

**REGIONAL WATER AUTHORITY  
REGULAR MEETING OF THE BOARD OF DIRECTORS**

**Thursday, January 11, 2018, 9:00 a.m.**

5620 Birdcage Street, Suite 110

Citrus Heights, CA 95610

(916) 967-7692

**AMENDED AGENDA**

The public shall have the opportunity to directly address the Board on any item of interest before or during the Board's consideration of that item. Public comment on items within the jurisdiction of the Board is welcomed, subject to reasonable time limitations for each speaker. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the Authority's Administrative Office at the address listed above. In compliance with the Americans with Disabilities Act, if you have a disability and need a disability-related modification or accommodation to participate in this meeting, please contact the Executive Director of the Authority at (916) 967-7692. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

**1. CALL TO ORDER AND ROLL CALL**

**2. PUBLIC COMMENT**

**3. CONSENT CALENDAR**

- a. Minutes from the November 9, 2017 RWA regular board meeting  
**Action: Approve November 9, 2017 RWA Board meeting minutes**
- b. Adopt proposed RWA Board Meetings Scheduled for 2018  
**Action: Adopt proposed RWA Board Meetings scheduled for 2018**
- c. Approve pay scales for 2014 through 2018 to comply with CalPERS  
**Action: Approve Pay scales for 2014 through 2018 to comply with CalPERS requirements**

**4. EXECUTIVE COMMITTEE REPORT AND RECOMMENDATIONS**

- a. Information: Final minutes of the October 25, 2017 Executive Committee meeting and draft minutes from the December 6, 2017 Executive Committee meeting
- b. Accept the 2017 RWA Financial Audit Report  
**Action: Accept the 2017 RWA Financial Audit Report**

**5. APPROVE RWA FIVE YEAR LEASE**

**Action: Approve the new five year lease through Vermeer & Goedhart Dairy, LLC**

**6. ELECT 2018 RWA EXECUTIVE COMMITTEE**

**Action: Elect the 2018 Executive Committee of the RWA Board of Directors**

**7. ELECT 2018 RWA CHAIR AND VICE-CHAIR**

**Action: Elect 2018 Chair and Vice-Chair of the RWA Executive Committee and RWA Board of Directors**

## **8. EXECUTIVE DIRECTOR'S REPORT**

## **9. DIRECTORS' COMMENTS**

### **ADJOURNMENT**

Upcoming meetings:

Next Executive Committee Meetings – Wednesday, January 24, 2018 and February 28, 2018, 8:30 a.m. at the RWA office.

Next RWA Board of Directors' Meeting – Thursday, March 8, 2018, 9:00 a.m., at the RWA Office.

**AGENDA ITEM 3a: CONSENT CALENDAR**

Minutes from the November 9, 2017 RWA regular board meeting

**Action: Approve November 9, 2017 RWA Board meeting minutes**



**1. CALL TO ORDER**

Chair Peifer called the meeting of the Board of Directors to order at 9:00 a.m. at the Regional Water Authority. Individuals in attendance are listed below:

**RWA Board Members**

S. Audie Foster, California American Water  
Ron Greenwood, Carmichael Water District  
Al Dains, Citrus Heights Water District  
Hilary Straus, Citrus Heights Water District  
Marcus Yasutake, City of Folsom  
Matthew Wheeler, City of Lincoln  
Paul Joiner, City of Lincoln  
Kelye McKinney, City of Roseville  
Scott Alvord, City of Roseville  
Jim Peifer, City of Sacramento  
Denix Anbiah, City of West Sacramento  
Stan Cleveland, City of Yuba City  
Diana Langley, City of Yuba City  
Ryan Saunders, Del Paso Manor Water District  
Debra Sedwick, Del Paso Manor Water District  
Michael Raffety, El Dorado Irrigation District  
Tom Gray, Fair Oaks Water District  
Paul Schubert, Golden State Water Company  
Michael Schaefer, Orange Vale Water Company  
Brent Smith, Placer County Water Agency  
Mary Henrici, Rio Linda/Elverta Community Water District  
Mitch Dion, Rio Linda/Elverta Community Water District  
Kerry Schmitz, Sacramento County Water Agency  
Neil Schild, Sacramento Suburban Water District  
Pam Tobin, San Juan Water District

**RWA Associates**

Arthur Starkovich, Sacramento Municipal Utility District

**RWA Affiliate Members**

Paul Selsky, Rosey Jencks and Melanie Holton with Brown & Caldwell,  
Sergio Guillen with Forsgren Associates, Inc., Charles Duncan with West  
Yost Associates and Jim Graydon with Woodard & Curran

**Staff Members**

John Woodling, Rob Swartz, Adam W. Robin, Nancy Marrier, Cecilia Partridge, Monica Garcia and Ryan Bezerra, Legal Counsel

**Others in Attendance:**

Dan York, Shauna Lorance, Pauline Roccucci and Lindsay Swain

**2. PUBLIC COMMENT**

None

Mr. Anbiah entered the meeting.

**3. CONSENT CALENDAR**

Draft minutes from the September 24, 2017 RWA regular board meeting

Motion/Second/Carried (M/S/C) Ms. Tobin moved, with a second by Mr. Greenwood, to approve the minutes from the September 24, 2017 RWA regular board meeting. The motion carried by the unanimous voice vote of all directors present.

**4. EXECUTIVE COMMITTEE REPORT AND RECOMMENDATIONS**

Final minutes of the August 16, 2017 and September 27, 2017 Executive Committee meetings and draft minutes of the October 25, 2017 Executive Committee meeting were included in the packet.

Mr. Woodling said that Executive Committee monthly updates have been sent out to the full RWA Board.

Ms. McKinney corrected her director comments on the October 25, 2017 Executive Committee minutes.

**5. DELTA UPDATE**

RWA held a workshop following the July Board meeting with a series of speakers to inform members of various aspects of regulatory processes related to the Sacramento-San Joaquin Delta.

Speakers updated the Board on processes that have evolved over the past few months, including the WaterFix water rights hearings, the recently released Final Draft Scientific Basis Report from the State Water Resources Control Board (SWRCB), and the voluntary settlement discussions convened by the Natural Resources Agency.

Ryan Bezerra, legal counsel gave a presentation on the SWRCB adopting plans to control Delta water quality. The water quality objectives are the conditions that need to be met in the water body in order to support

designated beneficial uses. The current water quality control plan has not been updated since it was adopted in 1995 by the SWRCB. On October 4, 2017 the Water Board released a final scientific basis report on proposed water quality objectives for the Sacramento River and the Delta.

Mr. Bezerra explained the Bay-Delta proposals including a proposed narrative inflow component of the objective, a proposed numeric inflow component of the objective, a proposed narrative objective and a Delta outflows proposal. The next step would be the development of a document for environmental review under the California Environmental Quality Act.

The California WaterFix regulatory process is moving forward with a Water Board hearing to consider the proposals. The Department of Water Resources has approved the project and an Environmental Impact Report. The water rights hearing was divided into two parts, water supply impact and the environmental impact. Part two is based on environmental issues and public interest. The first hearing date is January 18, 2018. We are at the preliminary stages of two important federal actions, the endangered species act biological opinion and the coordinated operations agreement negotiations.

Chair Peifer presented information about the negotiated settlement process, also known as the Babbitt process. Representatives in the American River region have been talking with SWRCB staff educating them on what the needs on the lower American River are in terms of the flow management standard. That conversation is ongoing.

A number of people are participating with the Babbitt process including a few from the Feather River. The Babbitt process has created a San Joaquin River table and a Sacramento River Valley table. There are managers from the Sacramento Valley from all of the major tributaries that go into the Sacramento River. Chair Peifer and Andy Fecko are the American River representatives, with Sean Early and Ted Trimble representing the Feather River. The purpose is to create a negotiated settlement as an alternative to be incorporated into the water quality control plan. One of this region's interests is a modified flow management standard for the lower American River.

Mr. Woodling said that there will be staff updates at future meetings with a comprehensive discussion of the Delta every six months.

## **6. LEGISLATIVE SESSION REVIEW**

Adam W. Robin, Legislative and Regulatory Affairs Program Manager gave an update on the final status of measures designated as priorities and/or identified as items of significant interest by RWA. The 2017 legislative session ended on September 15.

Enrolled by the Legislature before being vetoed by Governor Brown, AB 313 would have established a Water Rights Division within the Office of Administrative Hearings. Under AB 313, the Water Rights Division would hold hearings to set recommendations for Administrative Civil Liability for violations of certain provisions of existing law related to the use and diversion of water for approval by the SWRCB. This bill would have also require the SWRCB to send a complaint to the Water Rights Division for a recommendation before a cease-and-desist order related to the use and diversion of water could be issued.

AB 746 will require community water systems serving schools to test for lead in the potable water systems of all school sites. This bill creates a one-time obligation for systems to provide this testing and provides that any required corrective action is the obligation of local educational agencies.

Mr. Robin said that there are three bills that RWA extensively engaged on in 2017 that will remain live issues as we go into 2018, including AB 1668 and SB 606, Long-term Water Use Efficiency Legislation, and SB 623, the Water Tax. AB 1668 (Friedman)/SB 606 (Skinner/Hertzberg) are two-year bills and will remain active moving into the 2018 legislative session. Among other provisions, these bills would authorize the SWRCB to adopt certain urban water use standards and enforce “urban water use objectives” for urban retail water suppliers. Most of the controversy was focused on the framework for enforcing urban water use objectives. There were some issues that were problematic in the bills including not requiring the adoption of variances to account for unique local conditions. Many of the enforcement provisions were also problematic. Technical and economic feasibility need to be taken into account.

Mr. Robin thanked all of the RWA agencies that engaged in the legislative process, signing on to the statewide coalition letters, attending hearings and meetings and the work agencies did on their own.

SB 623 (Monning) is a two-year bill that will remain active moving into the 2018 legislative session. Among other provisions, SB 623 would establish a “Safe and Affordable Drinking Water Fund” administered by the SWRCB. The Fund would be financed in part by a “drinking water fee” on each person or entity that purchases water from a public water system. Public water systems would be required to collect the fee. The SWRCB and the Public Utilities Commission announced a joint workshop for discussion of SB 623 scheduled for November 13<sup>th</sup> in Sacramento.

Chair Peifer commented that Mr. Woodling and Mr. Robin have done a good job of leading a coalition throughout the state working on water use efficiency bills. For members who have contributed to the Lobbyist Subscription Program their money was well spent this year.

Mr. Woodling said that commitments were made after the 2013 Strategic Plan to build the advocacy program. Steps were taken and the benefits of the program have been realized.

SB 5 (De Leon) was signed by Governor Brown, and if approved by voters in June 2018 this measure would authorize the issuance of \$4 billion in bonds for a variety of purposes related to parks, conservancies, and water. The bond includes \$10 million for the Lower American River Conservancy.

## **7. 2017 COMPENSATION STUDY**

RWA Policy 400.2 contains the compensation policies of the RWA. The policy states, in part, *“As a small, professional, management-focused organization, it is the intent of the Authority to provide employee compensation at or above the labor market mean for the industry.”* Further, the policy states that the compensation practices will be implemented to, *“attract the most qualified candidates and to minimize turnover of its employees.”* Section III of the policy directs that the Executive Committee should conduct a compensation survey at least every five years to ensure compensation is consistent with the policy.

John Woodling, Executive Director said that in early 2017, the Executive Committee directed the Executive Director to have a compensation survey performed. The prior survey was conducted in 2012, and changes to compensation were implemented in January 2013. RWA contracted with Bryce Consulting for the compensation survey. Shellie Anderson of Bryce directed the conduct of the survey and prepared a report on the results, including recommendations. The Executive Committee voted unanimously to certify that the Compensation Study was complete.

On August 16, 2017, the Executive Committee considered the draft compensation survey, and recommended changes to the salary schedules in Exhibit A of Policy 400.2 for Board approval. At the September 14, 2017 meeting of the RWA Board of Directors, the Board raised several questions and voted to remand the issue back to the Executive Committee for further consideration. The Executive Committee subsequently discussed the study and compensation at its September 27, 2017 meeting, but declined to take action.

The Executive Director was directed to consider the information in the draft compensation study, as well as the issues raised by the RWA Board and propose salary schedules for staff classifications for Executive Committee consideration at the October 25<sup>th</sup> meeting. This is consistent with Policy 400.2, which states, *“The Executive Director shall recommend salary ranges for all employment positions with the Authority, with the exception of the Executive Director position, subject to review and approval by the Board of Directors.”*

Issues of concern expressed by the Board included: 1) whether pay scales should be set relative to the 62.5<sup>th</sup> percentile of the market or at some lower level, 2) whether organizations other than RWA member agencies should be used for comparisons, and 3) what the budget impact was of the proposed changes to the salary schedules. To address these concerns, staff did a deeper analysis of the data collected in the compensation survey, including assessing the RWA member agency data separately from the entire data set. After this analysis, the Executive Director presented proposed salary schedules in Exhibit A to Policy 400.2. The Executive Committee voted unanimously to recommend approval by the RWA Board. In comparison to current pay scales, three classifications would remain unchanged, one would be lowered, and two would increase. In comparison to the proposal presented to the Board in September, the Manager of Technical Services and Finance and Administrative Services Manager increase less than originally proposed.

M/S/C Mr. Gray moved, with a second by Mr. Wheeler, to approve Exhibit A to RWA Policy 400.2. The motion carried by the unanimous voice vote of all directors present.

Mr. Alvord entered the meeting during the presentation of agenda item 7.

## 8. EXECUTIVE DIRECTOR'S REPORT

**Regulatory Update** – The SWRCB has released a draft regulation that proposes to permanently prohibit certain “wasteful and unreasonable water use practices.” The proposed prohibitions—which include prohibitions such as “the application of water to outdoor landscapes in a manner that causes runoff[,]” “[t]use of a hose that dispenses water to wash a motor vehicle, except where the hose is fitted with a shut-off nozzle[,]” and “[t]he application of potable water directly to driveways and sidewalks”—are the result of direction given to the SWRCB in Executive Order B-37-16. Written comments regarding the draft regulation must be submitted by December 26, 2017. The SWRCB has also announced that they will be holding a public workshop regarding the draft regulation on November 21, 2017. SWRCB staff have indicated that it is their goal to have the final regulation adopted by February 2018, which would allow the regulations to take effect beginning in April 2018. Under the California Administrative Procedures Act, the SWRCB has one year to complete the rulemaking.

There was discussion on the cost of replacing or retrofitting turf without damage to trees and landscape including in residential neighborhoods. Public property easement may go to the property owner to maintain with an associated cost to the property owner.

**RWA Communications** – To improve ongoing communications with RWA members, staff are working to develop a series of products that include: 1) a summary of the 2017 legislative session, which will be available in December;

2) a monthly RWA update, which will begin in late January; and 3) a monthly after-action report of the highlights of each Executive Committee meeting.

**Grants Update** – Staff is currently managing five grants totaling \$30.5 million. In the first four months of the fiscal year, RWA issued grant reimbursements of \$3,642,322 to nine RWA member agencies.

**Regional Water Reliability Planning Update** – Work on the Regional Water Reliability Plan (RWRP) continues. The identification of vulnerabilities phase of the RWRP is complete, and the identification of mitigation actions phase is nearly complete. The next phase of the RWRP development will be to quantify the potential water supply yield generated by expanded conjunctive use operations in the region. The approach to identifying the supply yield as well as a draft estimate of the volumes that could be banked in wet years and recovered in dry years was shared with the project committee on October 12, 2017. Staff and the consultant will continue to refine those numbers by working directly with agencies prior to the next committee meeting, which is planned for January 10, 2018.

One component of the RWRP is the Regional Drought Contingency Plan (RDCP). A Draft RDCP was submitted to Reclamation for review on August 24<sup>th</sup> and Reclamation comments were received on September 12<sup>th</sup>. RWA staff and consultant addressed the Reclamation comments and submitted a revised RDCP to Reclamation on September 27<sup>th</sup>. On October 12<sup>th</sup> Reclamation informed RWA that the Draft RDCP was completed to Reclamation's satisfaction. The final version of the RDCP will be submitted to Reclamation by early November.

**RWA Outreach** – RWA held a workshop on October 27<sup>th</sup> to provide an overview of the California legislative process. The workshop was well attended by RWA staff and member agencies. Mr. Woodling was a speaker at the American Water Resources Association's (AWRA) annual conference on November 6, 2017, and will speak on the lessons learned from California's recent drought. Mr. Swartz spoke at a public forum on groundwater recharge to support sustainable water management sponsored by the California Department of Food and Agriculture (CDFA) on November 8, 2017. Mr. Woodling is serving on the advisory committee to Maven's Notebook. Chris Austin has released a new website, the *California Water Library*. Please consider using and supporting these important efforts.

Carmichael Water District and Golden State Water Company received a national award for Integrated Water Resources Management from the AWRA for their American River pipeline project.

**Water Efficiency Update** – Staff continues to collect and summarize monthly water use information from RWA members. This information is still collected and reported on by the SWRCB, so it is important for RWA and member agency staff to be well informed to respond to media inquiries.

**SGMA Update** –The five GSAs in the North American Subbasin continue to develop a scope of work for a Groundwater Sustainability Plan. The Sacramento Groundwater Authority passed a resolution enabling SGA to be the applicant for grant funding for GSP development from Proposition 1. The deadline for the grant application is November 13, 2017. Water Forum staff is working to facilitate SGMA efforts in the Cosumnes subbasin in South Sacramento County.

**Financial Documents** – Financial documents representing the first quarter of fiscal year 2017-18 were included in the packet.

**RWA Elections** – Elections for the Executive Committee, Chair and Vice Chair will be held at the January 11, 2018 board meeting. A letter requesting confirmation of each agency’s appointees to the RWA board has been mailed.

**2017 RWA Holiday Social** – The seventeenth annual RWA Holiday Social is scheduled for Thursday, December 7, 2017 at North Ridge Country Club.

**Nimbus Fish Hatchery Event** – A November 14<sup>th</sup> event has been coordinated by RWA and the Water Forum to draw attention to all of the work that has been done through the Water Forum to create better outcomes for salmon and steelhead on the American River. There will be an update on water conditions and the work that has been done on water supply to make water more reliable.

Mr. Woodling thanked all Veterans present for their service.

## **9. DIRECTORS’ COMMENTS**

Mr. Greenwood said that he attended a recent LAFCO meeting in San Diego where he took a tour of their desalination plant with the Israeli delegation. The validity of LAFCO around the state is being questioned. The American River pipeline project involved Carmichael Water District, Golden State Water, Areojet, Sacramento County and Paul Selsky with Brown and Caldwell. Everyone came together with proposals for the tunnels to be built under the river.

Mr. Gray reported that for the first time in over 13 years the Fair Oaks Water District Board of Directors is considering a 10% rate increase.

Ms. Tobin is the ACWA JPIA representative for RWA and the ACWA Region 4 Board Chair. Included in the packet, provided by Ms. Tobin, was a list of ACWA Region 4 Board Members for 2018-2019 Terms and an email correspondence highlighting some program enhancements. She held a preliminary meeting last week to discuss some of the current issues. All regions will be coming together in January 2018 for a workshop.

Mr. Dains reported that at the Citrus Heights Water District public hearing they raised their rates by 3%.

Mr. Schild said that Sacramento Suburban Water District is currently working on their 2018 budget.

Ms. McKinney said that she attended the November 8<sup>th</sup> CDFG groundwater recharge forum. Rob Swartz was on one of the panels and had the opportunity to share information on the conjunctive use programs that have been implemented in the region. He did an outstanding job representing RWA.

Mr. Foster said that California American Water operates a water system in unincorporated Sonoma County North of Santa Rosa. Based on recent experiences he encouraged everyone to review their emergency action plans. About 550 to 600 of 2,300 connections no longer exist after the recent fires. All of California American Water staff remained safe while there was damage to some physical infrastructure.

Mr. Schubert said that Golden State Water Company lost approximately 5% of their customer base in Sonoma County from the recent fires. He also stressed the need for up to date emergency action plans for all agencies. He thanked Carmichael Water District for their partnership on their successful American River pipeline project.

## **Adjournment**

With no further business to come before the Board, Chair Peifer adjourned the meeting at 10:16 a.m.

By:

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Chairperson

Attest:

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Nancy Marrier, Board Secretary / Treasurer

## **AGENDA ITEM 3b: CONSENT CALENDAR**

### **BACKGROUND:**

RWA Board meetings are held on the second Thursday of every other month. The meetings begin at 9:00 a.m. Following is the current schedule of meetings for 2018. There is one potential meeting conflict to the proposed schedule for the May 2018 meeting.

<b>Current RWA Board Meeting Schedule</b>	<b>Meeting Conflicts</b>	<b>Proposed 2018 RWA Board Meeting Schedule</b>
March 8, 2018		March 8, 2018
May 10, 2018	ACWA Spring Conference	May 3, 2018
July 12, 2018		July 12, 2018
September 13, 2018		September 13, 2018
November 8, 2018		November 8, 2018

### **EXECUTIVE COMMITTEE RECOMMENDATION:**

**Action: Adopt proposed RWA Board Meetings Scheduled for 2018**

## **AGENDA ITEM 3c: CONSENT CALENDAR**

### **BACKGROUND:**

A requirement of CalPERS is that new salary schedules have to be reported to them every time it is updated. The Executive Director's pay was approved by the Board each October but the salary schedule was not brought to the Board because the Executive Director is a contract employee. PERS contacted staff and asked that they be brought back to the Board for approval starting with 2014 through the present to comply with their requirements.

### **EXECUTIVE COMMITTEE RECOMMENDATION:**

**Action: Approve Pay scales for 2014 through 2018 to comply with CalPERS requirements**

**EXHIBIT A  
RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**

Recommended Salary Ranges per Compensation Study  
October 1, 2014

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services*	\$9,837	\$10,230	\$10,624	\$11,017	\$11,411	\$11,804
Principal Project Manager	\$8,943	\$9,300	\$9,658	\$10,016	\$10,374	\$10,731
Senior Project Manager	\$7,519	\$7,820	\$8,120	\$8,421	\$8,721	\$9,022
Associate Project Manager	\$5,941	\$6,179	\$6,418	\$6,656	\$6,893	\$7,132
Finance & Administrative Services Manager	\$5,976	\$6,215	\$6,454	\$6,692	\$6,933	\$7,171
Executive Assistant	\$4,097	\$4,260	\$4,425	\$4,589	\$4,754	\$4,918
Project Research Assistant	\$4,009	\$4,169	\$4,329	\$4,489	\$4,650	\$4,811

There is no range for the Executive Director position. The Executive Director's compensation is \$15,668 per month.

\* Manager of Technical Services set at 10% above Principal Project Manager. Will be re-assessed at next compensation survey.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2014 ranges include COLA per November 2013 CPI Index)

**EXHIBIT A  
RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**

Recommended Salary Ranges per Compensation Study  
October 1, 2015

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services*	\$10,154	\$10,560	\$10,966	\$11,372	\$11,779	\$12,185
Principal Project Manager	\$9,231	\$9,600	\$9,969	\$10,339	\$10,708	\$11,077
Senior Project Manager	\$7,761	\$8,072	\$8,381	\$8,692	\$9,003	\$9,313
Associate Project Manager	\$6,132	\$6,378	\$6,625	\$6,871	\$7,116	\$7,362
Finance & Administrative Services Manager	\$6,169	\$6,416	\$6,662	\$6,907	\$7,156	\$7,402
Executive Assistant	\$4,229	\$4,397	\$4,568	\$4,737	\$4,907	\$5,077
Project Research Assistant	\$4,138	\$4,303	\$4,469	\$4,634	\$4,800	\$4,966

There is no range for the Executive Director position. The Executive Director's compensation is \$17,222 per month.

\* Manager of Technical Services set at 10% above Principal Project Manager. Will be re-assessed at next compensation survey.

\*2% increase given on October 1, 2015 for employees to start paying their portion of PERS retirement.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2015 ranges include COLA per November 2014 CPI Index of 1.2%)

**EXHIBIT A**  
**RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**

Recommended Salary Ranges per Compensation Study

October 1, 2016

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services*	\$10,367	\$10,782	\$11,197	\$11,611	\$12,027	\$12,441
Principal Project Manager	\$9,425	\$9,802	\$10,179	\$10,556	\$10,933	\$11,310
Senior Project Manager	\$7,924	\$8,242	\$8,557	\$8,875	\$9,192	\$9,509
Associate Project Manager	\$6,261	\$6,512	\$6,764	\$7,015	\$7,266	\$7,517
Finance & Administrative Services Manager	\$6,299	\$6,551	\$6,802	\$7,052	\$7,306	\$7,558
Executive Assistant	\$4,318	\$4,489	\$4,664	\$4,837	\$5,010	\$5,184
Project Research Assistant	\$4,225	\$4,393	\$4,563	\$4,731	\$4,901	\$5,070

There is no range for the Executive Director position. The Executive Director's compensation is \$17,774 per month.

- \* Manager of Technical Services set at 10% above Principal Project Manager. Will be re-assessed at next compensation survey.
- \* 2% increase given on July 1, 2016 for employees to continue paying their portion of PERS retirement.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2016 ranges include COLA per November 2015 CPI Index of 0.1%)

**EXHIBIT A  
RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**

Recommended Salary Ranges per Compensation Study  
July 1, 2017

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services*	\$10,754	\$11,185	\$11,615	\$12,045	\$12,476	\$12,906
Principal Project Manager	\$9,777	\$10,168	\$10,559	\$10,950	\$11,341	\$11,732
Senior Project Manager	\$8,220	\$8,550	\$8,877	\$9,206	\$9,535	\$9,864
Associate Project Manager	\$6,495	\$6,755	\$7,017	\$7,277	\$7,537	\$7,798
Finance & Administrative Services Manager	\$6,534	\$6,796	\$7,056	\$7,315	\$7,579	\$7,840
Executive Assistant	\$4,479	\$4,657	\$4,838	\$5,018	\$5,197	\$5,378
Project Research Assistant	\$4,383	\$4,557	\$4,733	\$4,908	\$5,084	\$5,259

There is no range for the Executive Director position. The Executive Director's compensation is \$18,438 per month.

\* Manager of Technical Services set at 10% above Principal Project Manager. Will be re-assessed at next compensation survey.

\* 2% increase given on July 1, 2017 for employees to continue paying their portion of PERS retirement.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2017 ranges include COLA per November 2016 CPI index of 1.7%)

**EXHIBIT A  
RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**  
Recommended Salary Ranges per Compensation Study  
October 1, 2017

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services*	\$10,754	\$11,185	\$11,615	\$12,045	\$12,476	\$12,906
Principal Project Manager	\$9,777	\$10,168	\$10,559	\$10,950	\$11,341	\$11,732
Senior Project Manager	\$8,220	\$8,550	\$8,877	\$9,206	\$9,535	\$9,864
Associate Project Manager	\$6,495	\$6,755	\$7,017	\$7,277	\$7,537	\$7,798
Finance & Administrative Services Manager	\$6,534	\$6,796	\$7,056	\$7,315	\$7,579	\$7,840
Executive Assistant	\$4,479	\$4,657	\$4,838	\$5,018	\$5,197	\$5,378
Project Research Assistant	\$4,383	\$4,557	\$4,733	\$4,908	\$5,084	\$5,259

There is no range for the Executive Director position. The Executive Director's compensation is \$18,990 per month.

- \* Manager of Technical Services set at 10% above Principal Project Manager. Will be re-assessed at next compensation survey.
- \* 2% increase given on July 1, 2017 for employees to continue paying their portion of PERS retirement.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2017 ranges include COLA per November 2016 CPI Index of 1.7%)

**EXHIBIT A  
RWA POLICY 400.2**

**MONTHLY SALARY SCHEDULE OF RWA POSITIONS**

Recommended Salary Ranges per Compensation Study

January 1, 2018

<b>Classification</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>
Manager of Technical Services	\$12,275	\$12,766	\$13,257	\$13,747	\$14,238	\$14,729
Principal Project Manager	\$10,041	\$10,443	\$10,844	\$11,246	\$11,647	\$12,049
Senior Project Manager	\$8,442	\$8,781	\$9,117	\$9,455	\$9,792	\$10,130
Associate Project Manager	\$5,990	\$6,230	\$6,470	\$6,709	\$6,950	\$7,189
Finance & Administrative Services Manager I	\$7,516	\$7,816	\$8,117	\$8,417	\$8,718	\$9,019
Executive Assistant	\$5,030	\$5,232	\$5,433	\$5,634	\$5,835	\$6,037
Project Research Assistant	\$4,501	\$4,680	\$4,861	\$5,041	\$5,221	\$5,401

There is no range for the Executive Director position. The Executive Director's compensation is \$19,503 per month.

Exhibit A will be updated annually based on the November Consumer Price Index and/or when a new salary survey is completed. (2018 ranges include COLA per November 2017 CPI Index of 2.7%)

**AGENDA ITEM 4a. EXECUTIVE COMMITTEE REPORT AND RECOMMENDATION**

Information: Final minutes of the October 25, 2017 Executive Committee meeting and draft minutes from the December 6, 2017 Executive Committee meeting

**1. CALL TO ORDER**

Chair Peifer called the meeting of the Executive Committee to order at 8:30 a.m. Individuals in attendance are listed below:

Executive Committee Members

Marcus Yasutake, City of Folsom  
Kelye McKinney, City of Roseville  
Jim Peifer, City of Sacramento  
Paul Schubert, Golden State Water Company  
Robert Dugan, Placer County Water Agency  
Kerry Schmitz, Sacramento County Water Agency  
Rob Roscoe, Sacramento Suburban Water District  
Pam Tobin, San Juan Water District

Staff Members

John Woodling, Cecilia Partridge and Andrew Ramos, legal counsel. Nicole Krotoski and Nancy Marrier were on the conference phone.

Others in Attendance

Tom Gray, Ted Costa and Paul Helliker.

**2. PUBLIC COMMENT**

NONE

**3. CONSENT CALENDAR**

The minutes from the Executive Committee meeting held September 27, 2017.

Motion/Second/Carried (M/S/C) Mr. Dugan moved, with a second by Mr. Yasutake, to approve the minutes from the September 27, 2017 Executive Committee meeting. Ms. Tobin abstained. The motion carried by the voice vote of the remaining directors present.

**4. 2017 COMPENSATION STUDY**

The RWA Policy 400.2 contains the compensation policies of the Authority. The policy states, in part, *“As a small, professional, management-focused organization,*

*it is the intent of the Authority to provide employee compensation at or above the labor market mean for the industry.*” Further, the policy states that the compensation practices will be implemented to, *“attract the most qualified candidates and to minimize turnover of its employees.”* Section III of the policy directs that the Executive Committee should conduct a compensation survey at least every five years to ensure compensation is consistent with the policy.

In early 2017, the Executive Committee directed the Executive Director to have a compensation survey performed. The prior survey was conducted in 2012, and changes to compensation were implemented in January 2013. RWA contracted with Bryce Consulting for the compensation survey. Shellie Anderson of Bryce directed the conduct of the survey and prepared a report on the results, including recommendations.

On August 16, 2017, the Executive Committee considered the draft compensation survey, and recommended changes to the salary schedules in Exhibit A of Policy 400.2 for Board approval. At the September 14, 2017 meeting of the RWA Board of Directors, the Board raised several questions and voted to remand the issue back to the Executive Committee for further consideration. The Executive Committee subsequently discussed the study and compensation at its September 27, 2017 meeting, but declined to take action.

The Executive Director was directed to consider the information in the draft compensation study, as well as the issues raised by the RWA Board and propose salary schedules for staff classifications for Executive Committee consideration at the November 25<sup>th</sup> meeting. This is consistent with Policy 400.2, which states, *“The Executive Director shall recommend salary ranges for all employment positions with the Authority, with the exception of the Executive Director position, subject to review and approval by the Board of Directors.”*

John Woodling, Executive Director addressed the issues of concern expressed by the Board at the September RWA Board meeting including 1) whether pay scales should be set relative to the 62.5<sup>th</sup> percentile of the market or at some lower level, 2) whether organizations other than RWA member agencies should be used for comparisons, and 3) what the budget impact was of the proposed changes to the salary schedules. Staff did a deeper analysis of the data collected in the compensation survey, including assessing the RWA member agency data separately from the entire data set. After this analysis, the Executive Director presented a proposed draft salary schedule in Exhibit A to Policy 400.2. In comparison to current pay scales, three classifications would remain unchanged, one would be lowered, and three would increase. In comparison to the proposal presented to the Board in September, the Manager of Technical Services and Finance and Administrative Services Manager rise less than originally proposed in Table 3. Staff provided a comprehensive discussion of the proposal.

Mr. Woodling presented information on the compensation study and the rationale for the proposed salary ranges to modify RWA Policy 400.2, Exhibit A using the

compensation study to adjust pay ranges. He gave a preview of the compensation proposal, a review of the RWA policy, a review of the compensation study process and data analysis, and the rationale for each class in the compensation proposal. Details of the data elements were presented showing compensation contributions and total compensation. Data issues that were presented for discussion included appropriate comparison agencies, sufficiency of data and appropriate class comparisons. There were few comparison agencies for particular classes.

M/S/C Mr. Roscoe moved, with a second by Ms. Tobin, to accept the 2017 Compensation Study report as complete. The motion carried by the unanimous voice vote of all directors present.

There was further discussion by the Executive Committee, as well as comments from Mr. Helliker and Mr. Gray. Mr. Gray expressed his board's preference for comparing RWA to its member agencies only. Mr. Helliker provided a variety of both written and verbal comments, including his belief that the Manager of Technical Services was incorrectly compared to certain positions in other agencies, and that comparisons shouldn't be made to vacant positions in other organizations.

M/S/C Mr. Yasutake moved, with a second by Mr. Dugan, to recommend Board approval of amendments to RWA Policy 400.2, Exhibit A. The motion carried by the unanimous voice vote of all directors present.

There was discussion that it might be beneficial to consider amending the policy to indicate which specific comparison agencies will be used for future compensation studies. It was suggested that an ad hoc committee be convened including RWA and SGA members a year prior to the next compensation survey for the purpose of discussing the comparables. The ad hoc committee would present the comparables to the full board for discussion. After full board consensus on the comparables a list of the items that we want to explore would be compiled and a consultant would be hired with an RFQ for the compensation study. A guideline for future compensation studies should include recommendations on how future compensation studies will be conducted with a broader look at recruitment, retention, succession.

The Executive Committee is committed to consider changes to the policy as appropriate to incorporate some of the discussion into a future policy. The Executive Director will bring this discussion of Policy 400.2 back to the Executive Committee for consideration.

It was clarified that the presentation given to the Executive Committee is the appropriate level for the next RWA full board meeting. The full board should be informed that the Executive Committee is planning to consider all of the discussions and how the Executive Committee arrived at the proposal to amend the policy for future use. It was suggested that Chair Peifer give background to the full board about the Executive Committee conclusions.

## 5. SUBCOMMITTEE UPDATES

Ms. Schmitz reported that the Conference/Education Subcommittee has scheduled the RWA Legislative Process Workshop for October 27<sup>th</sup> from 8:30 to 10:00 a.m. in the RWA Boardroom. The workshop has been approved for 1.5 hours of SWRCB Drinking Water Operator Certification continuing education contact credit. The subcommittee is planning a February 22, 2018 summit on Public Goods Charge and water affordability.

Mr. Helliker suggested the Conference/Education Subcommittee consider events on the Sacramento Valley and Bay-Delta issues related to the water quality control plan.

Mr. Woodling commented that legal counsel is currently reviewing a proposed building lease. An update on the building lease process will be provided at the next Executive Committee meeting.

## 6. NOVEMBER 9, 2017 RWA BOARD MEETING AGENDA

Mr. Roscoe suggested a Delta Update presentation be added to the proposed November 9, 2017 RWA Board meeting agenda.

M/S/C Ms. McKinney moved, with a second by Ms. Tobin, to approve the November 9, 2017 proposed RWA Board Meeting agenda with the addition of a Delta Update presentation. The motion carried by the unanimous voice vote of all directors present.

## 7. EXECUTIVE DIRECTOR'S REPORT

**Legislative Update** – A bill of interest is AB 313 (Gray) which was vetoed by Governor Brown. In his veto message, the Governor noted that “administrative law judges can be effective in complex adjudicative matters, as evidenced in other state agencies,” and directed the California Environmental Protection Agency to evaluate a potential role for administrative law judges and provide recommendations for improving the SWRCB’s hearing processes by January 1, 2018.

**Grants Update** – Staff is currently managing five grants totaling \$30.5 million. Over the first four months of fiscal year 2017-18, RWA issued grants reimbursements of \$3,642,322 for 9 RWA member agencies since July 1<sup>st</sup>.

**Water Efficiency Update** – In September 2017, the region saved 8.9% compared to 2013 or approximately 1.5 billion gallons. The 2017 year to date savings (January through September) is 19.8% or 26.5 billion gallons. The region’s September residential gallons per capita per day (R-GPCD) was 170. Year to date and September 2017 statewide savings and R-GPCD data are not available at this time.

Chair Peifer said that the City of Sacramento's per capita demand has gone down to 116 gallons per capita per day. This has affected the disadvantaged communities with lawns that are not being watered and long term damage to trees. Based on the state's framework, the City staff thinks the gpcd should be around 190. Some increased water use is healthy and appropriate.

Ms. McKinney said that the State Water Board will be establishing a group to develop agency specific volumetric standards for water loss.

Mr. Woodling said that he will give a presentation to the November 7<sup>th</sup> AWRA conference on California's Response to Drought. The presentation will include what we went through, what the local response was, what the state's responsibility became and how effective each was. In addition, at that meeting, Carmichael Water District and Golden State Water Company will be receiving an award for their pipeline project.

**SGA Update** – The Sacramento Groundwater Authority Board of Directors approved a resolution directing staff to submit a grant application to support development of the groundwater sustainability plan (GSP) for the North American Subbasin. The other four groundwater sustainability agencies agreed to prepare a single GSP and SGA serving as the grant applicant and project administrator.

**Financial Reports** – First quarter budget/actual was attached.

**Water Bond** – An overview of the potential benefits of a proposed water bond being pursued by the Natural Heritage Institute was attached. Jerry Meral is seeking endorsements from Sacramento region water agencies. If this proposal qualified for the ballot, it would be in addition to SB 5, the Water and Parks Bond passed by the Legislature and signed by the Governor.

Mr. Woodling said that there was a release from CSDA about legislation that would clarify the liability of agencies that create JPAs and provide CalPERS benefits to the employees and to pay for future benefits. The RWA board has made the decision to meet the intent of the obligations that have been taken on.

Invitations for the Seventeenth RWA Annual Holiday Social scheduled for December 7, 2017 were given to the Executive Committee members.

## **8. DIRECTORS' COMMENTS**

Mr. Woodling reported that Sacramento Suburban Water District has announced that they have selected Dan York as their next General Manager. Mr. Roscoe indicated that a contract at their November board meeting is anticipated.

Ms. Tobin said that she is chair of Region 4 with representation from several RWA Board members.

## **ADJOURNMENT**

With no further business to come before the Executive Committee, Chair Peifer adjourned the meeting at 11:08 a.m.

By:

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Chairperson

Attest:

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Nancy Marrier, Board Secretary / Treasurer

**1. CALL TO ORDER**

Vice Chair Yasutake called the meeting of the Executive Committee to order at 8:30 a.m. Individuals in attendance are listed below:

Executive Committee Members

Ron Greenwood, Carmichael Water District  
Marcus Yasutake, City of Folsom  
Kelye McKinney, City of Roseville  
Paul Schubert, Golden State Water Company  
Kerry Schmitz, Sacramento County Water Agency  
Rob Roscoe, Sacramento Suburban Water District  
Pam Tobin, San Juan Water District

Staff Members

John Woodling, Rob Swartz, Adam W. Robin, Nancy Marrier, Cecilia Partridge and Ryan Bezerra, legal counsel. Nicole Krotoski attended via conference phone.

Others in Attendance

Ingrid Sheipline, Bob Simons, Deb Sedwick and Charles Duncan

**2. PUBLIC COMMENT**

NONE

**3. CONSENT CALENDAR**

The minutes from the Executive Committee meeting held October 25, 2017.

Motion/Second/Carried (M/S/C) Ms. Tobin moved, with a second by Mr. Greenwood, to approve the minutes from the October 25, 2017 Executive Committee meeting. The motion carried by the voice vote of the remaining directors present.

**4. RWA 2017 AUDIT REPORT**

Ingrid Sheipline, Richardson and Company, reported that they have completed the financial audit for the fiscal year that ended June 30, 2017. The full audit report was included in the packet. Ms. Sheipline highlighted portions of the audit stating that reports that were issued included the Auditor's opinion on financial statements,

the Internal Control and Compliance Report, the governance letter and the management letter. The Independent Auditor's Report is an unmodified, "clean", opinion.

The Management's Discussion and Analysis was compiled by Nancy Marrier and Nicole Krotoski and included a comprehensive summary of some of the changes in the financial statement. Ms. Sheipline noted the changes between fiscal year 2016 and 2017 including the restricted cash balance, grants/incentives receivable, net pension obligation, net position, operating revenues and operating expenses. A significant portion of the unearned revenue includes the Powerhouse Science Center. SGA became a CalPERS member on July 1, 2016. RWA employee service while working on SGA administration is now considered SGA compensation for pension plan contributions and liabilities. This is the first year a portion of the RWA pension liability was transferred to SGA. The actuarial valuation dated July 1, 2015 includes an actuarial accrued liability of \$986,832 and an unfunded liability of \$75,579. The historical schedule of funding progress included in the required supplementary section shows whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. She explained the restricted net position and board designations at June 30, 2017. The operating fund is designed to ensure cash resources are available to fund daily administration and operations for RWA as well as a resource for matching funds for grant partnership opportunities.

Bob Simons, Richardson and Company, explained the governance letter that shows management judgments and accounting estimates, and a summary of what was done during the audit. There were no audit adjustments noted, there were no differences noted that were not adjusted, there were no difficulties in performing the audit and no unusual accounting practices. The management letter indicated good internal controls with an informational item about GASB 75, recognizing an accounting liability for OPEB, to be implemented in FY18. There is a recurring item regarding the OPEB liability with a change in accounting principles to implement GASB 75.

M/S/C Ms. McKinney moved, with a second by Mr. Schubert, to recommend RWA Board acceptance of the 2017 RWA financial audit report. The motion carried by the unanimous voice vote of all directors present.

## **5. STRATEGIC PLAN UPDATE**

RWA adopted its *Strategic Plan 2013-2018+* in late 2013. In the interim, a number of internal and external factors have changed, including the passage of the Sustainable Groundwater Management Act, the drought emergency, and proposals for new permanent water conservation standards.

The Strategic Plan included objectives in four primary goal areas, 1) Regional Planning, 2) Implementation, 3) Information and Education, and 4) Advocacy. RWA has made significant progress in implementing the plan over the last four years. However, in order for the Strategic Plan to continue to guide RWA's

success, modifications are needed. RWA Board members were given the opportunity to comment on the Strategic Plan, and their input was considered by staff and the Executive Committee.

John Woodling, Executive Director, said that the RWA Board adopted modifications to the Regional Planning and Implementation elements of the Strategic Plan on July 13, 2017 and adopted modifications to the Advocacy Goal of the Strategic Plan on September 14, 2017. The final piece of the Strategic Plan to be updated is the Information/Education element. Proposed modifications to the Information/Education element were attached for consideration by the Executive Committee. Mr. Woodling explained the modifications that were made.

After discussion it was agreed to add language to A.1. to read “Educate members through periodic RWA Water Workshops and updates on relevant topics.” The title will be amended with “and a clearinghouse for sharing information” removed, with an “and” added between “issues” and “outreach.”

M/S/C Mr. Roscoe moved, with a second by Mr. Schubert, to recommend RWA Board approval of modifications to the Information/Education element of the RWA Strategic Plan 2018+ with the addition of “and updates” to A.1 and the title amended as noted above. The motion carried by the voice vote of the remaining directors present.

## **6. 2018 RWA BOARD MEETING SCHEDULE**

M/S/C Mr. Roscoe moved, with a second by Ms. Schmitz, to recommend RWA Board approval of the proposed RWA Board meetings for 2018. The motion carried by the unanimous voice vote of all directors present.

## **7. RWA JANUARY 11, 2018 BOARD MEETING AGENDA**

Mr. Woodling explained the approval of pay scales on the consent calendar. A requirement of CalPERS is that new salary schedules have to be reported to them. RWA adopted a policy where we add the COLA to the ranges annually and update the schedule. Every time a salary schedule is updated or approved, the exhibit with the new number needs to be sent to CalPERS. Salary schedules for 2014 through 2017 must be approved and sent to CalPERS to comply with their requirements.

M/S/C Mr. Roscoe moved, with a second by Mr. Greenwood, to approve the January 11, 2018 RWA Board Meeting agenda. The motion carried by the unanimous voice vote of all directors present.

## **8. SUBCOMMITTEE UPDATE**

Kerry Schmitz, Conference/Workshop Subcommittee chair, reported that the October 27<sup>th</sup> RWA Legislative Process Workshop was attended by over 20 members and interested parties. The workshop was approved for 1.5 hours of SWRCB Drinking Water Operator Certification continuing education contact credit. The subcommittee is planning a workshop on public goods charge and water

affordability on March 15 2018. Progress is being made on securing an event location, a draft agenda, possible speakers and a save the date flyer to be sent out.

Mr. Woodling commented that legal counsel is currently reviewing a proposed building lease. An update on the building lease process will be provided at the next Executive Committee meeting.

## **9. EXECUTIVE DIRECTOR'S REPORT**

**Review of North American Basin Regional Drought Contingency Plan** – Mr. Woodling reported that Reclamation has found the North American Basin Regional Drought Contingency Plan to be in accordance with the Drought Response Program requirements. A copy of the memo from the Bureau of Reclamation was included in the packet.

**2018 RWA Holiday Social Event** – The Holiday Social is planned for tomorrow night at the North Ridge Country Club.

**Legislative Update** – Mr. Woodling and Mr. Robin met with Grant Davis from the Department of Water Resources to discuss the need for a technical foundation for standards and the need for the data that the state is committed to providing. Mr. Davis said that he understands what the role of the department should be. There have also been a series of meetings on Water Efficiency Drought Planning bills that are still outstanding where issues remain.

**North American Subbasin** – Staff submitted a grant application for the groundwater sustainability work. Staff is working on reviewing the DWR best management practices for sustainable management criteria, which is key to the monitoring.

**ACWA Fall Conference** – Mr. Roscoe won the emissary award at the ACWA Fall Conference. Adam W. Robin accepted a joint award that was presented to RWA and Irvine Ranch for outreach and messaging around water efficiency. RWA has good ACWA representation in the upcoming term with Pam Tobin as the Chair and Mark Emmerson as Vice Chair of Region 4, and Josh Alpine is Chair of Region 3.

**Powerhouse Science Center** – Staff expects to bring an amended contract with the Powerhouse Science Center to the Executive Committee for approval in January, 2018. The new contract will include payments to be made at certain milestones of the project.

**Office Space Lease Update** – A renegotiated lease for the current office space is anticipated early in 2018.

Mr. Woodling noted that Mr. Roscoe has served on every Executive Committee since December 2001 when he represented the Citizens Utilities Company. He has also served as Executive Committee Chair and has been on the Executive Committee since RWA's inception.

**10. DIRECTORS' COMMENTS**

Mr. Schubert asked what the RWA policy is on the maximum carry over of employee accrued vacation time. Ms. Marrier said that the policy states that the cap is a maximum of 360 hours.

Mr. Greenwood asked where we stand with regard to groundwater bank planning in our region. Mr. Swartz said that we continue to move forward.

Ms. Tobin said that she is the chair of ACWA Region 4, along with additional representation from several RWA Board members. She thanked Mr. Roscoe for sharing his great institutional knowledge. She asked that anyone with ideas for ACWA to please forward them to her. She thanked Mr. Woodling and Mr. Robin for all of their work.

Ms. Schmitz said their current Water Resources Chief Financial Officer is retiring and they will be recruiting for the position. With respect to Groundwater, there's a public meeting scheduled for December 13<sup>th</sup>, that will focus on the basin boundary modification. Tom Gohring, Sacramento Water Forum will be facilitating the meeting.

Ms. McKinney said that she enjoyed serving on the Executive Committee the past year.

Vice Chair Yasutake congratulated Mr. Roscoe on his award at ACWA and he expressed his thanks to Mr. Roscoe for his insight on water policy. Next week the City of Folsom will be holding elections for the 2018 Mayor and Vice Mayor.

Mr. Roscoe suggested that staff bring options back to future Executive Committee meetings to discuss member exit fees for future audits and future liabilities. He thanked everyone for their support.

**ADJOURNMENT**

With no further business to come before the Executive Committee, Vice Chair Yasutake adjourned the meeting at 10:05 a.m.

By:

\_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Nancy Marrier, Board Secretary / Treasurer

**AGENDA ITEM 4b. EXECUTIVE COMMITTEE REPORT AND RECOMMENDATION**

**BACKGROUND:**

Richardson and Company has completed the financial audit for the fiscal year that ended June 30, 2017. The Executive Committee has reviewed the full audit report that is attached.

Information Presentation: Ingrid Sheipline, Richardson & Company

**EXECUTIVE COMMITTEE RECOMMENDATION:**

**Action: Accept the 2017 RWA Financial Audit Report**

REGIONAL WATER AUTHORITY

Summary of 2016/17 Audit Results

January 11, 2018

Presentation by Richardson & Company, LLP of the Audited Financial Statements, including the following communications required by Generally Accepted Auditing Standards:

Reports issued

- Auditor's opinion on financial statements
- Internal Control and Compliance Report
- Governance (required communications) letter
- Management letter

Independent Auditor's Report

- Unmodified (clean) opinion

Discussion of financial statements

Statements of Net Position (page 20)

- Increased restricted cash – \$500,000 advanced by members
- \$3.7 million of grants receivable from State and payable to agencies
- Unrestricted net position of \$856,778 (designated by Board)

Statements of Revenues, Expenses (page 21)

- Decreased grant activity of \$2.4 million – Prop 50 grant ended
- Net income of \$274,221 to add to reserves

Note 1, Unearned Income (page 28)

- Member assessments collected and recorded as unearned income
- No amounts paid to Powerhouse

Note 5, Employee Benefit Plans (pages 34 to 42)

- Pension liability decreased to \$147,540 – portion of liability allocated to SGA
- OPEB underfunding of \$75,579 based on July 2015 valuation

Note 6, Net Position Restrictions and Designations (pages 44 and 45)

- Unexpended amounts for WEP
- Designations for operating fund and other items
- Unrestricted net position not sufficient to cover designations, but cash is sufficient

Note 10, Contingencies

- Commitment to Powerhouse (page 47)

Supplementary information on pension (page 49)

- RWA's plan is 89% funded due to additional contributions made

Report on Internal Control and Compliance (pages 56 to 57)

- No internal control weaknesses noted
- Complied with applicable laws and regulations material to the financial statements

Governance letter

- No change in accounting practices
- No audit adjustments noted
- No difficulties in performing the audit and no unusual accounting practices

Management letter

- Good internal controls
- Informational item about GASB 75

**REGIONAL WATER AUTHORITY**  
**INDEPENDENT AUDITOR'S REPORT**  
**and**  
**FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Regional Water Authority  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Regional Water Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017 and 2016 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions to the Pension Plan and Schedule of OPEB Funding Progress as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts

and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Richardson & Company, LLP*

November 29, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Regional Water Authority (“RWA”) promotes collaboration on water management and water supply reliability programs in the greater Sacramento area. The following discussion and analysis of the RWA financial performance provides an overview of the financial activities for the fiscal years ending June 30, 2017 and 2016. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 20 to 48 of this report.

### Description of Basic Financial Statements

RWA maintains its accounting records in accordance with generally accepted accounting principles for a special-purpose government engaged in business-only type activities as prescribed by the Government Accounting Standards Board. The accounts of RWA are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because RWA recovers operational costs through assessment fees and charges, RWA’s funds are accounted for as an enterprise fund type of the proprietary fund group. The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

RWA’s statement of net position include all assets, deferred inflows, liabilities, and deferred outflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether RWA’s financial position is improving or deteriorating.

The statement of revenues, expenses, and changes in net position report all of RWA’s revenues and expenses during the periods indicated. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. interest income, pension expense and amounts due to vendors).

The statement of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from interest earnings and cash used for equipment purchases.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 24 to 48 of this report.

## Condensed Financial Information

For the fiscal years ending June 30, the following condensed comparative balance sheets are presented:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current Assets	\$ 6,152,602	\$ 6,248,543	\$ 4,653,757
Capital Assets	3,947	7,644	13,058
Non-Current Assets	456	3,191	5,927
Deferred Outflow	<u>236,571</u>	<u>350,093</u>	<u>123,438</u>
Total Assets	<u>\$ 6,393,576</u>	<u>\$ 6,609,471</u>	<u>\$ 4,796,180</u>
Current Liabilities	\$ 4,758,327	\$ 5,094,324	\$ 3,551,547
Non-Current Liabilities	<u>245,599</u>	<u>413,212</u>	<u>384,009</u>
Total Liabilities	<u>5,003,926</u>	<u>5,507,536</u>	<u>3,935,556</u>
Deferred Inflows	<u>123,424</u>	<u>109,930</u>	<u>154,692</u>
Net Position:			
Invested in capital assets	3,947	7,644	13,058
Restricted	405,501	297,009	328,170
Unrestricted	<u>856,778</u>	<u>687,352</u>	<u>364,704</u>
Total net position	<u>\$ 1,266,226</u>	<u>\$ 992,005</u>	<u>\$ 705,932</u>

### *Current Assets*

Current assets consisted of cash, grants receivable, accounts receivable, interest receivable, prepaid expenses and amounts due from Sacramento Groundwater Authority (“SGA”), a related party. RWA has several ongoing grant awards and funding partnerships with the California Department of Water Resources (“DWR”), the United States Bureau of Reclamation (“USBR”), and Sacramento County Regional Sanitation District (“SRCSD”). Amounts due from grants and partnerships can be expected to vary from year to year, depending upon the availability of grant awards, as well as the timing of the fulfillment of these obligations.

RWA acts as the administrative manager for SGA to carry out the objectives of SGA. Staffing and overhead costs, including common costs to operate the office, are allocated between both entities under an Administrative and Management Service agreement resulting in amounts due from SGA. The Statements of Net Position reflect the amounts due from SGA. Additionally, the Schedule of Allocated Administrative Expenses in the supplementary section lists the allocated expenses by category to SGA.

### *Fiscal Year 2017 Compared to Fiscal Year 2016*

Total current assets have decreased \$95,941 and reflect a decrease in grant receivables from the prior year by \$827,714. The June 30, 2017 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Grant, the Proposition 84 grant, the 2014 Proposition 84 Drought Grant, the Proposition 84 Round 3 and the USBR/CALFED grants. The current assets decrease is offset by a \$722,988 increase in cash and restricted cash due to receiving grant awards greater than grant payments, receiving additional member advances, receiving advance funds for Powerhouse and Regional Reliability programs, and the timing of payments to vendors.

### *Fiscal Year 2016 compared to Fiscal Year 2015*

Total current assets have increased \$1,594,786 reflecting grants receivables increasing by \$1,545,592 from the prior year. The June 30, 2016 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Grant, the Proposition 84 grant, the 2014 Proposition 84 Drought Grant, and the 2014 Water Energy Grant.

### ***Capital Assets***

Net capital assets include office furniture, office equipment, website development, and leasehold improvements, net of accumulated depreciation. The overall decrease in capital assets for fiscal year 2017, fiscal year 2016, and fiscal year 2015 reflects the annual depreciation of leasehold improvements and office equipment.

### ***Non-Current Assets***

Non-current assets represent shared office equipment, furniture and remodeling costs that was acquired with SGA from cash received as part of a lease incentive in renewing the office lease in fiscal year 2012. These acquisition costs will be amortized over the life of the office lease agreement in the form of rental expense reimbursement to RWA.

### ***Deferred Outflows***

Deferred outflows represent pension related contributions to the pension plan, adjustments due to the change in proportions (allocations) of the pension plan to RWA, net differences between the projected versus actual investment earnings, and differences between expected and actual experience of the pension plan.

### *Fiscal Year 2017 Compared to Fiscal Year 2016*

Pension contributions of \$89,566 made during the year ending June 30, 2017 which apply to the pension plan measurement date of June 30, 2017 will impact the pension expense during the year ending June 30, 2018 since the measurement date is lagging one year from the fiscal year. The balance of deferred outflows is being amortized over the next few years and will increase pension expense. See Note 5 for the amortization schedule.

During fiscal year 2017, SGA was required to establish its own pension plan with CalPERS even though the RWA employees assisted SGA and these individuals were not considered SGA employees. Since SGA is now legally responsible to make pension contributions on behalf of work done by RWA employees during fiscal year 2017, it was determined that SGA should be classified as a special funding situation and therefore reflect an allocated portion of pension related amounts, including the deferred outflows, deferred inflows, and net pension liability. The allocation of these amounts to SGA contributed to a decrease in the deferred inflow balance compared to fiscal year 2016. Since the actual pension data for SGA will lag by two years, RWA made an estimate of the allocation percentages that SGA will incur of approximately 42%. This allocation was based upon the most recent actuarial valuations available to RWA for the June 30, 2016 year. The allocation of these amounts to SGA resulted in an overall decrease to pension expense during fiscal year 2017.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

Pension contributions of \$293,426 made during the year ending June 30, 2016 which apply to the pension plan measurement date of June 30, 2016 increased the pension expense during the year ending June 30, 2017. The increase to deferred outflows between the two years effectively decreased pension expense during fiscal year 2016. Deferred outflows are a result of implementing of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (“GASB 71”) during the year ended June 30, 2015.

#### ***Current Liabilities***

Current liabilities due within one year include amounts due to vendors and accrued liabilities, the current portion of compensated absences, grants payable to program participants, subscription program advances and unearned revenue.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

There was a \$335,997 decrease in current liabilities in fiscal year 2017 due to a decrease in grants payable of \$739,522 as a result of a decrease in grant revenue and the timing of those payments to participants. Accounts payables increased by \$142,548 due to the timing of vendor payments. Subscription program advances increased by \$145,635 reflecting fees collected for these programs for expenses that have not yet occurred. Unearned revenue increased by \$104,758 due to the Regional Reliability Program and Powerhouse Science Center.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

There was a \$1,542,777 increase in current liabilities in fiscal year 2016 due to a large increase in grants payable of \$1,408,966 as a result of an increase in grant revenues and the timing of those payments to participants. Accounts payable decreased by \$87,449 due to timing of vendor payments. Subscription program advances increased by \$205,425 reflecting fees collected for these programs for which expenses have not yet been incurred.

### ***Non-Current Liabilities***

Non-current liabilities include unearned revenue and the net pension obligation. See Note 5 for additional net pension obligation information. Noncurrent liabilities also consist of compensated absences which are not expected to be used during the next fiscal year. See Note 8 for additional information for compensated absences.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

RWA's non-current liability decreased by \$167,597 due to a decrease in the net pension liability since SGA now has its own PERS contract and has been allocated a portion of the pension liability. Unearned revenue has increased due to the additional Powerhouse Science center collections and collections from members for the Regional Reliability Plan.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

RWA's non-current liability increased by \$29,203 mainly due to an increase in unearned revenue from the Powerhouse Science center advance collections.

### ***Deferred Inflows***

Deferred inflows comprise primarily of unamortized pension adjustments. These remaining pension adjustments will be amortized to pension expense over the next few years. See Note 5 for additional information. Additionally, deferred inflows include the lease incentive received when renewing the lease for the year ending June 30, 2012. This lease incentive will be amortized over the life of the lease. See Note 7 for additional information, including the portion which will be amortized in the next year.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

The increase of \$13,494 in deferred inflows mainly represents unamortized pension adjustments caused by timing of when they are reflected in pension expense as a result of GASB 68. Additionally, a portion of the deferred inflows were also allocated to SGA during fiscal year 2017.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

The decrease of \$44,762 in deferred inflows mainly represents changes in unamortized pension adjustments effecting pension expense during the year ending June 30, 2016 caused by timing of when they are reflected in the pension liability valuation.

### ***Net Position Invested in Capital Assets***

The decrease in invested in capital assets net of accumulated depreciation is due to an additional year of depreciation on the capital assets for each year.

### ***Restricted Net Position***

Restricted net position represents funding set aside for both the Water Efficiency Program (“WEP”) and the Integrated Regional Water Management Plan (“IRWMP”).

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

Restricted net position increased by \$108,492 due to WEP having an increase in their net earnings in excess of expenses in current fiscal year.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

Restricted net position decreased by \$31,161, reflecting the 100% use of the IRWMP funds of \$56,311. WEP had a \$25,150 increase in the current fiscal year.

### ***Unrestricted Net Position***

Unrestricted net position consists of amounts that do not meet the definition of “restricted” or “invested in capital assets.” These unrestricted net assets may be used to meet RWA’s ongoing obligations to member agencies and creditors.

The unrestricted net position has been designated for purposes authorized by the Board. Designations include operating and fee stabilization funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 6 for additional information.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

Unrestricted net position of \$856,778 reflects an increase of \$169,426, due to net income of \$274,221, a portion of which includes the WEP and included in restricted net position.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

Unrestricted net position of \$687,352 reflects an increase of \$322,648, reflecting an increase due to net income of \$286,073.

### **Condensed Schedule of Revenues, Expenses, and Changes in Net Position**

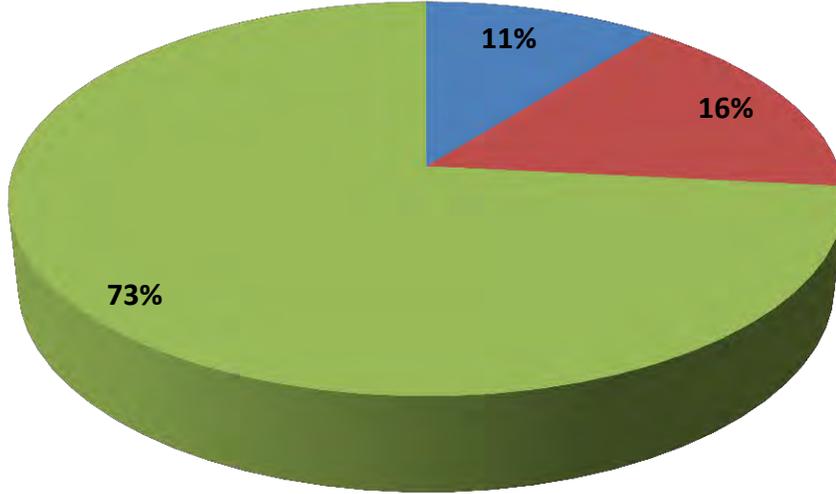
For the fiscal years ending June 30, the following condensed schedules of revenues, expenses, and changes in net position are presented:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Assessment Income	\$ 835,231	\$ 776,389	\$ 703,915
Subscription Program Fees	1,248,759	1,228,371	699,147
Incentives, Grants and Reimbursements	5,745,315	8,188,155	5,049,714
Other Income	<u>15,669</u>	<u>6,010</u>	<u>5,560</u>
Total Operating Revenues	7,844,974	10,198,925	6,458,336
Non-operating income	<u>16,647</u>	<u>6,887</u>	<u>3,325</u>
Total Revenues	7,861,621	10,205,812	6,461,661
Operating Expenses:			
Administrative Expenses	966,023	733,982	758,767
Core Program Expenses	-	31,986	57,845
Subscription Program			
Direct Expenses	1,884,677	990,876	453,254
Grant Awards	<u>4,736,700</u>	<u>8,162,895</u>	<u>5,039,888</u>
Total Operating Expenses	<u>7,587,400</u>	<u>9,919,739</u>	<u>6,309,754</u>
Increase in Net Position	274,221	286,073	151,907
Net Position, July 1, as previously reported	992,005	705,932	914,356
Restatement for change in accounting principle	-	-	<u>(360,331)</u>
Net Position, July 1, as restated	<u>992,005</u>	<u>705,932</u>	<u>554,025</u>
Net Position, June 30	<u>\$ 1,266,226</u>	<u>\$ 992,005</u>	<u>\$ 705,932</u>

### ***Operating Revenues***

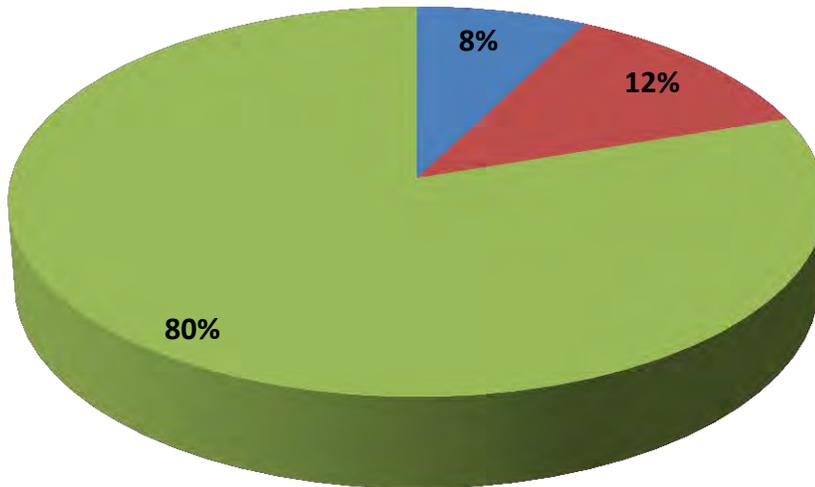
RWA's operating revenues are substantially derived from assessment fees, subscription program fees ("program fees"), and grant awards. Grants and incentives are awarded to RWA from state, federal, or local agencies to fund water related projects and conservation, depending upon the grant program. For additional information on the subscription and grant programs, see the Statement of Revenues, Expenses and Changes in Net Assets – By program in the supplementary information section of the financial statements.

**2017**

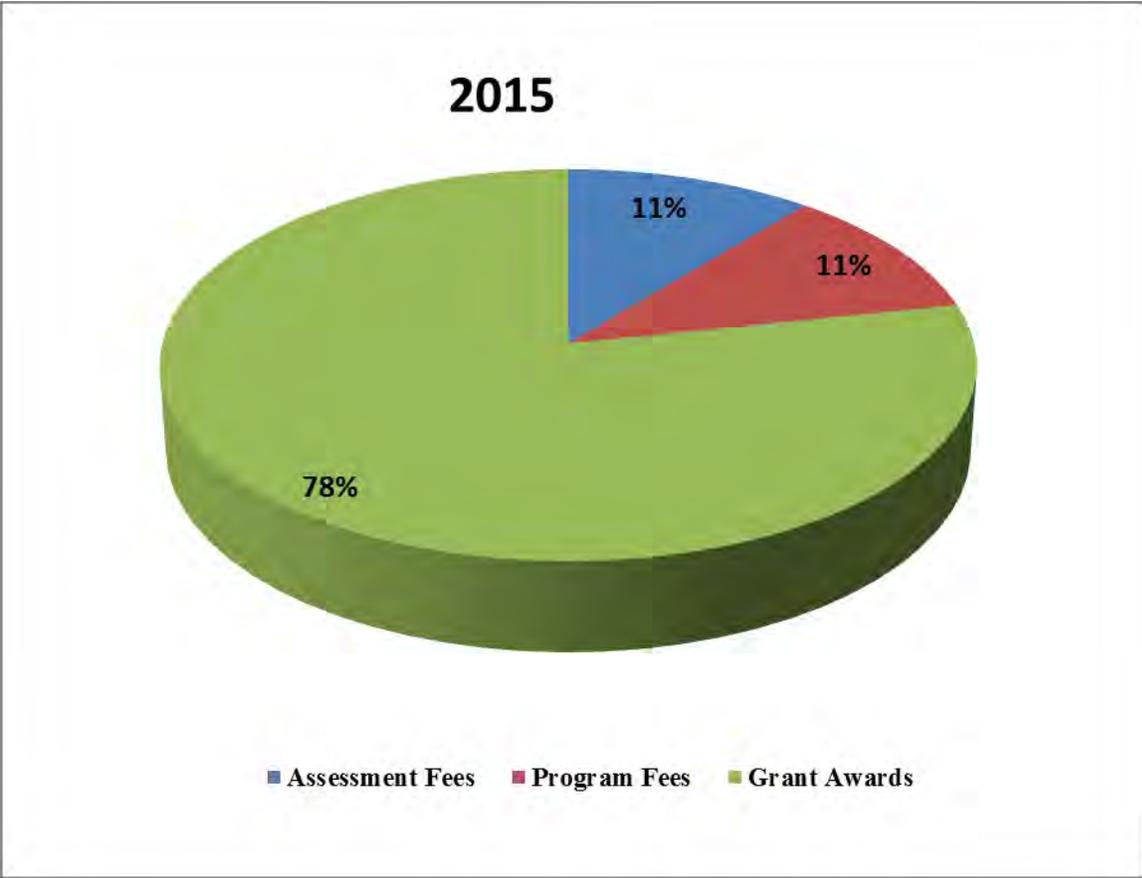


■ Assessment Fees ■ Program Fees ■ Grant Awards

**2016**



■ Assessment Fees ■ Program Fees ■ Grant Awards



*Fiscal Year 2017 Compared to Fiscal Year 2016*

Operating revenues totaled \$7,844,974 and was \$2,353,951 lower than the previous year. The decrease is mainly due to lower grant incentives due to some of the multi-year grants being completed this year.

*Fiscal Year 2016 compared to Fiscal Year 2015*

Operating revenues totaled \$10,198,925 and was \$3,740,589 higher than in the previous year. The increase is largely due to higher grant and incentive earnings, followed by an increase in subscription program fees and assessment income in the current year.

***Assessment fees***

Annual assessment fees are paid by members and are designed to fund the core RWA activities.

*Fiscal Year 2017 Compared to Fiscal Year 2016*

The \$58,842 increase in assessment fees is due to an 11% increase for the year ending June 30, 2017 for the additional funding of the new water policy position as well as the continued set aside of future payments for the unfunded pension liability.

### *Fiscal Year 2016 compared to Fiscal Year 2015*

The \$72,474 assessment fee income increase was due to a ten percent assessment fee increase for the year ending June 30, 2016. The RWA Board approved the increase in RWA general fees for additional support to incrementally implement the strategic plan over time using consulting expenses to help staff manage the growing regional water issues affecting its members.

### ***Subscription Program Fees***

Subscription program fees are derived from additional one-time or ongoing subscription-based programs for services or products available in addition to the core RWA activities. Fees charged for these products and services are designed to cover the costs of the additional services offered beyond the core membership service. Program fees will vary from year to year as the projects are often limited in duration.

### *Fiscal Year 2017 Compared to Fiscal Year 2016*

During fiscal year 2017, RWA mainly earned subscription program fees from the labor compliance program, the Regional Reliability Plan, the Water Efficiency Program (“WEP”), the Proposition 50 \$25 million Grant Program (“Prop 50”), the \$16 million Proposition 84 Program (“Prop 84”), the government relations program, the 2014 Integrated Regional Water Management Drought Proposition 84 Grant (“2014 Drought Prop 84”), the American River Basin (ARB) study and the USBR retrofit program. Program fees are not expected to be comparable from year to year. The program fees increased overall by \$20,388. For the detail of fees earned by program, see the Schedule of Program Revenue, Expenses and Changes in the supplementary section of the financial statements.

### *Fiscal Year 2016 compared to Fiscal Year 2015*

During fiscal year 2016, RWA mainly earned subscription program fees from reclamation basin study, the IRWM grant application fees, labor compliance, the Water Efficiency Program (“WEP”), the Proposition 50 \$25 million Grant Program (“Prop 50”), the \$16 million Proposition 84 Program (“Prop 84”), the government relations program, the 2014 Integrated Regional Water Management Drought Proposition 84 Grant (“2014 Drought Prop 84”), and the USBR retrofit program. Program fees are not expected to be comparable from year to year. The program fees increased overall by \$529,224, largely attributable to two subscription programs:

- 1) WEP members agreed to contribute a one-time \$150,000 for an extended public outreach program to help with drought messaging.
- 2) RWA has been awarded multiple grant awards through the USBR WaterSMART and the USBR/CalFed programs. RWA was not considered an eligible applicant under these programs because it does not have water delivery authority. Various member agencies applied for the grant. RWA is the project manager for these grants and submits grant reimbursement requests on behalf of RWA agencies. Revenues from these subscription fees increased by \$385,707, largely from the 2014 USBR Retrofit program.

### *Incentive, grants and reimbursements*

State, federal and local government grants and incentives will vary from year to year based upon availability and applicability to participating agencies. The grants generally represent monies earned by member agencies and other program participants, but administered by the RWA under agreement with the grantors. Some specific grant agreements distribute grant awards to RWA to pay program expenses directly instead of paying the member agency.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

In fiscal year 2017, RWA earned grant awards from the WEP, Prop 50, Prop 84, 2014 Drought Prop 84, 2014 Water Energy, and the Prop 84 Round 3 grants. Two programs contributed largely to the overall \$2,442,840 decrease in grant awards:

- 1) The Prop 50 grant revenue decreased by \$4,338,562 for a total of \$377,629 in awards in fiscal year 2017. This grant was a joint application with the Freeport Regional Water Authority (FRWA) for \$25 million in Proposition 50 grant funds for a package of 14 integrated regional water management projects. These 14 projects include expanding regional conjunctive use facilities, expanding the use of recycled water, and habitat/recreation improvement. Because the Department of Water Resources would only execute the funding agreement with one entity, RWA entered into the agreement with DWR and is managing the grant on behalf of the participating agencies. The eligible grant period ended June 30, 2016. RWA closed out the project and applied for remaining retention balances in fiscal year 2017.
- 2) The Water Efficiency Program grant awards decreased by \$297,642 in fiscal year 2017 for a total of \$358,860.

The decrease in the above grant revenues was also offset by an increase in grant revenues for the following programs:

- 1) Prop 84 grant revenues increase of \$1,188,673 for a total of \$2,849,653.
- 2) 2014 Water Energy grant revenue increase of \$780,562 for a total of \$807,916.
- 3) New Prop 84 round 3 grant revenues of \$238,226.

#### *Fiscal Year 2016 compared to Fiscal Year 2015*

In fiscal year 2016, RWA earned grant awards from the WEP, Prop 50, Prop 84, and the 2014 Drought Prop 84. Two programs contributed largely to the overall \$3,138,441 increase in grant awards:

- 1) The Prop 50 grant revenue increased by \$4,526,752 for a total of \$4,716,191 in awards in fiscal year 2016. This grant was the previously mentioned joint application with the Freeport Regional Water Authority (FRWA) for \$25 million in Proposition 50 grant funds for a package of 14 integrated regional water management projects. The eligible grant period ended June 30, 2016. RWA applied for the remaining retention balances in fiscal year 2017.

- 2) The Department of Water Resources (DWR) awarded RWA \$9.765 million from the 2014 Drought Prop 84. The grant will partially fund 17 projects by 12 different agencies that will help the region maintain water supply if drought conditions persist. Revenue on this grant decreased by \$1,492,164 for a total of \$1,127,128 in fiscal year 2016. The program is expected to end by June 30, 2018.

### ***Non-operating revenue***

Non-operating revenue represents interest and increased slightly each year, reflecting a slight change in interest rates and higher year end cash balances.

### ***Operating expenses***

Operating expenses fall into four major categories: administrative expenses, core program expenses, subscription program direct expenses, and grant awards.

### ***Administrative Expenses***

Administrative expenses represent the net costs associated with executing the core RWA strategy and activities. RWA incurs common administrative expenses for both RWA and SGA which then are invoiced to and reimbursed by SGA. These costs can include but are not limited to rent, administrative staff, professional fees, and office costs. Administrative management costs are essentially allocated 50/50 to SGA except for the WEP staff and the program assistant whose time is allocated based upon time spent. The total gross administrative expenses to run both organizations along with the SGA allocation are presented as Allocated Administrative Expenses in the supplementary information section of the financial statements. RWA also allocates staffing costs to the subscription-based programs for administering these programs. These subscription-based programs pay for these costs from the subscription-based fees.

The reimbursements invoiced to SGA of \$476,712, \$556,278, and \$475,522 for the years ending June 30, 2017, 2016, and 2015, respectively, are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Position.

### ***Fiscal Year 2017 Compared to Fiscal Year 2016***

As illustrated in the supplementary schedule of Allocated Administrative Expenses, overall administrative expenses increased by \$152,475 from the previous fiscal year which included an additional \$126,864 in staffing costs, an increase of \$6,899 in office expenses and an increase of \$20,430 in professional fees. The increases in staffing costs were due to hiring a new Legislative and Regulatory Affairs Program Manager. Net expenses after allocation to RWA were higher than the previous year by \$232,041 in part due to the increased staffing expenses and in part due to decreased cost allocations to SGA due to SGA paying its own pension related costs, both current and additional payments.

### ***Fiscal Year 2016 Compared to Fiscal Year 2015***

After allocating costs to SGA, overall administrative expenses incurred by RWA decreased from the previous year by a net \$24,785. Prior to allocating costs to SGA, RWA incurred an additional

\$55,971 in administrative expenses, which included an additional \$10,473 in staffing costs, an increase of \$2,837 in office expenses and \$44,484 increase in professional fees. Increases in professional fees were expected since RWA employed a retired annuitant to help with legislative issues plus incurred additional core public relations costs.

### ***Core Program Expenses***

Core program expenses are comprised of costs associated with water related projects funded by annual dues.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

For the year ending June 30, 2017, core expenses decreased \$31,986 related to Integrated Regional Water Management Plan and Powerhouse Science Center. Due to the delay of the Powerhouse Science Center construction, RWA has not incurred expected expenses in fiscal year 2017.

#### *Fiscal Year 2016 Compared to Fiscal Year 2015*

For the year ending June 30, 2016, core expenses decreased \$25,859 and included Integrated Regional Water Management Plan (IRWMP) expenses and the Powerhouse Science Center water exhibit expense. Direct expenses incurred to maintain and implement the Integrated Regional Water Management Plan (IRWMP) are now considered a core function of RWA.

During fiscal year 2016, RWA paid a total of \$25,000 to the Powerhouse science center in an agreement to pay for water related exhibits of which \$5,000 was funded by WEP compared to the payment of \$50,000 made in fiscal year 2015.

### ***Subscription Program Direct Expenses***

The subscription program direct expenses correlate to the subscription-based revenues, which represent additional services over and above the core RWA membership services. These expenses typically consist of program-related legal fees, outside consulting assistance for program execution, as well as communication and print material deliverables. These expenses will closely track with the subscription-based revenues in any given year as the costs of the projects are funded by special assessments paid for by program participants who benefit from the program. These costs are sometimes funded by grant awards. Expenses and the related revenues associated with special subscription projects are expected to fluctuate from year to year as the nature and scope of these projects are continually changing to meet the changing needs of the membership.

#### *Fiscal Year 2017 Compared to Fiscal Year 2016*

During fiscal year 2017, RWA incurred subscription program expenses from the core program, WEP, Prop 50, the government relations program, the 2014 Water Energy Grant program, Prop 84 Round 3 Grant Program, and the USBR programs. Program expenses are not expected to be comparable from year to year. The program expenses increased overall by \$893,801, as follows:

- 1) The core program subscription direct expenses include the regional reliability costs of \$307,389, labor compliance costs of \$71,079, ARB study costs of \$29,716, and \$9,587 for the 2018 IRWM update this year.
- 2) The government relations program decreased by \$2,194 for a total of \$120,000 in consulting costs during the fiscal year ending June 30, 2017.
- 3) The Prop 84 Round 3 subscription costs represent public outreach costs during fiscal 2017 of \$132,874.
- 4) The 2014 Water-Energy grant expenses increased by \$809,328 due to increased activity by the consultant.
- 5) The WEP administration costs of \$171,448 represents administering public outreach about water saving and awareness.
- 6) The USBR programs decreased by \$184,276 in expenses during the year as the programs were finishing during 2017.

#### *Fiscal Year 2016 Compared to Fiscal Year 2015*

During fiscal year 2016, RWA incurred subscription program expenses from the core program, WEP, Prop 50, the government relations program, the 2014 Water Energy Grant program, Prop 84 Round 3 Grant Program, and the USBR programs. Program fees are not expected to be comparable from year to year. The program fees increased overall by \$537,622, largely attributable to five subscription programs:

- 1) The core program subscription direct expenses include reclamation basin costs of \$14,964, IRWM grant application costs of \$29,996, and regional reliability costs of \$41,607 that are new this year.
- 2) The government relations program increased by \$62,194 for a total of \$122,194 in consulting costs during the fiscal year ending June 30, 2016. The increased costs represent a full year program versus a partial year program in the prior year.
- 3) The Prop 84 Round 3 subscription costs represent new public outreach costs during fiscal 2016 of \$71,670.
- 4) As the administrator for the USBR Programs, these expenses correlated to the administration of the grant and are funded by subscription-based revenue. There was an increase of \$384,097 in cumulative direct expenses incurred in the current fiscal year mainly from the 2014 USBR retrofit program.
- 5) RWA no longer incurred 2014 Drought grant application expenses in fiscal year 2016 which reduced costs by \$87,039.

#### ***Grant Awards***

These expenses reflect the amount of grant awards earned by program participants during the fiscal year. These grant award expenses are expected to fluctuate from year to year and typically correlate with grant award revenues and are detailed below. The grant awards represent grant payments to program participants or to project vendors for completion of grant eligibility requirements.

### *Fiscal Year 2017 Compared to Fiscal Year 2016*

In fiscal year 2017, RWA earned grant awards from the WEP, Prop 50, Prop 84, and the 2014 Drought Prop 84 Program, P84 Round 3 and the USBR grants. The activity and payments vary on these grants and year to year comparability is not expected. These programs contributed largely to the overall \$3,426,195 decrease in grant awards expense:

- 1) Prop 50 \$25 million grant decrease of \$4,338,563 in grant awards from the previous year matches the decrease in grant revenues. The Prop 50 grant was concluded in FY2017.
- 2) The 2014 drought grant started in fiscal year 2015. Grant distributions decreased in fiscal year 2017 by \$12,170 for a total of \$1,099,472.
- 3) The Prop 84 \$16 million grant: This grant award is the fifth year of this program. There was \$2,849,653 in eligible costs that were incurred by the participants for grant reimbursement which reflects an increase in grant awards of \$1,188,673.

### *Fiscal Year 2016 Compared to Fiscal Year 2015*

In fiscal year 2016, RWA earned grant awards from the WEP, Prop 50, Prop 84, and the 2014 Drought Prop 84 Program. The activity and payments vary on these grants and year to year comparability is not expected. These programs contributed largely to the overall \$3,123,007 increase in grant awards expense:

- 1) Prop 50 \$25 million grant increase of \$4,526,752 in grant awards from the previous year matches the increase in grant revenues. Grant expenses are completed in fiscal year 2016.
- 2) The Prop 84 \$16 million grant: This grant award is the fourth year of this program. There was \$1,660,980 in eligible costs that were incurred by the participants for grant reimbursement.
- 3) The 2014 drought grant started in fiscal year 2015. Grant distributions decreased in fiscal year 2016 by \$1,507,649 for a total of \$1,111,642 in fiscal year 2016 which corresponds to the grant award earned.

### **Capital Assets**

Capital asset investment includes office furniture, equipment, website development, and leasehold improvements. The decline in capital assets reflects annual depreciation for each year.

Additional information on the capital assets can be found in Note 3 of this report.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Furniture	\$ 14,464	\$ 14,464	\$ 14,464
Equipment	17,307	19,505	21,879
Website Development	15,604	15,604	15,604
Leasehold Improvements	<u>17,951</u>	<u>17,951</u>	<u>17,951</u>
Gross Capital Assets	65,326	67,524	69,898
Less Accumulated Depreciation and Amortization	<u>(61,379)</u>	<u>(59,880)</u>	<u>(56,840)</u>
Net Capital Assets	<u>\$ 3,947</u>	<u>\$ 7,644</u>	<u>\$ 13,058</u>

### **Economic factors and assumptions for fiscal year June 30, 2018**

Periodically, RWA outlines goals and objectives to assist its members in collaborating on programs that will protect and enhance the quality and reliability of the region's water supplies. These goals and objectives drive the annual budget process. The following economic factors and assumptions affected the budget for fiscal year June 30, 2018.

In looking out to the future, RWA can anticipate another potential 10% increase in dues in FY19 in order to meet increased expenses related to new staffing, increased leasing costs, continue paying the unfunded pension plan liability and increased costs related to the change in discount rate, and continue paying for the shift of the WEP manager costs to be funded 30% by core dues. The unfunded pension plan liability cost is expected to increase due to the change in discount rate. FY19 and beyond does reflect increased budgeted 6% salary costs but does not incorporate increases that may arise due to revision of job classifications or compensation benchmark comparisons. Future projections assume RWA and SGA share staffing and administrative costs and subscription based programs will contribute 12% of revenues to pay for core staffing and office costs. No changes to membership are anticipated, including any decline due to agency consolidations or nonparticipation. These changes would have a significant impact on rate increases in the future.

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2018.

### **Requests for Information**

This financial report is designed to provide a general overview of RWA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance and Administrative Services Manager, Regional Water Authority, 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610.

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current Assets		
Cash and Investments	\$ 1,020,747	\$ 937,705
Restricted Cash	1,250,604	610,658
Grants/Incentives Receivable	3,734,078	4,561,792
Accounts Receivable	23,955	31,238
Receivable from Sacramento Groundwater Authority	100,550	87,468
Other Assets	22,668	19,682
Total Current Assets	6,152,602	6,248,543
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	456	3,191
Furniture and Equipment, Net	3,947	7,644
Total Non-Current Assets	4,403	10,835
Deferred Outflow - Pension	236,571	350,093
<b>Total Assets and Deferred Outflows</b>	<b>\$ 6,393,576</b>	<b>\$ 6,609,471</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 278,506	\$ 135,958
Compensated Absences	64,084	53,516
Grants Payable	3,532,064	4,271,586
Subscription Program Advances	747,530	601,895
Unearned Revenue	136,143	31,385
Total Current Liabilities	4,758,327	5,094,340
Non-Current Liabilities		
Compensated Absences	1,300	4,000
Net Pension Obligation	147,540	346,165
Unearned Revenue	96,759	63,031
Total Non-Current Liabilities	245,599	413,196
Total Liabilities	5,003,926	5,507,536
Deferred Inflows		
Rent	6,383	11,854
Unamortized Pension Adjustments	117,041	98,076
Total Deferred Inflows	123,424	109,930
Net Position		
Net Investment in Furniture and Equipment	3,947	7,644
Restricted	405,501	297,009
Unrestricted	856,778	687,352
Total Net Position	1,266,226	992,005
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b>\$ 6,393,576</b>	<b>\$ 6,609,471</b>

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Assessment Income	\$ 835,231	\$ 776,389
Subscription Program Fees	1,248,759	1,228,371
Incentives, Grants, and Reimbursements	5,745,315	8,188,155
Other Income	15,669	6,010
Total Operating Revenues	<u>7,844,974</u>	<u>10,198,925</u>
<b>Operating Expenses</b>		
Administrative Expenses	966,023	733,982
Core Program Expenses	-	31,986
Subscription Program Direct Expenses	1,884,677	990,876
Grant Awards	4,736,700	8,162,895
Total Operating Expenses	<u>7,587,400</u>	<u>9,919,739</u>
<b>Operating Income</b>	257,574	279,186
<b>Other Income</b>		
Interest Income	16,647	6,887
Total Other Income	16,647	6,887
<b>Net Income</b>	274,221	286,073
Net Position, Beginning of Year	992,005	705,932
Net Position, End of Year	<u>\$ 1,266,226</u>	<u>\$ 992,005</u>

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Cash received from members and participants	\$ 2,375,394	\$ 2,295,718
Cash received from SGA	466,365	562,792
Cash received from grants and other sources	6,588,698	6,648,573
Cash paid to employees and related benefits and taxes	(1,090,971)	(1,199,258)
Cash paid to suppliers	(2,154,178)	(1,964,472)
Cash paid to subscription program participants	(5,476,222)	(6,248,876)
Net Cash Provided by Operating Activities	709,086	94,477
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on cash	13,902	5,721
Net Cash Provided by Investing Activities	13,902	5,721
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	722,988	100,198
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	1,548,363	1,448,165
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 2,271,351	\$ 1,548,363
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET</b>		
Cash and cash equivalents	\$ 1,020,747	\$ 937,705
Restricted cash and cash equivalents	1,250,604	610,658
	\$ 2,271,351	\$ 1,548,363

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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	<b>2017</b>	<b>2016</b>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 257,574	\$ 279,186
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,697	5,414
Net pension expense	(66,138)	(257,058)
Change in operating assets and liabilities:		
Grants receivable	827,714	(1,545,592)
Receivable from SGA	(10,347)	6,514
Accounts receivable	7,283	51,827
Other assets	(241)	(3,435)
Accounts payable and accrued liabilities	142,548	(87,449)
Compensated absences	7,868	2,443
Grants payable to member agencies	(739,522)	1,408,966
Member advances payable	145,635	205,425
Deferred inflows - rent	(5,471)	(5,470)
Unearned revenue	138,486	33,706
	<u>138,486</u>	<u>33,706</u>
Net cash provided by operating activities	\$ 709,086	\$ 94,477

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Reporting Entity** – Regional Water Authority (RWA) was formed under a Joint Exercise of Powers Agreement on March 20, 1990 under the previous name of the Sacramento Metropolitan Water Authority. The members of RWA are governmental units in and around the greater Sacramento area of the State of California. RWA also has associate memberships that include public or private entities with water management responsibilities and who are not municipal water suppliers in this region. Lastly, RWA has an affiliate membership class with the purpose to promote communication between water managers and the community and to support RWA’s efforts to educate and inform the public. The mission of RWA is to serve and represent regional water supply interests and assist Regional Water Authority members with protecting and enhancing the reliability, availability, affordability and quality of water resources. RWA promotes regional cooperative projects that will provide reliable long-term water supplies in a cost-effective manner for the benefit of RWA’s membership, rate-payers and consumers.

RWA is governed by a board comprised of two representatives from each of the member agencies. The representatives are appointed by the member agencies.

**Basis of Accounting** – For financial reporting purposes, RWA is considered a special-purpose government engaged in business-only type activities. Accordingly, RWA’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are earned when services are performed and expenses are recorded when an obligation has been incurred.

Operating revenues and expenses are generated and funded through assessments from member agencies, associate and affiliate organizations, and subscription revenues from program participants on a cost reimbursement basis. Additionally, RWA may receive grant awards from federal, state or local agencies. Grants managed on behalf of program participants, administration and depreciation expenses are also considered operating activities. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Administrative expenses are allocated to subscription programs based upon budgeted allocation agreements and based upon staffing resources used. The Authority follows Governmental Accounting Standards Board (“GASB”) Statement No. 62, Codification of Accounting and Financial Report Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (“GASB 62”).

**New Pronouncements** – For the year ending June 30, 2017, RWA has not adopted any new Governmental Accounting Standards Board (GASB) Statements. The following GASB statements will be implemented in future periods.

- a) GASB Statement No. 84 (“GASB No. 84”), Fiduciary Activities which establishes criteria for identifying fiduciary activities of all state and local governments. The effective date of adoption is periods beginning after December 15, 2018.
- b) GASB Statement No. 85 (“GASB No. 85”), Omnibus 2017 which addresses practice issues that have been identified during implementation and application of certain GASB Statements and is effective for reporting periods beginning after June 15, 2017.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- c) GASB Statement No. 87 (“GASB No. 87”), Leases which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and is effective for reporting periods beginning after June 15, 2017.
- d) GASB Statement No. 75 (“GASB No. 75”), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“OPEB”), replacing the requirements of GASB Statement No. 45. GASB No. 75 requires governments that are responsible for OPEB liabilities related to their own employees to report a net OPEB liability on the face of the financial statements, which is the difference between the total OPEB liability and assets accumulated in the trust. New extensive note disclosures and supplementary information about the OPEB liability will also be required. This statement is effective for periods beginning after June 15, 2017.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, RWA considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Cash and Investments** – RWA participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities.

**Furniture and Equipment** – Fixed assets, consisting of furniture, website development costs, office equipment and leasehold improvements in excess of \$2,500 per unit acquired after May 17, 2012, with useful lives of more than one year are stated at historical cost and are included in the financial statements. Before May 17, 2012, assets in excess of \$500 with useful lives of more than one year were capitalized at historical cost. Routine repairs and maintenance are charged to operating expenses in the year the expense is incurred. RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is typically five years or over the lease term for leasehold improvements.

**Deferred Outflows** – Deferred outflows comprise of adjustments that will reduce the net pension liability or increase pension expense over time, depending upon the source of the adjustment. These adjustments include pension contributions after the measurement date, the difference between expected and actual plan experience, changes in proportionate allocations to RWA, net differences between projected versus actual earnings on investment assets, and differences between expected and actual pension contributions. Since the pension plan valuation measurement date of June 30, 2016 lags the fiscal year of June 30, 2017, any pension

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

contributions made subsequent to the measurement date of June 30, 2016 will impact the pension expense in the subsequent fiscal year. The differences between expected and actual experience in regards to changes in economic or demographic factors are amortized into pension expense over the expected average remaining service life (“EARSL”) which is 3.7 years and 3.8 years for measurement dates June 30, 2016 and 2015, respectively. The changes from year to year proportionate plan allocations to RWA and the differences between expected and actual pension contributions are also amortized into pension expense over EARSL. Additionally, pension adjustments for net differences between projected versus actual investment earnings on pension investments are amortized over five years. See Note 5 for details and how these balances are amortized.

**Deferred Inflows** – Deferred inflows are comprised of two items: unamortized pension adjustments and rent related to a lease incentive. The unamortized pension adjustments include changes in assumptions about future economic or demographic factors, adjustments due to changes in proportions (allocations), and differences between actual and expected contributions. These adjustments are amortized over time using EARSL. See Note 5 for details and how these balances are amortized.

The lease incentive received when renewing the lease for the year ending June 30, 2012 is being amortized over the life of the lease. See Note 7 for additional information, including the portion which will be amortized within one year.

**Compensated Absences** – Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statement of Revenue, Expenses and Changes in Net Position. RWA’s policy provides vacation leave to employees at a rate of 12 to 25 days per year based upon the number of years of employment and is considered earned on a pro-rata basis for each payroll period. Unused earned vacation leave is paid to employees upon separation. Total vacation hours are accrued and capped at 45 days. Vacation leave will resume accrual once the employee’s accrued time is less than 45 days.

Sick leave accrues at a rate of eight hours per calendar month and is capped at 480 hours per employee. Upon termination of employment, the employee’s remaining accrued but unused sick leave will be credited to additional service credit for the California Public Employee Retirement System program (CalPERS) to the extent permitted under the CalPERS-Authority contract and CalPERS law. The Authority does not accrue for unused sick leave since it is not paid out upon termination.

**Pensions** – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the RWA’s California Public Employees’ Retirement System (CalPERS) plans (“Plans”) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

During fiscal year 2017, RWA allocated a portion of the net pension liability and related deferred outflows and deferred inflows to SGA. This allocation was a result of determining that SGA now has a legal obligation to the pension plan that began in fiscal year 2017 and will inherit a portion of RWA’s pension obligations based upon the historical staffing time devoted to each organization. Since pension plan data for GASB 68 implementation lags by two years, RWA estimates the allocation of liabilities and related pension adjustments to each entity based upon the most current report of unfunded pension liabilities according to the June 30, 2016 CalPERS Annual valuation for each entity. This allocation resulted in a decrease in a net pension liability and a decrease in pension expenses during fiscal year 2017. See Footnote 5 for additional pension plan disclosures.

**Subscription Program Advances** – Program revenue received in advance of subscription-based program costs are recognized as advances. The purpose of these advances is to pay for subscription-based program costs not paid for by grant awards or to provide a cash flow bridge for grant expenses paid for in advance of grant awards received. These advances will be recognized as revenues as program costs are incurred over the life of the projects. Subscription-based programs often straddle multiple fiscal years. At the completion of the subscription-based program, any unused portion of these fees is typically returned to participants. For the years ending June 30, the advances by subscription programs are as follows:

	2017	2016
	<u>          </u>	<u>          </u>
2014 Water Energy	\$ 500,000	\$ 100,000
Prop 84 Program management	86,573	112,090
Lobbying Subscription Program	81,806	77,806
2014 Drought PM	37,199	59,953
Prop 84 R3 Program management	20,949	-
Prop. 50 - \$25 million grant	11,415	17,439
WEP Prop 84 R3 Program management	7,263	-
SRCSO Water Suppliers	2,325	-
2014 Retrofit	-	131,392
2014 Drought Application	-	72,833
2014 Water Smart	-	15,416
2014 USBR Meter	-	14,966
	<u>          </u>	<u>          </u>
Total	<u>\$ 747,530</u>	<u>\$ 601,895</u>

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Unearned Revenue** – Monies received as assessments relating to subsequent years and received in advance are recorded as unearned revenue. Unearned revenue is comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Powerhouse Science Center	\$ 146,759	\$ 88,031
Regional Reliability Program	86,143	-
Other	-	6,385
Total	<u>\$ 232,902</u>	<u>\$ 94,416</u>
Less: Current Portion		
Powerhouse Science Center	50,000	25,000
Regional Reliability Program	86,143	
Other	-	6,385
Current Portion	<u>136,143</u>	<u>31,385</u>
Non-Current Portion	<u>\$ 96,759</u>	<u>\$ 63,031</u>

There was \$146,759 in unearned revenue that relates to the Powerhouse Science Water exhibit agreement which represents amounts collected from members but not yet remitted to Powerhouse Science Center. RWA received advance funds for the Regional Reliability Program and will recognize revenue as expenses are incurred.

**Net Position** – RWA’s net position is classified into the following categories as follows:

Invested in furniture and equipment: Furniture and Equipment, net of accumulated depreciation.

Restricted: Represent net position which consists of constraints placed on net asset use through external requirements imposed by creditors, grantors, members, or laws and regulations of other governments or constraints by law through enabling legislation. RWA’s restricted net position represent funds for the Water Efficiency Program.

Unrestricted: Funds not subject to any outside legal restrictions on use of these funds and may be designated for use by management or the Board.

**Non-exchange Transactions** – The grant awards and incentives received by RWA are considered voluntary non-exchange transactions since these awards and incentives are entered into willingly by the grantors and RWA. In the non-exchange transactions, RWA receives value (benefit) from another party (the grantor) without directly giving equal value in exchange.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Typically, RWA has administrative oversight in distributing these grant and incentive proceeds to program participants. All current grant agreements offer grant awards on a reimbursement basis once allowable costs have been incurred under the program. These requirements must be met in advance of applying for and receiving the funds from the grantors. RWA recognizes revenues and receivables when all applicable eligibility requirements have been met.

Additionally, RWA simultaneously recognizes a grant award expense and grants payable for these grant awards since RWA then will reimburse participating agencies when the actual cash is received. To the extent RWA receives the allowable cost information from the participating agencies in a timely manner, recognition of receivables and revenues are not delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

**Assessment Income** – Each of the member water districts, cities and service districts pay yearly assessments to RWA based on the number of retail water connections each provides. During 2017, the minimum assessment was \$5,300 and a maximum assessment was \$61,646, not including the special assessment related to the Powerhouse Science Center.

Non-voting associate members pay an annual fee equal to 0.1% of the entity's annual operating budget, rounded to the next even thousand dollars, with a maximum annual fee of \$11,700 per year, subject to adjustments from time to time by the RWA Board. Lastly, RWA affiliates pay an annual fee \$750 per year.

During fiscal years ending June 30 2017 and 2016, RWA also assessed for the Powerhouse Science Center water exhibits that RWA will sponsor. The assessments will continue for five years and vary by member, with a total annual collection of approximately \$60,000 from members. There are two remaining years of collections for the Powerhouse Science Center.

**Subscription Program Fees** – On a subscription basis, RWA provides a water conservation program, media, grant writing, and program and grant administration assistance to certain program participants over and above the core RWA services. Program participants who benefited from these activities reimbursed RWA for their share of direct costs and related administrative overhead. For grant and program administration, RWA invoices program revenue in advance to program participants. Amounts received in advance, but not yet earned by RWA for these activities are recorded as subscription program advances in the financial statements.

**Grant Revenue** – RWA coordinates grant applications among program participants and then administers these grant awards. Typically, the program participants incur the expenses and make payments to vendors and request reimbursement for these expenses from RWA. During fiscal years 2017 and 2016, the Prop 84 grant also funded WEP incurred expenses. RWA has administrative grant responsibilities and submits the grant reimbursement requests to the grantor. The grant reimbursements are recorded in the financial statements as grants revenue and grants receivable. The amounts payable to the program participants and the related expenses are presented in the financial statements as grant awards and grants payable to member agencies.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Related Parties** – RWA invoices the Sacramento Groundwater Authority (SGA) for management services and common office costs. SGA was created in 1998 under another Joint Exercise of Powers Agreement. Many of the member agencies of RWA are also member agencies of SGA. Under an Administrative Services Agreement, SGA and RWA are equally responsible for all costs incurred to operate the joint office. Expenses paid on SGA’s behalf by RWA were \$476,712 and \$556,278 for the years ending June 30, 2017 and 2016, respectively. The Statement of Revenues, Expenses, and Changes in Net Position reflect the net expenses of RWA after reimbursement by SGA. The Statement of Cash Flows reflect the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers. A supplementary schedule of shared administrative expenses outlines the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription-based programs. See the Schedule of Allocated Administrative expenses in the supplementary information.

If capital asset acquisitions benefit both organizations, the costs are shared 50/50 between both organizations. During the year 2012, RWA incurred \$38,296 in office remodel costs, using lease incentives. The accounting treatment of the lease incentive is reflected as deferred inflows for RWA (see Note 7). RWA also recorded a receivable from SGA for 50% of the acquisition costs of the related office remodel. SGA owes 50% of the acquisition cost to RWA and RWA owes 50% of the lease incentive to SGA. RWA will amortize this SGA receivable over the life of the lease by offsetting deferred inflows related to rent for SGA’s portion of the lease incentive.

**Reclassification** – Certain amounts reported in 2016 have been reclassified to conform to the 2017 presentation.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments on the balance sheet consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Deposits with financial institutions	\$ 120,901	\$ 111,816
Investments in LAIF	<u>2,150,450</u>	<u>1,436,547</u>
Total cash and investments	<u>\$ 2,271,351</u>	<u>\$ 1,548,363</u>

**Investments Authorized by RWA’s Investment Policy**

RWA’s investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). RWA is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, the Treasurer of the State of California serving as chairman. The fair value of RWA’s investment in this pool is reported in the Statements of Net Assets as a cash equivalent based upon the RWA’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The total fair value of all public agencies invested in the LAIF at June 30, 2017 and 2016 was \$22,812,817,838 and \$22,712,084,628, respectively. The LAIF balance is a part of the California Pooled Money Investment Account (“PMIA”) and includes the Surplus Money Investment Fund and the General Fund. The total fair value of all public agencies invested in PMIA at June 30, 2017 and 2016 was \$75,539,216,146 and 75,442,588,513, respectively. For information on the types of investments made by LAIF, refer to the State of California Treasurer’s separately issued investment reports. Copies of these investment reports may be obtained by calling (916) 653-3001, by writing to LAIF, 915 Capitol Mall, Room 106, Sacramento, CA 95814, or by logging on to the treasurer’s website at [www.treasurer.gov/pmia-laif/laif.asp](http://www.treasurer.gov/pmia-laif/laif.asp).

The investment policy does not contain any specific provisions to limit RWA’s exposure to interest rate risk, credit risk and concentration of credit risk.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment’s sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments in the LAIF investment pool on June 30, 2017 and 2016 was approximately 194 and 167 days.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

**Concentration of Credit Risk**

LAIF has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments. RWA has 95% and 93% of its cash invested in LAIF for the years ending June 30, 2017 and 2016.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and RWA’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Custodial credit risk

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

At June 30, 2017 and 2016, RWA’s bank balance was \$232,347 and \$2,245,715, respectively. The RWA bank balance is covered 100% by FDIC insurance up to \$250,000. From time to time RWA will be exposed to custodial credit risk since RWA can receive large deposits and write large checks due to grant activity. RWA does bank with a long-standing reputable national bank to mitigate some of this risk.

**Investment in State Investment Pool**

RWA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based upon RWA’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are reported on an amortized cost basis.

**Restricted Cash**

Restricted cash represents cash received by RWA for subscription-based program revenue restricted in use for these programs. The restriction is based upon contractual agreements on how to use the advanced program revenues. Additionally, the amount received in advance of payment to the Powerhouse Science Center has been restricted for its intended use of future contractual payments.

As of June 30, restricted cash by program is as follows:

	2017	2016
	<u>          </u>	<u>          </u>
Water Efficiency Program - Category 1 & 2	\$ 779,760	\$ 152,124
Powerhouse Science Center	146,759	88,031
Prop 84 Program Management	86,573	112,090
Regional Reliability Plan	86,143	-
Lobbying Subscription Program	81,806	77,806
2014 Drought Program Management	37,199	59,953
Prop 84 Round 3 Program Management	20,949	-
Prop. 50 - \$25 Million grant	11,415	17,439
2014 Drought Application	-	72,833
USBR CalFed Meter Programs	-	30,382
	<u>          </u>	<u>          </u>
Total Restricted Cash	<u>\$ 1,250,604</u>	<u>\$ 610,658</u>

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**NOTE 3 – PROPERTY AND EQUIPMENT**

Fixed assets, consisting of furniture, equipment purchases, website development costs and leasehold improvements in excess of \$2,500 per unit with useful lives of more than one year are stated at historical cost. Acquired assets are owned 50% by RWA and 50% by SGA, unless the asset specifically benefits only one agency.

RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is typically three to five years. Leasehold improvements are amortized over the contractual period of the lease agreement. Depreciation and amortization expense is \$3,697 and \$5,414 for the years ending June 30, 2017 and 2016.

A summary of the furniture and equipment at cost is as follows for the years ending June 30:

	Balance			Balance
	June 30, 2016	Increases	Decreases	June 30, 2017
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	19,505	-	(2,198)	17,307
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	<u>67,524</u>	<u>-</u>	<u>(2,198)</u>	<u>65,326</u>
Less accumulated depreciation and amortization	<u>(59,880)</u>	<u>(3,697)</u>	<u>2,198</u>	<u>(61,379)</u>
Fixed Assets, Net	<u>\$ 7,644</u>	<u>\$ (3,697)</u>	<u>\$ -</u>	<u>\$ 3,947</u>

	Balance			Balance
	June 30, 2015	Increases	Decreases	June 30, 2016
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	21,879	-	(2,374)	19,505
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	<u>69,898</u>	<u>-</u>	<u>(2,374)</u>	<u>67,524</u>
Less accumulated depreciation and amortization	<u>(56,840)</u>	<u>(5,414)</u>	<u>2,374</u>	<u>(59,880)</u>
Fixed Assets, Net	<u>\$ 13,058</u>	<u>\$ (5,414)</u>	<u>\$ -</u>	<u>\$ 7,644</u>

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**NOTE 4 – OPERATING LEASE COMMITMENTS**

**Office Lease**

RWA is obligated under an operating lease agreement for office space. RWA’s rental expense was \$19,497 for the years ending June 30, 2017 and 2016. Minimum lease payments are as follows:

Year Ending June 30,		
	2018	24,967
	2019	<u>4,162</u>
Total minimum lease payments		<u>\$ 29,129</u>

The difference between the rental expense and rental payments reflects amortization of the lease incentives. See Note 7 for additional information.

**Copier Lease**

RWA entered into an operating lease agreement during fiscal year 2015 for a copier. The new monthly lease payment is \$241, including taxes. RWA incurred \$2,892 in rental expense for the years ending June 30, 2017 and 2016.

Minimum lease payments are as follows:

Year Ending June 30,		
	2018	\$ 2,892
	2019	2,892
	2020	<u>1,928</u>
Total minimum lease payments		<u>\$ 7,712</u>

**NOTE 5 – EMPLOYEE BENEFIT PLANS**

**California Public Employees’ Retirement System (CalPERS)**

**Plan Description:** All qualified employees are eligible to participate in the 2% at 55 Miscellaneous plan administered by California Public Employees’ Retirement System (CalPERS). This cost-sharing multiple-employer pension plan provides defined benefits to eligible RWA retired staff members. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law (“PERL”). CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Benefits Provided:** CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries through its Public Employees Retirement Fund (“PERF”). Benefits are based upon years of credited service. Members with five years of totals service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The pre-retirement death benefit is available if the member dies while actively employed and is a monthly allowance equal to the service retirement benefit that the member would have received had the member retired on the date of his or her death and is available for as long as the surviving spouse lives and then to any unmarried children under 18. The post-retirement death benefit is a lump sum of \$500, plus either 25 percent or 50 percent of the service retirement benefit, depending upon the election made at retirement. The cost of living adjustments are set at up to 2% per year.

The plan’s provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

	<b>PEPRA</b>	
	<b>Miscellaneous</b>	<b>Miscellaneous</b>
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates - fiscal year 2016/2017	7.000%	6.25%
Required employer contribution rates - fiscal year 2016/2017	9.055%	6.25%
Required employee contribution rates - fiscal year 2015/2016	7.000%	6.25%
Required employer contribution rates - fiscal year 2015/2016	8.444%	6.25%

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

In addition to the contribution rates above, RWA was required to pay \$5,309 and \$12,529 toward the unfunded liability for the years ending June 30, 2017 and 2016, respectively. RWA has not hired any new non-classic employees after January 1, 2013. The miscellaneous plan is closed to new employees unless the new employee is considered a classic member as defined by the California Public Employees’ Pension Reform Act (“PEPRA”).

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. RWA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

RWA has contractually required employer contributions as well as pays for some of the employees required contributions. The following required pension contributions were made:

Year Ending	Employer Required Contributions	Required Unfunded Liability Contribution	Total	Required Contribution rate
June 30, 2017	\$42,257	\$5,309	\$47,566	9.055%
June 30, 2016	\$55,897	\$12,529	\$68,426	8.844%
June 30, 2015	\$70,182	\$0	\$70,182	11.840%

RWA made additional pension contributions of \$42,000 and \$225,000 during the years ending June 30, 2017 and 2016, respectively towards payment of the unfunded liability. Since the measurement date of the pension plan obligations are based upon the year prior for each year presented, the contributions subsequent to the measurement date are reflected as deferred outflows.

Starting on July 1, 2016, SGA became a CalPERS member. RWA employee service while working on SGA administration is now considered SGA compensation for pension plan contributions and liabilities. SGA inherits a portion of the RWA pension plan assets and liabilities, allocated based upon historical time served by employees towards each entity. Since information to determine SGA’s net pension obligation and related deferred outflows and inflows is not yet available, RWA estimated and allocated 42% to SGA based upon the CalPERS most recent June 30, 2016 Annual Valuation Reports. The overall effect to RWA during fiscal year 2017 of allocating the net pension liability and related deferred outflows and inflows to SGA results in a reduction of pension expense for RWA of \$85,141 and a decrease in pension liability of \$106,839. Additionally, RWA’s deferred outflows decline by \$106,452 and the deferred inflows are lowered by \$84,754.

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions** – As of June 30, 2017 and 2016, RWA reported its proportionate share of the net pension liability of \$147,540 and \$346,165, respectively. The net pension liability for June 30, 2017 and 2016 is measured as of June 30, 2016 and 2015, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and June 30, 2014 and then rolled forward to June 30, 2016 and June 30, 2015, respectively, using standard update procedures. RWA’s proportion of the net pension liability was based upon a projection of RWA’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. This proportion was then partially allocated to SGA. The net pension liability of \$147,540 at June 30, 2017 reflects the estimated balance of RWA’s liability after allocation to SGA.

RWA’s proportionate share of the net pension liability is as follows:

	<b>Miscellaneous</b>
Proportion - June 30, 2016	0.0073183%
Proportion - June 30, 2017	0.0042471%
Change - (Decrease)	(0.0030712%)
	<b>Miscellaneous</b>
Proportion - June 30, 2015	0.0028942%
Proportion - June 30, 2016	0.0073183%
Change - Increase	0.0044241%

For the years ending June 30, 2017 and 2016, RWA recognized pension expense of \$23,427 and \$36,368, respectively.

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

At June 30, RWA reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	
	<u>2017</u>	<u>2016</u>
Contributions after measurement date	\$ 89,566	\$ 293,426
Difference between actual and expected experience	1,419	4,499
Difference between employers contributions and the employer's proportionate share of contributions	1,948	7,559
Net differences between projected and actual earnings on plan investments	69,885	-
Adjustments due to change in proportions	<u>73,753</u>	<u>44,609</u>
Total	<u>\$ 236,571</u>	<u>\$ 350,093</u>

RWA reported deferred inflows of resources as of June 30 related to pensions from the following sources:

	<b>Deferred Inflows of Resources</b>	
	<u>2017</u>	<u>2016</u>
Changes of Assumptions	\$ 13,427	\$ 42,556
Net differences between projected and actual earnings on plan investments	\$ -	\$ 21,334
Adjustment Due to Change in Proportion	99,539	\$ 34,186
Difference between actual and expected experience	325	-
Difference between actual and expected contributions	<u>3,750</u>	<u>-</u>
Total	<u>\$ 117,041</u>	<u>\$ 98,076</u>

Excluding the pension contributions subsequent to the measurement date, the other amounts of deferred outflows and inflows will be recognized as a reduction or increase in pension expense

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

over the next four years as follows:

Year Ended June 30	
2018	\$ (6,354)
2019	(4,058)
2020	22,273
2021	18,103
	\$ 29,964

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability** – The total pension liabilities in the actuarial valuations were determined using the following actuarial assumptions:

For the Year Ending June 30	2017	2016
Valuation Date	June 30, 2015	June 30, 2014
Measurement Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Salary Increases	Depends upon age, service and type of employment	
Investment Rate of Return (1)	7.50%	7.50%
Mortality (2)	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Allowance Floor on Purchasing Power applies; 2.75% thereafter	

(1) Net of pension plan investment expenses, includes inflation

(2) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report based on CalPERS demographic data 1997 to 2011. All other actuarial assumptions used in the June 30, 2015 valuation were based on an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can be found on CalPERS website.

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Discount Rate** – The discount rate used to measure the total pension liability was 7.650%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.650% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.650% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CalPERS announced in February 2017 that they will lower its discount rate beginning with the June 30, 2016 valuation date to 7.375%. CalPERS will continue to lower its discount rate for June 30, 2017 to 7.25% and June 30, 2018 to 7.0% for the annual valuations. Additionally, CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any additional changes to the discount rate will require Board action and proper stakeholder outreach.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

Asset Class	June 30, 2017			June 30, 2016		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%
Total	<u>100.0%</u>			<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following presents RWA’s proportionate share of the net pension liability at June 30, 2017, calculated using the discount rate as well as what RWA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease		6.65%
Net Pension Liability	\$	329,553
Current Discount Rate		7.65%
Net Pension Liability	\$	147,540
1% Increase		8.65%
Net Pension Asset	\$	2,885

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**Payable to the Pension Plan** – At June 30, 2017 and 2016, RWA does not have an outstanding payable to the pension plan.

**Deferred Compensation Plan**

RWA offers its employees a deferred compensation plan (“Plan”) created in accordance with Internal Revenue Code Section 457 through CalPERS and is managed by ING. The Plan is available to all RWA employees and permits them to defer a portion of their salary until future years. The Plan deferred elections are not available to employees until termination, retirement,

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

death or unforeseeable emergency. RWA does not contribute to the Plan on behalf of its employees. No unfunded accrued liabilities exist for this Plan.

**Other Post-Employment Benefits**

**Plan Description:** RWA’s other post-employment health benefits (“OPEB”) are provided in accordance with the California Public Employees’ Retirement (CalPERS) Law. The criteria to determine eligibility includes years of CalPERS service, employee age, and disability due to line of duty. Each eligible employee hired before September 1, 2007 who is covered by CalPERS health insurance subject to age and service limitations, is covered by the retiree health benefits insurance contract under Resolution 1993-001. This retiree benefit also covers qualified dependents. RWA pays for the retiree health benefit coverage as approved under Resolution 1993-001 and may be amended from time to time.

For employees hired after September 1, 2007, an employee must be eligible to retire in accordance with the RWA’s CalPERS pension plan rules and have at least five years of credited service with RWA. Premiums are set annually by CalPERS for each retiree and eligible dependents. RWA’s annual required contribution toward health benefit coverage premiums for these employees will be calculated as a percentage of the total eligible cost of such coverage based on the retired employees’ total credited years of qualifying service under CalPERS’ service credit rules. These employees with less than 10 years total CalPERS’ service and/or less than five years credited service with the RWA will not be eligible for retiree health care coverage under RWA’s plan. Any additional health plan premiums not paid by RWA’s contribution toward the cost of the retiree’s health benefits coverage must be paid by the retired employee.

RWA participates as an agent multiple-employer in the California Employers’ Retiree Benefit Trust Fund (CERBT). CalPERS issues a separate comprehensive annual financial report of the CERBT which can be obtained from CalPERS, 400 Q Street, Sacramento, California 95811.

**Actuarial methods and assumptions:** Actuarial valuations involve estimates of value and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. RWA’s actuarial calculations of OPEB are based on the types of benefits provided under the terms of the plan at the time of valuation and on the pattern of sharing costs between RWA and plan members to the point of valuation. Actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. The plan currently covers six active employees and three retirees.

RWA hires an independent actuary to compute the amount of the actuarial accrued liability (AAL) and actuarial value of plan assets. In calculating the AAL, the following assumptions are used:

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**NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)**

	2017	2016
Valuation Date	July 1, 2015	July 1, 2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization period	Level Dollar Basis	Level Dollar Basis
Remaining Amortization Period - Open	10 years(1)	10 years(2)
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment rate (discount rate)	7.00%	7.25%
Salary Increase	3.25%	3.25%
Inflation	2.75%	3.00%
Projected Medical Increase	4.50% to 7.50%	4.64% to 8.50%

(1) Nine years remain of amortization at July 1, 2015

(2) Nine years remain of amortization at July 1, 2013

**Funding Policy:** The RWA Board adopted a policy to fully fund the annual required contribution (ARC). The Board has the authority to change this policy, but has the obligation to contribute to the plan. RWA received a total ARC credit of \$72,745 during the year ending June 30, 2017. RWA paid for the ARC through an explicit contribution into the CERBT of \$59,349 plus a \$13,396 implicit contribution. The implicit contribution represents health premiums paid by RWA for current employees that are effectively subsidizing retiree health premiums since there is no premium differentiation between active employees and retirees. This implicit contribution was actuarially determined.

**Funding Status and Funding Progress:** The schedule of funding status is as follows:

**Schedule of Funding Status**

Year Ending	Employer Annual Required Contribution	Annual Required Contribution (ARC) Paid to CERBT or for Retirees	Percentage of ARC Contributions
June 30, 2017	\$72,745	\$72,745	100%
June 30, 2016	\$31,505	\$31,505	100%
June 30, 2015	\$29,114	\$29,114	100%

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**NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)**

	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (Funding Excess)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Year Ending	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2017	\$911,253	\$986,832	\$75,579	92.34%	\$752,115	10.05%

The actuarial valuation dated July 1, 2015 includes an actuarial accrued liability of \$986,832 and an unfunded liability of \$75,579. The historical schedule of funding progress included in the required supplementary section shows whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 6 – RESTRICTED NET POSITION AND BOARD DESIGNATIONS**

Restricted Net Position

A portion of net assets have been restricted based upon subscription contractual provisions. The restrictions by contract represent advances by participants in excess of program costs for the specific program. These funds are restricted for the intended program by contract. Expenses to administer these programs will use these restricted funds. Restricted net position consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
<u>Restricted Net Position</u>		
Water Efficiency Program	<u>\$ 405,501</u>	<u>\$ 297,009</u>

Board Designations

The Board establishes and approves the operating fund, membership dues, and subscription program designation target balances on an annual basis as part of the budget process based upon available cash and may modify these targets during the year so as to follow or temporarily modify the Financial/Designation Reserve Policy No. 500.1. The available cash at June 30, 2017 and 2016 is sufficient to set aside the designations for budget purposes. However, the unrestricted net position as of June 30, 2017 and 2016 of \$856,778 and \$687,352 was insufficient to cover the designations as listed by \$670 and \$63,448, respectively.

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**NOTE 6 – RESTRICTED NET POSITION AND BOARD DESIGNATIONS (CONTINUED)**

The designations are as follows at June 30:

	<b>2017</b>	<b>2016</b>
<u>Board Designations</u>		
Operating Fund	\$ 505,400	\$ 456,200
Strategic Plan Fund	199,748	155,900
Membership Dues	123,900	112,700
Subscription Programs	28,400	26,000
Total by Board Authorization	\$ 857,448	\$ 750,800

The operating fund is designed to ensure cash resources are available to fund daily administration and operations for RWA as well as a resource for matching funds for grant partnership opportunities. The operating fund target designation is four to six months of operating expenses. For the year ending June 30, 2017, this designation is approximately four months. The membership dues stabilization fund is fully funded and designed to supplement operating cash flow in the event a member does not renew and is targeted at 15% of membership dues. The subscription program revenue fund is designed to be used in the event subscription program revenue to support operating expenses does not materialize as planned. This fund is set at 10% of net subscription program support revenue. For the year ending June 30, 2017, the Board also approved use of the strategic plan fund which was designed to carry out the strategic plan steps over several years.

**NOTE 7 – DEFERRED INFLOWS - RENT**

As part of the lease renegotiation in fiscal year 2012, RWA received a lease incentive of \$38,296 which was used to complete an office remodel and purchase board room chairs and tables. This lease incentive is deferred rent and is recorded as a deferred inflow. The deferred rent is being amortized over the life of the lease and effectively reduces the annual lease expense on a pro-rata basis. The deferred inflow at June 30 is as follows:

Balance			Balance
<u>June 30, 2016</u>	<u>Increases</u>	<u>Amortization</u>	<u>June 30, 2017</u>
<u>\$ 11,854</u>	<u>-</u>	<u>\$ (5,470)</u>	<u>\$ 6,384</u>
Balance			Balance
<u>June 30, 2015</u>	<u>Increases</u>	<u>Amortization</u>	<u>June 30, 2016</u>
<u>\$ 17,324</u>	<u>-</u>	<u>\$ (5,470)</u>	<u>\$ 11,854</u>

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 8 – COMPENSATED ABSENCES**

Compensated absences are comprised of unpaid vacation leave which is accrued and earned. RWA’s liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30 are as follows:

Balance 2016	Earned	Used	Balance 2017	Due Within One Year	Long term
\$ 57,516	\$ 57,188	\$(49,320)	\$ 65,384	\$ 64,084	\$ 1,300

Balance 2015	Earned	Used	Balance 2016	Due Within One Year	Long term
\$ 55,073	\$ 51,035	\$(48,592)	\$ 57,516	\$ 53,516	\$ 4,000

**NOTE 9 – INSURANCE**

RWA participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general liability, public officials’ liability, property damage, fidelity insurance, workers’ compensation and employer’s liability. ACWA/JPIA provides insurance through the pool up to a certain level.

RWA pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate ACWA/JPIA.

RWA’s deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability	\$ 5,000,000	\$ 55,000,000	None
Public Officials Liability	5,000,000	55,000,000	None
Property Damage	100,000	150,000,000	\$1,000 - \$25,000
Fidelity Insurance	100,000	-	\$1,000
Workers' Compensation Insurance	2,000,000	Statutory	None

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 10 – CONTINGENCIES**

**Grant Awards and Payments**

RWA participates in numerous grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of RWA's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

According to the voluntary grant agreements with the California Department of Water Resources (DWR), five to ten percent of the eligible grant award payment is withheld until project completion. Project completion is considered an eligibility requirement. Since these retention payments are withheld until the project is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the project is complete. Once the retention is received, RWA will then pay the program participants for the eligible costs incurred. This contingent grant award revenue and the related liability to program participants is estimated at \$1,063,120 at June 30, 2017 and is not currently reflected in the financial statements.

**Pension Liability**

CalPERS is implementing a discount rate reduction over a three year period, reducing the rate from 7.5% to 7.0%, beginning with the June 30, 2016 valuation date. This reduction in discount rate will have an effect on the net pension plan liability and expenses, likely increasing these amounts that will be reflected in the financial statements and increasing the amount of payments required by RWA. These changes have not been reflected in the financial statements since the amounts must be actuarial determined and have yet to be done. See Note 5 which does indicate the potential impact of a 1% decrease to the discount rate at June 30, 2016.

**Power House Science Center**

RWA entered into an agreement with the Powerhouse Science to be a title sponsor for two water related exhibits in the amount of \$500,000. These exhibits will be displayed in the science center in Sacramento and provide educational opportunities on the important role of reliable water supplies and efficient water use in protecting public health and the environment. After RWA's initial \$50,000 payment made July 7, 2014, fixed annual payments of \$25,000 are scheduled to be made over a 14 year period. The California Water Awareness Campaign ("CWAC") paid the remaining \$100,000 to Powerhouse. RWA will provide on-going input for these exhibits and the related programming and materials provided at Powerhouse. RWA will levy members an annual assessment over five years to fund this commitment.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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**NOTE 10 – CONTINGENCIES (CONTINUED)**

Due to project delays by the science center, RWA has delayed the fiscal year 2017 payment to a future period.

**NOTE 11 – ECONOMIC DEPENDENCIES**

RWA incurs common administrative expenses to operate both RWA and SGA. RWA relies upon reimbursement of these expenses by SGA. As discussed in Note 1, summary of significant accounting policies, SGA reimbursed \$476,712 and \$556,278 for the years ending June 30, 2017 and 2016 which represents 33% and 40% of RWA's total administrative expenses, respectively. The Schedule of Allocated Administrative Expenses in the supplementary information section details how these costs are allocated to SGA and the subscription programs. Additionally, RWA relies upon subscription based programs to pay for approximately 16% of administrative expenses. The Water Efficiency Program is a substantial portion of the subscription based programs and contributes towards administrative expenses. To the extent subscription based programs did not exist or was reduced, RWA membership dues would need to increase to fund operating expenses.

**REQUIRED SUPPLEMENTARY INFORMATION**

**REGIONAL WATER AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY - MISCELLANEOUS PLAN  
Last Ten Years**

For the year ending June 30	2017	2016	2015
Proportion of the net pension liability	0.004247%	0.012618%	0.01365%
Proportionate share of the net pension liability	\$ 147,540	\$ 346,165	\$ 337,276
Covered - employee payroll for measurement period	\$ 632,144	\$ 592,756	\$ 565,797
Proportionate share of the net pension liability as a percentage of covered payroll	23.34%	58.40%	59.61%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	75.87%	78.40%	79.82%
RWA fiduciary net position as a percentage of RWA pension liability	89.09%	83.50%	83.03%

Notes to Schedule:

There were no benefit changes during the year. The June 30, 2015 Actuarial Valuation changed the discount rate from 7.50% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expenses.

GASB Statement No. 68 was implemented during the year ended June 30, 2015 - only three years data available.

**REGIONAL WATER AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN**  
**Last Ten Years**

	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Contractually required contribution (actuarially determined)	\$ 44,851	\$ 68,426	\$ 70,182	\$ 62,822
Contributions in relation to the actuarially determined contributions	\$ 89,566	\$ 293,426	70,182	62,822
Contribution deficiency (excess)	<u>\$ (44,715)</u>	<u>\$ (225,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 466,290	\$ 632,144	\$ 592,756	\$ 565,797
Contributions as a percentage of covered - employee payroll	19.21%	46.42%	11.84%	11.10%
Valuation Date:	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Investment Rate of Return	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increases	3.20% to 12.20% depending upon age, service, and type of employment
Post Retirement Benefit Increase	Contract Cola up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015, therefore only four years are presented.

**REGIONAL WATER AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Funding Progress - Other Post Employment Benefits  
Last Three Years**

Year Ending	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2017	\$911,253	\$986,832	\$75,579	92.34%	\$752,115	10.05%
June 30, 2016	\$824,840	\$735,350	(\$89,490)	112.17%	\$646,156	(13.85%)
June 30, 2015	\$767,402	\$671,018	(\$96,384)	114.36%	\$608,841	(15.83%)

The historical schedule of funding progress shows whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule reflects the most recent available actuarial determined valuation reports.

## **SUPPLEMENTARY INFORMATION**

**REGIONAL WATER AUTHORITY**  
**PROGRAM SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDING JUNE 30, 2017**

	Agency Core Program	Water Efficiency Program	PROP 50 \$25 M Grant	PROP 84	Government Relations	2014 Drought PROP 84	2014 Water-Energy	PROP 84 Round 3	USBR/CALFED Programs	TOTAL RWA
<b>Operating Revenues</b>										
Assessment Income	\$ 835,231	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 835,231
Subscription Program Fees	400,076	454,802	14,238	25,518	120,000	5,586	-	13,057	215,482	1,248,759
Incentives and Grant Revenues	-	358,860	377,629	2,849,653	-	1,113,031	807,916	238,226	-	5,745,315
Other Income	15,669	-	-	-	-	-	-	-	-	15,669
<b>Total Operating Revenues</b>	<b>1,250,976</b>	<b>813,662</b>	<b>391,867</b>	<b>2,875,171</b>	<b>120,000</b>	<b>1,118,617</b>	<b>807,916</b>	<b>251,283</b>	<b>215,482</b>	<b>7,844,974</b>
<b>Operating Expenses</b>										
Administrative Expenses	687,368	184,250	7,165	25,487	-	18,998	22,180	9,930	10,645	966,023
Core Program Expenses	-	-	-	-	-	-	-	-	-	-
Subscription Program Direct Expenses	417,771	171,448	7,074	31	120,000	30	830,612	132,874	204,837	1,884,677
Grant Awards	-	363,859	377,628	2,849,653	-	1,099,472	-	46,088	-	4,736,700
<b>Total Operating Expenses</b>	<b>1,105,139</b>	<b>719,557</b>	<b>391,867</b>	<b>2,875,171</b>	<b>120,000</b>	<b>1,118,500</b>	<b>852,792</b>	<b>188,892</b>	<b>215,482</b>	<b>7,587,400</b>
<b>Net Operating Income</b>	<b>145,837</b>	<b>94,105</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>117</b>	<b>(44,876)</b>	<b>62,391</b>	<b>0</b>	<b>257,574</b>
<b>Other Income</b>										
Interest Income	16,647	-	-	-	-	-	-	-	-	16,647
<b>Net Other Income</b>	<b>16,647</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,647</b>
<b>Net Income (Loss)</b>	<b>\$ 162,484</b>	<b>\$ 94,105</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117</b>	<b>\$ (44,876)</b>	<b>\$ 62,391</b>	<b>\$ -</b>	<b>274,221</b>
<b>Net Position, Beginning of the Year</b>										992,005
<b>Net Position, End of the Year</b>										<b>\$ 1,266,226</b>

Note: The Statement of Revenues, Expenses, and Changes in Net Position By Program are net of cost reimbursements from SGA.  
See the Schedule of Allocated Administrative Expenses in the Supplementary Information Section

**REGIONAL WATER AUTHORITY**  
**PROGRAM SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDING JUNE 30, 2016**

	Agency Core Program	Water Efficiency Program	PROP 50 \$25 M Grant	PROP 84	Government Relations	2014 Drought PROP 84	2014 Water-Energy	PROP 84 Round 3	USBR/CALFED Programs	TOTAL RWA
<b>Operating Revenues</b>										
Assessment Income	\$ 776,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 776,389
Subscription Program Fees	58,886	601,196	17,204	14,555	122,194	14,447	-	-	399,889	1,228,371
Incentives and Grant Revenues	-	656,502	4,716,191	1,660,980	-	1,127,128	27,354	-	-	8,188,155
Other Income	6,010	-	-	-	-	-	-	-	-	6,010
<b>Total Operating Revenues</b>	<b>841,285</b>	<b>1,257,698</b>	<b>4,733,395</b>	<b>1,675,535</b>	<b>122,194</b>	<b>1,141,575</b>	<b>27,354</b>	<b>0</b>	<b>399,889</b>	<b>10,198,925</b>
<b>Operating Expenses</b>										
Administrative Expenses	468,310	201,858	9,290	14,555	-	17,695	7,760	3,128	11,386	733,982
Core Program Expenses	26,986	5,000	-	-	-	-	-	-	-	31,986
Subscription Program Direct Expenses	100,453	278,248	7,914	-	122,194	-	21,284	71,670	389,113	990,876
Grant Awards	-	674,082	4,716,191	1,660,980	-	1,111,642	-	-	-	8,162,895
<b>Total Operating Expenses</b>	<b>595,749</b>	<b>1,159,188</b>	<b>4,733,395</b>	<b>1,675,535</b>	<b>122,194</b>	<b>1,129,337</b>	<b>29,044</b>	<b>74,798</b>	<b>400,499</b>	<b>9,919,739</b>
<b>Net Operating Income</b>	<b>245,536</b>	<b>98,510</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,238</b>	<b>(1,690)</b>	<b>(74,798)</b>	<b>(610)</b>	<b>279,186</b>
<b>Other Income</b>										
Interest Income	6,887	-	-	-	-	-	-	-	-	6,887
<b>Net Other Income</b>	<b>6,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,887</b>
<b>Net Income (Loss)</b>	<b>\$ 252,423</b>	<b>\$ 98,510</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,238</b>	<b>\$ (1,690)</b>	<b>\$ (74,798)</b>	<b>\$ (610)</b>	<b>286,073</b>
<b>Net Position, Beginning of the Year</b>										<b>705,932</b>
<b>Net Position, End of the Year</b>										<b>\$ 992,005</b>

Note: The Statement of Revenues, Expenses, and Changes in Net Position By Program are net of cost reimbursements from SGA.  
See the Schedule of Allocated Administrative Expenses in the Supplementary Information Section

**REGIONAL WATER AUTHORITY**  
**SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDING JUNE 30, 2017**

As discussed in Note 1 under shared expenses, RWA manages the SGA and SGA shares 50% of the common administrative costs. Additionally, RWA also administers subscription-based programs and allocates administrative costs to run these programs. The subscription-based programs include the ongoing Water Efficiency Program as well as one-time projects that may span over several years. The information below details total administrative expenses incurred by RWA by type and how these costs are then allocated to SGA and the various subscription-based programs. The remaining net agency administrative expenses are expected to be paid for by member annual assessment dues or by designations.

The allocation of administrative expenses for the year ending June 30, 2017 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation and Amortization	Total Administrative Expenses
RWA Administrative Expenses	\$ 1,065,018	\$ 105,423	\$ 268,597	\$ 3,697	\$ 1,442,735
Allocated to Sacramento Groundwater Authority	(390,449)	(44,852)	(41,411)	-	(476,712)
Total RWA Administrative Expenses - Net of SGA allocation	<u>674,569</u>	<u>60,571</u>	<u>227,186</u>	<u>3,697</u>	<u>966,023</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(163,232)	(13,258)	(7,760)	-	(184,250)
2014 Water Energy Grant	(22,180)	-	-	-	(22,180)
Proposition 50 - \$25 Million Grant	(7,165)	-	-	-	(7,165)
Proposition 84 Grant	(25,487)	-	-	-	(25,487)
2014 Drought Proposition 84	(18,998)	-	-	-	(18,998)
Proposition 84 Round 3	(9,930)	-	-	-	(9,930)
USBR/CALFED Programs	(10,645)	-	-	-	(10,645)
Total Allocated Administrative Expenses - Subscription Programs	<u>(257,637)</u>	<u>(13,258)</u>	<u>(7,760)</u>	<u>-</u>	<u>(278,655)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 416,932</u>	<u>\$ 47,313</u>	<u>\$ 219,426</u>	<u>\$ 3,697</u>	<u>\$ 687,368</u>

**REGIONAL WATER AUTHORITY**  
**SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDING JUNE 30, 2016**

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The allocation of administrative expenses for the year ending June 30, 2016 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation and Amortization	Total Administrative Expenses
RWA Administrative Expenses	\$ 938,154	\$ 98,524	\$ 248,167	\$ 5,415	\$ 1,290,260
Allocated to Sacramento Groundwater Authority	(483,370)	(41,735)	(31,173)	-	(556,278)
Total RWA Administrative Expenses - Net of SGA allocation	<u>454,784</u>	<u>56,789</u>	<u>216,994</u>	<u>5,415</u>	<u>733,982</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(181,769)	(12,734)	(7,355)	-	(201,858)
2014 Water Energy Grant	(7,760)	-	-	-	(7,760)
Proposition 50 - \$25 Million Grant	(9,290)	-	-	-	(9,290)
Proposition 84 Grant	(14,555)	-	-	-	(14,555)
2014 Drought Proposition 84	(17,695)	-	-	-	(17,695)
Proposition 84 Round 3	(3,128)	-	-	-	(3,128)
USBR/CALFED Programs	(11,386)	-	-	-	(11,386)
Total Allocated Administrative Expenses - Subscription Programs	<u>(245,583)</u>	<u>(12,734)</u>	<u>(7,355)</u>	<u>-</u>	<u>(265,672)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 209,201</u>	<u>\$ 44,055</u>	<u>\$ 209,639</u>	<u>\$ 5,415</u>	<u>\$ 468,310</u>

## **OTHER REPORT**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Regional Water Authority  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Regional Water Authority (the Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Richardson & Company, LLP*

November 29, 2017

## **AGENDA ITEM 5: APPROVE RWA FIVE YEAR LEASE**

### **BACKGROUND:**

RWA's current lease expires in August 2018. The lease was signed in 2011 prior to ACWA-JPIA selling the building. After considering alternatives, the Executive Committee directed staff to negotiate a new lease on the current space. The lease rates are at or below the market for the area, and mitigate the need for moving costs.

### **STAFF RECOMMENDATION:**

**Direct the Executive Director to execute the new five year lease**

**LEASE FOR OFFICE AND CONFERENCE ROOM SPACE BETWEEN  
THE REGIONAL WATER AUTHORITY  
AND VERMEER & GOEDHART DAIRY, LLC**

**1. PARTIES.**

This Lease is entered into, for reference purposes, this January \_\_, 2018, by and between Vermeer & Goedhart Dairy, LLC (hereinafter referred to as "Landlord") and Regional Water Authority (herein referred to as "Tenant").

**2. PREMISES.**

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, on the terms and conditions hereinafter set forth that certain real property and the building and other improvements located thereon situated in the City of Citrus Heights, County of Sacramento, State of California, commonly known as Suites 110 and 180 of 5620 Birdcage Street and described as approximately 2,695 square feet per the attached summary map of premises (said real property is hereinafter called the "Premises"). Suite 180 comprises Tenant's business offices and Suite 110 is the conference room across the hallway from Suite 180. Tenant also shall have four parking spaces in the parking lot associated with 5620 Birdcage Street. At least one of those spaces, located in the row of spaces nearest to the building, shall be marked as reserved for Tenant by a sign. Tenant shall have the right to reasonable use of the building's common areas, including for access to Suite 110 consistent with Tenant's customary purposes.

In addition to the Premises, Tenant shall have an option to lease any space adjacent to Suites 110 or 180 that, at any time, becomes available. Rent for that additional space shall be at the then-current rate. Landlord shall give Tenant at least 60 days' written notice that such additional space will be available to Tenant. Tenant shall exercise its option to lease that additional space within 60 days of Landlord's notice by communicating its exercise of the option in writing to Landlord. If Tenant does not so exercise that option, then Tenant shall be deemed to have not exercised that option.

**3. TERM.**

The term of this Lease shall be for 60 months, commencing on September 1, 2018, and ending on August 31, 2023, unless terminated sooner as hereinafter provided. Landlord grants Tenant one two-year renewal option ("Renewal Option"), provided Tenant exercises its Renewal Option by giving Landlord at least six months' written notice prior to the expiration date of the Lease's term.

**4. RENT.**

Tenant shall pay Landlord as rent for the Premises the following sums per month, in advance on the first day of each month during the term of this Lease: for months 1-24, the sum of \$2,695.00 per month (\$1.00 per square foot); for months 25-60, the sum of \$2,964.50 per month (\$1.10 per square foot). If Tenant exercises the two-year Renewal Option, then rent shall increase to the sum of \$3,099.25 per month (\$1.15 per square foot) when the Lease's two-year Renewal Option term begins. Unless otherwise agreed in writing, Landlord shall not increase the monthly rental amount in this paragraph during the term of this Lease.

**5. SECURITY DEPOSIT.**

Tenant has on deposit with Landlord the sum of \$1,665.00 as a security deposit for the Tenant's faithful performance of the provisions of this Lease. Before September 1, 2018, Tenant shall deposit with Landlord an additional \$1,030 to increase the security deposit to \$2,695. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use the security deposit, or any portion of it, to cure the default or compensate Landlord for all damages sustained by Landlord resulting from Tenant's default. Tenant shall immediately on demand pay to Landlord the sum equal to that portion of the security deposit expended or applied by Landlord which was provided for in this paragraph so as to maintain the security deposit in the sum initially deposited with Landlord. Landlord shall not be required to keep the security deposit separate from its general account nor shall Landlord be required to pay Tenant any interest on the security deposit. If Tenant performs all of Tenant's obligations under this Lease, the security deposit or that portion thereof which has not previously been applied by the Landlord, shall be returned to Tenant within fourteen (14) days after the expiration of the term of this Lease, or after Tenant has vacated the Premises, whichever is later.

6. USE.

(a) Tenant shall use the Premises only for Regional Water Authority's authorized and customary purposes and for no other purpose without the Landlord's prior written consent. Landlord acknowledges and agrees that Tenant and the Sacramento Groundwater Authority (SGA) are jointly administered from the Premises by the same staff and that Tenant's authorized and customary uses therefore include SGA's use of the Premises, including the conference room, for SGA activities and meetings.

(b) Tenant shall not do, bring or keep anything in or about the Premises that will cause a cancellation of any insurance covering the Premises or the building in which the Premises are located. If the rate of any insurance carried by the Landlord is increased as a result of the Tenant's use, Tenant shall pay to Landlord within ten (10) days after written demand from Landlord, the amount of any such increase. Tenant shall comply with all laws concerning the Premises or Tenant's use of the Premises, including without limitation, the obligation at Tenant's cost to alter, maintain, or restore the Premises in compliance and conformity with all laws relating to the condition, use, or occupancy of the Premises by Tenant during the term of this Lease. Tenant shall not use or permit the use of the Premises in any manner that will tend to create waste or a nuisance or, if there shall be more than one Tenant of the building containing the Premises, which shall unreasonably disturb any other Tenant.

(c) Tenant hereby accepts the Premises in their condition existing as of the date the Tenant possesses the Premises, subject to all applicable zoning, municipal, county and state laws, ordinances, regulations governing or regulating the use of the Premises and accepts this Lease subject thereto and to all matters disclosed thereby. Tenant hereby acknowledges that neither the Landlord nor the Landlord's agent has made any representation or warranty to Tenant as to the suitability of the Premises for the conduct of Tenant's business.

(d) Tenant shall have the right to permit its member entities to occasionally use Suite 110 for meetings and events related to their authorized purposes or those of Tenant. Tenant's indemnification and insurance obligations hereunder shall apply to all such uses, and it shall be Tenant's sole responsibility to ensure that it obtains any necessary indemnities and insurance coverage from its members to protect Landlord against any liability arising out of or connected to such member meetings and events.

7. TAXES.

(a) Real Property Taxes.

Landlord shall be solely responsible for timely payment of all property taxes and assessments levied upon and owing on the property, and any such taxes and assessments are included in the rent and shall not result in any separate or additional charges on Tenant.

(b) Personal Property Taxes.

Tenant shall pay prior to the delinquency date all taxes assessed against and levied upon the trade fixtures, furnishings, equipment and other personal property of Tenant contained in the Premises. Tenant shall endeavor to cause such trade fixtures, furnishings and equipment and all other personal property to be assessed and billed separately from the property of the Landlord. If any of Tenant's said property shall be assessed with Landlord's property, Tenant shall pay to Landlord the taxes attributable to Tenant within ten (10) days after the receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property.

8. UTILITIES.

Tenant shall make all arrangements and pay for all telephone services supplied to the Premises together with any taxes thereon and for all connection charges. Landlord pays charges for all other utility services and collects Tenant's share of such charges as part of the monthly rent described in Article 4 of this Lease.

9. MAINTENANCE AND REPAIRS.

(a) Landlord's Obligations.

Except as provided in Article 12, and except for damage caused by any negligent or intentional act or omission of Tenant, Tenant's agents, employees, or invitees, Landlord at its sole cost and expense shall keep in good condition and repair the foundations, exterior walls, and exterior roof of the Premises. Landlord shall also maintain the unexposed electrical, plumbing and sewage systems including, without limitation, those portions of the systems lying outside the Premises; window frames, gutters and down spouts on the building, all sidewalks, landscaping and other improvements that are a part of the premises or of which the Premises are a part. The Landlord shall also maintain the heating, ventilating and air-conditioning systems servicing the

Premises. Landlord shall resurface and restripe the parking area on or adjacent to the Premises when necessary. Landlord shall have thirty (30) days after notice from Tenant to commence to perform its obligations under this Article 9 except that Landlord shall perform its obligations immediately if the nature of the problem presents a hazard or emergency situation. If the Landlord does not perform its obligations within the time limit set forth in this paragraph, Tenant can perform said obligations and shall have the right to be reimbursed for the amount the Tenant actually expends in the performance of Landlord's obligations. If Landlord does not reimburse Tenant within thirty (30) days after demand from Tenant, Tenant's sole remedy shall be to withhold from future rent the sums Tenant has expended until Tenant's costs are reimbursed in full.

(b) Tenant's Obligations.

Subject to the provisions of Sub-paragraph (a) above and Article 12, Tenant at Tenant's sole cost and expense shall keep in good order, condition and repair the Premises and every part thereof including, without limitation, all Tenant's personal property, fixtures, signs, interior plate glass, doors, and interior walls.

If Tenant fails to perform Tenant's obligation as stated herein, Landlord may at its option (but shall not be required to), enter the Premises, after ten (10) days prior written notice to Tenant, put the same in good order, condition and repair, and the costs thereof shall become due and payable as additional rental to Landlord together with Tenant's next rental installment. If Tenant fails to pay any such costs with the next rent payment, the outstanding sum shall accrue interest at the rate of ten (10%) percent per annum until paid in full.

#### 10. ALTERATIONS AND ADDITIONS.

(a) Tenant shall not, without the Landlord's prior written consent, make any alterations, improvements or additions in or about the Premises except for non-structural work which does not exceed \$1,000.00 in cost. As a condition to giving any such consent, the Landlord may require the Tenant to remove any such alterations, improvements, or additions at the expiration of the term, and to restore the Premises to their prior condition by giving Tenant thirty (30) days written notice prior to the expiration of the term of such election. If Landlord so elects, Tenant at its sole cost shall restore the Premises to the condition designated by Landlord in its election before the last day of the term of the Lease.

Before commencing any work relating to the alterations, additions, or improvements affecting the Premises, Tenant shall notify Landlord in writing of the expected date of commencement of such work so that Landlord can post and record the appropriate notices on non-responsibility to protect Landlord from any mechanic's liens, materialman liens, or any other liens. In any event, Tenant shall pay, when due, all claims for labor and materials furnished to or for Tenant at or for use in the Premises. Tenant shall not permit any mechanic's liens or materialman's liens to be levied against the Premises for any labor or material furnished to Tenant or claimed to have been furnished to Tenant or Tenant's agents or contractors in connection with work of any character performed or claimed to have been performed on the Premises by or at the direction of Tenant. Tenant shall have the right to assess the validity of any such lien if, immediately on demand by Landlord, Tenant procures and records a lien release bond meeting the requirements of California Civil Code section 3143 and shall provide for the payment of any sum that the claimant may recover on the claim (together with the costs of suit, if it is recovered in the action). If any alteration, addition or improvement affecting the Premises is public work, then the foregoing shall not apply and Landlord's and Tenant's rights shall be governed by the stop notice statutes, California Civil Code sections 3179 through 3214.

Unless the Landlord requires their removal as set forth above, all alterations, improvements or additions which are made on the Premises by the Tenant shall become the property of the Landlord and remain upon and be surrendered with the Premises at the expiration of the term. Notwithstanding the provisions of this paragraph, Tenant's trade fixtures, furniture, equipment and damage to the Premises, shall remain the property of the Tenant and removed by Tenant at the expiration of the term of this Lease.

(b) Notwithstanding paragraph (a), above, Tenant, at Tenant's sole cost and expense, has the permission to improve audio-visual capabilities in Suite 110.

#### 11. INDEMNIFICATION AND INSURANCE.

(a) Tenant shall indemnify and hold harmless and defend Landlord, its directors, officers, employees, agents or volunteers, and each of them from and against:

(1) Any and all claims, demands, causes of action, damages, costs, expenses, losses or liabilities, in law or in equity, of every kind and nature whatsoever for, but not limited to, injury to or death of any person

kind and nature whatsoever for, but not limited to injury or death of any person including Landlord and/or Tenant, or any directors, officers, employees, agents or volunteers of Landlord or Tenant, and damages to or destruction of property of any person, including but not limited to, Landlord and/or Tenant and their directors, officers, employees, agents, or volunteers, arising out of or in any manner directly or indirectly connected with the operation and use of the Premises under this Lease, however caused, regardless of any negligence of Landlord or its directors, officers, employees, agents or volunteers, except the sole negligence or willful misconduct of Landlord or its directors, officers, employees, agents or volunteers;

(2) Any and all actions, proceedings, damages, costs, expenses, penalties or liabilities, in law or equity, of every kind or nature whatsoever, arising out of, resulting from, or on account of the violation of any governmental law or regulation, compliance with which is the responsibility of Tenant.

Tenant shall defend, at Tenant's own cost, expense and risk, any and all such aforesaid suits, actions or other legal proceedings of every kind that may be brought or instituted against Landlord or Landlord's directors, officers, employees, agents or volunteers.

Landlord shall pay and satisfy any judgment, award or decree that may be rendered against Landlord or its directors, officers, employees, agents or volunteers, in any such suit, action or other legal proceeding.

Tenant shall reimburse Landlord and its directors, officers, employees, agents and/or volunteers, for any and all legal expenses and costs incurred by each of them in connection therewith or in enforcing the indemnity herein provided.

Tenant agrees to carry insurance for this purpose as provided below in paragraph (b). Tenant's obligation to indemnify shall not be restricted to insurance proceeds, if any, received by the Landlord, or its directors, officers, employees, agents and/or volunteers.

(b) Tenant's Insurance.

Tenant shall procure and maintain for the duration of the Lease insurance against claims for injuries to persons or damages to property which may arise from or in connection with the Tenant's operation and use of the Premises. The cost of such insurance shall be borne by the Tenant.

Minimum Scope of Insurance

Coverage shall be at least as broad as:

1. Insurance Services Office Commercial General Liability coverage ("occurrence" form CG 0001).
2. Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance.
3. Property insurance against all risks of direct physical loss to any Tenant improvements or betterments.

Any insurance coverages carried by the Tenant may be maintained in whole or in part in the form of self-insurance by the Tenant or in the form of participation in a joint powers agency or other program providing pooled insurance.

Minimum Limits of Insurance

Tenant shall maintain limits no less than:

1. General Liability: \$1,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to this location or the general aggregate limit shall be twice the required occurrence limit.
2. Employer's Liability: \$1,000,000 per accident for bodily injury or disease.
3. Property Insurance: Full replacement cost of Tenant's business personal property, improvements and betterments.

Deductibles and Self-Insured Retentions

Any deductibles or self-insured retentions must be declared to and approved by the Landlord. At the option of the Landlord, either: the insurer shall reduce or eliminate such deductibles, or self-insured retentions as respects the Landlord, its directors, officers, employees, agents and volunteers; or the Tenant shall provide a financial guarantee satisfactory to the Landlord guaranteeing payment of losses and related investigations, claim administration and defense expenses.

Other Insurance Provisions

The general liability policy is to contain, or be endorsed to contain, the following provisions:

1. The Landlord, its directors, officers, employees, agents and volunteers are to be covered as additional insureds with respect to liability arising out of ownership, maintenance or use of the Premises.

2. The Tenant's insurance coverage shall be primary insurance as respects the Landlord, its directors, officers, employees, agents, and volunteers. Any insurance or self-insurance maintained by the Landlord, its directors, officers, employees, agents, or volunteers shall be excess of the Tenant's insurance and shall not contribute with it.

Cancellation

No insurance policy required by this clause shall be canceled, suspended, voided, nor reduced, in coverage or limits, except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the Landlord.

Acceptability of Insurers

Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A-:VII.

Verification of Coverage

Tenant shall furnish the Landlord with original certification and amendatory endorsements effecting coverage required by this clause. All certification and endorsements are to be received and approved by the Landlord before the contract commences. The Landlord reserves the right to require complete, certified copies of all required insurance policies, including endorsements affecting the coverage required by these specifications at any time.

Failure to Procure

If Tenant shall fail to procure and maintain such insurance, the Landlord may, but shall not be required to, procure and maintain same at the expense of Tenant and the cost thereof shall become due and payable as additional rental to Landlord together with Tenant's next rental installment. If Tenant fails to pay any such premiums with the next rent payment, the outstanding premium sum shall accrue interest at the rate of ten (10%) percent per annum until paid in full.

(c) Landlord's Insurance

Landlord shall procure and maintain for the term of this Lease insurance against claims for injuries to persons or damages to property which may arise from or in connection with the Landlord's ownership of the leased Premises and common areas. The cost of such insurance shall be borne by the Landlord.

Minimum Scope of Insurance

Coverage shall be at least as broad as:

1. Insurance Services Office Commercial General Liability coverage ("occurrence" form CG 0001).
2. Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance.
3. Property insurance against all risks of direct physical loss to the building and improvements, other than Tenant's improvements or betterments.

Minimum Limits of Insurance

Landlord shall maintain limits no less than:

1. General Liability: \$1,000,000 per occurrence for bodily injury, personal injury and property damage. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to this location or the general aggregate limit shall be twice the required occurrence limit.
2. Employer's Liability: \$1,000,000 per accident for bodily injury or disease.
3. Property Insurance: Full replacement cost of the building, leased premises and common area improvements and betterments.

(d) Waiver of Subrogation.

Tenant and Landlord each waives any and all rights of recovery against the other, or against the directors, officers, employees, agents, and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Each party shall cause each insurance policy obtained by it hereunder to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by any such policy.

(e) Exemption of Landlord from Liability.

Except for Landlord's willful or grossly negligent conduct, Tenant hereby agrees that Landlord shall not be liable for any injury to Tenant's business or loss of income therefrom or for damage to the goods, wares, merchandise, or other property of Tenant, Tenant's employees, invitees, customers, or any other person in or about Premises; nor shall Landlord be liable for injury to the person of Tenant, Tenant's employees, agents, contractors, or invitees, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires,

appliances, plumbing, air-conditioning, or lighting fixtures, or from any other cause, where such damage results from conditions arising upon the Premises or upon other portions of the building in which the Premises are a part, or from any other sources of place. Landlord shall not be liable to Tenant for any damages arising from any act of neglect of any other Tenant, if any, of the building in which the Premises are located.

## 12. DAMAGE OR DESTRUCTION.

### (a) Damage - Insured.

If, during the term of this Lease, the Premises and/or the building and other improvements in which the Premises are located are totally or partially destroyed rendering the Premises totally or partially inaccessible or unusable, and such damage or destruction was caused by a casualty covered under an insurance policy required to be maintained hereunder, Landlord shall restore the Premises and/or the building and other improvements in which the Premises are located into substantially the same condition as they were in immediately before such damage or destruction, provided that the restoration can be made under the existing laws and can be completed within one hundred twenty (120) working days after the date of such destruction or damage. Such destruction or damage shall not terminate this Lease.

If the restoration cannot be made in said 120 day period, then within fifteen (15) days after the parties hereto determine that the restoration cannot be made in the time stated in this paragraph, Tenant may terminate this Lease immediately by giving notice to Landlord and the Lease will be deemed canceled as of the date of such damage or destruction. If Tenant fails to terminate this Lease and restoration is permitted under the existing laws, Landlord, at its option, may terminate this Lease or restore Premises and/or any other improvements in which the Premises are located within a reasonable time and this Lease shall continue in full force and effect. If the existing laws do not permit the restoration, either party can terminate this Lease immediately by giving notice to the other party.

Notwithstanding the above, if the Tenant is the insuring party and if the insurance proceeds received by Landlord are not sufficient to affect such repair, Landlord shall give notice to Tenant of the amount required in addition to the insurance proceeds to affect repair. Tenant may, at Tenant's option, contribute the required amount, but upon failure to do so within thirty (30) days following such notice, Landlord's sole remedy shall be, at Landlord's option and with no liability to Tenant, to cancel and terminate this Lease. If Tenant shall contribute such amount to Landlord within said (30) day period, Landlord shall make such repairs as soon as reasonably possible and this Lease shall continue in full force and effect. Tenant shall in no event have any right to reimbursement for any amount so contributed.

### (b) Damage - Uninsured.

In the event that the Premises are damaged or destroyed by a casualty which is not covered by the fire and extended coverage insurance which is required to be carried by the party designated in Article 11 (a) above, then Landlord shall restore the same; provided that if the damage or destruction is to an extent greater than ten (10%) percent of the then replacement cost of the improvements on the Premises (exclusive of Tenant's trade fixtures and equipment and exclusive of foundations and footings), then Landlord may elect not to restore and to terminate this Lease. Landlord must give to Tenant written notice of its intention not to restore within thirty (30) days from the date of such damage or destruction and, if not given, Landlord shall be deemed to have elected to restore and in such event shall repair any damage as soon as reasonably possible. In the event that Landlord elects to give such notice of Landlord's intention to cancel and terminate this Lease, Tenant shall have the right, within ten (10) days after the receipt of such notice to give written notice to Landlord of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from Landlord, in which event the Lease shall continue in full force and effect and Tenant shall proceed to make such repairs as soon as reasonably possible. If the Tenant does not give such notice within such 10 day period, this Lease shall be canceled and be deemed terminated as of the date of the occurrence of such damage or destruction.

### (c) Damage Near the End of the Term.

If the Premises are totally or partially destroyed or damaged during the last twelve (12) months of this Lease, Landlord may, at Landlord's option, cancel and terminate this Lease as of the date of the cause of such damage by giving written notice to the Tenant of Landlord's election to do so within 30 days after the date of the occurrence of such damage; provided, however, that, if the damage or destruction occurs within the last 12 months of the term and if within fifteen (15) days after the date of such damage or destruction Tenant exercises any option to extend the term provided herein, Landlord shall restore the Premises if obligated to do so as provided in subparagraph (a) or (b) above.

### (d) Abatement of Rent.

If the Premises are partially or totally destroyed or damaged and Landlord or Tenant repairs or restores them pursuant to the provisions of this Article 12, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's reasonable use of the Premises is impaired. Except for the abatement of rent, if any, Tenant shall have no claim against Landlord for any damages suffered by reason of any such damage, destruction, repair, or restoration.

(e) Trade Fixtures and Equipment.

If Landlord is required or elects to restore Premises as provided in this Article, Landlord shall not be required to restore Tenant's improvements, trade fixtures, equipment, or alterations made by Tenant, such excluded items being the sole responsibility of the Tenant to restore hereunder.

(f) Total Destruction-Multitenant Building

If the Premises are a part of a multitenant building and there is destruction to the Premises and/or the building of which the Premises are a part that exceeds fifty (50%) percent of the then replacement value of the Premises and/or the building in which the Premises are a part from any cause whether or not covered by the insurance described in Article 11 above, Landlord may, at its option, elect to terminate this Lease (whether or not the Premises are destroyed) so long as Landlord terminates the leases of all other Tenants in the building of which the Premises are a part, effective as of the date of such damage or destruction.

### 13. CONDEMNATION

If the Premises or any portion thereof are taken by the power of eminent domain, or sold by Landlord under the threat of exercise of said power (all of which is herein referred to as "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemnation authority takes title or possession, whichever occurs first. If more than twenty (20%) percent of the floor area of the building in which the Premises is located, or more than twenty (20%) percent of the land area containing the Premises not covered with buildings, is taken by condemnation, either Landlord or Tenant may terminate this Lease as of the date of the condemnation authority takes possession by notice in writing of such election within twenty (20) days after Landlord shall have notified Tenant of such taking or, in the absence of such notice, then within twenty (20) days after the condemnation authority shall have taken possession.

If this Lease is not terminated by either Landlord or Tenant as provided hereinabove, then it shall remain in full force and effect as to the portion of the Premises remaining, provided that the rental shall be reduced in proportion to the floor area of the Premises or square footage of the land taken. In the event this Lease is not so terminated, then Landlord agrees at Landlord's sole cost and expense, to as soon as reasonably possible restore the Premises to a complete unit of like quality and character as existed prior to the condemnation.

All awards for the taking of an part of the Premises or any payment made under the threat of the exercise of the power of eminent domain shall be the property of the Landlord, whether made as compensation for the diminution of the value of the leasehold or for the taking of the fee or as severance damages; provided, however, that Tenant shall be entitled to any award for loss or damage to Tenant's trade fixtures and removable personal property.

Except as set forth above, each party hereby waives the provisions of Code of Civil Procedure 1265.130 allowing either party to petition the Superior Court to terminate this Lease in the event of the partial taking of the Premises.

Rent shall be abated or reduced during the period from the date of taking until the completion of restoration by Landlord, but all other obligations of Tenant under this Lease shall remain in full force and effect. The abatement or reduction of the rent shall be based on the extent to which the restoration interferes with Tenant's use of the Premises.

### 14. ASSIGNMENT AND SUBLETTING.

Tenant shall not voluntarily or by operation of law assign, transfer, sublet, mortgage, or otherwise transfer or encumber all or any part of Tenant's interest in the Lease or in the Premises, and in any other areas in the building where the Premises are located, without Landlord's prior written consent, which consent shall not be unreasonably withheld. Any attempted assignment, transfer, mortgage, encumbrance, or subletting without such consent shall be void and shall constitute a breach of this Lease.

Regardless of Landlord's consent, no subletting or assignment shall release Tenant or Tenant's obligation to pay the rent and to perform all other obligations to be performed by Tenant hereunder for the term of this Lease. The acceptance of rent by Landlord from any other person shall not be deemed a waiver by Landlord

of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting.

#### 15. DEFAULT.

##### (a) Events of Default.

The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

(1) Failure to pay rent when due, if the failure continues for five (5) days after written notice has been given to Tenant.

(2) Abandonment and vacation of the Premises (failure to occupy the Premises for fourteen (14) consecutive days shall be deemed an abandonment and vacation, except as described in Articles 12 and 13 of this Lease).

(3) Failure to perform any other provision of this Lease if the failure to perform is not cured within thirty (30) days after written notice thereof has been given to Tenant by Landlord. If the default cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default under this Lease if Tenant commences to cure the default within the thirty (30) day period and diligently prosecutes the same to completion.

(4) The making by Tenant of any general assignment, or general arrangement for the behalf of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy unless the same is dismissed within sixty (60) days; the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in the Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in the Lease, where such seizure is not discharged within thirty (30) days.

Notices given under this paragraph shall specify the alleged default and the applicable lease provisions, and shall demand that Tenant perform the provisions of this Lease or pay the rent that is in arrears as the case may be, within the applicable period of time. No such notice shall be deemed a forfeiture of a termination of this Lease unless Landlord so elects in the notice.

##### (b) Landlord's Remedies.

The Landlord shall have the following remedies if Tenant commits a default under this Lease. These remedies are not exclusive but are cumulative and in addition to any remedies now or hereafter allowed by law.

Landlord can continue this Lease in full force and effect, and the Lease will continue in effect so long as Landlord does not terminate Tenant's right to possession, and the Landlord shall have the right to collect rent when due. During the period that Tenant is in default, Landlord can enter the Premises and relet them, or any part of them, to third parties for Tenant's account. Tenant shall be liable immediately to the Landlord for all costs the Landlord incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and like costs. Reletting can be for a period shorter or longer than the remaining term of this Lease. Tenant shall pay to Landlord the rent due under this Lease on the dates the rent is due, less the rent Landlord received from any reletting. No act by Landlord allowed by this paragraph shall terminate this Lease unless Landlord notifies Tenant that Landlord elects to terminate this Lease. After Tenant's default and for so long as Landlord has not terminated Tenant's right to possession of the Premises, if Tenant obtains Landlord's consent, Tenant shall have the right to assume or sublet its interest in the Lease, but Tenant shall not be released from liability. Landlord's consent to the proposed assignment or subletting shall not be unreasonably withheld.

If Landlord elects to relet the Premises as provided in this paragraph, any rent that Landlord receives from such reletting shall apply first to the payment of any indebtedness from Tenant to Landlord other than the rent due from Tenant to Landlord; secondly, to all costs including maintenance incurred by Landlord in such reletting; and third, to any rent due and unpaid under this Lease. After deducting the payments referred to in this paragraph, any sum remaining from the rent Landlord receives from such reletting shall be held by Landlord and applied in payment of future rent as rent becomes due under this Lease. In no event shall Tenant be entitled to any excess rent received by Landlord. If on the date rent is due under this Lease, the rent received from the reletting is less than rent due on that date, Tenant shall pay to Landlord, in addition to remaining rent due, all costs, including maintenance, that Landlord shall have incurred in reletting that remain after applying the rent received from reletting as provided in this paragraph.

Upon default, Landlord can, at its option, terminate Tenant's right to possession of the Premises at any time. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises, or the appointment of a receiver on Landlord's initiative to protect Landlord's interest in this Lease shall not constitute a termination of Tenant's right to possession. In the event of such termination, Landlord has the right to recover from Tenant:

(1) The worth, at the time of the award, of the unpaid rent that had been earned at the time of the termination of this Lease;

(2) The worth, at the time of the award, of the amount by which the unpaid rent that would have been earned after the date of the termination of this Lease until the time of the award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided;

(3) The worth, at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided; and

(4) Any other amount, including court costs, necessary to compensate Landlord for all detriment proximately caused by Tenant's default. "The worth at the time of the award" includes the principal sum, plus interest at the legal rate.

If Tenant is in default under the terms of this Lease, Landlord shall have the additional right to have a receiver appointed to collect rent and conduct Tenant's business. Neither the filing of a petition for the appointment of a receiver nor the appointment itself shall constitute an election by Landlord to terminate this Lease.

Landlord at any time after the Tenant commits a default, can cure the default at Tenant's cost and expense. If Landlord at any time, by reason of Tenant's default, pays any sum or does any act that requires the payment of any sum, the sum paid by Landlord shall be due immediately from Tenant to Landlord at the time the sum is paid, and if paid at a later date shall bear interest at the legal rate. The sum, together with interest thereon, shall be considered additional rent.

#### 16. SIGNS.

Tenant shall not have the right to place, construct or maintain any sign, advertisement, awning, banner, or other exterior decorations on the building or other improvements that are a part of the Premises without Landlord's prior, written consent, which consent shall not be unreasonably withheld.

#### 17. SUBORDINATION.

This Lease, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation for security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to all renewal, modifications, and extensions thereof. Notwithstanding any such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all the other provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee, or ground lessor shall elect in writing to make this Lease senior to the lien of its mortgage or deed of trust or ground lease, this Lease shall be deemed senior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior to or subsequent to the date of such mortgage, deed of trust or ground lease, or the date of recording thereof. Tenant agrees to execute any documents required to effect such subordination or to make this Lease senior to the lien of any mortgage, deed of trust, or ground lease, as the case may be, and failing to do so within ten (10) days after written demand from Landlord does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney in fact and in Tenant's name, place and stead to do so.

#### 18. SURRENDER.

On the last day of the term hereof, or on any sooner termination, Tenant shall surrender the Premises to Landlord in good condition (subject to ordinary wear and tear that occurred during the Tenant's occupancy of the Premises), broom clean. Tenant shall repair any damage, other than ordinary wear and tear, to the Premises occasioned by its use thereof, or by the removal of Tenant's trade fixtures, furnishings and equipment, which repair shall include the patching and filling of holes and repair of structural damage. Tenant shall remove all of its personal property and fixtures on the Premises prior to the expiration of the term of this Lease and if required by Landlord pursuant to Article 10(a) above, any alterations, improvements or additions made by Tenant to the Premises. If Tenant fails to surrender the Premises to Landlord on the expiration of the Lease as required by this paragraph, Tenant shall hold Landlord harmless from all damages resulting from

Tenant's failure to vacate the Premises, including, without limitation, claims made by any succeeding Tenant resulting from Tenant's failure to surrender the Premises.

19. HOLDING OVER.

If the Tenant, with the Landlord's consent, remains in possession of the Premises after the expiration or termination of the term of this Lease, such possession by Tenant shall be deemed to be a tenancy from month-to-month at a rental in the amount of the last rental plus all other charges payable hereunder upon all the provisions of this Lease applicable to month-to-month tenancy.

20. BINDING ON SUCCESSORS AND ASSIGNS.

The terms, conditions and covenants of this Lease shall be binding upon and shall inure to the benefit of each of the parties' heirs, personal representatives, successors and assigns.

21. NOTICES.

Whenever under this Lease a provision is made for any demand, notice or declaration of any kind, it shall be in writing and served either personally or sent by registered or certified United States mail, postage prepaid, addressed at the addresses set forth below:

TO LANDLORD AT:  
14409 Bethany Ave., Chino, CA 91710

TO TENANT AT:  
5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610

Such notices shall be deemed to be received within five business days from the time of mailing, if mailed as provided for in this paragraph. Notices served personally will be effective immediately upon receipt.

22. LANDLORD'S RIGHT TO INSPECTION.

Landlord and Landlord's agent shall have the right to enter the Premises at reasonable times for the purpose of inspecting same, showing the same to prospective purchasers or lenders, and making such alterations, repairs, improvements or additions to the Premises or to the building of which the Premises are a part as Landlord may deem necessary or desirable. Landlord may at any time place on or about the Premises any ordinary "For Sale" signs and Landlord may at any time during the last one hundred twenty (120) days of the term of this Lease place on or about the Premises any ordinary "For Sale or Lease" signs, all without rebate of rent or liability to Tenant.

23. CHOICE OF LAW.

This Lease shall be governed and construed in accordance with the laws of the State of California.

24. ATTORNEY'S FEES.

If either Landlord or Tenant becomes a party to any litigation or arbitration concerning this Lease, the Premises, or the building or other improvements in which the Premises are located, by reason of any act or omission of the other party or its authorized representatives, and not by reason of any act or omission of the party that becomes a party to that litigation or any act or omission of its authorized representatives, the party that causes the other party to become involved in the litigation shall be liable to that party for reasonable attorney's fees and court costs incurred by it in the litigation.

If either party commences an action against the other party arising out of or in connection with this Lease, the prevailing party shall be entitled to have and recover from the losing party reasonable attorney's fees and costs of suit.

25. LANDLORD'S LIABILITY.

The term "Landlord" as used in this Lease shall mean only the owner or owners at the time in question of the fee title or a Lessee's interest in a ground lease of the Premises. In the event of any transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers to the then successor) shall be relieved from and after the date of such transfer of all liability in respect to Landlord's obligations thereafter to be performed. The obligations in this Lease to be performed by Landlord shall be binding upon the Landlord's successors and assigns only during their respective periods of ownership.

26. WAIVERS.

No waiver by Landlord or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to or approval of

any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of its acceptance of such rent.

27. INCORPORATION OF PRIOR AGREEMENTS.

This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This lease may be modified only in writing, and signed by the parties in interest at the time of such modification.

28. TIME.

Time is of the essence of this Lease.

29. SEVERABILITY.

The unenforceability, invalidity, or illegality of any provision of this Lease shall not render the other provisions hereof unenforceable, invalid or illegal.

30. ESTOPPEL CERTIFICATES.

Each party, within ten (10) days of notice from the other party, shall execute and deliver to the other party a certificate stating that this Lease is unmodified and in full force and effect, or in full force and effect as modified, and stating the modification. The certificate shall also state the amount of minimum monthly rent, the dates to which rent has been paid in advance, and the amount of any security deposit or prepaid rent, if any, as well as acknowledging that there are not, to the party's knowledge, any uncured defaults on the part of the other party, or specifying such defaults, if any, which are claimed. Failure to deliver such a certificate within the ten (10) day period shall be conclusive upon the party failing to deliver the certificate to the benefit of the party requesting the certificate that this Lease is in full force and effect, that there are no uncured defaults hereunder, and has not been modified except as may be represented by the party requesting the certificate.

31. GROUND FLOOR SUMMARY MAP.

The Premises covered by this lease are identified in the map attached as Exhibit A.

33. ADDENDUM.

Any addendum attached hereto and either signed or initialed by the parties shall be deemed a part hereof and shall supersede any conflicting terms or provisions contained in this Lease.

The parties hereto have executed this Lease on the date first above written.

LANDLORD:

TENANT:

By: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

## **AGENDA ITEM 6: ELECT 2018 RWA EXECUTIVE COMMITTEE**

### **BACKGROUND:**

A copy of the procedures for selection of the Executive Committee of the Board of Directors is attached. The election process involves multiple rounds of balloting to achieve a total of nine members with the following:

- At least two seats on the Executive Committee will be held by members of the Board of Directors who are members of a governing board of a Member of RWA (as defined in Articles 2 and 3(i) of the JPA).
- At least two seats on the Executive Committee will be held by members of the Board of Directors who are members of management staff of a Member of RWA.
- At least one seat on the Executive Committee will be held by a member of the Board of Directors who represents a City or County Member of RWA.
- At least one seat on the Executive Committee will be held by a member of the Board of Directors who represents a Contracting Entity of RWA (as defined in Article 3(d) of the JPA).
- A majority of the seats on the Executive Committee (i.e., five seats on a nine-member Executive Committee) will be held by members of the Board of Directors who represent a Member of RWA.

### **STAFF RECOMMENDATION:**

**Action: Elect the Executive Committee of the RWA Board of Directors**

# **REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL**

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Policy Type : Board of Directors  
Policy Title : Procedures for Selection of the Executive Committee  
Policy Number : 200.3  
Date Adopted : November 19, 2001  
Date Amended : March 10, 2005  
Date Amended : November 13, 2014

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## **REGIONAL WATER AUTHORITY PROCEDURES FOR SELECTION OF THE EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS AND THE CHAIR AND VICE-CHAIR OF THE EXECUTIVE COMMITTEE AND THE BOARD OF DIRECTORS**

### **Background**

The Joint Exercise of Powers Agreement (“JPA”) under which the Regional Water Authority (“RWA”) was formed and operates provides for the selection of (1) the members of the Executive Committee of the Board of Directors, and (2) the Chair and Vice-Chair of the Board of Directors. (See Articles 10 and 18, respectively, of the JPA.) The Board of Directors will follow the procedures set forth in this document for the selection of the members of the Executive Committee and the Chair and Vice-Chair. This document may be amended at any time by the Board of Directors.

In accordance with Article 8 of the JPA, each Member and Contracting Entity (as defined in Article 3 of the JPA) will have two representatives on the Board of Directors, either of whom may cast a single vote on behalf of his or her Member or Contracting Entity. It will be the responsibility of a Member and Contracting Entity to notify RWA in writing from time to time of (1) its designated representatives to the Board of Directors, including alternates who may act in the absence of a representative, and (2) the priority for voting of its representatives to the Board of Directors of RWA. In the absence of such written notification, the Secretary of RWA will determine that an elected representative of a Member will have voting priority over the Member’s non-elected representative to the Board of Directors, and a Member or Contracting Entity’s senior management staff will have priority over the Member or Contracting Entity’s junior management staff, in the event that the Member or Contracting Entity’s two representatives disagree as to who should cast a vote on behalf of the Member or Contracting Entity concerning a particular matter.

Reference in this document to a majority vote of the Board of Directors will refer to the affirmative vote of a majority of the representatives (one for each Member and Contracting Entity) on the Board of Directors who are entitled to vote on a matter and

who are present at the Board meeting during the vote. A seat on the Board of Directors of RWA will become vacant when a representative of a Member or Contracting Entity no longer meets the qualifications set forth in Article 8 of the JPA, or upon the happening of any of the events set forth in Government Code section 1770.

**I. Procedures for Election of the Executive Committee of the Board of Directors**

1. The Executive Committee will be a standing committee of the Board of Directors of RWA, and will be selected as individuals from the membership of the Board of Directors, except that, no Member or Contracting Entity of RWA will have more than one representative on the Executive Committee.
2. In accordance with the Brown Act (Government Code section 54952), the Executive Committee will comprise less than a quorum of the number of members of the Board of Directors. The Executive Committee of RWA will consist of nine members, subject to the Board of Directors approving a smaller odd-number of members of the Executive Committee to avoid a violation of the Brown Act. These procedures assume that the Executive Committee will comprise nine members.
3. The nine members of the Executive Committee will be selected by the Board of Directors according to the following procedures:
  - a. At least two seats on the Executive Committee will be held by members of the Board of Directors who are members of a governing board of a Member of RWA (as defined in Articles 2 and 3(i) of the JPA).
  - b. At least two seats on the Executive Committee will be held by members of the Board of Directors who are members of management staff of a Member of RWA.
  - c. At least one seat on the Executive Committee will be held by a member of the Board of Directors who represents a City or County Member of RWA.
  - d. At least one seat on the Executive Committee will be held by a member of the Board of Directors who represents a Contracting Entity of RWA (as defined in Article 3(d) of the JPA).
  - e. A majority of the seats on the Executive Committee (i.e., five seats on a nine-member Executive Committee) will be held by members

of the Board of Directors who represent a Member of RWA.

- f. The Chair of the Board of Directors will conduct the election of the Executive Committee. The Chair may appoint an elections committee to assist the Chair and the RWA Secretary in preparing and counting ballots. No secret ballot will be used for the election. (See Government Code section 54953(c) of the Brown Act: “No legislative body will take action by secret ballot, whether preliminary or final.”)
- g. For each ballot, the Chair will ask which members of the Board want to be included on that ballot for election for membership on the Executive Committee. A Board member who is not present at the time of the election will not be included as a candidate unless the Board member or the RWA entity that he or she represents has notified the Executive Director that the Board member wishes to be included as a candidate.
- h. Candidates for election to the Executive Committee may prepare and distribute to the members of the Board of Directors a statement of their qualifications. Prior to the vote on a ballot on which a candidate’s name appears, a candidate for election to the Executive Committee will have an opportunity to make an oral presentation of not more than two minutes concerning his or her qualifications to serve on the Executive Committee.
- i. The first election will be to fill two seats on the Executive Committee to be held by members of a governing board of a Member of RWA. The RWA Secretary will prepare a ballot comprising the names of the members of the RWA Board of Directors who are eligible to fill these seats, excluding from the ballot any member of the Board of Directors who has indicated that he or she does not wish to serve on the Executive Committee. The ballot will state: “Vote for two seats,” and it will have on it the name of the Member or Contracting Entity that is casting the ballot. The representatives on the Board of Directors will cast votes on the ballot on behalf of the Member or Contracting Entity that they represent, i.e., each Member and Contracting Entity can return one ballot. In order to be counted as a valid ballot, a ballot must have a vote cast for each seat that is to be voted on, e.g., if there are two seats to be voted on, a ballot will not be counted if it is returned with a vote for one or none of the candidates. No cumulative voting will be allowed, i.e., a Member or Contracting Entity cannot cast two votes on the same ballot for the same candidate. In order to be elected on the first ballot, a candidate must receive no less than a

majority of the votes of the Board of Directors who are present at the time of the vote. The two candidates who receive the highest number of votes will be elected to the Executive Committee. One or more runoff elections will be held among the three remaining candidates (plus ties) who received the highest number of votes if the election does not fill both seats on the ballot. For a runoff election, the candidate who receives the highest number of votes will be elected, even if it represents less than a majority vote of the Board of Directors. If an election on a ballot with only three candidates does not result in the election of a member of the Executive Committee, then the next runoff ballot will include the two candidates who received the highest number of votes on the previous ballot, and (1) the candidate who receives the higher number of votes (even if less than a majority) will be elected; and (2) in case of a tie, a coin flip will determine the winner.

- j. Upon the filling of the first two seats on the Executive Committee, the Chair will call for the election to fill two seats on the Executive Committee to be held by members of management staff of a Member of RWA. The Chair will follow the voting procedures set forth above to fill these seats on the Executive Committee.
- k. The Chair will next call for the election to fill one seat on the Executive Committee to be held by a member of the Board of Directors who represents a City or County Member of RWA, to the extent that this seat has not already been filled. The Chair will follow the voting procedures set forth above to fill this seat on the Executive Committee.
- l. The Chair will next call for the election to fill one seat on the Executive Committee to be held by a member of the Board of Directors who represents a Contracting Entity of RWA. The Chair will follow the voting procedures set forth above to fill this seat on the Executive Committee.
- m. The Chair will next determine whether a majority of the seats on the Executive Committee are held by members of the Board of Directors who represent Members of RWA. (Under the above-referenced procedures, a minimum of four seats on the Executive Committee would have already been filled by representatives of Members of RWA.) If they have not, then the Chair will call for the election for the seat on the Executive Committee needed to result in a majority of the seats being held by members of the Board of Directors who represent Members of RWA. In that case, the Chair will follow the voting procedures set forth above to fill this seat on

the Executive committee.

- n. The Chair will next call for the election to fill the remaining seats on the Executive Committee. The Chair will follow the voting procedures set forth above to fill these seats on the Executive Committee.
  - o. In the event that vacancies arise from time to time on the Executive Committee, such vacancies will be filled following these procedures concerning the composition and selection of the Executive Committee.
  - p. There will be no alternate members of the Executive Committee.
- 4. Prior to January 31 each year, the Board of Directors will elect the members of the Executive Committee for the following year. The members of the Executive Committee will serve a term that commences at the conclusion of the Board meeting during which they were selected, and runs until their successors take office.
  - 5. The RWA Board of Directors will select from the Executive Committee membership a Chair and Vice-Chair, who will also serve as the Chair and Vice-Chair of the RWA Board of Directors. The procedures for selecting the Chair and the Vice-Chair are set forth below.
  - 6. Executive Committee meetings will be open to the public (except for authorized closed sessions), noticed and conducted in accordance with applicable law. A majority of all of the members of the Executive Committee (i.e., five members on a nine-member Executive Committee) will (a) constitute a quorum for the purpose of transacting business, and (b) be required for an affirmative vote to take action.
  - 7. Members of the RWA Board of Directors who are not members of the Executive Committee may attend an Executive Committee meeting only as observers, and they will not participate in the committee meeting, ask questions or sit with the committee members at the Board table. (See subsection (c)(6) of Government Code section 54952.2 and 81 Ops.Cal.Atty.Gen. 156 (1998).)

## **II. Procedures for Election of Chair and Vice-Chair of the Executive Committee and the Board of Directors**

- 1. The Chair and Vice-Chair will be elected by the Board of Directors from the membership of the Executive Committee.

2. The current Chair of the Board of Directors will conduct the election of the Chair and Vice-Chair of the Executive Committee as separate elections. The Chair may appoint an elections committee to assist the Chair and the RWA Secretary in preparing and counting ballots. No secret ballot will be used for the election. (See Government Code section 54953(c) of the Brown Act.)
3. The Chair will ask which members of the Executive Committee want to be considered at the election for Chair of the Executive Committee. A Board member who is not present at the time of the election will not be included as a candidate unless the Board member or the RWA entity that he or she represents has notified the Executive Director that the Board member wishes to be included as a candidate.
4. Candidates for election as Chair of the Executive Committee may prepare and distribute to the members of the Board of Directors a statement of their qualifications. Prior to the vote, a candidate will have an opportunity to make an oral presentation of not more than two minutes concerning his or her qualifications to serve as Chair.
5. The RWA Secretary will prepare a ballot for Chair comprising the names of the members of the Executive Committee, excluding from the ballot any member of the Executive Committee who has indicated that he or she does not wish to serve as Chair. To the extent applicable, the procedures set forth above for the election of members of the Executive Committee will be followed for the election of the Chair of the Executive Committee, until the Chair has been elected. The candidate who receives the highest number of votes on the first ballot, and at least a majority of the vote of the Board of Directors who are present at the time of the vote, will be elected Chair. One or more runoff elections will be held, if necessary, among the three candidates (plus ties) who received the highest number of votes on the previous ballot. For a runoff election, the candidate who receives the highest number of votes will be elected, even if it represents less than a majority vote of the Board of Directors. If an election on a ballot with only three candidates does not result in the election of the Chair, then the next runoff ballot will include the two candidates who received the highest number of votes on the previous ballot, and (a) the candidate who receives the higher number of votes (even if less than a majority) will be elected; and (2) in case of a tie, a coin flip will determine the winner.
6. The Chair will follow the same procedures for the election of Vice-Chair of the Executive Committee.
7. Prior to January 31 of each year, the Board of Directors will elect the Chair

and Vice-Chair of the Executive Committee for the following year. The Chair and Vice-Chair will serve a term that commences at the conclusion of the Board meeting during which they were selected, and runs until their successors take office.

8. In the event that the Chair does not serve his or her full term, the Vice-Chair will succeed the Chair, and the Board of Directors will elect a Vice-Chair following these procedures.

### **III. Procedures for Filling a Post-Election Vacancy on the Executive Committee**

1. In the event that a vacancy occurs on the Executive Committee the Member or Contracting Entity whose representative held the Executive Committee seat that was vacated may recommend a replacement by sending the Chair of the Board of Directors a letter making that recommendation.
2. The recommended Executive Committee replacement must be one of the two identified representatives on the Board of Directors for that Member or Contracting Entity, provided the nomination is consistent with the RWA JPA and the Executive Committee Election Policy.
3. The recommended replacement to the Executive Committee may begin to serve immediately, but must be approved by a majority vote of the Board of Directors at its next regularly scheduled meeting.
4. In the event that a recommended replacement is not identified or not approved, the Board of Directors will select a member consistent with the procedures identified in Section I. of this policy.

## **AGENDA ITEM 7: ELECT 2017 RWA CHAIR AND VICE-CHAIR**

### **BACKGROUND:**

The Chair and Vice-Chair are to be elected by the Board of Directors from the membership of the Executive Committee.

### **STAFF RECOMMENDATION:**

**Action: Elect 2018 Chair and Vice-Chair of the RWA Executive Committee and RWA Board of Directors**

**AGENDA ITEM 8: EXECUTIVE DIRECTOR'S REPORT**

**JANUARY 11, 2018**

**TO: REGIONAL WATER AUTHORITY BOARD OF DIRECTORS**

**FROM: JOHN WOODLING**

**RE: EXECUTIVE DIRECTOR'S REPORT**

- a. Legislative and Regulatory Update** – RWA staff provided testimony at a State Water Resources Control Board workshop and submitted written comments in response to the Board's draft "Permanent Prohibitions Against Wasteful and Unreasonable Water Uses." RWA's comments emphasized the effectiveness of locally-driven approaches to advancing water use efficiency and provided specific comments on the proposed prohibitions. The 2018 legislative session begins on January 3.
- b. Grants Update** – Staff submitted a grant application to the Department of Water Resources through the Sacramento Groundwater Authority to develop a Groundwater Sustainability Plan for the North American Subbasin, which includes northern Sacramento County, western Placer County, and southeastern Sutter County. Staff is currently managing five grants totaling \$30.5 million. A copy of the grants table is enclosed.
- c. Water Efficiency Update** – The first of five 2018 snow surveys was conducted on January 3<sup>rd</sup>. The survey showed below average results both locally at Phillips Station and statewide with snow water equivalents of 0.4 inches or 3% of average for this date and 2.6 inches or 24% of average, respectively. There is discussion among state agencies, the media, and other stakeholders about the possibility of the state returning to drought conditions in 2018. However, it is too early to make definitive conclusions about the water year based on this first survey. Currently Folsom Lake storage is at 55% of total capacity and 113% of historical average (as of January 3, 2018). As of December 2017, 154 reservoirs throughout the state had above average storage equating to 24.1 million acre feet or 110% of the 21.9 million acre feet average for the end of the year.

In November 2017, the region saved 27.6% compared to 2013 or approximately 2.9 billion gallons. The 2017 year to date savings (January through November) is 19.4% or 30.8 billion gallons. The region's November residential gallons per capita per day (R-GPCD) was 83. Year to date and November 2017 statewide savings and R-GPCD data are not available at this time.
- d. Association of California Water Agencies Update** – Mr. Roscoe won the emissary award at the ACWA Fall Conference. Adam W. Robin accepted a joint award that was presented to RWA and Irvine Ranch for outreach and messaging around water efficiency. Mr. Robin moderated a panel presented by the Legal Affairs Committee on the water rights implications of conservation mandates. RWA has good ACWA representation in the upcoming term with Pam Tobin as the Chair and Mark Emmerson as Vice Chair of Region 4, and Josh Alpine is Chair of Region 3. Mr. Woodling will

continue to serve as Chair of the Groundwater Committee and on the State Legislative Committee. Brian Poulsen, Chief Counsel of El Dorado Irrigation District will chair the State Legislative Committee. Jim Peifer will serve as vice-Chair of the Water Management Committee.

- e. **Powerhouse Science Center** – Staff expects to bring an amended contract with the Powerhouse Science Center to the Executive Committee for consideration in January, 2018. The new contract will include payments to be made at certain milestones of the project. On December 19<sup>th</sup>, the Powerhouse Science Center secured a commitment of \$30 million from the Sacramento City Council, and expects to begin construction in mid-2018 (attachment).
- f. **Office Space Lease Update** – A renegotiated lease for the current office space is anticipated early in 2018.
- g. **Save the Date** – Making Safe, Clean, Affordable and Accessible Water a Reality event is scheduled for Thursday, March 15, 2018 from 8:30 a.m. to noon at the Capitol Event Center.
- h. **RWA Outreach** – Mr. Woodling attended a meeting of the National Water Resources Association (NWRA) Groundwater Task Force on January 3, 2018. He will speak to a meeting of the North Bay Water Reuse Association on January 22, 2018, as the group is considering creating a joint powers agency to undertake similar activities to RWA.
- i. **Financial reports** – The RWA financial reports through December 31, 2017 are attached.

## Regional Water Authority Status of Grant Awards

January, 2018

	Prop 84 2011 Implementation Grant	Prop 84 Drought Grant	DWR Water Energy Grant	Prop 84 2015 Implementation Grant	Prop 1 Planning Grant	Total
<b>Awarding Agency</b>	DWR	DWR	DWR	DWR	DWR	
<b>Award/Effective Date</b>	8/16/2011	1/17/2014	12/22/2015	1/13/2016	8/8/2017	
<b>Completion Date</b>	6/30/2019	6/30/2018	5/31/2018	6/30/2018	12/31/2018	
<b>Grant Award Amount</b>	\$16,030,766	\$9,765,000	\$2,500,000	\$1,757,000	\$500,000	\$30,552,766
<b>Reimbursement Requests Currently Being Reviewed</b>	\$0	\$1,403,696	\$243,234	\$249,778	\$0	\$1,896,708
<b>Reimbursements Received During Previous Quarter</b>	\$2,182,725	\$673,646	\$938,910	\$16,567	\$0	\$3,811,847
<b>Reimbursements Paid to Date</b>	\$9,682,690	\$5,392,083	\$1,682,424	\$256,996	\$0	\$17,014,193
<b>Grant Award Outstanding</b>	\$6,348,076	\$2,969,221	\$574,342	\$1,250,226	\$500,000	\$11,641,865

# Local



## YOLO DETENTIONS

UNDOCUMENTED TEENS  
ARRESTED ON SUSPICION OF  
GANG AFFILIATION GO FREE  
FOLLOWING LAWSUIT. 2B

BY RYAN LILLIS  
rlillis@sacbee.com

# Council backs \$30M for new science museum

After years of trying to put together financing, Sacramento is finally planning to break ground on a new science museum along the banks of the Sacramento River.

The City Council unanimously approved Tuesday night a \$30 million contribution to the Powerhouse Science Center over the next 30 years, a vote that supporters said would give the project the final boost it needs to launch construction in the late spring or early summer of 2018. The museum is scheduled

to open in 2020.

The Powerhouse museum will replace the much smaller Discovery museum on Auburn Boulevard. Situated in a 105-year-old shuttered PG&E plant on the Sacramento River north of downtown, the new museum will have a 120-seat planetarium and 20,000 square feet of exhibit space dedicated to

nature, water and space exploration. There will also be room for three to four traveling exhibits each year.

The city acted urgently to pass the funding. Nearly \$20 million worth of construction bonds for the project are coming from the Qualified Zone Academy Bonds program, a federal program adminis-

tered by the state Department of Education for education projects. Congress appears likely to eliminate the QZAB program at the end of the year under the federal tax overhaul package, meaning the Powerhouse facility may be among the last projects to receive the funding.

The city's contribution

will help pay off those bonds, as well as other construction debt.

"If we had not met this deadline, we would all be shaking our heads because this project would not be happening," said Councilman Steve Hansen, whose district includes the Powerhouse site. "Literally, this financing vehicle allows us

to do what we've dreamed of for over a decade on the riverfront and to bring science and math, engineering and technology education to our kids and our families and our region."

The museum's annual operating costs will be covered by admissions, membership fees and donations. Museum officials estimate the facility will have 300,000 visitors a year.

Construction of the museum is projected to cost \$48.3 million. Sponsorship and donor pledges will help with the financ-

SEE MUSEUM, 2B

FROM PAGE 1B

## MUSEUM

ing. Harry Laswell, the executive director of the Powerhouse Science Center, said he expects the bond financing to close by the end of the year and to release new architectural drawings in February.

"We're very excited to finally get things moving," he said.

City officials and museum boosters have been working on the project for years, but have been unable to gather enough money to start construction. "Nobody's given up on this project," said Councilwoman Angelique Ashby.

Mayor Darrell Steinberg said the museum will help anchor a revitalized riverfront - a priority for the

mayor as he explores future tourist-related projects to be funded by hotel room taxes. The city's contribution to the project includes \$600,000 a year in hotel taxes. The other \$400,000 will come from the city's Innovation and Growth Fund, made up primarily of tax dollars that were once allocated to local redevelopment agencies.

"There are some things that are good and so important for the future of our city that we must find a way," the mayor said. "And we found a way."

Ryan Lillis: 916-321-1085,  
@Ryan\_Lillis



## Making Safe, Clean, Affordable and Accessible Water a Reality

Thursday, March 15, 2018, 8:30 a.m. to noon

Capitol Event Center at the MAY Building  
1020 11th St, Sacramento, CA 95814

**California was the first state to recognize a Human Right to “Safe, Clean, Affordable and Accessible Water” in law. Across the state, making this human right a reality will require the development and implementation of solutions to address:**

- *The lack of safe drinking water in many rural disadvantaged communities*
- *The development of sustainable governance and finance structures for small water systems*
- *Affordability issues that impact low-income ratepayers across the state*

Join leaders from state government, local agencies and the non-profit sector as we explore the challenges and potential solutions that can help make safe, clean, affordable and accessible water a reality in California.



Hosted by the Regional Water Authority

Sponsorships available! Contact Michelle Smira Brattmiller for information: [michelle@mmsstrategies.com](mailto:michelle@mmsstrategies.com) or (916) 479-3687

# REGIONAL WATER AUTHORITY

## Income Statement

Year-to-Date Performance, December 2017

	<i>6 Months Ended December 31, 2017</i>	<i>Annual Budget</i>	<i>Unused</i>
REVENUES			
Annual Assessments	863,538.00	863,500.00	(38.00)
Affiliate Members Annual	7,875.00	9,000.00	1,125.00
Associate Membership Annual	51,300.00	51,300.00	0.00
Powerhouse Science Center - Members	73,649.00	60,000.00	(13,649.00)
Powerhouse Science Center - Others	0.00	5,000.00	5,000.00
SGA Service Agreement Fees	228,251.95	595,100.00	366,848.05
Holiday Social Revenue	6,440.00	8,000.00	1,560.00
Miscellaneous Revenue	90.00	0.00	(90.00)
Cash Discounts	125.48	0.00	(125.48)
Interest on S/T Investments	6,861.66	7,000.00	138.34
TOTAL REVENUES	1,238,131.09	1,598,900.00	360,768.91
TOTAL REVENUE	1,238,131.09	1,598,900.00	360,768.91
GROSS PROFIT	1,238,131.09	1,598,900.00	360,768.91
OPERATING EXPENDITURES			
Staff Expenses			
General Salaries	406,669.39	867,200.00	460,530.61
Benefits/Taxes	175,483.65	437,300.00	261,816.35
Travel / Meals	10,084.61	25,000.00	14,915.39
Professional Development	0.00	5,000.00	5,000.00
TOTAL Staff Expenses	592,237.65	1,334,500.00	742,262.35
Office Expenses			
Rent & Utilities	10,403.10	25,000.00	14,596.90
Insurance	25,728.83	25,800.00	71.17
Office Maintenance	0.00	500.00	500.00
Telephone	5,046.94	12,000.00	6,953.06
Dues and Subscription	2,203.76	11,000.00	8,796.24
Printing & Supplies	6,786.71	27,200.00	20,413.29
Postage	1,909.47	3,100.00	1,190.53
Meetings	2,700.26	14,000.00	11,299.74
Computer Equipment/Support	3,607.00	12,600.00	8,993.00
TOTAL Office Expenses	58,386.07	131,200.00	72,813.93

	<i>6 Months Ended December 31, 2017</i>	<i>Annual Budget</i>	<i>Unused</i>
Office Furniture & Equipment			
Office Furniture	788.92	2,700.00	1,911.08
Office Move	0.00	20,000.00	20,000.00
TOTAL Office Furniture & Equipment	788.92	22,700.00	21,911.08
Professional Fees			
ADP / Banking Charges	879.33	2,000.00	1,120.67
Audit Fees	0.00	23,000.00	23,000.00
Legal Fees	32,221.91	50,000.00	17,778.09
GASB 68 reporting fee	350.00	0.00	(350.00)
Consulting Expenses - General	53,019.75	165,100.00	112,080.25
Powerhouse Science Center Payments	0.00	25,000.00	25,000.00
TOTAL Professional Fees	86,470.99	265,100.00	178,629.01
Program Fees			
Consulting Expenses	7,676.75	60,000.00	52,323.25
TOTAL Program Fees	7,676.75	60,000.00	52,323.25
TOTAL OPERATING EXPENDITURES	745,560.38	1,813,500.00	1,067,939.62
OPERATING INCOME (LOSS)	492,570.71	(214,600.00)	(707,170.71)
NET OPERATING INCOME (LOSS)	492,570.71	(214,600.00)	(707,170.71)
NET INCOME (LOSS) NET OF PROGRAM	492,570.71	(214,600.00)	(707,170.71)



**Investments, Restricted Cash and Designated Funds, Undesignated Funds and Cash Report**

<b>For the month ending:</b>	Unaudited December 31, 2017	Audited June 30, 2017
<b>Local Agency Investment Fund (LAIF)</b>	\$2,662,009	\$2,150,450
<b>General Checking Account</b>	\$67,094	\$120,901
<b>Total Cash and Investments</b>	\$2,729,103	\$2,271,351
<b>Less: Restricted Cash and Designations<sup>1</sup></b>		
Water Efficiency Program (WEP) <sup>2</sup>	\$683,280	\$779,760
Prop 84 Project Management <sup>2</sup>	\$78,842	\$86,572
Prop 84 3 Project Management <sup>2</sup>	\$19,168	\$20,949
Proposition 50 Grant Management <sup>2</sup>	\$11,414	\$11,415
Lobbying Subscription Program <sup>2</sup>	\$9,806	\$81,806
2014 Drought Program Management	\$27,594	\$37,199
Regional Reliability Plan <sup>2</sup>	\$90,251	\$86,143
SRCSD Water Suppliers <sup>2</sup>	\$1,567	\$0
Membership Dues Stabilization	\$137,200 <sup>4</sup>	\$123,900
Subscription Program Stabilization	\$27,300 <sup>4</sup>	\$28,400
Pension Plan Accounting Change	\$45,000 <sup>4</sup>	\$42,000
Powerhouse Science Center	\$160,631 <sup>4</sup>	\$146,759
Strategic Plan Fund	\$101,048 <sup>7</sup>	\$199,748
<b>Total Designated Funds, excluding operating fund</b>	\$1,393,101	\$1,644,651
<b>Total Available Cash for Operating Funds</b>		
Operating Fund <sup>3</sup>	\$582,200 <sup>6</sup>	\$505,400
Undesignated Funds <sup>5</sup>	\$753,802	\$121,300
<b>Total Designated and Undesignated Funds</b>	\$2,729,103	\$2,271,351

<sup>1</sup> Designated funds represents amounts set aside for program specific purposes.

<sup>2</sup> The cash for this designated fund is restricted as to its use for these specific programs based upon contractual agreements with the participating member agencies.

<sup>3</sup> Per Policy 500.1, the Operating Fund is available to pay ongoing RWA operations and administration expenses.

<sup>4</sup> The designated amounts reflect the June 30, 2018 projected year end balance from the FY2018 budget plus/minus any year end accounting adjustments.

<sup>5</sup> Per Policy 500.1, Funds in excess of the maximum target designated balances may be used to offset future membership dues and subject to an annual review by the Board.

<sup>6</sup> The operating fund at June 30, 2018 is estimated to be at 4 months.

<sup>7</sup> Hiring of strategic planning staff occurred in December 2016. Adjusted to reflect projected available remaining funds at 06.30.18.



Per California Government Code 6505.5 (e ), RWA reports the following unaudited information:

For the period ending December 2018

Cash in checking account:	\$	67,094
LAIF Balance	\$	2,662,009

For the period of October 1 to December 2017

Total cash receipts for the period:	\$	6,773,224
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Total cash disbursements for the period:	\$	6,857,937
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**AGENDA ITEM 9: DIRECTORS' COMMENTS**