



REVISED

ADMINISTRATIVE AND FINANCE COMMITTEE

AGENDA FOR

DECEMBER 18, 2008

Tom Wornham – Chair
Michael Hogan – Vice Chair
Hershell Price – Vice Chair
Jim Bond
Mitch Dion
Frank Hilliker
John Johnson

Bud Lewis
Rua Petty
Bud Pocklington
Javier Saunders
Richard Smith
Fred Thompson
Howard 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 Report on Special Administrative and Finance Committee meeting relating to 2008 audit.
 - 4-B Comprehensive Reliability and Cost Assessment Ad Hoc committee update.
 - 4-C Final report on Administrative and Finance Committee goals and objectives for 2007 and 2008.
 - 4-D Directors’ comments.

I. CONSENT CALENDAR

1. Treasurer’s report. Eric Sandler
Staff recommendation: Note and file monthly Treasurer’s report.
(Action)
2. Adopt the Vote Entitlement Resolution for Calendar Year 2009. Leanne Wade
Staff recommendation: Adopt the resolution establishing the vote and representative entitlements of each member agency effective January 1, 2009. (Action)



3. Amend the defined benefit pension plan (terminal pay plan) and amend agreement for legal services with Pillsbury Winthrop Shaw Pittman, LLP. Celia Brewer
Staff recommendation: 1) Amend the defined benefit pension plan in order to comply with state and federal law; and 2) Authorize the General Counsel to execute the amended agreement for legal services with Pillsbury Winthrop Shaw Pittman LLP to add a not-to-exceed amount of \$10,000 to the original \$50,000 contract previously approved under the authority of the General Counsel. (Action)
4. Adopt Administrative Code amendment to modify the disciplinary appeals procedures. Susan Leone
Staff recommendation: Adopt Ordinance No. 2008-_____ an ordinance of the Board of Directors of the San Diego County Water Authority repealing section 2.16.040 and amending section 2.16.050 of the Administrative Code. (Action)
5. Amend professional services agreement with Parsons Constructors Incorporated for Safety, First Aid, and Drug Testing Services and Project Labor Agreement Administration for the Emergency Storage Project/Capital Improvement Program. Robert Homer
Staff recommendation: Authorize an amendment with Parsons Constructors Incorporated (PCI) for safety, first aid and drug testing services and Project Labor Agreement (PLA) Administration in an amount not to exceed \$7.3M, increasing the contract from \$10.0M to \$17.3M, and authorize the transfer of funds from supported ESP/CIP projects. The amendment will provide these services until 2013. (Action)
6. Resolution authorizing employee retirement contributions under existing 401(a) plans to be treated as tax deferred contribution. Leanne Wade
Staff recommendation: Adopt Resolution No. 2008-_____ authorizing employer pick-up of employee retirement contributions to the Water Authority 401(a) plans. (Action) (pickup packet)



II. ACTION/DISCUSSION

1. PUBLIC HEARING: Adopt transitional Special Agricultural Water Rates (SAWR) for calendar year 2009 for customers opting out of the MWD's Interim Agricultural Water Program. Staff recommendation: Adopt Ordinance No. 2008-_____ an ordinance of the Board of Directors of the San Diego County Water Authority confirming the special agricultural water rate and establishing procedures for administration of the special agricultural water rate program consistent with the phase out of the Metropolitan Water District of Southern California's interim agricultural water program. (Action)

Ken Weinberg/
Eric Sandler

2. Adopt Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2009. 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 2009. (Action)

Patti Cirello

3. Adopt a resolution approving commercial paper dealers and the execution and delivery of commercial paper dealer agreements and approving form of offering memorandum. Approval of Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. to serve as underwriters to explore the possible restructuring of Commercial Paper Program. Staff recommendation: Adopt Resolution 2008-_____ which authorizes the selection of the recommended underwriting firms to serve as CP Program dealers and approve the form of the dealer agreements and offering memorandum. Authorize the selection of Citigroup and J.P. Morgan as underwriters to explore the possibility of restructuring a portion of the CP Program. (Action)

David Shank

III. INFORMATION

1. Controller's report on monthly financial statements.

Leanne Wade

2. Annual report on the maximum Operating Fund balance policy and the fiscal year 2008 ending fund balances.

David Shank

3. 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.



December 10, 2008

Attention: Administrative and Finance Committee

Final Report on Administrative and Finance Committee's Goals and Objectives for 2007 and 2008. (Information)

Purpose

The attached report summarizes activities performed in support of the Administrative and Finance Committee's goals and objectives for 2007 and 2008.

Background

Previous Board action: On February 22, 2007, the Board of Directors adopted a new set of goals and objectives for the Administrative and Finance Committee to accomplish in 2007 and 2008.

Discussion

The goals and objectives relate to administrative and finance matters including rates, fees, charges, and other sources of revenue; budget; audit; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other general business matters. A progress report was presented to the Board on January 16, 2008.

Prepared by: Susan Leone, Director of Human Resources
Eric Sandler, Director of Finance/Treasurer
Marilyn L. Young, Director of Administrative Services
Reviewed by: Paul A. Lanspery, Deputy General Manager

Attachment: Final Report on the 2007 and 2008 Goals and Objectives

**Administrative and Finance Committee
Final Report on 2007 and 2008 Goals and Objectives
December 2008**

Committee Mission/Purpose Statement:

The Administrative and Finance Committee (A&F Committee) is responsible for administration and finance matters including rates, fees, charges, and other sources of revenue; budget; audit; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business.

GOALS:

- 1. Undertake a comprehensive assessment of the multiple variables impacting the long-term reliability and cost of the Water Authority's regional water system. This long-term, regional approach will cover a planning period through 2030 and provide clear direction to staff for use in long-term supply planning, capital planning and financial planning (Long-Range Financing Plan).**

Objectives

- a. Consider the major drivers of regional water reliability and cost including long-term regional demand forecasts, hydrology, levels of local supply development including desalination alternatives, risk assessment of imported supplies from the Colorado River and the State Water Project, capital project mix alternatives including Pipeline 6 and various sizes of the San Vicente dam, O&M costs, reserve and debt service coverage policies, transfer price reset assumptions and MWD long-term rate projections.

Activities: The A&F Committee worked closely with the full Board and with the Ad-Hoc committee on the Comprehensive Reliability and Cost Assessment (CRACA) to consider the major drivers of regional water reliability and cost. Much of the initial work related to reviewing the underlying data and models used to characterize system reliability and cost. This effort began with presentations at the October and November 2006 Board meetings on the CIP re-costing effort and updated water demand and sales projections. At a special meeting on January 11, 2007, the Board discussed the following drivers: risk assessment of imported water supplies, MWD's long-range rate projections, and a range of foundational assumptions for rate run scenarios including financial policies related to reserves and debt service coverage.

- b. Evaluate these variables with respect to reliability and rate impact as well as to Water Authority ability to control.

Activities: In late 2006, a Board Ad Hoc Committee was formed to provide direction for the CRACA. The Ad Hoc Committee met four times during January and February 2007 to consider and evaluate the major variables discussed above and analyze the impact on system reliability and cost. During its review, the Ad Hoc Committee

assessed not only the significance of, but also the Water Authority's ability to influence, each of the various drivers.

- c. Approve underlying assumptions used in methodology of regional system reliability model (Confluence) and financial model (FRMP).

Activities: On January 31, 2007 the Ad Hoc Committee for CRACA reviewed and approved the underlying assumptions used in the models of system reliability (Confluence) and financial cost (FRMP) and concluded that the foundational assumptions made during the 2004 Master Planning process continue to provide a sound basis for reliability planning.

- d. Develop several straw man scenarios (i.e., a combination of demand forecast, local supply development, capital projects, long-term MWD rate projections) to evaluate in terms of reliability and cost. Recommend a preferred alternative to the Board for consideration and adoption.

Activities: The Ad Hoc Committee reviewed six different straw man scenarios. These alternatives included variations on the inclusion and scheduling of the Super San Vicente Dam Raise and the Regional Seawater Desalination project, and were analyzed for both reliability and rate impacts. The results confirmed that the negative impact on regional water reliability of delay or elimination of the Super San Vicente Dam Raise outweighed the marginal financial benefit from delay or elimination. The Ad Hoc Committee recommended a preferred alternative, which involved the removal of the Lower Otay Pump Station and the Regional Seawater Desalination project from the CIP. The Ad Hoc Committee presented its findings and recommendation at a special Board meeting on March 8, 2007. At a special Board meeting on April 12, 2007 the Board adopted the preferred alternative as the basis for the development of the multi-year budget for fiscal years 2007-2008 and 2008-2009.

In anticipation of the development of the 2010-2011 budget, the CRACA Ad Hoc committee was reconvened to develop preliminary "high" and "low" rate forecasts to aid in Member Agency financial planning. The Committee first met on September 18, 2008 to identify the underlying financial assumptions upon which the high and low rates forecasts will be based. The Committee also met on December 10, 2008 and reviewed the underlying assumptions and initial rate forecasts. The Committee will hold a workshop, to which the full Board will be invited, on January 8, 2009 and plans to present its findings to the full Board at either the January or February 2009 regular Board meeting.

- e. Amend the Long Range Financing Plan to reflect the Board's decisions.

Activities: Calendar year 2008 brought with it a rapid deterioration of the municipal credit markets. Several large municipal bond insurers received credit-rating downgrades, municipal credit spreads rose significantly, and the market for municipal debt has experienced unprecedented volatility. Despite these challenges, the Water Authority made significant progress during fiscal year 2008 in updating and executing its Long-Range Financing Plan.

In April 2008, the Board adopted an updated Long-Range Financing Plan. Developed with member agency involvement, the plan incorporated certain enhanced financial policies relating to debt service coverage and financial reserve levels. The plan also accounted for the near-term financial impacts of drought management activities, and provided more detailed information about key planning assumptions and financial sensitivities.

In May 2008, the Water Authority priced and issued \$558 million in long-term, fixed-rate Certificates of Participation (COPs). This planned issuance both refunded certain outstanding debt and also provided cost-effective, long-term financing for the Water Authority's Capital Improvement Program. In connection with the issue, Standard and Poor's upgraded its long-term underlying credit rating of the Water Authority from AA to AA+. In addition, both Fitch Ratings and Moody's Investors Service reaffirmed their long-term underlying credit ratings of the Water Authority of AA and AA3 respectively.

- f. Approve the asset valuation study and its impact on Water Authority capacity and annexation charges. Approve inflation indices for use in CIP costing and capacity and annexation charge calculations.

Activities: At its January 2008 meeting the Board reviewed the results of the asset valuation study. The results of the study indicated that adjustments to the capacity charge levels were not necessary.

2. In advance of issuing the June 30, 2008 financial statements, proactively assess the Water Authority's liability with respect to GASB 45, Other Post-Employment Benefits (OPEB).

Objectives

- a. Review report and consider recommendations from third-party actuary regarding the Water Authority's OPEB liability.

Activities: At its May 24, 2007 meeting the A&F Committee received a presentation from a third-party actuarial consultant (Bartell Associates, LLP) regarding the Water Authority's liability with respect to Other Post-Employment Benefits (OPEB). The firm computed the unfunded liability to be between \$2.0 million to \$2.3 million. Bartell stated that when comparing the Water Authority to its 130 California clients, the Water Authority's liability was at the lowest end of their liability exposure ranking. This is primarily a result of the fact that the Water Authority's cash subsidy for retiree healthcare benefits has a fixed cap and a cut off at age 65. This actuarial estimate was included in the footnote disclosure to Water Authority financial statements for fiscal year 2007.

- b. Evaluate options for addressing the liability such as advance funding or continuing pay-as-you-go funding.

Activities: At the June 2008 Board meeting, the Board accepted staff's recommendation to continue "pay as you go" funding for the Water Authority's OPEB liability for fiscal year 2009 until options for Health Care Savings Plans have

been fully evaluated. In July 2008, a committee of management, staff, and union representation was established to analyze plan design features and tax implications related to establishing such plans. It is expected that the Board will be presented with any findings or recommendations at the end of fiscal year 2009.

- c. Gain a greater perspective of the Board's role and responsibility as it relates to Post-Employment Benefits.

Activities: At the July and September 2007 Board meetings, the Board approved the three-year Memorandum of Understanding (MOU) with the represented bargaining units and plans of compensation for unrepresented bargaining units, respectively. The MOU stated that it was the intention of the Water Authority to develop and implement a Defined Contribution Health Care Savings Plan or similar plan for employee medical expenses during retirement. The goal was to develop a retiree medical plan as soon as possible, but no later than June 30, 2009. The plan may be funded by the employer and/or the employee. Once implemented, the plan would replace the existing retiree medical benefit as defined in the MOU, which will be phased out.

3. Ensure Human Resources practices are in compliance with the Administrative Code.

Objectives

- a. Review and bring any changes to the Classification and Compensation Plans by June 2007 and June 2008.

Activities: In July 2007, the Board adopted Resolution No. 2007-16 approving and authorizing the General Manager to execute a Memoranda of Understanding for period July 1, 2007 through June 30, 2010 with the Teamsters Local 911 Union representing the Technical/Support, Professional/Administrative, and Managerial/Supervisory bargaining units; approving compensation plan adjustments for employees in the Confidential employee group; and approving adjustments to the classification and salary schedule for employees within those units and group.

In September 2007, the Board adopted Resolution No. 2007-23 approving compensation plan adjustments for employees in the Executive and Senior Management employee groups, covering the period July 1, 2007 through June 30, 2010, and approving amendments to the classification and salary schedule for employees within those groups.

- b. Bring to the Board labor relations' strategy as events warrant and prior to the expiration of the current labor contracts and agreements in June 2007, and subsequent contracts and agreements.

Activities: The Water Authority's labor negotiating team met with the Board in closed session at each of the Board meetings from February through July 2007 to discuss status and strategy for labor negotiations through the Meet and Confer process.

4. Ensure that the Human Resources function meets the needs of the Water Authority.

Objectives

- a. Bring to the Board any changes to the organizational structure of Human Resources that require Board approval.

Activities: The Human Resources assessment effort has resulted in several recommendations related to organizational structure, processes, and policies. These recommendations were presented to the new Director of Human Resources in January 2008. Any changes that require Board approval will subsequently be brought to the Board.

- b. Review and bring to the Board any changes to Human Resources Policies and Procedures that require Board approval.

Activities: The Human Resources assessment effort has resulted in several recommendations related to organizational structure, processes, and policies. These recommendations were presented to the new Director of Human Resources in January 2008. Any changes that require Board approval will subsequently be brought to the Board.

5. Provide oversight and support for the Water Authority's information systems to ensure that information technology investments support business goals.

Objectives

- a. Support policy and budget actions that promote the development and implementation of a disaster recovery plan to ensure efficient and effective recovery of vital business functions in the event of a major interruption to our computer and telecommunication resources.

Activities: Funding for the development of a comprehensive IT disaster recovery plan was approved by the Board during the FY 2008 and 2009 budget process. The first phase of this project, a business impact analysis, was completed in October 2007. In January 2008, the Board awarded a professional services contract to Systems Technology Associates, Inc. for an amount not-to-exceed \$85,000 for the second phase of the project, which is the development of an Information Technology Disaster Recovery Plan.

- b. Support policy and budget actions for maintenance and necessary improvements to our financial, human resources, and computerized maintenance management systems.

Activities: During the fiscal year 2008 and 2009 budget process, the Board approved funds for the annual software maintenance fees for our PeopleSoft and Maximo systems. Funds were also approved for outsourcing the technical support of the Maximo system. In December 2007, Ciber Inc. completed the implementation of online Open Enrollment and other necessary improvements to our PeopleSoft Human

Resources system. In August 2008, the contract to provide outsourced technical services to our Maximo system was extended for one year to Total Resources Management Inc. PeopleSoft and Maximo standard annual maintenance agreements were renewed throughout the year.

6. Manage the risks of physical and financial loss to the Water Authority to the extent it is physically and financially practicable.

Objectives

- a. Provide oversight to staff's efforts to perform a comprehensive assessment of needs, costs, and options for our business insurance coverage.

Activities: The A&F Committee received a staff report in November 2007, which provided an overview of the objectives and activities to date of the business insurance review.

- b. Provide policy direction for future insurance coverage, which may include consideration of self-insurance programs, depending upon the results of the assessment.

Activities: The A&F Committee received staff recommendations for property and liability insurance in December 2007. The issue went before the Board for further consideration at a special A&F Committee meeting on January 17, 2008. In January 2008, the Board authorized the purchase of property and liability business insurance from the Special Districts Risk Management Authority (SDRMA) in the amount of \$506,829 with a \$45 million per occurrence liability limit and confirmed the withdrawal from ACWA-JPIA property program effective April 1, 2008 and October 1, 2008 respectively. In March 2008, the Board authorized the purchase of workers' compensation insurance from Wausau in the amount of \$300,210 and confirmed withdrawal from ACWA-JPIA workers' compensation program effective July 1, 2008.

- c. Review an annual report on the status of the Owner Controlled Insurance Program.

Activities: The A&F Committee reviewed an annual report on the status of the OCIP in December 2007. The Board received an annual update on the OCIP and approved the extension of the OCIP coverage for the San Vicente Dam Raise and Carryover Storage project in September 2008.



December 10, 2008

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, 2008, which includes:

- Portfolio Master Summary
- Investment Securities, Agency Securities, and Portfolio Yield Graphs
- Investment Portfolio Details
- Investment Activity Summary
- Cash Flow Summary
- Glossary of Terms

The reports are formatted to provide information, as required by the California Government Code, and the San Diego County Water Authority's Statement of Investment Policy. A brief description of each report follows:

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

Investment Securities, Agency Securities and Portfolio Yield Graphs: The Investment Securities Graph shows the Water Authority's portfolio holdings by type, percentage and amount. The Agency Securities Graph shows the Water Authority's total portfolio holdings of agencies by issuer. The Portfolio Yield Graph shows the Water Authority's portfolio yield, with and without bond funds, for the past twelve months, compared to a rolling average yield of the Board adopted 1-Year U.S. Treasury Constant Maturity benchmark.

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

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

Cash Flow Summary: This report shows Operating, Rate Stabilization Fund and Capital Improvement Program cash flows for the next 12 months.

Glossary of Terms: This report defines investment and cash flow terms.

On October 8, the Federal Open Market Committee (FOMC) lowered its target for the federal funds rate by 50 basis points to 1.00 percent. The FOMC's press release announcing the decision stated, "The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. Business equipment spending and industrial production have weakened in recent months, and slowing economic activity in many foreign

economies is damping the prospects for U.S. exports. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit. In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability. Recent policy actions, including today's rate reduction, coordinated interest rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help over time to improve credit conditions and promote a return to moderate economic growth. Nevertheless, downside risks to growth remain. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability." The next FOMC meeting is scheduled for December 16.

The Bureau of Labor Statistics of the U.S. Department of Labor reported that nonfarm payroll employment declined by 240,000 jobs in October, and the unemployment rate rose from 6.1 percent to 6.5 percent. Employment has fallen by 1.2 million in the first ten months of 2008; over half of the decrease has occurred in the past three months. Employment continued to fall in manufacturing, construction, and several service-providing industries. Health care and mining continued to add jobs. According to Bloomberg News, the unemployment rate is at its highest level since 1994, setting the stage for the steepest economic decline in decades and a tough start for Barack Obama's presidency.

The financial markets continue to be faced with substantial volatility. Citigroup Inc. announced plans to cut 52,000 jobs by early next year in a dramatic move to restore the bank to health as it combats mounting debt losses and sagging economies worldwide. According to Reuters News, Citigroup's latest cuts are the most by any U.S. company since the global credit crisis began last year. They are also the second most ever, trailing the 60,000 that International Business Machines Corp. announced in 1993, according to outplacement firm Challenger, Gray & Christmas Inc. Well over 100,000 jobs have been lost at the world's largest banks and brokerages since the global credit crisis began. In the last month, Goldman Sachs Group Inc. began cutting 3,200 jobs, and Morgan Stanley said it will cut 10 percent of jobs in the unit housing its investment bank. U.S. Senate Democrats have proposed legislation amounting to a \$25 billion bailout for the U.S. auto industry. General Motors Corp., Ford Motor Corp. and Chrysler LLC are seeking aid as industry-wide sales have plummeted to a 17-year low. Senate Majority Leader Harry Reid said he will press for approval of the legislation, which would tap the money Congress approved last month to stabilize financial services companies. Reid said, "We are seeing a potential meltdown in the auto industry, with consequences that could directly impact millions of American workers and cause further devastation to our economy." However, on November 17 the White House opposed the proposal, urging the aid be provided through government loans already appropriated for the industry by Congress, and not from the TARP funds needed to stabilize the financial system.

The Water Authority's overall portfolio yield, including bond proceeds and debt service reserve funds, increased from 2.82 percent in September 2008 to 2.91 percent in October 2008, a gain of 9 basis points (100 basis points equals 1 percent). This occurred with a corresponding decrease of 22 basis points in the investment benchmark from 2.39 percent in September 2008 to 2.17 percent in October 2008. Our portfolio yield continues to exceed the investment benchmark.

Administrative and Finance Committee

December 10, 2008

Page 3 of 3

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, 2008

PORTFOLIO PERCENTAGES

Investment Type	Permitted By Board Policy	Actual Percentage	Actual Amount
Local Agency Investment Fund (LAIF)	\$40 Million	20.55%	\$ 40,000,000
Banker's Acceptances	20%	0.00%	-
Treasury Securities	15% - Minimum	21.25%	41,352,435
Agency Securities	70%	55.81%	108,611,046
Reverse Repurchase Agreements	20%	0.00%	-
Certificates of Deposit (CD's)	15%	0.00%	-
Negotiable CD's	15%	0.00%	-
Commercial Paper	25%	0.00%	-
Medium Term Notes/Corporates	30%	0.00%	-
Money Market Funds	15%	2.39%	4,660,270
		100.00%	
Accrued Interest (unavailable for investing)			191,748
Checking/Petty Cash/Available Funds (unavailable for investing)			360,978
Subtotal:			\$ 195,176,477
<u>Bond/CP Proceeds Excluded from Portfolio Percentages:</u>			
Money Market Funds and Cash			546,554
Treasury Securities			4,971,825
Agency Securities			333,987,381
Commercial Paper			-
Local Agency Investment Fund (LAIF)			48,818,910
Subtotal for Bond/CP Proceeds (available for CIP expenditures):			\$ 388,324,670
<u>Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages:</u>			
Treasury Securities and Money Market Fund - Series 2004A COPs			38,569,039
Trinity Plus - Reserve (GIC) Series 1998A COPs			12,240,775
FSA - Reserve (GIC) Series 2002A COPs			18,385,750
MBIA - Reserve (GIC) Series 2004A COPs			-
Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):			\$ 69,195,564
Total Cash and Investments			\$ 652,696,711

PORTFOLIO INFORMATION

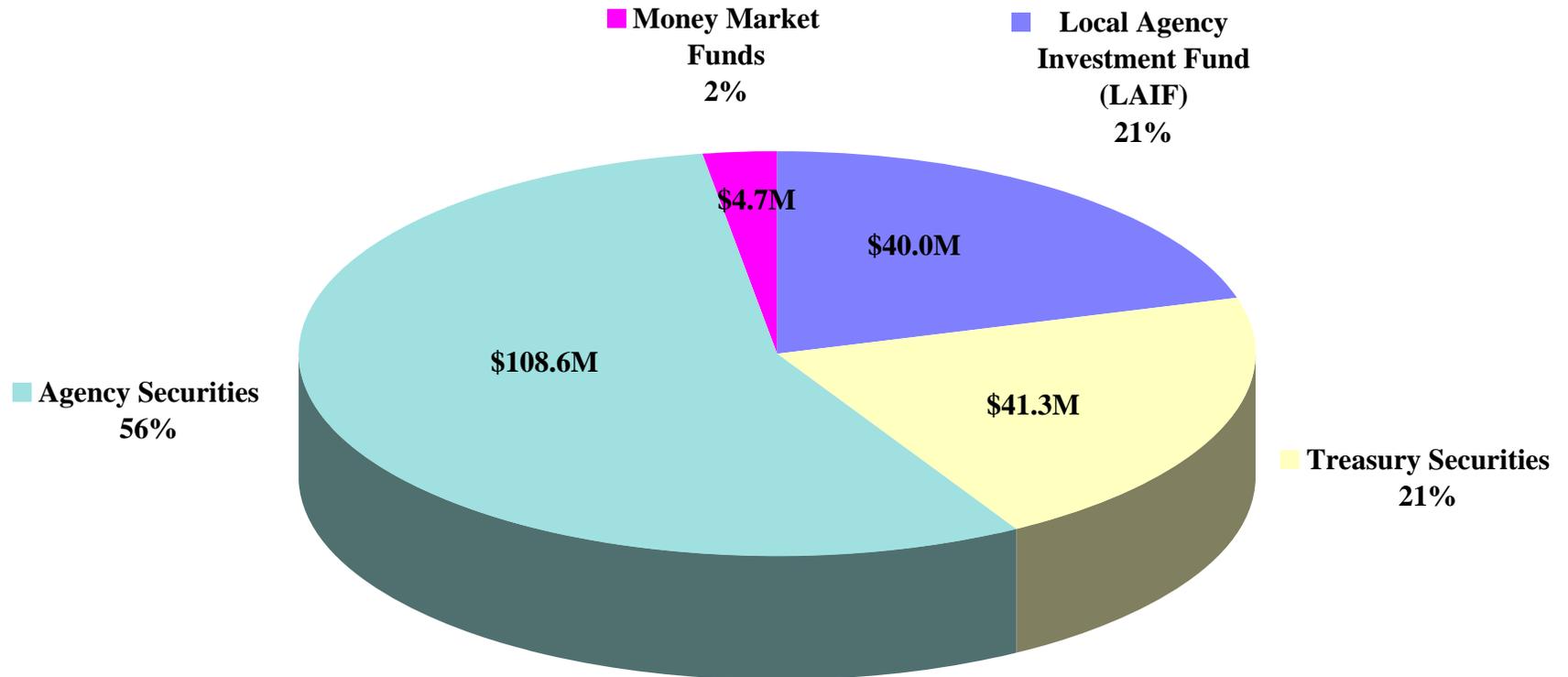
	Operating	RSF	Pay Go	Equipment Replacement	Bond Proceeds	CP Proceeds	Debt Service Reserve	Total *
Portfolio Yield to Maturity - 365 Days	1.87%	3.26%	3.01%	2.53%	2.87%	0.00%	3.73%	2.91%
Average Term	10	875	561	509	287	0	218	332
Average Days to Maturity (730 Days Maximum)	6	398	294	361	190	0	167	200
Avg. Term, excluding Bond/CP Proceeds & DSR								461
Avg. Days to Maturity, excluding Bond/CP Proceeds & DSR (730 Days Max.)								231
Accrued Interest Earnings (Cash and Investments):								
Month Ended October 2008	\$ 115,964	\$ 202,187	\$ 244,622	\$ 24,929	\$ 1,040,895	\$ -	\$ 277,230	\$ 1,905,827
Fiscal Year to Date	\$ 574,158	\$ 539,778	\$ 903,154	\$ 102,619	\$ 4,464,200	\$ -	\$ 1,046,286	\$ 7,630,195
Total Cash and Investments by Fund	\$ 60,977,758	\$ 46,011,839	\$ 79,926,244	\$ 8,260,636	\$ 388,324,670	\$ -	\$ 69,195,564	\$ 652,696,711

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

INVESTMENT SECURITIES

\$194,623,751

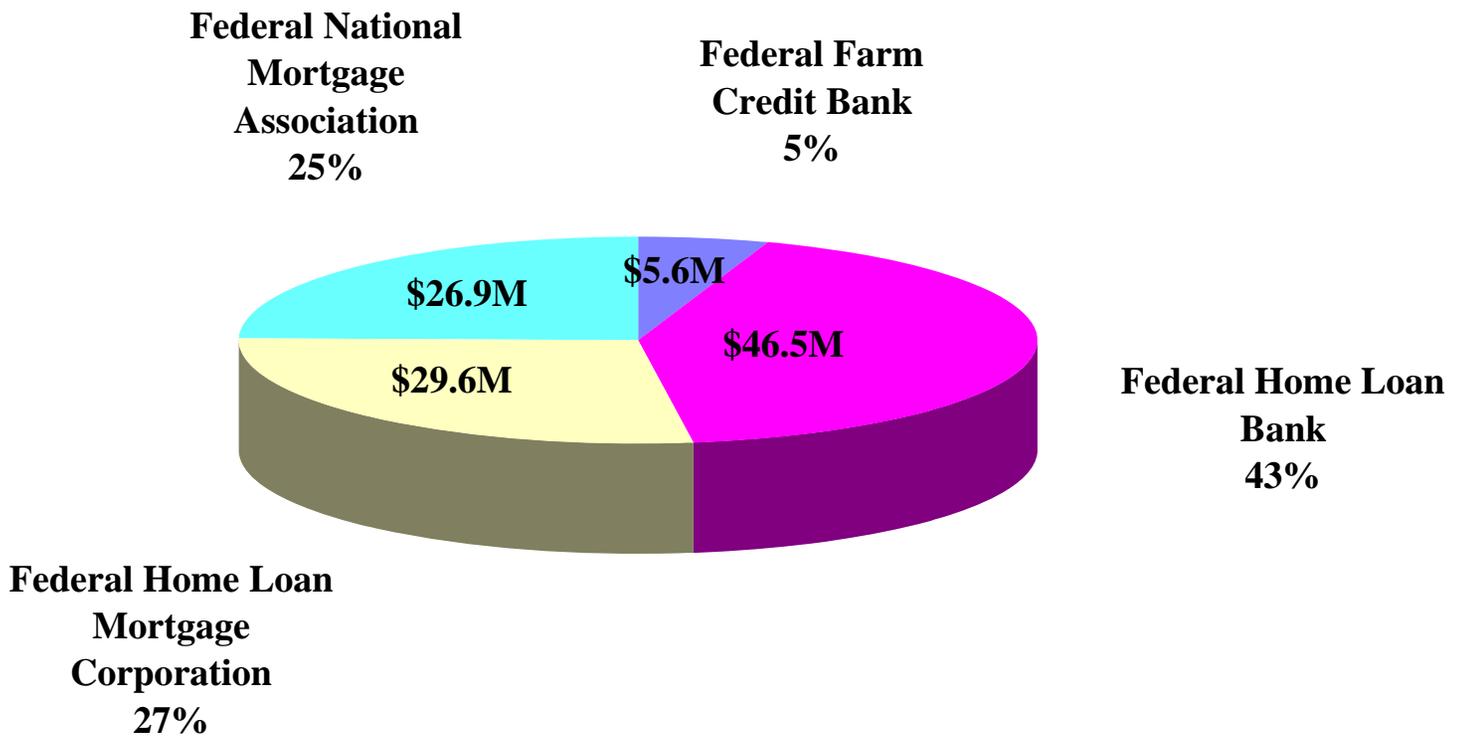
October 31, 2008



AGENCY SECURITIES

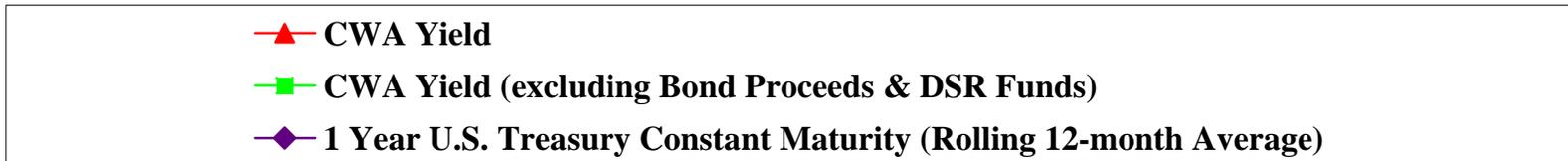
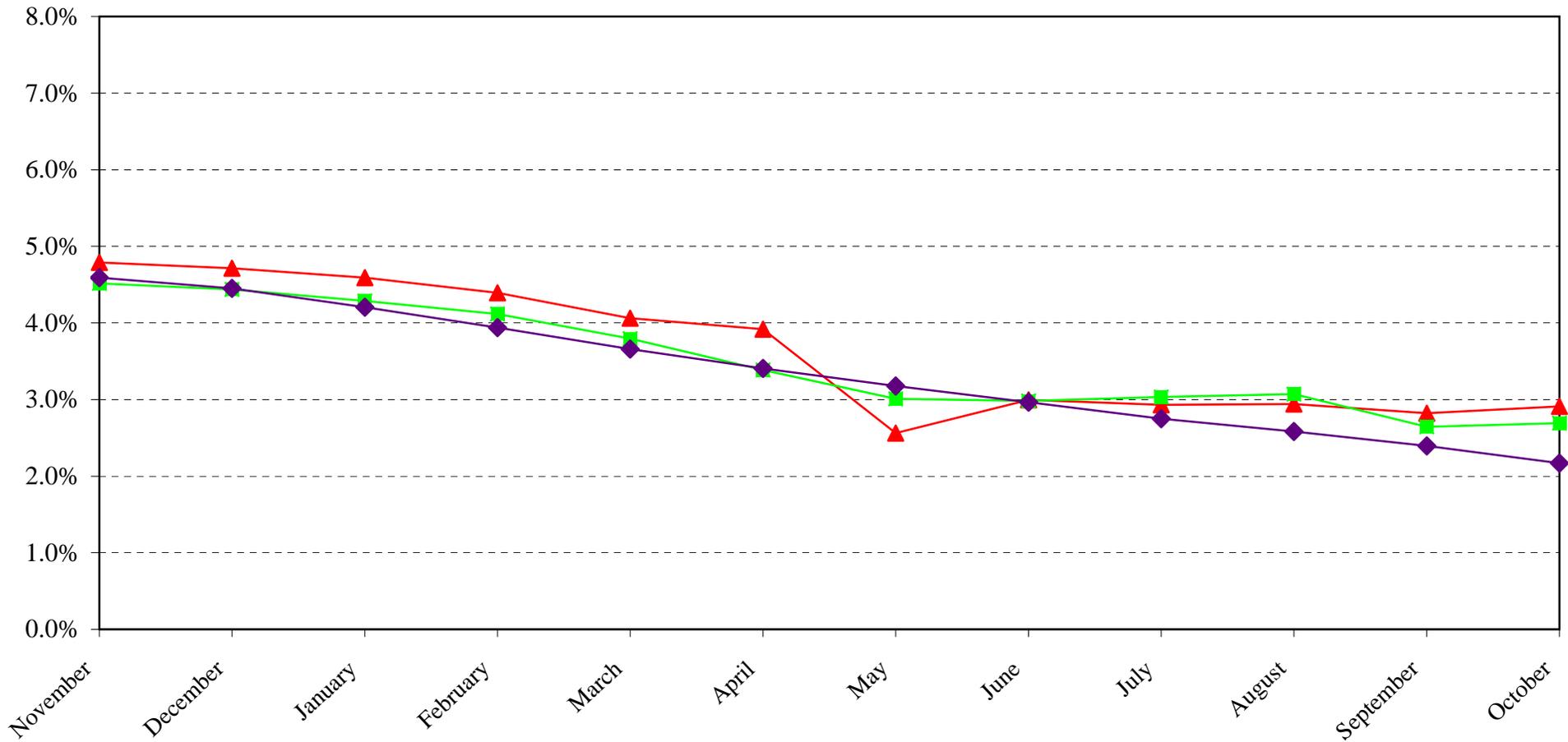
\$108,611,046

October 31, 2008



AGGREGATE CWA PORTFOLIO YIELD

November 2007 through October 2008



**SDCWA - Fiscal Year 2009
Portfolio Management
Portfolio Details - Investments
October 31, 2008**

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												
CASH07	205	FSA CAPITAL MGMT. SVC. - 2002A			18,385,750.00	18,385,750.00	18,385,750.00	5.810	AAA	5.810	1	
CASH09	8001	GOLDMAN - RATE STABILIZATION		07/01/2008	6,597.52	6,597.52	6,597.52	0.480	AAA	0.480	1	
CASH29	3001	GOLDMAN - 2006 CP			0.00	0.00	0.00	0.550	AAA	0.550	1	
CASH31	6001	GOLDMAN - 2008A COPS		07/01/2008	546,549.64	546,549.64	546,549.64	0.480	AAA	0.480	1	
CASH18	7001	GOLDMAN - EQUIPMENT		07/01/2008	394,312.67	394,312.67	394,312.67	0.480	AAA	0.480	1	
CASH11	0002	GOLDMAN - OPERATING		07/01/2008	1,801,697.58	1,801,697.58	1,801,697.58	0.480	AAA	0.480	1	
CASH12	5001	GOLDMAN - PAY AS YOU GO		07/01/2008	2,437,396.73	2,437,396.73	2,437,396.73	0.480	AAA	0.480	1	
CASH13	72	LAIF - OPERATING			40,000,000.00	40,000,000.00	40,000,000.00	2.650		2.650	1	
CASH32	6002	LAIF - 2008A COPS			48,818,910.14	48,818,910.14	48,818,910.14	2.650		2.650	1	
CASH24	206	MBIA INC. - 2004A			0.00	0.00	0.00	4.995	AA	4.995	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		07/01/2008	20,265.05	20,265.05	20,265.05	0.003	AAA	0.003	1	
CASH33	208	US BANK MONEY MARKET FUND		07/07/2008	620,393.40	620,393.40	620,393.40		AAA	0.000	1	
Subtotal and Average			150,399,542.74		125,272,647.73	125,272,647.73	125,272,647.73			3.294	1	
Federal Agency - Coupon												
31331VAC0	5567	FEDERAL FARM CREDIT BANK		11/29/2007	3,530,000.00	3,584,414.95	3,564,417.50	4.510	AAA	3.950	331	09/28/2009
31331V4M5	6125	FEDERAL FARM CREDIT BANK		06/19/2008	2,890,000.00	2,946,213.39	2,956,961.30	5.000	AAA	3.100	324	09/21/2009
31331YDR8	6129	FEDERAL FARM CREDIT BANK		06/19/2008	10,000,000.00	10,170,870.00	10,159,250.00	4.125	AAA	3.254	377	11/13/2009
31331YDC1	7027	FEDERAL FARM CREDIT BANK		09/12/2008	2,000,000.00	2,064,798.11	2,078,546.11	4.250	AAA	2.731	550	05/05/2010
3133XJVL9	5556	FEDERAL HOME LOAN BANK		09/20/2007	5,000,000.00	5,176,870.00	5,076,300.00	5.000	AAA	4.520	860	03/11/2011
3133X16Q5	5565	FEDERAL HOME LOAN BANK		11/29/2007	1,390,000.00	1,399,160.10	1,391,556.80	4.080	AAA	3.990	149	03/30/2009
3133XLPT4	5578	FEDERAL HOME LOAN BANK		04/10/2008	3,670,000.00	3,691,561.25	3,752,208.00	5.250	AAA	2.260	74	01/14/2009
3133XKLY9	5588	FEDERAL HOME LOAN BANK		06/12/2008	3,710,000.00	3,748,899.35	3,770,473.00	4.750	AAA	2.829	174	04/24/2009
3133XRNC0	6123	FEDERAL HOME LOAN BANK		06/19/2008	16,800,000.00	16,852,933.53	16,808,346.33	3.125	AAA	3.083	229	06/18/2009
3133XGEQ3	6124	FEDERAL HOME LOAN BANK		06/19/2008	17,200,000.00	17,527,849.20	17,598,386.40	5.250	AAA	3.140	277	08/05/2009
3133X8V25	6126	FEDERAL HOME LOAN BANK		06/19/2008	7,545,000.00	7,600,591.56	7,585,569.47	3.600	AAA	3.170	338	10/05/2009
3133XMD40	6127	FEDERAL HOME LOAN BANK		06/19/2008	2,810,000.00	2,854,080.47	2,859,315.50	4.500	AAA	3.115	342	10/09/2009
3133XNTD1	6132	FEDERAL HOME LOAN BANK		06/19/2008	5,000,000.00	5,027,345.00	5,039,000.00	3.750	AAA	3.230	433	01/08/2010
3133X9VB3	6133	FEDERAL HOME LOAN BANK		06/19/2008	5,000,000.00	5,036,620.00	5,051,250.00	3.875	AAA	3.200	440	01/15/2010
3133XES83	6137	FEDERAL HOME LOAN BANK		06/19/2008	5,000,000.00	5,124,675.00	5,121,150.00	4.875	AAA	3.418	496	03/12/2010
3133XBB20	6138	FEDERAL HOME LOAN BANK		06/19/2008	4,000,000.00	4,105,806.22	4,106,242.22	4.375	AAA	3.456	501	03/17/2010
3133M8XV1	6141	FEDERAL HOME LOAN BANK		06/20/2008	3,975,000.00	4,070,062.13	4,105,876.88	6.210	AAA	3.000	213	06/02/2009
3133XPMY7	6143	FEDERAL HOME LOAN BANK		06/20/2008	8,600,000.00	8,581,467.00	8,526,298.00	2.500	AAA	3.216	314	09/11/2009
3133XRP46	6144	FEDERAL HOME LOAN BANK		06/23/2008	2,000,000.00	2,004,580.00	1,998,580.00	3.000	AAA	3.073	234	06/23/2009
3133XRP46	6156	FEDERAL HOME LOAN BANK		09/11/2008	5,000,000.00	5,043,950.00	5,049,038.90	3.000	AAA	2.568	234	06/23/2009
3133X9BF6	7025	FEDERAL HOME LOAN BANK		03/28/2008	3,800,000.00	3,825,057.20	3,864,182.00	3.500	AAA	2.415	367	11/03/2009
3133XBTT2	8146	FEDERAL HOME LOAN BANK		06/20/2005	650,000.00	655,413.85	647,348.00	4.000	AAA	4.110	223	06/12/2009

**SDCWA - Fiscal Year 2009
Portfolio Management
Portfolio Details - Investments
October 31, 2008**

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												
3133XGYT5	8157	FEDERAL HOME LOAN BANK		03/12/2007	1,800,000.00	1,841,439.60	1,809,036.00	5.000	AAA	4.794	405	12/11/2009
3133XJUT3	8160	FEDERAL HOME LOAN BANK		09/20/2007	2,500,000.00	2,586,842.50	2,539,125.00	5.000	AAA	4.608	1,224	03/09/2012
3134A4UQ5	5587	FEDERAL HOME LOAN MORTGAGE COR		06/12/2008	3,575,000.00	3,586,225.50	3,588,792.35	3.375	AAA	2.904	165	04/15/2009
3137EAAK5	6128	FEDERAL HOME LOAN MORTGAGE COR		06/19/2008	5,000,000.00	5,124,887.22	5,137,297.22	4.750	AAA	3.143	367	11/03/2009
3137EABB4	6130	FEDERAL HOME LOAN MORTGAGE COR		06/19/2008	5,000,000.00	5,077,510.42	5,068,985.42	4.125	AAA	3.295	394	11/30/2009
3137EAAP4	6135	FEDERAL HOME LOAN MORTGAGE COR		06/19/2008	7,000,000.00	7,146,076.00	7,176,463.00	4.875	AAA	3.280	465	02/09/2010
3137EAAE9	6140	FEDERAL HOME LOAN MORTGAGE COR		06/20/2008	10,890,000.00	11,082,798.38	11,159,300.63	5.250	AAA	2.970	201	05/21/2009
3128X3VA8	6142	FEDERAL HOME LOAN MORTGAGE COR		06/20/2008	6,025,000.00	6,093,263.25	6,099,951.00	4.125	AAA	3.056	304	09/01/2009
3134A3EM4	6165	FEDERAL HOME LOAN MORTGAGE COR		10/30/2008	6,760,000.00	6,877,323.18	6,885,955.23	5.750	AAA	2.649	134	03/15/2009
3137EABB4	8175	FEDERAL HOME LOAN MORTGAGE COR		10/30/2008	3,000,000.00	3,091,537.50	3,093,622.50	4.125	AAA	2.800	394	11/30/2009
3137EABB4	8176	FEDERAL HOME LOAN MORTGAGE COR		10/30/2008	6,360,000.00	6,554,059.50	6,557,780.10	4.125	AAA	2.810	394	11/30/2009
3136F5AJ0	5598	FEDERAL NATION MORTGAGE ASSOC.		08/27/2008	500,000.00	504,159.00	505,170.00	5.000	AAA	2.902	118	02/27/2009
31398AJX1	6131	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	12,400,000.00	12,545,796.10	12,519,520.50	3.875	AAA	3.268	404	12/10/2009
3136F6TK5	6134	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	4,475,000.00	4,545,150.10	4,536,844.50	4.250	AAA	3.345	444	01/19/2010
31398AKX9	6136	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	15,400,000.00	15,407,299.60	15,367,352.00	3.250	AAA	3.381	466	02/10/2010
31359MTZ6	6139	FEDERAL NATION MORTGAGE ASSOC.		06/20/2008	11,400,000.00	11,410,704.60	11,426,220.00	3.250	AAA	2.888	106	02/15/2009
31359MUW1	6166	FEDERAL NATION MORTGAGE ASSOC.		10/30/2008	1,478,000.00	1,489,361.55	1,486,795.74	3.850	AAA	2.902	164	04/14/2009
31359MVE0	6167	FEDERAL NATION MORTGAGE ASSOC.		10/30/2008	10,412,000.00	10,699,018.92	10,700,341.25	4.250	AAA	2.710	195	05/15/2009
31359MD67	7026	FEDERAL NATION MORTGAGE ASSOC.		06/12/2008	1,900,000.00	1,918,754.27	1,923,591.67	4.200	AAA	2.964	219	06/08/2009
Subtotal and Average			211,860,748.92		235,445,000.00	238,675,425.50	238,692,440.52			3.144	333	
Federal Agency - Coupon - Callable												
3133XMXQ9	5563	FEDERAL HOME LOAN BANK		11/19/2007	3,300,000.00	3,303,963.30	3,308,250.00	4.625	AAA	4.535	748	11/19/2010
3133XMXQ9	5566	FEDERAL HOME LOAN BANK		11/29/2007	2,000,000.00	2,002,402.00	2,004,200.00	4.625	AAA	4.548	748	11/19/2010
3133XKH24	8158	FEDERAL HOME LOAN BANK		04/16/2007	3,000,000.00	3,034,809.00	3,000,000.00	5.250	AAA	5.250	1,262	04/16/2012
3133XMXQ9	8163	FEDERAL HOME LOAN BANK		11/19/2007	4,200,000.00	4,205,044.20	4,210,500.00	4.625	AAA	4.535	748	11/19/2010
3133XN6F1	8164	FEDERAL HOME LOAN BANK		11/26/2007	2,900,000.00	2,904,611.00	2,900,000.00	4.550	AAA	4.550	936	05/26/2011
3128X52N7	5557	FEDERAL HOME LOAN MORTGAGE COR		09/20/2007	5,000,000.00	5,054,875.00	5,032,500.00	5.250	AAA	5.087	1,249	04/03/2012
Subtotal and Average			20,455,450.00		20,400,000.00	20,505,704.50	20,455,450.00			4.779	973	
Federal Agency - Discount												
313384Q85	1445	FEDERAL HOME LOAN BANK		10/29/2008	3,800,000.00	3,794,231.60	3,797,150.00	1.000	AAA	1.015	24	11/25/2008
313385GK6	5600	FEDERAL HOME LOAN BANK		09/17/2008	4,500,000.00	4,423,734.00	4,420,681.25	2.450	AAA	2.548	214	06/03/2009
313384S59	6117	FEDERAL HOME LOAN BANK		06/19/2008	12,900,000.00	12,870,626.70	12,744,684.00	2.520	AAA	2.586	37	12/08/2008
313384T66	6118	FEDERAL HOME LOAN BANK		06/19/2008	12,900,000.00	12,884,262.00	12,734,611.25	2.550	AAA	2.619	46	12/17/2008
313396S53	5595	FEDERAL HOME LOAN MORTGAGE COR		08/26/2008	1,500,000.00	1,496,584.50	1,488,733.33	2.600	AAA	2.656	37	12/08/2008
313397CF6	5596	FEDERAL HOME LOAN MORTGAGE COR		08/26/2008	1,000,000.00	992,583.00	985,821.67	2.820	AAA	2.900	114	02/23/2009
313396P98	5602	FEDERAL HOME LOAN MORTGAGE COR		09/19/2008	9,000,000.00	8,990,010.00	8,973,000.00	1.800	AAA	1.830	17	11/18/2008

**SDCWA - Fiscal Year 2009
Portfolio Management
Portfolio Details - Investments
October 31, 2008**

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 - Discount												
313396N41	6113	FEDERAL HOME LOAN MORTGAGE COR		06/12/2008	11,600,000.00	11,599,617.20	11,485,682.00	2.430	AAA	2.488	4	11/05/2008
313396Q30	6148	FEDERAL HOME LOAN MORTGAGE COR		07/31/2008	8,000,000.00	7,990,184.00	7,938,275.56	2.480	AAA	2.534	19	11/20/2008
313396T52	6149	FEDERAL HOME LOAN MORTGAGE COR		07/31/2008	8,500,000.00	8,476,684.50	8,418,215.83	2.510	AAA	2.570	45	12/16/2008
313397AF8	6151	FEDERAL HOME LOAN MORTGAGE COR		08/12/2008	3,000,000.00	2,988,102.00	2,968,395.00	2.580	AAA	2.644	66	01/06/2009
313397DK4	6152	FEDERAL HOME LOAN MORTGAGE COR		08/12/2008	8,000,000.00	7,919,360.00	7,867,686.67	2.670	AAA	2.801	142	03/23/2009
313589EZ2	5589	FEDERAL NATION MORTGAGE ASSOC.		06/30/2008	10,000,000.00	9,858,460.00	9,776,222.22	2.650	AAA	2.779	180	04/30/2009
313589FF5	5597	FEDERAL NATION MORTGAGE ASSOC.		08/26/2008	4,000,000.00	3,941,424.00	3,921,007.78	2.810	AAA	2.949	186	05/06/2009
313589HP1	5603	FEDERAL NATION MORTGAGE ASSOC.		10/22/2008	2,400,000.00	2,353,720.80	2,350,440.00	2.950	AAA	3.084	242	07/01/2009
313588N27	6112	FEDERAL NATION MORTGAGE ASSOC.		06/12/2008	11,600,000.00	11,599,918.80	11,487,712.00	2.420	AAA	2.478	2	11/03/2008
313589AE3	6119	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	9,600,000.00	9,562,483.20	9,467,200.00	2.490	AAA	2.600	65	01/05/2009
313589AM5	6120	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	9,600,000.00	9,560,236.80	9,462,000.00	2.500	AAA	2.611	72	01/12/2009
313589BJ1	6121	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	11,400,000.00	11,335,692.60	11,216,612.00	2.540	AAA	2.654	93	02/02/2009
313589CN1	6122	FEDERAL NATION MORTGAGE ASSOC.		06/19/2008	7,100,000.00	7,035,233.80	6,967,719.11	2.620	AAA	2.740	121	03/02/2009
313589BM4	6161	FEDERAL NATION MORTGAGE ASSOC.		10/14/2008	4,000,000.00	3,974,736.00	3,974,033.33	2.050	AAA	2.092	96	02/05/2009
313589FG3	6162	FEDERAL NATION MORTGAGE ASSOC.		10/14/2008	2,000,000.00	1,970,548.00	1,968,680.56	2.750	AAA	2.863	187	05/07/2009
313589HQ9	6163	FEDERAL NATION MORTGAGE ASSOC.		10/14/2008	9,000,000.00	8,825,697.00	8,807,512.50	2.950	AAA	3.085	243	07/02/2009
313589HP1	6164	FEDERAL NATION MORTGAGE ASSOC.		10/22/2008	12,200,000.00	11,964,747.40	11,948,070.00	2.950	AAA	3.084	242	07/01/2009
313588P82	8173	FEDERAL NATION MORTGAGE ASSOC.		09/19/2008	8,500,000.00	8,499,039.50	8,472,138.89	2.000	AAA	2.034	16	11/17/2008
Subtotal and Average			207,420,495.59		186,100,000.00	184,907,917.40	183,642,284.95			2.574	90	
Treasury Securities - Discount												
912795H53	1443	UNITED STATES TREASURY		10/15/2008	4,000,000.00	3,999,920.00	3,999,877.78	0.050	AAA	0.051	5	11/06/2008
912795H79	1444	UNITED STATES TREASURY		10/15/2008	11,000,000.00	10,999,384.00	10,997,800.00	0.200	AAA	0.203	19	11/20/2008
912795J77	6155	UNITED STATES TREASURY		09/11/2008	5,000,000.00	4,997,045.00	4,971,825.00	1.610	AAA	1.642	75	01/15/2009
912795H53	8169	UNITED STATES TREASURY		05/08/2008	1,382,000.00	1,381,972.36	1,370,052.61	1.710	AAA	1.749	5	11/06/2008
912795K59	8174	UNITED STATES TREASURY		09/30/2008	1,895,000.00	1,891,831.56	1,886,482.29	1.086	AAA	1.106	117	02/26/2009
Subtotal and Average			52,300,470.21		23,277,000.00	23,270,152.92	23,226,037.68			0.649	36	
Treasury Securities - Coupon												
912828HB9	209	UNITED STATES TREASURY		07/31/2008	37,235,000.00	38,037,898.31	37,948,645.27	4.000	AAA	2.200	303	08/31/2009
912828BQ2	5366	UNITED STATES TREASURY		08/27/2004	3,500,000.00	3,503,829.00	3,525,156.25	3.375	AAA	3.191	14	11/15/2008
912828BT6	5369	UNITED STATES TREASURY		08/31/2004	2,300,000.00	2,308,266.20	2,324,257.81	3.375	AAA	3.110	44	12/15/2008
912828GP9	5593	UNITED STATES TREASURY		07/31/2008	7,600,000.00	7,728,250.00	7,729,656.00	4.500	AAA	2.190	180	04/30/2009
912828BT6	8137	UNITED STATES TREASURY		08/31/2004	4,000,000.00	4,014,376.00	4,042,187.50	3.375	AAA	3.110	44	12/15/2008
912828BQ2	8138	UNITED STATES TREASURY		10/28/2004	3,675,000.00	3,679,020.45	3,709,453.13	3.375	AAA	3.126	14	11/15/2008
912828CE8	8139	UNITED STATES TREASURY		11/01/2004	1,775,000.00	1,791,917.53	1,767,511.72	3.125	AAA	3.227	165	04/15/2009
Subtotal and Average			63,904,363.05		60,085,000.00	61,063,557.49	61,046,867.68			2.437	222	

**SDCWA - Fiscal Year 2009
Portfolio Management
Portfolio Details - Investments
October 31, 2008**

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			707,044,971.74		650,579,647.73	653,695,405.54	652,335,728.56			2.909	200

**SDCWA - Fiscal Year 2009
Portfolio Management
Portfolio Details - Cash
October 31, 2008**

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		07/01/2008	32,027.31	32,027.31	32,027.31			0.000	1
CASH01	48	PETTY CASH		07/01/2008	2,500.00	2,500.00	2,500.00			0.000	1
CASH34	6003	US BANK - 2008A COPS		07/01/2008	0.00	0.00	0.00			0.000	1
CASH02	1000	WELLS FARGO - OPERATING			389,791.82	389,791.82	389,791.82	0.001		0.001	1
CASH03	1001	WELLS FARGO - PAYROLL ZBA		07/01/2008	-63,351.61	-63,351.61	-63,351.61			0.000	1
CASH04	5000	WELLS FARGO - PAY AS YOU GO		07/01/2008	3.49	3.49	3.49			0.000	1
CASH05	8000	WELLS FARGO - RSF		07/01/2008	3.60	3.60	3.60			0.000	1
CASH28	3000	WELLS FARGO - 2006 CP		07/01/2008	0.00	0.00	0.00			0.000	1
CASH30	6000	WELLS FARGO - 2008A COPS		07/01/2008	3.78	3.78	3.78	0.001		0.001	1
CASH19	7000	WELLS FARGO - EQUIPMENT		07/01/2008	3.78	3.78	3.78			0.000	1
		Average Balance	0.00								1
Total Cash and Investments			707,044,971.74		650,940,629.90	654,056,387.71	652,696,710.73			2.909	200

**SDCWA - Fiscal Year 2009
Portfolio Management
Activity Summary
October 2007 through October 2008**

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	2007	117	478,202,660.47	4.789	4.856	5.209	21	20	457	171
November	2007	117	471,465,121.26	4.725	4.791	5.123	21	21	443	195
December	2007	112	452,364,731.08	4.649	4.714	4.994	12	17	444	183
January	2008	110	442,154,721.89	4.526	4.589	4.911	15	17	432	168
February	2008	104	422,177,722.07	4.332	4.393	4.772	10	16	399	158
March	2008	93	404,408,389.74	4.005	4.061	4.387	13	24	382	146
April	2008	75	295,042,905.15	3.864	3.918	4.550	13	31	421	166
May	2008	76	789,876,928.12	2.526	2.562	3.643	19	18	147	68
June	2008	109	762,396,751.73	2.956	2.997	3.730	52	20	279	197
July	2008	110	727,103,746.20	2.885	2.925	3.550	14	13	319	214
August	2008	110	708,104,568.19	2.901	2.942	3.471	12	9	324	203
September	2008	109	695,922,936.20	2.781	2.820	3.415	20	21	314	190
October	2008	107	652,335,728.56	2.869	2.909	3.294	14	16	332	200
Average		104	561,658,223.90	3.678%	3.729%	4.235	18	19	361	174

San Diego County Water Authority Rolling Cash Flow Projections

	November, FY09	December, FY09	January, FY09	February, FY09	March, FY09	April, FY09	May, FY09	June, FY09	July, FY10	August, FY10	September, FY10	October, FY10
Water Sales	25,269,357	25,523,648	21,525,115	18,824,964	17,140,019	14,333,961	18,434,785	19,274,686	23,374,202	26,545,065	28,449,615	27,310,070
RTS/CRC	848,873	4,104,763	848,873	848,873	833,954	848,911	848,911	4,089,619	848,911	848,911	848,873	848,873
Taxes	253,526	2,724,765	663,169	289,300	162,769	1,980,384	1,980,384	623,951	0	161,864	124,910	215,340
Standby Charges	446,774	2,089,724	3,314,452	284,009	224,368	1,710,256	1,710,256	2,429,834	(62,134)	22,637	25,423	109,813
In-Lieu Taxes	426,733	0	0	426,733	0	0	426,733	0	0	426,733	0	0
Capacity Charges	2,250,615	2,143,420	4,961,826	1,664,397	1,723,225	4,051,383	2,251,370	1,298,626	4,692,400	1,705,020	2,115,173	5,918,544
Infrastructure Access Charges	1,643,328	1,643,328	1,659,672	1,659,672	1,659,672	1,659,672	1,659,672	1,659,672	1,643,328	1,643,328	1,643,328	1,643,328
Interest	321,077	330,136	338,710	341,772	346,135	348,949	304,464	311,018	313,887	315,399	321,083	324,303
Other Revenues	218,091	201,979	265,476	413,490	147,861	239,050	244,288	823,030	300,930	397,432	194,316	571,057
RSF & Bond Fund Transfers	3,866,280	0	0	0	0	0	0	0	0	0	0	0
Maturing Investments	84,000,000	89,800,000	95,300,000	97,200,000	100,000,000	101,800,000	72,900,000	77,100,000	78,900,000	79,800,000	83,400,000	85,400,000
Use of Liquid Funds	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	119,544,654	128,561,765	128,877,292	121,953,211	122,238,005	126,972,565	100,760,864	107,610,437	110,011,523	111,866,388	117,122,720	122,341,329
Water Purchases	(19,874,653)	(19,956,568)	(16,515,786)	(14,238,460)	(12,772,576)	(10,387,565)	(13,991,421)	(14,681,744)	(18,278,108)	(21,021,899)	(22,640,994)	(21,643,481)
RTS/CRC	(848,873)	(4,104,763)	(848,873)	(848,873)	(833,954)	(848,911)	(848,911)	(4,089,619)	(848,911)	(848,911)	(848,873)	(848,873)
Payroll	(2,278,192)	(2,278,192)	(3,417,289)	(2,278,192)	(2,278,192)	(2,278,192)	(2,278,192)	(2,278,192)	(2,278,192)	(2,278,192)	(3,417,289)	(2,278,192)
Operating Expenditures	(2,728,410)	(1,387,168)	(1,235,028)	(1,370,576)	(1,342,941)	(1,753,054)	(1,349,380)	(2,693,549)	(2,918,011)	(1,323,173)	(1,407,623)	(1,466,454)
G.O. Debt Service	0	0	0	0	0	0	0	0	0	0	0	0
C.O.P. Debt Service	(59,705)	(59,705)	(119,410)	(59,705)	(59,705)	(31,843,333)	0	0	0	0	0	(35,304,064)
S.T. Debt Service	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)	(1,329,667)
RSF Transfers	0	0	0	0	0	0	0	0	0	0	0	0
Investment Purchases	(89,800,000)	(95,300,000)	(97,200,000)	(100,000,000)	(101,800,000)	(72,900,000)	(77,100,000)	(78,900,000)	(79,800,000)	(83,400,000)	(85,400,000)	(53,500,000)
Transfers to PAYGO	(2,697,389)	(4,233,145)	(8,276,278)	(1,948,406)	(1,947,594)	(5,761,639)	(3,961,626)	(3,728,461)	(4,630,266)	(1,727,657)	(2,140,596)	(6,028,357)
Replenish Liquid Funds	(80,682)	(65,474)	(87,879)	(32,248)	(26,293)	(23,121)	(54,584)	(62,123)	(81,285)	(89,806)	(90,595)	(95,157)
TOTAL DISBURSEMENTS	(119,697,571)	(128,714,682)	(129,030,209)	(122,106,127)	(122,390,921)	(127,125,482)	(100,913,780)	(107,763,354)	(110,164,440)	(112,019,305)	(117,275,637)	(122,494,245)
NET CHANGE IN INVESTMENTS	5,880,682	5,565,474	1,987,879	2,832,248	1,826,293	(28,876,879)	4,254,584	1,862,123	981,285	3,689,806	2,090,595	(31,804,843)

PAYGO FUND

Maturing Investments - PAYGO Fund	12,500,000	3,800,000	3,670,000	1,500,000	1,390,000	24,885,000	4,000,000	4,500,000	2,400,000	0	3,530,000	0
Interest Income - PAYGO	200,677	205,512	224,546	226,063	231,325	246,209	194,950	201,855	211,549	213,739	219,857	233,588
Canal Lining Reimbursements	0	100,000	500,000	0	0	0	0	0	0	0	956,000	0
Transfers from Operating & Bond Funds	2,697,389	4,233,145	8,276,278	1,948,406	1,947,594	5,761,639	3,961,626	3,728,461	4,630,266	1,727,657	2,140,596	6,028,357
Use of Liquid Funds	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	15,398,066	8,338,657	12,670,824	3,674,469	3,568,919	30,892,848	8,156,577	8,430,315	7,241,815	1,941,396	6,846,453	6,261,945
Cash Funded CIP Expenditures	(2,719,662)	(2,608,702)	(1,403,144)	(1,568,749)	(78,735)	(66,616)	(1,158,841)	(1,174,333)	(972,190)	(1,067,275)	(874,052)	(781,256)
Debt Service	0	0	0	0	0	(23,458,571)	0	0	0	0	0	0
Investment Purchases	(12,600,000)	(5,700,000)	(11,200,000)	(2,100,000)	(3,400,000)	(7,300,000)	(6,900,000)	(7,200,000)	(6,200,000)	(800,000)	(5,900,000)	(5,400,000)
Replenish Liquid Funds	(78,404)	(29,955)	(67,680)	(5,720)	(90,184)	(67,661)	(97,736)	(55,982)	(69,625)	(74,121)	(72,401)	(80,689)
TOTAL DISBURSEMENTS	(15,398,066)	(8,338,657)	(12,670,824)	(3,674,469)	(3,568,919)	(30,892,848)	(8,156,577)	(8,430,315)	(7,241,815)	(1,941,396)	(6,846,453)	(6,261,945)
NET CHANGE IN INVESTMENTS	178,404	1,929,955	7,597,680	605,720	2,100,184	(17,517,339)	2,997,736	2,755,982	3,869,625	874,121	2,442,401	5,480,689

BOND FUND

Maturing Investments - Bond Fund	31,200,000	34,300,000	27,200,000	26,800,000	31,060,000	27,578,000	24,502,000	27,775,000	21,200,000	24,400,000	22,633,000	10,355,000
Contributions in Aid of Construction	0	0	635,000	0	0	0	97,753	0	0	0	0	0
Interest Income - CIP	859,784	811,890	778,157	749,531	677,464	613,624	557,043	508,302	465,832	409,016	350,858	289,327
Use of Liquid Funds	0	0	0	0	0	0	0	0	0	0	2,233,148	15,871,846
TOTAL RECEIPTS	32,059,784	35,111,890	28,613,157	27,549,531	31,737,464	28,191,624	25,156,796	28,283,302	21,665,832	24,809,016	25,217,006	26,516,173
CIP Fund Draws	(27,625,988)	(21,001,135)	(15,409,560)	(12,815,815)	(31,056,238)	(27,524,662)	(24,471,156)	(21,054,085)	(18,368,123)	(24,358,828)	(24,866,148)	(26,226,846)
Investment Purchases	(4,400,000)	(14,100,000)	(13,200,000)	(14,700,000)	(600,000)	(600,000)	(600,000)	(7,200,000)	(3,200,000)	(400,000)	0	0
Replenish Liquid Funds	(33,796)	(10,755)	(3,597)	(33,716)	(81,226)	(66,962)	(85,640)	(29,217)	(97,709)	(50,188)	(350,858)	(289,327)
TOTAL DISBURSEMENTS	(32,059,784)	(35,111,890)	(28,613,157)	(27,549,531)	(31,737,464)	(28,191,624)	(25,156,796)	(28,283,302)	(21,665,832)	(24,809,016)	(25,217,006)	(26,516,173)
NET CHANGE IN INVESTMENTS	(26,766,204)	(20,189,245)	(13,996,403)	(12,066,284)	(30,378,774)	(26,911,038)	(23,816,360)	(20,545,783)	(17,902,291)	(23,949,812)	(24,515,290)	(25,937,519)

RATE STABILIZATION FUND

Maturing Investments	13,557,000	4,000,000	0	1,895,000	0	1,775,000	0	650,000	0	0	0	0
Interest Earnings	135,687	115,020	115,333	115,647	115,962	116,277	116,593	116,910	117,229	117,547	117,867	118,188
Deposits	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	13,692,687	4,115,020	115,333	2,010,647	115,962	1,891,277	116,593	766,910	117,229	117,547	117,867	118,188
Withdrawals	(3,866,280)	0	0	0	0	0	0	0	0	0	0	0
Investment Purchases	(9,826,407)	(4,115,020)	(115,333)	(2,010,647)	(115,962)	(1,891,277)	(116,593)	(766,910)	(117,229)	(117,547)	(117,867)	(118,188)
TOTAL DISBURSEMENTS	(13,692,687)	(4,115,020)	(115,333)	(2,010,647)	(115,962)	(1,891,277)	(116,593)	(766,910)	(117,229)	(117,547)	(117,867)	(118,188)
NET CHANGE IN INVESTMENTS	(3,730,593)	115,020	115,333	115,647	115,962	116,277	116,593	116,910	117,229	117,547	117,867	118,188

OVERALL CHANGE IN INVESTMENTS	(24,437,711)	(12,578,796)	(4,295,512)	(8,512,669)	(26,336,336)	(73,188,980)	(16,447,447)	(15,810,767)	(12,934,153)	(19,268,339)	(19,864,426)	(52,143,485)
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GLOSSARY OF TERMS
INVESTMENT PORTFOLIO DETAIL REPORT and CASH FLOW

INVESTMENT PORTFOLIO DETAIL REPORT

- **CUSIP**: Committee of Uniform Securities Identification Procedures; unique number assigned to a security.
- **Investment Number**: The unique number assigned by the investment software in order to keep track of an investment.
- **Issuer**: The Bank, Federal Agency/Government, Corporation or Company that manages a fund or issues the security/securities.
- **Average Balance**: The average daily balance of the type of security or cash account during the month reported.
- **Purchase Date**: The day in which the security was delivered to the Authority's safekeeping account.
- **Book Value**: The amount paid for the security inclusive of any accrued interest or premium/discount. A security that has a book value in excess of face value was purchased with accrued interest or at a premium, thus the yield-to-maturity on the security will be the same as or less than the stated rate. A security that has a book value less than face value was purchased at a discount, thus the yield to maturity will always be in excess of the stated rate. The book value may differ significantly from the security's current value in the market.
- **Face (Par) Value**: The amount of cash to be received on the maturity date.
- **Market Value**: The current market value of the security. This is based on the price a security can be traded in the market at the close of the month.
- **Stated Rate**: The rate of interest paid on a security as dictated by the coupon, if applicable, and by discount rate (original purchase price) if it is a discount security (t-bill, banker's acceptance, commercial paper, etc.).
- **Yield to Maturity**: The yield of a security on a 365 day basis (converting 360 day interest payment investments to 365 day) with a theoretical assumption that securities with coupon payments are reinvested at the rate of the coupon.
- **Quality Rating**: The credit rating of the security.
- **Maturity Date**: The date in which the security matures. With managed pool accounts and passbook/checking accounts, there are no maturity dates because these accounts are ongoing.
- **Days to Maturity**: The number of days remaining from the reporting date until the maturity of the security.

CASH FLOW TERMS

- **Other Revenues**: Revenues received from hydro-electric power sales and other sources.
- **RSF Transfers**: Transfers to or from the Rate Stabilization Fund.
- **Use/Replenishment of Liquid Funds**: Incoming or outgoing transfer of funds from either the State of California LAIF pooled investment account or the Goldman Sachs money market accounts.
- **Investment Purchases**: Investments with specific maturities to cover the cash flow needs of the fund (Operating, RSF, PAYGO, Bond/CIP).
- **Net Change in Investments**: The increase or decrease (dollars) held in investments for a fund.

GLOSSARY OF TERMS INVESTMENT TYPES

Agencies: Debt instrument(s) that are issued by U.S. Government agencies, departments and government-sponsored corporations. Some agencies have a direct government guarantee and others have an implied government guarantee. All agency securities are of the highest credit quality.

Banker's Acceptances: An investment instrument issued by a bank, guaranteeing the payment of a customer's drafts for a stated amount for a specified period. It substitutes the bank's credit for the buyer and eliminates the seller's risk. This security is created out of a trade transaction.

Callable: A security redeemable by the issuer before the scheduled maturity. The issuer usually pays the holder par or in some cases a premium price if such a security is retired early.

Certificates of Deposit: A security instrument representing specific cash deposits in commercial banks, having varying maturities and yields based on size and maturity. This security has pooled collateral pledged against the deposit.

Commercial Paper: Commercial paper is a short-term, unsecured promissory discount note that usually pays interest at maturity and is primarily used by large corporations to finance receivables.

Managed Pool Accounts: Funds are managed by outside managers. Goldman Sachs is an AAA rated U.S. Treasury fund with a very short average life. The Local Agency Investment Fund (LAIF) is run by the State Treasurer's Office and is invested in most securities permitted under the California Government Code. LAIF has an average life that varies between 6 to 12 months. Both types of funds are used for liquidity purposes. Trinity Plus, FSA and MBIA are guaranteed investment contracts (GICs) that provide competitive rates of return while giving additional security to the holders of Authority 1998A, 2002A and 2004A debt. The final maturity of the Trinity Plus, FSA and MBIA reserve funds are 2028, 2032 and 2034, but due to the ability to access funds immediately, the investments are considered to have daily liquidity.

Medium Term Notes: Corporate and agency, usually senior, unsecured debt instruments sold by an agent on a continuously offered basis.

Negotiable Certificates of Deposit: Securities that are issued by major international and domestic banks and are similar to certificates of deposits purchased at a local bank; however, unlike collateralized certificates of deposit, they are liquid with an active secondary market for strong issuers.

Passbook/Checking Account: These accounts are savings, checking and money market accounts at Wells Fargo Bank.

Repurchase Agreements (RP, Repo): An agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date. Also called a repo, it represents a collateralized short-term loan for which, where the collateral may be a Treasury security, money market instrument, federal agency security, or a mortgage-backed security. From the purchaser's (customer's) perspective, the deal is reported as a **reverse repurchase agreement**.

Treasury Bill: An obligation issued by the U.S. Treasury with a maturity of under one year and having virtually no risk.

Treasury Note: An obligation issued by the U.S. Treasury with a maturity ranging from one to ten years, paying interest semiannually, and having virtually no risk.

December 10, 2008

Attention: Administrative and Finance Committee

Adopt the Vote Entitlement Resolution for Calendar Year 2009. (Action)

Staff recommendation

Adopt the resolution establishing the vote and representative entitlements of each member agency effective January 1, 2009.

Alternative

None.

Fiscal Impact

None.

Background

In 1997, an amendment to the County Water Authority 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 County Water Authority 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 2008 on December 6, 2007.

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, 2008 is calculated by adding the total financial contribution of each member agency for the fiscal year ending June 30, 2008 to its total financial contribution as of June 30, 2007.

Attachment A of the Resolution lists member agency total financial contribution as of June 30, 2008 and member agency vote entitlement for Calendar Year 2009. Fiscal Year 2008 property tax valuation for Lakeside Water District was not available from the County of San Diego due to the effective fiscal year of 2010 established by the State Board of Equalization. Due to this timing, the prior year agreed upon percentages of property valuation division was used to calculate the member agency representative entitlement.

The representative entitlement of each member agency is based on assessed valuation data from the County of San Diego as of June 30, 2008. The number of member agency representatives remains unchanged from Calendar Year 2008. The calculation is shown in Attachment B of the Resolution.

Prepared by: Miriam Phillips, Senior Accountant
Ann Yasukochi, Management Analyst
Reviewed by: Leanne B. Wade, Controller
Eric L. Sandler, Director of Finance
Approved by: Paul A. Lanspery, Deputy General Manager

Attachments:

1. Resolution No. 2008-___Vote and Member Representative Entitlement Resolution for Calendar Year 2009
2. Attachment A: Vote Entitlement Effective January 1, 2009
3. Attachment B: Representative Entitlement Effective January 1, 2009

RESOLUTION NO. 2008-

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 2009 AS DETERMINED BY TOTAL FINANCIAL CONTRIBUTION FOR THE FISCAL YEAR ENDING 2008 AND THE NUMBER OF MEMBER REPRESENTATIVES AS DETERMINED BY TOTAL ASSESSED VALUATIONS AS OF JUNE 30, 2008.

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 18th day of December 2008.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Fern M. Steiner, Chair, Board of Directors

ATTEST:

Mark A. Watton, Secretary, Board of Directors

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. 2008- 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, 2009

Member Agency	Total Financial Contribution*	Vote Entitlement	Percent
Carlsbad	\$277,959,437	55.592	3.45%
Del Mar	24,216,968	4.843	0.30%
Escondido	277,230,293	55.446	3.44%
Fallbrook	201,312,627	40.263	2.50%
Helix	584,173,077	116.835	7.25%
Lakeside	61,895,012	12.379	0.77%
National City	62,148,821	12.430	0.77%
Oceanside	399,723,059	79.945	4.96%
Olivenhain	223,816,450	44.763	2.78%
Otay	401,870,228	80.374	4.99%
Padre Dam	215,254,476	43.051	2.67%
Pendleton	11,623,735	2.325	0.14%
Poway	171,261,123	34.252	2.12%
Rainbow	337,153,258	67.431	4.18%
Ramona	130,447,232	26.089	1.62%
Rincon	122,964,359	24.593	1.53%
San Diego	3,240,632,928	648.127	40.19%
San Dieguito	90,365,989	18.073	1.12%
Santa Fe	123,582,544	24.717	1.53%
South Bay	193,632,680	38.727	2.40%
Vallecitos	189,005,450	37.801	2.34%
Valley Center	456,479,595	91.296	5.66%
Vista	235,943,536	47.189	2.93%
Yuima	28,749,560	5.750	0.36%
Total	\$8,061,442,437	1,612.291	100.00%

* Total financial contribution equals base revenues plus fiscal year ending June 30, 2008 revenues.

ATTACHMENT B

Representative Entitlement Effective January 1, 2009

Member Agency	Assessed Valuation, June 30 2008			Member Representatives
	Secured	Unsecured	Total	
Carlsbad	\$ 18,824,307,232	\$ 799,615,023	\$19,623,922,255	1
Del Mar	2,265,060,242	25,184,119	2,290,244,361	1
Escondido	7,056,815,837	257,871,715	7,314,687,552	1
Fallbrook	3,374,165,349	50,020,426	3,424,185,775	1
Helix	20,435,655,149	706,168,936	21,141,824,085	2
Lakeside*				1
National City	3,058,940,175	172,178,752	3,231,118,927	1
Oceanside	18,391,021,568	379,980,362	18,771,001,930	1
Olivenhain	18,265,167,135	231,021,494	18,496,188,629	1
Otay	26,600,424,151	522,220,367	27,122,644,518	2
Padre Dam*	11,056,975,164	396,250,379	11,453,225,543	1
Pendleton**	285,405,463	18,265,511	303,670,974	1
Poway	8,069,936,750	302,500,931	8,372,437,681	1
Rainbow	3,921,851,929	21,307,594	3,943,159,523	1
Ramona	3,709,348,530	46,705,945	3,756,054,475	1
Rincon	7,480,936,480	204,756,016	7,685,692,496	1
San Diego	178,418,917,643	8,498,587,113	186,917,504,756	10
San Dieguito	6,748,400,786	122,352,019	6,870,752,805	1
Santa Fe	8,842,822,272	66,003,005	8,908,825,277	1
South Bay	8,545,084,871	313,866,795	8,858,951,666	1
Vallecitos	11,342,518,780	342,204,919	11,684,723,699	1
Valley Center	4,226,685,630	31,013,078	4,257,698,708	1
Vista	11,266,851,320	506,711,150	11,773,562,470	1
Yuima	382,368,691	5,129,965	387,498,656	1
Totals	\$ 382,569,661,147	\$14,019,915,614	\$396,589,576,761	35

5% of Total Assessed Valuation is \$19,829,478,838

Note: County of San Diego – 1 Special Representative

* The individual assessed valuation of Lakeside is not yet available. Because the combined assessed value of Lakeside and Padre Dam is below the five percent level, neither agency is eligible for an additional representative.

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

December 10, 2008

Attention: Administrative and Finance Committee

Amend the defined benefit pension plan (terminal pay plan) and amend agreement for legal services with Pillsbury Winthrop Shaw Pittman, LLP

Purpose

Amend the defined benefit pension plan (terminal pay plan) due to the different treatment of domestic partners under state and federal law and approve an amendment to the agreement for legal services with special counsel Pillsbury Winthrop Shaw Pittman LLP.

Staff recommendation

1) Amend the defined benefit pension plan in order to comply with state and federal law; and 2) Authorize the General Counsel to execute the amended agreement for legal services with Pillsbury Winthrop Shaw Pittman LLP to add a not to exceed amount of \$10,000 to the original \$50,000 contract previously approved under the authority of the General Counsel.

Fiscal Impact

The amendment to the defined benefit pension plan will not increase the ongoing nominal administrative costs for the plan. The amended agreement for legal services would establish an additional not to exceed amount of \$10,000 to obtain a determination letter from the Internal Revenue Service. The original agreement was approved under the authority of the General Counsel's office for an amount not to exceed \$50,000 and was spent on the development of the original plan documents and the plan approval process. Funds for legal services are available in the General Counsel's Office budget for Fiscal Year's 2007/2008 and 2008/2009.

Background

On December 6, 2007 the Board approved the San Diego County Water Authority Defined Benefit Pension Plan to include the terminal pay plan under Section 401(a) of the Internal Revenue Code as a means for Water Authority employees to manage the pay for accrued vacation and sick leave time upon termination of Water Authority service. The law firm of Pillsbury Winthrop Shaw Pittman LLP was retained to develop the plan and to ensure that it meets stringent Internal Revenue Service regulations and state laws.

Previous Board Action: At the December 6, 2007 meeting, the Board approved Resolution 2007-27 the defined benefit pension plan in compliance with Board approved Memoranda of Understanding (MOU) and Compensation Plans for FY 2008 through 2010, effective December 10, 2007.

Discussion

After development of the initial plan documents and based on subsequent communications with the IRS, counsel determined that an amendment to the plan would be required to maintain compliance with the Internal Revenue Code and the changing state law on domestic partnerships. Due to the different treatment of domestic partners under state and federal law, the Defined Benefit Pension Plan must be amended to correct the provisions related to Qualified Domestic Relations Orders and to change the alternate payee definitions in order to bring the Water Authority's plan into conformance with the law. A Qualified Domestic Relations Order creates an alternate payee's right to receive benefits payable under a pension plan. Pillsbury Winthrop Shaw Pittman has corrected the plan and is completing the process of obtaining a determination letter from the IRS regarding the form of the plan, thereby requiring the payment of additional fees on an as needed basis.

Prepared by: Celia A. Brewer, Assistant General Counsel

Approved by: Daniel S. Hentschke, General Counsel

Paul A. Lanspery, Deputy General Manager



December 10, 2008

Attention: Administrative and Finance Committee

Adopt Administrative Code amendment to modify the disciplinary appeals procedures. (Action)

Staff recommendation

Adopt Ordinance No. 2008-___ an ordinance of the Board of Directors of the San Diego County Water Authority repealing section 2.16.040 and amending section 2.16.050 of the Administrative Code .

Alternative

Do not adopt the ordinance.

Fiscal impact

Adoption of the ordinance has no identified fiscal impact.

Background

The Water Authority Administrative Code establishes two categories of employees – general category positions and special category positions. The general category covers all employees that do not hold a special category position. Under California law and the Water Authority’s Human Resources Policies and Procedures Manual (HR Rules), general category employees are entitled to certain notice and hearing rights with respect to imposition of discipline, up to and including termination. Under the current HR Rules general category may appeal a disciplinary decision to a special review subcommittee comprised of three members of the Administrative and Finance Committee. The composition, powers, and duties of the special review committee is set forth in Section 2.16.040 of the Administrative Code.

Discussion

The current appeals process available to employees who have been subject to disciplinary action is cumbersome and the time required for the process is lengthy. In order to provide a more expedited appeals process for employees, a revised process is proposed. The revised process would replace the Special Review Subcommittee with an independent third party hearing officer. The independent hearing officer would have the authority to hear the appeal and sustain, rescind, reduce or modify the disciplinary action, provided that the hearing officer would not be authorized to reassign the employee to a different employment position, but may order a demoted employee to be restored to the prior position. The hearing officer will be selected from a panel provided by a neutral third party and if mutual selection is not possible then the hearing officer will be picked using the alternate strike method. The hearing officer’s decision would be final, subject to judicial review. The hearing officer would be required to issue a written

statement of decision, that is supported by substantial evidence in the record and applicable California law. Board action is required to amend the Administrative Code to replace the Special Review Subcommittee. The revised process would then be accomplished by a change to the HR Rules.

Staff met with Teamsters 911 representatives to confirm the Union's support of this change to disciplinary appeals process, including the principles of the revised language to be included in the HR Rules as outlined in this memorandum.

Prepared by: Susan L. Leone, Director of Human Resources

Reviewed by: Paul A. Lanspery, Deputy General Manager

Approved by: Maureen A. Stapleton, General Manager

Attachment: Ordinance No. 2008-__

ORDINANCE NO. 2008-__

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY REPEALING SECTION 2.16.040 AND AMENDING SECTION 2.16.050 OF THE ADMINISTRATIVE CODE

Whereas, the General Manager and Human Resources Director have recommended replacement of the Special Review Committee for disciplinary appeals with an independent hearing officer, and corresponding amendments to the Human Resources Policies and Procedures Manual that include the following components:

- a. Replacement of the special review committee with an independent hearing officer, selected from a panel provided by a neutral third party and if mutual selection is not possible then the arbitrator will be picked using the alternate strike method.
- b. The hearing officer would have authority to hear disciplinary appeals and to sustain, rescind, reduce, or modify the discipline, provided that the hearing officer would not have power to reassign the employee to a different employment position, but could order a demoted employee to be restored to the prior position.
- c. The hearing officer would be required to issue a written statement of decision that is supported by substantial evidence in the record and applicable California law; and

Whereas, the Human Resources Director has consulted with the designated representatives of the Water Authority's recognized employee organizations in accordance with applicable law; and

Whereas, the representatives of the Water Authority's recognized employee organizations concur with the recommendations of the General Manager and Human Resources Director;

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

1. Article 2, Chapter 2.16 of the Administrative Code is amended by the repeal of section 2.16.040.
2. Article 2, Chapter 2.16 of the Administrative Code is amended by the amendment of subdivision (b) 4. of section 2.16.050 to read as follows:
 - “4. Establish procedures for employees in general category positions to appeal the imposition of discipline or a dismissal to an independent hearing officer;”
3. This ordinance shall be effective upon adoption.
4. 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 18th day of December, 2008.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Fern M. Steiner,
Chair

ATTEST:

Mark W. Watton,
Secretary

I, Doria F. Lore, Clerk of the Board of Directors of the San Diego County Water Authority, certify vote shown above is correct and that this Ordinance No. 2008-__ was duly adopted at the meeting of the Board of Directors on the dated stated above.

Doria F. Lore,
Clerk of the Board



December 10, 2008

Attention: Administrative and Finance Committee

Amend professional services agreement with Parsons Constructors Incorporated for Safety, First Aid, and Drug Testing Services and Project Labor Agreement Administration for the Emergency Storage Project/Capital Improvement Program. (Action)

Staff recommendation

Authorize an amendment with Parsons Constructors Incorporated (PCI) for safety, first aid and drug testing services and Project Labor Agreement (PLA) Administration in an amount not to exceed \$7.3M, increasing the contract from \$10.0M to \$17.3M, and authorize the transfer of funds from supported ESP/CIP projects. The amendment will provide these services until 2013.

Alternatives

Do not authorize the amendment with PCI for safety, first aid and drug testing services and direct staff to negotiate with another firm. This will result in higher costs and may interrupt the continuous application of these services.

Fiscal impact

There are sufficient funds in the ESP and CIP project budgets and the adopted fiscal year 2008 and 2009 CIP appropriations to support this recommendation. The rate categories for this contract are storage and customer service.

Background

The PLA was approved by the Board in February 1999. It is a collective bargaining agreement signed by Parsons Constructors Inc. (representing the interests of the Water Authority), the Building and Construction Trades, and affiliated unions for specific construction projects throughout the life of the ESP. Components of the PLA include a no strike, no lockout provision, assurance of a sufficient quantity of skilled workers, an Alternate Dispute Resolution Program, a drug testing program and a joint labor/management safety program. The terms of the Project Labor Agreement are for the duration of the ESP.

The safety, first aid and drug testing services are part of the Owner Controlled Insurance Program (OCIP) that was approved by the Board in September 1999. The services include construction safety management support, on-site safety personnel, first aid stations and staffing and drug testing services. These services are mandated by the OCIP insurance companies in their policies and are also required provisions within the PLA.

Previous Board action: In February 1999, the Board authorized the PLA. In April 1999, Parsons Constructors Inc. was awarded a professional service agreement for PLA administration and

construction support services. In September 1999, the agreement was amended to provide for OCIP administration support services and on-site first aid station facilities. In June 2004, the Board authorized an amendment for safety, first aid, drug testing and PLA administration services. In October 2006, the Board authorized an amendment to the PCI contract in the amount of \$387,000 for additional first aid and drug testing services for the San Vicente Pipeline project.

Discussion

In anticipation of the PCI contract ending in April 2009, staff issued a Request for Proposals (RFP) for the safety, first aid and drug testing services portion of the agreement. Staff did not include the administration of the PLA in the RFP as the Board approved PCI to administer the PLA for the duration of the ESP. Because of this, staff obtained a quote for the PLA administration services from PCI and negotiated a not to exceed cost of \$1.6M.

Four hundred and eight firms were notified of the RFP via posting on the Water Authority on-line vendor data base. The RFP was also advertised in the San Diego Daily Transcript and sent to multiple safety and risk management firms. Seven responses were received with one response being a decline to submit a proposal. The six remaining proposals were evaluated for compliance to the RFP requirements, and of these, three were short-listed for interviews. Based upon the proposal evaluation criteria provided in the RFP, and an interview process with the three firms, PCI was selected as having the best proposal and understanding of the project's needs and requirements. PCI also provided the lowest cost proposal among the three firms that were short-listed. Staff negotiated a final not to exceed cost of \$5.7M for the safety, first aid and drug testing procedures.

The safety, first aid and drug testing services, as well as the PLA administration, are integral parts of the ESP with proven to be success in reducing accidents, providing life saving medical services, maintaining drug free worksites, and ensuring compliance with the requirements of the PLA.

Approval of the amendment with PCI will ensure that the Water Authority is in compliance with the OCIP and PLA agreements.

Due to the limited availability of small firms that perform this type of work, SCOOP outreach was not required. However, the Ombudsperson on the Parsons team is a small, woman-owned business.

Prepared by: Robert Homer, Risk Manager

Reviewed by: Michael T. Stift, Director of Engineering

Marilyn L. Young, Director of Administrative Services

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

Paul A. Lanspery, Deputy General Manager



December 10, 2008

Attention: Administrative and Finance Committee

Adopt transitional Special Agricultural Water Rates (SAWR) for calendar year 2009 for customers opting out of the MWD's Interim Agricultural Water Program. (Action)

Purpose

To adopt Ordinance No. 2008-___ setting the Water Authority's transitional Special Agricultural Water Rates (SAWR) and charges for customers opting out of Metropolitan Water District's (MWD) Interim Agricultural Water Program (IAWP).

Staff Recommendation: Adopt Ordinance No. 2008-__ an ordinance of the Board of Directors of the San Diego County Water Authority confirming the special agricultural water rate and establishing procedures for administration of the special agricultural water rate program consistent with the phase out of the Metropolitan Water District of Southern California's interim agricultural water program.

Alternative

Modify the proposed transitional SAWR rates to obtain full cost recovery in the calendar year 2009.

Fiscal impact

The transitional SAWR will have a limited fiscal impact on the Water Authority's funding. With the exception of the Melded Treatment Rate, the transitional SAWR customer will receive the same Water Authority discounts that they currently receive under the IAWP. The only proposed change is that, under the transitional SAWR program, customers opting out of the IAWP will pay the Water Authority's Melded Treatment Rate rather than MWD's treatment surcharge. In calendar year 2009 this represents a \$1/AF increase in treatment rate revenues from transitional SAWR customers.

Background

On October 14, 2008, the MWD Board approved changes to the IAWP that will phase-out the program over the next four calendar years resulting in termination of the IAWP on December 31, 2012. MWD's Board action also included an opt-out provision that allows IAWP participants the opportunity to exit the program starting January 2009, and each January thereafter, until the program ends on December 31, 2012. Participants opting out of the IAWP will become MWD M&I customers and be subject to MWD M&I water rates and charges and be subject to MWD M&I cutbacks rather than IAWP cutbacks. Opt-out notifications received in a given calendar year will be effective beginning January 1 of the following calendar year.

In addition to MWD's discounted IAWP rates, the Water Authority's SAWR provides additional discounts to IAWP participants. The SAWR is comprised of two discounts: 1) exemption from the Water Authority's melded supply and treatment charges and 2) IAWP deliveries are not included in the calculation of member agencies' proportional share of fixed Storage Charge. In return for these discounts, Water Authority regional supplies (IID transfer, canal lining projects, and dry-year

supplemental supplies) are not available to IAWP participants and only a limited portion of supplies from the Emergency Storage Project (ESP) and future carry-over storage project are available to IAWP participants.

With IAWP participation as the basis for customers to receive the Water Authority's SAWR, a policy decision needed to be made, for those customers opting-out of IAWP, as to whether the Water Authority would continue to provide them with the SAWR discounts, provide a new program, or discontinue the discounts all together.

On October 23, 2008, the Water Authority Board adopted a two-year transitional SAWR available only to those customers opting-out of the IAWP. Under the transitional SAWR, customers would receive a discount on the Melded Supply Rate, which is consistent with the current program, but would pay the Melded Treatment Rate. In addition, depending on the Member Agency's retail rate structure, transitional SAWR customer's rates may include a discount associated with the reduced allocation of the Storage Charge to the Member Agency. Transitional SAWR customers will continue to be subject to the other rates and charges (i.e. Transportation Rate, Customer Service Charge, IAC, etc.) currently paid under the IAWP.

The proposed rate structure is consistent with the level of service provided to transitional SAWR customers whose cutback requirements will be tied directly to MWD's M&I cutbacks rather than the Water Authority's cutbacks. Because transitional SAWR customers will not receive the benefit of the Water Authority's regional supplies, they will experience cutbacks in excess of what the Water Authority's M&I customers experience but less than cutbacks under the IAWP.

Customers wishing to opt-out of the IAWP will be able to do so and enter the Water Authority's SAWR in either calendar year 2009 or 2010. Only customers in IAWP as of January 1, 2009 or January 1, 2010 will be eligible to sign-up for the transitional SAWR for calendar years 2009 and 2010, respectively. Customers choosing to participate in the transitional SAWR in calendar 2009 are not locked into the two-year program and can opt-out after providing the required notifications by January 1, 2010, or the date specified by the member agency.

Previous Board Action: On October 23, 2008, the Board approved a Two-year Transitional Special Agriculture Water Rate program for customers opting out of the MWD Interim Agricultural Water Program.

Discussion

Table 1 below summarizes the A&F Committee's recommended supply for rates for calendar year 2009 transitional SAWR customers. As mentioned above, these rates are for water supply and treatment only. All other rates and charges that are currently applicable to IAWP customers will continue to be collected. The recommended supply rates are consistent with the current discounts provided to agricultural customers and are consistent with the level of service provided to this customer class.

Table 1 – Recommended Transitional Special Agriculture Water Rates (Water Supply)

Water Authority Rates and Charges	CY 2009 Recommended
Transitional Special Agricultural Water Rate Untreated (\$/AF) ¹	\$412
Transitional Special Agricultural Water Rate Treated (\$/AF) ²	\$580

¹Includes MWD's Tier 1 Supply Rate.

²Includes MWD's Tier 1 Supply Rate plus the Water Authority's Melded Supply Rate of \$168/AF.

Those customers that have opted out of the IAWP and chosen to participate in the transitional SAWR program will be considered M&I customers by MWD. As such, supply allocations for member agencies with participants in the SAWR will be linked to MWD's M&I cutbacks. When the Water Authority exceeds its M&I allocation from MWD, agencies that have exceeded their allocations, including SAWR deliveries, will pay the applicable MWD M&I penalty rate. Table 2 below summarizes MWD's penalty rates which are a function of how much the allocation was exceeded by. The penalty rates will be charged to member agencies in addition to the base water rates and charges.

Table 2 – Summary of Penalty Rates Applicable to Transitional SAWR Deliveries

Use Up to and Including:	Penalty Rate
100% < Use ≤ 115%	2 x Tier 2 ¹
Use > 115%	4 x Tier 2 ¹

¹Rate as determined by MWD.

After consideration of public comments at the Public Hearing on December 18, 2008, the staff recommends that the Board adopt ordinances setting the transitional SAWR rates and charges for calendar year 2009.

Prepared by: David G. Shank, Rate and Debt Administrator
 Reviewed by: Eric Sandler, Director of Finance/Treasurer
 Approved by: Paul A. Lanspery, Deputy General Manager

Attachments:
 SAWR Program Report
 Ordinance 2008 - ____ (Rate Ordinance)

San Diego County Water Authority Two-Year Transitional Special Agricultural Water Rate Program Report

11/7/08

The following describes the phase-out of Metropolitan Water District's (Metropolitan's) Interim Agricultural Water Program (IAWP) and administration of the Water Authority's two-year transitional Special Agricultural Water Rate (SAWR). This Program Report supplements the Board Memorandum to the Administrative and Finance Committee dated December __, 2008, and together these documents constitute the Report referenced in Ordinance No. 2008-__.

1. *How is the IAWP being phased out and when can customers chose to exit the program?*

On October 14, 2008, the Metropolitan Board approved changes to the IAWP that will phase-out the program over the next four calendar years resulting in termination of the IAWP on December 31, 2012. The Metropolitan Board action also included an opt-out provision that allows retail customers the opportunity to exit the program starting January 2009, and each January thereafter, until the program ends on December 31, 2012. Opt-out notifications received in a given calendar year will be effective beginning January 1 of the following calendar year.

2. *What is the current SAWR and what is the two-year transitional SAWR program that was recently approved by the Water Authority Board?*

In addition to the discount from Metropolitan, IAWP participants currently receive a financial discount through the Water Authority's Special Agricultural Water Rate (SAWR). The SAWR is comprised of two discounts: 1) exemption from the Water Authority's supply charge and 2) IAWP deliveries are not included in the calculation of member agencies' proportional share of fixed Storage Charge. In return, Water Authority regional supplies (IID transfer, canal lining projects, and dry-year supplemental supplies) are not available to IAWP participants and only a portion of supplies from the Emergency Storage Project (ESP) and future carry-over storage project are available.

With IAWP participation a current requirement for customers to receive the SAWR, a determination needed to be made, for those customers opting-out of IAWP, as to whether the Water Authority should continue with the SAWR, provide a new program, or discontinue the discount rate.

On October 23, 2008, the Water Authority Board adopted a two-year transitional SAWR available to those customers opting-out of the IAWP. The discounts are consistent with the current program and supply cutback requirements will be tied to Metropolitan's M&I cutback levels. Customers choosing this program will experience cutbacks in excess of what M&I customers experience, but less than cutbacks under the IAWP. Only those customers in IAWP as of January 1, 2009 can sign-up for the SAWR. If a customer chooses to participate in the transitional SAWR in 2009, they are not locked into the two-year program, but can opt-out at the beginning of 2010.

3. What happens at the end of the two-year transitional program?

By the end of the two-year transitional program (December 31, 2010), the Water Authority Board will have made a determination on whether to eliminate the discounts to agricultural water users, continue with the SAWR program, or offer a new program. A workgroup will be formed midway through 2009 to develop the options for Board consideration. **What options are currently available to IAWP customers in calendar 2009?**

Three options are available to IAWP customers starting in 2009. They are:

- i. Remain in the current IAWP/SAWR discount program;
- ii. Exit the IAWP program but remain in the SAWR program; or
- iii. Exit both the IAWP and SAWR programs and become a full service M&I customer.

4. What rate would the member agency pay in calendar year 2009 under each of these three options? What discounts are being received?

Table 1 below provides the Water Authority estimated total unit cost for the three classes of service.

Table 1

Class of Service Option	Water Authority Estimated Total Unit Cost (2009)	
	Treated	Untreated
IAWP/SAWR	\$556/AF	\$413/AF
Transitional SAWR	\$671/AF	\$503/AF
Full Service M&I (opt-out of IAWP and SAWR)	\$766/AF	\$598/AF

A breakdown of the total unit cost is as follows:

- * **IAWP/SAWR:** The Metropolitan Full Service IAWP rate (\$465/AF treated, \$322/AF untreated), Water Authority Customer Service Charge (\$27/AF) and Transportation Rate (\$64/AF).
- * **Transitional SAWR:** The Metropolitan M&I Full Service Rate (\$412/AF Tier 1), Water Authority melded treatment rate (\$168/AF), Customer Service Charge (\$27/AF) and Transportation Rate (\$64/AF)
- * **Full Service M&I:** Water Authority melded supply rate (\$463/AF), melded treatment rate (\$168/AF), Customer Service Charge (\$27/AF), Storage Charge (\$44/AF), and Transportation Rate (\$64/AF).

Table 2 below lists the associated discounts provided to the member agencies for agricultural deliveries.

Table 2

Class of Service Option	Agricultural Discount (2009)	
	Treated	Untreated
IAWP/SAWR	\$210/AF	\$185/AF
Transitional SAWR ¹	\$95/AF	\$95/AF

¹ Untreated and treated water deliveries under the transitional SAWR receive the same discount, because treated water customers pay the Water Authority's melded treatment rate and no longer pay the IAWP discounted treatment rate.

A breakdown of the agricultural discounts received by Water Authority member agencies is shown as follows:

- * IAWP/SAWR discounts¹: Metropolitan IAWP (\$114/AF treated, \$90/AF untreated), Water Authority supply discount (\$52/AF treated, \$51/AF untreated), and Storage Charge exemption (\$44/AF).
- * SAWR discounts¹: Water Authority supply discount (\$51/AF) and Storage Charge exemption (\$44/AF).

¹ This discount is a function of the method by which each member agency's storage charge is calculated under the Water Authority's rate structure. Because the Storage Charge is allocated based on member agencies' proportional share of historic deliveries, except interruptible agricultural deliveries, each member agencies' actual credit will differ.

5. For each of the three options, what will be the potential level of cutback in 2009?

Table 3 summarizes the potential cutback levels for each option in 2009. Table 4 below provides the Metropolitan cutback levels over the phase-out of the IAWP.

Table 3
Potential Cutback Levels in 2009

Option – Class of Service	Water Supply Reduction Requirement	Water Authority Storage Usage Requirement
IAWP/SAWR	At minimum, stay at 30% IAWP reduction, with potential to go higher in 2009 and beyond. (See Table 4 below.) No access to Water Authority regional supplies.	Reduced access to regional storage in emergency situations. Participants would be required to take a greater cutback than M&I, established at twice that of the regional reduction. No access to regional drought storage supplies.
Transitional SAWR	January 2009, 30% mandatory IAWP reduction lifted. Reduction linked to MWD M&I cutbacks. Potential MWD M&I cutbacks in 2009 could be 10%-20%.	Reduced access to regional storage in emergency situations. Participants would be required to take a greater cutback than M&I, established at twice that of the regional reduction. No access to regional drought storage supplies.
Full Service M&I (opt-out of IAWP and SAWR)	January 2009, 30% mandatory reduction lifted; potential reductions from MWD reduced or fully mitigated by SDCWA regional supplies (potential 5%-10% cutback)	Full access to regional storage during emergencies and supplies from future carry-over project.

Table 4
Metropolitan Water District IAWP Cutback Levels Reduced over Four Years

Regional Shortage Level	Regional Shortage Percentage	IAWP Reduction Percentage				
		2008	2009	2010	2011	2012
1	Voluntary	Up to 30%		Up to 24%	Up to 18%	Up to 11%
2	5%	30%	30%	24%	18%	11%
3	10%	30%	30%	25%	20%	15%
4	15%	40%	40%	34%	28%	21%
5	20%	50%	50%	43%	35%	28%
6	25%	75%	75%	63%	50%	38%
7	30%	90%	90%	75%	60%	45%
8	35%	100%	100%	84%	68%	51%
9	40%	100%	100%	85%	70%	55%
10	45%	100%	100%	86%	73%	59%
11	50%	100%	100%	88%	75%	63%

6. What is the deadline for member agencies to notify the Water Authority of the IAWP customers' decisions regarding the three classes of service options? What information should I provide?

Member agencies are required to submit information to the Water Authority pertaining to the three customer options by **January 5, 2009**. Below is a list of the data and documentation required to be submitted to the Water Authority:

- i. Total number of IAWP participants (accounts) that have chosen to opt-out of the IAWP;
- ii. Total number of IAWP participants (accounts) that have chosen to continue to participate in the IAWP;
- iii. Total aggregated acre-feet of demand for participants (accounts) opting out of the IAWP for each of the five fiscal years of 2004, 2005, 2006, and 2007;
- iv. Total number of IAWP participants (accounts) that have opted out of IAWP and chosen to sign-up for the transitional SAWR;
- v. Total aggregated acre-feet of demand for participants (accounts) signing up for the SAWR based on FY 2007 usage; and
- vi. Revised member agency Agricultural Reduction Plan for calendar year 2009.

The information is required to satisfy Metropolitan's request for information and adjust the member agencies' Tier 1 Limit and base period M&I allocation. Information must be received by January 5, 2009, for the Water Authority to notify Metropolitan how many of the retail sub-agency's IAWP customers are opting out in 2009. If the information is not received, Metropolitan will be notified that none of the agency's customers are opting out of IAWP.

Base Periods and Tier 1 Annual Limit

7. *How will a member agency's IAWP base year be adjusted as its customers exit the IAWP during the four-year phase out?*

The Water Authority Board adopted FY 2007 as the base year for determining its member agencies' IAWP allocations. As a member agency's customers exit the IAWP, its IAWP base year shall be reduced. The updated base period shall be calculated as the difference between the member agency's original cumulative FY 2007 IAWP demand and the FY 2007 IAWP demand associated with those customers opting-out of the program.

8. *How will a member agency's SAWR base year be determined as its customers exit the IAWP but remain in the transitional two-year SAWR program?*

The member agency's SAWR base period, from which an allocation will be established, is equivalent to the aggregated volume of actual FY 2007 demand associated with those customers opting-out of the IAWP.

9. *Will a member agency's Allocation Base Period M&I Demand be increased as its customers exit the IAWP but stay in the SAWR program?*

No. Customers remaining in the standalone SAWR program are considered agriculture for the purpose of the Water Authority's allocation methodology. As such, they are subject to a higher cutback level than customers paying the full M&I rate.

10. *Will a member agency's Allocation Base Period M&I Demand be increased as its customers exit the IAWP and SAWR programs?*

Yes. Agencies' base period M&I demands will be adjusted to reflect the increase in M&I deliveries from customers opting out of the programs or phase-out of the IAWP. Member agencies will provide the actual aggregated acre-feet of demand for customers opting out of the IAWP and SAWR programs for fiscal years 2005, 2006, and 2007. These demands will be used to update agencies' base period M&I demands for the purpose of calculating revised M&I allocation percentages.

11. *How will a member agency's Tier 1 Annual Limit be adjusted as its customers exit the IAWP?*

In 2002, the Water Authority Board adopted a methodology to allocate the region's Tier 1 supply limit to its member agencies. This method used member agencies' non-coincidental maximum year firm demands (non-IAWP demands) between FY 1991 through FY 2002. These maximum firm demands were used to determine individual agency's proportional share of the region's Tier 1 limit set by Metropolitan. Consistent with the Board approved methodology, an agency's original non-coincidental maximum year firm demand will be increased by the volume of demand opting out of the IAWP (using FY 2007 demands for accounts opting out). The adjusted maximum year firm demand will be used to recalculate each agency's proportional share of the Water Authority's updated Tier 1 limit. Metropolitan has established the Water Authority's maximum annual Tier 1 limit increase at 86,516AF.

12. Will a member agency's Tier 1 Annual Limit be increased when customers opt-out of IAWP, but enroll in the transitional SAWR?

Yes. Metropolitan considers SAWR stand-alone customers to be firm M&I demands and therefore agencies' Tier 1 limits will be increased using the methodology described in Question 12.

Additional Details on Water Authority Two-Year Transitional SAWR (Stand-alone SAWR)

13. Who is eligible to participate in the SAWR? Can a new non-IAWP customer enter the SAWR?

Customers participating in the IAWP as of January 1, 2008, are eligible to continue receiving the SAWR during the two-year transitional period. The SAWR is not available to new non-IAWP customers. Consistent with the current IAWP eligibility requirements, the property receiving the SAWR must be one acre or greater that is used for commercial agricultural purposes. (Please see MWD Administrative Code Section 4106)

14. Will member agencies be required to re-certify their IAWP/SAWR and SAWR customers to determine eligibility?

During calendar year 2009, the Water Authority will not require, but requests, member agencies consider re-certifying those customers that have remained in the IAWP/SAWR. In addition, if you have identified customers that don't meet the IAWP eligibility requirements, do not enroll them in the standalone SAWR. It is preferable to have them purchase water at the M&I rate and be subject to M&I cutbacks.

15. How will the SAWR program be administered, and will the Water Authority perform audits? Will member agencies continue to provide monthly certifications? How will the credit/discount be reflected on the bills?

Water Authority staff will assume administrative responsibility for the standalone SAWR program. To minimize staff time associated with administering the program, the SAWR shall mirror the existing IAWP guidelines. Member agencies will be required to complete two separate monthly certification forms for total customer credits under the IAWP/SAWR and standalone SAWR. The current IAWP certification form will be used to report monthly SAWR participation. In addition, Water Authority staff will conduct annual SAWR certification audits and member agency site visits. Consistent with the current billing process, member agencies' monthly invoices will continue to include IAWP/SAWR and SAWR credits associated with the approved certified volumes.

16. Can an IAWP customer opt-out in year two of Metropolitan's IAWP phase out and still be able to participate in standalone SAWR program, or is this a one-time offer for IAWP customers opting-out in calendar year 2009?

IAWP participants that choose to opt-out of Metropolitan's program for calendar year 2010 can still enroll in the transitional SAWR program.

17. MWD only gives a credit on imported water delivered to IAWP customers. Is the SAWR going to operate the same way?

Yes. Member agencies can only certify for SAWR credit on imported Metropolitan supplies and the Water Authority will use the same methodology to calculate Metropolitan supplies as used under the IAWP.

18. If a property participating in the SAWR changes ownership in 2009 or 2010, does the discount and cutbacks remain?

Member agencies shall individually determine if the cutback obligation is tied to a property. Consistent with IAWP, member agencies are still responsible for meeting the required reduction established using the SAWR volume enrolled in the program.

19. Is a customer participating in SAWR going to be subject to cutbacks after the transitional program ends?

The SAWR cutback obligation sunsets at the end of the transitional program (December 31, 2010).

20. What penalties for non-performance will agencies incur under the SAWR program?

Those customers that have opted out of the IAWP and chosen to participate in SAWR program will be considered M&I customers by Metropolitan. As such, supply allocations for member agencies participating in the SAWR will be linked to Metropolitan's M&I cutbacks, as well as, the Metropolitan penalty rate for agencies exceeding their allocation. When the Water Authority exceeds its M&I allocation from Metropolitan, SAWR agencies that have exceeded their allocation will pay Metropolitan's M&I penalty rate. The penalty rate for treated and untreated exceedence is based on Metropolitan's Tier 2 untreated rate. The following table contains a summary of the applicable penalty rate that will be charged member agencies in addition to the base water rate.

Use Up to and Including:	Penalty Rate
100% < Use ≤ 115%	2 x Tier 2 (untreated)
Use > 115%	4 x Tier 2 (untreated)

21. How will penalties be assessed?

SAWR penalties shall be assessed on an annual basis or at the end of the program, whichever ever comes first.

22. Are member agencies still required to prepare an annual Agricultural Reduction Plan if they have opted out of the IAWP and are participating in the SAWR?

Yes. Member agencies that have customers in the standalone SAWR program in 2009 will be required to prepare an updated plan by **January 5, 2009**.

23. Does a member agency have to offer the SAWR program to customers opting out of the IAWP?

Pricing programs to retail customers are the choice and responsibility of the member agency.

ORDINANCE NO. 2008-__

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY CONFIRMING THE SPECIAL AGRICULTURAL WATER RATE AND ESTABLISHING OF PROCEDURES FOR ADMINISTRATION OF THE SPECIAL AGRICULTURAL WATER RATE PROGRAM CONSISTENT WITH THE PHASE OUT OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA'S INTERIM AGRICULTURAL WATER PROGRAM

Whereas, on October 14, 2008, the Board of Directors of the Metropolitan Water District of Southern California (Metropolitan) approved changes to its Interim Agricultural Water Program (IAWP) that will phase out the program over the next four calendar years, resulting in program termination as of January 1, 2013; and

Whereas, the IAWP is a program that provides surplus water to agricultural users at a lower cost in exchange for a reduced level of service reliability and potential for significant water supply reductions or interruptions during times of shortage, including, but not limited to a 30 percent reduction in supply before any reductions in full service supplies; and

Whereas, by adoption of Resolution No. 98-10, the Water Authority established a special agricultural water rate (SAWR), that in addition to considering Metropolitan's IAWP, provided an additional discount of the portion of the Water Authority's rate required to pay for the Emergency Storage Program in exchange for a level of service reduction at double the rate of targeted system-wide reductions, up to a maximum 90 percent reduction, in circumstances of water shortage to emergency; and

Whereas, certain provisions of Resolution No. 98-10, including the provisions governing SAWR were superseded by the subsequent actions of the Water Authority relating to rates and charges, those provisions were repealed by Water Authority Ordinance No. 2004-05; and

Whereas, the Water Authority's current rate structure was developed taking into consideration and incorporating the principles of Metropolitan's IAWP and the SAWR; and

Whereas, under the Water Authority's current rate structure, charges to Water Authority member agencies with retail customers participating in Metropolitan's IAWP are calculated giving special consideration to the IAWP, including a direct pass-through of the IAWP water rate charged by Metropolitan to the Water Authority; and

Whereas, Metropolitan's decision to terminate the IAWP requires the Water Authority to make certain changes to its rates and charges for the delivery and supply of water, use of facilities, and provision of services; and

Whereas, at its meeting of October 23, 2008, the Water Authority Board of Directors adopted the recommendation of its Administrative and Finance Committee to establish a two-year transitional SAWR program for customers opting out of Metropolitan's IAWP; and

Whereas, at its meeting of December 18, 2008, the Water Authority General Manager provided a report and recommendation for implementation of the two-year transitional SAWR program to the Board of Directors through the Administrative and Finance Committee, including recommendations for rates, charges, program administration, penalties for enforcement, and other matters as set forth in the report (the "Report"); and

Whereas, at its meeting of December 18, 2008 the Administrative and Finance Committee held a public hearing on the Report and this Ordinance; and

Whereas, this ordinance takes an action that is exempt from the provisions of the California Environmental Quality Act pursuant to the provisions of Public Resources Code § 21080(b) (8) by establishment of water rates or other charges for the purpose of meeting operating expenses and other financial requirements to provide for delivery and supply of water, use of facilities, and provision of services within the Water Authority's existing service areas; and

Whereas, the Board of Directors has considered the Report, the recommendations of the Administrative and Finance Committee, and the testimony and other evidence presented at the public hearing;

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

1. The foregoing recitals are true;
2. Any and all protests to the rates and charges, program administration, penalties for enforcement and other matters as set forth in the Report are overruled;
3. The Report is approved;

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

1. The transitional special agricultural water rate program as described in the Report (Transitional SAWR) is established. General Manager is authorized and directed to administer the Transitional SAWR as described in the Report. The General Manager is authorized to impose and collect penalties with respect to member agencies participating in the Transitional SAWR that fail to comply with supply reduction requirements.

2. Notwithstanding anything in Ordinance No. 2008-03 to the contrary, the Transitional SAWR water supply charge 2009 is established as follows:

Transitional Special Agriculture Water Supply Charge

Water Authority Rates and Charges	CY 2009
Transitional Special Agricultural Water Rate Untreated (\$/AF) ¹	\$412
Transitional Special Agricultural Water Rate Treated (\$/AF) ²	\$580

¹Includes MWD's Tier 1 Supply Rate.

²Includes MWD's Tier 1 Supply Rate plus the Water Authority's Melded Supply Rate of \$168/AF.

3. The rates and charges established by Ordinance No. 2008-03 shall apply to member agencies participating in the Transitional SAWR, except to the extent inconsistent with this ordinance.

4. This ordinance shall be effective upon adoption.

5. 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 18th day of December, 2008.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Fern M. Steiner,
Chair

ATTEST:

Mark W. Watton,
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. 2008-__ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore,
Clerk of the Board



December 10, 2008

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 2009.
(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 2009.

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 2009.

Fiscal impact

None.

Background

It is the policy of the Board to review and approve the Annual Statement of Investment Policy and to continue 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, in December 2005 the Water Authority's investment advisor, PFM, recommended, and staff concurred, that the Water Authority continue its current practice of annually reviewing, updating and adopting its Annual Statement of Investment Policy and submitting monthly investment reports to the Board. Staff believes that the annual review and adoption of the Annual Statement of Investment Policy by the Board, along with submission of monthly investment reports to the Board, is critical to promoting transparency in the investment process.

In October 2006, the Board approved an agreement with PFM Asset Management LLC (PFM), an independent SEC-registered investment advisory firm specializing in public funds, for investment advisory services for the Water Authority's portfolio for up to a three-year period. This agreement also includes PFM's review, analysis and recommendations regarding the Water Authority's investment portfolio on a bi-annual basis to parallel the two-year budget process. This third-party review is typically performed only during the first year of the two-year budget process, although staff has consulted with PFM as part of this annual update. The Water Authority's Annual Statement of Investment Policy is certified by the Association of Public Treasurer's of the United States and Canada.

Discussion

Staff has reviewed the current California Government Code (the Code), and consulted with PFM, and has noted no new Code changes since last year's annual update that would require the Water

Authority to modify its Annual Statement of Investment Policy (the Investment Policy) for calendar year 2009. To be consistent with the Code, several references to subsections of the Code have been updated in the Investment Policy.

The changing investment and finance climates have had a number of impacts on the investment alternatives available to the Water Authority. Our emphasis on safety and liquidity has resulted in an investment portfolio significantly weighted toward treasury securities, agency securities and the Local Agency Investment Fund (LAIF). To allow more flexibility in this volatile investment environment and to provide additional investment opportunities for shorter-term investments to meet the Water Authority's liquidity needs, three changes to the Investment Policy for calendar year 2009 are being recommended and are described below.

Federal Agencies: Currently, the maximum portfolio limit for investments in Federal Agency securities is 70 percent. The Water Authority is well-diversified across several Agency issuers. Additionally, two of the Agency issuers (Freddie Mac and Fannie Mae) were placed under conservatorship in September 2008 and given a credit line with the Treasury, which together confer a federal guarantee of their debt. Given the current credit crisis and flight-to-quality, there are fewer AAA-rated investment options available; thus, to allow more flexibility to purchase high-quality issuers in today's investment environment, staff recommends increasing the maximum portfolio limit to 85 percent.

Local Government Investment Pools (LGIPs): Currently, the only pooled fund the Water Authority utilizes is the Local Agency Investment Fund (LAIF), which is managed by the State Treasurer's office. While LAIF is a conservatively managed fund, a certain percentage of its portfolio is invested in various State obligations. Given the State's current fiscal crisis, we feel it is advisable to consider other highly-rated, conservatively managed investment pools. Staff recommends adding LGIPs authorized under §53601(p) to the Water Authority's list of authorized investments, with a maximum portfolio limit of 25 percent, to provide additional investment options in short-term pooled funds. Staff further recommends that the LGIP must be rated in the highest rating category by at least one of the three largest nationally recognized statistical rating organizations. §53601(p) enables public agencies to invest their funds in investment pools created by a joint powers authority organized pursuant to §6509.7. The joint powers authority can be created by two or more public agencies that have the authority to invest funds in their treasuries, who jointly exercise that common power by agreement. The joint powers authority must have retained an investment advisor that is registered or exempt from registration with the Securities and Exchange Commission and has not less than five years of experience investing in the securities and obligations authorized in Government Code §53601 (a)-(n). The advisor also must have assets under management in excess of \$500 million. Staff notes that pooled funds, such as the California Asset Management Program (CAMP) and Cal Trust, are invested based on their individual investment policies, which may be less restrictive than the Water Authority's Investment Policy, and will carefully research and evaluate prospective pooled funds prior to investing to ensure our portfolio remains invested in a safe and prudent manner.

Placement Services for Time Certificates of Deposit (CDs): §53601.8 and 53635.8 of the Code explicitly allow local agencies, until January 1, 2012, to utilize placement services for Time

Certificate 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 until these sections were added to the Code in 2007. Currently, the Water Authority's list of authorized investments does not include utilizing placement services for CDs. A deposit placement service allows a bank to break down a large CD into multiple pieces, each less than \$100,000, which are then placed with other banks within its network. The other banks simultaneously send an equal amount of funds back to the original bank so that the originating bank gets the benefit of the full amount of the deposits. Because the amount on deposit with any one bank is less than the FDIC limit, the full amount of the local agency's deposit is covered by FDIC insurance. Placement services allow banks to accept and receive the benefit of large local agency deposits, for lending or other purposes, without the burden of collateralizing those deposits, which can be especially burdensome for smaller community banks that do not regularly have large amounts of public agency funds on deposit. The Water Authority recognizes that utilizing deposit placement services can provide benefits to the local community, and staff recommends adding the ability to use placement services for CD purchases to the Investment Policy. However, prior to utilizing these types of services, staff will thoroughly research the available programs, compared to other currently eligible investment options, to ensure they are appropriate for liquidity purposes.

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: Paul A. Lanspery, Deputy General Manager

Attachment:
Attachment A Annual Statement of Investment Policy for Calendar Year 2009

SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 2009

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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. 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.

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

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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."

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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 - OPERATING, RATE STABILIZATION, PAY-AS-YOU-GO, AND EQUIPMENT REPLACEMENT FUNDS

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 has investigated and may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies. 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 \$40 million).

Bankers' Acceptances: The Water Authority may invest in prime self-liquidating bankers' acceptances limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's. The maximum investment maturity will be restricted to 180 days as per Government Code Section 53601(g). 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.

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Treasury Securities: No restrictions on the purchase of bills, notes or bonds. 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(i)) 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 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.

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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.

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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 collateralized certificates of deposits issued by commercial banks and savings and loans (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. 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). 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 Moody's Investors Service rating or Standard & Poor's rating less than "A", however, deposits of up to \$100,000 are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation (FDIC), regardless of Moody's Investors Service or Standard & Poor's ratings. The Treasurer, for deposits of up to \$100,000, may waive collateral requirements. A maximum of \$100,000 will be deposited in any one institution without collateral.

All banks 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 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 one year.

Negotiable Certificates of Deposit: Investments are limited to deposits issued by a nationally or state-chartered bank or a state or federal association or by a state-licensed branch of a foreign bank (Government Code Section 53601(i)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard & Poor's. Investments placed through a deposit placement service (Government Code Section 53601.8) are not required to have a rating, as they are fully FDIC insured.

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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 is restricted to one year.

Commercial Paper: Investment is limited to the highest grade of stand alone or enhanced ("prime") commercial paper 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" (Government Code Section 53601(h)) 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 (Government Code Section 53601(h)). 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, Standard & Poor's, and Fitch Ratings and the investment has remaining days to maturity of 90 days or less.

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Medium Term Notes: Investment is limited to "AA-" rated or higher notes, as rated by Moody's Investors Service and Standard & Poor's. 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.

Agencies: The Water Authority is permitted to invest in the following discount, coupon and variable rate security issuers: Farm Credit Consolidated System; Federal Home Loan Banks; Federal Home Loan Mortgage Corporation; Student Loan Market Association; Federal National Mortgage Association; Federal Farm Credit Bank; Tennessee Valley Authority; Private Export Funding Corporation; and Federal Land Bank. Callable securities are limited to a minimum of one-year call

protection, one-time call only, with a maximum allocation of 20% of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

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Money Market Funds: Investment is limited to funds authorized under Government Code Section 53601(d)(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 (Government Code Section 53601(j)). Maximum portfolio exposure is limited to 15 percent.

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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.

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AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS

All investment types listed above are authorized investments for bond proceeds 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. 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.

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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 invested is 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.

In the event that the percentage limits attributable to each security type are violated 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 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.

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.

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.

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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.

OTHER CONSIDERATIONS

When securities of like credit quality, maturity and price are available, it is the policy of the Water Authority Board of Directors to invest in securities issued by domestic based entities.

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

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.

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. This acceptable level of return has been quantified as a return that is consistent with the 1-Year U.S. Treasury constant maturity. Any level of return above this measure should be reviewed in order to ensure that such investments meet the criteria previously specified.

In addition to these general policy considerations, the following specific policies will be strictly observed:

- A. All transactions will be executed on a delivery-versus-payment basis.
- B. A competitive bid process, when practical, will be used to place all investment purchases and sell transactions.

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.

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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December 10, 2008

Attention: Administrative and Finance Committee

Adopt a resolution approving commercial paper dealers and the execution and delivery of commercial paper dealer agreements and approving form of offering memorandum. Approval of Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. to serve as underwriters to explore the possible restructuring of Commercial Paper Program.

(Action)

Purpose

To approve the selection of Banc of America Securities LLC, Barclays Capital Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc. to serve as dealers on the Water Authority's Commercial Paper Program (CP Program) under new dealer agreements for each firm; and to approve the selection of Citigroup and J.P. Morgan as underwriters to explore the possibility of restructuring all or a portion of the CP Program.

Staff recommendation

- a. Adopt Resolution 2008-____ which authorizes the selection of the recommended underwriting firms to serve as CP Program dealers and approve the form of the dealer agreements and offering memorandum.
- b. Authorize the selection of Citigroup and J.P. Morgan as underwriters to explore the possibility of restructuring a portion of the CP Program.

Alternative

The Board may choose not to approve the above staff recommendations at this time, and instead choose to leave the CP Program as is with its current dealers and dealer agreements.

Fiscal impact

The annual dealer fees for each firm will increase from their current levels per each dealer's proposed fee. The estimated increase in annual dealer fees is \$184,592 or 4 basis points (0.04%). This action would apply to all rate categories.

Background

Commercial Paper Program History: As discussed in the Water Authority's Long-Range Financing Plan (LRFP), a mix of both fixed and variable rate debt is used to finance the Capital Improvement Program (CIP). Because variable rate debt historically provides the lowest cost of funds available, it is an important component of the overall CIP financing plan and integral to achieving the lowest cost of funds available. Because Commercial Paper (CP) notes mature between 1 and 270 days, the CP Program is re-priced frequently and essentially behaves like variable rate debt. The Water Authority currently has \$460,000,000 in outstanding CP.

In 1995, the Water Authority issued its Series 1 CP Notes in an amount of \$40,000,000, with additional issuances of \$30,000,000 and \$40,000,000 in 1998 and 2002, respectively, for a total outstanding amount of \$110,000,000. Liquidity for the Series 1 Notes is provided by a liquidity

facility with Bayerische Landesbank Girozentrale (“BLB”), a German bank. The BLB facility expires in 2015, with interim renewal periods until then. The next date for renewal of the BLB facility is June 30, 2009.

In November 2006, the Water Authority issued two additional series of CP. It issued \$175,000,000 of the Series 2 Notes and \$175,000,000 of the Series 3 Notes, for a total CP issuance at that time of \$350,000,000. Liquidity for the Series 2 Notes is provided by a liquidity facility with BNP Paribas, a French bank. Liquidity for the Series 3 Notes is provided by a liquidity facility with Dexia Credit Local, a Franco-Belgian bank. Both of the Series 2 and 3 liquidity facilities expire on November 15, 2011.

Liquidity Facilities and Dealer Agreements: There are two important service relationships for any CP Program. The first is a liquidity facility, which is typically provided by a bank. The liquidity facility guarantees that CP investors will be able to get their principal back at the note’s maturity. The second major service relationship is with dealers who market and sell the CP notes to investors on an ongoing basis. Because CP notes typically mature or roll several times a year, the dealers are responsible for marketing the CP to investors as the CP notes mature or “roll” and setting the individual CP note’s amount, maturity and rate.

The Water Authority’s strategy for managing its CP Program has been to diversify its banks and dealers. As a result, the Water Authority has maintained at least two dealers per series to promote competition among dealers and secure the lowest CP rates. With regards to the banks providing liquidity facilities, the Water Authority has limited the amount each bank secures to minimize the potential impact any one bank will have on the CP Program’s costs.

Recent Market Developments: In September, the credit market freeze and liquidity crunch facing the financial markets placed considerable stress on all CP programs, including the Water Authority’s. Due to the flight to quality and the resulting decrease in demand for CP, the Water Authority’s CP had to be remarketed at significantly higher interest rates and for shorter maturities (frequently for one day). Not only did this increase the CP Program’s cost, it also increased the Water Authority’s exposure to fluctuations in CP rates due to market events.

Due to recent upheavals and consolidation in the financial underwriting community, the composition of the Water Authority’s CP dealer pool has changed. First, Bear Stearns (which was a co-dealer on Series 2) was acquired by J.P. Morgan in April. J.P. Morgan assumed the Bear Stearns dealer agreement and now serves as a dealer on Series 2. Second, Lehman Brothers (which had been a co-dealer on Series 1 and Series 2) went bankrupt in September. Its assets were acquired by Barclays Capital. At that time, Barclays chose not to assume Lehman’s original dealer agreements. The Water Authority’s current CP Program allocations are shown in Attachment A.

A weakening in the financial condition of two of the Water Authority’s liquidity banks – BLB and Dexia - placed additional stress on Series 1 and 3. As the banking sector faced unprecedented challenges, questions about the future solvency of BLB and Dexia combined with panicked investors drove the interest rates on Series 1 and 3 notes up. Series 3 was particularly hard hit due to a ratings downgrade of Dexia. With government backing announced for both BLB and Dexia and improved financial market conditions, both Series 1 and 3 have recently been trading down towards the market average.

Discussion

In response to the upheavals in the financial community over the past two months, a three part strategy was developed and implemented to address both the immediate and longer term issues facing the Water Authority's CP Program. The parts of the overall strategy are:

- Increase competitiveness of the CP dealer pool by adding dealers.
- Pursue replacement liquidity facility for Series 1.
- Evaluate CP Program restructuring opportunities.

On October 15, 2008, the Water Authority issued a Request for Proposals (RFP) to its Board approved Underwriter Pool (UP), which includes Banc of America, Citigroup, Goldman Sachs, Barclays Capital, Merrill Lynch and J.P. Morgan. It should be noted that J.P. Morgan replaced Bear Stearns and that the Underwriter Pool will decrease by one firm as a result of the planned merger of Banc of America and Merrill Lynch later this year. The RFP solicited: 1) proposals from the UP for CP dealer services; and, 2) proposals for underwriting any potential restructuring of the CP Program.

Increase Competitiveness of the CP Dealer Pool by Adding Dealers

In response to the RFP, the Water Authority received proposals from every member of the UP for CP dealer services. Securing additional dealers was necessary to achieve the Water Authority's CP Program strategy of maintaining a diverse pool of dealers. While this process does include negotiating new dealer agreements, several of the Water Authority's existing dealers were facing internal pressures to revisit their existing agreements to make them consistent with new market standards, including dealer fees. As such, two of the existing CP dealers indicated that they would be forced to resign from the Water Authority's CP Program without changes to their agreements.

While higher than the dealer fees previously negotiated, the proposed fees are consistent with the fees being paid by other highly rated agencies like MWD. It should be noted that even though a proposal was solicited and received from Merrill Lynch, they were not considered due to their pending merger with Banc of America (of the two, Banc of America proposed the lower fee). The proposed fees are shown below:

▪ Banc of America Securities LLC	.08% per year
▪ Barclays Capital Inc.	.10% per year
▪ Citigroup Global Markets Inc.	.10% per year
▪ Goldman, Sachs & Co.	.10% per year
▪ J.P. Morgan Securities Inc.	.075% per year

The form of the CP dealer agreement being proposed is provided as Attachment B. In addition, to help new dealers market the Water Authority's CP an updated Offering Memorandum is being developed for each series. The form of the Offering Memorandum being developed is provided as Attachment D.

Pursue Replacement Liquidity Facility for Series 1

As stated in the business plan, one of the Water Authority's fiscal year 2009 goals is to renew or replace the Series 1 BLB liquidity facility. As a result of the turmoil in the credit markets, only a limited number of banks remain untarnished and are in very high demand. The high demand for their services has caused a sharp increase in their fees. Recent quotes provided

to other CP issuers range from 75 – 100 basis points (current fees are shown in Attachment A). It should also be noted that many of the banks in high demand have no additional capacity to support new CP programs. BLB has been asked to provide a quote on their liquidity facility fees and their response is expected early next calendar year after completing a reorganization that was just announced.

When considering the renewal of the BLB liquidity facility, the future stability of the bank, any trading spreads observed and the cost of and the ability to find a replacement liquidity facility will be factored into the decision. Staff and its advisors will work closely with BLB, as well as explore pricing options with other banks after the first of the year, in order to determine the most cost-effective strategy for securing a liquidity facility provider for Series 1. Staff will report back to the Board on this item at a later date.

Evaluate CP Program Restructuring Opportunities

The last part of the strategy is to adjust the Water Authority's CIP capital financing plan as necessary to mitigate the impacts of the recent financial market turmoil on the Water Authority's cost of funds. As discussed above, the RFP solicited proposals from the UP on potential restructuring options and strategies for managing the Water Authority's CP Program. Proposals were submitted by all six of the UP members and provided a wide range of recommendations. However, most of the proposals focused on the financial challenges facing BLB (Series 1) and Dexia (Series 3) and recommended replacing a portion of the CP with another financing instrument.

Staff is recommending the selection two underwriters from the UP to work closely with staff and its advisors to analyze all of the financing options available to the Water Authority. In addition to analyzing all of the options, the underwriters would also support the development of any required offering documents enabling the Water Authority to be as nimble as possible in responding to the challenges facing the CP Program. After reviewing the proposals and indicative fees, staff is recommending the selection of Citigroup and J.P. Morgan as the underwriters to support this process.

If and when staff is prepared to recommend to the Board any changes to the CP Program, a detailed report will be developed and presented to the Board. At that time, the economics of the transaction will be presented for review and approval. However, at this time the Board is only approving the selection of Citigroup and J.P. Morgan to work with staff to evaluate the Water Authority's CP Program and alternative financing options.

Resolution 2008-__ approves the form of the dealer agreements and delegates to Water Authority officers the authority to finalize, execute and deliver the documents and complete the dealer agreements.

Prepared by: David Shank, Rate and Debt Administrator
Reviewed by: Eric Sandler, Director of Finance/Treasurer
Approved by: Paul Lanspery, Deputy General Manager

Attachments:

- A. Summary of the Water Authority's CP Program
- B. Resolution 2008 - _____
Resolution of the Board of Directors of the San Diego County Water Authority Authorizing Execution and Delivery of Dealer Agreements and Approving the Form of an Offering Memorandum for Short-Term Revenue Certificates; and Authorizing and Approving Certain Other Actions in Connection therewith.
- C. Form of Dealer Agreement
- D. Form of Offering Memorandum

Attachment A: Summary of the Water Authority's CP Program

	Series 1	Series 2	Series 3
Outstanding Amount	\$110,000,000	\$175,000,000	\$175,000,000
Liquidity Bank	BLB	BNP Paribas	Dexia
Liquidity Facility Terms: Termination/Renewal Annual Fee	6/30/2009 9.0 bps ¹	11/15/2011 9.5 bps	11/15/2011 9.5 bps
Current Dealer Allocation	Banc of America \$110,000,00	JP Morgan \$175,000,000	Banc of America \$115,000,000 Citi \$60,000,00

¹One basis point (bps) is 0.01%, therefore, 100 basis points equals 1%.

RESOLUTION NO. _____**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY AUTHORIZING EXECUTION AND DELIVERY OF DEALER AGREEMENTS AND APPROVING THE FORM OF AN OFFERING MEMORANDUM FOR SHORT-TERM REVENUE CERTIFICATES; AND AUTHORIZING AND APPROVING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

WHEREAS, the San Diego County Water Authority, a county water authority duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "Water Authority"), is authorized under provisions of the Constitution and laws of the State of California, and in accordance therewith, to incur indebtedness through the issuance of short-term revenue certificates; and

WHEREAS, the Board has previously authorized the issuance, from time to time, of \$110,000,000 aggregate principal amount of San Diego County Water Authority Commercial Paper Notes, Series 1, \$175,000,000 aggregate principal amount of San Diego County Water Authority Commercial Paper Notes, Series 2, and \$175,000,000 aggregate principal amount of San Diego County Water Authority Commercial Paper Notes, Series 3 (collectively "Commercial Paper Notes"); and

WHEREAS, the Board has determined that it is in the best interest of the Water Authority to enter into new agreements with commercial paper dealers to act as dealers for the Commercial Paper Notes and to prepare and deliver new Offering Memoranda for the Commercial Paper Notes;

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

Section 1. Findings. The Water Authority hereby specifically finds and declares that the statement, findings and determinations of the Water Authority set forth in the preambles of the documents approved herein are true and correct, and that the foregoing recitals are true and correct and the Water Authority hereby so finds and determines.

Section 2. Approval of Appointment with Dealers. The appointment of the following commercial paper dealers as dealers for the Commercial Paper Notes (the "Dealers") is hereby approved:

Banc of America Securities, LLC
Barclays Global Markets Inc.
Citigroup Capital Markets Inc.
Goldman, Sachs & Co.
JP Morgan Securities Inc.

Section 3. Approval of Form of Dealer Agreement; Authorization for Execution. The form of Dealer Agreement presented to the Water Authority at this meeting and on file with the Executive Secretary of the Water Authority, is hereby approved. The Chairman or the Vice Chairman of the Board, or the General Manager or the Director of Finance/Treasurer of the Water Authority (the “Authorized Officers”) are hereby authorized and directed to execute and deliver one or more Dealer Agreements, in substantially such forms, with any changes, additions and completions thereto as such Authorized Officer, with the concurrence of the General Counsel of the Water Authority, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof (as finally executed and delivered, the “Dealer Agreements”). The Authorized Officers are hereby authorized to appoint as Dealers for Commercial Paper Notes of such series and in such amounts as such officers shall determine. The Authorized Officers, upon a determination that such action is in the best interest of the Water Authority and with the concurrence of the General Counsel of the Water Authority, are hereby further authorized to enter into similar agreements with other qualified commercial paper dealers as Dealers.

Section 4. Approval of Form of Offering Memoranda. The form of Offering Memorandum to be distributed by the Dealers in conjunction with the offering and sale of the Commercial Paper Notes (the “Offering Memoranda”) from time to time are hereby approved. The General Manager of the Water Authority or the Director of Finance/Treasurer of the Water Authority is hereby further authorized and directed to approve any changes to the Offering Memoranda that such officer deems necessary or desirable. Each Offering Memorandum so distributed shall first be approved by the General Manager of the Water Authority or the Director of Finance/Treasurer of the Water Authority. The Dealers are hereby authorized to distribute the Offering Memoranda in final form to market the Commercial Paper Notes from time to time, which Offering Memoranda may include copies of the Water Authority’s most recent annual audited financial statements and such other information relating to the Water Authority as the General Manager of the Water Authority or the Director of Finance/Treasurer of the Water Authority shall approve.

Section 5. Attestation. The Secretary of the Board of Directors of the Water Authority is hereby authorized and directed to attest the signatures of the Chairman or the Vice Chairman of the Board, or the General Manager or the Director of Finance/Treasurer of the Water Authority, as may be required or appropriate in connection with the execution and delivery of the Dealer Agreements.

Section 6. Additional Authorization. The Authorized Officers, and all officers, agents and employees of the Board or the Water Authority, are authorized and directed to do any and all things necessary, including (without limitation) replacement of a Dealer or appointment of an additional Dealer, if desirable, to effect the execution and delivery of the Offering Memoranda; and to execute and deliver any and all certificates, requisitions, agreements, notices, consents, and other documents, which they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Commercial Paper Notes from time to time, and any such actions previously taken by the aforementioned officers are hereby ratified, confirmed and approved.

Section 7. Delegation of Authority. The authority of the General Manager, Director of Finance/Treasurer, General Counsel and Clerk of the Board under this resolution may be delegated as provided in the Administrative Code of the Water Authority.

Section 8. Effective Date. The effective date of this Resolution shall be the date of its adoption.

PASSED, APPROVED AND ADOPTED, this 18th day of December, 2008:

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Fern Steiner, Chair

ATTEST:

Mark Watton, 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. 2008-_____ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore, Clerk
Clerk of the Board

DEALER AGREEMENT (SERIES _____ - _____)

This Dealer Agreement is dated as of _____ 1, _____, between the SAN DIEGO COUNTY WATER AUTHORITY (the "Water Authority") and _____ ("Dealer").

WHEREAS, the Water Authority has adopted its Resolution No. _____ (the "Resolution") approving the Issuing and Paying Agent Agreement [(Series _____)] (the "Issuing and Paying Agent Agreement") providing for the issuance of its Commercial Paper Notes, Series ____ (the "Commercial Paper Notes"); and

WHEREAS, pursuant to the Resolution and the Issuing and Paying Agent Agreement the aggregate principal amount of Commercial Paper Notes which may be outstanding from time to time shall not exceed \$ _____; and

WHEREAS, Dealer wishes to accept the Water Authority's appointment of Dealer as a dealer to sell for the account of the Water Authority those Commercial Paper Notes allocated to it by the Water Authority.

NOW, THEREFORE, in consideration of the foregoing, THE PARTIES HERETO AGREE AS FOLLOWS:

1. Definitions.

(a) "CP Notes" means the Commercial Paper Notes of the Water Authority, in the form contemplated by the Issuing and Paying Agreement, which will have maturities of not more than 270 days from their respective dates of issuance, shall be registered in the name of The Depository Trust Company or its nominee, as provided in Section 2.09 of the Issuing and Paying Agent Agreement, or issued from time to time in bearer form and in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof, and shall not be issued to exceed \$ _____ in aggregate principal amount outstanding at any time.

(b) "Issuing and Paying Agent" means Deutsche Bank Trust Company Americas, or any successor thereto, as party to the Issuing and Paying Agent Agreement.

(c) Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Issuing and Paying Agent Agreement.

2. Appointment of Dealer; Responsibilities of Dealer.

(a) Subject to the terms and conditions herein contained, the Water Authority hereby appoints Dealer and Dealer hereby accepts such appointment, as a dealer for the Water Authority in connection with the offering and sale of the CP Notes.

(b) In its capacity as a dealer, Dealer shall be allocated \$ _____ in aggregate principal amount of CP Notes. At the sole discretion of the Director of

Finance/Treasurer of the Water Authority, the entire outstanding principal balance of the CP Notes, or some lesser amount thereof, regardless of whether it is held by Dealer or some other dealer of the Water Authority's CP Notes, may be reallocated among some or all of the dealers of the Water Authority's CP Notes; provided, the Water Authority shall not, without the approval of Dealer, allocate to Dealer more than [maximum allocation of notes to vary by dealer]. Dealer shall exercise its best efforts to solicit purchases of the CP Notes allocated to it. It is understood and agreed that Dealer's responsibilities hereunder will include (i) the soliciting of purchases of CP Notes from investors that can purchase tax-exempt commercial paper or other short-term tax-exempt securities, (ii) providing information to the Water Authority concerning such purchases, (iii) billing and receiving payment for CP Notes purchased and sold and (iv) performing such other related functions as may be requested by the Water Authority and agreed to by Dealer.

(c) For services rendered hereunder, the Water Authority will pay to Dealer a commission calculated at the rate of ____% [(____) basis points] per annum on the average daily amount of CP Notes allocated to Dealer and outstanding. The commission on the CP Notes shall be payable quarterly in arrears by the Water Authority on each January 1, April 1, July 1 and October 1 commencing _____ 1, _____, against billings of Dealer setting forth in reasonable detail the calculation of the commission payable.

(d) Dealer shall establish pricing scales for the marketing of its allocation of CP Notes and any reallocation of CP Notes, by consensus with the Water Authority.

(e) With respect to all CP Notes marketed by Dealer or purchased for Dealer's own account, Dealer will provide to the Water Authority and the Issuing and Paying Agent no later than 1:00 p.m. New York City time on the date the CP Notes are to be issued the following trade information: (i) the amount of such CP Notes maturing on that date and (ii) the amount of such CP Notes sold. This trade information will be delivered orally/telephonically to the Water Authority contact person set forth in Section 8 herein, or his designee, and to the Issuing and Paying Agent, and also by modem transmission to the Issuing and Paying Agent.

Nothing herein shall obligate the Dealer to purchase any CP Notes.

3. Representations and Warranties of the Water Authority.

The Water Authority hereby represents and warrants to Dealer that:

(a) it is duly organized and validly existing under applicable laws of the State of California, and has full power and authority to adopt the Resolution and to execute and deliver this Agreement and the Issuing and Paying Agent Agreement and the Liquidity Facility;

(b) it is empowered to issue the CP Notes and to perform its obligations thereunder;

(c) The CP Notes, when delivered to Dealer in accordance with the terms of the Issuing and Paying Agent Agreement, will be duly authorized, executed and issued and will constitute valid and legally binding obligations of the Water Authority; and

(d) no breach or default has occurred and is continuing under the instruments related to the Prior Obligations, and the issuance of the CP Notes pursuant to the Issuing and Paying Agent Agreement will not result in any such breach or default.

4. Covenants of the Water Authority.

The Water Authority hereby covenants to Dealer that:

(a) it will promptly deliver copies of all (i) preliminary and final official statements published by it with respect to the sale of its bonds or other evidence of indebtedness payable from Net Water Revenues as provided in the Issuing and Paying Agent Agreement, (ii) mailings to holders of the Water Authority's certificates of participation, (iii) reports filed with rating agencies regarding the amount of Prior Obligations (as defined in the Issuing and Paying Agent Agreement), and CP Notes outstanding, and (iv) information generally supplied by the Water Authority in writing to securities analysts in connection with Water Authority operations;

(b) it will respond fully and promptly to all reasonable requests for information concerning the Water Authority made from time to time by Dealer;

(c) it will provide to Dealer as soon as practical, a reasonable quantity of offering memoranda containing business and financial information concerning the Water Authority, its operations and financial condition, and a description of the CP Notes which (with any amendments and supplements provided by the Water Authority) may be distributed by Dealer in connection with the sale of CP Notes until the Water Authority provides Dealer with updated or revised offering memoranda and the Water Authority will provide to Dealer, only upon request by Dealer, no more frequent than annually, an updated and revised offering memorandum; and

(d) if at any time when Dealer is offering CP Notes or any CP Notes are outstanding, any event occurs or any circumstances exist as a result of which the offering memorandum as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Water Authority promptly will prepare and furnish to Dealer, at the expense of the Water Authority, a revision or supplement which will correct such untrue statement or include such omitted material fact.

5. Payment and Delivery.

Payment for CP Notes sold by Dealer pursuant to this Agreement shall be made in immediately available funds payable to the Issuing and Paying Agent for the account of the Water Authority on the date such CP Notes are issued and payment therefore shall be made at the office of the Issuing and Paying Agent. Delivery of CP Notes sold by or

purchased by Dealer hereunder shall be made by the Issuing and Paying Agent to Dealer in definitive form payable to bearer or as book-entry obligations evidenced by a master note and registered in the name of The Depository Trust Company or its nominee, and in such denominations as may be requested by Dealer, by 2:15 p.m. New York City time on the date agreed upon for delivery.

6. Conditions Precedent.

At or promptly following the execution of this Agreement and as a condition precedent to any obligations of Dealer hereunder, the Water Authority shall furnish to Dealer the following documents, in form and substance satisfactory to Dealer.

- (a) A copy of the Issuing and Paying Agent Agreement.
- (b) Certified copies of the Resolution and the General Resolution.
- (c) A copy of the opinion of General Counsel of the Water Authority, dated _____, with respect to the CP Notes.
- (d) A copy of the opinion of bond counsel to the Water Authority, dated _____, in the form attached to the Offering Memorandum.
- (e) Offering memoranda, as described in paragraphs 4 (c) and 4 (d) hereof.
- (f) A copy of the Liquidity Facility.
- (g) Copies of the opinions of counsel to the Bank, dated _____, with respect to the Liquidity Facility.
- (h) Evidence that the CP Notes have been rated “___-___” by Moody’s, “___-___” by Standard & Poor’s and “___-___” by Fitch.

[Additional documentation, including Water Authority certifications in customary form, to vary by Dealer]

7. Suspension Events.

[Customary events allowing Dealer to suspend or terminate marketing to vary by Dealer].

8. Notice.

All notices required under the terms and provisions hereof shall be written, either delivered by hand, by mail (postage prepaid), by telegram (charges prepaid), by facsimile transmission, or by cablegram, telex or teletype, promptly confirmed by letter (postage prepaid), and any such notice shall be effective when received at the address specified below:

Authority in its sole discretion may extend the 30-day notification period under this Section 11 by an additional period not to exceed 60 days.

IN WITNESS WHEREOF, the parties hereto have caused the Agreement to be duly executed and delivered by their respective officers thereunto authorized as of the day and year first above written.

SAN DIEGO COUNTY WATER AUTHORITY

By: _____
Director of Finance/Treasurer

By: _____
Title: _____

Fitch: ____
Moody's: ____
S&P: ____

[WATER AUTHORITY LOGO]

\$ _____
Commercial Paper Notes, Series ____

The Series __ Notes (the "Series __ Notes") offered hereby are part of an issue of Commercial Paper Notes of the San Diego County Water Authority (the "Water Authority") which are issued from time to time pursuant to the Issuing and Paying Agent Agreement. The Series __ Notes are issued as interest-bearing obligations, in book-entry form, in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof. The Water Authority has appointed _____, _____, and _____ as co-dealers for the Series __ Notes.

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California Bond Counsel, delivered upon the initial delivery of the Series __ Notes, based on an analysis of existing laws, regulations, rulings and court decisions, interest on the Series __ Notes, when the Series __ Notes are issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, is excluded from gross income for federal income tax purposes and is exempt from the State of California personal income taxes. Bond Counsel was further of the opinion that interest on the Series __ Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. See "TAX EXEMPTION" herein.

The Series __ Notes constitute limited obligations of the Water Authority, payable solely from a pledge of Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series __ Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations presently outstanding or hereafter incurred by the Water Authority in accordance with the General Resolution. The Water Authority has entered into a revolving credit agreement (the "Liquidity Agreement") with _____ (the "Bank"), pursuant to which the Bank has agreed, subject to certain conditions precedent, to provide funds in an amount not to exceed \$ _____ for the payment of the principal of the Series __ Notes.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES __ NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES __ NOTES.

[Dealer Names]

Dated: November 15, 2006

\$ _____
San Diego County Water Authority
Commercial Paper Notes, Series __

INFORMATION CONCERNING THE OFFERING

_____, _____ and _____ (collectively the “Dealers”) have been appointed to serve as exclusive dealers for the Commercial Paper Notes, Series __ (the “Series __ Notes”) of the San Diego County Water Authority (the “Authority”), and will be allocated, initially, \$ _____, \$ _____ and \$ _____, respectively, in aggregate principal amount of the Series __ Notes issued by the Water Authority. This Offering Memorandum relates to the offering, from time to time, of up to \$ _____ aggregate principal amount of the Series __ Notes under the Issuing and Paying Agent Agreement [(Series __)], dated as of _____ 1, ____ (the “Issuing and Paying Agent Agreement”) between the Water Authority and Deutsche Bank Trust Company Americas (the “Issuing and Paying Agent”). The aggregate principal amount of the Series __ Notes outstanding may change from time to time as provided in the Issuing and Paying Agent Agreement.

THE COMMERCIAL PAPER NOTES

Purpose of the Series __ Notes

Proceeds of the Series __ Notes were used to provide funds to finance the cost of design, acquisition and construction of water system improvements in furtherance of the Water Authority’s Capital Improvement Program.

Description of the Series __ Notes

The Series __ Notes will be dated the date of their respective authentication, will be issued as interest bearing obligations in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof and, except as described below, will be issued in book-entry form through the book-entry system of The Depository Trust Company (“DTC”). Each note will bear interest from its date of issuance at the rate determined at the date of issuance payable at maturity. The Series __ Notes will mature no later than 270 days from the date of issuance; provided that, so long as the Liquidity Facility is in effect, no Series __ Notes may be issued with a maturity date after the business day prior to the scheduled expiration date of the Liquidity Facility or, if an Alternate Facility will be available with respect to the Series __ Notes, after the business day prior to the scheduled expiration date of the Alternate Facility. Interest is computed on the basis of a 365- or 366-day year, and the actual number of days elapsed. The principal of and interest on the Series __ Notes in book-entry form will be paid at maturity to DTC and distributed by it to its participants as described below.

DTC will act as securities depository for the Series __ Notes. The Series __ Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) (See description of DTC herein). One fully registered note certificate will be issued for the Series __ Notes and will be deposited with Deutsche Bank Trust Company Americas, as the Issuing and Paying Agent.

Security for the Series __ Notes

The Water Authority expects to pay the principal of the Series __ Notes with the proceeds of additional Series __ Notes until the Water Authority provides permanent financing for those water system improvements financed with the Series __ Notes or until, from time to time, revenues of the Water Authority are available to pay for the Series __ Notes.

The Series __ Notes constitute limited obligations of the Water Authority, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series __ Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations (defined below) presently outstanding or hereafter incurred by the Water Authority in accordance with Resolution 89-21 of the Water Authority, adopted on May 11, 1989, as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997 (as supplemented, the "General Resolution").

Pursuant to a _____ dated as of _____ 1, ____ (the "Liquidity Agreement") between the Water Authority and _____ (the "Bank"), the Bank has agreed, subject to certain conditions precedent, to provide funds for the payment of Series __ Notes principal when due in an amount not to exceed \$_____. See "LIQUIDITY AGREEMENT" herein.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES __ NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES __ NOTES.

The Water Authority may deliver an Alternate Facility in place of the Liquidity Agreement upon satisfaction of the conditions set forth in the Issuing and Paying Agent Agreement. The Water Authority will cause the Issuing and Paying Agent to give holders of the Series __ Notes 30 days notice (or such lesser number of days notice as is practical) of any proposed delivery of an Alternate Facility.

To provide security for the payment of the principal of and interest on the Series __ Notes as the same shall become due and payable, there is hereby granted a lien on and pledge of, subject only to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for purposes of the terms and conditions set forth therein, (i) the proceeds from the sale of Series __ Notes issued pursuant to the Issuing and Paying Agent Agreement for the purpose of refinancing, renewing or refunding the Series __ Notes, (ii) the amount held in the Commercial Paper Note Payment Fund (on a pro rata basis with any other commercial paper notes secured by such fund) until the amounts deposited therein are used for authorized purposes, (iii) amounts held by the Issuing and Paying Agent in the Issuing and Paying Agent Fund, (iv) the amounts held in the Commercial Paper Note Construction Fund (on a pro rata basis with any other commercial paper notes secured by such fund), (v) the proceeds of any other indebtedness of the Water Authority issued or incurred solely for the payment of principal of and interest on the Series __ Notes, (vi) any other moneys of the Water Authority hereafter pledged

by the Water Authority for the payment of principal of and interest on the Series ___ Notes and (vii) the proceeds of Advances (defined below): and the principal of and interest on the Series ___ Notes shall be and are hereby equally and ratably secured by and payable from a lien on and pledge of the sources hereinabove identified in clauses (i) through (vii) above, subject and subordinate only to the exceptions noted therein.

Additionally, to provide for the payment of the principal of and interest on the Series ___ Notes as the same shall become due and payable, the Water Authority shall, from Net Water Revenues on deposit in the Subordinate Obligations Payment Fund established under the General Resolution on a parity with all other Subordinate Obligations (as defined in the General Resolution), deposit in the Commercial Paper Note Payment Fund from time to time amounts sufficient, together with other moneys available therefor for the timely payment of principal of and interest on the Series ___ Notes. Such payment shall be subject and subordinate to the application of Net Water Revenues to the payment of principal and accreted value of, premium, if any, interest on, and any reserve fund requirements for, or other obligations with respect to, any senior obligations of the Water Authority.

Unless the Series ___ Notes are paid from the source described in the clauses (i) through (vii) above, such payment is to be made from Net Water Revenues deposited in the Commercial Paper Note Payment Fund.

For purposes of the foregoing:

“General Resolution” means Resolution No. 89-21 adopted May 11, 1989, entitled “A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues,” as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997.

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

“Water Revenues” means Current Water Revenues plus deposits to the Water Revenue Fund established under the General Resolution from amounts on deposit in the Rate Stabilization Fund, established under the General Resolution, less amounts transferred to the Rate Stabilization Fund.

“Current Water Revenues” means all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including capacity charges, standby charges, and infrastructure access charges) received by the Water Authority for the Water Service and other services of the Water System and all other income and revenue howsoever derived by the Water Authority from the ownership or operation of the Water System or arising from the Water System, and also including investment income with respect to certain funds and accounts.

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

“Prior Obligations” means the Water Authority’s Water Revenue Certificates of Participation, Series 1998A, 2002A, 2004A and 2008A; the Water Authority’s Water Revenue Refunding Certificates, Series 1993, 1997A and 2005A and any other Bonds, Contracts or evidences of indebtedness or obligations of the Water Authority authorized under the Act and which state that they are payable from Net Water Revenues senior to the Series __ Notes.

“Subordinate Obligations” means the Series __ Notes, the San Diego County Water Authority Commercial Paper Notes, Series ____ (the “Series __ Notes”), the San Diego County Water Authority Commercial Paper Notes, Series ____ (the “Series __ Notes”) and any other obligations of the Water Authority authorized and executed by the Water Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to the Prior Obligations.

Rate Covenant

The Water Authority covenants under the General Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and non-discriminatory and which will be at least sufficient to yield during the next succeeding fiscal year Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues and at least equal to 120% of the Debt Service on all Prior Obligations, for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this covenant.

The Water Authority further covenants under the Issuing and Paying Agreement that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in

estimates, will provide Water Revenues at least sufficient to pay the following amounts in the order set forth:

1. Maintenance and Operation Costs;
2. Principal and accreted value of, premium, if any, and interest on all Prior Obligations as and when the same shall become due and payable, and any required deposits into any reserve funds or accounts for the Prior Obligations, all in accordance with the Prior Obligation Documents;
3. To the extent the same are reasonably anticipated by the Water Authority to be paid with Net Water Revenues (e.g., not paid from the proceeds of additional Notes or other refunding obligations), the principal of and interest on the Series __ Notes and any other amounts due the Bank under the Liquidity Facility when the same shall become due; and
4. Any other obligations which are payable from the Water Revenues.

The Series __ Notes are Subordinate Obligations payable on a parity with the Series __ Notes, the Series __ Notes and any other Subordinate Obligations secured by the Subordinate Obligation Payment Fund established under the General Resolution.

DTC

DTC is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Series __ Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series __ Notes on DTC’s records. The ownership interest of each actual purchaser of each Series 2 Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series __ Notes are to be

accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series __ Notes, except in the event that use of the book-entry system for the Series __ Notes is discontinued.

To facilitate subsequent transfers, all Series __ Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series __ Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series __ Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such notes are credited which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Principal and interest payments on the Series __ Notes will be made to DTC. DTC's practice is to credit Direct Participants accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Water Authority or the Issuing and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Water Authority or the Issuing and Paying Agent, and disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series __ Notes at any time by giving reasonable notice to the Water Authority or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

The Water Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in the section concerning DTC and DTC's book-entry system has been obtained from sources believed to be reliable, but the Water Authority takes no responsibility for the accuracy thereof.

THE WATER AUTHORITY

The Water Authority is a public agency created in San Diego County in 1944 under the County Water Authority Act, California Statutes 1943, Chapter 545, as amended (the "Act").

The Water Authority's primary purpose is to supply water to its member agencies on a wholesale basis in order to fulfill their needs for beneficial uses and purposes. The Water Authority currently serves 24 member agencies, comprised of 6 cities, including the City of San Diego, 17 special districts and the U.S. Marine Corps Base at Camp Pendleton. Historically, 75-95% of the water beneficially used in San Diego County is supplied by the Water Authority. The Water Authority is governed by a 35-member Board of Directors, comprised of at least one representative from each of the Water Authority's member agencies. Any member agency may appoint one additional representative for each full five percent (5%) of total assessed value of property taxable for Authority purposes which is within the public agency. The City of San Diego has ten representatives on the Board of Directors. Both Helix and Otay Water Districts have two. By law, all of San Diego's votes are cast as a block as determined by a majority of the San Diego representatives present at a meeting. A member agency's vote is based on its "total financial contribution" to the Water Authority as determined annually by the Board of Directors. Total financial contribution includes all amounts paid in taxes, assessments, fees and charges to or on behalf of the Water Authority and the Metropolitan Water District of Southern California with respect to property located within each member agency.

Under the Act, the Water Authority is authorized to acquire water and water rights within or outside of the State of California; to develop, store and transport the water, and to provide, sell, and deliver water for beneficial uses and purposes. The Water Authority is also entitled to distribute water not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of the Water Authority.

The Water Authority is also authorized by the Act to utilize any part of its water, and any parts of its facilities used for the development, storage, and transportation of water, to provide, generate, and deliver hydroelectric power, and may acquire, construct, operate and maintain any and all of its facilities for such utilization. Pursuant to contract, the Water Authority is authorized to provide, sell and deliver hydroelectric power to the United States of America, to the State of California for the State Water Project and to any other person engaged in the sale of electric power at retail or wholesale. The Water Authority is also authorized to acquire, construct, own, operate, control or use works for supplying its member agencies with gas or electricity and to purchase, sell and exchange gas and electricity from, to and with any public agency, private company or person engaged in the sale of gas or electricity at retail.

A description of the current member agencies, the Service Area, Water Supply, Water Facilities, and seismic considerations may be found either in the Water Authority's most recent Official Statement or the Water Authority's Continuing Disclosure Annual Report filed annually with a Nationally Recognized Municipal Securities Information Repository ("NRMSIR"). Pursuant to the provisions of the Act, additional entities are authorized to join the Water Authority. The Act also entitles member agencies to withdraw from the Water Authority, subject to certain restrictions.

The Capital Improvement Program

The Water Authority's goal is to provide a safe and reliable supply of water and to assure an operationally flexible water storage, treatment and distribution system to its member agencies.

To achieve this goal, the Water Authority has implemented a strategic plan, a component of which is known as the Capital Improvement Program (“CIP”).

The Water Authority staff prepares periodic studies to project the future water demands in its service area. These Water Authority studies review the most recent information on member agency projected water demands, demographics and population estimates by the San Diego Association of Governments. These projections are incorporated into the CIP.

A description of the Capital Improvement Program and other obligations issued to fund the CIP may be found either in the Water Authority’s most recent Official Statement or the Water Authority’s Continuing Disclosure Annual Report filed annually with a NRMSIR. See “Other Matters.”

Sources of Revenue

The Water Authority’s Board of Directors determines the water rates. Water rates generate the majority of the Water Authority’s revenue stream. The rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. The Water Authority bills member agencies for water deliveries monthly. The Water Authority is required to set rates which are reasonable and nondiscriminatory. See “Rate Covenant” above. The Water Authority also imposes standby charges, capacity charges, and infrastructure access charges. The imposition of taxes, assessments, rates and charges by the Water Authority is subject to various constitutional and statutory limitations, including some requirements of Articles XIII A, B, C and D of the California Constitution, and are subject to reduction or repeal through the initiative process as provided in Article XIII C of the California Constitution.

Outstanding Debt

As of June 30, 2008, the Water Authority had \$1,446,325,000 aggregate principal amount of Prior Obligations outstanding.

[In November 1995, the Water Authority issued the Series 1 Notes in an initial amount of \$40,000,000. The Series 1 Notes are currently outstanding in the amount of \$110,000,000, with liquidity provided by Bayerische Landesbank. The Series 1 Notes are Subordinate Obligations under the General Resolution and are payable from Net Water Revenues on parity with payment of the Series __ Notes.]

[In November 2006, the Water Authority issued the Series 2 Notes, in the aggregate principal amount of \$175,000,000, with liquidity provided by BNP Paribas, acting through its San Francisco Branch. The Series 2 Notes are Subordinate Obligations under the General Resolution and are payable from Net Water Revenues on parity with payment of the Series __ Notes.]

[In November 2006, the Water Authority issued its Series 3 Notes, in the aggregate principal amount of \$175,000,000, with liquidity provided by a line of credit from Dexia Crédit Local, acting through its New York Branch. The Series 3 Notes are Subordinate Obligations

under the General Resolution and are payable from Net Water Revenues on parity with payment of the Series __ Notes.]

Investment Policy

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. The investment policy of the Water Authority is reviewed and submitted annually to the Board of Directors of the Water Authority and is subject to change. A copy of the Water Authority's Annual Statement of Investment Policy for calendar year ____ is attached hereto as Appendix C.

Water Authority Financial Statements

The financial statements of the Water Authority for the Fiscal Year ending June 30, 2008, are attached hereto as Appendix A. Additional financial and operating data relating to the Water Authority's water system may be found in the Water Authority's most recent Continuing Disclosure Annual Report filed annually with an NRMSIR. See "Other Matters."

DESCRIPTION OF THE BANK

[To be provided by Bank]

LIQUIDITY AGREEMENT

[Summary of applicable Liquidity Agreement to be added]

TAX EXEMPTION

On _____, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, delivered its approving legal opinion with respect to the Series __ Notes. The form of such opinion is attached hereto as Appendix A.

In the opinion of Bond Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, interest on the Series __ Notes, when the Series __ Notes are issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate of the Water Authority (the "Tax Certificate"), is excluded from gross income for federal income tax purposes and is exempt from the State of California personal income taxes.

In the further opinion of Bond Counsel that interest on the Series __ Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

The Internal Revenue Code of 1986, as amended (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series __ Notes. The Water Authority has made certain representations and has covenanted to comply with certain restrictions designed to

assure that the interest on the Series __ Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest on the Series __ Notes being included in federal gross income, possibly from the date of first issuance of the Series __ Notes. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of first issuance of the Series __ Notes may affect the tax status of interest on or the value of the Series __ Notes.

Certain requirements and procedures contained or referred to in the Issuing and Paying Agent Agreement and other relevant documents may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2 Note or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than such counsel.

Although Bond Counsel has rendered an opinion that interest on the Series __ Notes is excluded from gross income for tax purposes, the accrual or receipt of interest on the Series __ Notes may otherwise affect the owner's federal tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series __ Notes to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series __ Notes from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series __ Notes. Prospective purchasers of the Series __ Notes should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of interest on the Series __ Notes for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Water Authority, or about the effect of future changes in the Code, the applicable regulations the interpretation thereof or the enforcement thereof by the IRS. The Water Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series __ Notes ends with the first issuance of the Series __ Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the Water Authority or the owners of the Series __ Notes regarding the tax-exempt status of interest on the Series __ Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the Water Authority, and its appointed counsel, including the owners of the Series __ Notes, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Water Authority legitimately disagrees, may not be practicable. Any action of

the IRS, including but not limited to selection of the Series __ Notes for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series __ Notes, and may cause the Water Authority or the owners of the Series __ Notes to incur significant expense.

RATINGS

The Series __ Notes have been rated “__” by Fitch, Inc. (“Fitch”), One State Street Plaza, New York, New York, “__” by Moody’s Investors Service, Inc. (“Moody’s”), 99 Church Street, New York, New York, and “__” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., 25 Broadway, New York, New York (“Standard & Poor’s”). The ratings assigned by Fitch, Moody’s and Standard & Poor’s express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Fitch, Moody’s and Standard & Poor’s, respectively. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series __ Notes.

OTHER MATTERS

The Dealers have provided the following sentence for inclusion in this Offering Memorandum. The Dealers have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

The financial statements of the Water Authority for the Fiscal Year ending June 30, 2008 and the form of the opinion to be delivered by Bond Counsel are attached hereto as Appendices. The Water Authority will make available on request copies of its most recent Continuing Disclosure Annual Report and Official Statement. For additional information please contact the following:

Eric Sandler
Director of Finance/Treasurer
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
(858) 522-6671

*Additional information may be obtained
from the Water Authority’s website at [http: www.sdcwa.org](http://www.sdcwa.org)*

ATTACHMENTS

Appendix A – Water Authority Financial Statements

Appendix B – Form of Opinion of Bond Counsel

Appendix C – San Diego County Water Authority Annual Statement of Investment Policy

Appendix B
Form of Opinion of Bond Counsel

On _____, the Water Authority received an opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, in the following form:

[Opinion delivered for applicable series to be added]

Appendix C

[Current Annual Statement of Investment Policy to be added]



December 10, 2008

Attention: Administrative and Finance Committee

Controller's Report on monthly financial statements (Information)

Attached for review by the Administrative and Finance Committee and the Board of Directors are the Monthly Financial Statements for the period ended September 30, 2008 with a comparison to August 31, 2008.

- Statements of Net Assets – Assets, Liabilities, and Net Assets
- Statements of Revenues, Expenses, and Changes in Net Assets
- Multi-Year Budget Status Report
- Graphs for Multi-Year Budget to Actual Comparison:
 - Operating Expenses by Department
 - Water Sales and Capacity Charges

The Budget Status Report compares the Fiscal Years 2008 and 2009 multi-year budget actual revenues and expenditures to the prior multi-year budget for Fiscal Years 2006 and 2007 through the fifteen-month period on a budgetary basis. Explanations for material variances are provided below.

Revenues

Gross water sales for the fifteen months ended September 30, 2008 are 805,053.2 acre-feet or \$450.9 million, including the Surface Storage Operating Agreement (SSOA) deliveries of 52,976.0 acre-feet. This is 54,030.0 lower than budget due in part to the Interim Agricultural Water Program (IAWP) cutback, which took effect in January 2008, and an aggressive Drought Management Plan (DMP) in place. Property taxes of \$8.8 million and in-lieu charges of \$2.2 million are lower than budget at 62.0 percent, as property taxes are primarily received in December and April. Infrastructure Access Charges are \$22.0 million, or 58.6 percent of budget. Investment income is lower than budget at 45.3 percent as a result of long-term decreased market interest rates. Other Income is \$9.4 million, of which \$7.3 million relates to increased activity in the water conservation programs as part of DMP, hydroelectric sales, grants and other miscellaneous revenues.

Capacity Charges are received primarily on a quarterly basis. Capacity charges received for five quarters are \$29.4 million, or 42.5 percent of budget. This is under budget primarily due to an extended downturn in the housing market. Contributions In Aid of Construction of \$35.0 million is comprised of \$26.7 million billed to the State of California's Department of Water Resources as part of SB 1765 Funds for water rights with Vidler Water Company, Inc. and Semitropic-Rosamond Water Bank, \$4.6 million initial water fill with Butte Water and Sutter Extension

Water Districts, \$1.2 million received from the City of Oceanside for the Groundwater Storage and Recovery project and \$2.5 million received from Coachella Valley Water District for the canal-lining project.

Expenses

Water purchases of \$348.2 million include \$18.8 million for the 64,291.8 acre-feet of water purchased from the Imperial Irrigation District (IID), as well as \$23.7 million for MWD's wheeling charge for IID and Coachella Canal water. Capital expenditures are lower than budget at 55.9 percent of the multi-year budget as the schedule for Mission Trails projects are delayed due to right-of-way acquisition. Other expenditures of \$8.7 million are over budget due to accelerated activities in water conservation programs and grants. These expenditures are offset by other income of \$7.3 million from Metropolitan Water District, grants, and member agencies.

Operating expenditures are under budget at 49.2 percent, overall, due to the timing of expenditures during the fifteen months of the two-year budget period. General Manager Department is higher than anticipated at 68.8 percent due to the lobbyist services and a one-time payment to the American Water Works Association for a research project; however, the department is operating within its approved budget. Operations and Maintenance is lower than budget at 42.1 percent due to the delay in the operation of Twin Oaks Valley Water Treatment Plant and the start-up of CH2M Hill OMI: Innovative operations and maintenance solutions services. Water Resources is lower than budget at 43.2 percent due to the timing of contract execution for Local Investigations and Study Assistance (LISA) and other water planning projects. Finance is under budget at 49.2 percent due to the vacancies within the department during this fifteen-month period.

Leanne B. Wade, Controller

San Diego County Water Authority
Statements of Net Assets
As of September 30, 2008 and August 31, 2008

	September	August
Assets:		
Current assets:		
Cash and Investments	\$ 127,597,413	\$ 75,472,688
Water receivables	69,274,882	73,913,323
Interest receivable	5,525,315	5,858,867
Taxes receivable	616,991	616,991
Deposit receivable	2,546,557	2,546,557
Other receivables	66,871,776	45,997,163
Inventory	16,972,674	15,318,936
Prepaid water	4,615,500	4,615,500
Total current assets	294,021,108	224,340,025
Noncurrent Assets:		
Restricted Investments	568,884,384	634,643,020
Long-term loan receivable	20,000,000	20,000,000
Unamortized bond issuance costs	12,807,392	12,865,457
Capital assets:		
Land	13,283,900	13,283,900
Construction in progress	1,046,470,763	985,402,706
Work in progress	612,973	612,973
Plant and equipment, net	1,144,191,498	1,152,923,666
Intangible assets, net	98,439,184	118,892,131
Total noncurrent assets	2,904,690,094	2,938,623,853
Total assets	3,198,711,202	3,162,963,878
Liabilities:		
Current Liabilities:		
Accounts payable and other liabilities	59,705,552	60,178,626
Interest payable	29,253,489	23,189,895
Construction deposits	528,750	528,750
Current portion of long-term liabilities	483,554,990	485,406,569
Total current liabilities	573,042,781	569,303,840
Noncurrent liabilities:		
Long-term liabilities	1,530,268,592	1,528,260,791
Total liabilities	2,103,311,373	2,097,564,631
Net assets:		
Invested in capital assets, net of related debt	701,379,007	701,379,007
Restricted for construction projects	154,854,580	154,854,580
Unrestricted	201,207,991	201,352,157
Change in net assets	37,958,251	7,813,503
Total net assets	\$ 1,095,399,829	\$ 1,065,399,247

San Diego County Water Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Months Ended September and August 2008

	September 30	August 31
Operating revenues:		
Water sales	\$ 107,416,546	\$ 73,213,760
Total operating revenues	107,416,546	73,213,760
Operating expenses:		
Cost of sales	81,086,071	54,629,949
Depreciation and amortization	7,065,722	4,711,161
Operations and maintenance	4,134,060	2,254,036
Planning	1,612,676	1,070,082
General and administrative	3,923,853	2,767,030
Total operating expenses	97,822,382	65,432,258
Operating income	9,594,164	7,781,502
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges	670,788	597,689
Infrastructure access charges	4,578,260	3,040,726
Investment income	5,814,844	3,997,022
Other income	1,229,942	687,724
Interest expense	(20,051,185)	(13,380,092)
Other expenses	(752,619)	(338,015)
Total nonoperating revenues (expenses)	(8,509,970)	(5,394,946)
Income before capital contributions	1,084,194	2,386,556
Capital contributions		
Capacity charges	5,474,125	5,420,951
Water standby availability charges	34,048	5,996
Contributions In Aid of Construction (CIAC)*	31,365,884	-
Total capital contributions	36,874,057	5,426,947
Increase (decrease) in net assets	37,958,251	7,813,503
Net assets at beginning of fiscal year	1,057,441,578	1,057,585,744
Net assets at end of period	\$ 1,095,399,829	\$ 1,065,399,247

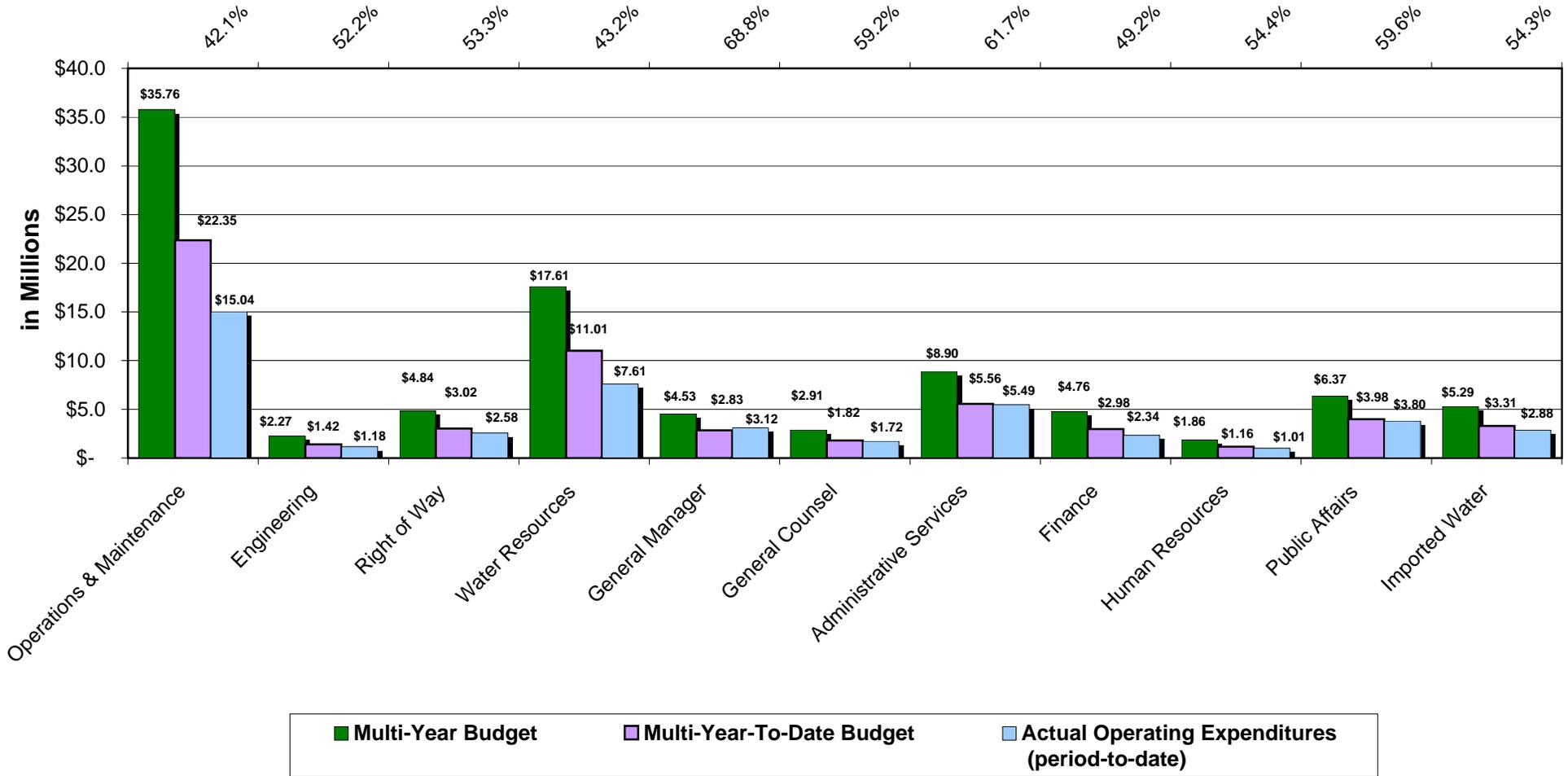
* CIAC includes \$4.6M water purchases from Sutter Extension and Butte Water Districts and \$26.7M water rights with Vidler Water Company, Inc and Semitropic-Rosamond JPA. This amount was billed to State of California's Department of Water Resources.

**San Diego County Water Authority
Fiscal Years 2008 & 2009 Budget Status Report
For the 15 Months Ended September 30, 2008**

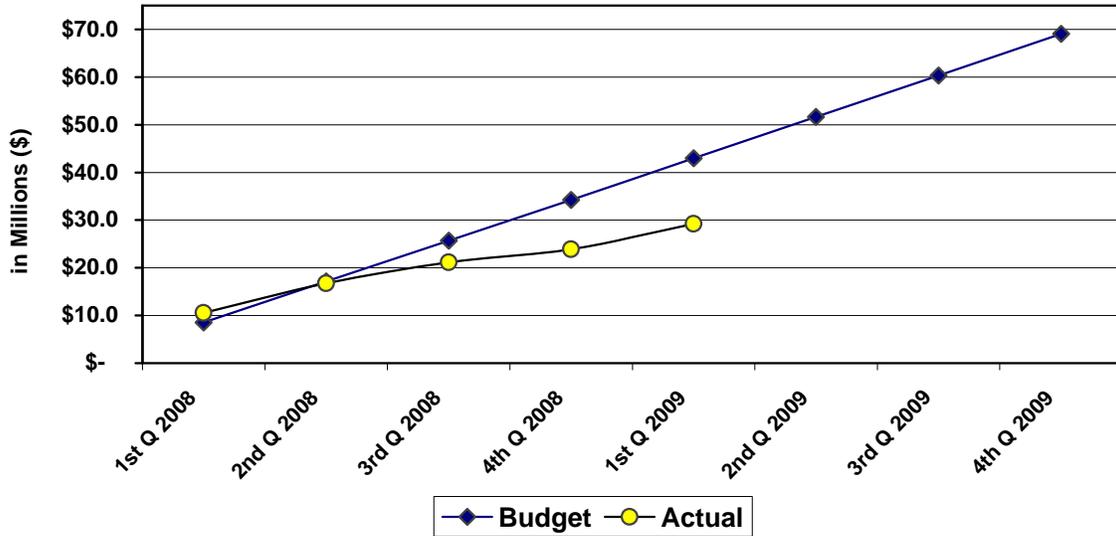
	Multi-Year Budget	Multi Year-to-Date Budget (a) 15/24 months (62.5%)	Actual Revenues/Expenditures Period-to-Date Budgetary Basis	Fiscal Years 2006 & 2007 Revenues/Expenditures 15 Months Period-to-Date Budgetary Basis	Remaining Budget	% Actual Revenues/Expenditures Period-to-Date Budgetary Basis
Revenues and Other Funding Sources						
Water sales	\$ 706,753,000 (b)	\$ 462,945,186	\$ 450,872,380	\$ 404,454,105	\$ 255,880,620	63.8%
Property taxes and in-lieu charges	17,702,000 (c)	11,063,750	10,974,125	4,429,569	6,727,875	62.0%
Infrastructure access charges	37,614,000	23,508,750	22,036,079	17,789,949	15,577,921	58.6%
Investment income	57,334,000	35,833,750	25,995,762 (m)	23,270,214	31,338,238	45.3%
Other income	7,551,000 (d), (e)	4,719,375	9,356,107	4,608,840	(1,805,107)	123.9%
Capital contributions:						
Capacity charges	69,037,000 (f)	37,730,750	29,357,870	44,249,974	39,679,130	42.5%
Water standby availability charges	22,344,000 (g)	13,965,000	11,286,944	10,952,497	11,057,056	50.5%
Contributions in aid of construction	9,138,000 (h)	5,711,250	35,055,390 (n)	7,559,124	(25,917,390)	383.6%
Other Funding Sources	548,005,000	355,176,616	295,248,635	244,150,813	252,756,365	53.9%
Total Revenues and Other Funding Sources	\$ 1,475,478,000	\$ 950,654,427	\$ 890,183,292	\$ 761,465,085	\$ 585,294,708	60.3%
Expenditures and Other Funding Uses						
Water purchases	\$ 530,100,000 (b)	\$ 353,214,153	\$ 348,240,064	\$ 314,361,208	\$ 181,859,936	65.7%
IID water prepayment	10,000,000	10,000,000	10,000,000	-	-	100.0%
Capital expenditures	618,639,000	386,649,375	345,757,455	305,770,478	272,881,545	55.9%
QSA environmental/other commitments	14,893,000 (i)	12,137,149	12,137,149	3,111,307	2,755,851	81.5%
Equipment replacement	3,616,000	2,260,000	1,671,870	2,305,451	1,944,130	46.2%
Debt service	200,836,000 (j)	125,522,500	116,933,326	99,808,093	83,902,674	58.2%
Other expenditures	2,288,000 (e)	1,430,000	8,673,173	-	(6,385,173)	379.1%
Operating Budget	95,106,000 (k)	59,441,250	46,770,255	36,108,548	48,335,745	49.2%
Total Expenditures and Other Funding Uses	\$ 1,475,478,000	\$ 950,654,427	\$ 890,183,292	\$ 761,465,085	\$ 585,294,708	60.3%
Operating Budget						
Operations & Maintenance	\$ 35,760,000 (l)	\$ 22,350,000	\$ 15,041,630	\$ 11,069,787	\$ 20,718,370	42.1%
Engineering	2,266,000	1,416,250	1,183,351	990,343	1,082,649	52.2%
Right of Way	4,836,000 (l)	3,022,500	2,578,747	2,332,179	2,257,253	53.3%
Water Resources	17,609,000 (e), (l)	11,005,625	7,608,684	6,235,167	10,000,316	43.2%
General Manager	4,535,000	2,834,375	3,119,283	1,583,043	1,415,717	68.8%
General Counsel	2,914,000	1,821,250	1,723,756	2,155,714	1,190,244	59.2%
Administrative Services	8,898,000 (l)	5,561,250	5,486,150	3,837,019	3,411,850	61.7%
Finance	4,760,000	2,975,000	2,342,345	1,975,561	2,417,655	49.2%
Human Resources	1,863,000	1,164,375	1,014,162	859,189	848,838	54.4%
Public Affairs	6,373,000 (l)	3,983,125	3,796,675	2,747,480	2,576,325	59.6%
Imported Water	5,292,000 (l)	3,307,500	2,875,472	2,323,066	2,416,528	54.3%
Total Operating Budget	\$ 95,106,000 (k)	\$ 59,441,250	\$ 46,770,255	\$ 36,108,548	\$ 48,335,745	49.2%

- (a) Multi-year-to-date budget amounts are 15/24ths of the multi-year budget unless noted below.
- (b) Water sales and water purchases are based on acre-feet per month, and include \$4.6 million water purchases with the Butte Water District (BWD) and Sutter Extension Water District (SEWD). For seasonal water forecasts refer to the Cumulative Water Sales by Acre-Foot (AF) table.
- (c) Property taxes are primarily received in December and April. In-lieu charges in the amount of \$426,733 are due on September 5th, November 7th, February 6th, and May 8th.
- (d) Other income includes grant revenues, hydroelectric revenues and miscellaneous revenues.
- (e) Water conservation programs reimbursable expenditures from MWD, member agencies and others are reported under Other expenditures and amount billed to customers are reported under Other income.
- (f) Capacity charges are received quarterly in July, October, January and April.
- (g) Water Standby availability charges are received in January and May.
- (h) Contributions in aid of construction includes \$4.5M in revenues related to the Coachella Canal Lining Projects, \$1.5M for groundwater storage and recovery, \$.8M for Pipeline 3 transfer to the City of San Diego, and \$2.3M related to other grant revenues.
- (i) The QSA environmental and other commitments budget scheduled for FY2008 were: QSA-JPA advance payment of \$4.1M in July 2nd, QSA-JPA payment of \$1.5M in December 31st, and IID socioeconomic settlement payment of \$4.9M due June 30, 2008. In FY2009, QSA-JPA payment includes: \$2.2M which was paid on July 1, 2008 and the remaining amount of \$2.7M is due on December 31, 2008.
- (j) The majority of the Debt service payments are due October 31st and April 30th. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to premiums and discounts on long-term debt are excluded.
- (k) Amounts include capital equipment purchases.
- (l) Departmental Operating Budgets have been adjusted for Budget Transfers.
- (m) Investment income does not include \$985,258 unrealized gains resulted to investment mark-to-market fair value adjustment (GASB 31) as of June 30, 2008.
- (n) Contributions in aid of construction reflects \$1.2M billed to the City of Oceanside for groundwater storage recovery, \$2.5M billed to Coachella Valley Water District for the canal lining project and \$31.4M billed to the State of California's Department of Water Resources for water rights with Vidler Water Company, Inc. and Semitropic-Rosamond Water Bank and initial fill of water with BWD and SEWD.

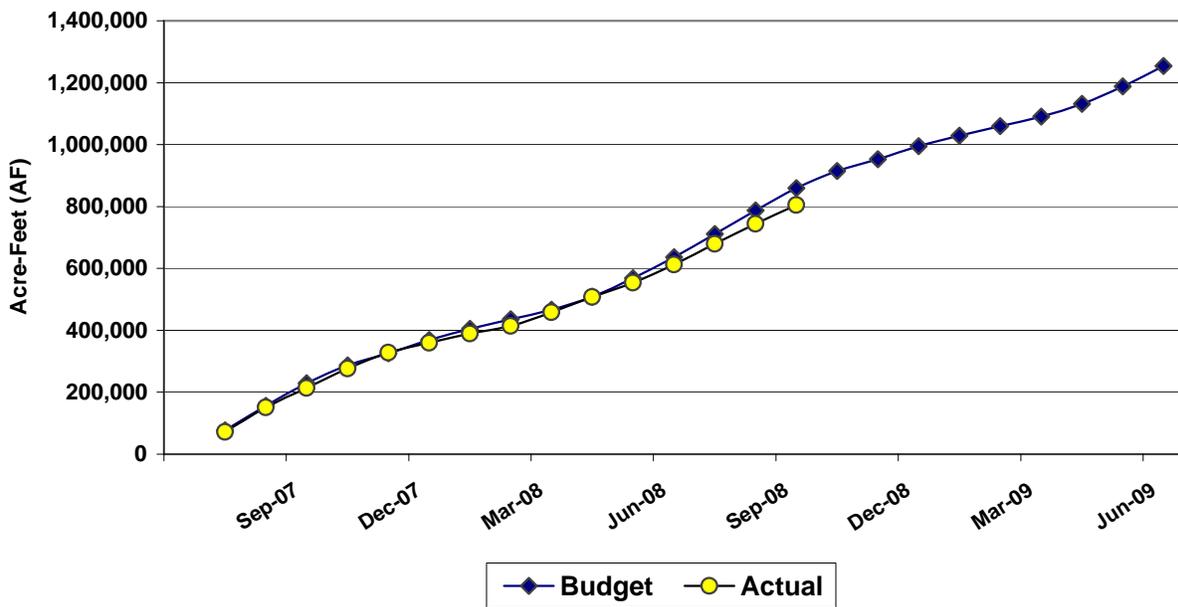
**San Diego County Water Authority
 Comparison of Multi Year Adopted Budget for Fiscal Years 2008 & 2009 and Multi Year-to-Date Budget (62.5% Overall)
 to Actual Operating Expenditures by Department
 For the 15 Months Ended September 30, 2008**



CAPACITY CHARGES
Fiscal Years 2008 & 2009 Budget Versus Actual
For the 15 Months Ended September 30, 2008



WATER SALES
Fiscal Years 2008 & 2009 Budget Versus Actual
For the 15 Months Ended September 30, 2008



Fiscal Year 2009 Cumulative Water Sales (AF)

Months	July	August	September	October	November	December	January	February	March	April	May	June
Budget (a)	75,027	151,482	223,184	278,907	317,424	358,933	393,472	424,336	454,291	495,337	552,541	618,500
Actual	65,851	130,663	191,958	-	-	-	-	-	-	-	-	-
AF Difference (b)	(9,176)	(20,819)	(31,226)									
Cum. Actual AF												
% Difference (b/a)	-12.2%	-13.7%	-14.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Fiscal Year 2008 Cumulative Water Sales (AF)

Months	July	August	September	October	November	December	January	February	March	April	May	June
Budget (a)	77,138	155,743	229,462	286,753	326,353	369,030	404,540	436,273	467,070	509,271	568,085	635,899
Actual	72,423	150,828	213,983	277,006	327,882	359,674	389,313	413,806	458,381	507,305	553,846	613,095
AF Difference (b)	(4,715)	(4,915)	(15,479)	(9,747)	1,529	(9,356)	(15,227)	(22,467)	(8,689)	(1,966)	(14,239)	(22,804)
Cum. Actual AF												
% Difference (b/a)	-6.1%	-3.2%	-6.7%	-3.4%	0.5%	-2.5%	-3.8%	-5.1%	-1.9%	-0.4%	-2.5%	-3.6%

December 10, 2008

Attention: Administrative and Finance Committee

Annual report on the maximum Operating Fund balance policy and the fiscal year 2008 ending fund balances. (Information)

Purpose

Determine if the Operating Fund has excess funds available for the Board's discretionary use and report ending fund balances for fiscal year 2008.

Background

In April 2003, the Board amended the Administrative Code to reduce the maximum year end Operating Fund cash and investments balance from 60 to 45 days worth of operating expenditures. In addition to setting a new maximum Operating Fund balance, the amendment also sets forth the parameters that define the conditions under which excess funds are available for the Board's discretionary use. Under the amendment any cash and investments in excess of the maximum Operating Fund balance are reduced by budgeted transfers from the Operating Fund and by the amount that the Rate Stabilization Fund (RSF) is below its maximum balance. Any remaining Operating Fund balances are available for the Board's discretionary use. Each year staff reports to the Board the Operating Fund balance and if any excess funds are available for discretionary use.

The June 30, 2008 cash and investment data presented in the statistical section of the Comprehensive Annual Financial Report (CAFR) provide the basis for the annual Operating Fund balance review. The cash and investment fund balances reported in the CAFR are adjusted for accruals, which affect cash and investment balances. Specifically, cash and investments are adjusted for changes in current assets and liabilities to determine the actual funds on hand at the end of the year. Adjustments are also made for inter-fund transfers pending on June 30th and for unrealized gains and losses on investments. **These adjustments are made to all of the fund balances presented in this memo.**

Discussion

It is important to monitor the liquidity of the Water Authority on an ongoing basis. The level of the Water Authority's fund balances provides an important metric to assess the Water Authority's liquidity and its ability to meet upcoming financial obligations under uncertain economic and meteorological conditions. Fund balance levels are also scrutinized by rating agencies as a measure of creditworthiness and as a proxy for the overall quality of the utility's financial management. When evaluating fund balance levels, the fund balances must be considered along with the long-range revenue and expenditure projections and any reserve requirements. When combined, these data provide the basis to determine how well the Water Authority is funded and able to meet its long-range financial obligations.

The Water Authority’s fiscal year 2008 year-end working fund balances (Operating, Rate Stabilization and PAYGO) were \$230.046 million, which is \$9.05 million lower than the prior fiscal year. Although the Operating Fund is over the 45-day maximum balance as described below, the RSF is now \$51.056 million under its maximum balance of \$93.166 million, so there are no discretionary funds available this year in accordance with the Board’s Operating Fund policy. In addition to the Operating Fund, all the Water Authority’s separate funds and their year end fund balances are summarized below.

Maximum Operating Fund Balance Calculation

The Operating Fund provides working capital to fund day-to-day operations and water purchases. In addition, the Operating Fund policy requires that \$5 million be designated at all times for unforeseen emergency repairs to the Water Authority's infrastructure. According to the Operating Fund policy discussed above, in any year that the Operating Fund balance is in excess of forty-five (45) days worth of operating expenditures (less any funds required to bring the RSF to its maximum balance and less any funds appropriated for draws from the Operating Fund in the Multi-Year Operating Budget), the Board shall be presented with options to determine the appropriate use of these funds, which in the past has included refunds to the Member Agencies.

As indicated in Table 1, the fiscal year 2008 Operating Fund 45-day balance requirement is computed to be \$47.836 million. With a year end Operating Fund balance of \$54.721¹ million, the year end Operating Fund balance is \$6.885 million over the 45-day maximum. However, the RSF, which is discussed below, is \$51.056 million below its maximum of \$93.166 million. Because the Operating Fund excess is less than the amount the RSF is under its maximum, there are no year end funds available for the Board’s discretionary use.

Table 1 – Fiscal Year 2008 Operating Fund 45-Day Balance Computation	
<i>Calculation of Annual Operating Expenditures</i>	
Cost of Sales	\$ 262,538,000
Operating Budget	37,196,000
Debt Service (including fees)*	86,610,000
Equipment Replacement Fund Transfer	1,662,000
<i>Total Operating Expenditures</i>	\$ 388,006,000
Average 45-Day Operating Expenditure (\$388,006,000 x 45/365)	\$ 47,836,356

* Excludes commercial paper capitalized interest expenses.

SUMMARY OF OTHER FUNDS

Equipment Replacement Fund: This fund was separated from the Operating Fund by Board action in April 2003. It is funded by transfers from the Operating Fund based on equipment depreciation schedules and is used to replace fixed assets such as the large trucks and cranes used in Operations and Maintenance, the SCADA system and the Water

¹ The balance presented here is adjusted for \$13.672 million in water inventory purchases held at year end.

Authority's computer systems as these assets become obsolete or unusable. For the fiscal year ended June 30, 2008, the Equipment Replacement Fund balance was \$9.987 million.

Rate Stabilization Fund: The RSF is used to stabilize the water rates by providing a reserve fund that can be used to meet the Water Authority's annual debt service coverage requirements and/or Operating Fund requirements. The June 30, 2008 RSF fund balance, after a transfer of \$3.866 million to the Operating Fund, was \$42.110 million. A withdrawal of funds from the RSF was made to support the purchase of supplemental water supplies and to achieve a debt service coverage ratio consistent with the Water Authority's financial planning documents.

As reported above, the fiscal year 2008 maximum fund balance is \$93.166 million, calculated as the average annual net water sales and hydroelectric revenues projected for the next four years. However, it is important to note that in August 2006, the Board adopted new policies that govern the target and maximum allowable RSF balances and chose to phase them in over the next three fiscal years (fiscal years 2008-2010). Under the new policies, the target and maximum allowable RSF balances for fiscal year 2008 would be \$40.143 million and \$65.746 million, respectively. Therefore, given the RSF balance is \$23.636 million under the new maximum, even under the new RSF policies there would be no discretionary funds available in the Operating Fund for the Board's use.

Dam-Fill Fund (Stored Water Fund): In fiscal year 2006, the Board created the Dam-Fill Fund as a separate fund to support the planned purchase of more than \$90 million of water to fill the various Water Authority reservoirs and to fund the IID water prepayment. Each fiscal year a transfer is made from the Operating Fund to the Dam-Fill Fund so that over time sufficient funds are available to purchase water to fill the reservoirs when the projects are completed. In fiscal year 2008, the fund was used to pay the scheduled \$10 million IID water prepayment and to prepay some of the supplemental water purchases taken into inventory. Going forward, revenues generated by the sale of water purchased with Dam-Fill Funds will be deposited back into the fund. It is important to note that this fund has been critical to the Water Authority's ability to purchase supplemental supplies in fiscal year 2008 and will continue to provide funding for purchases in fiscal year 2009. For the fiscal year ended June 30, 2008, this fund had an ending balance of \$1.992² million.

CAPITAL-RESTRICTED FUNDS

These funds are restricted by Board policies or legal documents. For example, the PAYGO fund contains revenues which are capital restricted by Board policy. The Construction (CIP) Fund is capital restricted by bond covenants, and the Debt Service Reserve Fund holds the legally required reserves for three long-term debt issues.

Pay-As-You-Go (PAYGO) Fund: The PAYGO Fund was established to collect restricted capacity charge revenues (System and Treatment) and Standby Charge revenues. The use of

² The balance presented here excludes \$4.62 million of water inventory held in this fund at year end.

these revenues is restricted by Board policy to construction and debt service expenditures related to the Capital Improvement Program.

In fiscal year 2008, the Water Authority spent \$11.9 million in PAYGO funds on groundwater storage capacity in the Semitropic and Viddler groundwater storage banks. These project expenditures are reimbursable from State SB1765 funds. Because a request for reimbursement was submitted to the State and approved, the fund balances presented here include reimbursement for these qualified project expenses. For the fiscal year ended June 30, 2007, the PAYGO fund balance was \$124.002 million.

Construction (CIP) Fund: This fund contains the proceeds of long- and short-term debt, contributions-in-aid-of-construction (CIAC) and interest earnings thereon. It has no minimum or maximum balance, and all revenues and interest earnings are capital restricted by federal tax law. In November 2006, the Water Authority issued \$350 million in commercial paper. The commercial paper proceeds and interest earnings were depleted in fiscal year 2008. In May of 2008, the Water Authority issued \$558 million in Certificates of Participation (COPs), which included a partial refunding of existing long-term debt. Of the proceeds, \$496 million was deposited into the construction fund for capital projects. For the fiscal year ended June 30, 2008, the Construction (CIP) Fund had an ending fund balance of \$429.738 million.

Debt Service Reserve Fund: This fund holds the reserve requirements for the Series 1998A Water Revenue Certificates of Participation, the Series 2002A Water Revenue Certificates of Participation, and the Series 2004A Water Revenue Certificates of Participation. The 2008A COPs are secured by a surety and, therefore, have no impact on the Debt Service Reserve Fund balance. The reserve funds are legal obligations required by the bond covenants of the respective debt issues. For the fiscal year ended June 30, 2008, this fund had an ending balance of \$69.196 million.

Prepared by: David Shank, Rate and Debt Administrator
Reviewed by: Eric Sandler, Director of Finance/Treasurer
Approved by: Paul Lanspery, Deputy General Manager



San Diego County Water Authority

BOARD CALENDAR

JANUARY 2009

- 7 MWD Delegates – 10:00 a.m.
- 8 Special meeting of the Administrative and Finance Committee – CRACA – 1:30 p.m.
- 22 Regular Board meeting – 3:00 p.m.

FEBRUARY 2009

- 4 MWD Delegates – 10:00 a.m.
- 12 Tentative Special Board meeting – 1:30 p.m.
- 26 Regular Board meeting – 3:00 p.m.

MARCH 2009

- 4 MWD Delegates – 10:00 a.m.
- 12 Tentative Special Board meeting - 1:30 p.m.
- 26 Regular Board meeting – 3:00 p.m.

12/8/2008