should aid in its effectiveness as a management tool. These recommendations have been incorporated into the attached Annual Statement of Investment Policy for Calendar Year 2012 (Attachment B), and are summarized below. The recommended changes are highlighted in "redline" format in Attachment B. While the current investment climate continues to impact the investment alternatives available to the Water Authority, the Policy's emphasis remains focused on safety and liquidity.

Legislative Revisions: First, the Code will be revised in January 2012 to add language to §53601(i), which will allow local agencies to invest in negotiable certificates of deposit issued by "a federally licensed branch of a foreign bank". The revision was made to correct what was viewed as an oversight in the Code, as it currently permits investment in negotiable certificates of deposit issued by "a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank." PFM recommends, and staff concurs, incorporating this revision into the Policy to maintain consistency with the Code.

Second, the Water Authority's Policy currently limits the maximum maturity for all certificates of deposit (CD) investments to December 31, 2013, when the increased FDIC insurance limit of \$250,000 per account was due to expire and revert back to \$100,000. In July 2010 that limit was increased permanently by the Dodd-Frank Wall Street Reform and Consumer Protection Act. PFM recommends, and staff concurs, to replace this date with the Code's maximum 5 year maturity limit for all CD investments.

Rating Agency Requirements: To enhance consistency of the application of rating requirements across different sections of the Policy, PFM recommends using standard language to describe the credit requirements, where applicable, across different investment categories. Staff concurs and has revised the wording in the Policy to include reference to all three rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Ratings) in a consistent manner.

Certificates of Deposit (CDs): The Policy currently lists the collateral information that is required to be provided to the Water Authority for any deposits issued by banks, savings or federal associations, or credit unions. PFM recommends, and staff concurs, to clarify in the Policy that the providing of this collateral information is governed by the Code.

Negotiable Certificates of Deposit and Municipal Securities: To be consistent with the Policy's "per issuer" requirements for other investment categories, PFM recommends incorporating a 5 percent per issuer limitation in both the Negotiable Certificates of Deposit and the Municipal Securities sections. Staff concurs with this recommendation as it maintains consistency across investment types.

Percentage Limitations: The Policy currently states the maximum portfolio percentage limitations for each authorized investment type. PFM recommends, and staff concurs, expressly stating that the portfolio percentage limitations apply at the time of purchase, consistent with the requirement in the Code.

Credit Requirements: PFM recommends adding language to the Policy that explicitly states that credit ratings requirements are based on the basic rating category regardless of any qualifiers (such as +/- or 1, 2, 3). Thus, when the Policy indicates that a rating must be a minimum of "AA", a security that is rated "AA+", "AA", or "AA-" by Standard & Poor's or Fitch Ratings, or "Aa1", "Aa2", or "Aa3" by Moody's Investors Service would still be in compliance with the Policy. Staff concurs with this clarification.

Qualified Banks and Securities Dealers: PFM recommends adding a provision to the Policy that specifies that the requirements for using Qualified Banks and Securities Dealers only applies to securities that are not purchased directly from the issuer (such as commercial paper), as referenced in the Code. Staff concurs, as this reiterates what is already the current practice.

It is important to note that the Water Authority's Investment Policy is more conservative than the California Government Code, and the overriding focus continues to emphasize investing in accordance with the following objectives, in order of importance: (1) preserving principal, (2) maintaining liquidity, and (3) achieving yield.

Prepared by: Patti L. Cirello, Investment Analyst
Reviewed by: Eric Sandler, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:
Attachment A PFM's "Investment Policy and Portfolio Review"
Attachment B Annual Statement of Investment Policy for Calendar Year 2012



San Diego County Water Authority
Investment Policy and Portfolio Review

November 2011

PFM Asset Management LLC
50 California Street, Suite 2300
San Francisco, CA 94111
(415) 982-5544

PFM Group California Offices
San Francisco • Los Angeles



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I. OVERVIEW

PFM Asset Management LLC (“PFM”) was hired in September 2011 to conduct the San Diego County Water Authority’s (“Water Authority”) bi-annual policy and portfolio review. We appreciate the opportunity to provide investment review services to the Water Authority. PFM is one of the leading investment advisory firms specializing in serving the public sector. We currently manage over \$40 billion of fixed-income investments for public agencies nationwide.

Under our scope of work for this bi-annual review, we were asked to review the following items:

- The Water Authority’s investment portfolio, as of September 30, 2011, to determine its compliance with both the California Government Code and the Water Authority’s Investment Policy.
- The Water Authority’s 2011 Calendar Year Investment Policy (“Investment Policy”) to determine its compliance with the California Government Code, and make recommendations for changes, if any are needed, based on changes to state law and/or market conditions.
- Review the Water Authority’s current performance benchmark with recommendations for improvements and/or changes based on the evaluation of individual funds and their cash flows and average maturities.
- The current market conditions and how they might affect the Water Authority’s investment portfolio and its investment strategy going forward.
- Provide a written report of findings and recommendations to Water Authority staff and a formal presentation to the Water Authority’s Board.

Summary of Findings

We would like to thank the Water Authority staff for their help in gathering the portfolio and policy information and answering our questions. Their involvement was essential to the entire review process. Our review findings, which are discussed in more detail in the body of the report, found:

- The Water Authority’s portfolio, as of September 30, 2011 was in compliance with the applicable sections of California Government Code, as well as the Water Authority’s Investment Policy.
- The Investment Policy was in compliance with California Government Code Section 53600, et seq. The Investment Policy is comprehensive and reflects an overall conservative investment approach. There have been no changes in the Government Code since the previous review that would require any changes to the Investment Policy. We, however, developed some general policy suggestions for the Water Authority’s consideration.
- Beyond basic compliance with the requirements of the Government Code and the Investment Policy, the portfolio investments and structure reflected an overall prudent investment approach. During a period of significant financial turmoil, the Water Authority has successfully avoided the credit losses that have impacted other public investors. In addition, the Water Authority’s portfolio has consistently outperformed its benchmark while maintaining a high quality, liquid portfolio.

The Water Authority’s current performance benchmark has been an appropriate benchmark. However, the Water Authority should evaluate if a longer average maturity benchmark might now be appropriate given the Water Authority’s liquidity requirements and risk preferences.



II. INVESTMENT PORTFOLIO COMPLIANCE REVIEW

The purpose of PFM's review was to assess the compliance of the Water Authority's portfolio with California Government Code and the Water Authority's Investment Policy. Using the information contained in the Water Authority's September 30, 2011 Treasurer's Report, we independently analyzed the portfolio's characteristics.

From our review, we determined that the portfolio is in full compliance with the California Government Code and the Water Authority's Investment Policy. The Water Authority's portfolio holdings reflect an overall prudent and conservative investment approach. For the Water Authority's bond proceeds, we did not note any compliance issues related to the Investment Policy or the California Government Code. However, we did not review the bond proceeds for compliance with any related bond documents, as it was outside our scope of work.

Portfolio percentages shown are based on the portfolio's book values, excluding bond related accounts, as of September 30, 2011. From our review of the Water Authority's portfolio, we noted:

- The portfolio holdings are well within the Investment Policy's requirements for sector distribution, issuer limits, credit quality, call risk, and maturity limits.
- The portfolio is well diversified across sectors and issuers. The majority of the portfolio is invested in U.S. Treasury and Federal Agency securities. Although the portfolio's allocation to U.S. Treasury securities at 19.5% is below the Investment Policy's 50% goal, it is well above the Investment Policy's minimum requirement of 15%. On a combined basis, the portfolio's allocation of U.S. Treasury and Federal Agency obligations at 68.3% is well above the Investment Policy's 50% minimum requirement.
- The portfolio's combined allocation to short-term investment pools (LAIF, CAMP¹, and money market funds) is 26.5%. This percentage is very reasonable, given current investment conditions. Over the past several years, short-term investment pools have often offered higher yields than most other short-term securities (securities with maturities less than one year) while providing daily liquidity, which reduces the portfolio's exposure to market value risk and provides investment staff the flexibility to easily reinvest funds when more favorable yields can be obtained.
- The portfolio has a small allocation to commercial paper 4.9%. The portfolio does not currently have any direct exposure to other corporate securities (medium term notes, negotiable CDs or bankers' acceptances).
- The portfolio has less than 1% allocated to placement service certificates of deposit and bank deposits.

A summary compliance matrix of the California Government Code Section 53601, the Water Authority's Investment Policy, and the non-bond funds portion of the Water Authority's investment portfolio is shown in the table on the following page.

¹ PFM Asset Management LLC serves as CAMP's Program Administrator and Investment Adviser under contract to the JPA's Board of Trustees.



Investment Type	Gov't Code Limitations: %, Minimum Credit, Maturity	Additional Water Authority Policy Credit Quality Standards	Additional Water Authority Policy % & Maturity Limitations	Current Portfolio Allocation	Compliance
U.S. Treasury obligations	100%	No strips or zero coupon securities	50% Goal, 15% ¹ Minimum 5 years	19.5%	Yes
State obligations	100%	"A" rated issuers	20% 5 years	0%	Yes
Debt issued by California local governments	100%	"A" rated issuers	20% 5 years	0%	Yes
Federal Agency obligations	100%	None	85% Total 5 years 20% Callable (one-time calls only)	48.8% (0% currently callable)	Yes
Bankers' Acceptances	40% total 30%/issuer 180 days	"A" rated issuers	20% 5%/issuer ²	0%	Yes
Commercial Paper	25% "A1/P1/F1" "A" on issuers LT debt	Limited to general corporation issuers only	5%/issuer ²	4.9%	Yes
Time CDs	100% Collateralized	"A" or better banks No Real Estate Mortgage Collateral	15% December 31, 2013	0%	Yes
Placement Service CDs	30% ³ FDIC Insured	None	15% ³ December 31, 2013	0.3%	Yes
Negotiable Certificates of Deposit	30% ³	Banks rated "AA" or better	15% ³ December 31, 2013	0%	Yes
Repurchase Agreements	100% 1 year 102% Collateral	Primary Dealers "A" or better Collateralized by U.S. Treasuries & Federal Agencies	20%	0%	Yes
Reverse Repurchase Agreements/ Security Lending Agreements	Primary Dealers or Significant Banking Relationship 20% 92 days	Written Approval of Treasurer for Reverse Repurchase Agreements. Securities Lending Agreements not permitted	None	0%	Yes
Corporate Medium Term Notes	30% 5 years "A" or better	"AA-" or better Fixed and variable rate only	5%/issuer ² "AA-" 3 years "AAA" 5 years	0%	Yes
Mutual Funds	20% 10% per fund "AAA" by two NRSRO or \$500 million	Not permitted	Not permitted	0%	Yes



Investment Type	Gov't Code Limitations: %, Minimum Credit, Maturity	Additional Water Authority Policy Credit Quality Standards	Additional Water Authority Policy % & Maturity Limitations	Current Portfolio Allocation	Compliance
Money Market Funds	20% "AAA" by two NRSRO or \$500 million	None	15%	0.2%	Yes
Obligations backed by a first security interest in acceptable collateral	100%	Not permitted	Not permitted	0%	Yes
Mortgage-backed securities	20% Issue min: "AA" Issuer min: "A"	Not permitted	Not permitted	0%	Yes
LAIF	\$50 million	None	None	\$49.1 million (15.6%)	Yes
Local Government Investment Pools	100% Investment Adviser Requirements	AAA by at least one NRSRO	25% Daily Liquidity	10.7%	Yes
California County Investment Pools	100%	Not permitted	Not permitted	0%	Yes
Bank Deposits	100% Collateralized	None	None	0.0%	Yes
Maximum Maturity	5 year maximum maturity without Board approval	None	730 days for portfolio's weighted average	188 days	Yes

Notes:

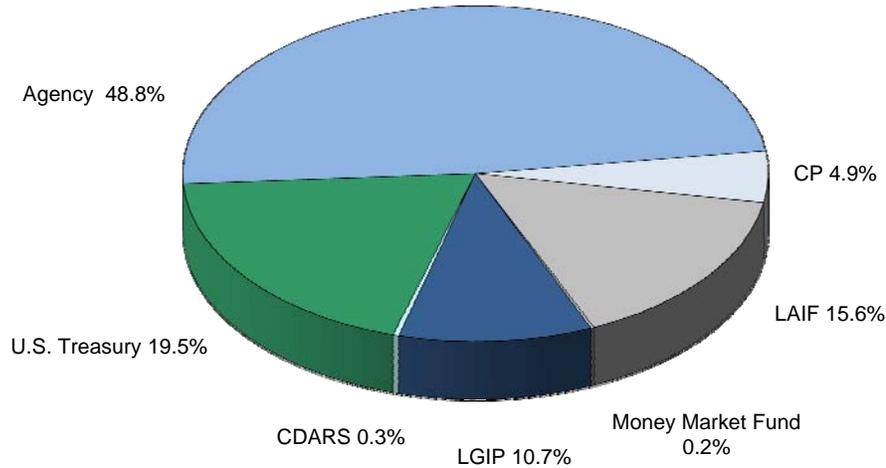
1. In addition, the Investment Policy has a target of 50% of the portfolio in U.S. Treasuries, which may also be satisfied with a combination of 50% in U.S. Treasuries and Federal Agency obligations.
2. The Investment Policy permits the Treasurer to exceed this limit when the issuer has a "AAA" rating and the investment has a remaining maturity of 90 days or less.
3. The Government Code limits negotiable certificates of deposit and placement services certificates of deposit to a maximum combined limit of 30% of the portfolio. The Water Authority's Policy limit is a combined limit of 15% of the portfolio.



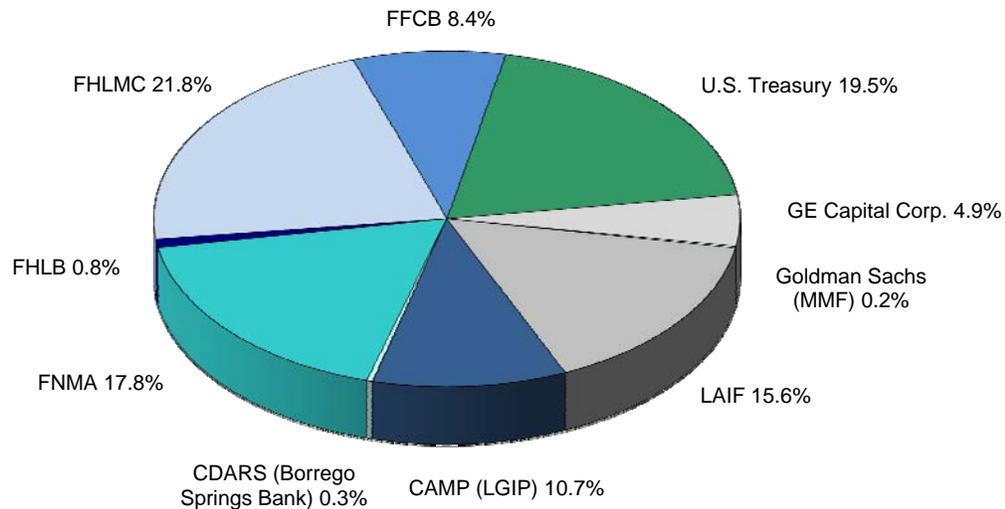
Sector/Issuer Distribution

The portfolio is well diversified among a variety of sectors and issuers. The following charts illustrate the distribution of portfolio assets by sector and issuer as a percentage of book value.

Sector Distribution



Issuer Distribution



The portfolio’s single largest sector allocation is to the Federal Agency sector at 48.8% (\$153.6 million). There is reasonable diversification among Federal Agency issuers with the largest allocation to Freddie Mac (FHLMC) at 21.8% (\$68.4 million). U.S. Treasury holdings represent 19.5% (\$61.2 million) of the portfolio. While this allocation is below the Investment Policy’s 50% goal, it is well above the Investment Policy’s minimum requirement of 15%. On a combined basis, the portfolio’s allocation of U.S. Treasury and Federal Agency obligations at 68.3% is well above the Investment Policy’s 50% minimum requirement.



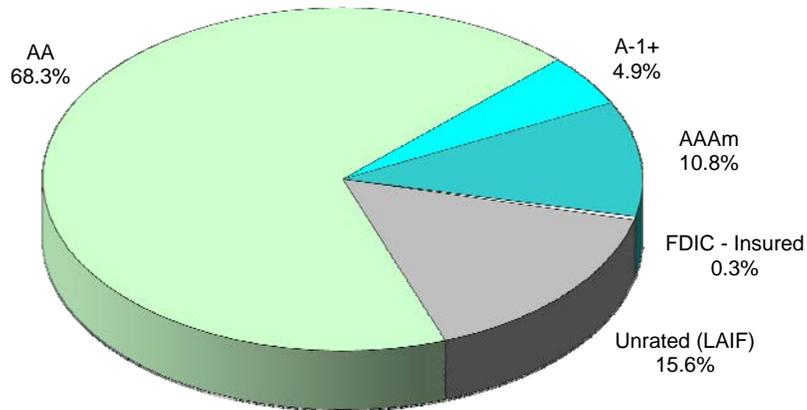
The Water Authority has a moderate allocation to short-term investment pools (LAIF 15.6%, CAMP 10.7%, and Money Market Funds 0.2%). In the current environment, investment pools have provided higher yields than other short-term securities while still offering daily liquidity. The pool holdings are within the Investment Policy’s limits and are diversified across funds.

The portfolio has only a small allocation to commercial paper of 4.9% (\$15.5 million) and does not currently hold any other corporate securities (medium-term notes, bankers’ acceptances, or negotiable CDs). We believe corporate securities are an appropriate investment for public agency investors. However, the high degree of financial uncertainty over the past several years has reinforced the importance of careful credit analysis and monitoring of corporate credits. The Water Authority has evidenced a proactive approach managing to credit risk by evaluating issuers prior to purchase rather than simply relying on the credit agency ratings, which are often reactive rather than proactive in addressing credit issues.

Credit Quality

The portfolio’s overall credit quality is excellent, with 84.4% (\$264.4 million) of the portfolio invested in securities rated “AA”² or higher (“AA”—68.3%, “A-1+”—4.9%, and “AAAm”—10.8%). An additional 0.3% (\$1.0 million) of the portfolio is in bank deposits, that while not rated are either FDIC insured or collateralized. The remaining 15.6% (\$49.1 million) is in LAIF, which is unrated. The Water Authority’s prudent approach to credit risk has helped protect the portfolio from experiencing the credit issues that impacted other public funds investors during a period of significant financial turmoil.

Credit Quality Distribution
Standard & Poor’s Ratings



² On August 5, 2011, Standard & Poor’s downgraded the long-term debt rating of the U.S. Treasury to “AA+” from “AAA.” In a related action, they also downgraded the long-term debt rating of the Federal Agencies to “AA+” from “AAA.” Standard & Poor’s maintained their short-term debt obligations at “A-1+” ratings. However, Moody’s and Fitch both confirmed their “AAA” ratings for U.S. Treasury and Federal Agency debt.



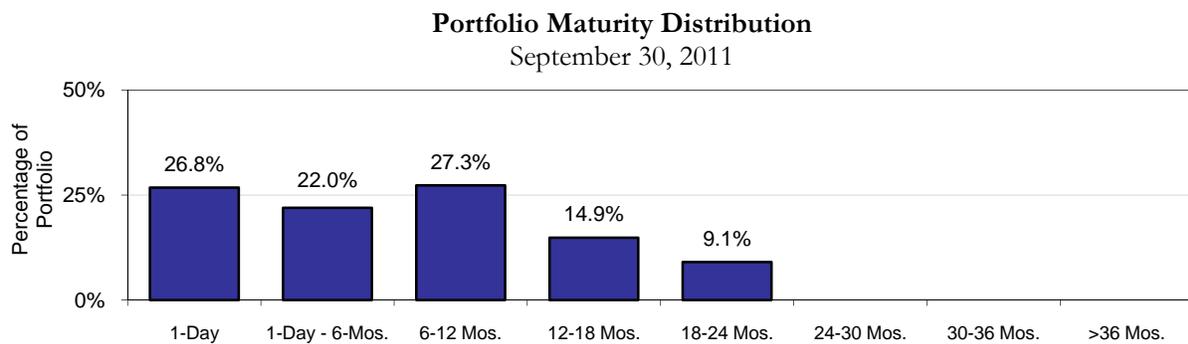
Call Risk

The portfolio currently has no call risk. The portfolio’s exposure to call risk is limited by the Investment Policy’s 20% limit of callable Federal Agency securities. In addition, the Investment Policy further limits the portfolio’s call risk by only permitting the purchase of Federal Agency securities with one-time call structures.

Maturity Distribution

The portfolio is very liquid both by virtue of the specific investments it contains (i.e., highly liquid U.S. Treasuries, short-term investment pools, and Federal Agencies) and by the fact that 76.1% (\$239.3 million) of the portfolio’s investments will mature within one year. The portfolio’s average maturity, at 188 days, is well below the Investment Policy’s maximum limit of 730 days. In accordance with the Investment Policy, none of the securities in the portfolio, either now or at the time of purchase, had a maturity exceeding five years.

The following chart summarizes the Water Authority’s distribution of assets by final maturity. As the portfolio does not contain any securities that are currently callable, the portfolio’s distribution to final maturity and next call are the same.



Between October 2010 and September 2011, the portfolio had an average maturity of 278 days, with a high of 323 days and a low of 188 days. The portfolio’s weighted average maturity at 188 days, as of September 30, 2011, is shorter than we might expect, but it is consistent with the Water Authority’s selected benchmark, the 1-year Constant Maturity Treasury. The portfolio’s short average maturity is also due in part to the portfolio’s allocation to short-term investment pools, which are considered to have a maturity of one day as they offer daily liquidity. Short-term investment pools have been one of the more attractive investment alternatives available to the Water Authority over the past couple of years. The pools have offered higher yields than most other short-term securities (securities with maturities less than one year).

Over the past couple of years when it often looked like interest rates might start moving higher, a shorter average maturity reduced the portfolio’s exposure to potential market value losses from an increase in interest rates, and provided the investment staff with greater flexibility to reinvest funds if interest rates moved higher. With rates now anticipated to remain low for an extended period, the Water Authority may want to consider modestly extending the portfolio’s average maturity consistent with the Water Authority’s liquidity requirements and market conditions. Historically, a longer average maturity portfolio has provided higher average returns, but with greater exposure to market risk. However, any change in the average maturity of the Water Authority’s portfolio should be made gradually over time as appropriate for market conditions.

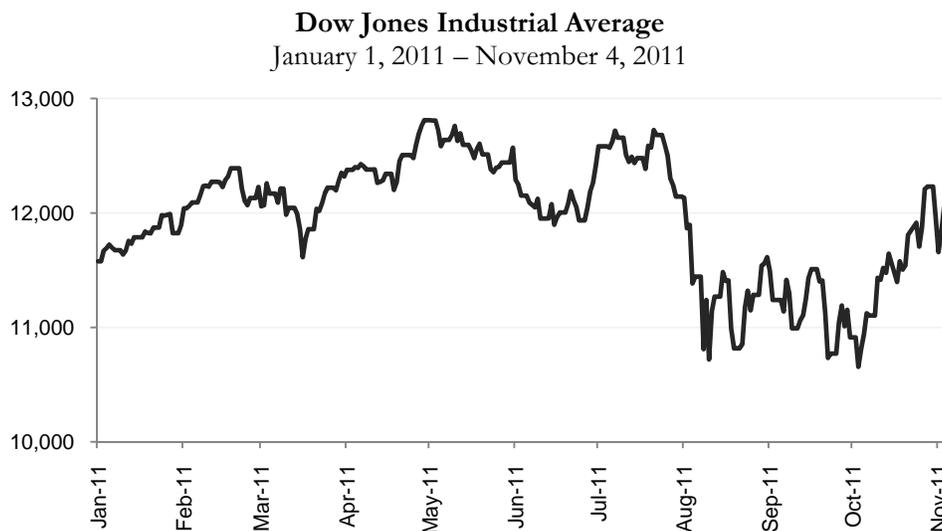


III. MARKET OVERVIEW

Over two years after the official end of the recession, the U.S. economy continues to grow, but at a very subdued pace, especially compared to previous recoveries. Despite a highly accommodative monetary policy; high unemployment and a weak housing market continue to drag on the economy. In recent testimony, Ben Bernanke indicated that the pace of economic growth is likely to be "frustratingly slow" for the next two years. Given this economic outlook, the Federal Reserve, at their November 2, 2011 meeting, reiterated their position that economic conditions are likely "to warrant exceptionally low levels for the federal funds rate at least through mid-2013."

In addition to weak economic growth, the continuing European sovereign debt crisis weighs heavily on the markets. Greece remains the flash point of the crisis. Although the size of the Greek economy is relatively small, the market is more concerned about the secondary impacts from a full Greek default on the European banks and the potential for the crisis to spread to Italy and Spain, which are much bigger economies. On October 27, European leaders reached a deal to address the crisis. The plan included a range of measures, such as a plan that European banks would take a 50% loss on their Greek debt, plans to strengthen the emergency bailout fund, and a plan to force European banks to raise additional capital to insulate them from potential sovereign debt defaults. However, political uncertainty in Greece since the deal was reached has increased the markets' concerns about the implementation of the plan and if it will be sufficient to stop the crisis in Greece.

Although third quarter corporate earnings have generally been favorable, the continuing European debt crisis along with economic uncertainty has contributed to significant stock market volatility during the second half of 2011. Year to date, the Dow Jones Industrial Average is up 4.0%, but it is still down 6.5% from the peak for the year it reached in early July.

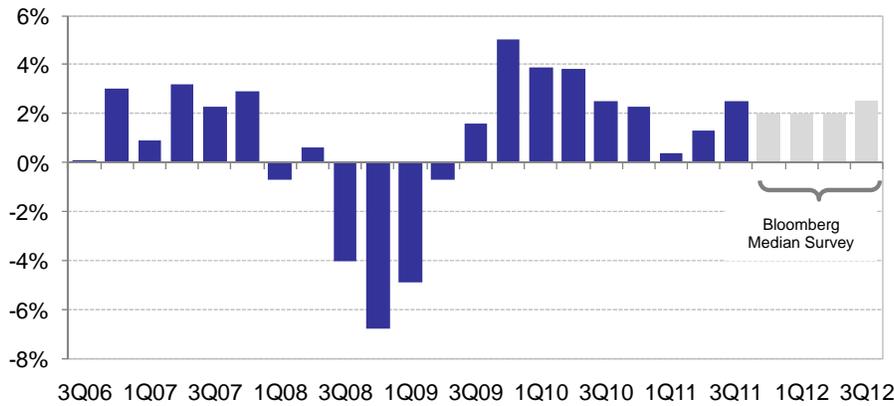


Source: Bloomberg

As shown in the chart of the following page, economic growth accelerated in the third quarter GDP coming in at 2.5% (initial estimate) compared to 1.3% for the second quarter and 0.4% for the first quarter. Improvement was led by business fixed income investment and personal consumption expenditures. Although improved, the overall growth level is anemic compared to previous recoveries.



Change in Gross Domestic Product
Third Quarter 2006 – Third Quarter 2011



Source: Bloomberg

While the rate of economic growth improved in the third quarter, there remain significant concerns regarding the strength of the recovery going forward. A key concern regarding the strength of the recovery is consumer spending. Consumer activity accounts for approximately 70% of the country’s Gross Domestic Product (“GDP”), the broadest measure of economic activity, so the importance of the consumer in the overall U.S. economy can hardly be overstated.

Although consumer spending was a key driver in the third quarter GDP report, consumer confidence has weakened significantly in recent months. The Conference Board’s Consumer Confidence Index fell 6.6 points to 39.8 in October. Consumers remain pessimistic on business conditions, as 43.7% of individuals surveyed indicated that they perceived conditions as bad.

Consumer Confidence
October 2006 – October 2011

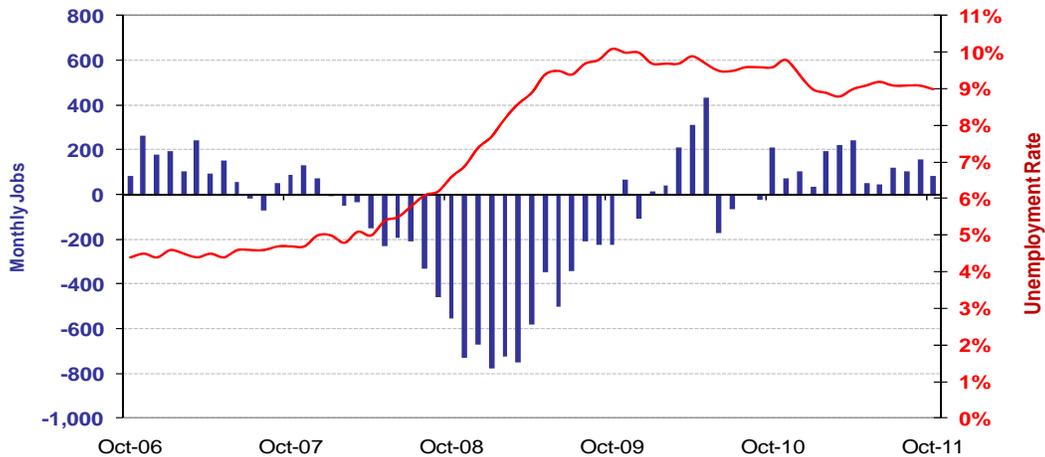


Source: Conference Board and Bloomberg



One of the factors weighing heavily on the consumer is the continued weakness in the employment market. Job gains have averaged only 118,000 per month over the past year, which has been insufficient to significantly reduce the persistently high unemployment rate. The U.S. unemployment rate was down only slightly to 9.0% in October. The unemployment rate was 11.4% for California and 9.7% for San Diego, as of September (seasonally unadjusted). With sluggish economic growth expected during the coming year, the unemployment rate is not expected to improve significantly.

Change in Non-Farm Payrolls vs. Unemployment Rate
October 2006 – October 2011



Source: Bloomberg

Although volatile on a month to month basis, the housing market has remained near its current, depressed level over the past twelve months. The housing market has shown no signs of a sustained recovery despite significant improvement in home affordability. Although mortgage rates remain low by historical low, credit standards along with a weak job market continue to dampen housing demand.

Existing Home Sales
September 2001 – September 2011



Source: Bloomberg

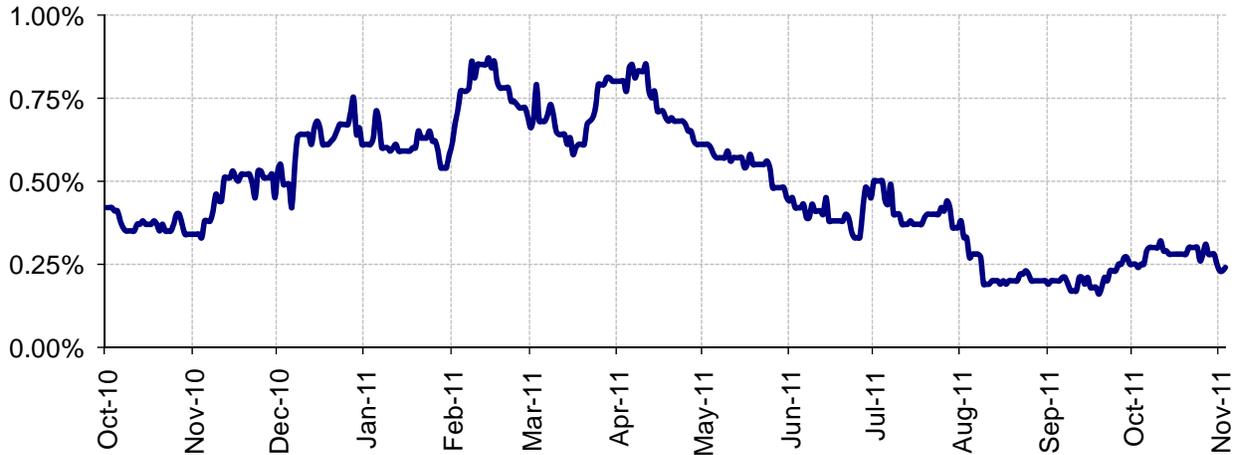


Recent Interest Rates

Interest rates fell sharply during the third quarter from their already low levels, as investors moved out of riskier assets and into the perceived safety of U.S. Treasuries. The weak U.S. economy, the Fed’s aggressive accommodative monetary policy actions, and the lack of a comprehensive solution to the continuing European sovereign debt crisis all contributed to the fall in rates. During the quarter, the 2-year Treasury note, which started the third quarter at a yield of 0.45%, hit a new all-time low (dating back to 1976) of 0.15%. On signs of improving economic conditions and movement towards a comprehensive solution in Europe, the 2-year Treasury yield rebounded slightly to 0.25% at the end of the third quarter. The 2-year Treasury was yielding 0.22% on November 4, 2011.

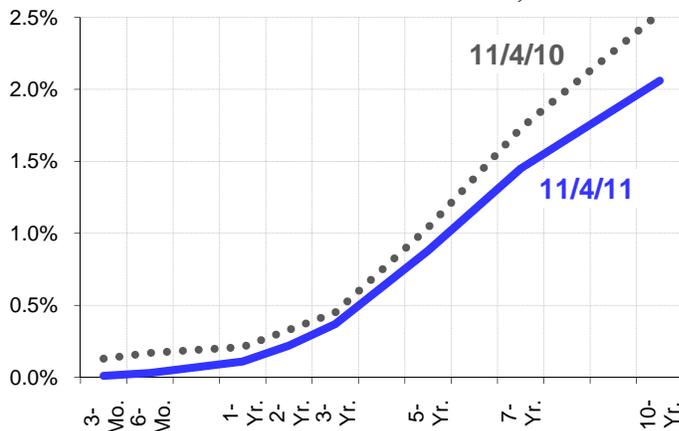
In an unprecedented action, S&P downgraded the long-term debt rating of the U.S. government from AAA to AA+ in August on the basis of the perceived lack of political will to address the rapidly expanding U.S.’s debt levels. Despite the unprecedented nature of this action, it had virtually no lasting impact on the Treasury and Federal Agency markets.

2-Year U.S. Treasury Yield
October 1, 2010 – November 4, 2011



Source: Bloomberg

U.S. Treasury Yield Curve
November 4, 2010 vs. November 4, 2011



	11/4/10	11/4/11	Change
3-Mo.	0.13%	0.01%	(0.12%)
6-Mo.	0.17%	0.03%	(0.14%)
1-Yr.	0.21%	0.11%	(0.10%)
2-Yr.	0.33%	0.22%	(0.11%)
3-Yr.	0.45%	0.37%	(0.08%)
5-Yr.	1.04%	0.88%	(0.16%)
10-Yr.	2.53%	2.06%	(0.47%)

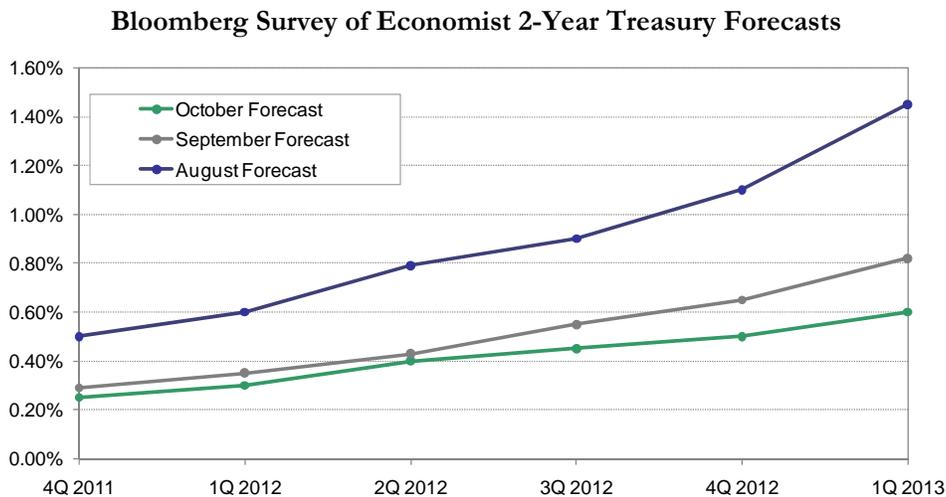
Source: Bloomberg



Economic Outlook

The current economic outlook for the coming year is for continued sluggish growth. Although most economists do not expect the economy to fall back into recession, the level of economic growth is not expected to be sufficient to drive significant improvement in either the employment or housing markets. The situation in Europe remains a key concern. If European leaders are unable to contain the situation to Greece, there could be significant impacts to the global economy and the financial system, which would spill over to the U.S. economy.

With continued economic weakness and uncertainty in Europe, expectations for higher rates have been pushed further into the future. As illustrated by the following chart; the economists surveyed by Bloomberg have progressively lowered their interest rate forecast over the past several months. The Federal Reserve has already stated that it expects to maintain the Federal Funds target rate at its current level until the middle of 2013.



Source: Bloomberg

With low levels of interest rates anticipated to persist through 2012, the consistent application of a long-term investment strategy is the approach most likely to enable the Water Authority to achieve its long-term investment objectives. For those funds not needed for short-term liquidity, the shape of the yield curve provides additional yield by extending maturities. The Federal Reserve stance on interest rates has mitigated some of the risk that sharply higher rates in the near term could significantly lower market values. For those funds needed for short-term liquidity, investment pools remain an attractive option as they have provided higher yields than other short-term investments while offering daily liquidity.

Treasury and Federal Agency investments remain the safe-haven investments for most investors. As Treasury yields have fallen to historically low levels, the relative yield advantage of Federal Agency securities has improved. Corporate securities offer higher yields relative to U.S. Treasury and Federal Agency securities. However, the weakness of the recovery and general uncertainty in the financial markets suggests that public agency investors should continue to carefully manage their exposure to corporate securities. Any corporate investment should be limited to high quality issuers. Corporate issuers should be reviewed prior to purchases and should be monitored on an ongoing basis as economic conditions continue to evolve. The problems arising from the financial crisis over the past several years has reinforced the importance of understanding the risks when selecting investments.



In this volatile market environment, investment strategies need to remain flexible in response to changes in interest rates, economic data, market outlook or specific opportunities that arise. While it is important to manage the portfolio for growth and to seek opportunities to enhance the portfolio's return, safety of principal should remain the guiding principal of the public funds investor.



IV. INVESTMENT POLICY REVIEW

As part of the bi-annual review, PFM reviewed the Water Authority's Investment Policy ("Investment Policy") for the 2011 calendar year. There are four key criteria we use to help evaluate the overall effectiveness of an investment policy, which are as follows:

- **Compliance.** While a governing board may impose additional requirements based upon its investment objectives and preferences, an investment policy must, at a minimum, comply with the requirements of the Government Code.
- **Comprehensiveness.** An investment policy should be comprehensive to ensure that the key aspects of the investment program are properly addressed. The Association of Public Treasurers of the United States and Canada ("APT US & C")³ certification standards are used to evaluate a policy's comprehensiveness.
- **Balance.** An investment policy should provide a balance between investment restrictions, which help protect the agency's assets, and investment flexibility, which permits the investment staff to adapt to changing market conditions and investment needs.
- **Clarity.** An investment policy should express the governing board's investment objectives with sufficient clarity, so that both the agency's investment staff and other interested parties (participants or broker/dealers) clearly understand the investment policy's intent.

Based on our review, we believe the Water Authority's Investment Policy is comprehensive, well written, and is in compliance with the California Government Code ("Government Code") sections that regulate the investment of public funds. From our review, we believe the Water Authority's Investment Policy represents a prudent approach to managing investment risks.

Although no changes are required at this time, we have developed some recommendations for the Water Authority's consideration. Our comments are based upon PFM's expertise as an investment advisor to public agencies and our understanding of the best investment practices. We have grouped into our recommendations into two sections: 1) Legislative Revisions, which are related to legislative changes since 2009, and 2) Additional Recommendations, which are additional recommendations that we believe could help enhance the Investment Policy's effectiveness as a management tool. Our recommendations are summarized below by recommendation type and Investment Policy section.

Our comments were made to provide policy alternatives for the Water Authority's consideration they are not intended to imply that there was anything imprudent or incorrect with the current Investment Policy. The Water Authority will need to evaluate the implementation of each of these suggestions within the context of the Water Authority's own investment objectives, preferences, and procedures. The Water Authority could reasonably conclude not to implement some or all of the suggestions or it could develop alternative revisions based on its own preferences.

³ Founded in 1965, APT US & C represents 2,000 public treasury and finance officials in local, county and state/provincial governments throughout North America. The APT US & C's mission is to advance the public treasury profession by providing its membership with training, technical publications, and a forum to discuss and exchange ideas. Additional information is available at www.apusc.org. The California Municipal Treasurers Association ("CMTA") is one of 17 state associations of treasurers affiliated with APT US & C.



Legislative Revisions

There have been two Government Code revisions since 2009 that we wanted to bring to the Water Authority's attention. The Government Code revisions are described below by bill number (please see Appendix B for a list of the key Government Code revisions since 2001).

SB 194, which is scheduled to take effect on January 1, 2012, will allow local agencies to invest in negotiable CDs (Government Code Section 53601(i)) issued by “a federally licensed branch of a foreign bank” in addition to those issued by “a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank.” Part of an omnibus bill, this Government Code revision was made to correct what was viewed as an oversight in the Government Code. We recommend that the Water Authority incorporate this revision into the Investment Policy's section on negotiable certificates of deposit.

SB 1344, which took effect January 1, 2011, deleted the January 1, 2012 sunset date for placement service certificates of deposits (Government Code Sections 53601.8 and 53635.8), thereby extending the operation of these provisions indefinitely. However, no changes are required, as the sunset date was not referenced in Investment Policy.

FDIC Insurance Limit. In addition to the Government Code changes listed above, the federal government permanently raised the FDIC insurance limit in July of 2010 when the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. The Act, in part, permanently raised the standard maximum deposit insurance amount to \$250,000. The previous standard maximum insurance amount of \$100,000 had been temporarily raised to \$250,000 until December 31, 2013. As the FDIC limit has been permanently raised to \$250,000, we recommend the Water Authority delete the Investment Policy's current maximum maturity date for certificates of deposits of December 31, 2013 (which was when the temporary insurance increase was due to expire) that is listed in several Investment Policy sections and revert to the California Government Code maximum maturity limit of five years.

Additional Recommendations

In addition to the legislative related revisions listed above, we identified several other recommendations for the Water Authority's consideration. As the Investment Policy already reflected a prudent investment approach, our recommendations were mainly focused on eliminating minor policy inconsistencies that could potentially create confusion or result in inadvertent compliance issues.

- **Rating Agency Requirements** (this is a global change that would apply to multiple policy sections). The Investment Policy's use of rating requirements is somewhat inconsistent across different sections, which could create some uncertainty as to how to apply the rating requirements. For example, the description of the rating agencies in certain sections includes just Moody's and Standard & Poor's while in other sections the Investment Policy also includes Fitch Ratings. In addition, the Investment Policy varies between using “Or” and “And” when listing the rating agencies, which could create confusion if the Investment Policy's intent is to require a single or multiple credit ratings. To avoid confusion, we recommend that the Water Authority use consistent language to describe the credit requirements across the different investment categories. We recommend that Water Authority use a standard that would require for a security to be eligible for purchase it would have to be rated in the minimum stated rating category by one of the listed rating agencies.



- **Authorized Investments – Certificates of Deposits.** As a clarification to the Investment Policy’s current collateral reporting requirements, we recommend the Water Authority revise this section to reflect the Government Code’s requirements under section 53660. The Government Code specifies what can be required, as collateral reports are not generally considered public reports, per Government Code Section 53664.
- **Authorized Investments – Negotiable Certificates of Deposits.** Consistent with the Investment Policy’s requirements for other investment categories, we recommend that the Water Authority incorporate into this section the same 5% per issuer limitation used elsewhere in the Investment Policy.
- **Authorized Investments – Municipal Securities.** Consistent with the Investment Policy’s requirements for other investment categories, we recommend that the Water Authority incorporate into this section the same 5% per issuer limitation used elsewhere in the Investment Policy.
- **Portfolio Limitations – Percentage Limitations.** We recommend the Water Authority revise this section to indicate that the portfolio percentage limitations apply at the time of purchase, which is the requirement in Government Code Section 53601. This revision recognizes that a change in percentage holdings category due to a change of the portfolio size does not in of itself create an Investment Policy or Government Code violation.
- **Portfolio Limitations – Credit Requirements.** We recommend the Water Authority add an introductory sentence to this section that explicitly acknowledges that credit ratings requirements are based on the basic rating category notwithstanding any qualifiers (e.g., securities rated “AA+,” “AA,” “AA-” by Standard & Poor’s or rated “AA1,” “AA2,” “AA3” by Moody’s would each comply with the requirement that a security have an “AA” rating). Although this approach is consistent with the interpretation used by most local agencies, we have recently encountered situations where auditors indicated that a public agency was out of compliance with their policy, as they held a security rated “AA-” when the policy stated a minimum rating of “AA.”
- **Qualified Banks and Securities Dealers.** As a clarification to this section’s requirements and to bring the Investment Policy’s requirements in line with the requirements of Government Code Section 53601.5, we recommend the Water Authority add a provision to this section that specifies that the requirements for Qualified Banks and Securities Dealers only apply to those securities not purchased directly from the issuer.



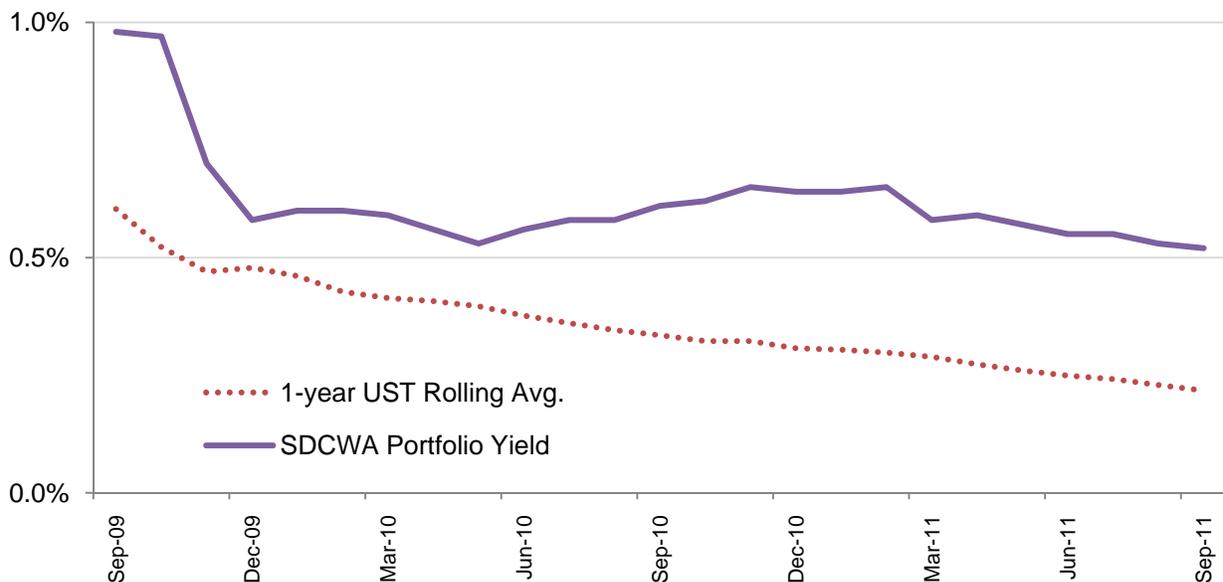
V. REPORTING AND PERFORMANCE BENCHMARK

The Investment Policy’s reporting requirements and the Water Authority’s portfolio reports are comprehensive and exceed what is suggested by the Government Code. Consequently, we are not recommending any changes to the Water Authority’s portfolio reports at this time.

Over the past two years, the performance of the portfolio’s non-bond funds has consistently tracked the benchmark with an average outperformance compared to the benchmark of 26 basis points (0.26%) while still maintaining a high quality, liquid portfolio. The portfolio’s relative outperformance is reasonable given the portfolio’s allocation to Federal Agency securities and the portfolio’s slightly longer average maturity compared to the Water Authority’s benchmark, the 1-Year U.S. Treasury Constant Maturity (C.M.T.). This suggests that the portfolio has been managed in a manner generally consistent with the Water Authority’s investment objectives, as implied by its selected benchmark.

The following chart compares the performance of the non-bond portion of the portfolio to the twelve-month rolling average of the 1-Year U.S. Treasury Constant Maturity, since September 2009.

Water Authority Yield vs. Benchmark
September 2009 to September 2011



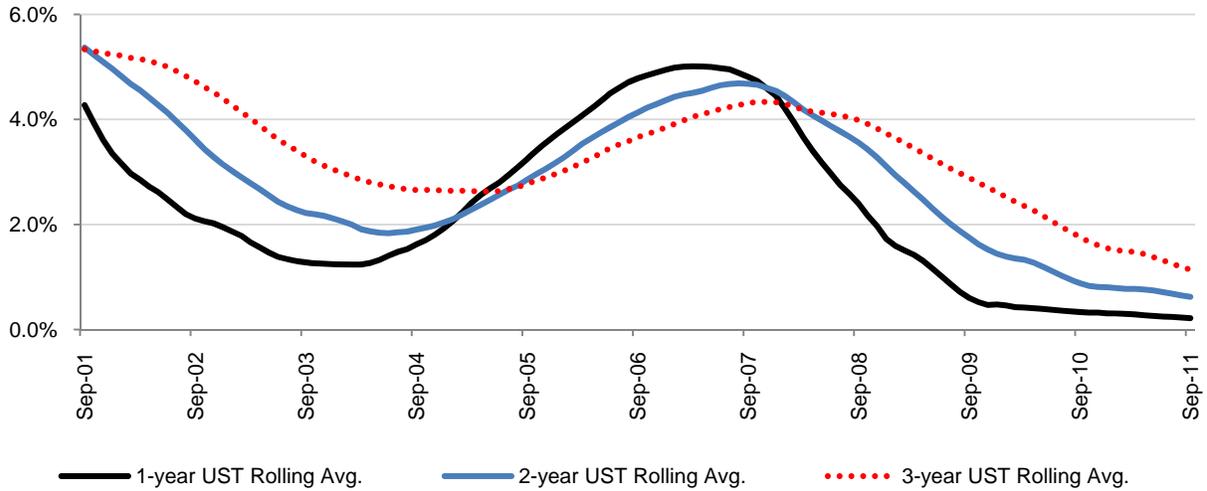
Source: San Diego County Water Authority and the U.S. Department of the Treasury

We believe the Water Authority’s current benchmark has been an appropriate benchmark given the Water Authority’s investment objectives, liquidity requirements, and market uncertainty. However, as part of the Water Authority’s routine investment practices, we recommend the Water Authority re-evaluate the benchmark from time-to-time to ensure it remains consistent with the Water Authority’s investment objectives. A portfolio’s average maturity is the single largest determinant of a portfolio’s average performance over time. Extending the portfolio’s average maturity in a manner consistent with the Water Authority’s liquidity requirements could, over time, increase the portfolio’s average return.



The following chart shows the average yield of the 1-year, 2-year and 3-year C.M.T.'s over the past 10 years. Over the past 10 years, the 2-year C.M.T. has averaged 2.42%, the 3-year C.M.T. has averaged 2.70% compared to 2.14% for the 1-year C.M.T. However, it should be recognized that a longer average maturity portfolio will have more market risk and respond more slowly to changes (up or down) to changes in interest rate levels.

Comparison of Constant Maturity Treasury Benchmarks
September 2001 to September 2011



Source: U.S. Department of the Treasury



APPENDIX A
APT US & C INVESTMENT POLICY STANDARDS

PFM uses the Association of Public Treasurers of the United States and Canada (“APT US & C”) standards for Investment Policy Certification as one tool for evaluating investment policies. While it is not necessary to include all elements of the APT’s model policy in every investment policy, the certification standards provide a useful benchmark for evaluating the comprehensiveness of an investment policy.

The following chart compares the components of the APT US & C model investment policy with the elements found by PFM in the Water Authority’s current investment policy. Either as individual sections or as elements within other sections, we believe the Water Authority’s Policy contains all of the elements recommend by the APT US & C Standards for Investment Policy Certification.

APT US&C Certification Standards	San Diego County Water Authority
Policy	Yes
Scope	Yes
Prudence	Yes
Objectives	Yes
Delegation of Authority	Yes
Investment Procedures	Yes
Ethics and Conflicts of Interest	Yes
Authorized Financial Dealers and Institutions	Yes
Authorized and Suitable Investments	Yes
Investment Pools/Mutual Funds	Yes
Master Repurchase Agreements	Yes
Collateralization	Yes
Safekeeping and Custody	Yes
Diversification	Yes
Maximum Maturities	Yes
Internal Control	Yes
Performance Standards	Yes
Reporting	Yes
Investment Policy Adoption	Yes
Glossary	Yes

Additional information on the APT US & C and its model investment policy and certification standards can be found at its web site: www.aptusc.org.



APPENDIX B KEY GOVERNMENT CODE REVISIONS

Government Code Revisions

The following is a summary of the major Government Code Changes that became effective January 1, 2001 through January 1, 2012 (as of September 25, 2011), which are listed below by bill, number and effective date. Additional bill information can be found at: <http://www.leginfo.ca.gov/bilinfo.html>.

Effective 2012

AB 1090, which will take effect January 1, 2012, adds investments in the Property Tax Deferral Fund in each county to the list of investments that a county treasurer can invest in. The PTDF is a program that allows deferral of property tax for eligible claimants.

SB 194, will take effect January 1, 2012. Current Code allows local agencies to invest in negotiable CDs issued by “a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank.” In addition to the current provisions, this Code revision will also allow local agencies to invest in negotiable certificates of deposit issued by “a federally licensed branch of a foreign bank.” It is viewed as a correction to the current Code.

Effective 2011

SB 1344, which took effect January 1, 2011, deletes the January 1, 2012 sunset date for placement service CDs (53601.8 and 53635.8), thereby extending the operation of these provisions indefinitely.

Section 53601.7 (which applied to only two counties) was removed from the Code, as there had been no legislation to extend the January 1, 2011 repeal date that was part of the AB 1794, which took effect January 1, 2007.

Effective 2010

There were no significant changes to the Code effective January 1, 2010.

Effective 2009

Effective November 16, 2009, the State Treasurer increased the Local Agency Investment Fund’s deposit limit for regular accounts from the previous \$40 million to \$50 million. See http://www.treasurer.ca.gov/pmia-laif/news/deposit_limits.asp for more details.

There were no significant changes to the Code effective January 1, 2009. **SB1124**, which took effect January 1, 2009, made two minor changes: (1) updates section references and deletes obsolete cross-references resulting from AB 1745 that took effect January 1, 2008, and (2) deletes the obsolete requirements for local officials to send their quarterly investment reports to CDIAC (requirement expired January 1, 2007) and for CDIAC to issue a summary report.



Effective 2008

AB 1745, which took effect January 1, 2008, added a new section to Government Code Section, 53601(d), that allows local agencies to purchase municipal bonds from any of the other 49 states. Previously, the Government Code had restricted the purchase of municipal bonds to those issued by the State of California and local agencies within California.

Effective 2007

AB 2011, which took effect January 1, 2007, added two new sections, 53601.8 and 53635.8, to the Government Code. These sections explicitly allow local agencies, until January 1, 2012, to utilize placement services for Non-Negotiable Certificates of Deposit (“CD”) purchases. While California law had not previously prohibited the placement of public funds through a deposit placement service, it had not explicitly allowed the practice.

AB 1794, which took effect January 1, 2007, amended Government Code Section 53601.7 (applies to counties) to eliminate the 10% maximum limit on the outstanding commercial paper of any one issuing corporation on this investment (the 10% per issuer limit for CP was retained). The Bill also extended the repeal date for 53601.7 to January 1, 2011.

The Bill also amended 53635 (applies to counties) to eliminate the 10% maximum limit on the outstanding commercial paper of any one issuing corporation on this investment (the 10% per issuer limit for CP was retained).

Effective 2006

SB 268, which took effect January 1, 2006, amended 53601.7 (applies to counties) to specify that up to 25% of the total assets of the investments may be invested in the first tier securities, as defined, of a single issuer for a period of up to 3 business days after acquisition and for only one issuer at a time.

Effective 2005

AB 969, which took effect January 1, 2005, added two new sections, 6509.7 and 53601(o), to the Government Code that provide specific criteria and authorization for the formation and use of joint powers authorities, such as CAMP, for pooling public agency funds for investment purposes. Under the new Code sections, these investment pools must comply with the following criteria:

- The pool’s investments are limited to the securities and obligations authorized in subdivisions (a) to (n), inclusive, of Section 53601.
- Furthermore, the pool shall have retained an investment adviser that meets all of the following criteria:
 - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission,
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive,
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).



Effective 2004

SB 787, which took effect January 1, 2004, revised the Code's requirements for commercial paper under section 53601(g) in two ways. First, the section was revised to replace specific references to the rating agencies with the generic term "nationally recognized statistical-rating organization (NRSRO)". Second, the section was revised to provide specific requirements for the purchase of Asset Backed Commercial Paper (ABCP). While not explicitly listed previously, the purchase of ABCP was allowable under the Code requirements. The revised Code also established specific criteria for the purchase of ABCP. The Bill also made some minor conforming changes to the Government Code requirements under section 53635.

AB 2853, which took effect January 30, 2005 (an urgency item), amended several codes relating to local governments to conform to the current practice of eliminating specific local mandates by not appropriating funds in the Budget Act. The bill made the following investment related requirements optional, thereby eliminating state-mandated local programs,

- Previous law had required the board of supervisors in each county that invests surplus funds to establish a treasury oversight committee.
- Previous law had required the treasurer in the case of counties and the treasurer or chief financial officer in the case of cities to annually render to their respective legislative bodies and any oversight committee a statement of investment policy and quarterly reports.

The bill made these requirements optional, thereby eliminating state-mandated local programs, but stated (53646(k)) that the Legislature, in recognition of the state and local interests served by these programs, encourages local agencies and officials to continue taking the actions formerly mandated by these provisions, and states that nothing in this statement of encouragement may be construed to impose any liability on a local agency that does not continue to take a formerly mandated action.

Effective 2003

AB 2122, which took effect January 1, 2003, made the City of Los Angeles subject to the same concentration limits for investment in eligible commercial paper under 53635 (applies to counties) as counties and cities and counties.

AB 2182, which took effect January 1, 2003, added a new section (53601.7) that would allow, until January 1, 2007, a county or city and county to invest any portion of the funds that it deems wise or expedient using prescribed criteria listed under 53601.7

Effective 2002

AB 609, which took effect January 1, 2002.

- The Code was revised to clarify which local agencies fall under Section 53601 or Section 53635. As revised, the requirements of Section 53601 apply to all local agencies that are not counties while Section 53635 applies only to counties and certain pools. The change should have minimal or no impact on most public agencies' investment activities. However, the revision does



eliminate the discrepancy between Section 53601 and Section 53635 in the maximum permitted maturities in commercial paper and bankers' acceptances. As provided for under Section 53601 (f) and (g), the maximum permitted maturities are 270 days for commercial paper and 180 days for bankers' acceptances.

- The definition of Federal Agencies, under Section 53601(e) was simplified by eliminating references to specific agencies. The new language reads as follows: "Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises."
- The maximum percentage holding limits for commercial paper under Section 53601(g) was revised to a fixed 25% from the previous sliding scale of 15% or 30% based on the weighted average maturity of the holdings. The revision will increase the amount of commercial paper a local agency may include in its portfolio without concern for the weighted average maturity.
- Fitch Financial Services, Inc. was added to the list of rating agencies providing ratings for commercial paper under Section 53601(g).
- The requirements for repurchase agreements, reverse repurchase agreements and securities lending agreements under Section 53601(i) were revised eliminating the distinctions between pre- and post-December 31, 1994 investments. The change simplifies the section, but otherwise the investment requirements for these investment types are essentially unchanged.
- For the funds a local agency deposits with a financial institution, Section 53635.2 adds a new requirement: To be eligible to receive local agency deposits a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.
- In addition to the Government Code changes listed above, the State Treasurer, at the recommendation of the Local Investment Advisory Board, increased the Local Agency Investment Fund's (LAIF) deposit limit for regular accounts from the then current \$30 million to a new limit of \$40 million effective January 1, 2002.

Effective 2001

SB 68, an urgency item which took effect January 8, 2001, designated money in the Local Agency Investment Fund as non-state money and would enact additional separate provisions governing the deposit and handling of that money in trust accounts.

SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 201~~1~~2

INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of the Water Authority while protecting its funds.

The Board of Directors and, upon formal delegation, the Treasurer for the San Diego County Water Authority, duly authorized to invest Water Authority monies by California Government Code, are trustees of Water Authority funds and therefore fiduciaries subject to the prudent investor standard.

SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the San Diego County Water Authority, except for the employee's retirement and deferred compensation funds. For investment purposes, the Water Authority manages the Operating Fund, Rate Stabilization Fund, Pay-As-You-Go Fund, Equipment Replacement Fund and Stored Water Fund together as the Pooled Operating Fund. The funds under the direct authority of the San Diego County Water Authority are accounted for in the Comprehensive Annual Financial Report and include:

Operating Fund – Holds the Water Authority's working capital and emergency operating reserve.

Rate Stabilization Fund – Established to mitigate future water rate increases.

Pay-As-You-Go Fund (PAYGO) – Funds are dedicated for construction outlays and debt service.

Equipment Replacement Fund – Used to purchase minor capital equipment such as computer systems, vehicles, etc.

Stored Water Fund – Used to purchase water to fill Water Authority reservoirs.

Construction (CIP) Fund – Holds the proceeds of long-term debt and commercial paper to be expended for construction.

Debt Service Reserve Fund – Holds the required legal reserve for Water Authority debt issues.

OBJECTIVES

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer.
2. To protect the principal monies entrusted to this organization.
3. To generate the maximum amount of investment income within the parameters of this Annual Statement of Investment Policy.

These goals are enhanced by the following objectives in order of importance.

- A. Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
- B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.
- C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.
- D. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the "prudent investor standard", California Government Code (Section 53600.3), which obligates a fiduciary to insure that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and

maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

DELEGATION OF AUTHORITY

The investment, per this policy, of Water Authority idle monies is annually delegated to the Treasurer by the Board of Directors who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. A memorandum will be forwarded to the General Manager indicating the individual who is acting on the behalf of the Treasurer which details the period of time the designee will be responsible for the investment function. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Annual Statement of Investment Policy.

ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Water Authority’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Water Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence. All officers and employees involved in the investment of public funds are required to comply with the Water Authority’s Conflict of Interest Code.

AUTHORIZED INVESTMENT INSTRUMENTS - POOLED OPERATING FUND

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

Local Agency Investment Fund (LAIF): The Water Authority may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1(b)). In order to ensure that LAIF is purchasing securities that comply with the Government Code, the monthly LAIF report shall be reviewed by the Treasurer. The fund must have twenty-four hour liquidity. The maximum permitted investment will be governed by State Law (currently \$50 million).

Bankers’ Acceptances: The Water Authority may invest in prime self-liquidating bankers’ acceptances (Government Code Section 53601(g)) limited to banks rated a minimum of "A" by Moody's Investors Service, ~~and~~ Standard & Poor's, or Fitch Ratings. The maximum investment maturity will be restricted to 180 days. Maximum portfolio exposure will be limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a “AAA” credit rating from Moody’s Investors Service and Standard & Poor’s, and the investment has remaining days to maturity of 90 days or less.

Treasury Securities: The Water Authority may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). The purchase of zero coupon, or strips, is not permitted. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five years.

Repurchase Agreements: The Water Authority may invest (Government Code Section 53601(j)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New York rated "A" or better by Moody's Investors Service, ~~or~~ Standard & Poor's, or Fitch Ratings with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Association's master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the San Diego County Water Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The Water Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counterparty. Maximum portfolio exposure will be limited to 20 percent and maturities that do not exceed one year.

Reverse Repurchase Agreements: The Water Authority may enter (Government Code Section 53601(j)) into reverse repurchase agreements only "with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency", and when an unanticipated cash outflow can be met more advantageously by agreeing to a reverse repurchase agreement rather than selling securities outright. In this situation, the reverse shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement.

The Water Authority may also enter into reverse repurchase agreements when proceeds obtained through the reverse can be reinvested at a higher rate. The spread and reverse must be reviewed by the Treasurer prior to the transaction taking place. Reverse repurchase agreements entered into may not exceed a maximum maturity of 92 days unless the minimum spread between the rate on the investment and cost of funds is guaranteed in writing, in which case the maximum maturity is limited to one year. In all cases, the transaction must be matched as to maturity and dollars invested with its corresponding reinvestment.

In both situations a master repurchase agreement modeled after the Public Securities Association is required prior to the transaction taking place. In all cases, the security being reversed

must have been held in the portfolio for a minimum of 30 days. Restrictions placed on repurchase agreements also apply to reverse repurchase agreements. Maximum portfolio exposure will be limited to 20 percent of the total portfolio value excluding the proceeds of reverses. This transaction requires written approval of the Treasurer.

Securities lending is not considered a reverse repurchase transaction and is not authorized under this section.

Certificates of Deposit: The Water Authority may invest in certificates of deposits issued by a state or national bank, savings association or federal association, a state or federal credit union located in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. The Treasurer may waive collateral requirements for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Water Authority, even though they are permitted in Government Code Section 53651(m). As provided under Government Code Section 53660, the bank or agent of depository is~~All banks are~~ required to provide the Water Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive Water Authority funds that has a long-term debt rating by Moody's Investors Service, ~~or~~ Standard & Poor's, or Fitch Ratings less than "A"; however, deposits of up to the federal deposit insurance limit are allowable in any institution that insures its deposits pursuant to federal law, regardless of the ratings by Moody's Investors Service, ~~or~~ Standard & Poor's, or Fitch Ratings~~ratings.~~— The maximum deposited in any one institution without collateral shall not exceed the amount covered by federal deposit insurance.

All banks accepting Water Authority deposits are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of "satisfactory" as defined under the ~~Financial Institutions Recovery Reform and Enforcement~~Community Reinvestment Act.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 15 percent. Maximum investment maturity will be restricted to ~~not longer than December 31, 2013~~five years.

Placement Service Certificates of Deposit: The Water Authority may invest in certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to Placement Service Certificates of Deposit and Negotiable Certificates of Deposit is limited to 15 percent. Maximum investment maturity will be restricted to ~~not longer than December 31, 2013~~five years.

Negotiable Certificates of Deposit: The Water Authority may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association or by a state- or federally-licensed branch of a foreign bank (Government Code Section 53601(i)). Securities must have with a minimum rating of "AA" by at least one of the three credit rating agencies as assigned by (Moody's Investors Service, and Standard & Poor's, or Fitch Ratings), and not rated lower than "A" by the other two.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

The combined maximum portfolio exposure to Negotiable Certificates of Deposit and Placement Service Certificates of Deposit is limited to 15 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a "AAA" credit rating from Moody's Investors Service and Standard & Poor's and the investment has remaining days to maturity of 90 days or less. Maximum investment maturity is restricted to ~~not longer than December 31, 2013~~five years.

Commercial Paper: The Water Authority may invest in the highest grade of stand alone or enhanced ("prime") commercial paper (Government Code Section 53601(h)) as rated by Moody's Investors Service, Standard & Poor's, or Fitch Ratings ("A1/P1/F1"), issued only by general corporations that are organized and operating within the United States and having total assets in excess of \$500 million. The general corporation must also have an "A" rating or higher for the issuers debentures, other than commercial paper, as provided by Moody's Investors Service, Standard & Poor's, or Fitch Ratings. Purchases shall not exceed ten percent of the outstanding paper of the issuing general corporation. Maximum investment maturity will be restricted to 270 days. Maximum portfolio exposure is limited to 25 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a "AAA" credit rating from ~~Moody's Investors Service, and Standard & Poor's, and Fitch Ratings~~ and the investment has remaining days to maturity of 90 days or less.

Medium Term Notes: The Water Authority may invest in corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (Government Code Section 53601(k)). Securities must have a minimum rating of "AA" by at least one of the three credit rating agencies. Investment is limited to "AA" rated or higher notes, as rated by (Moody's Investors Service, and Standard & Poor's, or Fitch Ratings) and not rated lower than "A" by the other two. Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to ~~three years for "AA" and "AA" rated notes and five years for "AAA" rated notes.~~ Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a "AAA" credit rating from Moody's Investors Service and Standard & Poor's, and the investment has remaining days to maturity of 90 days or less.

Municipal Securities: The Water Authority may invest in: (i) Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from

a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state (Government Code Section 53601(c)(d)); and (ii) Bonds, notes, warrants, or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency (Government Code Section 53601(a)(e)). Securities must have a minimum rating of "A" as rated by Moody's Investors Service, ~~and~~ Standard and Poor's, or Fitch Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer. At the discretion of the Treasurer, exceptions will be allowed to the single-issuer maximum of 5 percent, when in his/her judgment, the issuer(s) have a "AAA" credit rating from Moody's Investors Service and Standard & Poor's, and the investment has remaining days to maturity of 90 days or less.

Agencies: The Water Authority may invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (Government Code Section 53601(f)). Permissible types of securities include discount, coupon and variable rate security issues. Callable securities are limited to a minimum of one-time call only, with a maximum allocation of 20 percent of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

Money Market Funds: The Water Authority may invest in funds authorized under Government Code Section 53601(l)(2) that have a minimum asset size of \$500 million. Composition of the fund is limited to investments that are authorized by this Annual Statement of Investment Policy. Funds must have the highest rating by two of the three largest nationally recognized statistical rating organizations, or have an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by this investment policy. Any fund shares purchased will not include any type of commission. Maximum portfolio exposure is limited to 15 percent.

Local Government Investment Pools: The Water Authority may invest in local government investment pools created by a joint powers authority authorized under Government Code Section 53601(p). Pools must have the highest rating by at least one of the three largest nationally recognized statistical rating organizations. The pool must have twenty-four hour liquidity. Maximum portfolio exposure is limited to 25 percent.

AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS AND DEBT SERVICE RESERVE FUNDS

All investment types listed above are authorized investments for bond proceeds and debt service reserve funds with the addition of the following:

Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements: Investment of funds in GICs is permitted, as per Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

Initially Uncollateralized Guaranteed Investment Contracts (GICs): Investment of funds in GICs which are not initially collateralized is permitted, as per Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by both Moody's Investors Service and Standard & Poor's (or whose payment obligations under such GIC are insured or guaranteed by an entity the unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty's rating is downgraded below the highest long-term rating category by either Moody's Investors Service or Standard & Poor's.

Local Agency Investment Fund (LAIF): The Water Authority may also invest bond proceeds in the Local Agency Investment Fund (Government Code Section 16429.1(d)). There is a \$175M limit on the amount of bond proceeds that may be deposited into the fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a 90-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Annual Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Annual Statement of Investment Policy is more conservative than the bond covenants, the Annual Statement of Investment Policy will prevail; if the bond covenants are more conservative than the Annual Statement of Investment Policy, the bond covenants will prevail. All future debt transaction reinvestment guidelines will incorporate the current Annual Statement of Investment Policy into the bond covenants.

The Board of Directors has granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, and municipal securities with maturities exceeding 5 years if it is considered to be in the best interest of the Water Authority and if the maturity of such investments does not exceed the expected use of funds.

PORTFOLIO LIMITATIONS

It is the Water Authority's goal to maintain a minimum of 50 percent of the Water Authority portfolio in Treasury Bills or Notes; however, based on market conditions a combination of 50 percent Agencies and Treasury Bills or Notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury Bills or Notes. The balance of the portfolio may be invested in any of the other permissible investments within the guidelines previously established.

The total dollar amount of bond proceeds and debt service reserve funds invested are to be excluded from the total used to calculate percentages for investment types.

The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity.

Percentage limitations, where listed, are applicable at the date of purchase. In the event that the percentage limits attributable to ~~each a~~ security type ~~are is violated exceeded~~ due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and as such a small temporary imbalance would not

violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the violation-occurrence in the Treasurer's Report at the next regularly scheduled Administrative and Finance Committee meeting of the Board, with detail of the strategy determined to address the imbalance, for Board ratification.

Credit requirements listed in this policy indicate the minimum credit rating (or its equivalent) required at the time of purchase without regard to modifiers (e.g., +/- or 1, 2, 3). In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Administrative and Finance Committee meeting of the Board. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

INELIGIBLE INVESTMENTS

Investments not described herein, including, but not limited to common stocks, futures and the writing of options are prohibited from use in this portfolio. The use of short positions is also prohibited.

DERIVATIVES

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

SWAPS

A swap is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, or to increase investment quality. In no instance shall a swap be used for speculative purposes. Any such swap shall be simultaneous (same day execution of sale and purchase), and requires the written approval of the Treasurer.

INTERNAL CONTROLS

A system of internal controls has been established and documented in writing in the Water Authority's Financial Services Policies and Procedures Manual. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation of third parties, unanticipated changes in financial markets or imprudent action by employees and officers of the Water Authority. Controls deemed most important include: control of collusion, separation of duties and administrative controls, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, management review and approval of investment transactions, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and code of ethic standards. The Treasurer has established an annual process of independent review by an external audit firm. This review provides

assurance of strong internal controls by reviewing compliance with previously established policies and procedures.

REPORTING

The Treasurer will submit a monthly investment report to the Board of Directors, the General Manager's office, and the internal auditor. This report will include: a list of portfolio transactions, type of investment, issuer, date of maturity, amount of deposit/par amount, current market value of all securities (with the source of the market valuation), rate of interest, statement that there are or are not sufficient funds to meet the next 6 month's obligations and a statement indicating compliance or noncompliance with this Annual Statement of Investment Policy. Additional items listed will also include average weighted yield, average days to maturity, accrued interest earned during the period and fiscal year to date, percent distribution to each type of investment and any funds under management by contracted parties, including lending programs.

QUALIFIED BANKS AND SECURITIES DEALERS

A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. [For any investment transaction not conducted directly with the issuer, the](#)~~The~~ Water Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Water Authority's staff will investigate all institutions that wish to conduct business with the Water Authority. All institutions must sign the appropriate Information Request Form, and agree to abide by the conditions set forth in the Water Authority's Annual Statement of Investment Policy. A list will be maintained by the cash management staff of approved institutions and securities broker/dealers. This will be done annually by having the financial institutions complete and return the Broker Dealer Information Request Form, and an audited financial statement within 90 days of the institution's fiscal year-end. Previous Board approved substitute certification language may be offered to primary dealers of the Federal Reserve at the discretion of the Treasurer. In the event the substitute language is not accepted by the primary dealer, the Treasurer may return to the Water Authority's Board for approval of alternative language proposed by the primary dealer.

RISK TOLERANCE

The Water Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost effective basis.

PERFORMANCE BENCHMARK

Controlling and managing risk is the foremost portfolio management objective. The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. An appropriate benchmark consistent with the Water Authority's investment objectives and liquidity requirements has been established against which the portfolio's performance is compared on a regular basis. The selected benchmark is~~This acceptable level of return has been quantified as a return that is consistent with~~ the 1-Year U.S. Treasury constant maturity. Any significant deviation of the portfolio's performance to the benchmark~~level of return above this measure~~ should be reviewed in order to ensure that such investments meet the criteria previously specified.

SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of security dealer(s), all book-entry securities owned by the Water Authority, including repurchase agreement collateral, shall be kept in safekeeping with "perfected interest" by a third party bank trust department, acting as agent for the Water Authority under the terms of a custody agreement executed by the bank and by the Water Authority. All securities will be received and delivered using standard delivery-versus-payment procedures. The only exception to the foregoing shall be certificates of deposit and investments in: (i) LAIF; (ii) local government investment pools; and (iii) money market funds, since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

DIVERSIFICATION

The investment portfolio will be diversified by security type, institution and maturity date to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

STATEMENT OF INVESTMENT POLICY

This Annual Statement of Investment Policy shall be reviewed and submitted annually to the Board of Directors in order to incorporate any changes necessary to ensure consistency and its relevance to current law, and financial and economic trends. This Annual Statement of Investment Policy shall be reviewed at a public meeting and voted on prior to the start of each calendar year.

GLOSSARY OF INVESTMENT TERMS

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GLOSSARY OF INVESTMENT TERMS

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agencies - Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Obligations of GSEs are not guaranteed by the full faith and credit of the U.S. government. There are eight GSEs, five of which are currently active in the new issue market. The five include:

FFCB - The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB - The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC - Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA - Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

SLMA - The Student Loan Marketing Association, also known as “SallieMae,” provides liquidity to private lenders who make various types of loans for education. SLMA currently issues floating rate notes.

Federally related institutions are arms of the federal government. Most do not issue securities directly into the market. Those, which do issue directly, include the following:

GNMA - The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the U.S. government.

PEFCO - The Private Export Funding corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the U.S. government.

TVA - The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio and Mississippi River valleys. TVA currently issues discount notes and bonds.

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Asked - The price at which a seller offers to sell a security.

Average Life - In mortgage-related investments, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

Banker's Acceptance - A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank, which "accepts" the obligation to pay the investor.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Benchmark - A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

Bid - The price at which a buyer offers to buy a security.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker - A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD) - A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Collateral - Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Commercial Paper - The short-term unsecured debt of corporations, with maturities ranging from 2 to 270 days.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Cost Yield - The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

Coupon Rate - The rate of return at which interest is paid on a bond. (See **Interest Rate**).

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk - The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

Current Yield - The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

Dealer - A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

Debenture - A bond secured only by the general credit of the issuer.

Delivery vs. Payment (DVP) - A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

Derivative - Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate or index.

Discount - The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and banker's acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

Diversification - Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

Duration - The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See **Modified Duration**).

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds) - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate - The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

Federal Open Market Committee - A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. (See **U.S. Treasury Obligations**).

Interest Rate - See **Coupon Rate**.

Interest Rate Risk - The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940 - Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment-Grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Leverage - Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

Liquidity - The speed and ease with which an asset can be converted to cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-Market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

Market Value - The price at which a security can be traded.

Maturity - The final date upon which the principal of a security becomes due and payable.

Medium Term Notes (MTNs) - Unsecured, investment-grade senior debt securities of major corporations, which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

Modified Duration - The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

Money Market - The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper and banker's acceptances) are issued and traded.

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, banker's acceptances, repos and federal funds).

Mortgage Pass-Through Securities - A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

Mutual Fund - An entity which pools the funds of investors and invests those funds in a set of securities which are specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs

associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically \$1,000 per bond.

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The difference between the par value of a bond and the cost of the bond, when the cost is above par.

Prepayment Speed - A measure of how quickly principal is repaid to investors in mortgage securities.

Prepayment Window - The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

Primary Dealer - A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. government securities market.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Investor Standard - A standard of responsibility, which applies to fiduciaries. In California, the standard is stated as "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person, acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

Realized Yield - The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

Regional Dealer - A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities, and that is not a primary dealer.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (Repo or RP) – An agreement of one party to sell securities at a specified price to second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping - A service to bank customers whereby securities are held by the bank in the customer's name.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Structured Note - A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes, which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship

between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue, which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Rate of Return - A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio.

U.S. Treasury Obligations - Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury Bills - All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month Treasury bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

Treasury Notes - All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

Treasury Bonds - All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

Uniform Net Capital Rule - SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

Volatility - The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield to Call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield to Maturity - The annualized internal rate of return on an investment, which equates the expected cash flows from the investment to its cost.

Zero-Coupon Securities - Securities that are issued at a discount and make no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

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November 30, 2011

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 October 31, 2011. 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 December 9, 2010. 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.

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 74 percent currently invested in AAA rated or AAA/AA+ split-rated securities. The AAA/AA+ split rating is due to Standard & Poor's August 2011 downgrade of both the United States and government agency credit ratings from AAA to AA+; while the other two credit rating agencies (Fitch and Moody's) have maintained the ratings at AAA. The Water Authority's overall portfolio yield increased to 0.75 percent in October 2011 and continues to exceed the investment benchmark of 0.21 percent in October 2011. 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.

Eric Sandler, Director of Finance/Treasurer

PORTFOLIO MASTER SUMMARY
as of October 31, 2011

PORTFOLIO PERCENTAGES

Investment Type	Permitted By Board Policy	Actual Percentage	Actual Amount
Local Agency Investment Fund (LAIF)	\$50 Million	16.11%	\$ 49,178,965
Banker's Acceptances	20%	0.00%	-
Treasury Securities	15% - Minimum	19.17%	58,517,624
Agency Securities	85%	54.54%	166,440,441
Reverse Repurchase Agreements	20%	0.00%	-
Certificates of Deposit (CDARS)	15%	0.00%	-
Negotiable Certificates of Deposit	15%	0.00%	-
Commercial Paper	25%	6.70%	20,442,093
Medium Term Notes/Corporates	30%	0.00%	-
JPA Pools (CAMP)	25%	3.31%	10,115,234
Money Market Funds	15%	0.17%	502,967
		100.00%	\$ 305,197,324
Accrued Interest (unavailable for investing)			771
Checking/Petty Cash/Available Funds (unavailable for investing)			491,852
Subtotal for Pooled Funds:			\$ 305,689,947
<u>Bond/CP Fund Excluded from Portfolio Percentages:</u>			
Treasury Securities			-
Agency Securities			216,716,809
Certificates of Deposit (CDARS)			-
Commercial Paper			27,225,625
Local Agency Investment Fund (LAIF)			142,921,391
JPA Pools (CAMP)			10,179,231
Money Market Funds and Cash			10
			\$ 397,043,066
Accrued Interest (unavailable for investing)			58,317
Subtotal for Bond/CP Fund (available for CIP expenditures):			\$ 397,101,383
<u>Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:</u>			
Agency Securities and Money Market Fund - Series 2004A COPs			38,863,267
FSA - Reserve (GIC) Series 2002A COPs			18,385,750
Trinity Plus - Reserve (GIC) Series 1998A COPs			12,240,775
Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):			\$ 69,489,792
Total Cash and Investments			\$ 772,281,122

PORTFOLIO INFORMATION

	Pooled Funds **	Bond/CP Fund	Debt Service Reserve	Total *
Portfolio Yield to Maturity - 365 Days	0.50%	0.61%	2.63%	0.75%
Average Term	473	411	206	417
Average Days to Maturity (730 Days Maximum)	254	237	153	236

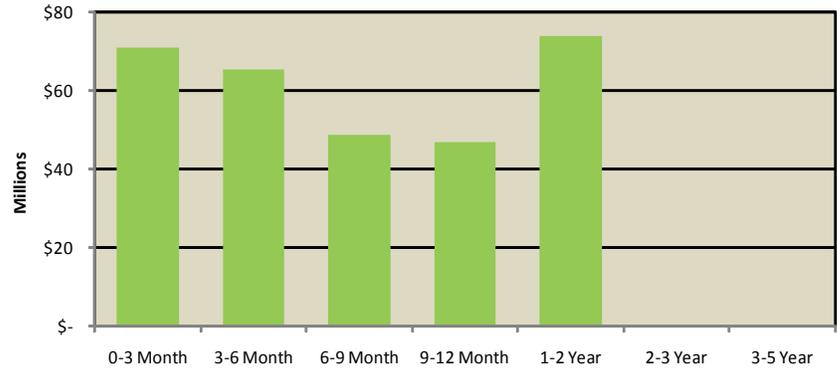
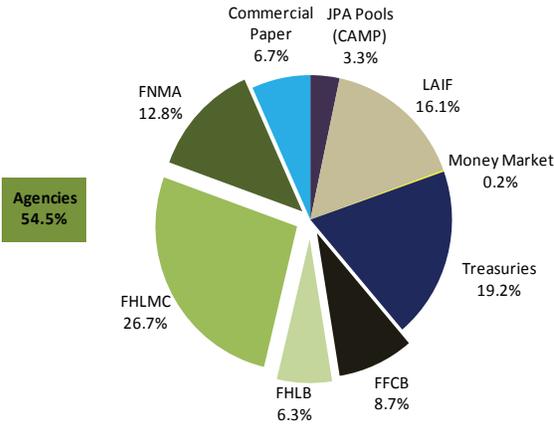
* "The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity" per SDCWA Investment Policy.

** Pooled Funds include Operating, Pay Go, RSF and Equipment.

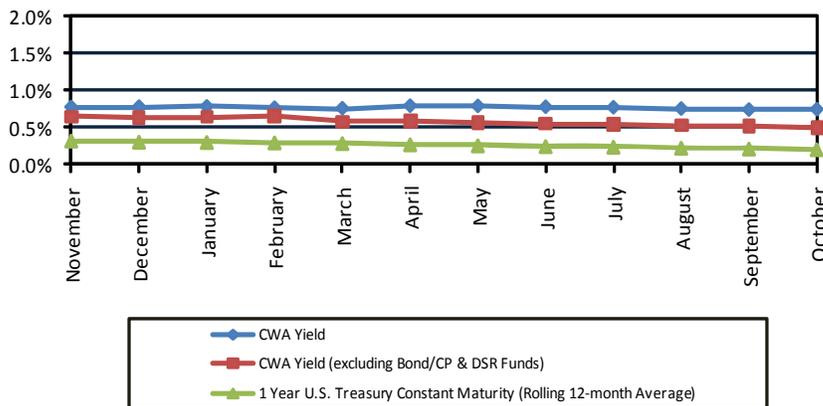
Asset Allocation

Maturity Distribution

Pooled Funds



Portfolio Yield: Nov. 2010 - Oct. 2011



Credit Quality

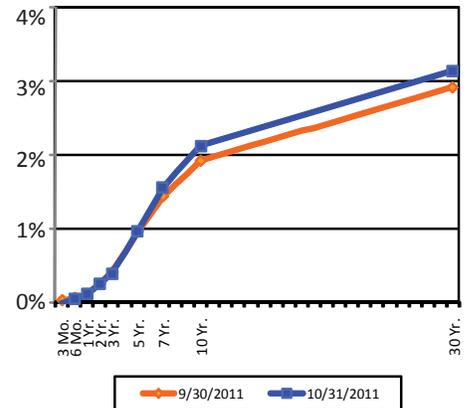
Pooled Funds	
	% OF PORTFOLIO
US Treasury (AAA/AA+)	19.2%
Agency (AAA/AA+)	54.5%
Other (AAA)*	3.5%
AA**	6.7%
not rated ***	16.1%
	100.0%

* Includes money market funds & JPA pools (CAMP)
 ** Includes commercial paper; the Water Authority's Investment Policy does not permit investments with a rating below AA-
 *** Includes LAIF, which is part of the state investment pool, and is not rated

Projected Cash Flows (in Millions) *

Month End	Investment Maturities	Projected Receipts	Projected Disbursements	Reinvestment/ (Use) of Liquid Funds	Projected Cash & Investments
Pooled Funds					
Oct 2011					\$ 305.69
Nov 11	-	44.21	33.10	11.11	316.80
Dec 11	11.00	42.90	35.92	17.98	323.78
Jan 12	-	39.94	26.71	13.23	337.01
Feb 12	2.00	30.20	23.05	9.15	344.16
Mar 12	20.50	34.23	25.81	28.92	352.59
Apr 12	61.22	51.47	104.94	7.74	299.12
Bond/CP Fund					
Oct 2011					\$ 397.10
Nov 11	20.20	0.20	10.79	9.61	386.52
Dec 11	21.90	0.20	13.61	8.49	373.11
Jan 12	13.30	0.19	17.20	(3.71)	356.09
Feb 12	9.50	0.18	17.52	(7.84)	338.75
Mar 12	5.60	0.17	16.88	(11.11)	322.04
Apr 12	12.06	0.16	28.93	(16.71)	293.27

U.S. Treasury Yield Curve



Market Notes

On September 21st, the FOMC left the fed funds target rate unchanged and launched Operation Twist, designed to lower yields on long-term bonds, while keeping short-term rates little changed.

* Numbers may vary due to rounding

**SDCWA - Fiscal Year 2012
Portfolio Management
Portfolio Details - Investments
October 31, 2011**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Managed Pool Accounts												
CASH35	73	CAMP - OPERATING/POOLED			10,115,234.17	10,115,234.17	10,115,234.17	0.120	AAA	0.120	1	
CASH37	6004	CAMP - 2008A COPS			1,873,021.07	1,873,021.07	1,873,021.07	0.120	AAA	0.120	1	
CASH44	3004	CAMP - 2010A BONDS			270,411.97	270,411.97	270,411.97	0.120	AAA	0.120	1	
CASH45	4004	CAMP - 2010B BONDS-BABS			8,035,798.23	8,035,798.23	8,035,798.23	0.120	AAA	0.120	1	
CASH07	205	FSA CAPITAL MGMT. SVC. - 2002A			18,385,750.00	18,385,750.00	18,385,750.00	5.810	AA+	5.810	1	
CASH42	3001	GOLDMAN - 2010A BONDS		07/01/2011	0.00	0.00	0.00	0.010	AAA	0.010	1	
CASH43	4001	GOLDMAN - 2010B BONDS-BABS		07/01/2011	0.00	0.00	0.00	0.010	AAA	0.010	1	
CASH31	6001	GOLDMAN - 2008A COPS			0.00	0.00	0.00	0.010	AAA	0.010	1	
CASH11	0002	GOLDMAN - OPERATING/POOLED			502,966.86	502,966.86	502,966.86	0.010	AAA	0.010	1	
CASH13	72	LAIF - OPERATING			49,178,964.60	49,178,964.60	49,178,964.60	0.380		0.380	1	
CASH40	3002	LAIF - 2010A BONDS			160,724.06	160,724.06	160,724.06	0.380		0.380	1	
CASH41	4002	LAIF - 2010B BONDS-BABS			142,760,667.09	142,760,667.09	142,760,667.09	0.380		0.380	1	
CASH17	204	TRINITY PLUS - 1998A			12,240,775.00	12,240,775.00	12,240,775.00	5.550	AAA	5.550	1	
CASH27	1002	US BANK MONEY MARKET FUND			0.00	0.00	0.00	0.001	AAA	0.001	1	
CASH33	208	US BANK MONEY MARKET FUND			121,085.46	121,085.46	121,085.46	0.001	AAA	0.001	1	
Subtotal and Average			309,254,382.51		243,645,398.51	243,645,398.51	243,645,398.51			1.027	1	
Commercial Paper - Discount												
36959JZD8	10027	GENERAL ELECTRIC CAPITAL CORP.		04/13/2011	11,000,000.00	10,976,887.78	10,976,887.78	0.310	AA+	0.320	42	12/13/2011
36959HBG1	10030	GENERAL ELECTRIC CAPITAL CORP.		05/25/2011	2,000,000.00	1,996,143.33	1,996,143.33	0.260	AA+	0.269	107	02/16/2012
36959HFK8	10033	GENERAL ELECTRIC CAPITAL CORP.		09/23/2011	2,500,000.00	2,493,437.50	2,493,437.50	0.350	AA+	0.361	231	06/19/2012
36959JY15	6184	GENERAL ELECTRIC CAPITAL CORP.		02/28/2011	5,000,000.00	4,988,383.33	4,988,383.33	0.340	AA+	0.352	0	11/01/2011
36959JZ14	6186	GENERAL ELECTRIC CAPITAL CORP.		04/06/2011	3,600,000.00	3,593,547.00	3,593,547.00	0.270	AA+	0.279	30	12/01/2011
36959HA31	6187	GENERAL ELECTRIC CAPITAL CORP.		04/08/2011	4,200,000.00	4,190,550.00	4,190,550.00	0.300	AA+	0.310	63	01/03/2012
36959HB14	6188	GENERAL ELECTRIC CAPITAL CORP.		09/23/2011	1,400,000.00	1,398,879.22	1,398,879.22	0.220	AA+	0.223	92	02/01/2012
36959HC13	6189	GENERAL ELECTRIC CAPITAL CORP.		09/23/2011	1,500,000.00	1,498,000.00	1,498,000.00	0.300	AA+	0.305	121	03/01/2012
36959HD20	6190	GENERAL ELECTRIC CAPITAL CORP.		09/23/2011	1,600,000.00	1,597,098.67	1,597,098.67	0.340	AA+	0.349	153	04/02/2012
89233GGT7	10038	TOYOTA MOTOR CREDIT CORP.		10/31/2011	5,000,000.00	4,975,625.00	4,975,625.00	0.650	AA-	0.671	269	07/27/2012
89233GG26	4079	TOYOTA MOTOR CREDIT CORP.		10/31/2011	10,000,000.00	9,959,166.67	9,959,166.67	0.600	AA-	0.619	244	07/02/2012
Subtotal and Average			33,356,420.22		47,800,000.00	47,667,718.50	47,667,718.50			0.416	125	
Federal Agency - Coupon												
31331YC24	10014	FEDERAL FARM CREDIT BANK		07/28/2010	9,500,000.00	9,632,905.00	9,911,540.00	3.250	AA+	0.678	160	04/09/2012
31331GNQ8	10017	FEDERAL FARM CREDIT BANK		09/24/2010	16,120,000.00	16,285,874.80	16,582,418.32	2.250	AA+	0.430	175	04/24/2012
31331JBL6	4014	FEDERAL FARM CREDIT BANK		02/04/2010	9,100,000.00	9,124,934.00	9,116,198.00	1.100	AA+	1.007	72	01/12/2012
31331GNQ8	4018	FEDERAL FARM CREDIT BANK		02/04/2010	5,000,000.00	5,051,450.00	5,121,950.00	2.250	AA+	1.135	175	04/24/2012
31331QK22	4048	FEDERAL FARM CREDIT BANK		04/06/2011	900,000.00	954,594.00	959,886.00	4.150	AA+	0.954	561	05/15/2013
31331JDT7	4062	FEDERAL FARM CREDIT BANK		05/19/2011	1,250,000.00	1,262,900.00	1,273,825.00	1.650	AA+	0.540	468	02/11/2013

Portfolio CWA2

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**SDCWA - Fiscal Year 2012
Portfolio Management
Portfolio Details - Investments
October 31, 2011**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Federal Agency - Coupon												
31331JBV4	4063	FEDERAL FARM CREDIT BANK		05/19/2011	2,315,000.00	2,359,147.05	2,364,402.10	1.750	AA+	0.527	478	02/21/2013
31331KCP3	4064	FEDERAL FARM CREDIT BANK		05/19/2011	3,000,000.00	3,023,880.00	3,019,560.00	0.900	AA+	0.527	479	02/22/2013
31331GVD8	4073	FEDERAL FARM CREDIT BANK		07/26/2011	1,500,000.00	1,525,500.00	1,544,775.00	2.200	AA+	0.436	524	04/08/2013
313373KA9	10036	FEDERAL HOME LOAN BANK		10/12/2011	1,700,000.00	1,708,585.00	1,710,302.00	0.800	AA+	0.405	542	04/26/2013
3133766Q3	10037	FEDERAL HOME LOAN BANK		10/31/2011	15,000,000.00	15,001,970.83	15,001,880.83	0.370	AA+	0.365	542	04/26/2013
3133XHPH9	4011	FEDERAL HOME LOAN BANK		02/04/2010	10,000,000.00	10,022,800.00	10,709,100.00	4.875	AA+	0.871	17	11/18/2011
3133XHPH9	4012	FEDERAL HOME LOAN BANK		02/04/2010	5,200,000.00	5,211,856.00	5,569,460.00	4.875	AA+	0.863	17	11/18/2011
3133XVQL8	4013	FEDERAL HOME LOAN BANK		02/04/2010	18,300,000.00	18,323,241.00	18,351,606.00	1.125	AA+	0.970	38	12/09/2011
3133XWW47	4016	FEDERAL HOME LOAN BANK		02/04/2010	4,100,000.00	4,109,840.00	4,099,426.00	1.125	AA+	1.132	129	03/09/2012
3133XTAW6	4017	FEDERAL HOME LOAN BANK		02/04/2010	4,700,000.00	4,745,261.00	4,819,060.40	2.250	AA+	1.077	164	04/13/2012
3133XLDG5	4042	FEDERAL HOME LOAN BANK		03/29/2011	3,025,000.00	3,390,268.75	3,386,517.75	5.375	AA+	1.539	955	06/13/2014
3133XSP93	4044	FEDERAL HOME LOAN BANK		03/31/2011	2,900,000.00	3,060,660.00	3,040,360.00	3.125	AA+	1.295	773	12/13/2013
3133XWKV0	4046	FEDERAL HOME LOAN BANK		03/31/2011	4,100,000.00	4,275,685.00	4,212,696.70	2.375	AA+	1.421	864	03/14/2014
3133XXYX9	4049	FEDERAL HOME LOAN BANK		04/06/2011	3,800,000.00	3,894,430.00	3,872,420.40	1.875	AA+	1.000	598	06/21/2013
3133XUK93	4051	FEDERAL HOME LOAN BANK		04/13/2011	5,000,000.00	5,072,250.00	5,105,000.00	2.000	AA+	0.513	318	09/14/2012
313372UV4	4052	FEDERAL HOME LOAN BANK		04/14/2011	5,000,000.00	5,009,600.00	5,009,600.00	0.570	AA+	0.429	301	08/28/2012
3133XW7L7	4053	FEDERAL HOME LOAN BANK		04/20/2011	5,000,000.00	5,076,150.00	5,078,150.00	1.500	AA+	0.595	442	01/16/2013
3133XVNT4	4054	FEDERAL HOME LOAN BANK		04/21/2011	5,000,000.00	5,055,600.00	5,094,591.95	1.750	AA+	0.594	409	12/14/2012
3133XWX87	4058	FEDERAL HOME LOAN BANK		05/06/2011	6,100,000.00	6,210,715.00	6,228,405.00	1.750	AA+	0.597	493	03/08/2013
3133XVNT4	4066	FEDERAL HOME LOAN BANK		05/25/2011	2,205,000.00	2,229,519.60	2,249,128.67	1.750	AA+	0.455	409	12/14/2012
3133XML66	4067	FEDERAL HOME LOAN BANK		06/22/2011	8,600,000.00	8,955,868.00	9,079,991.80	4.625	AA+	0.319	344	10/10/2012
3133XYWB7	4069	FEDERAL HOME LOAN BANK		06/29/2011	3,900,000.00	3,921,645.00	3,924,761.10	0.875	AA+	0.320	295	08/22/2012
3133XML66	4070	FEDERAL HOME LOAN BANK		06/29/2011	2,600,000.00	2,707,588.00	2,740,842.00	4.625	AA+	0.380	344	10/10/2012
3133XVNT4	4071	FEDERAL HOME LOAN BANK		06/29/2011	3,600,000.00	3,642,657.00	3,670,413.00	1.750	AA+	0.453	409	12/14/2012
3133XUUJ0	4072	FEDERAL HOME LOAN BANK		07/26/2011	4,100,000.00	4,152,931.00	4,161,418.00	1.625	AA+	0.337	330	09/26/2012
3133XUMR1	4076	FEDERAL HOME LOAN BANK		10/13/2011	1,260,000.00	1,343,775.65	1,351,612.85	3.250	AA+	0.817	1,046	09/12/2014
3133XGJ96	4078	FEDERAL HOME LOAN BANK		10/31/2011	5,000,000.00	5,462,100.00	5,477,150.00	5.250	AA+	0.485	682	09/13/2013
3133XJUT3	8160	FEDERAL HOME LOAN BANK		09/20/2007	2,500,000.00	2,544,150.00	2,539,125.00	5.000	AA+	4.608	129	03/09/2012
3128X9D80	10015	FEDERAL HOME LOAN MORTGAGE COR		07/28/2010	10,595,000.00	10,647,869.05	10,671,866.73	1.125	AA+	0.705	176	04/25/2012
3137EABY4	10016	FEDERAL HOME LOAN MORTGAGE COR		09/24/2010	18,000,000.00	18,127,260.00	18,450,900.00	2.125	AA+	0.444	143	03/23/2012
3137EAAZ2	10019	FEDERAL HOME LOAN MORTGAGE COR		09/24/2010	10,000,000.00	10,436,900.00	10,831,175.90	4.625	AA+	0.609	359	10/25/2012
3128X9D56	10024	FEDERAL HOME LOAN MORTGAGE COR		01/28/2011	13,000,000.00	13,258,050.00	13,259,350.00	1.720	AA+	0.804	527	04/11/2013
3137EACJ6	10025	FEDERAL HOME LOAN MORTGAGE COR		02/24/2011	8,000,000.00	8,162,080.00	8,120,960.00	1.625	AA+	0.910	531	04/15/2013
3137EACJ6	10026	FEDERAL HOME LOAN MORTGAGE COR		03/30/2011	7,000,000.00	7,141,820.00	7,101,710.00	1.625	AA+	0.905	531	04/15/2013
3137EACJ6	10035	FEDERAL HOME LOAN MORTGAGE COR		10/12/2011	13,000,000.00	13,263,380.00	13,243,100.00	1.625	AA+	0.380	531	04/15/2013
3134A4UU6	4043	FEDERAL HOME LOAN MORTGAGE COR		03/29/2011	3,000,000.00	3,353,880.00	3,328,020.00	5.000	AA+	1.580	987	07/15/2014
3128X2TM7	4045	FEDERAL HOME LOAN MORTGAGE COR		03/31/2011	2,966,000.00	3,265,506.68	3,266,678.25	5.000	AA+	1.341	821	01/30/2014
3134A4TZ7	4050	FEDERAL HOME LOAN MORTGAGE COR		04/06/2011	3,500,000.00	3,745,595.00	3,771,845.00	4.500	AA+	1.036	622	07/15/2013

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Federal Agency - Coupon												
3134A4SA3	4061	FEDERAL HOME LOAN MORTGAGE COR		05/19/2011	3,400,000.00	3,573,740.00	3,624,978.00	4.500	AA+	0.482	441	01/15/2013
3134G1WT7	4065	FEDERAL HOME LOAN MORTGAGE COR		05/25/2011	3,800,000.00	3,811,818.00	3,805,396.00	0.515	AA+	0.420	391	11/26/2012
3137EACJ6	4074	FEDERAL HOME LOAN MORTGAGE COR		07/26/2011	4,400,000.00	4,489,144.00	4,490,732.40	1.625	AA+	0.420	531	04/15/2013
3134G2UA8	4075	FEDERAL HOME LOAN MORTGAGE COR		10/13/2011	7,600,000.00	7,686,859.56	7,655,167.56	1.000	AA+	0.818	1,023	08/20/2014
3134G2WG3	4077	FEDERAL HOME LOAN MORTGAGE COR		10/13/2011	2,080,000.00	2,080,265.20	2,076,854.00	0.750	AA+	0.817	1,056	09/22/2014
3136FPUC9	10020	FEDERAL NATION MORTGAGE ASSOC.		11/19/2010	20,000,000.00	20,059,600.00	19,956,000.00	0.500	AA+	0.614	364	10/30/2012
31398AWK4	10022	FEDERAL NATION MORTGAGE ASSOC.		12/16/2010	5,000,000.00	5,035,650.00	5,088,650.00	1.875	AA+	0.549	171	04/20/2012
31398AWK4	3013	FEDERAL NATION MORTGAGE ASSOC.		02/18/2010	762,000.00	767,433.06	775,380.72	1.875	AA+	1.055	171	04/20/2012
31359M5H2	4015	FEDERAL NATION MORTGAGE ASSOC.		02/04/2010	8,100,000.00	8,215,830.00	8,749,458.00	5.000	AA+	1.006	107	02/16/2012
31398AXJ6	4041	FEDERAL NATION MORTGAGE ASSOC.		03/29/2011	4,000,000.00	4,197,400.00	4,125,560.00	2.500	AA+	1.469	926	05/15/2014
31398AJ94	4047	FEDERAL NATION MORTGAGE ASSOC.		04/06/2011	5,100,000.00	5,194,350.00	5,186,088.00	1.750	AA+	0.931	553	05/07/2013
3136FPUC9	4055	FEDERAL NATION MORTGAGE ASSOC.		04/28/2011	8,000,000.00	8,023,840.00	7,999,040.00	0.500	AA+	0.508	364	10/30/2012
31359MUT8	4056	FEDERAL NATION MORTGAGE ASSOC.		04/28/2011	2,000,000.00	2,169,020.00	2,165,020.94	4.125	AA+	1.279	896	04/15/2014
3135G0AK9	4057	FEDERAL NATION MORTGAGE ASSOC.		05/06/2011	3,900,000.00	3,923,868.00	3,913,143.00	0.750	AA+	0.562	483	02/26/2013
31398A4N9	4059	FEDERAL NATION MORTGAGE ASSOC.		05/12/2011	5,100,000.00	5,148,195.00	5,115,453.00	1.000	AA+	0.873	714	10/15/2013
31398A6D9	4060	FEDERAL NATION MORTGAGE ASSOC.		05/12/2011	4,700,000.00	4,735,438.00	4,690,882.00	0.800	AA+	0.878	748	11/18/2013
3136FPUC9	4068	FEDERAL NATION MORTGAGE ASSOC.		06/22/2011	1,400,000.00	1,404,172.00	1,403,121.02	0.500	AA+	0.335	364	10/30/2012
Subtotal and Average			357,513,162.20		359,778,000.00	366,269,295.23	369,244,104.39			0.738	388	
Federal Agency - Discount												
313588YJ8	10032	FEDERAL NATION MORTGAGE ASSOC.		06/29/2011	14,000,000.00	13,990,298.00	13,972,233.33	0.200	AA+	0.206	232	06/20/2012
Subtotal and Average			13,972,233.33		14,000,000.00	13,990,298.00	13,972,233.33			0.206	232	
Treasury Securities - Coupon												
912828NB2	10018	UNITED STATES TREASURY		09/24/2010	15,000,000.00	15,068,550.00	15,150,585.94	1.000	AA+	0.370	181	04/30/2012
912828PD6	10021	UNITED STATES TREASURY		11/19/2010	16,000,000.00	16,033,744.00	15,961,250.00	0.375	AA+	0.500	365	10/31/2012
912828NB2	10023	UNITED STATES TREASURY		12/16/2010	5,000,000.00	5,022,850.00	5,039,062.50	1.000	AA+	0.429	181	04/30/2012
912828NE6	10031	UNITED STATES TREASURY		05/25/2011	7,000,000.00	7,026,523.00	7,037,429.00	0.750	AA+	0.223	212	05/31/2012
912828MX5	10034	UNITED STATES TREASURY		10/12/2011	15,000,000.00	15,338,670.00	15,329,296.88	1.750	AA+	0.290	531	04/15/2013
912828NQ9	212	UNITED STATES TREASURY		07/28/2011	38,581,000.00	38,724,598.48	38,742,181.77	0.625	AA+	0.210	273	07/31/2012
Subtotal and Average			109,311,424.99		96,581,000.00	97,214,935.48	97,259,806.09			0.307	305	
Certificates of Deposit - CDARS												
Subtotal and Average			612,903.23									

**SDCWA - Fiscal Year 2012
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 October 31, 2011**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity
Total and Average			825,670,016.71		761,804,398.51	768,787,645.72	771,789,260.82			0.745	236

**SDCWA - Fiscal Year 2012
Portfolio Management
Portfolio Details - Cash
October 31, 2011**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity
Passbook/Checking Accounts											
CASH00	50	WELLS FARGO - RETIREE & COBRA		07/01/2011	3,102.32	3,102.32	3,102.32			0.000	1
CASH01	48	PETTY CASH		07/01/2011	2,500.00	2,500.00	2,500.00			0.000	1
CASH02	1000	WELLS FARGO - OPERATING/POOLED			492,812.98	492,812.98	492,812.98	0.001		0.001	1
CASH03	1001	WELLS FARGO - PAYROLL ZBA		07/01/2011	-6,563.58	-6,563.58	-6,563.58			0.000	1
CASH38	3000	WELLS FARGO - 2010A BONDS		07/01/2011	3.40	3.40	3.40			0.000	1
CASH39	4000	WELLS FARGO - 2010B BONDS-BABS		07/01/2011	3.29	3.29	3.29			0.000	1
CASH30	6000	WELLS FARGO - 2008A COPS			3.13	3.13	3.13	0.001		0.001	1
		Average Balance	0.00								1
Total Cash and Investmentss			825,670,016.71		762,296,260.05	769,279,507.26	772,281,122.36			0.745	236

**SDCWA - Fiscal Year 2012
Portfolio Management
Activity Summary
October 2010 through October 2011**

Month End	Year	Number of Securities	Total Invested	Yield to Maturity		Managed Pool Rate	Number of Investments Purchased	Number of Investments Redeemed	Average Term	Average Days to Maturity
				360 Equivalent	365 Equivalent					
October	2010	78	843,995,415.64	0.753	0.763	1.024	5	4	345	194
November	2010	79	847,255,394.61	0.765	0.775	1.069	2	1	365	202
December	2010	80	835,265,201.64	0.769	0.780	1.097	2	1	373	189
January	2011	81	841,973,607.62	0.772	0.783	1.114	1	0	383	178
February	2011	80	843,895,424.76	0.755	0.765	1.025	5	6	378	168
March	2011	82	850,665,530.99	0.748	0.758	0.946	7	5	387	181
April	2011	91	787,364,320.53	0.783	0.793	0.999	16	7	404	218
May	2011	100	797,817,520.88	0.779	0.790	1.002	12	3	417	230
June	2011	104	801,064,506.57	0.767	0.778	1.020	6	2	420	228
July	2011	106	794,735,996.22	0.760	0.771	1.020	4	2	424	233
August	2011	101	799,849,660.55	0.744	0.754	0.943	0	5	410	211
September	2011	103	803,631,936.81	0.730	0.740	0.898	4	2	397	192
October	2011	101	771,789,260.82	0.735	0.745	1.027	10	12	417	236
Average		91	816,869,521.36	0.758%	0.769%	1.014	6	4	394	205



November 30, 2011

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/Programs Expenditures, in millions
- Attachment F: Schedule of Cash and Investments

The Multi-Year Budget Status Report reflects actual revenues and expenditures, on a budgetary basis, for the three month period of July 1, 2011 through September 30, 2011. It compares actual revenues and expenditures to the adopted budget. Except for water sales and purchases, budgeted amounts for the three month period are presented on a straight-line basis.

Net Water Sales Revenue¹

Net Water Sales Revenue is the Water Authority's principal source of revenue and is the difference between the sale of water and the cost of that water. Sales include revenues from variable commodity charges for supply, treatment and transportation, as well as from fixed charges for customer service and storage. Cost of water includes payments to water suppliers such as Metropolitan Water District (MWD) and Imperial Irrigation District (IID). Attachments A, B, and C provide detailed information relative to net water sales revenue.

Total acre-feet (AF) of water sold were budgeted to be 148,271 for the three months ended September 30, 2011, and actual water sales volumes were on target at 147,861 AF (Attachment A). Included in the total AF of water sold was 6,887 AF drafted from storage for sales to member agencies. Water Sales revenue for the three months ended September 30, 2011 is \$132.1 million, which is on target with budgeted sales revenue of \$133.2 million (Attachment B).

Total Water Purchases and Treatment costs were budgeted to be \$98.5 million for the three months ended September 30, 2011, but actual costs were less at \$91.0 million, a difference of 8%, due to lower volume of water purchases for both treated and untreated water (Attachment C). This category includes \$5.9 million for the 20,001 AF of water purchased from the IID, as well as \$12.4 million for MWD's conveyance charges related to IID, Coachella Canal and All-American Canal water.

¹ All information regarding water sales volumes, revenues and costs are based on the original multi-year budget adopted by the Board in June 2011.

Net Water Sales Revenue is \$6.4 million or 19% above the adopted budget for the three months ended September 30, 2011 primarily due to lower volume of water purchases.

Revenues

As shown in Attachment D, Total Revenues and Other Income were budgeted to be \$24.6 million for the three months ended September 30, 2011, but actual revenues were significantly less at \$18.2 million or 26% less than budgeted. The variance is primarily due to the timing of receipts of certain revenue accounts, which include three main revenue categories that account for approximately \$7.9 million of the total variance. These accounts include revenue from Property Taxes and Water Standby Availability Charges, which are primarily received in December and April. In addition, revenue from Other Income is also trending less than budgeted due to the timing of receipts for operating grants and miscellaneous reimbursements.

Actual revenues were compared to the period-to-date budget amounts as of the three months ended September 30, 2011, or 3/12ths (25%) of the fiscal year 2012 adopted budget. Actual revenues which were significantly below the period-to-date budget amounts for the three months ended September 30, 2011 include Investment Income of \$0.5 million, which is lower than budgeted due to lower than anticipated investment earnings. Actual revenues which exceeded the period-to-date budget amounts for the three months ended September 30, 2011 include Contributions in Aid of CIP, Capacity Charges, and Hydroelectric Revenue. Contributions in Aid of Capital Assets were higher than budgeted due to \$3.5 million donated land and improvements from Olivenhain Water District to capital assets. Capacity Charges revenue of \$3.4 million is trending higher than budgeted due to a greater number of meter permits issued by the member agencies than anticipated. Hydroelectric Revenue of \$0.4 million is higher than budgeted due to hydroelectric power sales at Rancho Penasquitos Pressure Control and Hydroelectric Facility, per the Power Purchase and Sales Agreement with San Diego Gas and Electric (SDG&E), which as invoiced shows actual megawatt hour (MWH) deliveries exceeded scheduled MWH deliveries.

Expenses

As shown in Attachment D, Total Expenditures were budgeted to be \$52.0 million for the three months ended September 30, 2011, but actual costs were significantly less at \$32.1 million or 38% less than budgeted. The variance is primarily due to the timing of expenditures of certain categories, including Debt Service, Quantification Settlement Agreement (QSA) Mitigation, Other Expenditures, and Operating Departments, which account for approximately \$18.2 million of the total variance. Debt Service expenditures are trending lower than budgeted due to the timing of debt service principal payments due May 2012. QSA Mitigation payments to the QSA Joint Powers Authority (JPA) and IID for environmental and socioeconomic impacts are due in December 2011 and June 2012, respectively. Other Expenditures are trending less than budgeted due to the timing of grants and other miscellaneous expenditures. Overall, the Operating Departments expenditures are trending less than budgeted due to the timing of expenditures.

However, two operating departments/programs, Administrative Services Department and the Colorado River Programs, are currently trending higher than budget due to the timing of significant expenditures. In the Administrative Services Department, this is due to the payment of required annual insurance premiums (property insurance, liability insurance and worker's compensation insurance). In the Colorado River Programs, this is due to the payment for the Water Authority's proportionate share of total contributions to the Six Agency Fund.

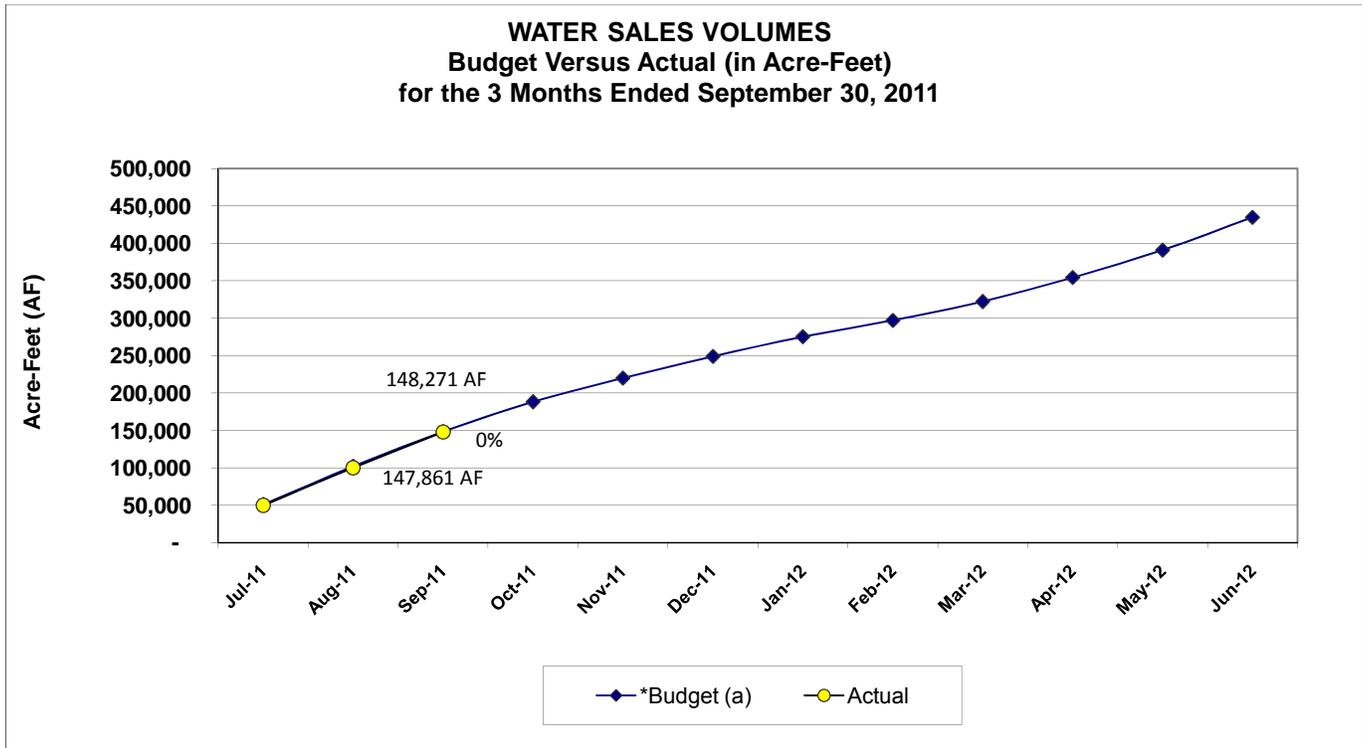
Actual expenditures were compared to the period-to-date budget amounts as of the three months ended September 30, 2011, or 3/12ths (25%) of the fiscal year 2012 adopted budget. Actual expenditures which were significantly below the period-to-date budget amounts for the three months ended September 30, 2011 include Stored Water Purchases, Hodges Pumped Storage, and Equipment Replacement. Stored Water Purchases expenditures have not occurred yet. Hodges Pumped Storage and Equipment Replacement categories both had minimal costs during the three month period. Equipment Replacement budgeted amount reflects the deferral of equipment replacement, the extension of the computer replacement schedule, and fleet reduction.

Attachment D also shows that Capital Improvement Program (CIP) Expenditures were budgeted to be \$52.9 million for the three months ended September 30, 2011, but actual costs were significantly less at \$14.7 million or 72% less than budgeted primarily due to the timing of expenditures during the three month period.

Cash and Investments (Attachment F)

For the months ended September 30, and August 31, 2011, the Water Authority's cash and investments had an overall balance of \$801.8 million and \$796.7 million, respectively. Approximately 24% of funds are unrestricted with approximately 76% of funds restricted for specific purposes. In order to maximize investment return, the Water Authority pools the cash of the Pay As You Go Fund with Unrestricted Funds. As of September 30, 2011, the Rate Stabilization Fund is funded at \$43.7 million and is anticipated to remain below the target amount due to recent water supply challenges.

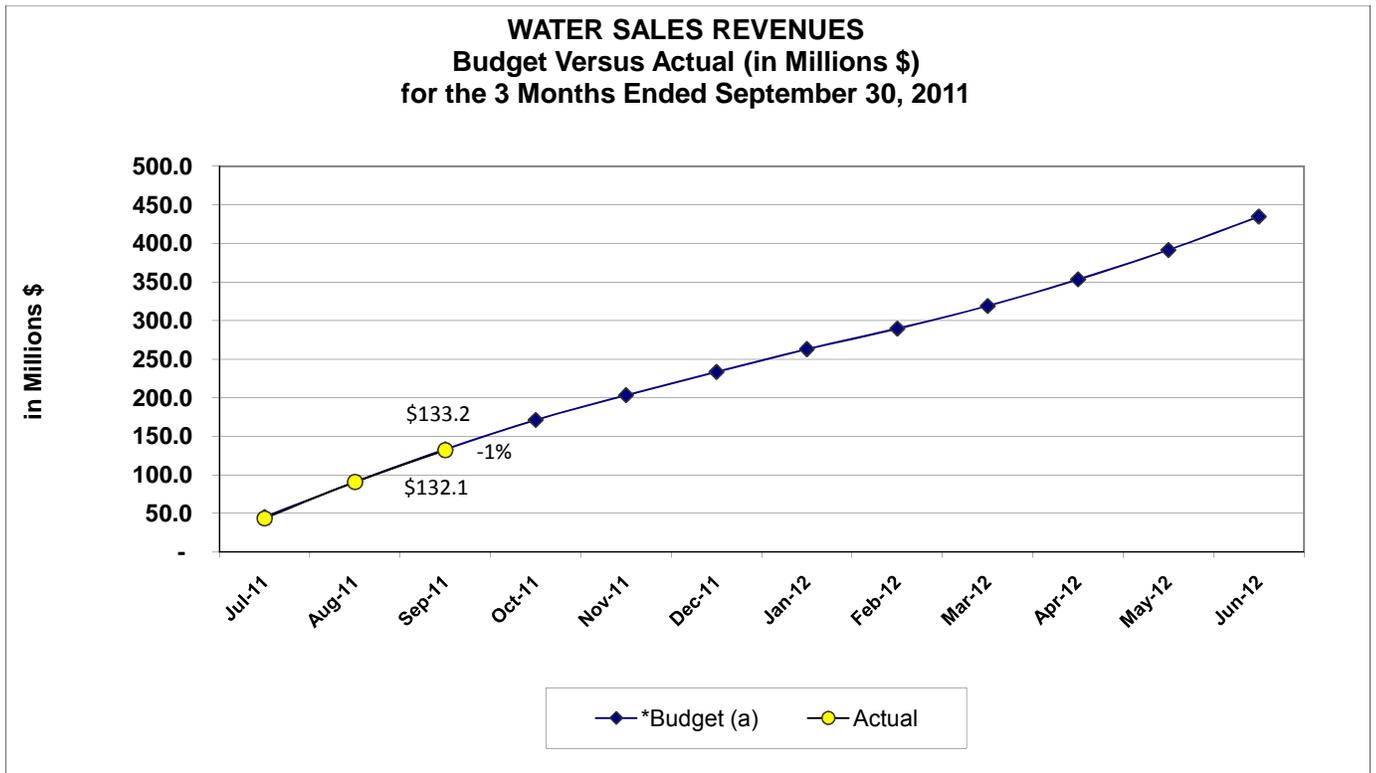
Rod Greek, Controller



*Budgeted amounts are based on the adopted two year budget.

Fiscal Year 2012 Cumulative Water Sales (AF)

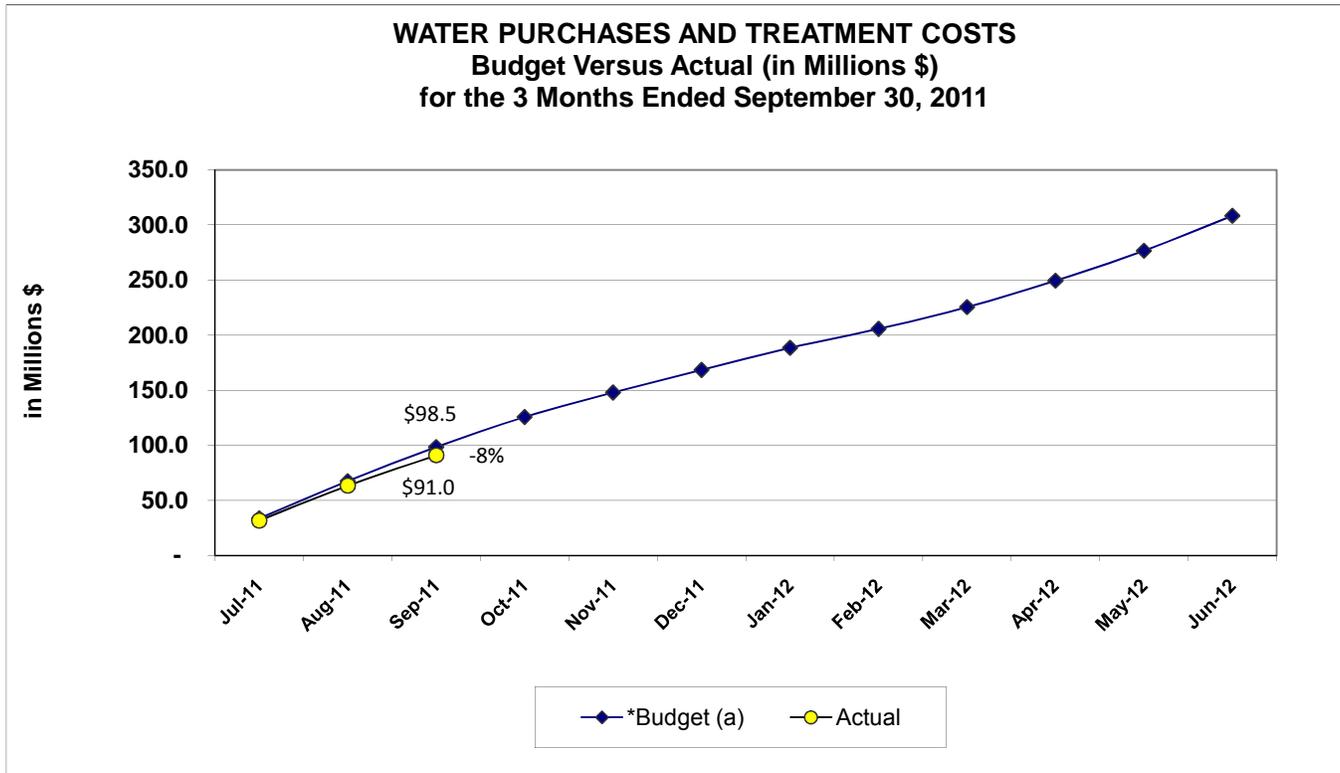
Months	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
*Budget (a)	51,006	102,017	148,271	188,293	219,821	248,933	275,085	297,029	322,188	354,292	390,867	434,786
Actual	49,751	100,056	147,861	-	-	-	-	-	-	-	-	-
AF Difference (b)	(1,255)	(1,961)	(410)									
Cum. Actual AF												
% Difference (b/a)	-2%	-2%	0%									



*Budgeted amounts are based on the adopted two year budget.

Fiscal Year 2012 Cumulative Water Sales (in Millions \$)

Months	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
*Budget (a)	45.5	91.0	133.2	171.2	203.3	233.4	263.0	289.6	318.9	353.3	391.4	434.7
Actual	43.6	90.7	132.1	-	-	-	-	-	-	-	-	-
Difference (b)	(1.9)	(0.3)	(1.1)									
Cum. Actual												
% Difference (b/a)	-4%	0%	-1%									



*Budgeted amounts are based on the adopted two year budget.

Fiscal Year 2010 Cumulative Cost of Water Purchases and Treatment (in Millions \$)

Months	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
*Budget (a)	33.8	67.6	98.5	125.7	147.9	168.4	188.4	205.6	225.3	249.3	276.5	308.2
Actual	31.7	63.4	91.0	-	-	-	-	-	-	-	-	-
Difference (b)	(2.1)	(4.2)	(7.5)									
Cum. Actual												
% Difference (b/a)	-6%	-6%	-8%									

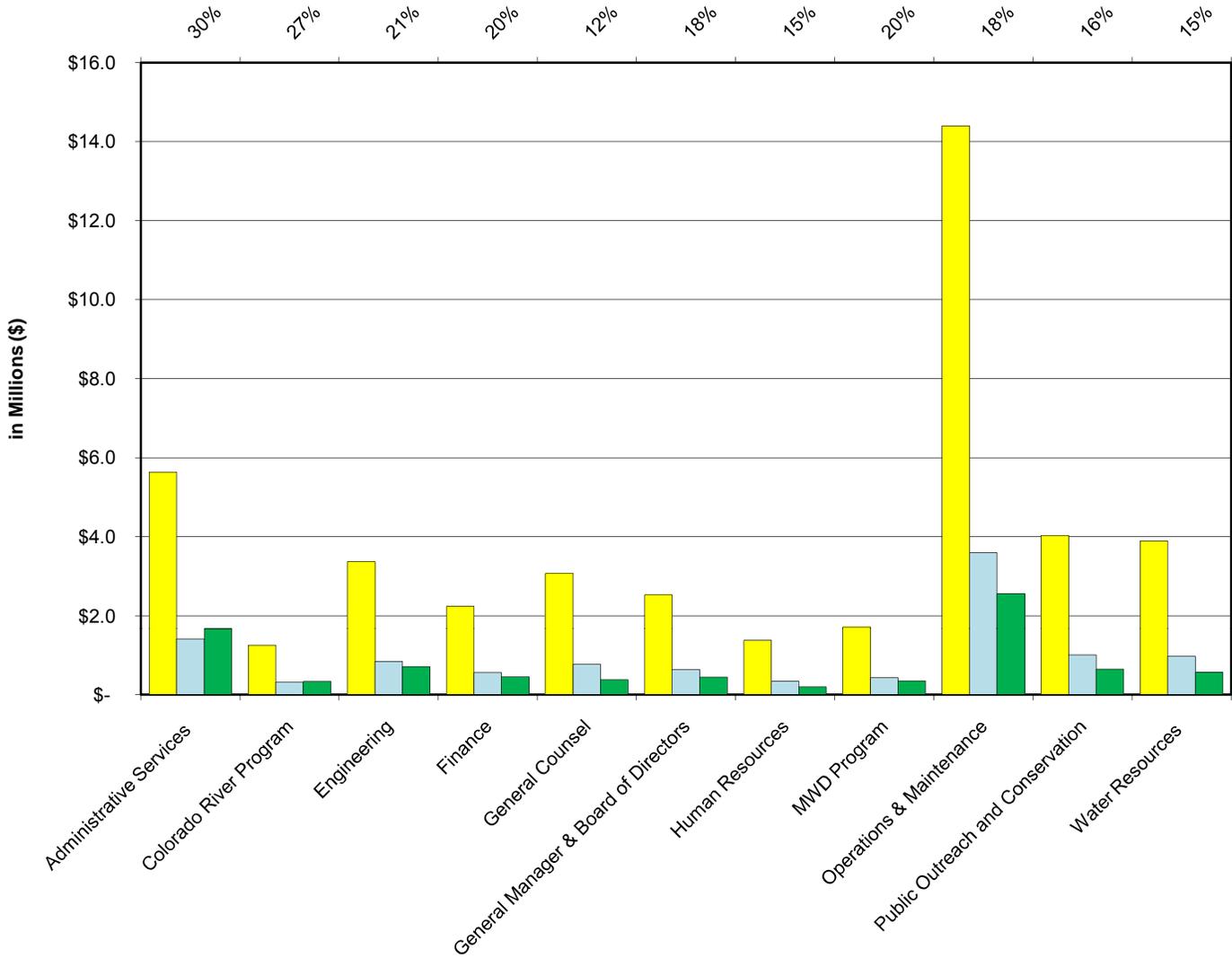
**San Diego County Water Authority
Fiscal Year 2012 Budget Status Report
For the 3 Months Ended September 30, 2011**

Notes to the Budget Status Report:

- a) Period-to-date budget amounts are 3/12ths of fiscal year 2012 adopted budget unless noted.
- b) Water sales and water purchases 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 \$410,490 for fiscal year 2012 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 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 SDG&E.
- f) Other income includes Build America Bonds (BABs) federal subsidies, grants and other miscellaneous revenues.
- g) Capacity charges are received quarterly in July, October, January and April.
- h) Water standby availability charges are received in December and April.
- i) Contributions in aid of capital assets include planned reimbursements for the Lake Hodges Pump Station, Twin Oaks Regulatory Storage, Carlsbad Desalination Aqueduct Improvements, and other miscellaneous projects.
- j) Debt Service payments are due semi-annually on May 1 and November 1. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to long-term debt, such as discounts, premiums, deferred loss on refunding, and cost of issuance, are excluded because they are non-cash transactions.
- k) The QSA mitigation payments includes: QSA JPA contributions of \$3,084,803 in December 2011; IID Socioeconomic Mitigation Settlement payments of \$2,940,000 in June 2012.
- l) Other expenditures include costs incurred for grants and other miscellaneous expenditures.
- m) Amounts include capital equipment purchases.
- n) Includes withdraws funded by bond proceeds and other fund balances.

**San Diego County Water Authority
Comparison of Adopted Budget and Period-to-Date Budget (25% Overall)
to Actual Operating Expenditures by Departments
For the 3 Months Ended September 30, 2011**

Actual Operating Expenditures to Adopted Budget in Percentages (%)



■ **FY 12 Adopted Budget \$43.5 Million**
■ **Period-To-Date Adopted Budget \$10.9 Million**
■ **Period-to-Date Actual Operating Expenditures \$8.3 Million**

**San Diego County Water Authority
Schedule of Cash and Investments
As of September 30, and August 31, 2011**

	<u>September</u>	<u>August</u>	<u>Target</u>
Operating Fund	\$ 98,489,460	\$ 85,975,101	\$ 67,000,000 ⁽²⁾
Stored Water Fund	44,567,026	44,692,342	
Equipment Replacement Fund	8,889,883	8,854,821	
Rate Stabilization Fund	<u>43,672,644</u>	<u>43,456,187</u>	55,100,000 ⁽³⁾
Total Unrestricted Funds ⁽¹⁾	24% <u>195,619,013</u>	<u>182,978,451</u>	
Pay As You Go Fund ⁽¹⁾	122,011,262	121,720,918	
CIP/Bond Construction Funds	414,710,851	422,513,808	
Debt Service Reserve Funds	<u>69,482,317</u>	<u>69,507,935</u>	
Total Restricted Funds	76% <u>606,204,430</u>	<u>613,742,661</u>	
Total Cash and Investments	<u>\$ 801,823,443</u>	<u>\$ 796,721,112</u>	

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 target/maximum balance 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 80% of the targeted value.



San Diego County Water Authority

BOARD CALENDAR

JANUARY 2012

- **3** MWD Delegates – **11:30 a.m.**
- **12** Tentative Special Board meeting – 1:30 p.m.
- **26** Regular Board meeting – 3:00 p.m.

FEBRUARY 2012

- **8** MWD Delegates – 11:00 a.m.
- **9** Tentative Special Board meeting - 1:30 p.m.
- **23** Regular Board meeting – 3:00 p.m.

MARCH 2012

- **7** MWD Delegates – 11:00 a.m.
- **8** Tentative Special Board meeting – 1:30 p.m.
- **22** Regular Board meeting – 3:00 p.m.

11/29/2011

WATER PLANNING COMMITTEE

AGENDA FOR

DECEMBER 8, 2011

Mitch Dion – Chair
 Hershell Price – Vice Chair
 Javier Saunders – Vice Chair
 Brian Boyle
 Betty Ferguson
 Lynne Heidel
 Michael Hogan

Jeremy Jungreis
 John Linden
 Bud Pocklington
 Fern Steiner
 Gerald Walson
 Mark Watton
 Ken Williams

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. Professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000. Mark Tegio
Staff recommendation: Authorize the General Manager to execute a professional services contract with Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000. (Action)

II. ACTION/DISCUSSION

1. Presentation on Indirect Potable Reuse/local supply. Ken Weinberg/
 Marsi Steirer



- 2. Presentation on status of Carlsbad Desalination Project. Ken Weinberg

III. INFORMATION

- 1. Presentation on water supply and demand conditions. Dana Friehauf
- 2. Water Resources report. Ken Weinberg

IV. CLOSED SESSION

V. ADJOURNMENT

Doria F. Lore
Clerk of the Board

NOTE: This meeting is called as an 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.



November 30, 2011

Attention: Water Planning Committee

Award a professional services contract to Helix Environmental Planning, Inc., to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000. (Action)

Staff recommendation

Authorize the General Manager to execute a professional services contract with Helix Environmental Planning, Inc., to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000.

Alternative

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

Fiscal Impact

There are sufficient funds to support the staff recommendation within the project budget and the Fiscal Years 2012 and 2013 CIP appropriation. Funding for subsequent years will be dependent on Board approval of the proposed CIP appropriations for those years. The related rate category is transportation.

Background

On January 27, 2011, the Board adopted a Mitigated Negative Declaration for the Pipelines 3 and 4 Relining Project: State Route 52 to Lake Murray and Pipeline 3 30-inch Interconnect to Lake Murray Control Valve. As part of subsequent project approvals, the Board adopted a Mitigation Monitoring and Reporting Program that requires environmental monitoring during construction to ensure compliance with mitigation measures and conditions of approval contained in various federal, state, and local permits.

Discussion

A Request for Proposals (RFP) for environmental support services for environmental construction monitoring was emailed directly to 525 environmental consulting firms via the Water Authority's online vendor database (The Network). A pre-proposal meeting for the project was held at the Water Authority on September 28, 2011. Fourteen firms attended the pre-proposal meeting. Six proposals were received in response to the RFP. The firms that submitted proposals were: Chambers Group, Inc.; Dudek; Endemic Environmental Services, Inc.; Helix Environmental Planning, Inc.; Rincon Consultants, Inc.; and TEC, Inc.

Based on an evaluation of written proposals and consultant interviews, Helix Environmental Planning, Inc., was selected as the best qualified to perform the required work. Helix Environmental Planning, Inc., is a consulting firm specializing in environmental compliance and resources studies, field monitoring on construction projects, and habitat restoration. Key factors

in the selection of Helix Environmental Planning, Inc., were the level of experience and capability of the team, the teams understanding of the key issues, past performance on projects of similar size and scope, and its experience and working relationship with the regulatory agencies. The Helix Environmental Planning, Inc., project manager and key staff have proven capabilities related to environmental and permitting compliance, have demonstrated their experience and knowledge of the key issues related to this project, and provide a full range of environmental assessment services. Helix Environmental Planning's strong capabilities were demonstrated by its previous environmental compliance and construction monitoring work, including that for the Pipeline 3 & 4 Relining and San Vicente Dam Raise projects.

The recommendation to award an environmental support contract is based on an analysis of the project tasks within the context of our staff/consultant mix criteria. The contract will include work to monitor all environmental impact mitigation and permit requirements during construction and to assist with federal, state, and local agency coordination and permitting. Environmental monitoring and support during construction requires specialized skill sets and services, which the Helix Environmental Planning team provides. It also represents the most cost effective approach. Upon Board approval, the contract will be executed for a not-to-exceed amount of \$315,000. Construction monitoring is a narrow, single purpose task that provides for limited subcontracting opportunities. SCOOP good faith efforts to conduct outreach to qualified small businesses were not imposed, although encouraged. Helix Environmental Planning, Inc. is SCOOP certified, and its project team includes two subconsultants, one of which is also SCOOP certified. This information is provided for statistical purposes.

Prepared by: Mark Tegio, Senior Water Resources Specialist

Reviewed by: Ken Weinberg, Director of Water Resources

Approved by: Sandra L. Kerl, Deputy General Manager



November 30, 2011

Attention: Water Planning Committee

Water supply and demand conditions. (Information)

Purpose

To provide a status report on water supply and demand conditions.

Background

Water year 2011, which ran from October 1, 2010 through September 30, 2011, was very wet with above average hydrologic conditions throughout California and the Colorado River Basin. The 2011 water year type index was classified by the California Department of Water Resources (DWR) as wet for both the Sacramento Valley and the San Joaquin Valley. The National Weather Service is reporting that La Niña conditions present throughout the winter 2011 have returned, and are expected to gradually strengthen into the winter. La Niña is generally associated with above average precipitation in the Pacific Northwest, and below average precipitation for the southwest.

Discussion

State Water Project

Following a wet water year 2011, the water supply outlook is exceptionally good. On November 18, 2011, DWR announced an initial State Water Project (SWP) Table A allocation of 60 percent of the State Water Contractors requested amounts for calendar year 2011. This is a relatively high initial allocation, and

according to DWR, is based on the carryover storage from last winter’s wet conditions. The initial allocation is considered a conservative estimate that is likely to change as conditions develop over the winter. Last year, the final allocation was 80 percent, increased several times from the initial allocation of 25 percent. In 2008, the final allocation was just of 35 percent of the contractors requested amounts.

Table 1. Statewide Conditions in WY 2010 and 2011

Hydrologic Indicator	Percent of Average	
	WY 2010	WY 2011
Northern Sierra 8-Station Precipitation Index	107%	145%
Northern Sierra Snowpack Maximum Accumulation	143%	173%
Sacramento River unimpaired runoff	86%	138%
Statewide Reservoir Storage	105%	130%

Table 1 compares water supply conditions in water years 2010 and 2011. Reservoir storage in the Oroville and San Luis reservoirs in 2010 is compared with 2011 in Table 2.

Table 2. Reservoir Storage on November 7 in 2010 and 2011

Storage	Oroville		San Luis	
	2010	2011	2010	2011
Storage in MAF	1.69	2.88	0.96	1.75
Percent of Capacity	48%	82%	47%	86%
Percent of Average	78%	133%	84%	155%

Colorado River

Hydrologic conditions greatly improved in water year 2011 throughout the Upper Colorado River Basin, with unregulated inflow to Lake Powell at 139 percent of average. Inflow to Lake Powell has been below average every year since 1999, excluding 2005 and 2008, and now 2011. Conditions have been so favorable that the US Bureau of Reclamation (USBR) has been making equalization releases since April 2011 from Lake Powell to Lake Mead, pursuant to the Interim Guidelines for the Operation of Lake Powell and Lake Mead. Storage in Lake Mead has increased nearly four million acre-feet (an elevation gain of approximately 40 feet) since last November, when the reservoir was at its lowest historic level since 1937. Studies conducted by the USBR indicate that there is a 50 percent chance of a Surplus Condition in the lower Colorado River in 2013. Table 3 summarizes storage levels in water years 2010 and 2011.

Table 3. Summary of Colorado River Reservoirs in Water Years 2010 and 2011

Storage	Water Year 2010	Water Year 2011
Lake Mead		
<i>Elevation (feet)</i>	1,085	1,116
<i>Volume (MAF)</i>	10.2	13.0
<i>Percent of Capacity</i>	39%	50%
Lake Powell		
<i>Elevation (feet)</i>	3,633	3,653
<i>Volume (MAF)</i>	15.3	17.6
<i>Percent of Capacity</i>	63%	72%
Total System Contents		
<i>Volume (MAF)</i>	33.0	38.7
<i>Percent of Capacity</i>	56%	65%

Metropolitan Water District of Southern California

According to Metropolitan Water District of Southern California (MWD), storage reserves are projected to reach an historic high of approximately 2.4 million acre-feet (MAF), excluding emergency reserves, at the beginning of calendar year 2012. Storage reserves include surface and both in-region and out-of-region groundwater. At the beginning of 2010 during the recent drought, MWD's storage was at a low of 1.0 MAF. MWD has total storage capacity of 5 MAF, which includes in excess of 2 MAF storage in Lake Mead and other Colorado River programs. However, use of MWD's Lake Mead and other Colorado River storage is limited by available Colorado River Aqueduct capacity.

Local Supply and Demand Conditions

Hydrologic conditions are favorable in the San Diego region. Local precipitation was above average in water year 2011, and is provided in Table 4.

Table 4. Local Precipitation in San Diego County in Water Years 2010 and 2011

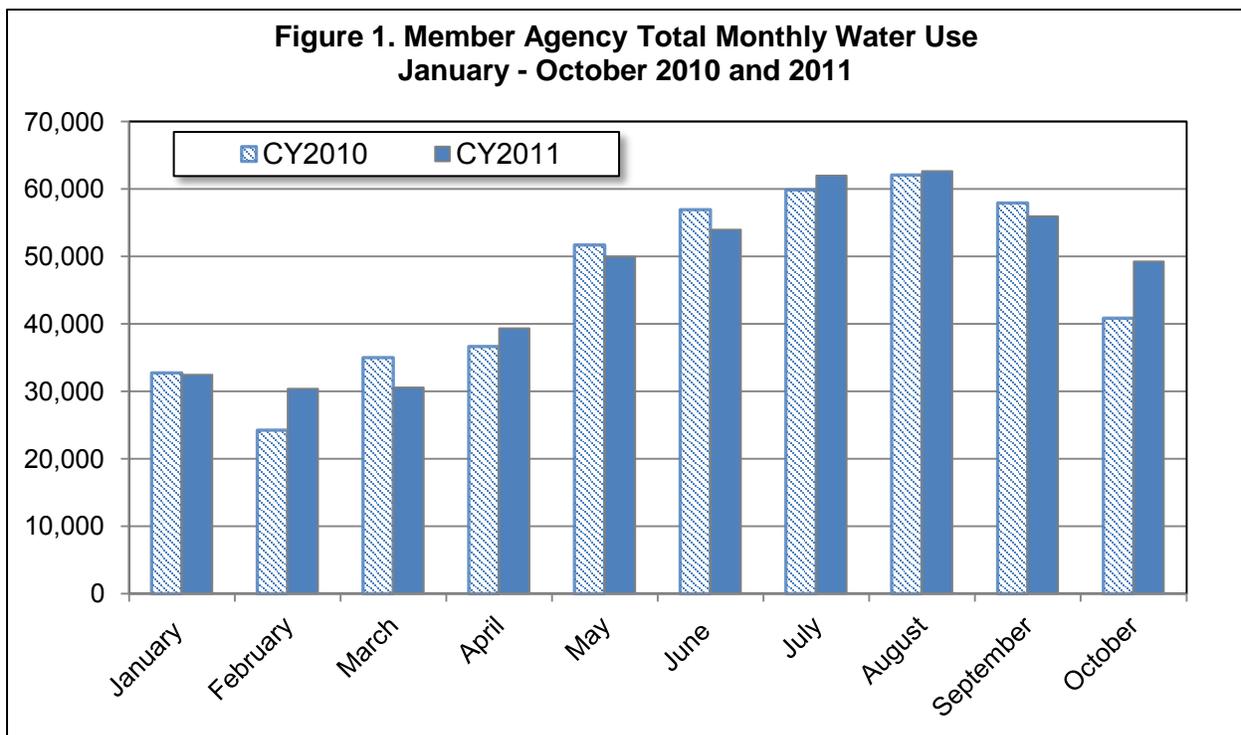
Station	Water Year 2010		Water Year 2011	
	Inches	% Normal	Inches	% Normal
Lindbergh Field	10.8	98	12.7	123
Lake Cuyamaca	3.0	108	42.6	127
Lake Henshaw	4.5	116	36.2	136

Total local reservoir storage including the Water Authority's carryover storage on November 7, 2011 was at approximately 342,800 AF, which was about 54,000 AF greater compared with this time last year. Storage levels reflect increases due to runoff, along with withdrawals that occurred during this period. In addition, the Water Authority and its member agencies took delivery and stored approximately 23,000 AF of replenishment water this year from MWD.

The Water Authority had the following dry-year supplies in storage through October 31, 2011:

- Water Authority local carryover storage: 20,909 AF
- Water Authority Semitropic groundwater storage bank: 16,117 AF

On April 29, 2011, the Water Authority Board discontinued municipal and industrial water supply allocations to its member agencies, and suspended Special Agricultural Water Rate cutbacks through program termination (December 31, 2012). Figure 1 compares the Water Authority member agencies total monthly water use from January through October in 2010 and 2011. Calendar year 2010 was generally cooler and wetter compared with 2011. Cumulatively, the member agencies total water use was approximately 8,500 AF more in 2011 than in 2010, from January through October.



Summary

Following a wet 2011 water year, the water supply outlook is very favorable for 2012. Reservoir storage is above average on the State Water Project, the Colorado River Basin, and locally. The National Weather Service is predicting above average precipitation in the Pacific Northwest and

Water Planning Committee

November 30, 2011

Page 4 of 4

below average precipitation for the southwest, from November through January, which is consistent with La Niña conditions. Staff will continue to monitor and report on water supply conditions throughout the upcoming water year.

Prepared by: Lesley Dobalian, Water Resources Specialist

Reviewed by: Ken Weinberg, Director of Water Resources

November 30, 2011

Attention: Water Planning Committee

Water Resources Report

Purpose

This report includes the following exhibits for October 2011:

- 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)

RAINFALL TOTALS (inches)						
Station	October 2011		2011-2012 WATER YEAR (October 2011 through September 2012)			
	Actual	Normal	Actual	Normal	Departure	% Normal
Lindbergh Field (N.O.A.A.)	0.46	0.57	0.46	0.57	(0.11)	81
Lake Cuyamaca (Helix W.D.)	1.92	1.88	1.92	1.88	0.04	102
Lake Henshaw (Vista I.D.)	1.33	1.09	1.33	1.09	0.24	122

Sources: National Weather Service, Helix Water District, Vista Irrigation District.

MONTHLY WATER RESOURCES REPORT

Water Deliveries to Member Agencies

(acre-feet)

OCTOBER 2011

MEMBER AGENCY	October		12 Months Ended October	
	2011	2010	2011	2010
Carlsbad M.W.D.	1,473.0	1,249.0	15,987.3	16,201.3
Del Mar, City of	87.3	74.6	1,109.0	1,088.6
Escondido, City of	1,514.5	1,097.3	13,264.8	15,373.3
Fallbrook P.U.D.	814.6	947.0	11,595.0	11,935.2
Helix W.D.	1,444.3	2,819.7	22,070.8	22,695.6
Lakeside W.D.	337.0	236.2	3,390.6	3,246.4
National City, City of	147.2	-	1,760.0	1,767.9
Oceanside, City of	2,024.5	1,447.5	22,722.9	22,528.6
Olivenhain M.W.D.	1,724.7	1,214.5	19,149.8	18,931.4
Otay W.D.	2,756.1	2,232.1	30,363.3	29,832.7
Padre Dam M.W.D.	1,088.4	785.2	11,489.8	11,743.9
Pendleton Military Reservation	3.2	3.2	45.4	62.9
Poway, City of	1,705.3	1,058.6	10,507.6	10,401.2
Rainbow M.W.D.	1,931.2	1,309.7	19,221.8	19,505.1
Ramona M.W.D.	671.7	423.0	6,270.2	6,454.2
Rincon Del Diablo M.W.D.	573.4	420.7	5,946.7	5,893.5
San Diego, City of	16,608.4	16,087.1	173,390.8	186,029.9
San Dieguito W.D.	266.2	133.0	2,258.0	1,818.4
Santa Fe I.D.	559.8	194.6	4,854.1	4,742.2
South Bay I.D.	771.6	0.1	7,563.6	7,131.4
Vallecitos W.D.	1,406.5	1,064.0	15,791.6	15,710.4
Valley Center M.W.D.	2,694.2	1,833.6	26,174.2	26,585.9
Vista I.D.	1,375.7	323.8	12,405.2	11,529.1
Yuima M.W.D.	123.3	166.5	1,278.7	2,044.0
Deliveries To SDCWA Agencies	42,102.1	35,121.0	438,611.2	453,253.1
Less: Deliveries to SDCWA Storage	493.3	1,043.0	6,052.5	2,221.1
TOTAL MEMBER AGENCY DELIVERIES	41,608.8	34,078.0	432,558.7	451,032.0
Deliveries To South Coast W.D.	65.6	62.5	801.5	777.1
Deliveries From SDCWA Storage	745.9	-	21,262.8	-

NOTES: *Deliveries to SDCWA Storage* consists of deliveries to CWA El Capitan, Lower Otay, San Vicente and Sweetwater accounts. *Deliveries from SDCWA Storage* consists of storage drafts from the same accounts that have been sold to San Diego and Sweetwater Authority.

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MONTHLY WATER RESOURCES REPORT
Estimated Water Use by Member Agency
 (acre-feet)

OCTOBER 2011

AGENCY	Imported Source S.D.C.W.A.		Local Sources						October Totals	
	2011	2010	Surface Water		Groundwater		Reclaimed Water		2011	2010
			2011	2010	2011	2010	2011	2010		
Carlsbad M.W.D.	1,419.0	1,134.0	-	-	-	-	376.6	351.8	1,795.6	1,485.8
Del Mar, City of	87.3	74.6	-	-	-	-	3.6	2.8	90.9	77.4
Escondido, City of	1,393.9	1,190.9	644.3	828.6	-	-	35.8	16.6	2,074.0	2,036.1
Fallbrook P.U.D. ¹	1,085.7	791.5	-	-	12.5	-	47.7	30.2	1,145.9	821.7
Helix W.D.	1,544.4	2,458.0	1,401.7	30.0	11.4	11.7	-	-	2,957.5	2,499.7
Lakeside W.D.	337.1	236.2	-	-	26.4	62.5	-	-	363.5	298.7
National City, City of ²	147.2	0.4	71.8	180.1	247.4	269.5	-	-	466.4	450.0
Oceanside, City of ²	2,024.5	1,447.5	-	-	365.5	420.7	2.5	2.3	2,392.5	1,870.5
Olivenhain M.W.D.	1,724.7	1,214.5	-	-	-	-	332.2	365.9	2,056.9	1,580.4
Otay W.D.	2,756.1	2,232.1	-	-	-	-	404.6	391.5	3,160.7	2,623.6
Padre Dam M.W.D.	1,080.0	827.5	-	-	-	-	81.7	87.7	1,161.7	915.2
Pendleton M.R. ³	68.8	65.7	-	-	565.0	564.0	80.0	81.2	713.8	710.9
Poway, City of	1,044.0	838.4	2.7	24.1	-	-	-	-	1,046.7	862.5
Rainbow M.W.D.	1,966.2	1,253.7	-	-	-	-	-	-	1,966.2	1,253.7
Ramona M.W.D.	582.5	453.7	-	-	-	-	75.8	32.9	658.3	486.6
Rincon Del Diablo M.W.D.	573.4	420.7	-	-	-	-	245.1	322.4	818.5	743.1
San Diego, City of	15,902.7	14,589.5	504.7	40.1	141.3	73.0	774.5	674.3	17,323.2	15,376.9
San Dieguito W.D.	266.2	133.0	291.6	328.6	-	-	52.2	28.9	610.0	490.5
Santa Fe I.D.	560.3	195.5	367.0	375.5	-	-	40.1	15.2	967.4	586.2
South Bay I.D. ²	771.6	2.0	376.5	994.1	201.8	201.4	-	-	1,349.9	1,197.5
Vallecitos W.D.	1,432.5	1,122.8	-	-	-	-	-	-	1,432.5	1,122.8
Valley Center M.W.D.	2,694.2	1,833.6	-	-	-	-	30.0	30.7	2,724.2	1,864.3
Vista I.D.	1,375.7	323.8	321.3	982.7	-	-	-	-	1,697.0	1,306.5
Yuima M.W.D.	123.3	166.5	-	-	163.9	41.9	-	-	287.2	208.4
TOTAL USE	40,961.3	33,006.1	3,981.6	3,783.8	1,735.2	1,644.7	2,582.4	2,434.4	49,260.5	40,869.0
PERCENT CHANGE	24%		5%		6%		6%		21%	

¹De Luz figures included in Fallbrook P.U.D. total.

²Brackish groundwater use included in groundwater totals.

³Pendleton's imported water use includes water delivered by South Coast Water District.

PRIMA
Water Resources Department

MONTHLY WATER RESOURCES REPORT
Reservoir Storage
 (acre-feet)
OCTOBER 2011

Member Agency	Reservoir	Capacity	OCTOBER 2011	% of Capacity	OCTOBER 2010	% of Capacity	Change During Month
Carlsbad M.W.D.	Maerkle	600	237	40%	428	71%	51
Escondido, City of ¹	Dixon	2,606	2,339	90%	2,386	92%	40
	Wohlford	6,506	2,090	32%	2,054	32%	(398)
Subtotal		9,112	4,429	49%	4,440	49%	(358)
Fallbrook P.U.D.	Red Mountain	1,335	553	41%	673	50%	(330)
Helix W.D.	Cuyamaca	8,195	666	8%	646	8%	(20)
	Jennings	9,790	8,961	92%	6,107	62%	(72)
Subtotal		17,985	9,626	54%	6,752	38%	(92)
Poway, City of	Poway	3,330	2,958	89%	2,880	86%	608
Rainbow M.W.D.	Beck	625	164	26%	182	29%	(72)
	Morro Hill	465	1	0%	102	22%	(0)
Subtotal		1,090	165	15%	284	26%	(72)
Ramona M.W.D.	Ramona	12,000	2,845	24%	2,735	23%	(7)
San Diego, City of ²	Barrett	34,806	29,101	84%	31,969	92%	(1,892)
	El Capitan	112,807	74,476	66%	56,867	50%	(2,010)
	Hodges	30,251	23,258	77%	13,531	45%	(583)
	Lower Otay	49,849	35,196	71%	30,546	61%	1,303
	Miramar	6,682	5,563	83%	5,577	83%	56
	Morena	50,694	11,780	23%	7,603	15%	(575)
	Murray	4,684	4,114	88%	4,199	90%	(39)
	San Vicente	89,312	36,803	41%	23,832	27%	326
Subtotal		408,593	236,146	58%	183,122	45%	(4,532)
San Dieguito WD/Santa Fe ID	San Dieguito	883	542	61%	410	46%	37
Sweetwater Authority	Loveland	25,400	24,829	98%	14,327	56%	(17)
	Sweetwater	28,079	11,252	40%	6,707	24%	(800)
Subtotal		53,479	36,081	67%	21,034	39%	(817)
Valley Center M.W.D.	Turner	1,612	1,475	92%	1,433	89%	-
Vista I.D. ³	Henshaw	51,774	6,962	13%	3,156	6%	(1,212)
MEMBER AGENCY TOTAL WATER IN STORAGE		561,793	302,019	54%	227,348	40%	(6,724)
SDCWA Accounts (Source: CWA Monthly Storage Reports)	El Capitan		8,295		13,465		(58)
	Hodges		0		0		(426)
	L. Otay		5,937		6,878		(504)
	San Vicente		3,574		12,804		13
	Sweetwater		3,103		6,074		(21)
Subtotal			20,909		39,222		(996)
TOTAL WATER IN STORAGE		561,793	322,928	57%	266,569	47%	(7,719)
OTHER AGENCIES							
Metropolitan Water District	Skinner	44,264	36,144	82%	39,622	90%	(741)
	Diamond Valley	800,000	765,322	96%	563,242	70%	486
State Water Project	Oroville	3,537,600	2,895,802	82%	1,701,643	48%	(148,863)
TOTAL OTHER WATER IN STORAGE		4,381,864	3,697,268	84%	2,304,507	53%	(149,118)

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 Dieguito WD, and California American Mutual Water Co. (Cal-Am)

³ 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.

PRIMA

Water Resources Department

MONTHLY WATER RESOURCES REPORT
Tier 1 Estimated Deliveries to Member Agencies
(Figures in acre-feet)

Calendar Year 2011 through October

AGENCY	CY2011 Tier 1 Threshold ¹	CYTD Firm Deliveries ²	% of Tier 1 Threshold
Carlsbad M.W.D.	18,354.7	14,037.5	76.5%
Del Mar, City of	1,408.3	965.8	68.6%
Escondido, City of	23,694.4	10,608.0	44.8%
Fallbrook P.U.D.	12,569.4	8,714.6	69.3%
Helix W.D.	38,421.4	14,886.8	38.7%
Lakeside M.W.D.	4,718.2	2,961.8	62.8%
Oceanside, City of	28,848.1	19,960.9	69.2%
Olivenhain M.W.D.	19,347.5	16,867.1	87.2%
Otay W.D.	32,173.0	26,290.5	81.7%
Padre Dam M.W.D.	14,321.5	9,593.0	67.0%
Pendleton M.C.B./South Coast W.D.	1,141.3	739.9	64.8%
Poway, City of	13,575.6	9,121.0	67.2%
Rainbow M.W.D.	23,572.1	14,805.2	62.8%
Ramona M.W.D.	8,101.1	4,253.8	52.5%
Rincon Del Diablo M.W.D.	7,307.0	5,093.2	69.7%
San Diego, City of	215,438.4	140,187.6	65.1%
San Dieguito W.D.	4,692.0	1,925.7	41.0%
Santa Fe I.D.	7,895.9	4,418.5	56.0%
Sweetwater Authority	13,094.7	9,323.4	71.2%
Vallecitos W.D.	14,641.2	13,511.3	92.3%
Valley Center M.W.D.	26,252.9	16,745.4	63.8%
Vista I.D.	17,576.3	10,061.0	57.2%
Yuima M.W.D.	94.0	68.3	72.7%
MEMBER AGENCY TOTALS	547,239.0	355,140.3	64.9%
Less: QSA deliveries calendar year to date		(131,416.6)	
Fallbrook wheeled water year to date		(284.6)	
Deliveries to CWA carryover storage year to date ³		4,805.5	
Deliveries from CWA storage year to date ⁴		(20,060.8)	
Replenishment Program deliveries year to date ⁵		(23,236.5)	
Estimated Tier 1 deliveries calendar year to date		184,947.3	33.8%

¹ Tier 1 threshold is equal to all firm deliveries up to 90% of a member agency's historic maximum year firm demand

² Firm deliveries are net of IAWP certifications received.

³ Includes forced deliveries and deliveries made through temporary carryover storage agreements.

⁴ Includes sales from Water Authority storage accounts.

⁵ Metropolitan reactivated its Replenishment Program in mid-2011 for a temporary period. Replenishment deliveries are exempt from the Tier 1 limit.

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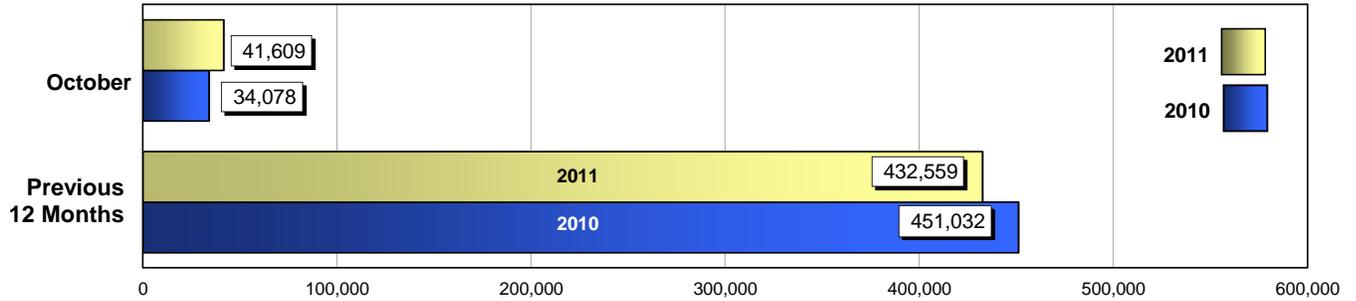
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MONTHLY WATER RESOURCES REPORT

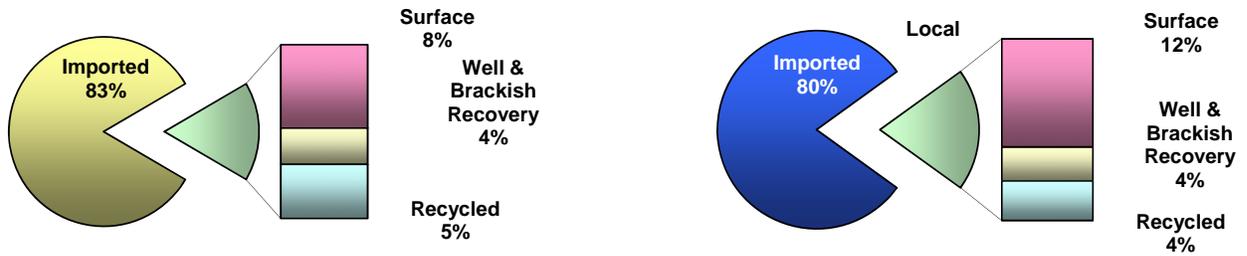
Summary of Water Authority Member Agency Operations

OCTOBER 2011

Member Agency Deliveries (AF)



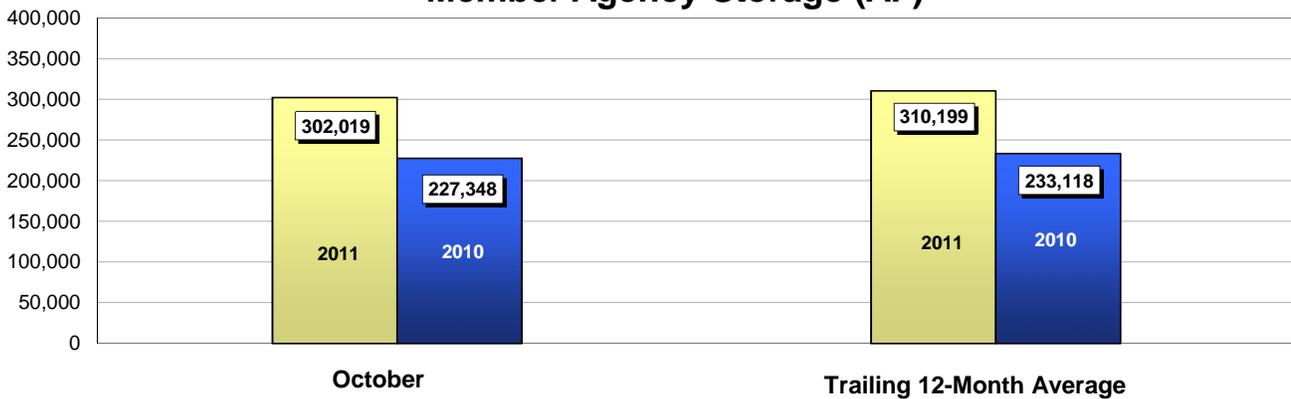
Member Agency Water Use



OCTOBER 2011

Previous 12 Months

Member Agency Storage (AF)



October

Trailing 12-Month Average



LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

AGENDA FOR

DECEMBER 8, 2011

Elsa Saxod – Chair
 Frank Hilliker – Vice Chair
 Jeremy Jungreis – Vice Chair
 Jim Bowersox
 Brian Boyle
 Gary Croucher
 Marilyn Dailey

Farrah Douglas
 Marty Miller
 Vincent Mudd
 Robert Topolovac
 Yen Tu
 Gerald Walson
 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. Chair’s report.
 4-A Directors’ comments.

I. CONSENT CALENDAR

II. ACTION/DISCUSSION

1. Legislative Issues.
 - 1-A Report by Carpi and Clay. (pickup packet) Carpi & Clay
 - 1-B Adopt proposed 2012 Legislative Policy Guidelines. Jeff Volberg
Staff recommendation: Adopt the proposed 2012
 Legislative Policy Guidelines. (Action)

- 1-C Sponsorship of two bills in the state Legislature to address water quality standards. Jeff Volberg

Staff recommendation: Sponsor legislation that:

1. Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code.
2. Requires the State Water Resources Control Board to develop a policy that matches standards for fluoride in wastewater and recycled water with standards for drinking water in which the state has mandated the addition of fluoride. (Action)

III. INFORMATION

1. Water Conservation Program evaluations. Meena Westford
2. Small Contractor Outreach and Opportunities Program Quarterly report. Emily Yanushka
3. Quarterly report on Public Outreach and Conservation department activities. Jason Foster
4. Government relations update. Jeff Volberg

IV. ADJOURNMENT

Doria F. Lore
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 (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.



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

Adopt Proposed 2012 Legislative Policy Guidelines. (Action)

Purpose

This report presents proposed 2012 Legislative Policy Guidelines to the board for approval and adoption.

Staff recommendation

Adopt the proposed 2012 Legislative Policy Guidelines.

Alternatives

1. Direct staff to make changes as determined by the board.
2. Do not adopt the proposed 2012 Legislative Policy Guidelines.

Fiscal Impact

No direct fiscal impact.

Background

Previous Action: At its regular meeting on December 9, 2010, the board adopted the 2011 Legislative Policy Guidelines.

The Water Authority maintains a set of legislative policy guidelines to direct staff and legislative advocates on whether to support or oppose legislation. The board originally approved the Water Authority's Legislative Policy Guidelines in December 1993. The guidelines have been reviewed and updated annually. This report presents staff's recommendations for the board's annual review.

The Government Relations team sought comments on the proposed 2012 legislative policy guidelines from the various departments of the Water Authority during the summer. Staff also asked the member agency general managers for input at their meeting on October 18, 2011. Staff then presented a draft version of the Legislative Policy Guidelines to the Legislation, Conservation and Outreach Committee at its meeting on October 27, 2011 for comments and input. The draft version is in "strikeout" form, showing changes based on staff and member agency recommendations, as well as on positions the board adopted on legislation during the 2011 legislative session.

Discussion

This report presents an updated version of the Water Authority's Legislative Policy Guidelines for calendar year 2012. Updates, revisions, and added guidelines reflect new legislative positions and policy principles the board discussed and adopted during 2010, as well as changes recommended by staff and member agencies.

In the proposed 2011 Legislative Policy Guidelines, staff is recommending updates to the

Imported Water Supply, Local Water Resources, Water Facilities/Facility Improvement, Biological and Habitat Preservation, Power Supply, and Climate Change sections of the guidelines. Guidelines pertaining to the Bay-Delta are now included in a separate section.

The proposed 2012 Legislative Policy Guidelines contain a new feature. The guidelines contain narrative summaries of each section.

The draft proposed Legislative Policy guidelines are attached. Revisions, updates, and recommended additions are underlined, while deletions are struck through. When the board adopts the guidelines, staff will incorporate the changes into the final document.

Staff recommends the adoption of the proposed 2012 Legislative Policy Guidelines.

Prepared by: Jeffrey A. Volberg, Government Relations Manager

Approved by: Dennis Cushman, Assistant General Manager

Attachment: Proposed 2012 Legislative Policy Guidelines

Draft 2011-2012 Legislative Policy Guidelines

Purpose

The San Diego County Water Authority's legislative policy guidelines reflect policy positions adopted by the Board of Directors in ~~2010~~2011. The guidelines provide direction to staff and the legislative advocates when they evaluate proposed legislation that may affect the Water Authority, its member agencies, or regional water management and use. Legislation that meets, or fails to meet, the principles set forth in the guidelines may be supported or opposed accordingly. The guidelines permit staff and the Water Authority's legislative advocates to act in a timely fashion between board meetings on issues that are clearly within the guidelines. Such actions are then reported to the board during the next regular monthly board meeting.

Legislation that does not meet the principles set forth in the guidelines or that has potentially complicated or varied implications will not be acted upon by staff or the legislative advocates in between board meetings and will instead be presented to the Board directly for guidance in advance of any position being taken. Additionally, ideas for new legislation are presented to the Board for action when the Water Authority is seeking sponsorship of a bill.

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Imported Water Supply

The Water Authority relies on imported water from the Sacramento-San Joaquin River Delta and from the Colorado River for a significant portion of its water supply. This section details the Water Authority's policies toward legislation that affects the imported water supply. Policies regarding the Sacramento-San Joaquin River Delta are listed in the next section entitled "Bay-Delta."

The Water Authority supports funding and other incentives for ecosystem restoration and other improvements to the Colorado River that improve water supply and water supply reliability. The Water Authority also supports a robust and effective means of transferring water from one part of the state to another as needed, either year by year or longer term.

The Water Authority supports legislation that requires MWD to treat its member agencies equitably in proportion to their financial contributions. The Water Authority supports the repeal of preferential rights at MWD, and supports contractual agreements with member agencies, under which the member agencies agree to pay an equitable portion of MWD's fixed costs of capital development and operations regardless of the amount of water the member agencies purchase in any particular year.

The Water Authority opposes broad-based user fees and so-called "public goods charges" that are not tied to specific projects with identified costs that provide specific benefits. The Water Authority also opposes legislation that would transfer control of the State Water Project from the state to MWD, the State Water Contractors, the Central Valley Project Contractors, the State and Federal Water Contractors Authority, or to any entity comprised of MWD and other water contractors.

It shall be the Water Authority's policy to support legislation that:

1. 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.
- ~~2. Requires the Delta Stewardship Council or DWR to provide periodic analyses of the cost of proposed Delta improvements to the Legislature and the public.~~
- ~~3. Provides conveyance and storage facilities that are cost-effective, improve the reliability and quality of the San Diego region's water supplies and protect the Bay-Delta's ecosystem.~~
- ~~4. Implements a long-term, comprehensive solution for the Bay-Delta that:
 - ~~a) Focuses on resolution of conflicts between water management and the environment in the Bay-Delta.~~
 - ~~b) Provides reliable water supplies to meet California's short- and long-term needs.~~
 - ~~c) Improves the ability to transport water to enhance State Water Project deliveries and facilitate transfers from north of the Delta to south of the Delta.~~~~

- ~~e) Improves the quality of water delivered by the Metropolitan Water District to San Diego County.~~
- ~~e) Enhances the Bay-Delta's ecological health, taking into account all factors that have degraded Bay-Delta habitat and wildlife.~~
- ~~f) Encourages cost-effective water use efficiency measures.~~
- ~~g) Provides a cost-effective solution when compared with other water supply development options.~~
- ~~h) Equitably allocates costs of the Bay-Delta solution to all those benefiting from improvements to the Bay-Delta system.~~
- ~~i) Provides a firm commitment that the state will pursue water supply reliability and environmental restoration as co-equal goals.~~
- ~~j) Encourages the development of local supplies such as seawater desalination, groundwater, storage, graywater, rainwater harvesting (e.g., cisterns and rain barrels), and recycled water (including indirect potable reuse), in order to make water supplies more reliable, reduce demand on the Bay-Delta and improve water quality.~~
- ~~k) Encourages the development of water transfers that will reduce demand on the Bay-Delta.~~
- ~~l) Provides better coordination of Central Valley Project and State Water Project operations.~~
- ~~m) Improves Delta levees to control flooding, maintain water supply reliability and reduce seawater intrusion to protect water quality.~~
- ~~n) Develops adequate and reliable funding for maintenance of Delta levees.~~

~~5. Authorizes and appropriates the federal share of funding for the long-term Bay-Delta solution.~~

~~6. Provides the ongoing state share of funding for the long-term Bay-Delta solution.~~

~~7. Provides state funding for aquatic toxicity monitoring in the Bay-Delta. Such legislation should not place a surcharge on water supply exports nor should it substantively reduce funding for other measures that protect environment and public health.~~

8.2. Supports implementation and funding of the California Colorado River Water Use Plan, including the Lower Colorado River Multi-Species Conservation Program.

3. Provides funding for Colorado River salinity control projects and other water quality management efforts.

9.4. Encourages and facilitates voluntary water transfers consistent with other Water Authority policies and agreements.

10.5. Provides appropriate protection or mitigation for the environment, groundwater basins, water-rights holders and third-party impacts within the district transferring water.

11.6. Creates a water transfer clearinghouse that serves as a neutral information resource that focuses on the collection, assembly and dissemination of information on water transfers.

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- | ~~42.7.~~ Streamlines the permitting and approval process for implementing transfers.
- | ~~43.8.~~ Encourages efficient use of existing facilities to advance voluntary transfers of water.
- | ~~44.9.~~ Provides that any water transfer between users within counties, watersheds or other areas of origin shall be deemed not to operate to the injury of any use of water with a point of diversion that is not located within the same hydrologic area as the transferor of the water.
- | ~~45.10.~~ Amends the Metropolitan Water District Act to change voting allocation on its Board of Directors based on a member agency's total financial contribution to MWD, and in a manner similar to the voting allocation method of the County Water Authority Act.
- | ~~46.11.~~ Provides an appropriate level of accountability and cost control over MWD spending. When time permits, legislation on this issue is to be brought to the board before any action is taken.
- | ~~47.12.~~ Repeals Section 135 (Preferential Rights) of the Metropolitan Water District Act
- | 13. Requires MWD to refund or credit to its member agencies revenues collected from them that result in reserve balances greater than the maximum reserve levels established pursuant to state legislation.
- | ~~48.14.~~ Requires MWD to enter into take-or-pay contracts with its member agencies to pay MWD's fixed costs related to the State Water Project, regardless of whether a member agency buys water from MWD in any particular year, before MWD commits to paying for its share of the costs of a Delta conveyance project.
- | 15. Investigates and provides financial support to projects designed to mitigate potential negative impacts of climate change on water supply reliability.
- | 16. Provides for the state to fund and implement the preferred alternative for Salton Sea Restoration proposed in the final Programmatic Environmental Impact Report prepared by the Natural Resources Agency.
- | ~~49.17.~~ Revises the Quantification Settlement Agreement mitigation measures for the Salton Sea to limit the costs imposed on the funding parties to the amount committed in accordance with the QSA legislation.

It shall be the Water Authority's policy to oppose legislation that:

1. Establishes a broad-based user fee that does not support a specific program activity; any fee must provide a clear nexus to the benefit the fee would provide.
2. Makes urban water supplies less reliable or substantially increases the cost of imported water without also improving the reliability and/or quality of the water.

- 3. Adversely affects water management efforts by granting property rights status for the right to use or receive water and requires compensation for federal actions that impact users of water from federal projects.
- 4. Revises the Central Valley Project Improvement Act to jeopardize the Act's environmental integrity, compromise State Water Project supply reliability and/or limit the ability of urban agencies to transfer and/or bank CVP water for use both within and outside the CVP service area.
- 5. Creates a water transfer clearinghouse that is anything other than a neutral information resource.

6. Increases regulatory or procedural impediments to water transfers at the local or state level.

~~6-7.~~ Imposes additional mitigation costs or obligations for the Salton Sea on the non-state parties to the Quantification Settlement Agreement.

~~Requires additional reviews or approvals of Delta conveyance options beyond those provided by SBX7-1 (2009).~~

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BAY-DELTA

Generally, the Water Authority has supported a solution to the conflicts between water supplies and ecosystems in the Delta that have made water supply less reliable. However, the Water Authority is also concerned that the solution to Delta conflicts be cost-effective, and that the water contractors who finance the solution be capable of financing and maintaining improvements to the Delta. The Water Authority is also concerned that the costs be shared equitably among beneficiaries of the improvements, and that MWD member agencies be required to make firm commitments to pay their share of MWD's State Water Project contract obligations.

It shall be the Water Authority's policy to support legislation that:

1. Requires the Delta Stewardship Council or DWR to provide periodic analyses of the cost of proposed Delta improvements to the Legislature and the public.
2. Provides conveyance and storage facilities that are cost-effective, improve the reliability and quality of the San Diego region's water supplies and protect the Bay-Delta's ecosystem.
3. Requires water agencies and other entities that contract to pay the costs of improvements in the Delta to obtain take-or-pay contracts with their member agencies to pay the fixed costs of the improvements.
4. Implements a long-term, comprehensive solution for the Bay-Delta that:
 - a. Focuses on resolution of conflicts between water management and the environment in the Bay-Delta.
 - b. Provides reliable water supplies to meet California's short- and long-term needs.
 - c. Improves the ability to transport water to enhance State Water Project deliveries and facilitate transfers from north of the Delta to south of the Delta.
 - d. Improves the quality of water delivered by the Metropolitan Water District to San Diego County.
 - e. Enhances the Bay-Delta's ecological health, taking into account all factors that have degraded Bay-Delta habitat and wildlife.
 - f. Encourages cost-effective water use efficiency measures.
 - g. Provides a cost-effective solution when compared with other water supply development options.
 - h. Equitably allocates costs of the Bay-Delta solution to all those benefiting from improvements to the Bay-Delta system.
 - i. Provides a firm commitment that the state will pursue water supply reliability and environmental restoration as co-equal goals.
 - j. Encourages the development of local supplies such as seawater desalination, groundwater, storage, graywater, rainwater harvesting (e.g., cisterns and rain barrels), and recycled water (including indirect potable reuse), in order to make water supplies more reliable, reduce demand on the Bay-Delta, and improve water quality.
 - k. Encourages the development of water transfers that will reduce demand on the Bay-Delta.
 - l. Provides better coordination of Central Valley Project and State Water Project operations.

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- m. Improves Delta levees to control flooding, maintain water supply reliability and reduce seawater intrusion to protect water quality.
- n. Develops adequate and reliable funding for maintenance of Delta levees.

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5. Authorizes and appropriates the federal share of funding for the long-term Bay-Delta solution.

6. Provides the ongoing state share of funding for the long-term Bay-Delta ~~solution~~ solution.

7. Provides state funding for aquatic toxicity monitoring in the Bay-Delta. Such legislation should not place a surcharge on water supply exports nor should it substantially reduce funding for other measures that protect environment and public health.

It shall be the Water Authority's policy to oppose legislation that:

1. Requires additional reviews or approvals of Delta conveyance options beyond those provided by SBX7-1 (2009).

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2. Transfers ownership, operation or control of the State Water Project or any of its facilities to MWD, the State Water Project Contractors, Central Valley Project Contractors, the State and Federal Contractors Water Agency or any entity comprised of MWD or other water project contractors.

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Local Water Resources

In recent years, the Water Authority and its member agencies have made great progress in diversifying and improving the reliability of the region's water supply and developing local water resources, in order to reduce reliance on increasingly unreliable imported water supplies. This section details the Water Authority's policies toward legislation that affects local water resources.

Generally, the Water Authority supports state and federal legislation that provides funding for the development of local water supplies. The Water Authority supports legislation that fund, promotes, or facilitates the development of groundwater, recycling, and seawater desalination facilities. The Water Authority supports legislation that provides local agencies with regulatory flexibility with respect to local water supplies that may raise water quality concerns, such as recycled water, potable reuse, graywater, and storm water runoff.

The Water Authority supports legislation that provides local decision-making authority for potable reuse, stormwater, conservation, recycling, seawater desalination, and other alternative sources of water. The Water Authority has been very active in shaping state laws that promote water conservation, both indoor and landscape.

The Water Authority generally opposes legislation that imposes unreasonable regulations of local water supplies, or that interferes with the authority of local agencies to regulate the discharge of contaminants into local water sources. The Water Authority opposes legislation that restricts the ability of local water agencies to capture and manage stormwater runoff, or diminishes the water rights of downstream water users through the capture or management of stormwater runoff upstream.

It shall be the Water Authority's policy to support legislation that:

1. Provides funding for conservation, peak management programs, water recycling (including indirect potable reuse), groundwater recovery and recharge, surface water development and management projects, including reservoir management, source water protection and watershed planning studies and facilities that sustain long-term reliable water resources.
2. Provides funding for seawater and brackish groundwater desalination studies and facilities, including concentrate disposal facilities.
3. Recognizes and supports the development of seawater desalination as a critical new water supply for the state and especially San Diego County.
4. Recognizes and supports the development of indirect potable reuse and approved advanced treated purified water facilities upstream of permitted water treatment plants as a critical new water supply for the State and especially San Diego County.

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5. Encourages seawater desalination facilities to collocate with existing coastal power stations.
6. Preserves and protects potential seawater desalination sites and existing coastal facilities including intake and discharge infrastructure that could be used or reused by a seawater desalination facility.
7. Authorizes and facilitates expanded use of local water resources including water recycling, indirect potable reuse, graywater, and rainwater harvesting (e.g., cisterns and rain barrels), and brackish groundwater.
8. Facilitates and encourages the use of rainwater-capture systems (e.g. rain barrels and cisterns) and alternative water sources (e.g. air conditioner condensate) for use in irrigation.~~Facilitates and encourages the use of rain barrels and cisterns to capture and store rain water for use in irrigation.~~
9. Authorizes local governmental agencies to regulate the discharge of contaminants to the sewer collection system that may adversely affect water recycling and reuse.
10. Encourages dual plumbing in all new development to enable utilization of recycled water when available.
11. Encourages the use of recycled water in commercial and residential settings.~~Encourages the use of recycled water in residential settings.~~
12. Provides financial incentives to assist in the disposal of concentrate, sludge and other byproducts created in the water treatment process.
13. Ensures the Water Authority and its member agencies receive the dry-year water supply benefits of its investment in local water supply sources.
14. Provides for the interchangeability of funding for groundwater and surface water enhancements to fit best the hydrogeologic attributes of a particular region.
15. Provides for watershed planning, watershed signage and protection of source water, including reservoirs, such as land acquisition around reservoirs, limited land use and increased buffer areas.
16. Promotes uniform regulatory interpretation of state recycled water system standards.
17. Supports beneficial revisions to Appendix J of the California Plumbing Code that address recycled water systems.
18. Authorizes, promotes, and provides incentives for indirect potable reuse projects.
19. Requires regulatory processes to encourage and support the development of

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potable reuse as a drinking water supply.

20. Provides funding for potable reuse demonstration projects and studies.
21. Ensures that decision-making with regard to stormwater management and recapture is kept at the local or regional level through local water agencies, stormwater districts, cities, counties, and regional water management groups.
22. Recognizes that stormwater management and recapture are important tools in a diversified water portfolio that can help to achieve improved water quality in local water supplies, augment water supplies for local water agencies, and promote landscape conservation from a water runoff perspective.
23. Promotes and encourages the use of stormwater management and recapture to increase local municipal water supplies and improve water quality through low-impact development.
24. Provides incentives for the local or regional use of stormwater management and recapture.
25. Reduces or removes regulatory hurdles that hinder the use of stormwater management and recapture.
26. Encourages land use practices that promote efficient landscape design and groundwater recharge.

It shall be the Water Authority's policy to oppose legislation that:

1. Limits the ability of local governmental agencies to regulate the discharge of contaminants to the sewer collection system that may adversely affect water recycling and reuse.
2. Establishes unreasonable regulatory requirements relative to the safe use of recycled water.
3. Contributes to the degradation of source water quality around reservoirs and groundwater basins.
4. Restricts the ability of the Water Authority or its member agencies to manage, store, or distribute water supplies through actions to manage or recapture stormwater.
5. Diminishes the water rights or legal historical uses of downstream water users through actions to manage or recapture stormwater.

Water Facilities/Facility Improvement

The construction, maintenance, and operation of water facilities is an essential activity of the Water Authority. This section details the Water Authority's policies toward legislation that affects water facilities and facility improvement.

Generally, the Water Authority supports legislation that provides state and federal funding for water storage, watershed protection, treatment and delivery facilities, groundwater recharge, canal lining, and other water infrastructure development, security, maintenance, and rehabilitation. The Water Authority also supports legislation that prevents the spread of dreissenid mussels. The Water Authority supports the protection of habitats and cultural resources connected with water facilities or water facility improvements.

The Water Authority generally opposes legislation that restricts local control and discretion over water facilities and facility operations. The Water Authority also generally opposes legislation that shifts the risks of legal liability from contractors to public agencies. The Water Authority opposes legislation that restricts the Water Authority from using its own employees on construction projects, and legislation that interferes with public agencies' ability to respond to emergencies that would disrupt water service.

It shall be the Water Authority's policy to support legislation that:

1. Funds or otherwise facilitates construction and/or maintenance of public water storage, watershed areas, and treatment and delivery facilities and facilitates maintenance and/or enhancement of groundwater recharge spreading areas and groundwater basin rehabilitation that benefit San Diego County.
2. Funds or otherwise facilitates the operation and maintenance of canal lining projects that enhance water supplies.
3. Provides funding for water infrastructure development, infrastructure security, and infrastructure rehabilitation and replacement projects that benefit San Diego County.
- ~~4.4.~~ Funds enhancements to water treatment and recycling facilities to meet increased regulations.
- ~~2.5.~~ Funds improvements to water treatment facilities that allow greater use of State Project water.
- ~~3.6.~~ Provides funding for the preservation of cultural resources affected by construction or operation of water conveyance and storage facilities.
- ~~4.7.~~ Provides funding for habitat preservation programs that address impacts resulting from construction or operation of water conveyance and storage facilities.

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- 5.8. Recognizes water agencies as emergency responders in the event of a sudden, unexpected occurrence that poses a clear and imminent danger, requiring immediate action to prevent and mitigate the loss or impairment of life, health, property or essential public services due to natural disasters (e.g., wildfires, earthquakes), power outages as well as terrorist and other criminal activities. Recognizes water agencies as emergency responders to damage and challenges caused by wildfires, earthquakes, and other natural disasters, as well as terrorist and other criminal activities that threaten water operations, facilities, and supplies.
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- 6.9. Provides funding for projects that enhance security against terrorist acts or other criminal threats to water operations, facilities, or supplies.
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- 7.10. Provides funding for the control or eradication of non-indigenous aquatic species, including *dreissenid* mussels.
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- 8.11. Authorizes state and federal wildlife agencies to provide assistance to local water agencies in the control and eradication of non-indigenous aquatic species, including *dreissenid* mussels.
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- 9.12. Exempts owners and operators of water supply facilities from criminal and civil liabilities associated with *dreissenid* mussel infestations if due diligence requirements are being met.
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- 10.13. Provides incentives that encourage the optimization, expansion and cooperative use of existing surface reservoirs.
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- 14.14. Provides funding for projects that improve the security of the facilities and operations of the Water Authority and its member agencies.
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- 12.15. Provides funding to water agencies for the voluntary retrofit of facilities for on-site generation of chlorine.
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- 13.16. Requires mandatory inspections of boats for evidence of potential *dreissenid* mussel infestation before allowing boat launching in reservoirs.
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It shall be the Water Authority's policy to oppose legislation that:

1. Imposes or mandates recreational activities on drinking water reservoirs and reservoir property where such activities have been determined to be inappropriate by the reservoirs' owners and operators.
2. Impairs the Water Authority's and/or its member agencies' ability to provide and operate the necessary facilities for a safe, reliable and operationally flexible water storage, treatment and delivery system.
3. Limits the Water Authority's and/or its member agencies' sole jurisdiction over the planning, design, routing, approval, construction, operation or maintenance of

its or their water facilities.

4. Shifts the risks of indemnity for damages and defense of claims from contractors to the Water Authority and/or its member agencies.
5. Impairs the Water Authority's and/or its member agencies' ability to execute construction projects using its own employees.
6. Restricts the Water Authority's and/or its member agencies' ability to respond swiftly and decisively to an emergency that threatens to disrupt water deliveries or restricts the draining of pipelines or other facilities in emergencies or for repairs or preventive maintenance.
7. Authorizes state and federal wildlife agencies to control or eradicate invasive species in a way that excessively interferes with the operations or water supplies of local water agencies.

Water Use Efficiency

[The Water Authority has been a statewide leader in sponsoring legislation to improve water use efficiency. The Water Authority championed statewide requirements for ultra-low-flow toilets, high-efficiency clothes washers, water meters, and sponsored legislation that created a statewide task force on outdoor landscape water use efficiency. The Water Authority urged the San Diego delegation to the state Legislature to vote for SBX7-7, which established a statewide goal of a 20 percent reduction in per capita water use by 2020.](#)

[The Water Authority generally supports water saving mechanisms, such as graywater use, rainwater capture, submetering, plumbing retrofits, and others. The Water Authority has supported implementation and coordination of Best Management Practices as defined by the California Urban Water Conservation Council and Demand Management Measures under the Urban Water Management Planning Act.](#)

[The Water Authority generally opposes statewide requirements for conservation-based water rates that override the rate-setting authority of local boards of directors. The Water Authority also opposes the promulgation of conservation practices or standards that override the authority of local boards of directors.](#)

It shall be the Water Authority's policy to support legislation that:

1. Furthers the statewide goal of a 20 percent reduction in per capita water use by 2020 as set forth in SBX7-7, enacted in November 2009.
2. Promotes statewide implementation of foundational Best Management Practices (BMPs) as defined by the California Urban Water Conservation Council (CUWCC) and Demand Management Measures (DMMs) as defined in the Urban Water Management Planning Act.
3. Provides loans and grants to fund incentives for water-conserving devices or practices.
4. Ensures accurate and meaningful reporting of implementation of water conservation measures.
5. Encourages implementation of effective water management practices for agricultural irrigation.
6. Ensures achievement of urban and agricultural water-use efficiency standards established in the 20 percent by 2020 ~~statute~~ ~~statute~~.
7. Designates the CUWCC or other entity representing stakeholder interests as being responsible for developing a framework for determining water agency compliance with water conservation BMPs. This framework should promote water agency incentives for BMP compliance and avoid prescriptive regulations.

8. Encourages the use of graywater for landscape irrigation purposes where it complies with local health department guidelines and regulations and is cost-effective.
9. Establishes standards for the utilization of high-efficiency commercial coin-operated and residential clothes washers.
10. Requires submetering connections to be built in new construction of multiple commercial or residential buildings.
11. Encourages plumbing fixture retrofit upon real property resale.
12. Encourages stakeholders to investigate and develop statewide landscape water conservation standards and regulations.
13. Supports recommendations of the AB 2717 Landscape Taskforce.
14. Restricts Property Owner Associations from forbidding the use of California native plants or other low water use plants in well-maintained landscapes.
15. Restricts Property Owner Associations from forbidding retrofits of multiple unit facilities for the purpose of submetering, if feasible.
16. Ensures plumbing codes and standards that facilitate the installation and/or retrofit of water-saving devices.
17. Provides incentives, funding, and other assistance in meeting the Governor's goal of reducing per capita water use statewide by 20 percent by the year 2020.
18. Provides incentives, funding, and assistance to water agencies so that they can comply with AB 1420 (2007) requirements and meet the coverage requirements for foundational [Demand Management Measures](#) in the Urban Water Management Planning Act.

It shall be the Water Authority's policy to oppose legislation that:

1. Repeals cost-effective efficiency standards for water-using devices.
2. Prescribes statewide mandatory urban water conservation management practices that override the authority of the boards of directors of local water agencies to adopt management practices that are most appropriate for the specific needs of their water agencies.
3. Prescribes mandatory conservation-based rate structures that override the authority of the boards of directors of local water agencies to set rate structures according to the specific needs of the water agencies.

Biological and Habitat Preservation

The Water Authority generally supports legislation that encourages development of multi-species conservation plans. The Water Authority generally supports legislation that exempts routine operation, maintenance, and repair of water conveyance and storage facilities from environmental regulations. The Water Authority also supports legislation that exempts emergency activities from regulation, when the emergency threatens the continued delivery of safe, clean water. The Water Authority supports legislation that provides regulatory certainty and avoids regulatory surprises. The Water Authority supports legislation that provides state and federal funding for conservation efforts on the Salton Sea, Colorado River, and the Bay-Delta.

The Water Authority generally opposes legislation that reduces existing water supplies or interferes with the operation, maintenance, or repair of existing water facilities through endangered species or habitat conservation regulations.

It shall be the Water Authority's policy to support legislation that:

1. Supports development of comprehensive multi-species habitat conservation plans that anticipate and mitigate project development impacts while preserving representative ecosystems, rather than individual species.
2. Exempts operation, maintenance, and repair of water conveyance and storage facilities from endangered species and other habitat conservation regulations because they provide beneficial cyclical habitat values to declining species and foster biological diversity in California.
3. Provides environmental regulatory certainty for implementation of existing and proposed long-term water supply programs.
4. Authorizes federal and state funding to develop and implement regional or subregional conservation programs, including but not limited to property acquisition, revegetation programs and watershed plans.
5. Incorporates an emergency exemption for "take" of a listed species listed under the state or federal Endangered Species Acts when necessary to mitigate or prevent loss of or damage to life, health, property or essential public services.
6. Encourages species listings, critical habitat designation and recovery plans developed pursuant to the state or federal Endangered Species Acts to be consistent with existing interstate compacts, tribal treaties and other state and federal agreements.
7. Provides state and/or federal funding for the restoration of the Salton Sea.
8. Provides federal and/or state funding to implement actions that address the ecological and water supply management issues of the Lower Colorado River from Lee's Ferry to the southerly international border with Mexico.

9. Facilitates implementation of the Conserved Water Transfer Agreement with the Imperial Irrigation District and other Quantification Settlement Agreement programs with impacts or potential impacts to species and habitat along the lower Colorado River and at the Salton Sea.

10. Consolidates wetlands regulations to alleviate multi-agency jurisdiction over the same environmental resource.

11. Designates feral pigs as a noxious invasive animal species in the San Diego region, or authorizes actions, including eradication, ~~to, to~~ protect the region's waters and natural landscapes from damage by feral pigs, ~~or authorizes the eradication of feral pigs from the region,~~

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Biological and Habitat Preservation (cont.)

It shall be the Water Authority's policy to oppose legislation that:

1. Provides for after-the-fact reduction in quantity or quality of a public water supply due to new restrictions on the operation or use of water supply facilities unless funding for alternate sources of water is provided.

2. Imposes endangered species or habitat conservation requirements that restrict the operation, maintenance, or repair of public water supply, conveyance, treatment, or storage facilities.

2-3. Imposes a "utility user fee" or "surcharge" on water for the purposes of financing open space/habitat preservation, restoration, or creation.

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Fiscal Policy and Water Rates

The Water Authority generally supports legislation that improves the Water Authority's ability to obtain cost-effective financing for the construction, operation, and maintenance of public facilities. The Water Authority supports legislation that is consistent with the Board's policy principles adopted in 2006, regarding user fees and statewide water infrastructure funds. The Water Authority supports legislation that promotes local control over water rates.

The Water Authority generally opposes unfunded federal or state mandates that are not accompanied by subventions. The Water Authority opposes legislation that reallocates the Water Authority's revenues or reserves to statewide purposes. The Water Authority opposes imposition by the state of a "public goods charge," or excise tax on water for statewide purposes. The Water Authority opposes state-imposed user fees on water imposed by the state unless the fee is restricted to paying for specific projects and programs with identified costs and clearly identified benefits. The Water Authority opposes the imposition of a state water user fee to pay the interest or principal on a statewide water bond. The Water Authority opposes legislation that would interfere with public agencies' ability to set their own rates and manage their own finances.

It shall be the Water Authority's policy to support legislation that:

1. Requires the federal and state governments to provide subvention to reimburse local governments for all mandated costs or regulatory actions.
2. Provides the Water Authority and its member agencies with additional forms of cost-effective financing for public facilities.
3. Provides the Water Authority and its member agencies with grant funding for public facilities.
4. Is consistent with the policy principles adopted by the Board of Directors on February 23, 2006, regarding a proposed Water Resources Investment Fund.
5. Maintains the ability of water agencies to establish water rates locally.
6. Maximizes the flexibility of water agencies to design rate structures to meet local water supply goals.

It shall be the Water Authority's policy to oppose legislation that:

1. Imposes mandated costs or regulatory constraints on local governments without providing subventions to reimburse local governments for such costs.
2. Is inconsistent with the Water Authority's and its member agencies' current investment policies and practices.
3. Makes any unilateral reallocation of Water Authority or its member agencies'

revenues by the state unless the state takes compensatory measures to restore those funds.

4. Impairs the Water Authority's or its member agencies' ability to provide reasonable service at reasonable costs to member agencies or to charge all member agencies the same rate for each class of service regardless of delivery costs.
5. Pre-empts the Water Authority's or its member agencies' ability to impose or change rate charges, fees or assessments.
6. Impairs the Water Authority's or its member agencies' ability to maintain reasonable reserve funds and obtain and retain reasonable rates of return on its reserve accounts.
7. Imposes additional administrative requirements and/or restricts the Water Authority's or its member agencies' ability to finance public facilities through the issuance of long-term debt.
8. Reduces the Water Authority's or its member agencies' revenues without giving the Water Authority and its member agencies a commensurate public benefit that is clearly identifiable and separate from a general statewide benefit.
9. Restructures the Water Authority's or its member agencies' responsibilities without also providing the commensurate restructuring of revenues.
10. Requires the expenditure of Water Authority or member agency funds to accomplish federal water supply commitments such as may be required in national treaties.
11. Weakens the protections afforded the Water Authority or its member agencies under California's Proposition 1A (November 2, 2004).
12. Mandates a specific rate structure for retail water agencies.
13. Imposes a water user fee on water agencies or water users that does not provide a commensurate benefit in the local area or region from which the water user fee is collected.
14. Imposes a water user fee for statewide projects or programs, for which the projects or programs are not clearly defined, the beneficiaries identified, and the reasonable costs identified.
15. Imposes a water user fee in order to create a state fund that can be used to finance undefined future projects and programs.
16. Allows the state to retain more than five percent of water user fees for administrative costs.

17. Does not restrict the use of water user fees to only the specific purposes for which they are imposed, without any possibility of diversion to meet other fiscal needs of the state.
18. Imposes a “public goods charge” on public water agencies or their ratepayers.
19. Imposes a fee on water users to repay the principal and interest on a statewide general obligation bond.
20. Interferes with the responsibility of a region, operating under an Integrated Regional Water Management Plan for setting priorities and generating projects to be paid from any IRWM accounts and grants.
21. Interferes with the control exercised by the San Diego funding subregion over the use and expenditure of any water user fee revenues that may be dedicated to the region.

Right of Way and Property

The Water Authority generally supports legislation that improves its ability to maintain and protect its property, rights of way, easements, pipelines, and other facilities. The Water Authority generally opposes legislation that interferes with or increases the cost of obtaining, maintaining, and protecting property and rights of way.

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It shall be the Water Authority's policy to support legislation that:

1. Improves the Water Authority's and its member agencies' efforts to maintain and protect its property, rights of way, easements, pipelines and related facilities and minimizes liability to the Water Authority.

It shall be the Water Authority's policy to oppose legislation that:

1. Impairs the Water Authority's or its member agencies' efforts to acquire property or property interests required for essential capital improvement projects.
2. Increases the cost of property and right of way acquisition.
3. Restricts the Water Authority's or its member agencies' use of public rights of way or increases the cost of using public rights of way.
4. Restricts the transfer of property acquired for purposes of environmental mitigation or environmental mitigation credits to other public or private entities for long-term management.

Power Supply

Electricity for moving water is a major cost to the Water Authority. Generally, the Water Authority supports legislation that helps to lower the cost of electricity. The Water Authority has some capacity to generate electricity, so it supports legislation that helps it to utilize or market the electricity it produces. The Water Authority also supports actions related to energy creation that will reduce the overall cost of water. The Water Authority's goal is to ensure that existing and planned facilities are built and operated in a manner that is environmentally sensitive, reliable, and energy efficient. This section outlines the Water Authority's policies toward legislation that affects renewable energy, energy consumption, and efficiency and conservation related to existing or planned facilities.

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The Water Authority generally supports legislation that will facilitate the development of renewable and alternative energy sources. The Water Authority also supports legislation that will provide funding for projects to increase energy efficiency, reliability, and reduce peak demands.

The Water Authority generally opposes legislation that would increase the cost of its power supply. The Water Authority also opposes legislation that would interfere with its ability to produce electricity, or to buy or sell electrical power or natural gas.

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It shall be the Water Authority's policy to support legislation that:

1. Provides opportunities for reduced energy rates under tariff schedules for the Water Authority and its member agencies.
2. Provides greater flexibility in the utilization of Water Authority and its member agencies' facilities for generation and acquisition of electrical power.
3. Provides the Water Authority and its member agencies with greater flexibility in the permitting, construction, and operation of its existing and potential in-line hydroelectric and off-stream pumped-storage projects.
4. Provides protection to water agencies in San Diego County from energy rate increases and provides rate relief for member agencies.
5. Makes SWP power available for seawater desalination.
6. Promotes the classification of electricity generated by in-line hydroelectric and off-stream pumped storage facilities as a clean, environmentally sound and renewable energy resource.
7. Provides funding, including state and federal grants, for in-line hydro-electric, solar, wind, biogas cogeneration, and off-stream pumped storage facilities as a means of reducing greenhouse gas emissions.~~Provides funding, including state and federal grants, for in-line hydroelectric and off-stream pumped storage facilities as a means for reducing greenhouse gas emissions.~~

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8. Promotes the expansion of pumped storage facilities to provide a clean and environmentally sound energy resource.

9. Promotes the expansion of in-line hydroelectric energy recovery systems at treatment facility discharge systems.

~~8-10.~~ Promotes funding for use of renewable energy in the operation of water agency facilities in San Diego County.

It shall be the Water Authority's policy to oppose legislation that:

1. Adversely affects the cost of electricity needed to move water through the Colorado River Aqueduct or the State Water Project.

2. Adversely affects the ability of the Water Authority or its member agencies to own, operate and/or construct work for supplying its member public agencies, or its own facilities with natural gas and electricity.

3. Impedes the Water Authority's or its members agencies' ability to contract for the purchase of gas and electricity from the United States, the State of California, and any other public agency or private entity and sell the gas and electricity to any public agency or private entity engaged in retail sales of electricity and gas.

4. Reduces the Water Authority or its member agencies' ability to maintain high operational efficiency at all times.

5. Restricts the Water Authority or its member agencies' ability to expand or improve infrastructure or facilities.

6. Restricts or caps future energy demands needed for possible expansion of recycled water and desalination projects.

7. Adversely affects the Water Authority or its member agencies ability to expand cogeneration or polygeneration at planned or existing facilities.

8. Inhibits the scientific advancement of energy and water efficient/conserving technologies that may be implemented at Water Authority and member agency facilities.

~~3-9.~~ Prevents the Water Authority and its member agencies to enhance energy reliability and independence for their facilities.

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Local Autonomy

The Water Authority generally opposes legislation that interferes with the Water Authority's board of directors' ability to govern the Water Authority's affairs or govern relations with its employees.

It shall be the Water Authority's policy to oppose legislation that:

1. Diminishes the power of the Water Authority Board of Directors to govern the Water Authority's affairs.
2. Modifies the committee or board voting structure or member agency board representation unless such changes have been expressly authorized by the Water Authority Board of Directors.
3. Diminishes the power or rights of the Water Authority to govern relations with its employees.

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Land Use and Water Management Planning

[The Water Authority generally supports legislation that coordinates land use planning with water management planning. The Water Authority also supports legislation that protects flood plains and water recharge basins.](#)

[The Water Authority generally opposes legislation that interferes with the Water Authority's ability to forecast demand and plan for water management.](#)

It shall be the Water Authority's policy to support legislation that:

1. Promotes enhanced coordination and linkage of general plans and water management plans.
2. Recognizes regional efforts to coordinate land use planning and water management planning in a manner consistent with the goals and objectives established by regional growth management strategies, affordable housing mandates and local general plans.
3. Discourages piecemeal or uncoordinated land use and water management planning.
4. Requires that projected population and other demographic factors utilized in forecasting future water demands in accordance with the Urban Water Management Planning Act and SB 610 and SB 221, be consistent with the regional growth management plans and general plans applicable to the territory within the service area of the supplier.
5. Allows and funds land exchanges between local public agencies and federal or state agencies when mutually beneficial to all agencies and enhances water resources for the region.
6. Designates public lands that are tributary to drinking source water reservoirs as wilderness, habitat preserve, open space, or other protected status.
7. Protects floodplains and lands over prime groundwater recharge zones for stormwater catchment and bioremediation.

It shall be the Water Authority's policy to oppose legislation that:

1. Restricts or limits the effectiveness of the Water Authority or its member agencies in its continuing efforts to meet its obligations under the Regional Comprehensive Plan and develop demand forecasts based on SANDAG regional growth forecasts and general plan use information.
2. Restricts the Water Authority's or its member agencies' ability to utilize a demand forecasting methodology that is best suited for the region.

Integrated Regional Water Management Planning

The Water Authority, along with the City of San Diego and the County of San Diego, developed the San Diego Integrated Water Management Plan. The Water Authority generally supports legislation that provides equitable funding for IRWM plans, based on population, and that allows the regions to set their own priorities for funding. The Water Authority also supports legislation that allows for binational funding for projects along the border.

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The Water Authority generally opposes legislation that establishes state criteria and mandate for IRWM plans. The Water Authority also opposes legislation that excludes or reduces participation by water agencies in local IRWM plans.

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It shall be the Water Authority's policy to support legislation that:

1. Defines the "San Diego sub-region" and "San Diego county watersheds" as "those portions of the westward-flowing watersheds of the South Coast hydrologic region situated within the boundaries of San Diego County."
2. Requires the state agencies responsible for preparing the integrated regional water management grant program guidelines to conduct a comprehensive public outreach process that ensures stakeholders have an opportunity to provide adequate input on preparation of the guidelines and that the state agencies consider and respond to comments received through the outreach process.
3. Provides for population-based distribution of funds to ensure adequate distribution of grant funding throughout the state.
4. Allows for creation of sub-area plans that enhance, but do not duplicate or replace a larger recognized integrated regional water management plan.
5. Requires the state to rely on the local process for selection and ranking of projects included in an approved integrated regional water management plan.
6. Establishes a task force to provide recommendations to the state on improving the integrated regional water management planning process in California.
7. Provides for the use of state grant funds for binational projects where the projects benefit water supply or water quality in the San Diego region.

It shall be the Water Authority's policy to oppose legislation that:

1. Mandates a specific composition and management structure of the regional water management group that oversees integrated regional water management planning efforts within a region.
2. Precludes water wholesalers from serving on a regional water management group.

3. Dilutes public water agency participation on the regional water management group.

Jurisdictional Authority

It shall be the Water Authority's policy to refer all such legislation to the Board of Directors.

Binational Issues

The Water Authority generally supports legislation that funds and encourages cooperative projects that serve the San Diego/Baja California area. The Water Authority opposes legislation that takes away local control over binational water supply and infrastructure projects.

It shall be the Water Authority's policy to support legislation that:

1. Provides funding for development of Board-approved water supply and infrastructure projects to serve the San Diego/Baja California region while protecting local interests.
2. Encourages enhanced cooperation between entities in San Diego and Baja California in development of supply and infrastructure projects that will benefit the entire border region.

It shall be the Water Authority's policy to oppose legislation that:

1. Would usurp local control over the financing and construction of water supply and infrastructure projects in the San Diego/Baja California region.

Water Quality Issues

[Water quality is a major concern of the Water Authority. The Water Authority generally supports legislation that assists in providing high-quality water to the San Diego region through cleanup and remediation of contaminants and protection of water sources.](#)

[The Water Authority generally opposes legislation that regulates the conveyance, storage, and distribution of water supplies under the Clean Water Act.](#)

It shall be the Water Authority's policy to support legislation that:

1. Assists in achieving a year-round blend of imported water supplies that achieve board-adopted water quality objectives from Metropolitan that allows the region to maximize development of recycled water and reduce financial costs to the customer due to high levels of total dissolved solids in imported water supplies.
2. Assures cost-effective remediation and cleanup of contaminants of concern that have impacted groundwater and surface water.
3. Provides the necessary funding for research on the occurrence, treatment, health effects and environmental clean-up related to contamination of drinking water sources.
4. Incorporates sound scientific principles in adopting drinking water standards for drinking water contaminants.
5. Provides for the protection of source water such as reservoirs and groundwater basins so that the waters can be beneficially used for consumptive purposes.
6. Implements and funds the San Diego Regional Water Quality Control Board's triennial review of water quality standards.
7. Exempts the conveyance, storage, or release of water supplies from regulation as a discharge under the Clean Water Act and other water quality control laws.
8. Recognizes drinking source water reservoirs as extensively managed, special-purpose, man-made water bodies different in character than the natural waterways, rivers, lakes, and coastal waters which are the appropriate focus of protection under the Clean Water Act and other water quality control laws.
9. Revises NPDES standards and procedures to facilitate inland discharge of recycled water.
10. Establishes quality standards, testing procedures, and treatment processes for emerging contaminants.
11. Directs the state's participation or assistance in water quality issues related to or threatening the Colorado River water source.

12. Provides funding and support for Colorado River salinity control projects and other water quality management efforts.
13. Alters the definition of “lead free” to reduce the permissible amount of lead in fixtures, plumbing, and pipe fittings to be installed for the delivery of drinking water.

It shall be the Water Authority's policy to oppose legislation that:

1. Regulates the conveyance, storage, or release of water supplies as a discharge under the Clean Water Act and other water quality control laws.

California State Reorganization

In recent years, there has been considerable discussion of reorganizing the state government. One proposal that keeps recurring is the elimination of the Colorado River Board. The board is funded entirely by the California public agencies that take water from the river, and it is important because it serves as a liaison to other states and the federal government. The Water Authority generally supports legislation that preserves the Colorado River Board.

The Water Authority also supports legislation that makes the Regional Water Quality Control Boards more consistent in their application of state water quality laws. The Water Authority also supports legislation that allows non-state water contractors to access the SWP system to convey transferred water.

The Water Authority generally opposes legislation that would eliminate the Colorado River Board or the regional water quality control boards without creating other bodies that carry out their functions.

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It shall be the Water Authority's policy to support legislation that:

1. Preserves the California Colorado River Board.
2. Ensures the interests of the members of the California Colorado River Board continue to be addressed in any state government reorganization.
3. Ensures consistent application of the law by the State Water Resources Control Board and the nine Regional Water Quality Control boards.
4. Provides for continued certification by the state of urban water agency conservation efforts and achievements as reported to the CUWCC by signatories to the CUWCC Memorandum of Understanding.
5. Ensures that any reorganization of the State Water Project, including operations and management, preserves the ability for non-State Water Project contractors to access the facility for transportation of water to a non-State Water Project contractor.

It shall be the Water Authority's policy to oppose legislation that:

1. Eliminates the California Colorado River Board without providing a comparable structure or forum that ensures the Water Authority's interests in the Colorado River are preserved.
2. Eliminates the State Water Resources Control Board and/or the nine Regional Water Quality Control boards without ensuring that the functions and expertise of the boards is maintained in any reorganized entity.

Metropolitan Water District Board of Directors

It shall be the Water Authority's policy to oppose legislation that:

1. Returns the Metropolitan Water District to its membership structure prior to the enactment of SB 1885 (Ayala) in 1998.

Climate Change

Climate change is an important concern in water management planning. The Water Authority generally supports legislation that incorporates considerations of climate change into water management planning, as long as the climate change information is developed and provided by the state. The Water Authority also supports legislation that allows water agencies to partner with energy providers to improve energy efficiency in the conveyance and use of water. The Water Authority supports legislation that encourages innovation in developing responses to climate change, with maximum control at the local level.

The Water Authority generally opposes legislation that does not allow local control over responses to climate change. The Water Authority also opposes legislation that prohibits water agencies from entering into the carbon credits market.

It shall be the Water Authority's policy to support legislation that:

1. Incorporates state provided climate change information into statewide, regional, and local water management planning, and provides funding for projects that assist in adapting to effects of climate change on the state's water supply.~~Incorporates considerations of climate change into statewide, regional, and local water management planning, with climate change information provided by the state.~~
2. Provides financial support to local projects designed to mitigate or adapt to potential negative impacts of climate change on water supply reliability.~~Investigates and provides financial support to projects designed to mitigate or adapt to potential negative impacts of climate change on water supply reliability.~~
3. Encourages water agencies to partner with energy providers to help fund water conservation and other programs that result in reduction of greenhouse gas emissions and/or provides opportunities and incentives for voluntary implementation of local water and renewable energy projects that directly or indirectly reduce greenhouse gas emissions.~~Allows water agencies to partner with energy providers to help fund water conservation and other programs that result in reduction of greenhouse gas emissions and provides funding for projects that assist in adapting to the effects of climate change on the state's water supply or in reducing the emissions of greenhouse gases.~~
4. Promotes public-private partnerships, encourages innovation, and focuses on quantifiable performance goals as opposed to top-down, "one size fits all" mandates.
5. Provides opportunities and incentives for voluntary implementation of local water and renewable energy projects that directly or indirectly reduce greenhouse gas emissions.

6-5. Promotes continued development and deployment of more sophisticated and integrated hydrological, water quality, and meteorological water monitoring for the purpose of assessing [changing water supply](#) conditions resulting from climate change.

~~7. Promotes the incorporation of anticipated climate change impacts in long-range water supply planning statewide.~~

8-6. Promotes the coordination and integration of local, state and federal climate change policies and practices to the greatest extent feasible.

It shall be the Water Authority's policy to oppose legislation that:

1. ~~Requires incorporation of climate change considerations into statewide, regional, and local water management planning unless climate change information is provided by the state. Requires incorporation of considerations of climate change into statewide, regional, and local water management planning, without climate change information provided by the state.~~
2. Imposes top-down, "one size fits all" climate change mandates that fail to account for hydrological, meteorological, economic, and social variation across the state and/or that fail to incorporate local and regional planning and implementation priorities and protocols.~~Imposes top-down, "one size fits all" mandates without taking into account hydrological, meteorological, economic, and social variation across the state and without deferring to local and regional planning and implementation priorities and protocols.~~
3. Does not allow water agency participation in the carbon credits market.

Water Bonds

The Water Authority generally supports water bond legislation that provides an equitable share to the San Diego region, focuses on statewide priorities that achieve the coequal goals of improving water supply reliability and restoring ecosystems in the Delta. The Water Authority also supports bond legislation that ensures the grant application is not unduly burdensome and is open and transparent.

However, the Water Authority generally opposes water bond legislation that does not provide equitable funding for the San Diego region. The Water Authority also opposes water bond legislation that does not result in real improvements in water supply and water supply reliability and resolve statewide conflicts over water supply.

It shall be the Water Authority's policy to support water bond legislation or an initiative that:

1. Provides an equitable share of funding to San Diego County, with major funding categories being divided by county and funded on a per-capita basis to ensure bond proceeds are distributed throughout the state in proportion to taxpayers' payments on the bonds.
2. Focuses on statewide priorities, including restoration of fish and wildlife habitat, construction of an improved method of conveyance of water through or around the Delta that provides water supply reliability to Delta water users, promotion of greater regional and local self-sufficiency, surface storage, and promotion of water use efficiency.
3. Provides the states' share of funding for Bay-Delta conveyance projects.
4. Provides funding for water infrastructure that resolves conflicts in the state's water system and provides long-term benefits to water supply, water supply reliability, water quality and ecosystem restoration.
5. Defines the "San Diego sub-region" and "San Diego county watersheds" as "those portions of the westward-flowing watershed of the South Coast hydrologic region situated within the boundaries of San Diego County."
6. Includes within IRWM funding money that a region may use over time to develop and refine its plan and to develop institutional structures necessary to establish and implement the plan.
7. Gives primary consideration to funding priorities established by local and regional entities through their IRWM planning process.
8. Ensures that the application process for funding is not unnecessarily burdensome and costly, with an emphasis on streamlining the process.
9. Limits state overhead to no more than five percent of bond funding amounts.

10. Places as much emphasis and provides at least as much funding for surface storage as for groundwater storage.
11. Funds emergency and carryover storage projects such as the San Vicente dam raise project.
12. Consolidates administration of all voter-approved water-related bond funding in one place, preserves existing expertise within the state bureaucracy to manage bond funding processes, and provides consistent application and evaluation of bond funding applications.

It shall be the Water Authority's policy to oppose water bond legislation or an initiative that:

1. Does not provide an equitable share of funding to San Diego County, based on San Diego County taxpayers' proportional contribution to repayment of the bond.
2. Does not provide funding for infrastructure that resolves statewide or regional conflicts over water supplies.
3. Does not provide funding that results in net increases in real water supply and water supply reliability.



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

**Sponsorship of two bills in the state Legislature to address water quality standards.
(Action)**

Staff recommendation

Sponsor legislation that:

1. Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code.
2. Requires the State Water Resources Control Board to develop a policy that matches standards for fluoride in wastewater and recycled water with standards for drinking water in which the state has mandated the addition of fluoride.

Alternative

Do not sponsor one or more of the above bills.

Fiscal impact

None through this action.

Background

Staff proposes that the Water Authority sponsor two bills in the state Legislature that address water quality standards.

Discussion

Advanced treated purified water

In 2010, the Legislature passed SB 918 (Pavley), which was intended to advance the potable reuse of recycled water. SB 918 requires the California Department of Public Health to adopt regulations for indirect potable reuse through groundwater recharge and reservoir augmentation, and to form a panel to evaluate public health implications of augmenting raw and treated water supplies with highly treated recycled water.

Under current law, however, recycled water is classified as a waste under water quality provisions of the Water Code. This includes very high quality purified water. The classification of recycled water as a waste complicates efforts to develop the potable reuse of recycled water. The proposed bill would move the augmentation of raw water supplies with advanced treated purified water from the Water Code, where it is considered a waste, to the Health and Safety Code, where it would be treated as a resource, which would be regulated by the Department of Public Health instead of regional water quality control boards.

Agencies such as the Orange County Water District, West Basin Municipal Water District, and the Water Replenishment District of Southern California have been providing this level of

treatment to their recycled water for several years in order to use it for direct injection into their groundwater aquifers. Monitoring of this highly treated, purified water has demonstrated that the quality of this water is reliably better than the predominant raw surface water supplies in California.

Water Authority staff have worked with a variety of organizations, including WateReuse, MWD, Eastern Municipal Water District, the City of San Diego, and Helix Water District. Among these organizations, there is a great deal of interest in eventually moving all recycled water out of the Water Code where it is defined as a waste, into the Health and Safety Code where it could be defined and regulated as a resource. This bill would begin that process by moving the highest quality recycled water into the Health and Safety Code.

Staff recommends that the Water Authority sponsor a bill based on the attached legislative wording.

Fluoride Standards

Previous action: At its meeting on January 27, 2011, the Water Authority approved sponsorship of a bill that is substantially similar to the proposed bill. The bill was introduced by Assemblymember Harkey as AB 1048, but was held in committee.

The State of California requires that any public water system of more than 10,000 connections add fluoride to its water in specified concentrations. Fluoridation of water is believed to improve oral health and provide stronger teeth.

On the other hand, the state's regional water quality control boards maintain standards for the concentration of fluoride in recycled and waste water discharges. These standards are maintained in the regional boards' basin plans. To the extent that concentrations of fluoride required to be maintained in drinking water exceed the concentrations allowed in the basin plans, the regional boards may require that producers of recycled water and wastewater treatment plants remove the excess fluoride.

This requirement increases the costs of recycling water and treating wastewater, in order to remove a constituent that is required by law to be added to drinking water. This increased cost does not affect the Water Authority directly, but affects several member agencies. It also increases the cost of recycling water, which is a major part of the San Diego region's diversified portfolio of water supplies.

To avoid this cost, staff proposed in January 2011 that the board sponsor a bill that prevents the regional boards from requiring that wastewater or recycled water contain a concentration of fluoride that is less than the concentration required to be maintained in drinking water. The bill would require the State Water Resources Control Board to direct the regional boards to conform their basin plan requirements with the state's mandate for fluoridation of drinking water. Assemblymember Diane Harkey introduced the bill as AB 1048.

In the course of advancing AB 1048 through the legislative process, Water Authority staff and legislative advocates discovered the only regional board that currently requires a lower level concentration of fluoride in waste water than the state requires in drinking water is the San Diego Regional Water Quality Control Board. The author of the bill decided to hold the bill pending the outcome of negotiations with the San Diego regional board. Those negotiations have not accomplished the desired result, so staff recommends that the Water Authority continue to sponsor a bill on this subject matter. The bill may be an amended version of AB 1048, or may be a newly introduced bill. The bill needs to be changed to remove some objections the State Water Resources Control Board has to being ordered to reach a specified outcome.

Staff recommends that the Water Authority continue to sponsor a bill that requires the State Water Resources Control Board to develop a policy directing the regional boards to conform their basin plan requirements with the state's mandate for fluoridation of drinking water.

Prepared by: Jeffrey A. Volberg, Government Relations Manager

Approved by: Dennis A. Cushman, Assistant General Manager

Attachments:

1. Text of proposed sponsored bill on advanced treated purified water.
2. Text of AB 1048, as introduced.

Proposed wording for legislation

Health and Safety Code

The Legislature finds and declares the following:

(a) In February 2009, the state board unanimously adopted, as Resolution No. 2009-0011, an updated water recycling policy, which includes the goal of increasing the use of recycled water in the state over 2002 levels by at least 1,000,000 acre-feet per year by 2020 and by at least 2,000,000 acre-feet per year by 2030.

(b) Advanced treated purified water is being used to recharge groundwater aquifers in California through direct injection of the aquifer.

(c) Full scale advanced treatment facilities, operated in California, have demonstrated the ability of advanced treated purified water technologies to reliably produce high quality water that is better than most raw surface water supplies in California.

(d) If the planned introduction of advanced treated purified water upstream of a surface water treatment plant can be demonstrated to be safe and feasible, its use will significantly aid in achieving the state board's recycling goals.

(e) Upon completing a rigorous review and public process for determining the safety of introducing advanced treated purified water upstream of a surface water plant, clear authority needs to be established for the permitting of such a project.

(f) This chapter is not intended to delay, invalidate, or reverse any study or project, or development of regulations by the department, the state board, or the regional boards regarding the use of recycled water for indirect potable reuse for groundwater recharge, surface water augmentation, or direct potable reuse.

California Water Code

13561. For purposes of this chapter, the following terms have the following meanings:

(a) "Department" means the State Department of Public Health.

(b) "Direct potable reuse" means the planned introduction of recycled water directly into a public water system, as defined in Section 116275 of the Health and Safety Code, ~~or into a raw water supply immediately upstream of a water treatment plant.~~

(c) "Indirect potable reuse for groundwater recharge" means the planned use of recycled water for replenishment of a groundwater basin or an aquifer that has been designated as a source of water supply for a public water system, as defined in Section 116275 of the Health and Safety Code.

(d) ~~"Surface Reservoir water augmentation"~~ means the planned placement of recycled water into a surface water reservoir used as a source of domestic drinking water supply.

(e) "Uniform water recycling criteria" has the same meaning as in Section 13521.

(f) Raw Water Augmentation means the planned introduction of advanced treated purified water, as defined by H & S Code Section 116275, into any raw untreated water supply upstream of a potable water treatment plant permitted by the department.

13561.5. The state board shall enter into an agreement with the department to assist in implementing this chapter.

13562. (a) (1) On or before December 31, 2013, the department shall adopt uniform water recycling criteria for indirect potable reuse for groundwater recharge.

(2) (A) Except as provided in subparagraph (C), on or before December 31, 2016, the department shall develop and adopt uniform water recycling criteria for ~~surface water~~ reservoir augmentation.

(B) Prior to adopting uniform water recycling criteria for ~~surface water~~ reservoir augmentation, the department shall submit the proposed criteria to the expert panel convened pursuant to subdivision (a) of

Section 13565. The expert panel shall review the proposed criteria and shall adopt a finding as to whether, in its expert opinion, the proposed criteria would adequately protect public health.

(C) The department shall not adopt uniform water recycling criteria for reservoir augmentation pursuant to subparagraph (A), unless and until the expert panel adopts a finding that the proposed criteria would adequately protect public health..

(b) Adoption of uniform water recycling criteria by the department is subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

13563. (a) (1) The department shall investigate and report to the Legislature on the feasibility of developing ~~uniform water recycling~~ drinking water criteria for raw water augmentation or direct potable reuse.

(2) The department shall complete a public review draft of its report by June 30, 2016. The department shall provide the public not less than 45 days to review and comment on the public review draft.

(3) The department shall provide a final report to the Legislature by December 31, 2016. The department shall make the final report available to the public.

(b) In conducting the investigation pursuant to subdivision (a), the department shall examine all of the following:

(1) The availability and reliability of recycled water treatment technologies necessary to ensure the protection of public health.

(2) Multiple barriers and sequential treatment processes that may be appropriate at wastewater and water treatment facilities.

(3) Available information on health effects.

(4) Mechanisms that should be employed to protect public health if problems are found in recycled water that is being served to the public as a potable water supply, including, but not limited to, the failure of treatment systems at the recycled water treatment facility.

(5) Monitoring needed to ensure protection of public health, including, but not limited to, the identification of appropriate indicator and surrogate constituents.

(6) Any other scientific or technical issues that may be necessary, including, but not limited to, the need for additional research.

(c) (1) Notwithstanding Section 10231.5 of the Government Code, the requirement for submitting a report imposed under paragraph (3) of subdivision (a) is inoperative on December 31, 2020.

(2) A report to be submitted pursuant to paragraph (3) of subdivision (a) shall be submitted in compliance with Section 9795 of the Government Code.

13563.5. (a) The department, in consultation with the state board, shall report to the Legislature as part of the annual budget process, in each year from 2011 to 2016, inclusive, on the progress towards developing and adopting uniform water recycling criteria for ~~surface water~~ reservoir augmentation and its investigation of the feasibility of developing ~~uniform water recycling~~ drinking water criteria for raw water augmentation or ~~and~~ direct potable reuse.

(b) (1) A written report submitted pursuant to subdivision (a) shall be submitted in compliance with Section 9795 of the Government Code.

(2) Pursuant to Section 10231.5 of the Government Code, this section is repealed on January 1, 2017. 13564. In developing uniform recycling criteria for ~~surface water~~ reservoir augmentation, the department shall consider all of the following:

(a) The final report from the National Water Research Institute Independent Advisory Panel for the City of San Diego Indirect Potable Reuse/Reservoir Augmentation (IPR/RA) Demonstration Project.

(b) Monitoring results of research and studies regarding ~~surface water~~ reservoir augmentation.

(c) Results of demonstration studies conducted for purposes of approval of projects using ~~surface water~~ reservoir augmentation.

(d) Epidemiological studies and risk assessments associated with projects using surface water augmentation.

(e) Applicability of the advanced treatment technologies required for recycled water projects, including, but not limited to, indirect potable reuse for groundwater recharge projects.

(f) Water quality, limnology, and health risk assessments associated with existing potable water supplies subject to discharges from municipal wastewater, stormwater, and agricultural runoff.

(g) Recommendations of the State of California Constituents of Emerging Concern Recycled Water Policy Science Advisory Panel.

(h) State funded research pursuant to Section 79144 and subdivision (b) of Section 79145.

(i) Research and recommendations from the United States Environmental Protection Agency Guidelines for Water Reuse.

(j) Other relevant research and studies regarding indirect potable reuse of recycled water.

13565. (a) (1) The department shall convene and administer an expert panel for the purposes of advising the department on public health issues and scientific and technical matters regarding development of uniform water recycling criteria for indirect potable reuse through ~~surface water~~ reservoir augmentation and investigation of the feasibility of developing ~~uniform water recycling drinking water~~ criteria for raw water augmentation or direct potable reuse.

(2) The expert panel shall be comprised, at a minimum, of a toxicologist, an engineer licensed in the state with at least three years' experience in wastewater treatment, an engineer licensed in the state with at least three years' experience in treatment of drinking water supplies and knowledge of drinking water standards, an epidemiologist, a microbiologist, and a chemist.

(3) Members of the expert panel may be reimbursed for reasonable and necessary travel expenses.

(b) (1) The department may appoint an advisory group, task force, or other group, comprised of no fewer than nine representatives of water and wastewater agencies, local public health officers, environmental organizations, environmental justice organizations, public health nongovernmental organizations, and the business community, to advise the department regarding the development of ~~uniform water recycling drinking water~~ criteria for raw water augmentation or direct potable reuse.

(2) Environmental, environmental justice, and public health nongovernmental organization representative members of the advisory group, task force, or other group may be reimbursed for reasonable and necessary travel expenses.

13566. In performing its investigation of the feasibility of developing ~~the uniform water recycling drinking water~~ criteria for raw water augmentation or direct potable reuse, the department shall consider all of the following:

(a) Recommendations from the expert panel appointed pursuant to subdivision (a) of Section 13565.

(b) Recommendations from an advisory group, task force, or other group appointed by the department pursuant to subdivision (b) of Section 13565.

(c) Regulations and guidelines for these activities from jurisdictions in other states, the federal government, or other countries.

(d) Research by the state board regarding unregulated pollutants, as developed pursuant to Section 10 of the recycled water policy adopted by state board Resolution No. 2009-0011.

(e) Results of investigations pursuant to Section 13563.

(f) Water quality and health risk assessments associated with existing potable water supplies subject to discharges from municipal wastewater, stormwater, and agricultural runoff.

13567. An action authorized pursuant to this chapter shall be consistent, to the extent applicable, with the federal Clean Water Act (33 U.S.C. Sec. 1251 et seq.), the federal Safe Drinking Water Act (42 U.S.C. Sec. 300f et seq.), this division, and the California Safe Drinking Water Act (Chapter 4 (commencing with Section 116270) of Part 12 of Division 104 of the Health and Safety Code).

13569. The department may accept funds from any source, and may expend these funds, upon appropriation by the Legislature, for the purposes of this chapter.

Health and Safety Code 116275.

(add these definitions)

“Advanced treated purified water” means water of wastewater origin treated to a tertiary level followed by treatment at least as effective as membrane filtration, reverse osmosis, advanced oxidation and disinfection, and including engineered reliability features as approved by the department.

“Raw Water Augmentation” means the introduction of advanced treated purified water into any raw untreated water supply upstream from a potable water treatment plant permitted by the department.

“Direct Potable Reuse” means the planned introduction of recycled water directly into a the distribution system of a public water system, as defined by Section 116275 of the Health and Safety Code

116550.5. Advanced treated purified water is a source of supply under Health and Safety Code, Section 116550 and is not a waste under California Water Code, Section 13050(d).

116551. The department shall not issue a permit to a public water system or amend a valid existing permit for the use of a reservoir as a source of supply that is directly augmented with recycled water, as defined in subdivision (n) of Section 13050 of the Water Code, or a raw water supply that is augmented by advanced treated purified water unless the department does all of the following:

(a) Performs an engineering evaluation that evaluates the proposed treatment technology and finds that the proposed technology will ensure that the recycled water meets or exceeds all applicable primary and secondary drinking water standards and poses no significant threat to public health.

(b) Holds at least three duly noticed public hearings in the area where the recycled water is proposed to be used or supplied for human consumption to receive public testimony on that proposed use. The department shall make available to the public, not less than 10 days prior to the date of the first hearing held pursuant to this subdivision, the evaluations and findings made pursuant to subdivision (a).

ASSEMBLY BILL

No. 1048

Introduced by Assembly Member Harkey

February 18, 2011

An act to add Section 13142.3 to the Water Code, relating to water quality.

LEGISLATIVE COUNSEL'S DIGEST

AB 1048, as introduced, Harkey. Water quality: recycled water and wastewater: fluoride.

Under the Porter-Cologne Water Quality Control Act, the State Water Resources Control Board and the 9 California regional water quality control boards are the principal state agencies with responsibility for the coordination and control of water quality in the state. The act requires the state board to formulate and adopt state policies for water quality control, and requires the regional boards to adopt regional water quality control plans in compliance with the state policies.

This bill would require the state board, on or before July 1, 2012, to adopt a statewide policy establishing standards for levels of fluoride in recycled water and wastewater, as specified. The bill would require the state board to provide direction to the regional boards to revise their respective regional water quality control plans to ensure consistency with that statewide policy.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 13142.3 is added to the Water Code, to
2 read:
3 13142.3. (a) On or before July 1, 2012, the state board shall
4 adopt a statewide policy establishing standards for levels of fluoride
5 in recycled water and wastewater. The policy shall ensure that
6 water quality standards for maximum levels of fluoride in recycled
7 water and wastewater are consistent with, and not lower than, the
8 levels of fluoride that are required to be added to drinking water
9 pursuant to Article 3.5 (commencing with Section 116409) of
10 Chapter 4 of Part 12 of Division 104 of the Health and Safety
11 Code.
12 (b) The state board shall provide direction to the regional boards
13 to revise their respective regional water quality control plans to
14 ensure consistency with the policy adopted pursuant to subdivision
15 (a).
16 (c) The policy adopted pursuant to subdivision (a), and any
17 revision to a regional water quality control plan pursuant to
18 subdivision (b), shall be consistent with the federal Clean Water
19 Act (33 U.S.C. Sec. 1251 et seq.).

O



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

Water Conservation Program Evaluations (Information)

Background

Between 2003 and 2008, the Water Authority received competitive water conservation grants from the California Department of Water Resources (DWR), Bureau of Reclamation (USBR), and the Metropolitan Water District of Southern California (MWD). The terms of the grant funding agreements required the Water Authority to conduct thorough program evaluations upon completion of the programs, including an impact evaluation, a process evaluation, and a cost-effectiveness analysis. The results of the evaluations are disseminated to other agencies to promote knowledge transfer and to help replicate successful local programs in other regions.

In April 2010, the Board authorized professional services agreements with the top three firms selected to perform the independent evaluations. The independent evaluations included grant-funded programs and an evaluation of selected program elements funded by the Water Authority and its member agencies.

Discussion

The standard metric to measure the performance of traditional device-based water conservation programs has been cost-effectiveness, often described in dollars per acre-foot saved. This is an appropriate evaluation tool to use for simple rebate or voucher programs.

However, the Water Authority is moving away from traditional device-based water conservation programs, and it is focusing more on achieving long-term indoor and outdoor efficiency through programs that facilitate market transformation and behavioral changes. This new approach requires a broader assessment for quantifying water savings and program benefits. Market transformation or behavior-based programs may not always lead to immediate measurable water savings, but can influence water users to consider future use of more-efficient products or practices. Therefore, cost-effectiveness must be balanced with educational and customer service benefits in evaluating programs such as audits, surveys and pilot retrofit programs.

Summarized below are descriptions of four grant-funded water conservation programs and the results of the program evaluations, which take into account all these factors.

Mini Audit Program

The Mini Audit Program addressed the need for a low-cost, on-site follow-up for customers who wanted to participate in the Water Authority's Smart Landscape Grant Program and Smart Controller Voucher Program, but required additional assistance to achieve system-wide irrigation efficiency improvements. Program administration and the independent evaluation were funded from a \$60,000 grant from USBR, with a matching funding obligation of \$60,000 from the Water Authority. The program provided single-family, multifamily, and commercial, industrial,

and institutional customers with a fast and streamlined report of recommendations for further landscape and irrigation controller improvements. Program field technicians documented landscape efficiency issues and provided recommendations to improve efficiency.

The program's contractor received \$45,000 for performing the services. The evaluation of the program revealed an estimated water savings of 11 percent per year for a period of five years. The total lifetime water savings from the program's 86 participants is approximately 858 acre-feet at an estimated cost of \$52 per acre-foot, making the program very cost-effective. Additional program benefits include reducing irrigation runoff into the stormwater system and a reduction in the need to import water into the region. Water Authority staff time to manage the program's contractor is not included in the contractor's cost to administer the program.

Residential Water Budget Pilot Program

From 2007 to 2010, the Rincon del Diablo Municipal Water District targeted its top residential water use customers to participate in the Residential Water Budget Pilot Program. Customers received a water budget, a landscape audit, device retrofits (where applicable), and a cash incentive to encourage compliance with their water budget. Rincon and grants from MWD and USBR provided \$163,000 for program implementation. Rincon also provided in-kind services during the evaluation phase of the program. Water Authority staff provided administrative oversight.

The evaluation estimated a net reduction in annual water use of 5 percent, or 82,000 gallons over a 10-year period. Based on the cost to administer the program, including the cost of the detailed audit reports, cash incentives, and hardware retrofits, the cost per customer to participate in the program was \$766. The evaluation calculated the value of the water saved at \$476 per customer. Because the cost to administer the program exceeded the value of the water saved, the program as implemented was not cost-effective. However, the evaluation also found that more than 80 percent of program participants already were good stewards of water. Including customers who already had taken actions to use water efficiently lessened the overall average water savings per customer.

If programs similar to this were to be implemented in the future, the evaluation recommended only customers who are over their water budgets be targeted to participate, rather than targeting a broader range of high water users. This screening procedure could double or triple the water savings from the program. Cost-effectiveness could also be increased and costs reduced by simplifying the audit reports and by eliminating retrofits and cash incentives, two activities that did not increase water savings.

Smart Landscape Grant Program

The program encouraged owners of large landscape areas to invest in irrigation repairs and upgrades to improve outdoor water use efficiency. It provided private sector participants with grants of \$2,500 per acre and public sector participants \$5,000 per acre, each with a two-acre maximum. The grants partially funded the purchase of irrigation hardware, which included a wide array of devices such as controllers, valves, nozzles, and other components. Participants were responsible for the balance of the purchase price and installation. Program implementation

spanned five years and was made possible by more than \$1.9 million of external grants received from DWR, USBR, and MWD, and \$473,000 in local matching funds from the Water Authority and its member agencies.

During the first two years of program implementation (2005-2006), customer participation fell short of projections. However, with the onset of drought conditions, increased conservation messaging, water use restrictions, and rate increases, the program rapidly increased in popularity until all funds were depleted in 2009. In total, 474 grants were issued to properties with a cumulative gross irrigated area of 2,800 acres. Based on the program evaluation, incremental water savings (above and beyond the effects of shortage restrictions) averaged 11 percent for community association multi-family sites, and 21 percent for other commercial, industrial, and institutional customers. Typical participant savings averaged 14 percent. Total water savings for the program over its 10-year useful life is projected to be 8,000 acre-feet, resulting in a cost-effective unit value of \$300 per acre-foot. In addition, the evaluation documented market transformation benefits that are difficult to quantify, but are significant. The program helped spread awareness and customer acceptance of more water-efficient landscape products and services during the program period. Smart controllers and high-efficiency nozzles are now widely available in stores, and landscape contractors began to market water efficiency skills and services based on the experience they gained as a result of participation in the program. The evaluation also noted that the program created an environmental benefit from reducing irrigation runoff into the stormwater system.

Agricultural Water Management Program

The Agricultural Water Management Program provides irrigation system audits to agricultural properties with one or more acres of irrigated crops or groves. The program's primary objective is to educate customers on how to use water efficiently and in the most beneficial way for production agriculture. During the audit, the surveyor reviews the types of plant material, soil, and irrigation system, and combines that information with data on emission uniformity and irrigation system pressure. Water efficiency recommendations are then developed and presented to the customer. In June 2011, the Water Authority used a \$50,000 grant from DWR to evaluate the effectiveness of the program. The evaluation included a calculation of the program's water savings, a cost-effectiveness analysis, and recommendations for program improvements.

Over an 11-year period from 1997 to 2008, the program audited more than 1,500 sites and of those sites, 63 qualified to participate in the evaluation phase. An additional 100 non-audited sites were selected to serve as a comparative control case to remove consumption patterns common to all accounts. Data used for the evaluations included the results of the audit reports, water use records for a time period before and after the audits were performed, and weather data.

Based on this information, the evaluation determined that the water saved for the 63 audited sites was 1.4 acre-feet per year. The program's low water savings represent the net impact from the 40 percent of customers who increased their water use as a result of the audit and the 60 percent of customers who decreased their water use as a result of the audit. However, if only the customers who decreased their water use after the audit are included in the savings calculation, the water

savings increases to 51 acre-feet per year. The customers who increased their water use after the audit indicated that they did so to increase crop yield.

The program was not cost-effective in delivering water savings, but has significant customer service benefits for the agriculture industry. Optimizing agricultural water use can lead to reduced water waste for inefficient users, making their operations more financially sustainable and competitive. It can also help farmers and growers identify opportunities for efficiently increasing crop production, potentially boosting the agricultural industry's value to the region's annual economy. The evaluation determined the program could achieve a better balance of cost-effectiveness and customer service benefit by developing of a screening tool to identify sites that are overwatering and target only those sites for participation in the program.

Summary

Executing and evaluating these water conservation programs provided the Water Authority with important information on their value and benefits, and potential improvements that could be made to make them more effective. Staff will use this information to improve the Water Authority's existing programs. In addition, staff will use this information to help strategize, design and implement programs that create the water efficiency improvements, market transformation and behavior changes needed to help member agencies reach their long-term water efficiency targets. To view the evaluation reports in their entirety, please visit www.sdcwa.org/conservation.

Prepared by: Jeff Stephenson, Senior Water Resources Specialist

Reviewed by: Meena Westford, Public Affairs Senior Manager

Reviewed by: Jason Foster, Director of Public Outreach and Conservation



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

**Small Contractor Outreach and Opportunities Program (SCOOP) Quarterly Report
(Information)**

Background

The purpose of SCOOP is to maximize small business participation on Water Authority contracts and procurements. This report provides a summary of SCOOP program metrics and activities from July 1, 2011 through September 30, 2011.

Discussion

Outreach Activities

Throughout the quarter, Water Authority representatives reached out to 18 organizations at 21 separate events to create awareness and increase registration for SCOOP and Water Authority procurements. As part of an ongoing strategy to collaborate with other agencies on regional outreach efforts, SCOOP participated in two small-business events hosted by the San Diego Unified School District and the University of California, San Diego. Each event attracted several hundred participants and helped expand the Water Authority's pool of small firms.

Small businesses continue to be interested in learning how to work with the Water Authority. A total of 154 attendees, representing 99 firms, attended SCOOP training during the reporting period. Two training courses, "Teaming with Prime Contractors and Consultants" and a "Water Authority Meet and Greet," were held at the Water Authority's Kearny Mesa facility and provided an opportunity for small businesses to get to know larger companies and Water Authority staff. Fifty-one small businesses also participated in SCOOP's online courses outside of the classroom; e-training currently represents 33 percent of training attendance.

Program Measurements

The Water Authority's cumulative contract and purchase order awards for the first quarter of fiscal year 2012 was approximately \$34 million. Small businesses received nearly \$10 million, or 29 percent, of total dollars awarded. Minority and women-owned businesses received \$332,278. Further details of SCOOP statistics are given in Exhibit A (SCOOP Measurements Summary) and Exhibit B (SCOOP Measurements Detail). Information on minority-owned and women-owned businesses is made available to the Board for statistical purposes only.

Potential SCOOP Enhancements

SCOOP will focus on developing three new concepts to facilitate increased small business participation.

1. Evaluate a sheltered market procurement program for small businesses – A sheltered market program would limit competition for certain designated small contracts to qualified small businesses only.
2. Revise bonding thresholds on smaller construction projects – Performance bond requirements would be reduced on small, low-risk construction jobs on a case-by-case basis. Revised thresholds would not apply to payment bond requirements, which are statutorily mandated by the state.
3. Develop a small-business registration clearinghouse - A small-business certification clearinghouse is a web-based system that is shared by multiple organizations. A clearinghouse would reduce the need for small businesses to register separately with each individual agency. The Network, the Water Authority's system, is shared by six agencies, including four water agencies. It currently functions as a small-scale clearinghouse. SCOOP will work with the system administrator and the other Network partners to standardize common fields and downloads. This would make it easier for other water agencies to use The Network and provide a one-stop site for small businesses interested in working with public water agencies.

These efforts are meant to provide small businesses with greater access to Water Authority contracts and procurements and expand communication on the SCOOP program. Staff is conducting research and gathering stakeholder input into these concepts and will provide information on each of the three potential enhancements for the Board's consideration in February 2012.

Prepared by: Emily Yanushka, SCOOP Manager

Reviewed by: Jason Foster, Director of Public Outreach and Conservation

Attachments

1. Exhibit A – SCOOP Program Measurements Summary

EXHIBIT A
SCOOP Measurements Summary
 July 1, 2011 – September 30, 2011

		A-1. Small Business Measurements for July 1, 2011 – September 30, 2011					
		FY 2012 YTD			FY 2011 Total		
		Total	Small	% Small	Total	Small	% Small
1.	Number of qualified small businesses capable of bidding on Water Authority projects	5872	2403	41%	5832	2358	40%
2.	Number of bidders submitting bids and proposals for contracts	84	35	42%	341	200	59%
3.	Number of businesses participating on Water Authority procurements (contracts and purchase orders)	146	47	32%	450	197	44%
4.	Number of contracting opportunities	21	9	43%	81	30	37%
5.	Amount committed to small businesses	\$35,457,244	\$9,880,803	29%	\$40,862,936	\$16,805,729	41%

		A-2. Minority/Women-Owned Business Measurements for July 1, 2011 – September 30 2011					
		FY 2012 YTD			FY 2011 Total		
		Total	M/W	% M/W	Total	M/W	% M/W
1.	Number of qualified M/W businesses capable of bidding on Water Authority projects	5872	1579	27%	5832	1562	27%
2.	Number of bidders submitting bids and proposals for contracts	84	7	8%	341	93	27%
3.	Number of businesses participating on Water Authority procurements (contracts and purchase orders)	146	17	12%	450	74	16%
4.	Number of contracting opportunities	21	1	5%	81	12	15%
5.	Amount committed to minority and women-owned businesses	\$35,457,244	\$332,278	1%	\$40,862,936	\$4,222,121	10%



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

Quarterly report on Public Outreach and Conservation activities (Information)

Background

From September 2011 through November 2011, Public Outreach and Conservation supported Water Authority conservation and outreach programs and projects, assisted member agencies, worked with communities directly affected by Water Authority construction projects, conducted media relations activities, worked on education programs, and supplied information through various means, including publications and online communications.

Discussion

During the quarter, Public Outreach and Conservation staff worked on a variety of projects. They included handling emergency public outreach communications during a region-wide power outage, communicating the startup of pumped storage operations at the Lake Hodges Projects, and launching the “Water News” smartphone application for Android, Apple and BlackBerry. Staff also issued news releases and handled media inquires on a range of other subjects. The Department also continued to advance regional water use efficiency by promoting landscape conversion examples and tools, and by coordinating a regional workshop to promote water efficiency resources for commercial, industrial, and institutional water users. Staff executed a number of community outreach activities, including the quarterly “Water Talks” community forum and community tours for the San Vicente Dam Raise project. The education program also received a \$23,000 grant to help fund the production of water-related educational materials for teachers.

Highlights of department activities are listed below.

Media Relations

The Water Authority distributed 10 news releases during the quarter. The subjects were:

- Water Authority Now Placing Concrete to Raise Main San Vicente Dam
- Water Authority Launches “Water News” App (for BlackBerry)
- Water Authority Corrects Mistakes in San Vicente Pipeline News Report
- Water Authority Takes Steps to Advance Carlsbad Desalination Project
- Water Authority Expands Lawsuit Against MWD
- Water Authority Launches “Water News” App (for iPhone and Android)
- Adjust Irrigation Controllers this Fall to Reduce Water Waste
- Lake Hodges Project Begins Pumped Storage and Power Generation Options
- Regional Water System Fully Operational
- Water Authority Executes \$94.5 Million Senior Lien Bond Sale

Staff also hosted a photo opportunity in late November for media to see roller compacted concrete placement under way on the main dam for the San Vicente Dam Raise project. The event attracted

coverage from KSWB Channel 5, KNSD Channel 7/39, KFMB Channel 8, KUSI Channel 9/51, KGTV Channel 10, Associated Press, City News Service, *The Daily Transcript*, *Ramona Sentinel*, and the Santee Patch).

Conservation Programs

WaterSmart Innovations 2011 Conference

This conference, hosted annually in Las Vegas by the Southern Nevada Water Authority, draws an international audience and showcases the latest trends in water conservation policies, programs, and technologies. Staff delivered a presentation entitled “*San Diego Regional Highlights of Five-Year Irrigation Retrofit Incentive Program*,” to report on program implementation details and water savings.

Homeowner’s Guide to a WaterSmart Landscape

Copies of the guide were distributed at conferences in the San Diego area this fall, including the Bright Green Future Conference 2011, the American Society of Landscape Architects 2011 Annual Expo and the Irrigation Show 2011.

WaterSmart Landscape Conversion Pilot Program

On Oct. 30, nearly 40 participants visited a residence in Encinitas as part of a tour titled “*Strategies for Landscape Water Efficiency in Residential and Commercial Applications*.” This site participated in the Water Authority’s WaterSmart Landscape Conversion pilot. Its water budget-based design combines state-of-the-art irrigation technology with a climate-appropriate plant palette.

Proposition 84 Grant

The Water Authority is the lead agency for the implementation of the “Sustainable Landscapes Program,” in collaboration with six partners that include the city of San Diego and the county of San Diego. The program will develop new technical guidelines and educational resources to promote landscapes that incorporate both water efficiency and watershed protection measures. During the quarter, the partners resumed planning activities to review and update program information now being compiled by the state Department of Water Resources. The program is projected to begin implementation in mid-2012, pending execution of the regional grant agreement between the Water Authority and DWR.

MWD Programs and Funding

In June 2011, the MWD board voted to cancel funding for the Water Authority’s local resources programs including desalination, water recycling and water use efficiency. However, MWD’s board decided to not terminate the Save-a-Buck and the SoCal WaterSmart program agreements, which provide funding for business and consumer rebates for water-efficient devices directly to the consumers located in the Water Authority’s service area.

To enhance participation in the Save-a-Buck program, Water Authority staff worked with MWD’s program vendor to host a “Lunch n’ Learn” Workshop at the San Diego Botanical Garden on November 9. This educational workshop about water conservation resources for the commercial, industrial, and institutional (CII) sectors focused on rebate programs and other ways

businesses can become more water efficient. The event attracted more than 50 landscape professionals, property managers, plumbing contractors, and CII customers from the Water Authority's service area.

Energy Assessments

The California Public Utilities Commission authorized San Diego Gas & Electric to implement a \$300,000 program to offer energy assessments at no cost to the Water Authority and its member agencies. A partnership agreement between the Water Authority and SDG&E was signed to allow the Water Authority to facilitate the identification of candidates to receive the energy assessments. Six assessments were available to the Water Authority and its member agencies on a first-come, first-served basis. The assessments are under way and include an identification of energy conservation measures, savings potential, and implementation recommendations. Follow-up services include preparation of a scope of work for agencies that move forward with assessment recommendations, preparation of specifications for energy conservation measures, and assistance with preparation of incentive and grant applications.

Hans and Margaret Doe Charitable Trust Grant

The conservation program received a \$10,000 grant from the Hans and Margaret Doe Charitable Trust to help support the development of an online water use calculator tool for homeowners. The calculator tool is under development as part of the Water Authority's effort to provide resources that show residential water users how to enhance their efficiency, one of the five core conservation areas prioritized by the Board in December 2010.

Publications and Online Communications

Staff distributed *WaterSource*, the Water Authority's water issues e-newsletter, and the *20-Gallon Challenge* conservation-focused e-newsletter. Staff also completed monthly distributions of *GM's News and Notes* to board members and member agency general managers. Staff promoted the launch of the Water News mobile application for Android, iPhone and BlackBerry through the Water Authority's website and online newsletters and produced and posted several videos related to Water Authority programs.

Community Relations

Board members participated in several events during this quarter, including the AFL-CIO 29th Annual John S. Lyons Memorial Banquet, San Diego Hispanic Chamber of Commerce 2011 Iluminada Gala Luncheon, Farm Bureau Farmer of the Year Dinner, and the Asian Business Association 20th Annual Awards Dinner.

The quarterly "Water Talks" community forum took place in September. The theme was "New Challenges, New Supplies" and focused on local water supply development. Approximately 60 community members attended. The San Diego North Chamber of Commerce co-hosted the event, held at the Hewlett Packard facility in Rancho Bernardo. Attendees listened to presentations on groundwater, seawater desalination, recycled water, and the city of San Diego's Water Purification Demonstration Project.

Staff provided several presentations in the community on a variety of topics including water conservation, Water Authority overview, the current supply situation, and other topics. Organizations that received presentations include a Cal State San Marcos Border Conflicts class, the Bright Green Future Conference, ACWA Regions 8, 9 & 10 Conference, the San Diego County Taxpayers Association, the Valley Center Municipal Water District Board of Directors, and the Sustainable Scripps Ranch Group.

School Education

During this quarter, education programs reached 33 schools, 446 teachers and 9,621 students. The two firms conducting theater programs – Dr. Wilderness and Shows that Teach – have begun their programs, titled “H2O, Where Did You Go?” “Splashtastic,” and “Magic of Water.” Additionally, the education team conducted the first of two water quality workshops for teachers scheduled for the school year and a gardening workshop.

The education section also received a grant for \$23,000 from the Hans and Margaret Doe Charitable Trust. The grant funds the reproduction and distribution of two water awareness posters and a student workbook on watersheds and water conservation. One poster depicts water sources in California and how San Diego County’s imported water sources come from hundreds of miles away. The other poster demonstrates the water cycle. The purpose of the grant is to help support teachers with collateral materials as the Water Authority moves away from classroom presentations and toward providing curriculum materials and theater programs that reach students at a lower cost.

MWD/Water Authority Inspection Trips

Director Lynne Heidel hosted the first inspection trip of fiscal year 2012 on November 5-6. The 35 participants received presentations from Water Authority General Manager Maureen Stapleton and MWD Senior Deputy General Counsel Joseph Vanderhorst and visited San Vicente Reservoir, Diamond Valley Lake, the Colorado River Aqueduct, Copper Basin Reservoir, and the Whitsett Intake Pump Plant at Lake Havasu.

Additional Tours

Staff provided support and speakers for a two-day local water infrastructure tour hosted by the Water Education Foundation on Sep. 8-9. Staff also conducted a tour of the Lake Hodges Projects and Olivenhain Dam on Oct. 20 for the Association of California Water Agencies.

Joint Public Information Council

Staff hosted a joint meeting for JPIC and Conservation Coordinators in October. Attendees and staff discussed this year’s Water Authority education programs, emergency response to the September power outage, upcoming strategic planning efforts for conservation, and other topics. Staff also met with conservation coordinators from a number of member agencies in October to learn more about potential conservation outreach opportunities with Home Depot.

CIP Projects

San Vicente Projects

Staff hosted two community tours in November, following the start of roller-compacted concrete placement at the main dam. Additional tours are slated for the coming months. Staff has procured a time-lapse photography system that will be posted on the project website to enable the public to monitor the progress of construction.

Carlsbad Desalination Project

Staff began initial assessments of community outreach efforts that would be needed for construction projects related to the Carlsbad Desalination Project. These construction projects include modifications to Pipeline 3, south of the Twin Oaks Valley Water Treatment Plant, and improvements to the treatment plant itself.

Miramar Hill to Scripps Ranch Relining Project

As construction began, staff met with residents in the Scripps Nob Hill condominium complex to discuss specific concerns related to construction in their community. Staff also presented a project update to the Scripps Ranch Planning Group and responded to construction concerns and questions from a variety of community members that live close to portal locations.

Prepared by: Meena Westford, Public Affairs Senior Manager

Donna Nenow, Public Affairs Supervisor

Reviewed by: Jason Foster, Director of Public Outreach and Conservation



November 30, 2011

Attention: Legislation, Conservation and Outreach Committee

Government Relations Update (Information)

Discussion

This report is an update of the Water Authority's government relations program.

State Budget

The Legislature is out of session until January 2012. When the Legislature passed the state budget in June, it balanced the budget by assuming that the recovering economy would provide an additional \$4 billion in revenues in the 2011-2012 fiscal year. So far, the additional revenues have not materialized. Revenues as of the end of October were \$1.5 billion below projections. The state has also spent \$1.7 billion more than projected. If additional revenues do not materialize by the beginning of 2012, the budget provides for automatic spending cuts to rebalance the budget. Most likely, the Legislature will not let the automatic spending cuts take effect, but will reopen the budget in a special session in January 2012.

Legislative Roundtable

On November 4, 2011, the Water Authority hosted a Legislative Roundtable with Assemblymembers Martin Garrick, Diane Harkey, and Ben Hueso. Water Authority staff provided an update on the MWD water rate case. Water Authority directors and the legislators discussed issues ranging from desalination to financing a Bay-Delta fix. The three legislators were well versed on the issues, and expressed their eagerness to work with the Water Authority on its issues in the coming legislative year.

Draft Delta Plan Environmental Impact Report

The Delta Stewardship Council released its draft Environmental Impact Report on the Delta Plan for public comment on November 4, 2011. The comment period will end February 2, 2012. An informational board memo on the draft EIR is presented in the Imported Water Committee.

Lobbyist Activities

Jonathan Clay of Carpi and Clay will provide a separate report of the firm's monthly activities.

Bob Giroux of Lang, Hansen, O'Malley & Miller reports that he performed the following lobbying activities on behalf of the Water Authority in October:

- Participated in a conference call with board Chair Michael Hogan, board officers, and Legislation, Conservation and Outreach Committee Chair Elsa Saxod regarding developments in Sacramento.

- Provided strategic advice and information regarding the Water Authority's legislative interests.

John White's activities in October included:

- Participated in a conference call with board Chair Michael Hogan, board officers, and Legislation, Conservation and Outreach Committee Chair Elsa Saxod regarding developments in Sacramento.
- Provided strategic advice and information regarding the Water Authority's legislative interests.

Washington, D.C.

When President Obama and Congress reached agreement on raising the debt limit earlier this summer, they agreed to have a "Super Committee," comprised of members of both houses, develop a plan to reduce the federal budget deficit by \$1.5 trillion over the next 10 years. The Super Committee is scheduled to produce a report to Congress by November 23, 2011. If the Super Committee cannot agree on a deficit reduction proposal, or if Congress does not adopt the committee's recommendations, automatic reductions of \$1.2 trillion in federal spending will go into effect. The reductions will be divided between national security and domestic spending. As of November 20, the committee's process appears to have broken down, and it appears unlikely that the committee will produce a report by November 23.

Ken Carpi of Carpi & Clay will provide a separate report of the firm's monthly activities in Washington, D.C.

Prepared by: Jeffrey A. Volberg, Government Relations Manager

Reviewed by: Dennis A. Cushman, Assistant General Manager



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.

December 8, 2011

3:00 p.m.

1. Call to Order.
2. Salute to the flag.
3. Roll call, determination of quorum.
3-A Report on proxies received.
4. Additions to agenda. (Government code Sec. 54954.2(b)).
5. Approve the minutes of the Formal Board of Directors' meeting of October 27, 2011.
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 Retirement of Director. Adopt Resolution No. 2011-__ honoring Howard Williams upon his retirement from the Board of Directors.
 - 7-B Appointment of Director. Marty Miller representing Vista Irrigation District. Term expires November 22, 2017.
 - 7-C Retirement of Director. Adopt Resolution No. 2011-__ honoring Mark Muir upon his retirement from the Board of Directors.
 - 7-D Appointment of Director. Robert Topolovac representing Olivenhain Municipal Water District. Term expires August 4, 2014.
 - 7-E Presentation of Directors' service certificates.
 - 7-F Recognition of employee of the 1st quarter, Gary Tannahill, Facilities Services Technician.



8. REPORTS BY CHAIRS

8-A Chairs report: Chair Hogan.

8-B Report by Committee Chairs

Imported Water Committee	Director Watton
Engineering and Operations Committee	Director Knutson
Administrative and Finance Committee	Director Wight
Water Planning Committee	Director Dion
Legislation, Conservation and Outreach Committee	Director Saxod

9. CONSENT CALENDAR

9- 1. Amend agreement for Special Consulting Services with SCN Strategies.

Amend the agreement with SCN Strategies for continued special consulting services to the Water Authority through June 30, 2013, for a period of 17 additional months, and increasing total contract funding to an amount not-to-exceed \$387,500.

9- 2. Change Orders to Shimmick/Obayashi Joint Venture for the San Vicente Dam Raise Package 3 – Roller Compacted Concrete Dams and Appurtenant Facilities project.

Accept Shimmick/Obayashi Joint Venture Change Orders 17 and 18 for \$324,127; and authorize the General Manager to execute Change Orders for up to \$750,000 to address design modifications, differing site conditions and outside agency requirements, increasing the authorized contract amount from \$142,709,806.70 to \$143,783,933.70.

9- 3. Vote Entitlement Resolution for Calendar Year 2012.

Adopt Resolution No. 2011-___ establishing the vote and representative entitlements of each member agency to be effective January 1, 2012.

9- 4. Ordinance requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users.

Adopt Ordinance No. 2011-___ requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users.

9- 5. Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.

Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.



- 9- 6. Professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000.
Authorize the General Manager to execute a professional services contract with Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of \$315,000.
- 9- 7. Adopt proposed 2012 Legislative Policy Guidelines.
Adopt the proposed 2012 Legislative Policy Guidelines.
- 9- 8. Sponsorship of two bills in the state Legislature to address water quality standards.
Sponsor legislation that: Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code. Requires the State Water Resources Control Board to develop a policy that matches standards for fluoride in wastewater and recycled water with standards for drinking water in which the state has mandated the addition of fluoride.
10. ACTION / DISCUSSION
- 10-A Appointment of Director Doug Wilson to the Metropolitan Water District of Southern California Board of Directors. (Action)
- 10-B Audit Committee Annual Report.
Audit Committee recommendation:
1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
 2. Accept and file the Comprehensive Annual Financial Report for fiscal year ended June 30, 2011. (Action)
11. CLOSED SESSION(S)
- 11-A CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a)
Name of Case: QSA Judicial Council Coordination Proceeding No. 4353
- 11-B CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation and Potential Litigation
Government Code §54956.9(a) - SDCWA v Metropolitan Water District of Southern California; Case No. CPF-10-510830
Government Code §54956.9(c) - One Case

- 11-C CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a) – Traylor-Shea Joint Venture v SDCWA;
Case No. 37-2009-00090545-CU-BC-CTL
Traylor-Shea Joint Venture v SDCWA;
Case No. 37-2011-00092666-CU-BC-CTL
12. Action following Closed Session
13. SPECIAL REPORTS
13-A GENERAL MANAGER’S REPORT – Ms. Stapleton
13-B GENERAL COUNSEL’S REPORT – Mr. Hentschke
13-C SANDAG REPORT – Director Muir
SANDAG Subcommittee: Borders/Regional Planning Committee –
Director H. Williams
13-D AB 1234 Compliance Reports – Directors
14. OTHER COMMUNICATIONS
15. ADJOURNMENT

Doria F. Lore
Clerk of the Board

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

**MINUTES OF THE FORMAL BOARD OF DIRECTORS' MEETING
OCTOBER 27, 2011**

IMPORTED WATER COMMITTEE

CALL TO ORDER / ROLL CALL

Chair Watton called the Imported Water Committee meeting to order at 9:04 a.m. Committee members present were Chair Watton and Vice Chair Arant, and Directors Bond, Brady, Heidel, Knutson*, Linden, Steiner, Wight, and Wilson. Vice Chair Tu and Directors Bowersox, Lewinger, McIntosh, and Morrison were absent. Also present were Directors Bailey, Dailey, Dion, Ferguson, Hogan, Jungreis, Pocklington, Price, Saunders, Saxod, Smith, Walson, K. Williams, and Wornham. At that time, there was a quorum of the full 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, Colorado River Program Director Razak, MWD Program Chief Chen, and others.

*Director Knutson arrived at 9:15 a.m.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no public comments.

CHAIR'S REPORT

Chair Watton reported on issues discussed at the joint oversight hearing on the Bay Delta Conservation Plan held by Assembly Water Parks and Wildlife Committee, chaired by Assembly Member Jared Huffman (D-San Rafael) and Assembly Budget Subcommittee No. 3 on Resources and Transportation, chaired by Assembly Member Richard Gordon (D-Redwood City).

He also reported that the Lower Colorado Regional Director would be re-assigned and anticipated an Acting Regional Director would be named. He stated that Directors Steiner and Wilson held the second Board-to-Board meeting with Coachella Valley Water District Board members Patricia "Corky" Larson and Debi Livesay and pointed out that ongoing meetings help strengthen Water Authority's relationship with QSA partners. Chair Watton also stated that staff would present the proposed settlement agreement with Coachella Valley Water District for the repair and improvements on the Coachella Canal Lining Project.

Chair Watton welcomed new Board member Brian Brady to the Board.

DIRECTORS' COMMENTS

There were no comments by Directors.

I. CONSENT CALENDAR

1. Amended letter agreements for consulting services with Gordon Hess and Associates, Inc. and Water Resource Consultants, Inc.
Staff recommendation: Authorize the General Counsel to execute the amended letter agreements for consulting services with Gordon Hess and Associates, Inc. and Water Resource Consultants, Inc.

Vice Chair Arant made a motion and Director Heidel seconded the motion. The motion passed unanimously to approve the staff recommendation.

II. ACTION/DISCUSSION

1. Metropolitan Water District Issues and Activities update.
1-A Metropolitan Water District's Delegates report.

The Delegates reported on the discussions and actions taken at the recent MWD Board meetings.

2. Authorization to enter into an agreement with Coachella Valley Water District for repairs and improvements to Coachella Canal Lining Project.
Staff recommendation: Authorize the General Manager to enter into an agreement with Coachella Valley Water District to repair cracked panels and make other improvements on the Coachella Canal Lining Project. The Water Authority's cost for entering into the agreement is estimated to be \$1.4 million, which would allow the reimbursement of significant amount of retained state project funds, provide in-kind assistance from Reclamation, and realize reduced operating and maintenance costs.

Ms. Razak provided a presentation on the Coachella Canal Lining Project repair and improvement agreement. She discussed the proposed settlement agreement with Coachella Valley Water District and requested approval for the proposed settlement.

Following her presentation directors asked questions and made comments. Director Bond made a motion and Director Steiner seconded the motion. The motion passed unanimously to approve the staff recommendation.

3. Colorado River Programs.
3-A Colorado River Board representative's report.

Director Knutson announced that the report was available in the Board supplemental materials packet. He reported that total reservoir system contents had increased about 6 maf above last year.

III. INFORMATION

The following information items were noted and filed:

1. Metropolitan Water District Program report.
2. Bay-Delta quarterly update.

Mr. Hentschke took the Committee into Closed Session at 9:49 a.m.

IV. CLOSED SESSION

1. CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation and Potential Litigation
Government Code §54956.9(a) – SDCWA v Metropolitan Water District of
Southern California; Case No. CPF-10-510830
Government Code §54956.9(c) – One Case
2. CLOSED SESSION:
Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a)
Name of Case: QSA Judicial Council Coordination Proceeding No. 4353

Mr. Hentschke brought the Committee out of Closed Session at 10:06 a.m. and stated that 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 10:06 a.m.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE **CALL TO ORDER/ROLL CALL**

Chair Saxod called the Legislation, Conservation and Outreach Committee to order at 10:15 a.m. Committee members present were Chair Saxod, Vice Chairs Hilliker and Jungreis, and Directors Boyle, Croucher, Dailey, Mudd, Muir, Walson, and Wornham. Committee members absent were Directors Bowersox, Douglas, Tu, and H. Williams. Other Board members present were Directors Arant, Bailey, Bond, Brady, Dion, Ferguson, Heidel, Hogan, Knutson, Linden, Pocklington, Price, Smith, Steiner, Watton, Wight, K. Williams, and Wilson. 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, Director of Public Outreach and Conservation Foster, Public Affairs Manager Westford, and Government Relations Manager Volberg.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the Committee.

CHAIR'S REPORT

Chair Saxod announced that the Water Authority would hold a Legislative Roundtable on November 4, 2011, from 8:00 a.m. to 10:00 a.m. She stated that Assembly Members Martin Garrick, Ben Hueso, and Diane Harkey would be in attendance, and directed all planning on attending the event to inform Ms. Lore or Ms. Schnell.

Chair Saxod reported that the water news application for the Apple iPhone and Android smartphones had been launched. She stated that staff would advise when the Blackberry application was ready for use.

DIRECTORS' COMMENTS

There were no Directors' Comments.

I. CONSENT CALENDAR

There were no items on the Consent Calendar.

II. ACTION/DISCUSSION

1. Legislative Issues.

1-A Report by Carpi and Clay.

Mr. Carpi reported on issues in Washington, D.C., and Sacramento.

Adopt positions on various federal bills.

1-B Draft proposed 2012 Legislative Policy Guidelines and solicitation of ideas for 2012 legislation.

Mr. Volberg provided a presentation, including an overview of the annual update process for the guidelines, explained the expanded format, and provided additions to the Imported Water Supply, Local Water Resources, Water Facilities/Facility Improvement, Biological and Habitat Preservation, and Power Supply sections.

Mr. Volberg advised that November 18, 2011 was the deadline to submit input on the proposed changes. He also stated that input should be provided to Mr. Volberg in Sacramento or Ms. Schnell in San Diego.

2. Adopt positions on HR 1340 (Young) and HR 1907 (Calvert).

Mr. Volberg provided a presentation including an overview of HR 1340 (Young) and HR 1907 (Calvert) and recommended a position of support for both.

Director Hilliker moved, and Director Muir seconded, to adopt a position of Support on HR 1340 (Young) and HR 1907 (Calvert). Director Dailey voted no and Director Jungreis abstained. Chair Saxod called for the question and the motion passed.

III. INFORMATION

1. Conservation Action Committee.

Director Boyle reported that there were three presentations at the last committee meeting on Oct. 10, 2011: California Center for Urban Horticulture, Water Use Classification of Landscape Species, and simplified landscape irrigation estimation method. He stated all were focused on landscape and golf. He reported that he hoped to bring a wider range of speakers to future meetings.

The following items were received and filed:

2. Final report on 2011 State Legislation and Legislative Positions and Status Report on Federal Legislation.
3. Government relations update.

IV. ADJOURNMENT

There being no further business to come before the Legislation, Conservation and Outreach Committee, Chair Saxod adjourned the meeting at 10:51 a.m.

ADMINISTRATIVE AND FINANCE COMMITTEE **CALL TO ORDER / ROLL CALL**

Chair Wight called the Administrative and Finance Committee meeting to order at 11:00 a.m. Committee members present were Vice Chairs Bond and Croucher, Directors Arant, Bailey, Brady, Dion, Hilliker, Muir, Price, Smith and Wornham. Committee members absent were Directors Saunders and H. Williams. Also present were Directors Boyle, Dailey, Ferguson, Heidel, Hogan, Jungreis, Knutson, Linden, Mudd, Pocklington, Saxod, Walson, Watton, K. Williams, and Wilson. 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, Director of Finance/Treasurer Sandler, Director of Human Resources Leone, Director of Administrative Services Young, and Controller Greek.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

Eric Larson of the San Diego County Farm Bureau made comments related to the Water Authority's Special Agriculture Water Rate Program. Mr. Larson requested clarification be made to the program to guarantee agricultural customers participating in the program receive the discount associated with the special agricultural water rate.

Director Arant expressed support of Mr. Larson's statements and requested more information be provided to the Board.

Ms. Stapleton stated she and Mr. Hentschke would address the issue and provide information, as well as a recommendation for action if necessary, to the Board at its December meeting.

CHAIR'S REPORT

Chair Wight announced the 2012/2013 Budget document had been provided to the Board.

DIRECTORS' COMMENTS

There were no Director's comments.

I. CONSENT CALENDAR

1. Treasurer's report.
Staff recommendation: Note and file the monthly Treasurer's report.
2. Establish 2012 Board meeting dates.
Staff recommendation: Combine the November and December Board meeting dates to November 29, 2012 and approve the 2012 Board meeting dates calendar.
3. Amend agreement for legal services with Liebert Cassidy Whitmore.
Staff recommendation: Authorize the General Counsel to execute the amended agreement for legal services with Liebert Cassidy Whitmore.

Director Price moved, seconded by Director Smith, and the motion passed unanimously to approve the consent calendar.

II. ACTION/DISCUSSION

1. Presentation on the San Diego Economy by Clint Daniels, Principal Research Analyst, SANDAG.

Director Wornham stated the presentation was arranged in response to a request by Director Lewis and introduced Mr. Daniels.

Mr. Daniels provided a presentation on the 2050 Regional Growth Forecast which included locations of growth throughout the county, as well as population, job and housing growth forecasts. Mr. Daniels also reviewed historical forecast accuracy, the rise and fall of economic growth, unemployment rate, and granting of residential permits.

Director Wornham and Chair Wight thanked Mr. Daniels for the presentation. Directors made comments and asked questions. Mr. Daniels provided answers. Director Linden asked if the forecast projections accounted for the need for a dependable supply of water in assuring the region attracts businesses and future economic development. Mr. Daniels replied Water Authority staff was an active contributor to the forecast and the need for water was not a constraining factor in the forecast's projections. Director Muir and Chair Wight thanked Director Wornham for coordinating the presentation.

2. Report of Per Diem Workgroup recommendation to amend Administrative Code relating to per diem and reimbursement for attendance at certain events.
Staff recommendation: Adopt Ordinance No. 2011-04, an ordinance of the Board of Directors of the San Diego County Water Authority amending sections 2.05.010 and 2.05.020 of the Administrative Code relating to payment of director compensation and expense reimbursement for attendance at meetings.

Director Wornham introduced the item and provided a brief history. Director Wornham stated the item was presented to the Board at the April 28, 2011 meeting, at which time the item was deferred to allow a workgroup be formed to review the Administrative Code and make a recommendation. Director Wornham chaired the workgroup, which included Directors Croucher, Ferguson, K. Williams and Wilson. Director Wornham reviewed the goals of the committee and the resulting recommendation.

Director Croucher moved, seconded by Director Muir, and the motion passed unanimously to approve the item.

III. INFORMATION

The following items were noted and filed:

1. Controller's report on monthly financial statements.
2. Public Disclosure Reports.
 - 2-A Reimbursements to Board members and staff per Government Code Section 53065.5.
 - 2-B Board of Directors' Third Quarter 2011 expenses and attendance.
 - 2-C Water Authority memberships.

Directors Croucher and Watton requested the Water Authority's Taxpayer's Association membership be reviewed. Ms. Stapleton stated the Board Officer's group would review the membership.

Directors Muir, Croucher and Watton requested more information be provided as to the purpose of some of the memberships. Ms. Stapleton stated the information would be provided.

Director Wilson commended staff on the preparation of the 2012/2013 Budget document.

3. Board calendar.

IV. CLOSED SESSION

There was no closed session.

V. ADJOURNMENT

There being no further business to come before the Administrative and Finance Committee, Chair Wight adjourned the meeting at 12:02 p.m.

ENGINEERING AND OPERATIONS COMMITTEE

CALL TO ORDER/ROLL CALL

Chair Knutson called the Engineering and Operations Committee to order at 1:00 p.m. Committee members present were Chair Knutson, Vice Chairs Dailey and Pocklington, and Directors Bailey, Ferguson, Hogan, Mudd, Saxod, Smith, K. Williams, and Wilson. Directors Douglas, Lewinger, McIntosh, and Morrison were absent. Other Board members present were Directors Arant, Boyle, Brady, Dion, Heidel, Hilliker, Linden, Muir, Price, Steiner, Walson, Watton, Wight 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 was General Counsel Hentschke, Deputy General Managers Belock and Kerl, Director of Engineering Rose, and Director of Operations and Maintenance Eaton.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the Committee.

CHAIR'S REPORT

Chair Knutson reported Board members had attended the October 1, 2011 Engineering and Operations Tour. He showed slides of construction activity and progress seen at the San Vicente Dam site.

Chair Knutson reported the Lake Hodges Subcommittee met in October and observed unit 1 running smoothly, and the repairs to unit 2 progressing on schedule. The Subcommittee also discussed the contract for operation and maintenance of the pump storage facility, and the power purchase agreement with SDG&E.

Chair Knutson announced an Engineering and Operations Committee workshop would be held on Thursday, November 10, 2011 at 11:30 a.m., to update Committee members on all issues regarding Lake Hodges.

I. CONSENT CALENDAR

1. Purchase of one replacement 60-inch plunger valve from VAG Valves, USA.
Staff recommendation: Approve the purchase of one replacement 60-inch plunger valve from VAG Valves, USA for \$307,087.50. Water Authority staff will install the valve as part of Asset Management's Valve and Venturi Meter Replacement Program.
2. Professional services contracts for as-needed survey services.
Staff recommendation: Authorize the General Manager to award six individual three-year professional services contracts in the amount of \$100,000 each to Aguirre & Associates, Berggern & Associates, Nasland Engineering, Project Design Consultants, Rick Engineering, and Snipes-Dye Associates, for a not-to-exceed total of \$600,000 to provide as-needed land survey services.

Director K. Williams moved to approve, Director Smith seconded and the motion to approve the Consent Calendar passed unanimously.

II. ACTION/DISCUSSION

There were no Action/Discussion items on the agenda.

III. INFORMATION

There were no Information items on the agenda.

IV. CLOSED SESSION

There were no Closed Session items on the agenda.

V. ADJOURNMENT

There being no further business to come before the Engineering and Operations Committee, Chair Knutson adjourned the meeting at 1:10 p.m.

WATER PLANNING COMMITTEE

CALL TO ORDER/ROLL CALL

Chair Dion called the Water Planning Committee Meeting to order at 1:15 p.m. Committee members present were Chair Dion, Vice Chairs Price and Saunders*, Directors Boyle, Ferguson, Heidel, Hogan, Linden, Pocklington, Steiner, Walson, Watton and K. Williams. Also present were Directors Arant, Bailey, Brady, Bond*, Dailey, Hilliker, Knutson, Mudd, Muir*, Saxod, Smith, Tu*, Wight, H. Williams, Wornham and Wilson. 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, Water Resources Director Weinberg, and Water Resources Managers Purcell, Roy and Yamada.

PUBLIC COMMENT

There were no public comments.

DIRECTORS' COMMENTS

There were no comments made by Directors.

CHAIR'S REPORT

Chair Dion advised there would be a special workshop of the Water Planning Committee in February 2012 concerning potential changes on the drought allocation methodology, the water shortage and drought management plan, and a preview of the draft 2012 Facilities Master Plan, and that two evening meetings for the public would be scheduled in early 2012 for the required scoping for the Regional Water Facilities Master Plan Program Environmental Impact Report.

I. CONSENT CALENDAR

1. Amendment to Agreement with U.S. Fish and Wildlife Service for expedited regulatory processing.
Staff recommendation: Authorize execution of an amended agreement with the U.S. Fish and Wildlife Service to provide staff for expedited processing of permits and other regulatory actions for a 36-month period in an amount not-to-exceed \$300,000.

Director Steiner moved, Vice Chair Price seconded, and the motion passed unanimously to approve the staff recommendation.

*Vice Chair Saunders arrived at 1:18 p.m..

II. ACTION/DISCUSSION

1. Carlsbad Desalination Project.
1-A Status report.

Ms. Stapleton provided an overview of what would be presented on.

*Directors Bond and Muir arrived at 1:35 p.m., and Director Tu arrived at 2:10 p.m.

Mr. Weinberg began with a summary of the project background and provided information on a water purchase agreement, including roles of the Water Authority and Poseidon and key tasks necessary to complete a draft agreement. Staff responded to questions and comments provided by Directors Pocklington, Wilson, Watton, Walson, Bailey, Saunders, Arant, Muir, H. Williams, Hogan, Mudd, and Price.

Mr. Sandler provided information on projected costs and potential rate impacts. Staff responded to questions posed by Directors Steiner, Arant, K. Williams, Mudd, Tu, Wight, Walson, Price and Bond. At Director Mudd's request, staff agreed to modify slide 27 of the presentation to show real dollars and a range from dry year to wet year.

Mr. Weinberg concluded the presentation with a schedule and next steps, including beginning face to face negotiations with Poseidon. In addition, staff would provide a detailed schedule of activities at the December 8, 2010 Water Planning Committee meeting, including dates of two public workshops.

- 1-B Consideration of revisions of Guiding Principles for Member Agency Purchase of Local Supplies from the Carlsbad Desalination Project. Board Desalination Workgroup recommendation: That the Board of Directors reduce the notification time from 90 days to 60 days from the release of the draft water purchase agreement for public review as originally recommended by staff.

Director Steiner moved and Director Ferguson seconded a motion to approve the recommendation. Director Heidel requested comments from Poseidon representatives concerning project timing or any aspect of the information presented. Chair Dion called for a vote on the motion, which passed unanimously.

Chair Dion called upon Peter MacLaggan, Vice President Poseidon Resources, for remarks. Mr. MacLaggan reported Poseidon would be supportive of the timing and was committed to working collaboratively and efficiently with the Water Authority to expedite tasks necessary to continue forward progress.

III. INFORMATION

The following item was received and filed:

1. Water Resources report

IV. CLOSED SESSION

Chair Dion called the committee into Closed Session at 2:45 p.m. for the following:

CLOSED SESSION

Conference with Real Property Negotiator

Government Code §54956.8

Property: Real property interests for Carlsbad Desalination Facility Pipelines and Aqueduct Connection

Agency Negotiators: Daniel Hentschke, Maureen Stapleton, Sandra Kerl, Ken Weinberg, Eric Sandler

Negotiating Parties: Poseidon Channelside, LLC

Under Negotiation: Price and terms of acquisition

At 3:40 p.m. Mr. Hentschke brought the Committee out of Closed Session and announced there was no reportable action.

V. ADJOURNMENT

Chair Dion adjourned the meeting at 3:40 p.m.

FORMAL BOARD OF DIRECTORS' MEETING OF OCTOBER 27, 2011

1. **CALL TO ORDER** Chair Hogan called the Formal Board of Directors' meeting to order at 3:45 p.m.
2. **SALUTE TO THE FLAG** Director Saxod led the salute to the flag.
3. **ROLL CALL, DETERMINATION OF QUORUM**
Secretary Smith called the roll. Directors present were Arant, Bailey, Bond, Brady, Dailey, Dion, Ferguson, Heidel, Hilliker, Hogan, Knutson, Linden, Mudd, Muir, Pocklington, Price, Saxod, Smith, Steiner, Tu, Walson, Watton, Wight, H. Williams, K. Williams, Wilson, and Wornham. Directors absent were Bowersox, Boyle, Croucher, Douglas, Jungreis, Lewinger, McIntosh, Morrison, Saunders, and Representative Slater-Price.

3-A **Report on proxies received.** Director Watton was the proxy for Director Croucher.
4. **ADDITIONS TO AGENDA** There were no additions to the agenda.
5. **APPROVAL OF MINUTES** Director Knutson moved, Director Saxod seconded, and the motion carried at 86.87% of the vote to approve the minutes of the Formal Board of Directors' meeting of September 22, 2011. Director Brady abstained.
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 that wished to speak.
7. **PRESENTATIONS AND PUBLIC HEARINGS**
 - 7-A **Appointment of Director.** Keith Lewinger representing Carlsbad Municipal Water District. Term expires: June 16, 2014.
 - 7-B **Appointment of Director.** Brian Brady representing Fallbrook Public Utility District. Term expires July 14, 2016.
 - 7-C Presentation of Directors' service certificates.

Chair Hogan announced the new appointments. None of the Directors were present to receive their certificates.

8. **REPORTS BY CHAIRS**

8-A Chairs report: Chair Hogan. Chair Hogan announced Jim Bowersox had resigned from the Board effective October 15, 2011. He stated as a result of his resignation he had appointed Director Arant to replace him as Chair of the Desalination Workgroup. Director Arant had been serving as a Committee member. In addition, he had appointed Director Dion to serve on that Workgroup. He stated Jim Bowersox had also served as an MWD Delegate and per the Administrative Code an announcement must be made at a Board meeting that an appointment of a pending MWD Delegate would be made at the following Board meeting. He stated that he was therefore announcing an appointment would be made at the December 8, 2011 Board meeting.

He stated at the Board's retreat last Spring, fiscal sustainability was discussed and the need to continue the long-held practice of innovation and continuous improvement in financial planning and rate and charge development. He announced the formation of a new Fiscal Sustainability Workgroup consisting of members of the Administrative and Finance Committee. The members were Director Wight who would Chair the Workgroup, Directors Bond and Croucher who serve as Vice Chairs of the Administrative and Finance Committee and Directors Smith and Wornham. The Workgroup would report back with recommendations no later than October 2012. He also reminded the Board members of the Legislative Roundtable on November 4, 2011.

8-B Report by Committee Chairs.

Imported Water Committee. Director Watton reviewed the meeting and the actions taken.

Legislation, Conservation and Outreach Committee. Director Saxod reviewed the meeting and the actions taken.

Administrative and Finance Committee. Director Wight reviewed the meeting and the actions taken.

Engineering and Operations Committee. Director Knutson reviewed the meeting and the actions taken.

Water Planning Committee. Director Dion reviewed the meeting and the actions taken.

9. **CONSENT CALENDAR**

Director Pocklington moved, Director Bond seconded, and the motion carried at 86.87% of the vote to approve the consent calendar. Directors voting no or abstaining are listed under the item number.

9- 1. Amended letter agreements for consulting services with Gordon Hess and Associates, Inc. and Water Resource Consultants, Inc.

The Board authorized the General Counsel to execute the amended letter agreements for consulting services with Gordon Hess and Associates, Inc. and Water Resource Consultants, Inc.

9- 2. Authorization to enter into an agreement with Coachella Valley Water District for repairs and improvements to Coachella Canal Lining Project.

The Board authorized the General Manager to enter into an agreement with the Coachella Valley Water District to repair cracked panels and make other improvements on the Coachella Canal Lining Project. The Water Authority's cost for entering into the agreement is estimated to be \$1.4 million, which would allow the reimbursement of a significant amount of retained state project funds, provide in-kind assistance from Reclamation, and realize reduced operating and maintenance costs.

9- 3. Adopt positions on various federal bills.

The Board adopted positions of Support on HR 1340 (Young) and Support on HR 1907 (Calvert).

9- 4. Treasurer's report.

The Board noted and filed the monthly Treasurer's report.

9- 5. Establish 2012 Board meeting dates.

The Board authorized combining the November and December Board meeting dates to November 29, 2012 and approved the 2012 Board meeting dates calendar.

9- 6. Amended agreement for legal services with Liebert Cassidy Whitmore.

The Board authorized the General Counsel to execute the amended agreement for legal services with Liebert Cassidy Whitmore.

9- 7. Report of Per Diem Workgroup recommendation to amend Administrative Code relating to per diem and reimbursement for attendance at certain events.

The Board adopted **Ordinance No. 2011-04** amending sections 2.05.010 and 2.05.020 of the Administrative Code relating to payment of director compensation and expense reimbursement for attendance at meetings.

- 9- 8. Purchase of one replacement 60-inch plunger valve from VAG Valves, USA.
The Board approved the purchase of one replacement 60-inch plunger valve from VAG Valves, USA for \$307,087.50. Water Authority staff will install the valve as part of Asset Management's Valve and Venturi Meter Replacement Program.
- 9- 9. Professional services contracts for as-needed survey services.
The Board authorized the General Manager to award six individual three-year professional services contracts in the amount of \$100,000 each to Aguirre & Associates, Berggern & Associates, Nasland Engineering, Project Design Consultants, Rick Engineering, and Snipes-Dye Associates, for a not-to-exceed total of \$600,000 to provide as-needed land survey services.
- 9-10. Amendment to Agreement with U.S. Fish and Wildlife Service for expedited regulatory processing.
The Board authorized the execution of an amended agreement with the U.S. Fish and Wildlife Service to provide staff for expedited processing of permits and other regulatory actions for a 36-month period in an amount not-to-exceed \$300,000.
- 9- 11. Status Report on Draft Water Purchase Agreement for the Carlsbad Desalination Project.
The Board revised the Guiding Principles for Member Agency Purchase of Local Supplies from the Carlsbad Desalination Project to reduce the required time for member agencies to notify the Water Authority that they intend to purchase Carlsbad Desalination Project water from the Water Authority from 90 days to 60 days from public release of the draft water purchase agreement.
10. **ACTION/DISCUSSION**
- 10-A Approve the Audit Committee's recommendation of McGladrey & Pullen as independent auditor for a five-year period covering the financial audits of FY 2012 – FY 2016.
Audit Committee recommendation: Approve the selection of McGladrey & Pullen as the Water Authority's and QSA JPA's independent auditor, and authorize the General Manager to enter into an agreement with MP, for independent audits for a five-year period from April 1, 2012 through March 31, 2017 for a not-to-exceed amount of \$427,650.
- 10-B Approve the Audit Committee's recommendation of Lance, Soll & Lunghard, LLP as the consultant for a five-year period covering Agreed Upon Procedures services for the period April 1, 2012 through March 31, 2017.
Audit Committee recommendation: Approve the selection of Lance, Soll & Lunghard, LLP as the Water Authority's consultant, and authorize the General Manager to enter into an agreement with LSL, for agreed upon procedures services for a five-year period from April 1, 2012 through March 31, 2017, for a not-to-exceed amount of \$291,605.

Director H. Williams moved, Director Dailey seconded, and the motion passed at 86.87% of the vote to pass both items 10-A and 10-B.

11. CLOSED SESSION(S)

11-A CLOSED SESSION:

Conference with Legal Counsel - Existing Litigation and Potential Litigation
Government Code §54956.9(a) - SDCWA v Metropolitan Water District of Southern California; Case No. CPF-10-510830
Government Code §54956.9(c) - One Case

11-B CLOSED SESSION:

Conference with Legal Counsel – Existing Litigation
Government Code §54956.9(a)
Name of Case: QSA Judicial Council Coordination Proceeding No. 4353

11-C CLOSED SESSION:

Conference with Real Property Negotiator
Government Code §54956.8
Property: Real property interests for Carlsbad Desalination Facility Pipelines and Aqueduct Connection
Agency Negotiators: Daniel Hentschke, Maureen Stapleton, Sandra Kerl, Ken Weinberg, Eric Sandler
Negotiating Parties: Poseidon Channelside, LLC
Under Negotiation: Price and terms of acquisition

Mr. Hentschke announced there was no need for a Closed Session.

12. Action following Closed Session.

13. SPECIAL REPORTS

13-A GENERAL MANAGER’S REPORT – Ms. Stapleton provided an updated on the MWD lawsuit.

13-B GENERAL COUNSEL’S REPORT – No report was given.

13-C SANDAG REPORT – Director Muir stated there was nothing to report.
SANDAG BORDERS/REGIONAL PLANNING COMMITTEE – Director H. Williams announced there was nothing to report.

13-D AB 1234 COMPLIANCE REPORTS – No reports were given.

14. **OTHER COMMUNICATIONS** - None.

15. **ADJOURNMENT**

There being no further business to come before the Board, Chair Hogan adjourned the meeting at 4:15 p.m.

Michael T. Hogan, Chair

Richard K. Smith, Secretary

Doria F. Lore, Clerk of the Board

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
SAN DIEGO COUNTY WATER AUTHORITY
HONORING HOWARD S. WILLIAMS
UPON HIS RETIREMENT FROM THE BOARD OF DIRECTORS

WHEREAS, Howard Williams served as a member of the Board of Directors of the San Diego County Water Authority, representing Vista Irrigation District, from January 13, 1994 to his retirement on November 28, 2011; and

WHEREAS, he served as Vice Chair on the Legislation, Conservation and Outreach Committee, and Planning and Environmental Committee, and as a member on the Administrative and Finance Committee, Administrative and Legal Committee, Engineering and Operations Committee, Fiscal Policy Committee, Legislation Conservation and Outreach Committee, Planning and Environmental Committee, Public Affairs Committee, and Water Policy Committee; and

WHEREAS, he served as Chair on the Audit Committee, and as a member on the AD HOC Committee on Storage and Treated Water, Colorado River Programs AD HOC, Master Plan AD HOC, Quantification Settlement Agreement Implementation AD HOC, Admin Code Recodification Subcommittee, Audit Committee, and Audit Subcommittee; and

WHEREAS, he served as a member on SANDAG Borders Committee, and Regional Planning Committee; 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 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 Howard S. Williams for his dedicated service to the San Diego region.

PASSED, APPROVED, and ADOPTED this 8th day of December, 2011.

Ayes:

Noes:

Abstain:

Absent:

Michael T. Hogan,
Chair

ATTEST:

Richard K. Smith,
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2011- _____ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore
Clerk of the Board



San Diego County Water Authority

DATE: November 30, 2011
TO: Board of Directors
FROM: Daniel S. Hentschke, General Counsel
RE: Credentials of Marty Miller
Vista Irrigation District

Transmitted herewith is information submitted appointing Marty Miller to the Water Authority's Board of Directors. His term will expire on November 22, 2017.

The credentials furnished are sufficient for the qualifications of Mr. Miller as a member of the Water Authority Board.

A handwritten signature in blue ink, appearing to read "Daniel S. Hentschke", written over a horizontal line.

Daniel S. Hentschke
General Counsel

df1

Attachment



1391 Engineer Street • Vista, California 92081-8840
Phone: (760) 597-3100 • Fax: (760) 598-8757
www.vid-h2o.org

October 5, 2011

Doria Lore
Clerk of the Board
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123-1233

Re: VID Director Marty Miller appointed to the San Diego County Water Authority Board

Dear Ms. Lore:

Enclosed please find the excerpt from the minutes of the September 21, 2011 Adjourned Meeting of the Vista Irrigation District Board of Directors. This excerpt shows the minute order in which the Board appointed Director Marty Miller to the Water Authority Board of Directors for the upcoming six-year term beginning on November 23, 2011. Please let me know if I may be of assistance in coordinating the swearing in of Director Miller.

If you have any questions or concerns please feel free to contact me at (760) 597-3158.

Best regards,

A handwritten signature in blue ink that reads "Lisa R. Soto".

Lisa R. Soto
Secretary of the Board

Enclosures

Board of Directors

Jo MacKenzie, *President*
Paul E. Dorey
Marty Miller
Richard L. Vásquez
Howard S. Williams

Administrative Staff

Roy A. Coox
General Manager
Eldon L. Boone
Assistant General Manager / Treasurer
Lisa R. Soto
Board Secretary
Joel D. Kuperberg
General Counsel

RECEIVED

OCT 07 2011

CLERK OF THE BOARD



1391 Engineer Street, Vista, California 92083-8840
(760) 597-3100

EXCERPT FROM THE MINUTES OF THE MEETING
OF THE BOARD OF DIRECTORS OF VISTA IRRIGATION DISTRICT

DATE OF MEETING: September 21, 2011
DIRECTORS PRESENT: Directors Miller, Vásquez, Dorey, Williams, and MacKenzie
DIRECTORS ABSENT: None

11-09-97 *Upon motion by Director Williams, seconded by Director Vásquez and carried, the Board of Directors appointed Director Marty Miller as the District's representative to the San Diego County Water Authority Board of Directors for the upcoming six-year term ending November 22, 2017.*

State of California)
County of San Diego)

I, Lisa R. Soto, Secretary of the Board of Directors of Vista Irrigation District, do hereby certify that the foregoing is a true and correct excerpt of the Minutes of the Adjourned Meeting of the Board of Directors of Vista Irrigation District.

Dated: October 5, 2011

A handwritten signature in blue ink that reads 'Lisa R. Soto'.

Lisa R. Soto, Secretary
Board of Directors
VISTA IRRIGATION DISTRICT

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
SAN DIEGO COUNTY WATER AUTHORITY
HONORING MARK MUIR
UPON HIS RETIREMENT FROM THE BOARD OF DIRECTORS

WHEREAS, Mark Muir served as a member of the Board of Directors of the San Diego County Water Authority, representing Olivenhain Municipal Water District, from November 5, 2003 to his retirement on November 28, 2011; and

WHEREAS, he served as Chair on the Imported Water Committee, Vice Chair on the Water Planning Committee, and as a member on the Administrative and Finance Committee, Administrative and Legal Committee, Engineering and Operations Committee, Legislation Conservation and Outreach Committee, and Water Planning Committee; and

WHEREAS, he served as Chair on the Conservation AD HOC Committee, and as a member on the Admin Code Recodification Subcommittee, Colorado River Programs AD HOC, Conservation AD HOC, Quantification Settlement Agreement Implementation AD HOC, and the Strategic Plan AD HOC Committee; and

WHEREAS, he served as a representative and an alternate at 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 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 Mark Muir for his dedicated service to the San Diego region.

PASSED, APPROVED, and ADOPTED this 8th day of December, 2011.

Ayes:

Noes:

Abstain:

Absent:

Michael T. Hogan,
Chair

ATTEST:

Richard K. Smith,
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2011- _____ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore
Clerk of the Board



San Diego County Water Authority

DATE: November 30, 2011
TO: Board of Directors
FROM: Daniel S. Hentschke, General Counsel
RE: Credentials of Robert F. Topolovac
Olivenhain Municipal Water District

Transmitted herewith is information submitted appointing Robert F. Topolovac to the Water Authority's Board of Directors. His term will expire on August 4, 2014.

The credentials furnished are sufficient for the qualifications of Mr. Topolovac as a member of the Water Authority Board.

A handwritten signature in blue ink, appearing to read "Daniel S. Hentschke", written over a horizontal line.

Daniel S. Hentschke
General Counsel

dfi

Attachment

RECEIVED

NOV 23 2011

RESOLUTION NO. 2011-33

CLERK OF THE BOARD RESOLUTION OF THE BOARD OF DIRECTORS OF THE
OLIVENHAIN MUNICIPAL WATER DISTRICT
DESIGNATING ROBERT F. TOPOLOVAC AS THE
DISTRICT REPRESENTATIVE ON THE BOARD OF DIRECTORS
OF THE SAN DIEGO COUNTY WATER AUTHORITY

WHEREAS, the Olivenhain Municipal Water District is a member agency of the San Diego County Water Authority and entitled to one representative to serve as a member of the Board of Directors of the San Diego County Water Authority; and

WHEREAS, the Board of Directors of the Olivenhain Municipal Water District adopted Resolution 2003-33 on October 22, 2003 appointing Mark A. Muir as the District's representative on the Board of Directors of the San Diego County Water Authority; and

WHEREAS, the term of office of Mark A. Muir as representative of Olivenhain Municipal Water District on the Board of Directors of the San Diego County Water Authority expires on August 4, 2014; and

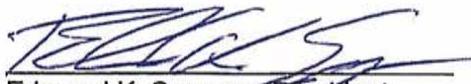
WHEREAS, Mark A. Muir has expressed interest in resigning from his position on the Board of Directors of the San Diego County Water Authority prior to his term expiration.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE OLIVENHAIN MUNICIPAL WATER DISTRICT DOES HEREBY FIND, DETERMINE, RESOLVE, AND ORDER AS FOLLOWS:

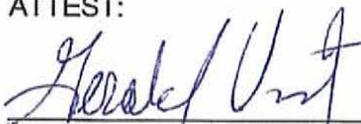
Section 1: The President of the Board, with the approval of the Board of Directors of the Olivenhain Municipal Water District, does hereby appoint Robert F. Topolovac as the District's representative on the Board of Directors of the San Diego County Water Authority for the remainder of the term ending August 4, 2014.

Section 2: The Secretary is hereby authorized and directed to provide a certified copy of this Resolution to the San Diego County Water Authority.

PASSED, ADOPTED AND APPROVED at a regular meeting of the Board of Directors on the 9th day of November, 2011.


Edmund K. Sprague, President
Board of Directors
Olivenhain Municipal Water District

ATTEST:


Gerald E. Varty, Secretary
Board of Directors
Olivenhain Municipal Water District

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO)

I, KIMBERLY A. THORNER, Assistant Secretary of the Board of Directors of the Olivenhain Municipal Water District, DO HEREBY CERTIFY THAT the foregoing Resolution was duly adopted by the Board of Directors of said District at a Regular Meeting of said Board of Directors held on the 9th day of **November 2011** and that it was so adopted by the following vote:

AYES: Directors Muir, Guerin, Sprague, and Varty

NOES: None

ABSTAIN: Director Topolovac

ABSENT: None

I DO HEREBY CERTIFY THAT the foregoing is a full, true and correct copy of **Resolution Number 2011-33** of said Board of Directors and that same has not been amended or repealed.

DATE: 11/9/11


KIMBERLY A. THORNER
Assistant Secretary, Board of Directors
Olivenhain Municipal Water District



November 30, 2011

Attention: Board of Directors

From: Michael T. Hogan, Chair

Appointment of Director Doug Wilson to the Metropolitan Water District of Southern California Board of Directors. (Action)

As you know, Jim Bowersox resigned from the Water Authority Board of Directors, effective Oct. 15, 2011. This created a vacancy in our Metropolitan Water District delegation. At the Water Authority's October 27, 2011 Board of Directors meeting, I provided notice required by our Administrative Code of the delegate vacancy, and asked the Board of Directors for recommendations to fill the vacancy. I appreciate the many calls and emails from Board members with their suggestions.

I have taken all of the Board's feedback under consideration and, in conformance with the Water Authority's Administrative Code, I am appointing Director Doug Wilson as a Metropolitan Delegate; I respectfully request the board's approval of Resolution 2011-___.

Director Wilson will serve an indefinite term on the MWD board, subject to biennial review as provided for in the Administrative Code.

RESOLUTION NO. 2011-_____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY APPROVING THE APPOINTMENT OF DOUG WILSON AS A REPRESENTATIVE OF THE SAN DIEGO COUNTY WATER AUTHORITY ON THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

WHEREAS, pursuant to the Metropolitan Water District Act and Section 9.00.010 of the San Diego County Water Authority Administrative Code, Michael T. Hogan, Chair of the San Diego County Water Authority, has designated and appointed Doug Wilson to serve as a member of the Board of Directors of the Metropolitan Water District of Southern California;

NOW THEREFORE, BE IT RESOLVED, the Board of Directors of the San Diego County Water Authority hereby approve the appointment of Doug Wilson as a Water Authority representative and a member of the Board of Directors of the Metropolitan Water District of Southern California for an indefinite term.

PASSED, APPROVED, and ADOPTED this 8th day of December 2011.

AYES:
NOES:
ABSTAIN:
ABSENT:

Michael T. Hogan, Chairman

ATTEST:

Thomas V. Wornham, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2011- _____ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore
Clerk of the Board

November 30, 2011

Attention: Board of Directors

Audit Committee Annual Report (Action)

Audit Committee recommendation

1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
2. Accept and file the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2011.

Fiscal Impact

There is no fiscal impact associated with the recommended action.

Background

On August 19, 2009 the Board approved the establishment of an Audit Committee. The action was driven by the desire to separate oversight responsibilities for the audit function from the Administrative & Finance Committee, which is responsible for oversight of financial policy such as budgeting, financing, rates and charges. Per the administrative code, each year the committee is to provide an annual report to the full Board regarding the discharge of its duties.

Previous Board action: On August 19, 2009 the Board adopted Ordinance No. 2009-05 establishing the Audit Committee.

Discussion

The Committee's work during the year focused on the oversight of the annual financial audit for fiscal year 2011. The Water Authority's auditor, Lance, Soll, and Lunghard, LLP (LSL) provided the Water Authority with an unqualified (or clean) opinion on the financial statements for the fiscal year ended June 30, 2011. No Management letter comments or instances of noncompliance or deficiencies in internal controls were reported.

In addition the Committee recommended selection of a new external auditor (McGladrey & Pullen, LLP) and the retention of a firm to provide Agreed-Upon-Procedures services (Lance, Soll & Lunghard, LLP) (LSL). Both contracts were approved by the Board on October 27, 2011. Both firms will begin work under the new contracts effective April 1, 2012.

Audit Committee Annual Report

In discharging its responsibilities the Audit Committee met four times. Following are descriptions of the business conducted at the various meetings.

- January 12, 2011: The Committee met to discuss the pending contract for Mayer, Hoffman McCann P.C. (MHM) for independent audit services. The contract was put on hold pending the outcome of an independent review.
- April 27, 2011: Staff introduced the audit team, who presented annual audit roles and responsibilities, scope, and limitations. This included a discussion with Committee

members regarding auditing standards, interim and year-end audit procedures, as well as the various components of the CAFR. The Committee requested LSL and staff meet with two Committee Members (Doug Wilson and Ken Williams) in July 2011 to discuss the audit plan in more detail.

Staff revisited the issue regarding the pending contract with MHM. The audit committee made a decision to not move forward with award of the contract. Staff also reviewed with Committee members a draft request for proposals (RFP) for audit services focusing on the scope and term of the agreement, which included a discussion of certain recommended practices adopted by the Government Finance Officers' Organization (GFOA). After considering GFOA recommendations regarding audit contract terms and auditor rotation/competition, the Committee voted to direct staff to prepare two separate RFP's, one for independent audit services and another for agreed-upon-procedures services. Direction included a recommendation to seek five-year service agreements, and to include the Water Authority's current auditor, LSL as well as MHM in the selection process. In addition the Committee appointed member Doug Wilson to serve on the selection panel.

- September 28, 2011: The selection panel discussed with the Committee its rigorous selection process which included both written proposals and oral interviews. Of the three audit firms interviewed for each RFP, the selection panel recommended McGladrey & Pullen LLP to the full Board of Directors as the new independent auditors, and LSL as the firm to provide agreed-upon-procedures services.

In addition, Richard Kikuchi from LSL discussed the preliminary results of the audit fieldwork for fiscal year 2011. Mr. Kikuchi reviewed the highlights of the July 21, 2011 audit planning meeting attended by committee members Doug Wilson and Ken Williams. He also discussed the type of testing completed during fieldwork and the remaining work needed to complete the audit.

November 10, 2011: Prior to the Public meeting, the sub-committee comprised of Directors Doug Wilson and Kenneth Williams met independently with Lance Soll and Lunghard Auditors. During the Public meeting Directors Wilson and Williams reported the meeting went well and the auditors had commended the Water Authority on the high quality of finance staff.

Director Kenneth Williams requested staff discuss with General Counsel, a means for the Audit Committee to hear the "report out" of any director's only meetings with the auditor within the context of the Brown Act. He requested this issue be discussed at a future Audit Committee meeting.

Controller Rod Greek reviewed the roles and responsibilities of staff, the Audit Committee and the independent audit firm. Richard Kikuchi and Kelly Culver, from Lance, Soll & Lunghard explained the different auditor reports, and the extent and results of the audit.

The Committee reviewed and discussed each section of the CAFR including the Transmittal Letter, Management discussion & Analysis, the Financial Statements, Notes, and Statistical and Continuing Disclosure sections. Director Wilson suggested staff consider including language in the CAFR to inform readers about the litigation with the Metropolitan Water District. Subsequent to this meeting staff added appropriate language as suggested to the Transmittal letter.

The Audit Committee also reviewed a draft of the Audit Committee Annual Report. Upon review and acceptance of both reports, the Committee directed staff to deliver the Audit Committee Annual Report along with the CAFR to the Board with a recommendation to accept and file.

Comprehensive Annual Financial Statements

The Audit Committee directed staff to deliver the 2011 CAFR to the Board along with the Audit Committee Annual Report. The CAFR includes the Letter of Transmittal from the General Manager and Director of Finance/Treasurer, Auditor's Opinion Letter, Management Discussion and Analysis, Financial Statements, Notes to the Financial Statements, Supplemental Schedule (Budgetary Comparison Schedule), Statistical Section, and Continuing Disclosure section.

Prepared by: Hershell Price, Audit Committee Chair

Attachments: A) Water Authority Comprehensive Annual Financial Report for FY 2011 in PDF format (physical copy to be provided at the Board meeting)



November 30, 2011

Attention: Board of Directors

General Counsel's Report – October/November 2011

Purpose

This report discusses certain legal matters receiving attention during the months of October-November 2011.

Significant Developments in Pending Litigation

MWD Rate Case. At the most recent hearing on October 27, 2011, Judge Kramer granted the Water Authority's motion for leave to amend its complaint, permitting us to add new claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of fiduciary duty, and declaratory relief. These new claims relate to (1) Metropolitan's unlawful rates; (2) Metropolitan's unlawful termination of contracts with the Water Authority in retaliation for the rate case; and (3) Metropolitan's under-calculation of the Water Authority's preferential rights to water. Judge Kramer denied Metropolitan's arguments against granting leave to amend, ruling that those arguments should be raised later, in the context of a demurrer challenging the new, amended complaint. Following Judge Kramer's ruling, the Water Authority filed its amended complaint on October 27. Torrance, Foothill, Las Virgenes, Three Valleys, West Basin, Glendale, and IID have filed answers to the amended complaint. Metropolitan is planning to file a demurrer challenging the legal sufficiency of the amended complaint, and we have worked out a stipulated briefing schedule with their lawyers. They will file their demurrer on December 2, 2011; we will file our opposition on December 20, 2011, and they will file their reply on December 27, 2011, with a hearing on January 4, 2012. As he has done consistently throughout the case, we expect that Judge Kramer will decide the demurrer at the hearing, or very shortly after. Once the form of the complaint is settled, Judge Kramer may allow the parties to proceed with discovery. Just before Thanksgiving, Metropolitan retained veteran trial lawyer James Brosnahan of Morrison & Foerster in San Francisco.

QSA Litigation. Oral argument before the Third District Court of Appeal occurred on November 21, 2011. David Osias (representing IID), Dan Fuchs (representing the State of California), and Liz Rothman (representing the Water Authority) argued on behalf of the QSA parties. Malissa McKeith (representing Cuatro del Mar), Antonio Rossman (representing the County of Imperial), Alene Taber (representing the Imperial County Air Pollution Control District), Rose Zoia (representing POWER), and Tom Virsik (representing the Morgan group) argued on behalf of the challengers. A decision is expected within 90 days of November 21.

Lake Hodges Pump Storage Project. The first case management conference in this action was held on October 28 before Judge William Nevitt of the San Diego Superior Court. Trial was set for May 10, 2013. The court directed counsel for the parties to confer and submit a stipulated order regarding dates for completion of discovery, exchange of expert witness lists, and other similar trial matters.

San Vicente Pipeline Project. Trial is set for December 16, 2011 on Traylor Shea Joint Venture's (TSJV) lawsuit for reimbursement of shift differential pay it is required to pay for tunneling work under the Project Labor Agreement. A case management conference for the lawsuit requesting additional pay for pipeline work arising from alleged differing site conditions is scheduled for January 27, 2012. A closed session has been scheduled during the Engineering and Operations Committee meeting to discuss the claims and lawsuits filed by TSJV.

Other Activities

The General Counsel serves as vice-chair of the ACWA Legal Affairs Committee and attended the ACWA Conference, at which he presented one of the ethics training sessions.

Special Counsel Expenditures

Funds approved for payments to special counsel during October-November 2011 from the General Counsel's Operating Budget totaled \$478,903.76 for work related to the Metropolitan rate dispute, Metropolitan public records request, QSA litigation and personnel benefit matters. In addition, \$46,981.73 was approved for payment from the Human Resources Operating Budget for work related to personnel issues. CIP expenditures during October-November 2011 were \$200,541.06 for work related to the Olivenhain-Lake Hodges Pump Storage Project, Traylor-Shea Joint Venture, and SDG&E contract.

Prepared by: Daniel S. Hentschke

Attachment: Special Counsel Expenditure Report

**General Counsel's Office
Special Counsel Expenditure Report
(October-November 2011)**

Special Counsel	Project	Total \$ Expended FYs 10 & 11 (Fees & Costs)	OP Budget Invoices Approved for Payment this Period	CIP Budget Invoices Approved for Payment this Period	Total \$ Expended FYs 12 & 13 (Fees & Costs)	Budget Allocation FYs 12 & 13 for Legal Services <u>\$4,700,000.00</u>
ADR Services (Hon. A. Joseph, Mediator)	<i>Olivenhain Mediation *</i>	\$2,075.00 (OP)				
Best, Best & Krieger	<i>Retirement Matters *</i>	\$8,154.70 (OP)				
Brownstein, Hyatt, Farber, Schreck	IID/SDCWA Transfer	\$14,178.13 (OP)				
	General Legal Matters (as assigned)	\$6,445.81 (OP)				
	QSA Litigation	\$1,531,654.28 (OP) \$1,174,596.72 (CIP)	\$97,924.66		\$158,518.53 (OP)	
	Federal Clean Air Act Challenge / QSA	\$4,504.33 (OP) \$25,403.28 (CIP)	\$18,151.20		\$20,566.40 (OP)	
	Audit Letter	\$1,071.11 (OP)				
	Price Reset	\$257,668.39 (OP)				
	Metropolitan Rates	\$312,125.17 (OP)	\$53,251.66		\$112,397.10 (OP)	
	MWD Public Records Request		\$20,385.10		\$42,086.20 (OP)	
Colantuono & Levin	Metropolitan Rates	\$547,302.10 (OP)	\$1,683.15		\$17,905.82 (OP)	
Daley & Heft	<i>SDCWA v. Atlantica/Deluca *</i>	\$7,582.90 (OP)				
	<i>SDCWA v. NIAC *</i>	\$61,660.95 (OP)				
	Additional Aqueduct Width Project-Twin Oaks	\$5,467.50 (CIP)				
Duncan & Allen	<i>Rancho Penasquitos Pressure Control Hydroelectric Facility Project *</i>	\$187.50 (CIP) \$118.50 (OP)				
	San Vicente FERC Project	\$4,012.50 (CIP)			\$592.50 (CIP)	
	Olivenhain/Lake Hodges FERC Proj.	\$8,628.11 (CIP)			\$118.50 (CIP)	
Frank, Lynn S. (Mediator)	<i>TOV WTP *</i>	\$9,000.00 (CIP)				
Hawkins, Delafield & Wood	Proposed Desalination Proj.	\$675,353.40 (OP) ¹				
Howard Rice Nemerovski Canady	Metropolitan Rates	\$466,425.77 (OP)	\$90.89		\$9,885.36 (OP)	
JAMS	<i>Olivenhain Mediation *</i>	\$2,127.71 (OP)				
	<i>IID Arbitration *</i>	\$76,687.50 (OP)				
Jenkins & Hogin	<i>Conflict of Interest/Open Meeting Law Compliance *</i>	\$2,117.50 (OP)				
Keker & Van Nest, LLP	Metropolitan Rates		\$281,479.99		\$394,487.66 (OP)	
Liebert Cassidy Whitmore	Personnel Issue	\$16,269.40 (OP) ²	\$46,981.73 ²		\$80,839.73 ² (OP)	
McKenna Long & Aldridge	<i>TOV WTP *</i>	\$749,193.84 (CIP)				
	Audit Letter	\$292.00 (OP)				
	Olivenhain-Lake Hodges Pump House	\$604,323.26 (CIP)		\$75,123.16	\$215,760.32 (CIP)	
	<i>San Vicente Dam Raise *</i>	\$2,760.88 (CIP)				
	SDG&E Contract			\$1,275.00	\$14,260.50 (CIP)	
Orrick Herrington & Sutcliff LLP	Bond Counsel Services	\$18,401.14 (OP)				

* Concluded matters or assignments.

¹ Not included in totals, legal expenses related to proposed desalination project are coming out of Water Resources budget, not GC budget

² Not included in totals, legal expenses related to personnel issue are coming out of Human Resources budget, not GC budget

Special Counsel	Project	Total \$ Expended FYs 08 & 09 (Fees & Costs)	OP Budget Invoices Approved for Payment this Period	CIP Budget Invoices Approved for Payment this Period	Total \$ Expended FYs 10 & 11 (Fees & Costs)	Budget Allocation FYs 12 & 13 for Legal Services <u>\$4,700,000.00</u>
Owen Wickersham & Erickson	Copyright	\$8,357.00 (OP) ³				
Pillsbury Winthrop Shaw Pittman	Terminal Pay Plans/Defined Benefit Pension Plans <i>IRS Audit Matters</i> *	\$3,940.54 (OP) \$11,126.25 (OP)	\$4,863.61		\$4,863.61 (OP)	
Procopio Cory Hargreaves & Savitch	Traylor/Shea Joint Venture (TSJV) Multiple Tunnel Shift Pay Audit Letter	\$282,821.75 (CIP) \$255,921.33 (CIP) \$547.50 (OP)		\$14,445.25 \$109,697.65 \$1,073.50	\$30,801.05 (CIP) \$156,434.92 (CIP) \$1,073.50 (OP)	
Reilly & Associates	<i>Personnel Issue</i>	\$11,160.00 (OP) ⁴				
Richards Watson & Gershon	<i>Water Conveyance Dispute</i> *	\$46,139.82 (CIP)				
Townsend	<i>Trademark</i> *	\$13,471.27 (OP)				
Wiener, Howard (Mediator)	MWD RSI Mediation	\$6,000.00 (OP)				
Total:		\$3,355,678.55 (OP) \$3,165,695.61 (CIP)	\$478,903.76	\$200,541.06	\$761,784.18 (OP) \$422,765.79 (CIP)	\$3,938,215.82

* *Concluded matters or assignments.*

³ Not included in totals, legal expenses related to copyright matter are coming out of Conservation budget, not GC budget

⁴ Not included in totals, legal expenses related to personnel issue are coming out of Human Resources budget, not GC budget