

Below please find responses to questions posed by LAFCO Consultant Hanemann. While the Fallbrook Public Utility District (Fallbrook) and Rainbow Municipal Water District (Rainbow) have submitted separate and distinct applications to LAFCO for reorganization, Fallbrook and Rainbow (together the “Districts”) submit this single document responding to the questions for ease of use.

Fallbrook and Rainbow have also included responses to questions posed as to SDCWA supplies and costs. Fallbrook and Rainbow are both member agencies of SDCWA and have knowledge and perspectives relative to our agencies on these topics.

QUESTIONS:

- 1. What local water supplies do Fallbrook and Rainbow each have access to?**
 - a. If so, what are the direct costs to Fallbrook and Rainbow? (Please provide cost breakdown)**

FALLBROOK

Fallbrook is more than 50% complete on the construction of new groundwater treatment facilities to establish a local water supply from the Santa Margarita Conjunctive Use Project (SMRCUP) with Marine Corps Base Camp Pendleton (Camp Pendleton). A summary of the anticipated average annual yield and units costs is summarized below. Water produced by the SMRCUP will be included as a verifiable supply in Fallbrook’s 2020 UWMP. Since the SMRCUP is not yet operational, the information below is based on on-going estimation efforts between Fallbrook and Camp Pendleton. More details on the SMRCUP is set out in Table 1, and at:

<https://www.fpud.com/santa-margarita-river-conjunctive-use-project-using-local-water>

Table 1 – Summary of SMRCUP Project

Projected Average Annual Supply to Fallbrook	4,200 AFY
Unit Costs (Debt Service)	\$660/AF
Average Unit Costs (O&M)	\$980/AF
Total Unit Costs	\$1640/AF

Fallbrook PUD also has the following local water supplies: 1) one small well from which it projects a supply of 100 AFY; 2) limited water from water rights in Lake Skinner from which it projects a supply of 300 AFY; and 3) recycled water supplies from which it projects 830 AFY of recycled water supplies. These supplies will be included as verifiable supplies in Fallbrook’s 2020 UWMP. Additional details on these supplies can be found in Fallbrook’s 2020 Facilities Master Plan:

<https://www.fpud.com/files/2695df2ec/FPUD+Master+Plan+2020.pdf>

In addition to the above referenced verifiable supplies, both Fallbrook and Rainbow are exploring the feasibility of additional local water supply projects. Fallbrook and Rainbow are working together to explore the feasibility of a project with Camp Pendleton to further increase water supplies in the Santa Margarita Basin through a potential Indirect Potable Recharge project. The groundwater recharge component of this project will be included as additional 1,700 AFY of planned supplies.

RAINBOW

Rainbow is developing a groundwater project related to imported return flows in the San Luis Rey Basin. Rainbow will include a total of 2000 AFY as additional planned supplies in its 2020 UWMP. A summary of these supplies is included in Table 2 below:

Table 2: Rainbow/Fallbrook verifiable and Planned Local Water Supplies

District	Project	Average Annual Supply (AFY)
<u>Verifiable Supplies</u>		
Fallbrook	SMRCUP	4,200
Fallbrook	Recycled	830
Fallbrook	Lake Skinner	300
Fallbrook	Capra Well	100
<u>Additional Planned Supplies</u>		
Fallbrook/Rainbow	LSMR IPR	1,700
Rainbow	SLR Imported Return Flows	2,000

EASTERN MUNICIPAL WATER DISTRICT (EMWD)

In addition to Fallbrook's and Rainbow's local supplies, EMWD also has local supply projects. These projects help reduce EMWD demands on Metropolitan Water District of Southern California (MWD) which would increase the availability of MWD supplies to Fallbrook and Rainbow, once annexed to EMWD, as member agencies of EMWD. This is fully described in our response to Question 5 below.

Further, under Section 10.d of the Memorandum of Understanding entered into between Fallbrook, Rainbow and EMWD on August 7, 2019, both Fallbrook and Rainbow have the option of participating in future planned local supply development projects by EMWD.

Reference: <https://www.fpud.com/files/8e4162427/2019-08-07+-+MOU+Planning+Process+and+General+Terms+for+Consideration+of+the+Annexation+of+RMWD+and+FPUD+into+EMWD+for+Wholesale+Imported+Water+Service.pdf>

The participation in such projects would be through in-lieu water deliveries in which Fallbrook and/or Rainbow would participate in developing the local supply and in turn receive a base amount of equivalent MWD water. Contrary to suggestions by SDCWA, any such water would not be wheeled through the EMWD system and assessed an additional wheeling charge. An example of some of the local supply projects that Rainbow and/or Fallbrook could look to participate in in the future are summarized in the Technical Memorandum prepared by EMWD (Exhibit 1). The groundwater supply projects available through EMWD tend to provide lower cost water supply options if Fallbrook and/or Rainbow determines an added layer of reliability is necessary.

The current cost of SDCWA supplies for both Fallbrook and Rainbow is summarized in Table 3 below. Note that the per Acre Foot costs shown here are forecasts based on current Fiscal Year projected demands. Actual costs will vary as part of the cost is a fixed component and part is

variable. Rainbow has a higher percentage of sales at the discounted Special Agricultural Water Rate rate and thus the average price per Acre Foot is lower than for Fallbrook.

Table 3: Current Unit Cost of SDCWA supplies

District	Projected Unit Cost \$/AF (FY 20-21)
Fallbrook	\$1730
Rainbow	\$1660

Source: Fallbrook adopted 2020 – 2021 Budget

<https://www.fpud.com/files/5c6a08b53/FPUD2020-Adopted.pdf>

2. **What water supplies are controlled independently by SDCWA?**
 - a. **What are the present and future water amounts of those supplies?**

See Table 4 below.

3. **What are the costs to SDCWA per each local water resource?**
 - a. **Please include breakdown by source and cost component**

SDCWA has three key water supply agreements in addition to the supplies received from MWD. The water supply agreements are all contracted deliveries with finite terms. The Canal Lining and IID Transfer Water are facilitated through exchange agreements with MWD. The actual water is not directly wheeled through MWD’s system, rather the supplies are pooled within MWD’s supply mix and SDCWA is given an equivalent amount of MWD water in exchange. The water delivered by MWD is not all directly from the Colorado River Supplies and is blended with State Water Project to help reduce the salinity. The water supply contractual term and unit costs are summarized below. Additional details for the unit costs can be found in Exhibit 2 and 3 from data presented by SDCWA.

Table 4: Summary of amount, term and unit costs of SDCWA supplies

Supply	Annual Amount	Term	Unit Cost (\$/AF) 2021
Canal Lining Project Water	80,000 AFY	110 Years	\$1028
IID Transfer Water/MWD Exchange	200,000 AFY	Up to 75 Years (2078), but price must be renegotiated in 2035	
Carlsbad Desalination	56,000 AFY	30 years (2042)	\$2752

Sources: <https://www.iid.com/home/showpublisheddocument?id=887>

<https://www.sdcwa.org/sites/default/files/files/waterpurchaseagreement.pdf>

Some key aspects of these SDCWA supplies, relative to the proposed detachments of Fallbrook and Rainbow, are as follows:

- SDCWA has indicated that the Quantification Settlement Agreement (QSA) and canal lining supplies are its lowest cost supply and are lower in cost than MWD supplies. This would mean that without Fallbrook and Rainbow as members of SDCWA, all

other SDCWA member agencies would have more access to these lower cost supplies and it would reduce their water supply costs.

- Fallbrook receives no water from the Carlsbad Desalination Plant due to its location and Rainbow only periodically receives a small amount depending on SDCWA system hydraulics. As discussed further in this document, neither Fallbrook nor Rainbow voted in favor of this project (Fallbrook spoke out against the project and voted no and Rainbow was absent) when it was approved in 2012 given the high cost and limited benefit to the two Districts.

b. Capital costs (i.e. when occurred, how financed and time expectation to be paid off)

SDCWA issued debt to finance the canal lining project and Desalination Project Pipeline, which has since been consolidated into SDCWA's overall debt portfolio. Information on specific remaining debt associated with each project may be available in the SDCWA rate model.

Table 7 in the SDCWA CY 2021 Cost of Service Study (See link below) shows the allocation of debt to water supply costs. The allocation for Supply in the 2021 rate study was \$10.89 million. Most of this debt is associated with the canal lining project which provides the lowest cost supply to SDCWA.

<https://www.sdcwa.org/sites/default/files/Rates%20and%20Charges%20FINAL%20attachment%202020.pdf>

c. Operating and related annual costs

The unit costs presented in Table 4 above include the operating and debt services costs for each supply.

4. How does SDCWA allocate to its members agencies the water supplies that it controls?

a. During water shortages and droughts, how much water is allocated to Fallbrook and Rainbow?

The response to subsection (a) is included in the response to subsection (b) below.

b. What water sources are utilized and how is that determined?

SDCWA has a Water Shortage Contingency Plan that was adopted by the Board in 2017 (see link below).

<https://www.sdcwa.org/sites/default/files/Water%20Shortage%20Contingency%20Plan%20August%202017.pdf>

The Water Shortage Contingency Plan (WSCP) largely sets an allocation based on drought condition and a percentage of the historical municipal and industrial (M&I) demand. The WSCP also sets up customer water restriction requirements through drought ordinance requirements for each member agency. See Table 5 below.

Table 5 – Drought Ordinance Requirements

Table 11-2. Correlation between WSDRP Stages and Model Drought Ordinance Levels

WSDRP STAGE	DROUGHT RESPONSE LEVEL	USE RESTRICTIONS	CONSERVATION TARGET
Voluntary (Stage I)	1 - Drought Watch	Voluntary	Up to 10%
Supply Enhancement (Stage II)	1 - Drought Watch	Voluntary	Up to 10%
	2 - Drought Alert	Mandatory	Up to 20%
Mandatory Supply Cutback (Stage III)	2 - Drought Alert	Mandatory	Up to 20%
	3 - Drought Critical	Mandatory	Up to 40%
	4 - Drought Emergency	Mandatory	Above 40%+

Source: SDCWA Urban Water Management Plan

In the last drought (2015/2016) even though many agencies and wholesalers had developed allocation plans, the State established water use regulations based on each agencies gallons per capita per day (gpcd) usage (see link below) (Emergency Regulations).

https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/docs/emergency_req/020717_9_final_emerg_reqs.pdf

These regulations required both Fallbrook and Rainbow to reduce usage by 36%, even though the SDCWA WSCP would have allocated both Districts more water--99% of our needs according to SDCWA.

Below Table 6, shows the drought conservation of both Districts during implementation of the Emergency Regulations and the impacts of implementing a Stage 2 restriction on water use by our customers. It compares monthly water use for the summer of 2015, at the height of the last drought and imposition of the most severe restrictions, with pre-drought water use for the same months in 2013. This table shows the additional flexibility that agencies with primarily outdoor irrigation (such as Fallbrook and Rainbow) have when it comes to drought restrictions – unlike more urban areas.

Table 6 – Fallbrook Monthly Water Production in 2015 versus 2013

Supplier Name	Stage Invoked	Mandatory Restrictions	Reporting Month	REPORTED Total Monthly Potable Water Production	REPORTED Total Monthly Potable Water Production 2013	Reduction in Water Use
Fallbrook Public Utility District	Stage 2	Yes	Sept-15	960.8	1454.2	51%
Fallbrook Public Utility District	Stage 2	Yes	Aug-15	1097.5	1514.9	38%
Fallbrook Public Utility District	Stage 2	Yes	Jul-15	1006.9	1513	50%
Fallbrook Public Utility District	Stage 2	Yes	Jun-15	945.5	1307	38%

Supplier Name	Stage Invoked	Mandatory Restrictions	Reporting Month	REPORTED Total Monthly Potable Water Production	REPORTED Total Monthly Potable Water Production 2013	Reduction in Water Use
Rainbow Municipal Water District	Level 2	Yes	Oct-15	1547.3	1870.2	-21%
Rainbow Municipal Water District	Stage 2	Yes	Sep-15	1802.7	2503.3	-39%
Rainbow Municipal Water District	Level 2	Yes	Aug-15	2057	2568.9	-25%
Rainbow Municipal Water District	Level 2	Yes	Jul-15	1652.7	2411.9	-46%
Rainbow Municipal Water District	Level 2	Yes	Jun-15	1870.7	2360.1	-26%
Rainbow Municipal Water District	Level 2	Yes	May-15	1265	2128.3	-68%

Source: https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/docs/2019sept/uw_supplier_data090319.xlsx

During this same period, MWD implemented a 15% cutback which would have provided sufficient supply to meet the Districts' demands during the drought because our customers achieved a low of 21% and a high of 68% cutback for Rainbow, and low of 38% and high of 51% for Fallbrook, as shown in Table 6, above. Urban agencies under the state order had much lower water use reduction requirements and they would see some benefit from the additional water supplies secured by SDCWA. However, given the water use profile of both Fallbrook and Rainbow, both with significant outdoor water use, SDCWA supplies provide little benefit, in addition to the MWD supplies the Districts receive.

The state of California, in 2018, passed additional legislation on Water Conservation and Drought Planning (Senate Bill 606 and Assembly Bill 1668) that will establish additional requirements for water use efficiency. A summary of the requirements of both pieces of legislation can be found at the following link:

<https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Water-Use-And-Efficiency/Make-Water-Conservation-A-California-Way-of-Life/Files/PDFs/Final-WCL-Primer.pdf?la=en&hash=B442FD7A34349FA91DA5CDEFC47134EA38ABF209&hash=B442FD7A34349FA91DA5CDEFC47134EA38ABF209>

One of the key aspects of the 2018 legislation is the strengthening local drought resilience by implementing “[a]mendments to existing urban water management reporting and enforcement.” We anticipate an outcome of this effort will be to maintain some of the requirements from the above referenced Emergency Regulations that tied the amount of water use reduction in a drought to gpcd and require higher reductions for agencies with higher gpcd levels. The overall impact of higher cutbacks on higher gpcd water use agencies is that they will see much less of a benefit of supply projects that are designed to reduce the impact of MWD cutbacks.

A bottom line summary of the allocation of SDCWA supplies to Fallbrook and Rainbow is:

- The Districts do not need or benefit from the allocated SDCWA high cost water supplies based on the experience from the 2015/16 drought and the anticipated impact of pending state regulations.

5. **How does MWD allocate to its member agencies the water supplies that it controls?**
- a. **In shortage situation, how much water would be made available to Fallbrook and Rainbow?**

See details provided by EMWD in Exhibit 1. EMWD has also previously completed an analysis based on the 2015 UWMP data showing the ability to meet our demands under future projected drought scenarios. This document was included as an attachment to the applications for both Fallbrook and Rainbow as an attachment for the Plan for service available at:

<https://www.sdlafco.org/home/showpublisheddocument?id=5356>

(see page 178)

<https://www.sdlafco.org/home/showpublisheddocument?id=4830>

(see page 46)

- b. **What water sources would be utilized and how is that determined?**

See details provided by EMWD in response to this question in Exhibit 1.A summary of the information provided by EMWD relative to availability of supplies under EMWD is:

- Based on an analysis of 2015 UWMP data, which used significantly higher demand projection, EMWD can meet the Fallbrook and/or Rainbow water supply reliability needs during anticipated future drought conditions.
- If Rainbow or Fallbrook determined the need for additional supplies, the Districts would be able to participate in those projects under specific terms that make sense financially and from a supply reliability standpoint, versus the current arrangement under SDCWA where the Districts are required to pay for water supply projects that do not benefit our ratepayers.

6. **What are the various charges made by SDCWA to its member agencies?**

- a. **Has the structure in charges changed in any way over the last 5-10 years?**

Table 7 (below) shows a summary of the variable and fixed charges adopted by SDCWA in 2010 and 2021. There are two classes of fixed charges: 1) The Storage Charge, Customer Service and Water Supply Reliability are tied to usage and adjust for each member agency as their usage goes up and down over time--if an agency's usage went to zero for example eventually these charges would also go to zero; and 2) The meter based fixed charges are independent of usage and are solely based on total connected meter equivalents. These charges are fully described in the SDCWA Cost of Service Study that was referenced above.

Table 7 – Summary of SDCWA Charges in 2010 and 2021

Rate	2010	2021	% Increase
Variable Rates			
Melded M&I Supply Rate (\$/AF)	\$532	\$940	77%
Melded M&I Treatment Rate (\$/AF)	\$215	\$295	37%
Transportation Rate (\$/AF)	\$67	\$150	124%
Usage Based Fixed Charges			

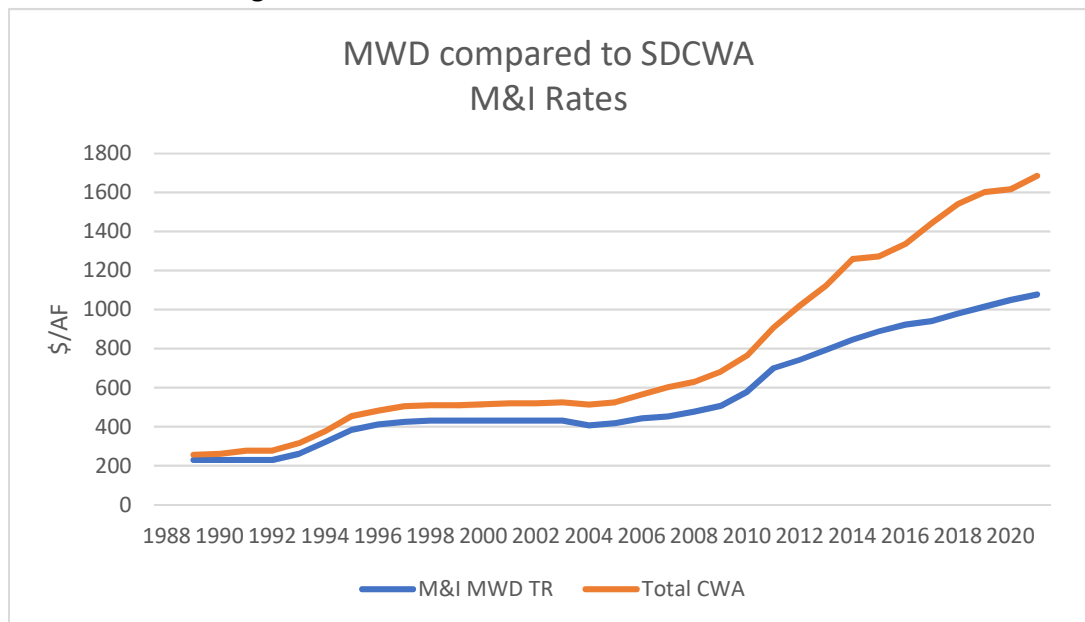
Storage Charge (millions)	\$34.0	\$60	76%
Customer Service Charge (millions)	\$18.0	\$25.60	42%
Water Supply Reliability (millions)	\$0	38.84	N/A
Meter Based Fixed Charge			
Infrastructure Access Charge (\$/Meter equivalent)	\$2.02	\$4.24	110%

Source: <https://www.sdcwa.org/board-documents>

Over the last 10 years, some of the major changes in rates include:

- A substantial divergence from the underlying MWD rate and the SDCWA rate. Over the last decade, the cost difference between MWD and SDCWA rates has grown from under \$100/AF to close to \$500/AF See Figure (1).

Figure 1 – MWD and SDCWA M&I Rates 1988 to 2020



- Development of a new water supply reliability charge to help pay for the higher cost of IID Transfer and Desalination supplies in addition to the variable rate differential.
- Substantial increases on the non-usage based fixed costs (Infrastructure Access Charge).

b. If so, what factors caused the changes?

There are a number of factors that have driven the rate increases at SDCWA relative to MWD rates:

- Substantial decrease in demands, while at the same time higher cost SDCWA supplies such as Desalination have come on-line.
- Shifting more costs, including capital costs for transportation facilities, onto the non-usage based Infrastructure Access Charge (IAC).

Some key factors relative to SDCWA rates and detachment of Fallbrook and Rainbow:

- All the rates are tied to usage. For agencies that are developing their own water supplies or have contracted for other supplies, all their charges would eventually go to zero except the IAC.
- The increase in the IAC is largely tied to on-going repair and replacement capital improvement program (CIP) projects for transportation infrastructure that do not serve Fallbrook or Rainbow customers.

7. **What are the various charges made by MWD to its member agencies?**
- a. Has the structure in charges changed in any way over the last 5-10 years?**
 - b. If so, what factors caused the changes?**

This information should be provided by MWD.

8. **What major investments or capital projects have been made by SDCWA over the last 10 years (i.e. water supplies, distribution, storage, treatment, facilities, etc.)?**

SDCWA maintains a copy of the passed operating and capital budgets on its website at:

<https://www.sdcwa.org/budget>

The major investments made by SDCWA are detailed in the capital improvement program budget. One of the major investments, that was mostly completed 10 years ago, is the Emergency Storage Program (ESP). This project was to provide additional water supplies and infrastructure to serve San Diego County in an emergency. The final phase of this project, the North County ESP Pump Station (estimated at \$40 million in the FY 20-21 budget), has not been completed. This project is required to, finally, provide emergency supplies to Rainbow and Fallbrook ratepayers. The majority of the ESP project has been complete for over a decade and can fully serve all member agencies **except Fallbrook and Rainbow**.

Since 2012, the main capital costs incurred by SDCWA are for repair and replacement of existing infrastructure. Fallbrook currently uses no SDCWA infrastructure and Rainbow is in the process of transitioning completely off the small sections of SDCWA pipeline it currently uses, so these investments provide no benefit to Fallbrook or Rainbow customers.

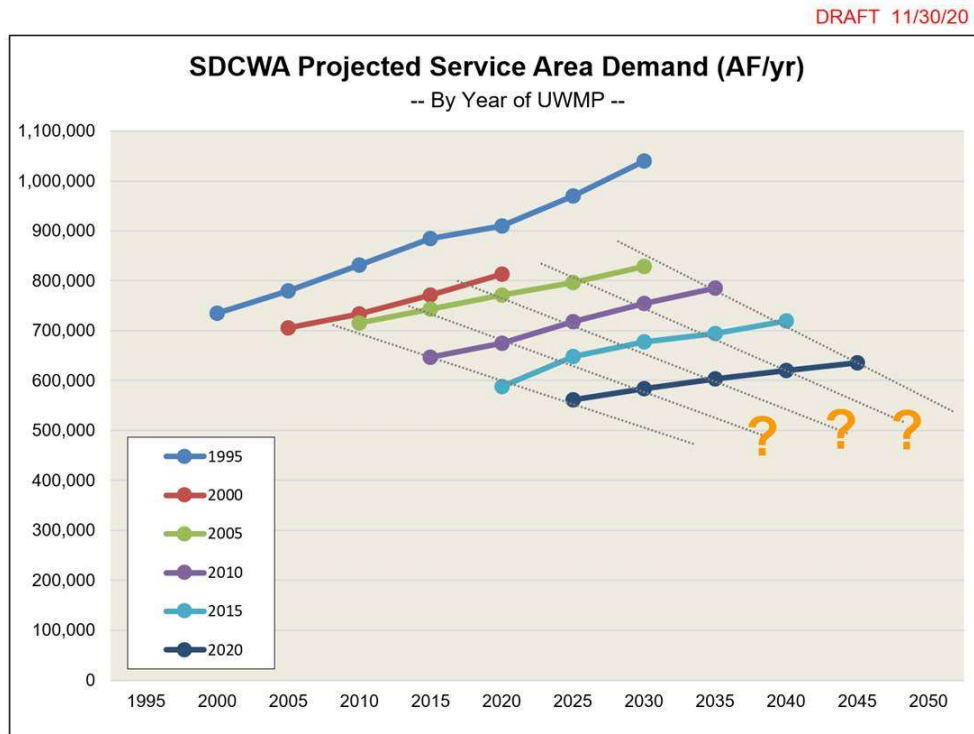
There are no completed capital projects that provide benefit only Fallbrook or Rainbow and that also provide no benefit to the remaining SDCWA member agencies. There will be no SDCWA stranded assets after the detachment of Fallbrook and Rainbow. In fact, the North County ESP Pump Station will not need to be constructed thereby saving the remaining agencies \$40 million from the CIP budget.

- a. Procedurally, how are those investments decided?**

SDCWA staff develops and proposes the CIP, which is included in the bi-annual budget process. Some water supply projects have been recently been removed from the CIP (such as an additional

Desalination Plant at Camp Pendleton) due to a continued decline in water demands. A summary of the continued decline in UWMP water demand projections is shown in Figure 2.

Figure 2 – Summary of Water Demand Projections from SDCWA UWMP 1995-2020



Source: SDCWA Urban Water Management Plans 1995-2015; SDCWA Draft Forecast Nov. 2020

It should be noted that SDCWA’s ongoing forecasts of increasing demands, despite the clear pattern of decreasing demands could result in future challenges related to the quantity of “take or pay” contracts such as the QSA and Desalination sources. SDCWA uses MWD supplies to make up the difference between their take or pay contracts and total demand. It should go without saying that an agency never wants take or pay contracts to exceed total demands as this raises the cost per acre foot because the cost stays the same but the volume decreases.

Table 8, below, shows the current forecast in SDCWA’s 2020 UWMP that will be presented to the SDCWA Board on February 25, 2021. It is important to remember as shown in Figure 2, that the UWMP represents a conservatively high estimate of total water demands with a high probability that actual demands could be much less. Given the trend from past SDCWA UWMPs, there is a high probability that actual demands will be 10-15% lower than what was projected. Due in large part to the City of San Diego’s Pure Water project (which will roll off significant demands), by 2035 SDCWA will be using only a bit over 17,000 Acre Feet per year of MWD supplies, which is well within the margin of error of previous projections. This forecast of MWD supplies is about the same as the projected amount FPUD and RMWD forecast for their combined demands to be in 2035. The overestimations present in previous SDCWA forecasts indicate that irrespective of detachment SDCWA should focus on having an option ready to reduce the amount of take or pay water as part of their overall water supply portfolio.

Table 8 – SDCWA 2020 UWMP Forecast

	2025	2030	2035	2040	2045
Water Authority Supplies					
IID Water Transfer	200,000	200,000	200,000	200,000	200,000
ACC and CC Lining Transfers	78,700	78,700	78,700	78,700	78,700
Seawater Desalination	50,000	50,000	50,000	50,000	50,000
Sub-Total	328,700	328,700	328,700	328,700	328,700
Member Agency Supplies					
Surface Water	43,957	43,957	44,659	44,659	44,659
Water Recycling	42,993	46,493	46,593	46,693	46,793
Groundwater	21,900	23,100	23,100	19,600	19,600
Brackish Groundwater Recovery	8,400	8,400	8,400	8,400	8,400
Seawater Desalination	6,000	6,000	6,000	6,000	6,000
Potable Reuse	33,042	53,202	112,562	112,562	112,562
San Luis Rey Water Transfers	15,800	15,800	15,800	15,800	15,800
Sub-Total	172,092	196,952	257,114	253,714	253,814
MWD Supplies	59,824	57,613	17,676	36,788	53,401
Total Projected Supplies	560,616	583,265	603,490	619,202	635,915
Total Demands with Water Efficiency Savings	560,616	583,265	603,490	619,202	635,915

Table 8 depicts a continuing increase in overall demands, although diminished through the presence of potable reuse projects such as Pure Water. Should the past be prologue, this forecast may overestimate actual demands in the future. Thankfully, SDCWA has options within the QSA agreement, including a price reset period that will occur right around that same time that their MWD buffer is smallest in 2035, during which SDCWA will have the opportunity to renegotiate the volume of deliveries. SDCWA should monitor actual demands carefully so that they can avoid having all of its water supplies bound up in take or pay contracts.

b. How does each member agency contribute/participate to the process?

Each member agency has a representative on the SDCWA Board with a voting percentage based on the total past financial contribution. The current voting percentage of Fallbrook is 2.30% and the voting percentage for Rainbow is 3.99%. The CIP is included in the overall budget and if the budget passes by a **55%** majority of the SDCWA Board then the CIP is adopted. The CIP is then funded by all member agencies through the rates and charges established by SDCWA. There is no allocation of capital projects costs based on the specific benefits they provide to each member agency.

c. What is the nature of each member agencies' commitment to future improvements?

The County Water Authority Act (CWA Act) clearly delineates the costs that member agencies are required to pay following their detachment from a county water authority, such as SDCWA. The CWA Act specifies that bonded indebtedness that is linked to property taxes must continue to be paid. The CWA Act does not provide for other ongoing commitments, so any effort by LAFCO to calculate some sort of "Exit Fee" apart from what is in the CWA Act, should also then look at past

investments made by both Fallbrook and Rainbow to the benefit of the other member agencies. Fallbrook and Rainbow hired a consultant to review the cost/benefit of past payments made to SDCWA. A copy of this report is available at:

<https://www.sdlafco.org/home/showpublisheddocument?id=5090>

Additionally a summary of the CWA Act¹ and pertinent terms can be found as the third letter of correspondence at:

<https://www.sdlafco.org/home/showdocument?id=5002>

Outside of the language of the CWA Act, each member agency does not make any specific commitment to fund a certain percentage of any project unless there is a separate agreement between SDCWA and the member agency for specific shared ownership or financial contribution to a specific project. A member agency may also oppose a certain project, but if passed by a 55% majority of the SDCWA Board the member agency that opposed the project will still fund the project through payment of water rates and other charges to SDCWA.

This creates the ability for member agencies to vote for and approve projects for which other agencies will bear the financial burden even though those agencies may not receive any benefits from the approved projects. For example, in November 2012 when the SDCWA Board considered the Water Purchase Agreement for the Carlsbad Desalination Project Fallbrook voted no specifically due to concerns over the cost to its ratepayers and limited reliability benefit to Fallbrook. Rainbow's representative did not vote to support the project either, due to being absent from the meeting. (See Page 17 on See Exhibit 4). In that meeting the Fallbrook Director (Director Brian Brady) made the following comment that is shown in the minutes:

Director Brady state it all came down to cost, contribution and reliability. He stated in terms of cost it was three times the cost of what we pay from water from MWD. In terms of reliability, he stated we would spend a billion dollars to have a 1-3% increase in reliability. He stated the predicted monthly increase in water bills for residential customers would not be \$5-\$7 a month, but \$10-20 per month. For the avocado grower, the increase would be \$600 annually. He stated it might be a great project ten years from now, but it was premature and he would be voting no.

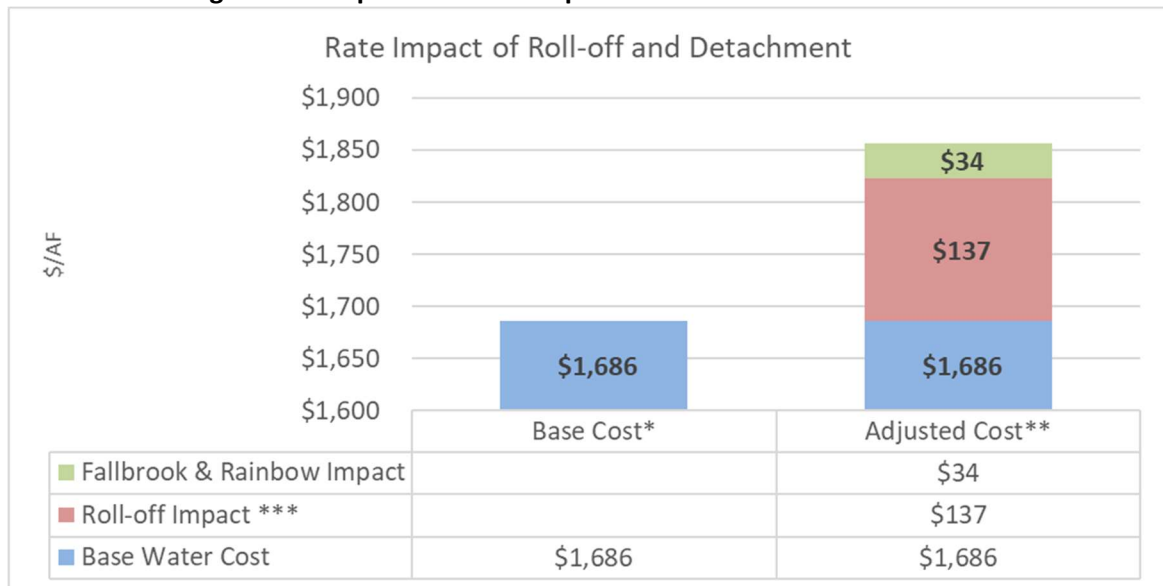
Even though the Districts neither supported the project, nor receive any significant quantity of water directly from it or receive any benefit during the 2016 drought, and correctly expressed

¹ The Legislature created the processes that member agencies use to join SDCWA as well as the processes used to exclude their service areas from SDCWA.

concern over the underestimation of the cost impact, both Districts continue to pay a share of the project costs.

A member agency may vote for a project even if it plans to significantly reduce its financial contribution to SDCWA in the future through development of local supplies. Since, as discussed under Question 5, above, all charges except the IAC eventually are directly tied to water purchases, local supply development or procurement of other non-SDCWA water supply sources will significantly reduce an agency’s future financial contributions for SDCWA water supplies and capital commitments. This provides an agency the ability to “roll-off” SDCWA through procurement of other water supplies. Figure 3 from the Fallbrook Plan for Service provided with its application to LAFCO shows the relative impact of its detachment versus the impact of “roll-off” of agencies that are in the process of developing their own water supplies.

Figure 3- Comparison of the impact of roll-off versus detachment



* Based upon CWA’s Recommended Calendar Year 2020 Rates and Charges presentation.

** Based upon updated water sales projection for CWA of 338,958 AF.

*** Pure Water Phase I, East County AWP, Pure Water Oceanside.

Source: Fallbrook Plan for Service:

<https://www.sdlafco.org/home/showpublisheddocument?id=4824>

Key aspects of the past and future capital commitments made by SDCWA relative to detachment of Fallbrook and Rainbow are summarized as follows:

- There were no major investments made for projects that solely benefit Fallbrook and/or Rainbow that will become stranded SDCWA assets after a detachment of Fallbrook and/or Rainbow.
- The detachment of both Fallbrook and Rainbow will save SDCWA \$40 million by eliminating the need to build the North County ESP Pump Station.
- The financial impact of the detachment of Fallbrook and Rainbow to SDCWA and its member agencies is **much** smaller than the impact of other agencies “rolling-off” SDCWA.

TECHNICAL MEMORANDUM

Water Resources and Facilities Planning Department



DATE: February 16, 2021

PREPARED FOR: Fallbrook Public Utility District / Rainbow Municipal Water District

PREPARED BY: Eastern Municipal Water District

SUBJECT: MWD Allocation Impacts and EMWD Local Supplies

INTRODUCTION

The San Diego Local Agency Formation Commission (SDLAFCO) is currently reviewing a proposed reorganization under which the Fallbrook Public Utility District (FPUD) and Rainbow Municipal Water District (RMWD) would detach from the San Diego County Water Authority (SDCWA) and annex into the Eastern Municipal Water District (EMWD), both of whom are member agencies of the Metropolitan Water District of Southern California (MWD). As a part of this review, a consultant for SDLAFCO has submitted a questionnaire directed at the involved agencies, for responses as applicable. EMWD has evaluated the content of this questionnaire and believes that the request (which covers topics such as FPUD, RMWD, SDCWA and MWD water supplies, SDCWA and MWD allocation policies, and SDCWA and MWD charges) would be best addressed by each subject agency directly, as EMWD rates and supplies are outside the scope of the questionnaire.

To augment their responses to SDLAFCO, FPUD and RMWD have requested supplemental information from EMWD regarding the potential impact of a MWD allocation as well as EMWD's local supply programs.

MWD's WATER SUPPLY ALLOCATION PLAN (WSAP)

MWD's WSAP provides the framework under which MWD would calculate member agency allocations in the event that MWD's supply sources become impacted by severely dry hydrologic conditions. Since MWD can (and has) implement stages of its WSAP proactively in order to preserve water in storage, an allocation does not infer that MWD is, or will be experiencing an immediate supply shortage. Therefore, MWD does not physically limit member agency purchases under the WSAP, but rather, applies a surcharge to all purchases above the member agency's calculated allocation.

MAJOR CONSIDERATIONS IN THE WSAP

Allocations calculations under the WSAP begin with the establishment of a baseline period representative of a member agency's supplies and demands without any influence from dry hydrologic conditions. Historic data is used for the establishment of this baseline period.

Several adjustments are made to the baseline period to determine allocation year supplies and demands. These calculations include adjustments for growth in a member agency's service area, increases in non-potable water recycling, conservation, changes in member agency planned supplies, and availability of extraordinary supplies.

After allocation year supplies and demands are calculated, a member agency's demand on MWD can be determined. The WSAP then applies a minimum wholesale percentage to a

member agency's MWD demand based on the appropriate regional shortage level. The regional shortage levels documented in the WSAP are summarized in the table below.

Table 1: WSAP Minimum Wholesale Percentages

Regional Shortage Level	Wholesale Minimum Percentage
1	92.5%
2	85.0%
3	77.5%
4	70.0%
5	62.5%
6	55.0%
7	47.5%
8	40.0%
9	32.5%
10	25.0%

Note that regional shortage level 3 has never been exceeded by MWD since the adoption of the original WSAP in February 2008.

Member agencies may also receive an adjustment to their minimum wholesale percentage with an adjustment percentage that is tied to their dependence on MWD supplies. A member agency that is wholly reliant on MWD supplies would receive the maximum value of the retail impact adjustment percentage, which is summarized in the table below.

Table 2: WSAP Maximum Retail Impact Adjustment

Regional Shortage Level	Maximum Retail Impact Adjustment Percentage
1	2.5%
2	5.0%
3	7.5%
4	10.0%
5	12.5%
6	15.0%
7	17.5%
8	20.0%
9	22.5%
10	25.0%

MWD's WSAP can be reviewed in detail under Appendix 4 of MWD's 2015 Urban Water Management Plan, which is available for download on MWD's website. Appendix G of the WSAP provides a step by step example of how the WSAP allocation is calculated. MWD is currently completing its 2020 update to the Urban Water Management Plan, and as of the writing of this technical memorandum, MWD has made a public review draft of the 2020 document available on its website as well.

EXTRAORDINARY SUPPLIES

While MWD's WSAP accounts for the availability of member agency local supplies in determining an allocation, the WSAP does include a provision incentivizing member agencies to invest in what is termed an extraordinary supply. An extraordinary supply differs from a planned supply in that this supply would be specifically designated for use during a MWD allocation. Local supplies that are identified as an extraordinary supply are only partially counted (based on a sliding scale) in a member agency's local supply when MWD determines allocation volumes. Therefore, member agencies that have developed such a supply would receive the benefit of an increased MWD allocation in addition to the direct benefit of the extraordinary supply itself, significantly reducing the amount of mandatory conservation that would be required of a retail customer.

EMWD is currently advancing several water banking projects with components that would qualify as extraordinary supplies under MWD's WSAP. These projects include the Santa Ana River Conservation and Conjunctive Use Program, a multi-agency program which is anticipated to allow up to 137,000 acre-feet of water to be banked (of which over 34,000 acre-feet would be allocated to EMWD) and the San Jacinto Enhanced Recharge and Recovery Program, which when all phases are complete, could add an additional 23,500 acre-feet of storage capacity for dry year usage. Should a MWD allocation occur in the future, these investments would allow EMWD to mitigate the water supply impact of severe hydrologic conditions.

MWD ALLOCATION IMPACT ON EMWD

EMWD provides water service to both retail and wholesale customers (sub-agencies) within its service area. MWD's WSAP considers the supplies and demands on the member agency as an aggregate of all customers, leaving the distribution of allocated MWD water to the discretion of the member agency. Historically, EMWD has utilized MWD's WSAP as a model for determining how an MWD allocation would be apportioned between its retail customers and its various sub-agencies, and any water use over EMWD's total allocation and subsequent surcharges would generally be passed through to the applicable sub-agencies. However, if EMWD's retail and wholesale MWD purchases remain under MWD's calculated allocation, for example, due to high levels of customer conservation, then no allocation surcharge would be assessed by MWD, and any sub-agencies over their individual allocations would not be subject to a surcharge from EMWD since there would be no additional cost that would need to be passed through.

A more detailed analysis of how a MWD allocation would impact EMWD customers is presented in EMWD's technical memorandum dated February 12, 2020, which is available on the SDLAFCO website. This analysis considered the impact of the WSAP under regional shortage levels 1, 3, and 5, under 2015 drought demands, present day (2019) demands, and projected 2035 demands. The results of this analysis projected that EMWD would have been able to supply FPUD and RMWD demands during the 2015 drought without incurring an allocation surcharge from MWD. Furthermore, with previously attained levels of water use efficiency, the analysis also projects that FPUD and RMWD would be able to continue avoiding surcharges under a hypothetical future allocation under both present day and future (2035) demand conditions, even under an unprecedented level 5 regional shortage stage of MWD's WSAP.

SUMMARY OF EMWD LOCAL SUPPLIES

EMWD's local supply sources include potable groundwater, desalinated brackish groundwater, and recycled water. EMWD currently has projects in various stages of planning and construction to enhance the available supply from each of these sources. These local supplies are highly reliable and over the past 5 years, EMWD has produced annual volumes from these sources that are within $\pm 2\%$ of the volumes projected in its 2015 Urban Water Management Plan, with the exception of 2019, a wet year where EMWD chose to participate in MWD's cyclic storage program and voluntarily reduced its groundwater pumping in order to maintain these supplies for dry year use. EMWD's local supplies are detailed further in subsequent sections of this document as well as the technical memorandum dated December 17, 2020 available on the SDLAFCO website.

POTABLE GROUNDWATER

EMWD currently operates 15 potable groundwater wells within its service area. Most of these wells are located in the Hemet/San Jacinto Management Plan Area, which is adjudicated under the Hemet-San Jacinto Watermaster. In this region, EMWD maintains an adjusted base production right of 7,303 acre-feet annually. Furthermore, EMWD also receives pumping credits for the unused portion of the water imported and recharged into the basin under the Soboba Settlement Agreement. Any water that is not pumped by EMWD each year can be carried over for use during future years. At the beginning of 2020, EMWD's total carry over credit balance was over 27,000 acre-feet.

EMWD currently anticipates that its Perris North Groundwater Contamination Prevention and Remediation Program will come online in 2023. This program, which pumps from the unadjudicated portion of EMWD's service area (where EMWD is the designated Groundwater Sustainability Agency), will treat 6,450 acre-feet per year of contaminated groundwater in the Perris North and Moreno Valley region for potable use.

BRACKISH GROUNDWATER DESALINATION

EMWD's service area also contains a region of brackish groundwater, predominantly focused in the Perris South Groundwater Management Zone. EMWD operates a network of brackish groundwater wells that mitigate the spread of brackish groundwater into potable regions of the aquifer. Water pumped from these brackish wells is treated at one of two desalination facilities for use as a potable supply.

In addition to its existing facilities, EMWD is nearing completion of a third desalination plant, the Perris II Desalter. This facility, for which additional brackish wells have already been completed, is expected to come online sometime in 2021 and add an additional 5,400 acre-feet per year of potable supply.

RECYCLED WATER

EMWD operates four Regional Water Reclamation Facilities (RWRF) within its service area. Wastewater is collected at each of the RWRFs and treated through tertiary treatment processes for use as recycled water. Over the past five years, EMWD's RWRFs have produced roughly 47,000 acre-feet per year of recycled water on average, which EMWD is able to provide to non-potable customers such as agricultural and landscape users, offsetting potable demand.

EMWD is also developing its Purified Water Replenishment project, an indirect potable reuse project that will augment EMWD’s potable supplies. This is a multi-phase project, with the first phase anticipated to become active in 2024, providing 4,000 acre-feet per year of new potable supply, and a second phase planned for 2035, which will provide an additional potable supply of 8,000 acre-feet per year, for a total of 12,000 acre-feet per year. Subsequent phases may bring the total output of Purified Water Replenishment to 15,000 acre-feet per year.

SUMMARY OF PLANNED LOCAL SUPPLIES

The table below provides a summary of EMWD’s current planned local supply portfolio through 2035. These totals exclude water banking projects that would allow for additional groundwater pumping during dry years.

Table 3: Summary of Current Planned Local Supplies (Acre-Feet per Year)

Year	Groundwater ¹	Desalters ²	Recycled Water ^{3,4}	Purified Water Replenishment
2021	11,000	10,700	46,100	0
2025	19,000	13,400	48,100	4,000
2030	19,000	13,400	54,900	4,000
2035	19,000	13,400	52,800	12,000

1. Assumes EMWD does not utilize any carry over credits and pumps only from its annual Adjusted Base Production Right in the Hemet/San Jacinto Management Plan Area. EMWD’s carry over credit balance was over 27,000 acre-feet in 2020
2. Assumes the Perris II Desalter is available for half of calendar year 2021
3. Totals represent effluent flow from RWRFs which is may be stored in seasonal storage ponds prior to use. Some losses occur while in seasonal ponds.
4. Excludes flows that are utilized by Purified Water Replenishment.
5. Table does not represent final values and may be updated in EMWD’s 2020 Urban Water Management Plan

OPPORTUNITIES FOR FPUD AND RMWD PARTNERSHIP

Should the proposed reorganization be approved, EMWD plans to maintain FPUD and RMWD’s existing supply sources by purchasing treated imported water from MWD for delivery to FPUD and RMWD via the MWD’s Skinner Water Treatment Plant. However, this does not preclude FPUD and/or RMWD from partnering with EMWD on the development of water banking and/or local supply projects in the future.

EMWD plans to continue the development of local supply and water banking projects similar to those described in earlier portions of this technical memorandum. Future programs may allow for FPUD and/or RMWD participation in which supplies developed or banked would most likely be delivered to FPUD and/or RMWD on an in-lieu basis. An in-lieu option would likely not require the construction additional infrastructure for water supply conveyance to FPUD and/or RMWD.

IN-LIEU DELIVERIES TO FPUD AND RMWD

In the event that FPUD and/or RMWD elect to participate in a local supply or water banking program with EMWD subsequent to the proposed reorganization, in-lieu deliveries would be the most probable method utilized by EMWD to allow FPUD and/or RMWD access to the newly

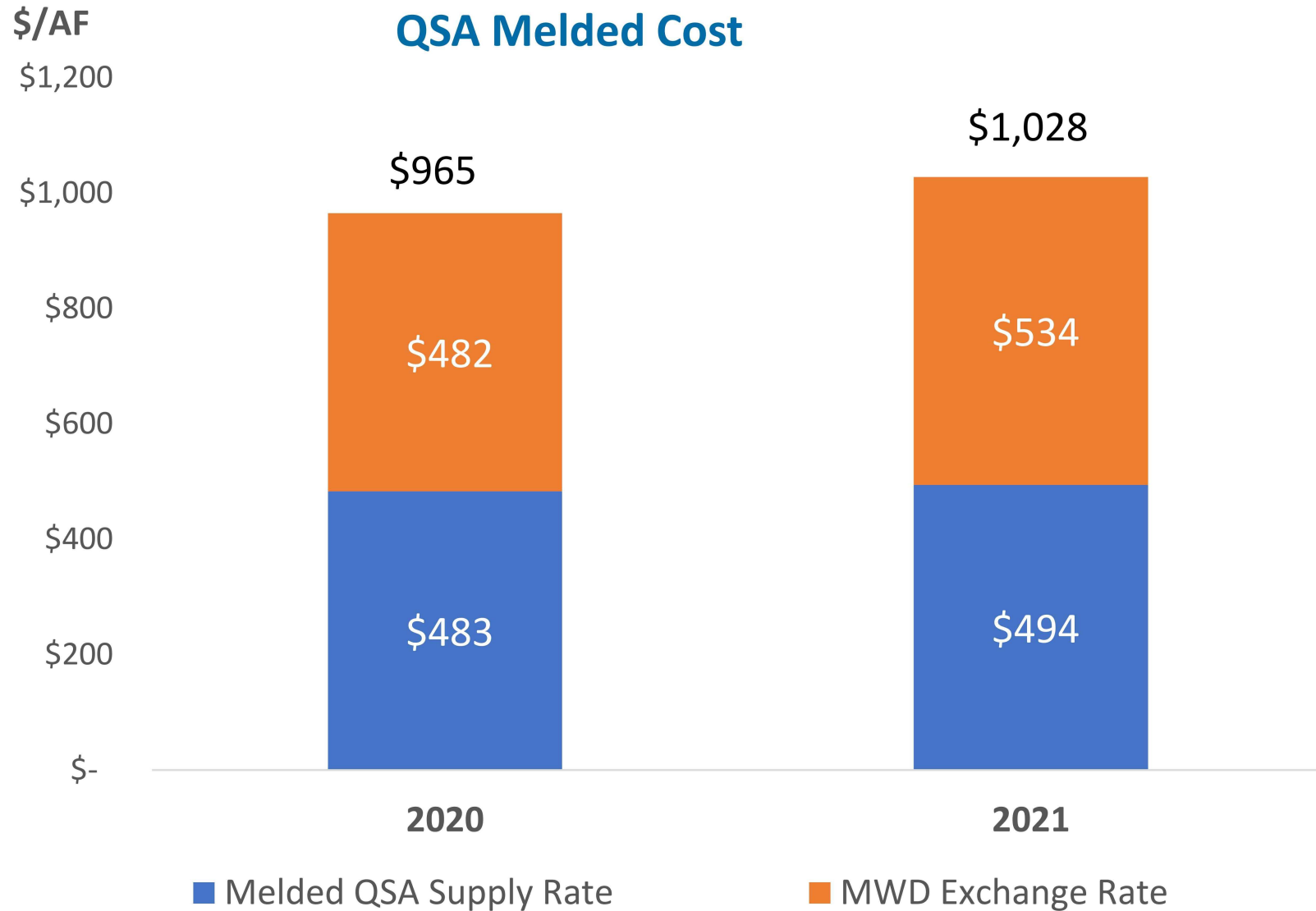
developed supplies. Under an in-lieu delivery option, EMWD purchases from MWD would remain the same from a service area perspective. However, EMWD would reduce its MWD deliveries within its retail service area and replace this volume with the total production from the new local supply. FPUD and RMWD would then receive an additional volume of purchased MWD water equivalent to their respective share of the new local supply. This additional volume would not be billed by EMWD at the MWD rate (since it would be considered the delivery of the new local supply), but rather, at a rate determined by mutual agreement between EMWD and FPUD and/or RMWD prior to the supply development. In addition to avoiding the need to construct new pipelines from EMWD to FPUD and RMWD, this would also allow the suppliers to avoid MWD's wheeling rate since EMWD will not be introducing water into MWD's system. An example of how in-lieu deliveries may be administered is shown in the table below.

Table 4: Example of In-Lieu Deliveries with a Hypothetical 3,000 AFY Local Supply Project (Volumes in Acre-Feet)

Agency	Initial MWD Deliveries	New Local Supply Developed	Revised MWD Deliveries	New Local Supply Usage	Volume Billed at MWD Rate
EMWD (Retail)	60,000	1,000	57,000	3,000	59,000
FPUD	10,000	1,000	10,000	0	9,000
RMWD	20,000	1,000	20,000	0	19,000
Total	90,000	3,000	87,000	3,000	87,000

Prior to advancing local supply projects, EMWD evaluates potential opportunities using several criteria including cost. The estimated cost of a potential local supply project is compared to other supply options, including imported water from MWD. Typically, if a local supply option is projected to be more cost effective than MWD (either immediately, or over time), it is determined to be financially feasible. Any future local supplies, including in-lieu options, would be evaluated using a similar approach to meet established reliability and cost effectiveness goals.

Supply and Exchange Rates



Water Purchase Costs

Water Purchase Cost	\$101.7 M
Conveyance Pipeline Cost	\$9.9 M
<i>SubTotal</i>	<i>\$111.6 M</i>
Poseidon Penalties	(\$0.8 M)
Total 2019/2020 Cost	\$110.8 M

- Actual 2019/2020 Unit Cost \$2,866 / AF
 - Includes eleven months of TSOP rate, one month of IOP rate, and increases in electrical rates
- Projected 2020/2021 Unit Cost \$2,752 / AF
 - Includes full year of IOP rate

**MINUTES OF THE FORMAL BOARD OF DIRECTORS' MEETING
NOVEMBER 29, 2012**

ADMINISTRATIVE AND FINANCE COMMITTEE

CALL TO ORDER / ROLL CALL

Chair Wight called the Administrative and Finance Committee meeting to order at 9:00 a.m. Committee members present were Chair Wight, Vice Chair Bond, Directors Bailey, Brady, Dion, Douglas, Hilliker*, Price, Saunders, Smith, Topolovac, and Wornham. Committee members absent were Vice Chair Croucher and Director Arant. At that time, there was a quorum of the Board, however only Committee members participated in the vote. Also present were Directors Barnum, Dailey, Hogan, Knutson, Lamb, Lewinger, Madaffer, Mudd, Saxod, Simpson, Steiner, Tu, Weston, and Wilson.

* Director Hilliker arrived at 9:01 a.m.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Finance/Treasurer McCraner, Director of Human Resources Leone, Director of Administrative Services Young, Financial Planning Manager Shank, Budget and Analysis Manager Celaya, Controller Greek, and Senior Human Resources Analyst Clement.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to speak.

CHAIR'S REPORT

Chair Wight reviewed the final report on the Administrative and Finance Committee's Goals for 2011 and 2012, highlighting the following activities taken by the Committee:

- 1) Approved two debt refunding transactions of existing debt resulting in net present value savings of \$18.7 million;
- 2) Approved a strategy for dealing with expiring liquidity facilities which backed by the Water Authority's \$460 million Commercial Paper Program, and renegotiated an existing facility, the replacement of expiring facilities, and the issuance of a 5-year fixed rate note to refund \$100 million in Commercial Paper notes;
- 3) Recommended adoption of the Multi-Year Budget for Fiscal Years 2012 and 2013 which included 16 percent reduction in total budgeted expenditures, 42 percent reduction in budgeted CIP expenditures, and a 16 percent reduction in staff.

Chair Wight thanked the Vice Chairs, Committee members, and staff for all their hard work over the past two years. Director Wornham thanked Chair Wight for her leadership on the Committee.

DIRECTORS' COMMENTS

There were no Director's comments.

I. CONSENT CALENDAR

1. Treasurer's Report.
Staff recommendation: Note and file the monthly Treasurer's report.
2. Vote Entitlement Resolution for Calendar Year 2013.
Staff recommendation: Adopt Resolution 2012-17 establishing the vote and representative entitlements of each member agency effective January 1, 2013.
3. Fiscal Years 2012 and 2013 additional litigation expenses.
Staff recommendation: Amend the General Counsel's Fiscal Year 2012 and 2013 Department Budget by an amount not-to-exceed \$3.5 million for additional litigation expenses.
4. Amendment to Professional Services Contract with Mercer Health and Benefits, LLC, to increase the amount by \$150,000 and extend the term by 30 months for providing Health Insurance Broker Services.
Staff recommendation: Authorize execution of an amendment in the amount of \$150,000, for a total contract amount no-to-exceed \$300,000 and extending the term by 30 months.

Director Smith moved, seconded by Director Saunders, and the motion passed unanimously to approve the Consent Calendar.

II. ACTION/DISCUSSION

1. Annual Statement of Investment Policy and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.
Staff recommendation: Adopt the Annual Statement of Investment Policy and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.

Chair Wight congratulated staff on receiving the Certification of Excellence from the Association of Public Treasurers of the United States and Canada for conformance to the Specified Standards of Investment Policy as established by the association. Chair Wight congratulated David Shank and Patti Cirello for a job well done.

Director Douglas moved, Director Dion seconded, and the motion passed unanimously to approve item 1.

2. Professional services contract with Carollo Engineers Inc. for a Cost of Service Study.
Staff recommendation: Authorize the General Manager to award a professional services contract to Carollo Engineers Inc. for an amount not-to-exceed \$106,000 for a cost of service study.

Mr. Shank provided a presentation on the item, which included an overview of the selection process, Request for Proposals responses, scope of services, and the staff recommendation.

Chair Wornham requested the staff recommendation be amended to include the following statement: *Direct the General Manager to add scope and funding to the contract sufficient to allow robust member agency participation including (Board of Directors, General Managers and Finance Officers) in the review of assumptions and development of a preferred rate structure alternative.*

Directors asked questions and made comments. Ms. Stapleton and Director Wornham provided answers.

Director Smith moved, Director Saunders seconded, and the amended motion passed unanimously.

III. INFORMATION

The following items were noted and filed:

1. Controller's report on monthly financial statements
2. Board calendar

IV. CLOSED SESSION

There were no closed session items.

V. ADJOURNMENT

There being no further business to come before the Administrative and Finance Committee, Chair Wight adjourned the meeting at 9:15 a.m.

ENGINEERING AND OPERATIONS COMMITTEE **CALL TO ORDER / ROLL CALL**

Chair Knutson called the Engineering and Operations Committee meeting to order at 9:19 a.m. Committee members present were Chair Knutson, Vice Chair Dailey, Directors Bailey, Barnum, Hogan, Lamb, Lewinger, Miller, Mudd, Saxod, Smith, Williams and Wilson. Committee members absent were Vice Chair Pocklington and Director Morrison. Also present were Directors Bond, Boyle, Brady, Dion, Douglas, Hilliker, Price, Saunders, Simpson, Steiner, Topolovac, Tu, Weston, and Wornham. At that time, there was a quorum of the full Board, and the meeting was conducted as a meeting of the Board, however only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Manager Belock, Deputy General Manager Kerl, Assistant General Manager Cushman, Director of Engineering Rose, Director of Operations and Maintenance Eaton, Engineering Manager Reed, and Principal Construction Manager Kenny.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to speak.

CHAIR'S REPORT

Chair Knutson announced that the Project Delivery Work Group met for the second time November 1, 2012. The next meeting would be in January, and a final report would be given at the January 24, 2013 Board meeting. Chair Knutson announced that the Final Report on the Engineering and Operations Committee's Goals for 2011 and 2012 was included in the Board packet. Chair Knutson thanked the committee members for their input and guidance to staff, and expressed his thanks to Mr. Rose and Mr. Eaton and staff.

Vice Chair Dailey expressed her appreciation to Engineering and Operations and Maintenance staff for their hard work in accomplishing the committee's goals.

DIRECTORS' COMMENTS

There were no Directors' comments.

I. CONSENT CALENDAR

There were no items under Consent.

II. ACTION/DISCUSSION

1. Notices of Completion for the Lake Hodges Pump Station project, Specification 554.
Staff recommendation: Authorize the General Manager to accept the Lake Hodges project as complete and record the Notices of Completion for the Archer Western and Andritz contracts.

Principal Construction Manager Kenny gave a presentation on the Notice of Completion for the Lake Hodges Pump Station Project. Mr. Kenny reviewed the project purpose (water operations and power generation), pump house detail, and the prerequisites for Notices of Completion.

Director Lewinger moved, Vice Chair Dailey seconded, and the motion to approve staff's recommendation passed unanimously.

III. INFORMATION

1. Presentation on San Vicente Dam Raise Project update.

Mr. Reed gave a presentation on the San Vicente Dam Raise which reviewed the work in progress on the top of the dam, the outlet tower, and the downstream control facility. He also went over the upcoming activities including installation of mechanical/electrical systems, site acceptance test, commissioning of new facilities, decommissioning of existing facilities, filling to height of existing dam, DSOD raised dam certification, and construction of the Marina.

IV. CLOSED SESSION

There were no closed session items on the agenda.

V. ADJOURNMENT

There being no further business to come before the Engineering and Operations Committee, Chair Knutson adjourned the meeting at 9:33 a.m.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

CALL TO ORDER/ROLL CALL

Chair Saxod called the Legislation, Conservation and Outreach Committee to order at 9:40 a.m. Committee members present were Chair Saxod, Vice Chairs Hilliker and Weston, and Directors Boyle, Dailey, Douglas, Madaffer, Miller, Simpson, Topolovac, Tu and Wornham. Committee members absent were Croucher, Mudd, and Sanford. Other Board members present were Directors Bailey, Barnum, Bond, Brady, Dion, Hogan, Knutson, Lamb, Lewinger, Price, Saunders, Steiner and Wilson. At that time, there was a quorum of the Board and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present were General Manager Stapleton, General Counsel Hentschke, Deputy General Manager Belock, Assistant General Manager Cushman, Director of Public Outreach and Conservation Foster and Management Analyst Schnell.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no members of the public who wished to address the Committee.

CHAIR'S REPORT

Chair Saxod commented on the LCO committee highlights of the last two years. Some of those highlights included meeting all LCO committee goals, adoption of the Legislative Policy Guidelines for 2012 and sponsoring of several bills. Also accomplished were the adoption of the Water Use Efficiency Policy Principles and several new communication tools.

Chair Saxod thanked Vice-Chairs Hilliker and Weston, former Vice-Chair Jungreis, Directors and staff for their work on the LCO committee.

DIRECTORS' COMMENTS

I. CONSENT CALENDAR

There were no items on the Consent Calendar.

II. ACTION/DISCUSSION

1. Legislative Issues.

1-A Report by Carpi and Clay.

Mr. Clay reported on legislative issues, including the passage of Prop30 and Prop39 and new members of the Legislature being sworn in. He noted half of the Assembly will be new.

1-B Adopt Proposed 2013 Legislative Policy Guidelines.

Adopt the proposed 2013 Legislative Policy Guidelines.

Ms. Schnell presented the proposed 2013 Legislative Policy guidelines. Director Dailey moved, Director Hilliker seconded, and the motion passed unanimously to adopt the proposed 2013 Legislative Policy Guidelines.

1-C Sponsorship of two bills in the State legislature.

Staff recommendation: Sponsor legislation that:

1. Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code.
2. Requires the California Air Resources Board to develop a program that returns revenues from the purchase of greenhouse gas emission permits by the Metropolitan Water District to retail water agencies that purchase MWD water.

Mr. Cushman presented on two bills in the State legislature, recommending sponsorship of both bills. Director Wornham moved, Director Dailey seconded, to adopt staff recommendation and the motion passed unanimously to sponsor the bills in the State legislature.

1-D Amend agreements with Carpi & Clay, Sacramento; Lang, Hansen, O'Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, Washington D.C., for legislative advocacy and government relations services.

Staff recommendation: Amend the agreements for legislative advocacy services through December 31, 2014, for a period of 24 additional months, for Carpi & Clay; Lang, Hansen, O'Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, increasing total funding for the four agreements by \$1,016,256, to an amount not-to-exceed \$2,970,739.

Mr. Cushman presented a recommendation to amend current agreements with legislative advocacy and government relations services firms by extending the agreements. Director Weston moved, Director Tu seconded, to adopt staff recommendation and the motion passed unanimously to amend agreements with Carpi & Clay, Sacramento; Lang, Hansen, O'Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, Washington D.C., for legislative advocacy and government relations services.

III. INFORMATION

The committee received and filed the following items:

1. Small Contractor Outreach and Opportunities Program Quarterly report.
2. Quarterly report on Public Outreach and Conservation department activities.
3. Government Relations update.

IV. ADJOURNMENT

There being no further business to come before the Legislation, Conservation and Outreach Committee, Chair Saxod adjourned the meeting at 10:00 a.m.

WATER PLANNING COMMITTEE **CALL TO ORDER/ROLL CALL**

Chair Dion called the Water Planning Committee Meeting to order at 10:10 a.m. Committee members present were Chair Dion, Vice Chairs Price and Saunders, Directors Boyle, Hogan, Lamb, Linden, Pocklington, Simpson, Steiner, Watton and Williams. Committee member Sanford was absent. Also present were Directors Arant, Barnum, Bond, Brady, Dailey, Douglas, Hilliker, Knutson, Lewinger, Miller, Mudd, Saxod, Smith, Topolovac, Weston, Wilson and Wornham. At that time, there was a quorum of the Board and the meeting was conducted as a meeting of the Board; however, only committee members participated in the vote.

Staff present was General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of Water Resources Weinberg, Water Resources Manager Yamada, Principal Water Resources Specialist Friehauf and Water Resources Specialist Dobalian.

PUBLIC COMMENT

There was no public comment.

DIRECTORS' COMMENTS

There were no Directors' comments.

CHAIR'S REPORT

Chair Dion announced this was his last meeting, and thanked Committee and Board members for participating for the last two years, and expressed appreciation to Vice Chairs Saunders and Price for their support and guidance. Chair Dion also thanked staff for their work and professionalism. He reported that emergency water deliveries of Mexican water would be made to Mexico in the days ahead, based on a recent request and consistent with the Mexico's Colorado River Water Treaty. He thanked the Otay Water District staff for their efforts. Chair

Dion announced a Special Meeting of the Water Planning Committee would be held January 10, 2013 for the Water Authority's Master Facilities Plan Update and the Climate Action Plan and Environmental Impact Report. Chair Dion remarked on specific highlights of the 2011-2012 goals and objectives achieved by the Water Planning Committee during the past two years.

I. CONSENT CALENDAR

There were no items for the Consent Calendar.

II. ACTION/DISCUSSION

1. Presentation on water supply and demand conditions.

Ms. Dobalian presented the first report on water supply conditions for the water year, which began October 1, 2012 and would conclude September 30, 2013. Director Pocklington commented that the report supports that supplies were on the decline and demand was increasing based on growing population, adding that Las Vegas and Nevada were building a third intake on Lake Meade for \$1 billion. Directors Knutson and Watton added comments on other predictors and management of water supply on the Colorado River.

III. INFORMATION

The following item was received and filed:

1. Water Resources Report.

IV. CLOSED SESSION

There was not a Closed Session.

V. ADJOURNMENT

On behalf of the Board of Directors, Board Chair Wornham expressed sincere gratitude to Chair Dion for his work on the Board. With no further business, Chair Dion adjourned the meeting at 10:30 a.m.

IMPORTED WATER COMMITTEE

CALL TO ORDER / ROLL CALL

Chair Watton called the Imported Water Committee to order at 10:40 a.m. Committee members present were Vice Chair Arant and Tu, Directors Barnum, Bond, Brady, Knutson, Lewinger, Linden, Madaffer, Steiner, Weston, Wight, and Wilson. Committee member Morrison was absent. Also present were Directors Bailey, Croucher, Dailey, Dion, Douglas, Hilliker, Hogan, Lamb, Miller, Mudd, Pocklington, Price, Saunders, Saxod, Simpson, Smith, Topolovac, Williams, and Wornham. At that time, there was a quorum of the full Board, and the meeting was conducted as a meeting of the Board, however, only committee members participated in the vote.

Staff present included General Manager Stapleton, General Counsel Hentschke, Deputy General Managers Belock and Kerl, Assistant General Manager Cushman, Director of MWD Program Chen, Colorado River Program Director Razak, and others.

ADDITIONS TO AGENDA

There were no additions to the agenda.

PUBLIC COMMENT

There were no public comments.

DIRECTORS' COMMENTS

There were no comments by Directors.

CHAIR'S REPORT

Chair Watton thanked staff, committee members, and the board for their support to the committee and the Water Authority's efforts. He announced the final report on Imported Water Committee goals for 2011 and 2012 was available in the board packet.

Director Knutson introduced Tanya Trujillo, Executive Director of the Colorado River Board, at the request of Chair Watton.

I. CONSENT CALENDAR

There were no items on the consent calendar.

II. ACTION/DISCUSSION

1. Metropolitan Water District Issues and Activities update.
1-A Metropolitan Water District Delegates report.

The delegates reported on the discussions and actions taken at the recent MWD board meetings.

- 1-B Metropolitan Water District's Purchase Order History.

Ms. Chen gave a presentation on Metropolitan Water District's Purchase Order History. Following the presentation, Directors asked questions and made comments.

2. Colorado River Programs.
2-A Colorado River Board representative's report.

There was no Colorado River Board representative's report.

III. INFORMATION

1. Colorado River Basin Water Supply and Demand study.

This information item was continued to the January 24, 2013 Board meeting.

2. Minute 319: A Binational Agreement for Managing Colorado River Resources.

Ms. Razak provided a presentation on Minute 319 - a binational agreement for managing Colorado River resources.

The following information item was noted and filed:

3. Metropolitan Water District Program report.

Mr. Hentschke took the Committee into closed session at 11:27 a.m.

IV. **CLOSED SESSION**

1. CLOSED SESSION:

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a)

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

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a)

Name of Case: State Water Resources Control Board (SWRCB) Imperial Irrigation District and San Diego County Water Authority Joint Petition for Modification of Revised Order WRO 2002-0013 (Permit 7643, Application 7482)

2. CLOSED SESSION:

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a) – SDCWA v Metropolitan Water District of Southern California; Case Nos. CPF-10-510830 and CPF-12-512466

Mr. Hentschke brought the Committee out of Closed Session at 12:08 p.m. and stated the Committee authorized the General Manager, with the concurrence of special counsel, to execute under formal written protest, an extended purchase order with Metropolitan Water District.

V. **ADJOURNMENT**

There being no further business to come before the Imported Water Committee, Chair Watton adjourned the meeting at 12:09 p.m.

SPECIAL BOARD OF DIRECTORS' MEETING OF NOVEMBER 29, 2012

1. **CALL TO ORDER** Chair Wornham called the Special Board of Directors' meeting to order at 1:00 p.m.

2. **SALUTE TO THE FLAG** Director Dion led the salute to the flag.

3. **ROLL CALL, DETERMINATION OF QUORUM**

Secretary Hogan called the roll. Directors present were Arant, Bailey, Barnum, Bond, Boyle, Brady, Croucher, Dailey, Dion, Douglas, Hilliker, Hogan, Knutson, Lamb, Lewinger, Linden, Madaffer, Miller, Morrison, Mudd, Pocklington, Price, Saunders,

Saxod, Simpson, Smith, Steiner, Topolovac, Tu, Watton, Weston, Wight, Williams, Wilson, and Wornham. Directors absent were Sanford and Representative Slater- Price.

3-A Report on proxies received. There were no proxies received.

4. **PUBLIC COMMENT**

The following members of the public spoke:

1. Carlos Riva from Poseidon Resources stated he hoped the Board would consider the project favorably.
2. Mayor Jerry Sanders, Mayor city of San Diego, spoke in favor of the project. He listed the many groups in support of the project including Mayors and Council members from the region. He stated it was time to move forward on this historic project.
3. Assemblyman Martin Garrick spoke in favor of the project.
4. Mayor Matt Hall, Mayor of the city of Carlsbad spoke in favor of the project.
5. Councilmember Sherri Lightner spoke in favor of the project.
6. Claude "Bud" Lewis, former Mayor of Carlsbad, and former member of the SDCWA Board of Directors stated "Let's stop talking about it and build the damn thing."
7. Lani Lutar from the San Diego County Taxpayers Association spoke in favor of the project. She stated upon review of the Water Purchase Agreement, rate protection for ratepayers and minimized risks were included in the agreement.
8. Paul Webster from the San Diego Regional Chamber of Commerce spoke in favor of the project.
9. Tom Lemmon from the San Diego Building Trades spoke in favor of the project, he stated it would put highly skilled construction workers to work.
10. Marco Gonzalez from the Coastal Environmental Rights Foundation spoke in opposition to the project. He complained about speaking before the presentations were presented. He asked for a 60 day-delay and said the Board should wait for the rate study to be completed before a decision was made.
11. Joni Miringoff from the Flower Fields spoke in favor of the project. She stated they are counting on a new reliable water supply, they and thousands of small farms are counting on this project.
12. Gina McBride from the Carlsbad Chamber of Commerce spoke in support of the project.
13. Shannon Smith from Surfrider spoke in opposition to the project.
14. Stephanie Jungersen from the San Diego North Economic Council spoke in favor of the project.
15. Gus Ayer a resident of Orange County spoke in opposition of the project. He expressed concern about Poseidon Resources and stated they were involved in a smear campaign against a Councilmember.
16. Debbie Cook from Huntington Beach spoke in opposition of the project. She expressed concerns about Poseidon Resources and the history of the Tampa Bay project.

17. Erin Cassidy from Industrial Environmental Association spoke in favor of the project. She stated the project would support hundreds of jobs and reduce the reliance on imported water.
18. Deanna Spehn from the office of State Senator Christine Kehoe read a letter from the Senator that was in support of the project.
19. Lisa Redman from the Aqua Hedionda Lagoon Foundation spoke in favor of the project.
20. Chad Nelson from the Surfrider Foundation spoke in opposition to the project. He expressed concern about the cost overruns, inflation allowances, and environmental concerns.
21. Haley Haggerston from the Surfrider Foundation spoke in opposition to the project.
22. Janelle Riella from the Downtown Partnership spoke in favor of the project. She stated a steady, secure water supply was required for economic growth.
23. Vicky Carson from Surfrider Foundation spoke in opposition to the project. She stated she was a surfer and was concerned about the lobster population. She prefers more focus on conservation.
24. Bret Jones a resident of the city of San Diego spoke in favor of the project. He is concerned about the future water supply of the San Diego region and this project would ensure his children will have safe, clean water for the next 30 years.
25. Bill Riedy from the Maritime Alliance spoke in favor of the project. He stated this project was key to the long-term economic viability of the San Diego Region.
26. Kimberly Thorner General Manager from the Olivenhain Municipal Water District spoke in favor of the project. She stated this would be the first truly reliable water supply in the region. She stated this decision was for the generations to come.
27. Rick Mansur from the Carlsbad Sheraton Hotel spoke in support of the project. He stated without water you won't have tourism.
28. Chris Garrett with Latham & Watkins the permitting and compliance attorney with Poseidon spoke. He responded to a letter the opponents had sent to the Board of Directors the prior day.
29. Conner Everts from the Desal Response Group spoke in opposition to the project. He stated conservation would do enough. He stated it is speculative that desalinated water would be reliable.
30. Clark Dawson from the EverFlow Resources Inc. spoke in favor of the project.
31. Mahgum Asqarian a North Park resident spoke in opposition to the project.
32. Roger Kube from the Surfrider Foundation spoke in opposition to the project.
33. Tom Kunde from the International Brotherhood of the Electrical Workers 589 spoke in favor of the project. He stated this project would create hundreds of new jobs.
34. Angela Howe, Legal Director, Surfrider Foundation spoke against the project. She stated the Surfrider Foundation challenged the Water Board's permit on this project specific to the site design and technology. She stated there had yet to be a ruling, but it was expected within 90 days.

35. Stefanie Seicich-Quinn from the Surfrider Foundation spoke in opposition to the project. Her concern was regarding rates and the rate study not being completed.
36. David Vincent a San Diego citizen spoke in opposition to the project.
37. Jim Peugh a citizen of San Diego spoke in opposition to the project, and stated the decision should not be made until after the rate study was completed.
38. Jerry Boyd from the Surfrider Foundation spoke in opposition to the project, he stated a good portion of the people in the room would be dead before this contract would expire.
39. Sandy Naranjo from the San Diego & Imperial Counties Labor Council spoke in favor of the project. She stated the project would have a positive economic impact on the region.
40. Steven Greenweld a citizen from San Diego stated the project would be a disaster. Due to terrorism and a tsunami raising the water level, this was not the place for it, and saltwater has nuclear material in it. The interest alone would be two billion dollars, not to mention the salaries and pensions of Poseidon which we have no control of. The answer is to have a pipeline from Quebec to bring water to us.
41. Nick Doenges a law student and a resident of the city of San Diego spoke against the project. He spoke in favor of recycling and conservation.
42. Jill Witkowski with the San Diego Coastkeeper spoke in opposition of the project.
43. Kerry Winterson from the Surfrider Foundation spoke in opposition of the project.
44. Matt Kriz from the International Union of Painters and Allied Trades spoke in favor of the project. He stated it would create thousands of jobs and provide a reliable supply of water in San Diego County.
45. Julia Chunn-Heer from the Surfrider Foundation spoke in opposition to the project.
46. Joe Geever from the Surfrider Foundation spoke in opposition to the project. He stated the vote should be postponed until the cost of service study was completed.
47. Livia Borak from the Coastal Environmental Rights Foundation spoke in opposition to the project.
48. Sara Kent from the Coastal Environmental Rights Foundation spoke in opposition to the project. She expressed concern about the ratepayers.
49. Michael Hunsaker from the Property Owner Defense League spoke in favor of the project.
50. Michael Witek from the Teamsters Local 36 spoke in favor of the project. He also is an Avocado grower that lives in Fallbrook. He stated we need the jobs this project will provide and a reliable source of water.
51. Johnny Swanson from Ironworkers 229 spoke in favor of the project. He stated it would provide jobs and reliable water for the region.

5. **CONSENT CALENDAR**

There were no items under the Consent Calendar.

6. **ACTION/DISCUSSION**

1. Carlsbad Desalination Project.

- 1-A Report on agency participation in Uniform Contract for Member Agency Purchase of Treated Water from the Water Authority-Carlsbad Desalination Project.

Ms. Friehauf presented on the purpose of the purchase contract. She stated it would provide member agencies an opportunity to purchase a local supply directly from the Water Authority. This would be a local drought-proof supply that would provide additional reliability and diversify the agency's portfolio. It would also provide an opportunity for the Water Authority to sell a local supply to the member agency at full cost, providing a fixed revenue stream and reducing the amount of project costs that need to be recovered through the Water Authority rates and charges. She stated two member agencies had committed to purchase Carlsbad Desalination project supplies from the Water Authority: Carlsbad Municipal Water District and the Vallecitos Water District. The next steps were staff would develop individual contracts for each agency and the Board would consider approval of the individual contracts.

- 1-B Direct the General Manager to refer nine Carlsbad Desalination Rate Structure Alternatives to the Cost of Service Consultant and return to the Board with a recommended alternative to allocate the cost of the Carlsbad Desalination Project costs.

Staff recommendation: Approve the submission of nine requested Carlsbad Desalination Rate Structure Alternatives to the Cost of Service Consultant.

Ms. McCraner presented on the rate structure alternatives for the Carlsbad Desalination Project. She reviewed the history of the process, stated a total of nine alternatives had been proposed and described the Cost of Service collaborative process.

Director Mudd moved and Director Boyle seconded the staff recommendation.

Director Mudd wanted the following statement entered into the written record: "I support the staff recommendation as written, but wish to speak to the Cost of Service Study process. At this morning's Administrative and Finance Committee meeting, the City-10 recommended augmenting the scope of the Cost of Service Study consultant agreement to assure that all agencies are able to fully engage in a robust discussion of the rate structure alternatives. We wish to affirm this intent once again by requesting that the meeting minutes reflect the following statement:"

"The Board supports a Cost of Service Study process that promotes robust member agency engagement in the review of assumptions and development of a proposed rate structure alternative. It is the Board's expectation that sufficient resources and funds will be available to support this goal.

The nine alternatives represent six months of work product from all of our agencies. It will be helpful that the Cost of Service Study Consultant has the benefit of the Board's discussions to date.

It is true that one of the nine alternatives being forwarded to the Cost of Service Consultant, one was submitted by the City of San Diego. However, I would like to be clear that the City of San Diego remains open-minded and is committed to participating in the Cost of Service Study process which will achieve a fair and equitable rate structure. . . Including the possibility of a rate structure which may not be any of the nine options originally presented." End of statement by Director Mudd.

Director Lewinger stated of the nine alternatives reviewed, he wanted to clarify the consultant was not limited to those nine alternatives. He asked Director Mudd to clarify and Director Mudd stated yes that was correct.

Director Arant stated the original four alternatives were very reasonable for his agency (Valley Center MWD) and the ones that caused concern were the ones submitted by the city of San Diego, which essentially doubled the cost for his agency.

Director Wilson expressed concern about the city of San Diego's preferred option, suggesting it would cost his agency an extra one million dollars per year, he suggested removing the city of San Diego's preferred option reducing the amount to eight alternatives. Director Mudd responded there were nine alternatives and a Cost of Service Study Consultant would look at all the options.

Director Watton stated he supported the option to put all the alternatives on the table and then the fight is on.

Director Steiner stated all alternatives were equal. None were "preferred". The Board would engage in the process, make the policy decisions, everyone was committed, whatever the Cost of Service Study determines, that is what the Board would deal with.

Director Arant asked Director Mudd if the full administrative record, including the full comment and discussion of the meeting would be forwarded to the Cost of Service Consultant. Director Mudd responded yes, that would be happening.

Director Pocklington stated he would support the motion. He declared this was a San Diego County project, and he hoped the cost would be uniform and fair to everybody.

Director Madaffer stated this would be an open process, as discussed in the Administrative and Finance Committee, which every member throughout the entire region would be a part of.

Director Croucher stated the process should be "nonpolitical."

Director Arant stated he seldom read the Water Authority minutes, but he hoped that all the comments would be captured and recorded regarding the discussion. Chair Wornham replied the entire audio would be included in the minutes.

Director Wilson stated he would support the motion, he had initially planned to vote against it, but after Director Steiner's comments, he felt the city's option was not "preferred" but just another option.

Director Topolovac asked if the General Managers and Finance Managers of the member agencies would be included in the process and Chair Wornham stated they would.

The Board voted on the following modified motion as modified by Director Mudd and seconded by Director Boyle:

1-B Direct the General Manager to refer nine Carlsbad Desalination Rate Structure Alternatives to the Cost of Service Consultant and return to the Board with a recommended alternative to allocate the cost of the Carlsbad Desalination Project costs.

The Board approved the submission of nine requested Carlsbad Desalination Rate Structure Alternatives to the Cost of Service Consultant. The Board supported a Cost of Service Study process that promotes robust member agency engagement in the review of assumptions and development of a preferred rate structure alternative. It is the Board's expectation that sufficient resources and funds would be made available to support this goal.

The vote passed with 95.89% of the Board voting yes, and 4.11% absent.

1-C Adopt resolution approving:

- The Water Purchase Agreement with Poseidon Resources (Channelside LP);
- The Design-Build Agreement for Pipeline Improvements with Poseidon Resources (Channelside LP);
- Agreements necessary to accomplish tax exempt project financing through the California Pollution Control Financing Authority;
- Adjustments to the Capital Improvement Program Budget;
- Supporting contracts and contract amendments;
The Second Addendum to the City of Carlsbad Precise Development Plan and Desalination Project Environmental Impact Report (State Clearinghouse no. 2004041081) and a mitigation monitoring and reporting program;
- Other actions necessary for implementation of the Carlsbad Desalination Project.

Staff recommendation:

Adopt Resolution No. 2012-__ a resolution of the Board of Directors of the San Diego County Water Authority approving a Water Purchase Agreement and a Design-Build Agreement for pipeline improvements with Poseidon Resources, Channelside LP; approving an installment sale and assignment agreement with the San Diego County Water Authority Financing Agency and other agreements

necessary to accomplish tax exempt project financing through the California Pollution Control Financing Authority; approving adjustments to the Capital Improvement Program Budget; approving supporting contracts and contract amendments; approving the Second Addendum to the City of Carlsbad Precise Development Plan and Desalination Project Environmental Impact Report (State Clearing House no. 2004041081); adopting a mitigation monitoring and reporting program; authorizing the filing of a Notice of Determination; and authorizing the General Manager and General Counsel to execute agreements and take other actions necessary for implementation of the Carlsbad Desalination Project.

Ms. Stapleton began the presentation by reviewing the public deliberation process and the member agency presentations. Mr. Weinberg reviewed the details of the Water Purchase Agreement, and the Design Build Agreement. Ms. Kerl reviewed the Tax-Exempt Financing documents, the Capital Improvement Program Budget Adjustment, and the Supporting contracts and contract amendments. Mr. Purcell reviewed the Second Addendum to the Carlsbad Desalination Project Environmental Impact Report and Mitigation Monitoring and Reporting Program.

Director Arant moved, Director Smith seconded to approve the staff recommendation.

Director Mudd asked if Poseidon failed to produce or provide water per the contract provisions, which agency was responsible for the debt service costs associated with the project pipeline, Poseidon or the Water Authority? Ms. Stapleton responded Poseidon was responsible.

Director Pocklington stated he had been on the Board over 15 years, he thanked staff for their hard work, and he expressed support for the project. He stated there are problems with the Colorado River and stated this was the way to go.

Director Dion stated staff had done a good job. He said the train had not left the station. He stated his agency was concerned about energy costs. He said "Are we trading MWD for SDG&E?" His agency felt this project was too expensive. The debt obligation was driving the water rate increases and would not peak until 2016. This project would become a first obligation to his agency; his district would not grow in water demand in the future. With that, he stated his Board had directed him to cast a no vote on the Water Purchase Agreement.

Director Weston expressed his support for the project.

Director Brady stated it came down to cost, contribution and reliability. He stated in terms of cost it was three times the cost of what we pay from water from MWD. In terms of reliability, he stated we would spend a billion dollars to have a 1 – 3% increase in reliability. He predicted the monthly increase in water bills for residential customers would not be \$5 - \$7 per month, but \$10 – 20 per month. For the avocado grower, the increase would be \$600 per acre annually. He stated it might be a great project ten years from now, but it was premature, and he would be voting no.

Director Lewinger thanked the public for the issues they brought up. He assured them, the Board had been listening. He added the way the agreement was structured, the risk was limited.

Director Watton stated Otay fully supports desalination and a diversified water supply. He expressed concern regarding the structure of the deal, that the Water Authority would eventually buy out the plant, and that it was not truly a “private” deal. He stated desalination would add \$16 per month on an average household by 2017. When other increases are added into that, the total would be an increase of \$24 per month, or an increase of 34%. He stated for the record that for the most part he agreed with Dr. Brady’s analysis. He announced he would be voting no.

Director Madaffer stated he wanted to get some issues on the record about the Preliminary Limited Offering Memorandum and asked who were the individuals responsible for putting the document together. Ms. Stapleton responded: Mr. Hentschke, Ms. Kerl, Ms. McCraner, Dr. Moore, and Mr. Jamison Feheley of JP Morgan, Senior Underwriter for the Carlsbad desalination bonds and Managing Partner of the firm. Director Madaffer asked the following questions:

1. Have you read the Preliminary Official Statement and Official Statement in their entirety?

The entire group listed above responded yes. Ms. Kerl replied the offering document was called a Preliminary Limited Offering Memorandum (“PLOM”).

2. Describe how the Preliminary Limited Offering Memorandum was prepared?

Ms. Kerl replied Drinker Biddle & Reath LLP (Underwriter’s Counsel) drafted the PLOM and it was distributed to all. (Water Authority staff, Poseidon, Bond Counsel, Underwriter’s, and California Pollution Control Financing Authority). Comments received were incorporated by the underwriter’s counsel and a red-line was sent to all for review and comment. A page by page review of the entire document was conducted. This iterative process continued until all parties acknowledged acceptance of the document.

3. Who authored each section?

Ms. Kerl responded, with the exception of the Appendix D which was the Water Authority disclosure and included the FY 2012 audited CAFR the Underwriter’s Counsel drafted the document.

4. Are there particular sections that you authored?

Ms. Kerl replied she authored Appendix D which was the Water Authority disclosure and included the FY 2012 audited CAFR.

5. How was it disseminated for review?

Ms. Kerl replied the CAFR was on the Board's agenda that day for approval and had been approved by the Audit Committee.

6. Has all of the material information concerning the value of the bonds, and our ability to repay the bonds, been accurately and completely disclosed in the Preliminary Limited Offering Memorandum?

Ms. Kerl responded yes.

7. Is there any information in the Preliminary Limited Offering Memorandum that you feel is inaccurate or somehow misleading?

Ms. Kerl replied no.

8. Has any information material to the value of the bonds or the ability to repay the bonds been excluded?

Ms. Kerl replied no.

9. Has anyone expressed any concerns to you that information in the Preliminary Limited Offering Memorandum is inaccurate or misleading, or that some information that should have been included has been excluded?

Ms. Kerl replied no.

10. Have outside professionals (e.g., lawyers, accountants, actuaries and auditors) reviewed it?

Ms. Kerl responded yes: In addition to General Counsel, other attorney's including Project Attorneys, Bond Attorneys, Underwriter's Counsel, California Pollution Control Financing Authority Attorneys, Attorney General's Office and Poseidon's Attorney. Also including other professionals: Underwriter's, Independent Engineers, professional Model Auditor for the pro-forma financial model; professional Insurance Consultant for the insurance provisions. In addition, the Water Authority's outside auditor would review certain Water Authority financial areas in Appendix D and the CAFR was attached.

11. Did they provide any comments or proposed changes?

Ms. Kerl responded yes.

12. Were those comments or changes incorporated into the draft?

Ms. Kerl responded yes.

13. Would you change or add anything to the Preliminary Limited Offering Memorandum?

Ms. Kerl replied no.

14. To the best of your knowledge, are the financial statements contained in the Preliminary Limited Offering Memorandum correct and prepared consistent with the appropriate accounting standards?

Ms. Kerl replied yes.

15. Have you signed a certification regarding the accuracy and completeness of the Preliminary Limited Offering Memorandum?

Ms. Kerl replied all parties have provided, in writing, their acceptance of the Preliminary Limited Offering Memorandum. Prior to its issuance, all parties would provide certification of accuracy and completeness.

16. Is there anything else I should know about the Preliminary Limited Offering Memorandum and the representations contained in it before I vote?

Ms. Kerl replied no.

Director Madaffer stated the importance of the project for our quality of life. He stated we can't conserve water that we do not have. He had heard and read that was a project we can't afford, but he thinks this was a project we couldn't afford not to have.

Director Dailey stated when she became a Board member she was instructed to think regionally. Our mission remains to provide a safe, reliable supply of water. She stated if they went against the project, they were going against their own policy. She stated her city had voted to support the Water Purchase Agreement. She stated if they didn't move ahead they were doing a disservice to their citizens.

Director Price read a letter into the record from the city of Del Mar in support of the project.

Director Douglas stated conservation had already been done and would continue to happen. The city of Carlsbad was investing an additional \$30 million dollars in recycled water. She expressed support for desalination and the need for a holistic approach. She added everyone has a need for reliable water for the future.

Director Topolovac expressed support for the project.

Director Lamb stated his support for the project.

Director Croucher thanked the public for being respectful. He reminded the Board that the Cost of Service Study had not been done, which was a major concern for Otay.

Director Saunders also thanked the public for coming out to speak. He reminded the Board that just two years ago we were in strict allocations from the Metropolitan Water District. He stated the Desalination Plant would protect our economy and our quality of life. He said between 2020 and 2030 it was estimated the price of desalinated water would be less than the cost of water from the Metropolitan Water District.

At that time Chair Wornham reminded the Board of the motion that had been made.

Director Arant moved, Director Smith seconded to approve the staff recommendation, and the motion carried at 85.11% of the vote. 10.78% voted no. 4.11% was absent. The following Board members voted no: Barnum, Brady, Croucher, Dion, and Watton.

Chair Watton thanked staff for their hard work on the project. He thanked the outside experts and consultants. Director Hogan thanked the Carlsbad Desalination Project Advisory Group: Directors Arant, Dion, Saunders, and Wornham.

7. **INFORMATION**

There were no items under Information.

8. **CLOSED SESSION**

1. CLOSED SESSION:

Conference with Real Property Negotiator
Government Code §54956.8

Property: Carlsbad Desalination Plant including land, estates or interests in
land, easements, and fixtures of Poseidon Resources (Channelside) LP

Agency Negotiators: Sandra Kerl, Ken Weinberg, David Moore, Eric Petersen

Negotiating Parties: Poseidon Resources (Channelside) LP

Under Negotiation: Price and terms of payment, including timing of
acquisition and price and payment options.

Mr. Hentschke announced there was no need for a Closed Session.

9. **ADJOURNMENT**

There being no further business to come before the Board, Chair Wornham adjourned the Special Board meeting at 5:00 p.m.

FORMAL BOARD OF DIRECTORS' MEETING OF NOVEMBER 29, 2012

1. **CALL TO ORDER** Chair Wornham called the Formal Board of Directors' meeting to order at 5:01 p.m.
2. **SALUTE TO THE FLAG** This took place during the Special Board meeting.
3. **ROLL CALL, DETERMINATION OF QUORUM**
Secretary Hogan called the roll. Directors present were Arant, Bailey, Barnum, Bond, Boyle, Brady, Croucher, Dailey, Dion, Douglas, Hilliker, Hogan, Knutson, Lamb, Lewinger, Linden, Madaffer, Miller, Morrison, Mudd, Pocklington, Price, Saunders, Saxod, Simpson, Smith, Steiner, Topolovac, Tu, Watton, Weston, Wight, Williams, Wilson, and Wornham. Directors absent were Sanford and Representative Slater- Price.

3-A Report on proxies received. There were no proxies that had been filed.
4. **ADDITIONS TO AGENDA** There were no additions to the agenda.
5. **APPROVAL OF MINUTES** Director Tu moved, Director Price seconded, and the motion carried at 95.89% of the vote to approve the minutes of the Special Board of Directors' meeting of October 11, 2012 and the Formal Board of Directors' meeting of October 25, 2012.
6. **OPPORTUNITY FOR MEMBERS OF THE PUBLIC WHO WISH TO ADDRESS THE BOARD ON MATTERS WITHIN THE BOARD'S JURISDICTION**
There were no members of the public that wished to speak.
7. **PRESENTATIONS AND PUBLIC HEARINGS**
 - 7-A Appointment of Director. Jim Madaffer representing city of San Diego. Term expires March 7, 2016.
 - 7-B Reappointment of Director. Reappointment of Barbara Wight, representing city of San Diego. Term expires October 27, 2018.
 - 7-C Recognition of Jeff Stephenson, Principal Water Resources Specialist, Employee of the 1st Quarter.

Chair Wornham announced Director Madaffer had been appointed to the Board of Directors, Director Wight had been reappointed and Jeff Stephenson was recognized as Employee of the 1st Quarter.
8. **REPORTS BY CHAIRS**
 - 8-A Chairs report: Chair Wornham. No report was given.
 - 8-B Report by Committee Chairs.
Administrative and Finance Committee. Director Wight reviewed the meeting and the actions taken.

Engineering and Operations Committee. Director Knutson reviewed the meeting and the single action taken.

Legislation, Conservation and Outreach Committee. Director Saxod reviewed the meeting and the actions taken.

Water Planning Committee. Director Dion reviewed the meeting and stated no action was taken.

Imported Water Committee. Director Watton stated the only item on the agenda was a Closed Session.

9. **CONSENT CALENDAR**

Director Tu moved, Director Weston seconded, and the motion carried at 95.89% of the vote to approve the consent calendar. Directors voting no or abstaining are listed under the item number.

9- 1. Treasurer's report.

The Board noted and filed the monthly Treasurer's report.

9- 2. Vote Entitlement Resolution for Calendar Year 2013.

The Board adopted **Resolution No. 2012-17** establishing the vote and representative entitlements of each member agency effective January 1, 2013.

9- 3. Fiscal Years 2012 and 2013 additional litigation expenses.

The Board amended the General Counsel's Fiscal Year 2012 and 2013 Department Budget by an amount not-to-exceed \$3.5 million for additional litigation expenses.

9- 4. Amendment to Professional services contract with Mercer Health and Benefits, LLC, to increase the amount by \$150,000 and extend the term by 30 months for providing Health Insurance Broker Services.

The Board authorized the execution of an amendment in the amount of \$150,000, for a total contract amount not-to-exceed \$300,000 and extended the term by 30 months.

9- 5. Annual Statement of Investment Policy and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.

The Board adopted the Annual Statement of Investment Policy and continued to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.

9- 6. Professional services contract with Carollo Engineers Inc. for a Cost of Service Study.

The Board authorized the General Manager to award a professional services contract to Carollo Engineers Inc. for an amount not-to-exceed \$106,000 for a cost of service study. The Board directed the General Manager to add scope and funding to the contract sufficient to allow robust member agency participation including (Board of Directors, General Managers and Finance Officers) in the review of assumptions and development of a preferred rate structure alternative.

- 9- 7. Notices of Completion for the Lake Hodges Pump Station project, Specification 554.
The Board authorized the General Manager to accept the Lake Hodges project as complete and recorded the Notices of Completion for the Archer Western and Andritz contracts.
- 9- 8. Adopt Proposed 2013 Legislative Policy guidelines.
The Board adopted the proposed 2013 Legislative Policy Guidelines.
- 9- 9. Sponsorship of two bills in the State legislature.
The Board Sponsored legislation that: Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code. Requires the California Air Resources Board to develop a program that returns revenues from the purchase of greenhouse gas emission permits by the Metropolitan Water District to retail water agencies that purchase MWD water.
- 9- 10. Amend agreements with Carpi & Clay, Sacramento; Lang, Hansen, O'Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, Washington D.C., for legislative advocacy and government relations services.
The Board amended the agreements for legislative advocacy services through December 31, 2014, for a period of 24 additional months, for Carpi & Clay; Lang, Hansen, O'Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, increasing total funding for the four agreements by \$1,016,256, to an amount not-to-exceed \$2,970,739.

10. **ACTION/DISCUSSION**

Audit Committee Annual Report.

Audit Committee recommendation:

1. Accept and file the Audit Committee Annual Report pursuant to the Administrative Code, Section 2.00.066.
2. Accept and file the Comprehensive Annual Financial Report for fiscal year ended June 30, 2012.

Director Steiner moved, Director Saxod seconded, and the motion carried at 95.89% of the vote to approve the Audit Committee recommendation.

11. **CLOSED SESSION(S)**

11-A **CLOSED SESSIONS:**

Conference with Legal Counsel – Existing Litigation

Government Code §54956.9(a)

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

Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(a)
Name of Case: State Water Resources Control Board (SWRCB)
Imperial Irrigation District and San Diego County Water Authority
Joint Petition for Modification of Revised Order WRO 2002-0013
(Permit 7643, Application 7482)

- 11-B CLOSED SESSION:
Conference with Legal Counsel - Existing Litigation
Government Code §54956.9(a)
SDCWA v Metropolitan Water District of Southern California;
Case Nos. CPF-10-510830 and CPF-12-512466

Mr. Hentschke announced there was no need for a Closed Session, however the Board needed to vote on the Imported Water Committee recommendation.

12. **ACTION FOLLOWING CLOSED SESSION**

CLOSED SESSION: The Board authorized the General Manager, with the concurrence of special counsel, to execute, under formal written protest, an extended purchase order with Metropolitan Water District.

Director Steiner moved, Director Lamb seconded and the motion carried at 95.89% of the vote.

13. **SPECIAL REPORTS**

- 13-A GENERAL MANAGER'S REPORT – No report was given.
13-B GENERAL COUNSEL'S REPORT – No report was given.
13-C SANDAG REPORT – Director Saunders – No report was given.
SANDAG BORDERS/REGIONAL PLANNING COMMITTEE – Director Saxod announced there was nothing to report.
13-D AB 1234 COMPLIANCE REPORTS – No reports were given.

14. **OTHER COMMUNICATIONS** - Director Steiner thanked Director Smith for his service and wished everyone Happy Holidays. Chair Wornham also thanked Director Smith and said he would be honored at the January 24, 2013 Board meeting. Director Linden also gave tribute to Director Smith.

15. **ADJOURNMENT**

There being no further business to come before the Board, Chair Wornham adjourned the meeting at 5:20 p.m.

Thomas V. Wornham, Chair

Michael T Hogan, Secretary

Doria F. Lore, Clerk of the Board