ZONE 7 BOARD OF DIRECTORS
FINANCE COMMITTEE

Thursday, August 28, 2014
3:30 p.m.

Location: Board Room
Zone 7 Administration Building
100 North Canyons Parkway
Livermore, CA 94551

Director Figuers
Director Palmer
Director Ramirez Holmes

A G E N D A

1. Public Comment on Items Not on Agenda
2. Agreement in Principle Concerning Extensions of the State Water Project Water Supply Contract (Theresa Lightle - State Water Contractors)
3. Water Rate Design & Process
4. Finance Policies, Part I (DRAFT Operating Budget Policy)
5. Verbal Reports
6. Adjournment

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7
100 NORTH CANYONS PARKWAY, LIVERMORE, CA 94551-9486 • PHONE (925) 454-5000

M E M O R A N D U M

DATE: August 28, 2014
TO: Finance Committee
FROM: Tom Hughes, Assistant General Manager, Administration

SUBJECT: Agreement in Principle Concerning Extension of the State Water Project Water Supply Contract

BACKGROUND:

The current State Water Project (SWP) water supply contract expires in 2035, between California's Department of Water Resources (DWR) and Zone 7. Since 2035 is a common end date for most of the SWP contracts and terms are similar, if not identical, negotiations are proceeding between DWR and the State Water Contractors (SWC).

Negotiations to extend this contract began in the spring of 2013 with over twenty-three meetings taking place and resulting in an agreement in principle that staff from approximately twenty-six of the twenty-nine SWCs have stated they intend to recommend signing. The SWCs not intending to sign have concerns that do not impact Zone 7. As a result of the meetings, many sorely-needed enhancements to financial oversight, financial reporting and general communications have been negotiated to a point of mutual understanding and initial agreement. The proposed term would extend to December 31, 2085.

The Agreement in Principal (AIP) serves to provide the foundation for drafting the contract extension amendment and does not constitute a final agreement to execute the contract extension amendment. The AIP will merely serve to justify the investment in developing an environmental impact report to evaluate the proposed contract amendment and continue to move the contract-extension process forward. The next steps following signing of the AIP will be to complete the CEQA process in 2015 and plan for formal contract amendment implementation in 2016.

DISCUSSION:

The two primary reasons to extend this contract are; 1) to secure continued water supply services to 2085, and 2) to create the ability to finance facilities beyond 2035 and to ease financial burdens on SWC's, as DWR provides capital financing via bonds to fund projects. All bonds issued prior to the contract extension would mature on or before 2035. New capital financing prior to a contract extension would mature on or before 2035, and the cost to SWC's would increase dramatically resulting in a repayment time compression thus shortening the payback period and increasing the periodic payment amounts.

By amending the contract, the state would continue water services for fifty more years and extend bond issues well out into the future thus lowering the periodic payback amounts paid by each SWC.

Presenting a high-level overview of the contract extension issues, negotiations and anticipated benefits will be Theresa Lightle, Senior Financial Management Analyst representing the State Water Contractors.

RECOMMENDATION: Discuss and provide staff with direction.

ATTACHMENT: Agreement in Principle

DATE: June 18, 2014

SUBJECT: Agreement in Principle Concerning Extension of the State Water Project[1] Water Supply Contracts

This document contains a statement of principles that could provide the foundation for an agreement between each State Water Project Contractor[2] (Contractor) and the Department of Water Resources (DWR or Department) that will extend and otherwise amend the Water Supply Contract between such Contractor and DWR.

Outline of Agreement in Principle

I.	Objective 1	Term of Contract
II.	Objective 2A	Reserves
III.	Objective 2B	Accounts (SRA, SSA, FCA)
IV.	Objective 2C	Flow of Funds
V.	Objective 2D	Financial Management
VI.	Objective 2E	Supplemental Billing
VII.	Objective 2F	Cost Recovery
VIII.	Objective 2G	SWRDS Reporting Principles
IX.	Objective 2H	51(e) Revenue Reporting Requirements
X.	Objective 3A	Simplification of Billing
XI.	Objective 3B	Replacement Accounting System
XII.	Objective 3C	Article 1(hh)
XIII.	Objective 3D	Billing Authorization
XIV.	Objective 4	BDCP and DHCCP Participation
XV.	Provision 1	Other Contract Provisions
XVI.	Provision 2	Environmental Review Process
XVII.	Provision 3	Authorized Representative Signatures

[1] The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

[2] The State Water Project Contractors includes Alameda County Flood Control and Water Conservation District (Zone 7), Alameda County Water District, Antelope Valley-East Kern Water Agency, Castaic Lake Water Agency, City of Yuba City, Coachella Valley Water District, County of Butte, County of Kings, Crestline-Lake Arrowhead Water Agency, Desert Water Agency, Dudley Ridge Water District, Empire West Side Irrigation District, Kern County Water Agency, Littlerock Creek Irrigation District, The Metropolitan Water District of Southern California, Mojave Water Agency, Napa County Flood Control and Water Conservation District, Oak Flat Water District, Palmdale Water District, Plumas County Flood Control and Water Conservation District, San Bernardino Valley Municipal Water District, San Gabriel Valley Municipal Water District, San Gorgonio Pass Water Agency, San Luis Obispo County Flood Control and Water Conservation District, Santa Barbara County Flood Control and Water Conservation District, Santa Clara Valley Water District, Solano County Water Agency, Tulare Lake Basin Water Storage District, and Ventura County Flood Control District.

STATEMENT OF PRINCIPLES

I. OBJECTIVE 1: TERM OF CONTRACT

A. Water Supply Contract Term Extension

1. Extend term of the SWP water supply contracts to December 31, 2085.

II. OBJECTIVE 2A: RESERVES

A. General Operating Account (GOA)

1. **Uses of GOA** - Cash flow deficiencies resulting from chargeable water supply purposes and/or during a SWRDS emergency for any SWRDS purpose.

2. **SWRDS Emergency** - An immediate, urgent, critical, unexpected, or impending situation that, in the judgment of the Director, Department of Water Resources (Director), may cause or pose a risk of causing injury, loss of life, damage to the property, impairment of the financial condition, and/or interference with the normal activities of the State Water Resources Development System which requires immediate attention and remedial action.

3. **Initial Cap** - Increase the authorized General Operating Account (GOA) initial cap to $150 million in Article 51(a)(3).

4. **Cap Adjustment Determination** - Every five years subsequent to the year of the initial cap increase, there shall be a business case analysis on the GOA authorized cap including an evaluation of the cap and business risks associated with SWRDS cash flow provided to the SWRDS Finance Committee for recommendation to the Director regarding a GOA cap adjustment. If there is a decrease in the cap (but the cap shall not be lower than $150 million), the excess funds would be transferred to the SWRDS Reinvestment Account (SRA).

5. **Cap Adjustment Funding Source (Pre-2035)** - Shall be the Director's discretion to use 51(e) revenues[3], investment earnings retained in the GOA, and transfers of funds from the SRA and SWRDS Support Account (SSA).

6. **Cap Adjustment Funding Source (Post-2035)** - Shall be the Director's discretion to use the investment earnings retained in GOA and the funds within the SRA and SSA.

7. **Rate of Funding for Cap** - Limitation on the amount ($2 million per year) and timing of additional contributions to the GOA contained in Article 51(e)(3)(v) will be deleted. DWR will be able to use any amount of available 51(e) revenues to increase funds in the GOA up to the authorized maximum GOA funding level and such funding shall be subordinate to the annual rate management reductions to the Contractors.

[3] The definition and calculation of 51(e) revenues will be included in the contract amendment language.

8. **GOA Replenishment** - Replenishment of the use of GOA funds will come from charges to the Contractors to the extent the expended funds were spent on chargeable water supply purposes and from the SSA or other available revenues for costs not chargeable to the Contractors.

9. **GOA Reporting** - DWR will prepare monthly reports on the balance and use of the GOA for the Director, which will be provided to the SWRDS Finance Committee. The SWRDS Finance Committee will periodically review reporting frequency and make recommendations to the Director regarding reporting frequency.

10. **GOA Investment Earnings** - shall be used as follows:

    a) Funding GOA to authorized GOA funding level;

    b) Transferred, at the discretion of the Director, to the SSA and/or to the SRA.

III. OBJECTIVE 2B: ACCOUNTS (SRA, SSA, FCA)

A. SWRDS Reinvestment Account (SRA)

1. **Effective Date of SRA** - The SRA shall be established and take effect upon the effective date of the contract extension amendment.

2. **SRA Uses** - The primary purpose is to provide a post-2035 SWRDS revenue stream by investing SRA funds in chargeable SWRDS facilities and programs.

3. **Funding Source** - At the discretion of the Director, available Article 51(e)(1)(ii) revenues collected by the State pre-2035. The Director also has discretion to transfer funds from the SSA or the GOA.

4. **Cap on SRA** - There will be no Cap or Cap Adjustments to the SRA.

5. **SRA Investments** - At the discretion of the Director, authorized SRA investments shall be as follows:

    a) Investment in SWRDS capital facilities, recovered at the prevailing municipal bond market rates corresponding to the SWRDS bond rating at the time of financing, in maturity ranges that may extend 10 to 50 years, provided that if the capital asset being financed has a useful life of less than 10 years, the investment may be recovered over a comparable period of less than 10 years;

    b) Bridge financing of capital costs in lieu of the SWRDS commercial paper program; and

c) Allowable investments for SWRDS that generate a monetary return on investment.

6. **Use of SRA Funds** - At the discretion of the Director, the SRA funds, including but not limited to investment earnings, shall be used to:

    a) Provide a source of replenishment funds to the SSA;

    b) Provide a source of funds to be held in the SRA for investment purposes; and

    c) Provide a funding source for funding level adjustments to the GOA.

7. **SRA Review** - The SWRDS Finance Committee is to be consulted about the investments and activities to be funded from the SRA.

8. **SRA Reporting** - DWR will prepare regular reports on the SRA for the Director, which reports will be provided to the SWRDS Finance Committee.

B. SWRDS Support Account (SSA)

1. **Effective Date of SSA** - The SSA shall be established and take effect upon the effective date of the contract extension amendment.

2. **SSA Uses** - The purpose of the SSA shall be to provide a source of funds to pay for non-chargeable expenditures where there are no funds or revenue sources available to pay for such costs. If reimbursement or a source of revenue is received after the expenditure is incurred this revenue shall be deposited in the SSA.

3. **SSA Review** - The SWRDS Finance Committee shall be consulted about the projects and activities to be funded from the SSA.

4. **SSA Reporting** - DWR will prepare regular reports on the SSA for the Director, which will be provided to the SWRDS Finance Committee.

5. **Initial Cap** - There would be no cap on the SSA.

6. **Funding Source for Initial Funding** - 51(e) revenues and/or the remaining balance of the State Water Facilities Capital Account (FCA) once the FCA is closed.

7. **SSA Replenishment** - Shall be accomplished through 1) reimbursements received for expenditures made from the SSA; 2) at the discretion of the Director, transfers from the SRA and/or from the GOA's available investment earnings, 3) deposits, in the discretion of the Director, from other available revenues, and 4) interest and other investment income retained in the SSA. DWR will not charge the Contractors to replenish the SSA for costs not chargeable to the Contractors under the Water Supply Contracts.

8. **SSA Interest Earnings** – At the Director's discretion, retained in the SSA to reduce the annual SRA replenishment requirement.

C. State Water Facilities Capital Account (FCA)

1. The State Water Facilities Capital Account (FCA) pursuant to Article 51(c)(2)(v) shall be reviewed by the SWRDS Finance Committee after five years from the date of the contract amendment to recommend to the Director whether or not it should be closed and the balance of the account transferred to the SSA.

IV. OBJECTIVE 2C: FLOW OF FUNDS

A. Maintain the Monterey Amendment Article 51 Flow of Funds with the following edits/additions:

1. Increase Annual Rate Reductions to $48 million. The Annual Rate Reductions shall no longer apply after December 31, 2035 and the applicable provisions in Article 51 shall be deleted as of that date.

2. After the $48 million in annual rate reductions, the Director shall have the discretion to allocate and transfer up to 80% of available 51(e) revenues, as determined on a projected basis, and up to 100% on an actual basis into one or more of the following accounts:

    a) General Operating Account (GOA)

    b) SWRDS Support Account (SSA)

    c) SWRDS Reinvestment Account (SRA)

    After funds are deposited into a, b, and c above, any remaining available 51(e) revenues will remain in the Systems Revenue Account and will be tracked separately in DWR's Enterprise Resource Planning (ERP) system. The Director will have full discretion over the use of these funds. DWR will prepare financial reports annually with supporting documentation of the determination and provide these reports to the Finance Committee.

3. Contractors shall agree to forego additional rate management reductions including additional rate management reductions to make up for deficiencies in past projected rate management reductions or to provide any additional rate management reductions above $48 million annually pursuant to Article 51(e)(3). Effective with the contract amendment, Article 51(e)(3) shall be deleted.

4. The contract amendment shall specify those provisions in Article 51 that shall remain in effect after December 31, 2035 (such as the General Operating Account provision as it may be amended) and those provisions that will no longer apply after December 31, 2035 and shall be deleted as of that date.

5. Contractors shall agree to waive and release issues related to DWR's recent adjustment of the Contractors' responsibility for facilities south of Dos Amigos.

V. OBJECTIVE 2D: FINANCIAL MANAGEMENT

A. State Water Resources Development System Finance Committee

1. Immediately, the Department of Water Resources shall establish a joint Department of Water Resources and Contractor finance committee (Committee).

2. The membership of the Committee shall include both representatives from the Department of Water Resources and representatives from the Contractors.

3. The primary purpose of the Committee shall be to make recommendations to the Director of the Department of Water Resources concerning the financial policies of the State Water Resources Development System.

4. The Department of Water Resources and the Contractors shall describe the scope of the committee in a charter mutually agreeable to the Department of Water Resources and the Contractors.

VI. OBJECTIVE 2E: SUPPLEMENTAL BILLING

A. Supplemental Billing

1. The supplemental billing provisions authorized under Article 51(c)(4) shall remain in effect through December 31, 2035, unless the Director determines in his or her discretion to eliminate the use of supplemental billing prior to that date or upon Director's acceptance of a recommendation from the SWRDS Finance Committee. In full consultation with the SWRDS Finance Committee, DWR will review the System cash balances when the System's forecasted 120 days cash balance becomes critical. The Committee will make a recommendation for action to the Director. The supplemental billing provision may only be used when available System cash balances are projected to be less than an amount equal to 90 days operating expenditures[4]. The term "available System cash balances" shall mean the funds in the following California Water Resources Development Bond Fund accounts: System Revenue Account (to the extent the funds in the System Revenue Account are not projected to be needed for payment of Burns-Porter General Obligation Bond debt service for the next two years), GOA, SRA and SSA (to the extent the funds in the SSA are not projected to be needed for non-chargeable expenditures for the next two years).

[4] A description of "operating expenditures" will be included in the contract amendment language.

VII. OBJECTIVE 2F: COST RECOVERY

A. Cost Recovery

1. In general, DWR should seek reimbursement for all SWRDS costs from the appropriate customers and users of SWRDS facilities, including the State. With respect to those SWRDS costs that are reimbursable by the Contractors, DWR should allocate financial responsibility for such costs in a manner that is both lawful and equitable, and which endeavors to recover such costs from the appropriate Contractors. If the Department proposes to not charge any Contractor the full amount that the Department is entitled to charge the Contractor under the contract, DWR shall bring a written proposal to the Finance Committee for purposes of developing a recommendation to the Director regarding the proposal. DWR shall submit such proposal in writing to the Finance Committee 90 days in advance of the Director issuing any decision and within such 90 day period the Finance Committee shall provide the Director with a recommendation regarding such proposal. Such proposals will comply with the structure set out in II.D.2 of the SWRDS Finance Committee Charter.

VIII. OBJECTIVE 2G: SWRDS REPORTING PRINCIPLES [EXHIBIT TO THE CONTRACT]

A. During the term of the water supply contracts, it is likely that financial reports and financial management reports will change in scope, nature, and frequency. Regardless of the exact reports used, such reports shall follow the below principles and guidelines to the extent applicable.

1. Principle 1: Financial reporting will be generated from the general ledger or data warehouse of the financial information system (system of record), such as SAP.

    - The financial system of record is the authoritative source for financial reporting data values in a system. To ensure data integrity, there must be one, and only one, system of record for financial reporting values.

2. Principle 2: Financial reporting is not limited to annual financial statements but will be developed for regular reporting periods.

3. Principle 3: Financial management reporting generated from other financial systems, such as Utility Cost Accounting Billing System (UCABS), will identify and analyze significant variances from prior years or budgets.

4. Principle 4: Financial reporting and financial management reporting will identify unusual items and exceptions, and these items will be documented, reviewed, and resolved by management.

5. Principle 5: DWR will use standardized System-wide business rules and utilize a centralized financial system, such as SAP, UCABS, or other system, to provide controls/validations to ensure data integrity and reliable reporting.

6. Principle 6: DWR will use standardized data integrity rules in the development and publication of reports, including but not limited to the following:

   (1) Data integrity refers to the accuracy and consistency of data stored in a database, data warehouse, data mart or other construct.
   (2) Data integrity processes verify that data has remained unaltered in transit from creation to reception or remains unaltered in transit from one system to the next.
      a. Data used outside of the Enterprise Resource Planning (ERP) systems to meet the reporting needs of Program will undergo any number of operations in support of decision-making, such as capture, storage, retrieval, update and transfer. It is important to have confidence that during these operations, the data will be kept free from corruption, modification and remain unaltered.
   (3) Data with "integrity" has a complete or whole structure. Data values are standardized according to a data model and/or data type. All characteristics of the data must be correct – including business rules, relations, dates, definitions and lineage – for data to be complete.
   (4) Data integrity is imposed within an ERP database when it is created and is authenticated through the ongoing use of error checking and validation routines.
   (5) Data integrity state or condition is to be measured by the validity and reliability of the data values.
   (6) Data integrity service and security maintains information exactly as it was input, and is auditable to affirm its reliability.

The SWRDS Finance Committee is charged with providing financial policy recommendations to the Director, and the Director has final discretion on whether or not to accept the recommendations. While the SWRDS Finance Committee is not charged with reviewing the content of financial reports, timely and accurate financial reporting and financial management reporting provides technical committees access to useful information that can be used to formulate proposals on financial policy matters that may be brought to the SWRDS Finance Committee.

IX. OBJECTIVE 2H: 51(e) REVENUE REPORTING REQUIREMENTS

A. 51(e) Revenue Report

1. Create and distribute the Annual Rate Reduction Determination Report. In addition, display the distribution of Gross Annual Revenues before Recreation, Fish and Wildlife

Expenditures, Facilities Capital Account and Rate Management Credits and Net Annual Revenues after Rate Management Credits to the accounts listed in item 2 below.

2. Create and distribute quarterly an Activity Report by fund-account for all uses, including but not limited to the following accounts:
    a) General Operating Account (GOA)
    b) SWRDS Support Account (SSA)
    c) SWRDS Reinvestment Account (SRA)
    d) Systems Revenue Account, 51(e) Sub-Account
    e) Davis-Dolwig Fund
    f) Facilities Capital Account
    g) Suspended Costs

3. The Activity Report shall display the annual and accumulated 51(e) revenue and expenditure activity, including the beginning balance, the annual activity and the ending balance for the year.

4. Reporting data shall be auditable which includes an audit trail from the costing ledgers to the general ledger or the Bulletin 132 estimates to the Activity Report.

5. Report should have sufficient detail to provide comprehensive accounting of annual 51(e) revenues and the uses the of annual 51(e) revenues to enable the SWRDS Finance Committee to assess the utilization of these revenues.

X. OBJECTIVE 3A: SIMPLIFICATION OF BILLING

A. Implement the Freeze-Go Billing Methodology

1. The freeze-go date shall be January 1 of the first calendar year starting six (6) months after the contract extension takes effect, but not earlier than January 1, 2017, provided that if the Department determines it to be necessary, the Department may rely on estimates and later true-up for billing and reporting purposes in the initial implementation years after the freeze go date.

2. Methodology will recover all costs incurred on and after the freeze-go date, by converting and authorizing repayment on a Pay-As-You-Go methodology.

3. Amend the definition of the Project Repayment Period to apply only to those costs incurred prior to the freeze-go date.

4. The term of the Project Repayment Period, January 1, 1961 through December 31, 2035, will remain the same.

5. The Water Systems Revenue Bond Surcharge will apply only to those costs incurred prior to the freeze-go date and will terminate at the completion of the Project Repayment Period.

6. Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to the freeze-go date. No interest rate, including the Project Interest Rate, shall be applied to the over/under charges for costs incurred after the freeze-go date. The Project Interest Rate will remain 4.610%.

7. In identifying “costs incurred” for purposes of determining whether the cost is incurred before the freeze-go date or on or after the freeze-go date, the following shall apply:

   a) Variable costs shall be deemed to occur when the goods or service is provided, regardless of when the expenditure for such goods or service is recorded in the financial information system;

   b) Capital and minimum costs shall be deemed to occur when the expenditure for the goods or service is recorded in the financial information system, regardless of the date the goods or service is provided.

B. Defining the Pay-As-You-Go Repayment of Costs Incurred On and After the Freeze-Go Date

1. The annual cost recovery within a bill year for estimated annual operation, maintenance, power, and replacement costs for project conservation facilities.

2. The annual recovery of actual debt service, including repayment of the SRA, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities.

3. A capital asset which has a short useful life and/or will not have a substantial cost, may be charged to the Contractors in the year the cost is incurred. The SWRDS Finance Committee may review and make recommendations to the Director regarding the policy of charging the costs of such assets.

C. Defining the Pay-As-You-Go Repayment of Actual Debt Service from SWRDS Financing Capital Costs On and After the Freeze-Go Date

1. Authorize DWR to finance 100% of all capital costs.

2. Authorize DWR to use various methods of financing including Water System Revenue Bonds and SRA, with each method providing an annual repayment schedule which includes a principal and interest (debt service) component over the life of the financing.

3. Authorize DWR to bill an amount that is equal to the accumulated annual debt service payments due per the debt service schedules for SRA investments or matching dollar for dollar the SWRDS annual debt service payments including the bond cover requirements, providing 100% capital cost recovery at the financed interest rate over the term of the financing while meeting the additional bond debt cover requirements.

XI. OBJECTIVE 3B: REPLACEMENT ACCOUNTING SYSTEM (RAS)

A. Elimination of the Replacement Accounting System (RAS)

1. Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost.

2. The unencumbered cash balance of the RAS funds are to be returned to the SWP Contractors using the RAS allocation methodology.

XII. OBJECTIVE 3C: ARTICLE 1 (hh)

A. Expanding Water System Facilities Authorized to be Financed by Water System Revenue Bonds Under Article 1(hh)

1. Eliminate the January 1, 1987 date for existing facilities within Article 1(hh)(8); provision to now read as follows, " Finance all repairs, additions, and betterments to conservation or transportation facilities and to all other facilities described in this sub-article (hh) except for item (5) the land acquisition prior to December 31, 1995 for the Kern Fan Element of the Kern Water Bank."

2. Add provision to expand Article 1(hh) to include "Finance all other capital projects (i.e. projects and programs for which revenue bonds can be sold) mutually agreed upon in writing by DWR and 80% of the affected Contractors, provided that the approving Contractors' Table A amounts exceed 80% of the Table A amounts representing all affected Contractors". "Affected Contractors" means those Contractors which would be obligated to pay a share of the debt service for such project.

XIII. OBJECTIVE 3D: BILLING AUTHORIZATION

A. Billing Authorization

The Department, in fixing and establishing prices, rates, and charges for water and power, shall include as a reimbursable cost of any state water project an amount sufficient to repay all costs incurred by the department, directly or by contract with other agencies, for the preservation of fish and wildlife and determined to be allocable to the costs of the project works constructed for the development of that water and power, or either. Costs incurred for the enhancement of fish and wildlife or for the development of public recreation shall not be included in the prices, rates, and charges for water and power, and shall be nonreimbursable costs.

Such recreational purposes include, but are not limited to, those recreational pursuits generally associated with the out-of-doors, such as camping, picnicking, fishing, hunting, water contact sports, boating, and sightseeing, and the associated facilities of campgrounds, picnic areas, water and sanitary facilities, parking areas, viewpoints, boat launching ramps, and any others necessary to make project land and water areas available for use by the public.

In administering this Contract “development of public recreation” shall include recreation capital and operation and maintenance.

XIV. OBJECTIVE 4: BDCP AND DHCCP PARTICIPATION

This Objective will not be part of the SWP contract amendment based on this AIP. Instead, Contractor participation in the BDCP and DHCCP will be addressed through a separate public negotiation and environmental review process to develop appropriate SWP water supply contract amendments. DWR has begun the administrative process that will be used to facilitate the public negotiations of such amendments. The first public negotiation session is scheduled for December 2014.

XV. PROVISION 1 – OTHER CONTRACT PROVISIONS

Except as amended, all provisions of the Water Supply Contract shall be and remain in full force and effect.

XVI. PROVISION 2 – ENVIRONMENTAL REVIEW PROCESS

DWR and the Contractors agree that this AIP is intended to be used during the environmental review process for the California Environmental Quality Act (CEQA), to define the proposed project description for the purposes of CEQA, and to permit the next steps of the water supply contract extension process, including scoping and the preparation of the EIR.

The AIP principles are not final contract language and do not represent a contractual commitment by either DWR or the Contractors to approve any proposed project, to sign contract amendments, or to extend the contract. By concurring with the AIP, DWR and the Contractors express their intent to move forward with the CEQA process with DWR as lead agency and the Contractors as responsible agencies, and ultimately develop a proposed project consisting of contractual amendments consistent with the AIP principles and prepare the EIR for consideration by DWR and the Contractors.

At the end of the CEQA process and in compliance with CEQA, DWR and the Contractors will each individually evaluate the EIR and contract amendments, exercise their independent judgment, and determine whether or not to certify the EIR, approve the proposed project and sign the contract amendments or to approve an alternative project. Consequently, even though DWR and the Contractors have agreed to the AIP for the purposes described in the preceding paragraphs, DWR and each Contractor retain their full discretion under CEQA to consider and adopt mitigation measures and alternatives, including the alternative of not going forward with the proposed project.

XVII. PROVISION 3 – AUTHORIZED REPRESENTATIVE SIGNATURES

DWR and each Contractor may express concurrence with this AIP by having their authorized representatives sign below. DWR and each Contractor will use their best efforts to make a decision whether to sign the AIP by September 1, 2014. The AIP may be signed in counterparts.

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

ALAMEDA COUNTY WATER DISTRICT

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

ANTELOPE VALLEY – EASTERN KERN WATER AGENCY

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

CASTAIC LAKE WATER AGENCY

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

CITY OF YUBA CITY

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

COACHELLA VALLEY WATER DISTRICT

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

COUNTY OF BUTTE

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

COUNTY OF KINGS

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

CRESTLINE LAKE ARROWHEAD WATER AGENCY

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

DESERT WATER AGENCY

By: ______________________
Name: ______________________
Title: ______________________
Date: ______________________

DUDLEY RIDGE WATER DISTRICT

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

EMPIRE WESTSIDE IRRIGATION DISTRICT

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

KERN COUNTY WATER AGENCY

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

LITTLEROCK CREEK IRRIGATION DISTRICT

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

MOJAVE WATER AGENCY

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

OAK FLAT WATER DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

PALMDALE WATER DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

PLUMAS COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

By: ________________________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

SAN GORGONIO PASS WATER AGENCY

By: ____
Name: ____
Title: ____
Date: ____

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: ____
Name: ____
Title: ____
Date: ____

SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: ____
Name: ____
Title: ____
Date: ____

SANTA CLARA VALLEY WATER DISTRICT

By: ____
Name: ____
Title: ____
Date: ____

SOLANO COUNTY WATER AGENCY

By: ____
Name: ____
Title: ____
Date: ____

TULARE LAKE BASIN WATER STORAGE DISTRICT

By: ____
Name: ____
Title: ____
Date: ____

VENTURA COUNTY FLOOD CONTROL DISTRICT

By: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7
100 NORTH CANYONS PARKWAY • LIVERMORE, CA 94551 • PHONE (925) 454-5000 • FAX (925) 454-5727

DATE: August 25, 2014

TO: Finance Committee

FROM: Lori Rose, Financial Consultant
Tamara Baptista, Financial & Systems Services Manager

SUBJECT: **Water Rate Design & Process**

BACKGROUND/DISCUSSION:

Staff has been discussing various ideas for the design of water rates this year and is seeking input from the Committee on the general concepts that will be used in formulating rates and the process to provide information.

Normal Rate and Drought Rate

Staff is proposing that a "normal" rate and a "drought" rate be developed. These rates are designed to meet Zone 7's revenue needs in both normal and drought years. A drought rate is a higher rate with lower volumes that should produce the same amount of revenue as the normal rate at normal volumes. If customers achieve the conservation levels needed during the drought, their bill should be about the same even with the higher drought rate. Customers who do not reduce consumption will have a larger bill. Pricing is one of the primary ways to encourage conservation.

Logistically, the drought rate would be effective when the Board adopts a resolution stating the agency is implementing Stage 2 Actions under Zone 7's 2010 Urban Water Management Plan. The normal rate would resume upon Board action removing the agency from Stage 2 actions.

What the Retailers Do to Mitigate Revenue Loss During Drought:

DSRSD adopts multiple rates to be ready to adapt to a drought or emergency situation. They have a 'normal' rate and four separate 'drought' rates (Stages 1-4). They are currently charging their customers at their "Stage 3" drought rate.

The Livermore City Council enacted Conservation Rates at its April 28, 2014 meeting. Rates are effective April 29, 2014 and remain in effect for the duration of the current water shortage emergency, or until Council Action.

Pleasanton does not have a drought rate structure in place, so will most likely experience significant revenue losses during the drought.

Cal Water's rates are approved by the California Public Utilities Commission (CPUC). Cal Water is allowed to collect any shortages between the projected cost of water and actual cost of water through surcharges to their customers.

Process for Rate Development

The three key pieces of data in rate development are costs, volumes and use of reserves. Staff determines the costs based upon historical costs, current expense activity, and estimates of the cost of producing the mix of water to be sold. Volumes are determined based on historical use, current conditions (e.g. drought) and retailer projections. Use of reserves should be in alignment with established Board policies. Zone 7 adopted a two year rate plan when it last took an action on rates; because that process has proved successful, staff will present another two year plan.

In the past, Zone 7 staff have developed multiple alternatives for rates (which were really options for use of reserves). This process created some confusion in the past and the Retailers expressed that they would rather see one plan presented to the Board that has been vetted by the Committee and discussed with the Retailers. Staff is proposing developing two scenarios for discussion at the next Committee meeting; one would be the scenario discussed above (drought rate and regular rate) and one that maintains the current one rate system. In developing these scenarios, staff would utilize the tools mentioned above to develop a proposal that meets the policy objectives of the Board and provides sufficient revenue to cover costs while maintaining adequate reserves. Staff has started working on the 2015 Urban Water Management Plan which takes an in depth look at projected water supplies and demands, including a Water Shortage Contingency Plan.

Timing of Rate Adoption

Past practice has been to have two Board discussions prior to the Board adopting rates in October. Since the data to develop rates isn't fully available until late in August, trying to calculate rates and hold both the Finance Committee meeting and Retailer meeting before the September meeting has been problematic in the past. Both Finance Committee members and Retailers have expressed concern over the short time frame and wanted more time for discussions before presenting the rates to the full Board. The following information is useful in discussing a process change:

- Large Retailers' contracts say that the rate will be adopted in November
- Small Users' contracts say that the rate shall be adopted at least 60 days prior to it becoming effective
- Proposition 218 requires the Retailers to give 30 days' notice to their customers of any rate changes; for Retailers on bi-monthly billing cycles, it takes 60 days to provide such notification
- Resolutions (how Zone 7 adopts rates) do not require two notifications (note that Government Code 60018 specifically excludes rates/charges for water from "fees" for which public hearing requirements apply (in other words, the law requires a two-step process for connection fees, but not water rates)

As part of this change, the Retailers are proposing a September 24th gathering of representatives from Zone 7 and the Retailers. The purpose of the roundtable format would be to begin discussions of balancing competing policy priorities of rates, financial sustainability, water reliability and water quality. These discussions would then inform this year's rate decisions.

RECOMMENDATION:

Staff is proposing that the process be modified to allow for more time to prepare the rates and hold discussions with both the Finance Committee and the Retailers. The following schedule is proposed:

- Mid to Late September through early October – Finance Committee and Retailer Meetings as needed
- October – Board meeting to adopt rates

The Retailers are supportive of this proposal as it allows more time for both the Committee and Retailers to discuss the rates prior to them being presented to the Board. Specifically, staff recommends that Committee Members discuss the changes in the Rate process and provide direction on:

1. Development of an option that includes both a regular rate and a drought rate

2. Changing the process to present the rates at one Board meeting (October) which would allow more time for the Committee, staff and the Retailers to meet (more outreach)

3. Holding a Water Policy Roundtable

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DATE: August 28, 2014

TO: Finance Committee

FROM: Lori Rose, Financial Consultant
Tamara Baptista, Financial & Systems Services Manager

SUBJECT: **Finance Policies, Part I (DRAFT Operating Budget Policy)**

BACKGROUND/DISCUSSION:

Staff has been working on drafting various financial policies. These policies provide a very important framework for how Zone 7 manages its financial resources. Having policies in place provides clear guidance to the General Manager and the staff about the Board's expectations.

The Operating Budget policy is the first policy to be presented to the Committee and lays the groundwork for the upcoming budget process. According to Shayne C. Kavanaugh in his book Financial Policies (published by the Government Finance Officers Association):

> *"The operating budget is among the most important public documents a government produces. As a financial plan, it sets forth the government's taxing and spending direction. As a policy document, it establishes explicit service priorities. As an operations guide, it outlines the organization subunits that will be responsible for achieving the service priorities and that will be accountable for spending. Finally, as a communications device, it makes all of the foregoing transparent to public officials and citizens alike. The budget is a powerful expression of the governing board's vision for how a government will serve its community."*

The proposed Operating Budget Policy includes the following:

- Establishes a two-year budget cycle for Zone 7. The timing of the cycle allows for new Board members to participate in the budget process.
- Establishes budgetary control levels consistent with responsibility levels.
- Authorizes the General Manager to make budget transfers as appropriate within the same fund (without affecting the overall fund budget as established by the Board).
- Outlines budgeting principles to guide the development of the budget.
- Establishes regular reporting requirements geared to the different users of financial information.

RECOMMENDATION:

Discuss the proposed policy and provide feedback to staff.

DRAFT Operating Budget Policy

Scope

All Zone 7 funds will be budgeted.

Length of Budget Period

To encourage longer term planning and to reduce administrative costs, a two-year budget will be prepared in odd numbered years *(for example, the fiscal year 2015/16 and 2016/17 budgets would be prepared and adopted in the spring of 2015).* Each fiscal year will be separately adopted and a mid-cycle review of the budget will be performed in the spring of even numbered years.

Basis of Budgeting

Budgets are adopted on a basis consistent with generally accepted accounting principles except that capital expenditures and debt principal payments are budgeted as expenses to provide better budgetary control; depreciation and amortization are not budgeted as they are non-cash transactions.

Budget Process

The budget process shall be designed to ensure that the budget is adopted prior to the beginning of the fiscal year for which it is prepared.

Level of Control

Legal budgetary expense control is at the fund level (expenditures and other financing uses may not exceed the established budget at the fund level) and budgets at this level may not be exceeded without a Board adopted budget adjustment.

The General Manager is responsible for the overall implementation of the budget and having appropriate procedures in place to ensure that funds are being spent wisely and within established purchasing guidelines. The operating budget is managed at the following levels:

Position	Responsible for Budget at this Level
General Manager	Total Expenses by Fund
Assistant GM	Total Expenses by Assigned Department
Division Manager	Total Expenses by Assigned Division
Section Manager	Total Expenses by Assigned Section

Budget Principles

1. The budget should be structurally balanced. Such a budget is one that supports financial sustainability for multiple years into the future. In general, this is accomplished by ensuring that recurring expenses are covered by recurring revenues and that reserves are utilized in accordance with adopted policies.

2. Operating revenues must fully cover operating expenditures unless the Board has approved a use of reserves.

3. Ending fund balances must meet minimum reserve policy levels unless the Board has approved otherwise.

4. The budget will be supported by long-term strategic financial plans (rate planning, capital improvement planning).

5. The District seeks to maximize the value the public receives through its spending. Accordingly, staff critically examines existing spending patterns to make sure they continue to provide value rather than basing future budgets on past budgets.

6. Operating budget carryovers between years are not allowed. However, the General Manager is authorized to approve expense budget transfers within a fund in any budget year as long as those transfers do not increase or decrease the total fund budget established by the Board for that year.

Reporting

Reporting is an important step in communicating the status of the budget to the public, the Board and District Management. Regular reporting will be provided showing budget to actual expenses at a level sufficient for the audience. For example, a budget report for the Board will at a minimum show revenues and expenses by fund and will note whether funds are in compliance with Board policy.

Audience	Report	Timing
Board, Public	Audited Financial Statements	Annually
Board, Public	Budget-to-Actual Final for the Water Enterprise funds	Annually
Board, Public	Budget-to-Actual Interim Reports (major category/fund level)	TBD
Management	Budget-to-Actual Interim Reports (department level)	Monthly