

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

Thursday, January 12, 2017, 9:00 a.m.

5620 Birdcage Street, Suite 110
Citrus Heights, CA 95610
(916) 967-7692

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. Information: Final minutes of the October 26, 2016 Executive Committee meeting and draft minutes from the December 7, 2016 Executive Committee meeting
- b. Minutes from the November 10, 2016 RWA regular board meeting
Action: Approve November 10, 2016 RWA Board meeting minutes
- c. Adopt proposed RWA Board Meetings Scheduled for 2017
Action: Adopt proposed RWA Board Meetings scheduled for 2017
- d. Accept the 2016 RWA Financial Audit Report
Action: Accept the 2016 RWA Financial Audit Report
- e. Approve contractor selection for Water Efficiency Direct Install Program
Action: Approve contractor selection for Water Efficiency Direct Install Program
- f. Approve Resolution No. 2017-01 A resolution of the Regional Water Authority Regarding Water Conservation Incentives
Action: Approve Resolution No. 2017-01 a Resolution of the Regional Water Authority Regarding Water Conservation Incentives

4. ACWA JPIA DIRECTOR REPRESENTATION

Action: RWA Chair to appoint a new ACWA JPIA Director Representative

5. REGIONAL WATER PLANNING EFFORTS UPDATE

Presentation: Rob Swartz, Manager of Technical Services

Action: Approve Resolution No. 2017-02 Authorizing the Executive Director to Execute a Memorandum of Agreement with the Bureau of Reclamation to Participate as a Non-Federal Partner in the American River Basin Study

Action: Authorize the Executive Director to Submit a Letter to DWR Supporting Yuba County Water Agency as the Applicant and Fiscal Lead for Disadvantaged Community Involvement Program Funding on behalf of the Sacramento River Funding Area

- 6. ELECT 2017 RWA EXECUTIVE COMMITTEE**
Action: Elect the Executive Committee of the RWA Board of Directors
- 7. ELECT 2017 RWA CHAIR AND VICE-CHAIR**
Action: Elect 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 25, 2017 and February 22, 2017, 8:30 a.m. at the RWA office.

Next RWA Board of Directors' Meeting – Thursday, March 9, 2017, 9:00 a.m., at the RWA Office.

AGENDA ITEM 3a: CONSENT CALENDAR

Information: Final minutes of the October 26, 2016 Executive Committee meeting and draft minutes from the December 7, 2016 Executive Committee meeting

1. CALL TO ORDER

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

Executive Committee Members

Spencer Short, City of Lincoln
Jim Peifer, City of Sacramento
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, Rob Swartz, Nancy Marrier, Amy Talbot, Cecilia Partridge, Monica Garcia and Katrina Gonzales, legal counsel.

Others in Attendance

Kelye McKinney and Rodney Fricke. Nicole Krotoski participated via conference phone.

2. PUBLIC COMMENT

None

Item number 4 was moved ahead of item number 3, but is being reported in the order listed on the agenda.

3. CONSENT CALENDAR

The minutes from the Executive Committee meeting held August 24, 2016.

Motion/Second/Carried (M/S/C) Mr. Roscoe moved, with a second by Ms. Schmitz, to approve the minutes from the August 24, 2016 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present.

4. REGIONAL RELIABILITY PLAN UPDATE

Rob Swartz, Manager of Technical Services provided an update on the effort to develop a Regional Water Reliability Plan. The committee met on October 12th and is still in the process of gathering data to identify each agencies' vulnerabilities and

mitigation actions. Staff expects to gather the data in November and December for the project committee to meet in January. At the last meeting there was interest in a regionally-coordinated demonstration water exchange with Reclamation. Reclamation is looking at a 2017 program for purchasing water through groundwater substitution. The concept of proving up what we can do with multiple agency participation is something that was presented to Reclamation. The demonstration project could be helpful in identifying issues that could emerge if a Water Bank was operated in the region in the future.

Mr. Peifer and Mr. Dugan entered the meeting.

5. LEGISLATIVE WRAP-UP

Dave Brent, Water Policy Advisor, reported that the California Legislature adjourned August 31st giving the Governor until September 30th to take action on the bills that had reached his desk and officially close the 2015-2016 two-year legislative session. Of the nearly 100 bills that RWA tracked and monitored, including the 37 top priority “hot bills”, eleven were signed into law by the Governor. The remaining hot bills were either amended to issues of no concern to RWA; failed to make it out of the legislature; or were vetoed by the Governor.

Three of the bills signed by the Governor - SB 7, SB 814, and SB 1398 - will have impacts to all RWA member agencies. A summary analysis of these three bills and their impact was provided.

SB 7 – Water meters for new multiunit structures. Beginning January 1, 2018, this bill requires any water purveyor that delivers water service to a newly constructed multiunit residential structure or newly constructed mixed-use residential and commercial structure for which a new water connection is required to ensure each individual unit be metered or sub-metered as a pre-condition to a new water service. The developer and/or owner of the newly constructed structure is required to install, certify, maintain, test and read the sub-meters unless the water purveyor agrees otherwise. This bill prohibits the water purveyor from imposing an additional capacity or connection fee or charge for a sub-meter that is installed by an owner or his or her agent.

This bill further provides consumer protections for tenants; requirements that put the onus on the developer to ensure sub-meters are installed in compliance with all applicable laws and regulations; and directs the State Department of Housing and Community Development to propose state building standards requiring sub-meters in newly constructed multiunit residential structures or mixed use residential and commercial structures as part of triennial building code cycle.

SB 814 – Excessive water use during drought conditions. This bill prohibits excessive water use by metered residential customers during specific types of drought emergencies. The specific “types of drought emergencies” for which this prohibition applies are all based on local drought conditions.

The bill requires, as part of scheduled updates to Urban Water Management Plans every urban retail water supplier, **except those not fully metered**, to establish a method to identify and discourage excessive water use during drought conditions. Excessive use needs to be measured, beyond that there are no requirements. There was negotiation on the bill where the governor can declare a statewide drought, but the requirements apply to a local water shortage contingency. This works with current local urban water management plans.

Ms. Tobin entered the meeting.

SB 1398 – Lead user service lines. The intent of the Legislature is to ensure that any known lead water pipes are identified and replaced as promptly as possible and that appropriate action is taken on water service lines of unidentified composition to ascertain whether they contain lead so that water suppliers can manage the replacement of service lines on a schedule that is commensurate with the risks and costs involved. For unknown water pipes water suppliers could propose to monitor the water for any possible lead detection and replace the water pipes if contamination is detected. If no contamination is detected, the pipes could be replaced on a life cycle basis.

Of note during this legislative session there were bills that failed to move forward. For example, at the start of the 2016 session, RWA and other water organizations geared up in anticipation that a carry-over bill from the first year of the session, SB 20 (Pavley), would be taken up as the vehicle for imposing a public goods charge. While that bill was later gutted and amended and the public goods charge discussion never materialized, the topic of a public goods charge is not dead. RWA has an adopted policy acknowledging the need for helping disadvantaged communities but opposing a PGC that would be imposed on our member's customers. It is recommended that RWA continue to keep a close eye on future legislation that would consider imposition of such a charge.

Other bills of note that died included a bill that would have circumvented time schedules of the Sustainable Groundwater Manager Act by imposing on counties a permitting requirement on new groundwater wells throughout the State. These topics will most likely continue to crop up in future legislative sessions.

As part of that 2017 Work Plan development process, we have reviewed the Policy Principles adopted by the RWA Board in 2016 and intend to recommend the Board affirm those principles without amendments at the November 2016 meeting. The 2017 Work Plan will focus on preparing for the upcoming 2017 legislative session, continuing to expand RWA's advocacy efforts, and fostering existing and new partnerships and coalitions. Already on the agenda as part of the Work Plan is a water quality tour with legislative staff members on November 15th.

Elk Grove Water District is considering being included in the RWA Lobbyist Subscription Program. Staff will be reaching out to other RWA members to see if other agencies are interested in joining the subscription-based program to employ the contract lobbyist. As part of this process, staff is also evaluating the fee structure for the LSP and anticipates proposing a tiered rate structure to the Program Committee

in November. The new fee structure will not result in a fee increase for any of the member agencies.

The Executive Committee thanked Mr. Brent for his work on the Lobbyist Subscription Program and bringing it to a level where the credibility and recognition for RWA is substantial.

6. RWA POLICY 500.4 REGARDING AUDITOR ROTATION

John Woodling, Executive Director, said that on April 18, 2012 the RWA Executive Committee approved a contract with Richardson & Company for professional auditing services. According to the RWA Auditor Rotation Policy 500.4 "RWA may enter into multi-year contracts with a term not to exceed five years or renew one-year contracts for not more than five successive terms with the same auditor or auditing firm." The Fiscal Year 2016 audit will be the fifth year that RWA has contracted with Richardson & Company. Due to the implementation of the SGA contract with PERS that began on July 1, 2016, staff would like to extend the contract with Richardson and Company for one additional year since they are so familiar with the situation.

The extension could be accomplished with Executive Committee approval of the selection of Richardson and Company, notwithstanding the five year limitation in Policy 500.4 or through modification of the policy. State law limits local agencies to six consecutive years of using the same audit partner, but does not require changing audit firms.

After discussion it was agreed that it would be beneficial for RWA to remain with Richardson and Company for a sixth year for auditing purposes, but the RWA Policy should not change.

M/S/C Mr. Roscoe moved, with a second by Ms. Schmitz, to approve selection of Richardson and Company to perform the Fiscal Year 2017 audit pursuant to RWA Policy 300.2, Professional Services Selection and Contracting, in an amount not to exceed \$21,620. The motion carried by the unanimous voice vote of all directors present.

7. RWA NOVEMBER 10, 2016 BOARD MEETING

Mr. Woodling suggested that a change be made to the meeting agenda adding an agenda item recommending Board approval of Placer County's request for RWA Associate Membership.

M/S/C Mr. Roscoe moved, with a second by Ms. Schmitz, to approve the agenda for the November 10, 2016 meeting of the RWA Board of Directors with the added agenda item as 4b. The motion carried by the unanimous voice vote of all directors present.

8. EXECUTIVE DIRECTOR'S REPORT

Government Affairs Update – Mr. Woodling said that the State Water Resources Control Board and DWR are continuing the process to prepare recommendations to implement the Governor's Executive Order on long term water conservation (EO B-37-16). Mr. Woodling and RWA vice-chair Jim Peifer serve on the Urban Advisory Group, convened to provide input to the report, which is due in mid-January. The report is expected to include recommendations that will need to be implemented through legislation. He gave examples of what the recommendations may include and how they could affect agencies in their water use and water conservation efforts. RWA and a number of member agencies joined a coalition of water suppliers and associations from throughout the state in writing a letter providing comment on the state's current proposal. The state agencies currently plan to release a draft report for public comment on November 4, 2016, with the comment period closing on November 14th. The final report is due January 10, 2017.

The State Water Board hearing process on the permit modification for the Cal WaterFix project is continuing. RWA member agencies and other protestants will be testifying in the current phase of the proceeding.

Ms. Schmitz exited the meeting.

Mr. Rodney Fricke entered the meeting as a member of the public.

RWA and member agency staff are developing a tour of water facilities at the request of staff of the Assembly Environmental Safety and Toxic Materials Committee. The tour will include drinking water treatment of surface and groundwater, wastewater treatment, and monitoring and laboratory operations.

Mr. Roscoe exited the meeting.

Water Efficiency Update – Beginning in June, new emergency regulations for water conservation went into effect. All but one RWA member water provider certified the capacity of their water supplies to serve customer demand for three additional years of drought. As a result, state mandated water conservation standards no longer apply. The media has characterized this as “zero conservation is required.” In reality, the result is that water conservation is back in the hands of local agencies, as it has always been in the past. The Sacramento region continues to keep water use low compared to 2013, achieving an 18% reduction in August. Despite the changes in water supply conditions and the relaxed emergency regulations, both the State Water Board and the media are characterizing the reductions in conservation levels as backsliding or less than expected. SWRCB staff and Water Board members suggest a possible return to mandatory standards in January 2017.

RWA Membership – The Woodland-Davis Clean Water Agency has notified staff of its intention to withdraw from RWA effective June 30, 2016. The RWA Joint Powers Agreement provides for withdrawal from membership as follows:

A Member may unilaterally withdraw from this Agreement without requiring termination of this Agreement, effective upon ninety days' written notice to the Regional Authority, provided that the withdrawing Member shall remain responsible for any indebtedness incurred by the Member under any Project or Program Agreement to which the Member is a party, and further provided that the withdrawing Member pays or agrees to pay its share of debts, liabilities and obligations of the Regional Authority incurred by the Member under this Agreement prior to the effective date of such withdrawal.

Mr. Woodling sent a letter to the Mayor, City Manager and Public Works Director for the City of Woodland inviting them to attend the November 10th RWA Board meeting.

Financial Documents – The financial reports for the period ending September 30, 2016 were enclosed in the packet.

9. DIRECTORS' COMMENTS

Ms. Tobin said that the application process for the San Juan Water District General Manager position closed on October 21st with several qualified applicants.

Mr. Peifer said that he is attempting to get interest by the general managers and management of the water agencies in our region to do a saturation survey for plumbing fixtures.

Mr. Dugan said that Placer County Water Agency had to take action last week as they experienced lead in one small system due the pre-1986 solder that was used in their copper pipes and the older fixtures that are lead based. Other water agencies may experience this in the future on some of the older pipes.

Chair Short reported that Western Placer is having their first meeting of the electeds on November 21st to address groundwater issues and how to move forward to form a groundwater sustainability agency.

ADJOURNMENT

With no further business to come before the Board, Chair Short adjourned the meeting at 9:42 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Board Secretary / Treasurer

1. CALL TO ORDER

A motion was made, seconded and carried unanimously by voice vote of all directors present for Rob Roscoe to act as Chair until Chair Short entered the meeting. Mr. Roscoe called the meeting of the Executive Committee to order at 8:30 a.m. Individuals in attendance are listed below:

Executive Committee Members

Spencer Short, City of Lincoln
S. Audie Foster, California American Water
Marcus Yasutake, City of Folsom
Debra Sedwick, Del Paso Manor Water District
Kerry Schmitz, Sacramento County Water Agency
Rob Roscoe, Sacramento Suburban Water District

Staff Members

John Woodling, Rob Swartz, Adam Robin, Nancy Marrier, Amy Talbot, Cecilia Partridge, Monica Garcia and Ryan Bezerra, legal counsel.

Others in Attendance

Ingrid Shepline and Bob Simons. Nicole Krotoski participated via conference phone.

2. PUBLIC COMMENT

Acting Chair Roscoe welcomed Adam Robin to the RWA team.

3. CONSENT CALENDAR

The minutes from the Executive Committee meeting held October 26, 2016.

Motion/Second/Carried (M/S/C) Ms. Schmitz moved, with a second by Mr. Roscoe, to approve the minutes from the October 26, 2016 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present.

4. RWA 2016 AUDIT REPORT

Ingrid Shepline, Richardson and Company, reported that they have completed the financial audit for the fiscal year that ended June 30, 2016. The full audit report was included in the packet. Ms. Shepline 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. She reported on discussion of the financial statements that were statements of net position, statements of revenues and expenses.

Chair Short entered the meeting. The gavel was passed from Mr. Roscoe to Chair Short.

Ms. Shepline reported on Employee Benefit Plans with the pension liability increase to \$346,165 and the OPEB excess funding of \$89,490 based on the July 2013 valuation. There was a slight increase in pension liability. She also mentioned that based upon the July 2015 valuation, RWA no longer reflected an OPEB funding excess due to the changes in valuation methods. The Statements of Net Position reflect an increase in income due to an increase in the grants receivable and corresponding grants payable due to the increased activity with the Prop 50 and Prop 84 grants. There was a pension contribution during the year of \$225,000 that was deferred and will not hit the bottom line until next year. The future contingencies include the allocation of the pension liability to SGA and the commitment to the Powerhouse Science Center. There are subscription advances that have not been earned. The net position restrictions and designations indicate unexpended amounts for WEP, designations for operating fund and other items. The unrestricted net position is not sufficient to cover designations due to the GASB 68 pension liability which reduced net position. However (unrestricted) cash is sufficient to cover the designations. The report on internal control and compliance shows no internal control weaknesses were noted and there was compliance with applicable laws and regulations material to the financial statements.

Bob Simons, Richardson and Company, explained the Governance letter that shows management judgments and accounting estimates, and a change in accounting principles to implement GASB 82 to exclude employer pension contributions made on behalf of employees from determination of pension contributions. There was no audit adjustment 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.

M/S/C Mr. Roscoe moved, with a second by Ms. Sedwick, to recommend RWA Board acceptance of the 2016 RWA financial audit report. The motion carried by the unanimous voice vote of all directors present.

Ingrid Shepline and Bob Simons exited the meeting.

5. 2017 RWA BOARD MEETING SCHEDULE

RWA Board meetings are held on the second Thursday of every other month. The meetings begin at 9:00 a.m. The May 11, 2017 will be moved to May 18, 2017 to accommodate the ACWA Spring Conference.

M/S/C Mr. Roscoe moved, with a second by Mr. Foster, to recommend RWA Board approval of the proposed RWA Board meetings for 2017 with the change of the May 11, 2017 RWA Board meeting to May 18, 2017. The motion carried by the unanimous voice vote of all directors present.

6. OVERVIEW OF REGIONAL WATER PLANNING EFFORTS INVOLVING RWA

Rob Swartz, Manager of Technical Services, gave an update on RWA's involvement in several concurrent water supply planning efforts that are interrelated. The efforts include the Regional Water Reliability Plan (RWRP), the Regional Drought Contingency Plan (RDCP), the American River Basin Study (ARBS), the American River Basin (ARB) Integrated Regional Water Management (IRWM) Plan 2018 Update and the Proposition 1 Disadvantaged Community Involvement Program (DCIP). Two of the planning efforts will require resolutions from the RWA Board at its January 2017 meeting. Staff is seeking input from the Executive Committee on presenting these to the full Board at its January 2017 meeting. In the 2013 RWA Strategic Plan it states that we should have a Regional Reliability Plan developed for the region. The idea of reliability is to identify the vulnerabilities of each agency, identify mitigation measures to help overcome vulnerabilities considering current and long-term demands. The intent is to have basic levels of service as defined by each water agency under varying conditions. There are six required elements to the RDCP including drought monitoring, vulnerability assessment, mitigation action, response actions, operational and administrative framework and an update process. Mr. Swartz explained that the RWRP, the RDCP, and the ARB IRWM Plan update have many common tasks and that they will largely be developed concurrently.

The ARBS objectives include further refining an assessment of water supplies and demands for the ARB over the data developed for the Sacramento San Joaquin River Basin Study (SSJRBS) and addressing regional demand and supply imbalance and infrastructure deficiencies under the threat of climate change. Additional objectives will be to improve regional self-reliance and collaboration for sustainable water resources management and quality of life, integrating regional water supply reliability and aligning regional water management strategies and planning efforts with those of Reclamation. Detailed climate modeling in the upper watershed will occur, which will provide better information about expected future inflows into Folsom Reservoir that serves as a better planning basis for future modeling efforts in the region. Mr. Swartz explained that RWA's role in ARBS includes staff support, serving on an Executive Steering Committee, coordinating adaptation strategies with RWRP, providing RWRP costs as part of local share for ARBS and signing a Memorandum of Agreement with Reclamation.

Mr. Swartz explained the DCIP being administered by the California Department of Water Resources. This is a grant program intended to identify the needs of DACs and increase their involvement in the IRWM program. DWR's program allows only one applicant acting on behalf of a funding area. RWA is primarily in the Sacramento River Funding Area (SRFA), but it also includes a fairly large portion of the San Joaquin Funding Area (SJFA). At this time, the SJFA is not ready to apply for funding, so the discussion applies only to the SRFA. In the SRFA, the Yuba

County Water Agency has volunteered to act as the applicant and administrator for all of the IRWM regional water management groups.

RWA's role in the DCIP includes participation on an oversight committee, managing a DAC coordinator to be funded by a grant, participating in DAC needs assessment of the ARB area, participating in a pilot program to assess underrepresented communities in IRWM, and providing a letter of support for a DCIP application. A draft letter of support for the DCIP for the SRFA was supplied to the Executive Committee.

After discussion it was decided to bring two actions to the RWA January 2017 Board meeting: 1) a resolution for the ARBS to authorize the Executive Director to enter into an MOA with Reclamation; and 2) the DCIP letter of support authorizing YCWA to serve as the applicant on behalf of the SRFA.

7. WATER EFFICIENCY DIRECT INSTALL RFQ

Amy Talbot, Senior Project Manager, said that Staff is seeking support for the implementation of the California Department of Water Resources Water Energy Grant direct installation program. This program will replace high water use fixtures with WaterSense labeled high efficiency toilets (HETs), showerheads and faucet aerators. At a minimum, the program must include replacing fixtures in 2,136 residential housing units. Seventy-five percent of those housing units must be considered a Disadvantaged Community (DAC). The program will focus on multifamily properties but will also be open to single family properties. This program supports the implementation of Project 7 of the American River Basin's Integrated Regional Water Management Program.

Funding for this program totals \$717,000 and does not require a local match. The program does require cash flow funding totaling \$500,000 from participating agencies (Sacramento Suburban Water District, City of Sacramento, City of West Sacramento and California American Water) to ensure timely contractor payments. The program is expected to start in January 2017 and end by January 2018. There is potential to expand the program with additional grant funding by 3,000 fixtures for direct install services for commercial, industrial and institutional properties. The 2017 direct install program will be a continuance of two previous RWA direct install programs launched in 2014 and 2015, which to date have installed a total of 3,800 toilets, 2,300 showerheads and 2,200 bathroom aerators in 3,100 housing units.

According to RWA Policy 300.2 Professional Services Selection and Contracting Services, any consulting contract exceeding \$150,000 requires a competitive selection process by issuance of a Request for Qualifications (RFQ) and approval of selected consultant by both the Executive Committee and RWA Board of Directors. RWA staff issued a RFQ on October 24, 2016 to nine consulting firms with known experience in implementing direct install programs.

Proposals were received from two firms: Southwest Environmental, Inc. and Bottom Line Utility Solutions, Inc. After review and discussion of the proposals, Southwest Environmental received the highest average score, demonstrated a strong project

manager substantial in the field expertise particularly in the Sacramento region and a more competitive fee schedule. The review panel recommends Southwest Environmental, Inc. to the RWA Executive Committee and Board of Directors as the selected consultant to assist RWA staff and participating water agencies with the implementation of the 2017 Direct Installation Program.

Motion/Second/Carried (M/S/C) Mr. Roscoe moved, with a second by Ms. Schmitz, to recommend RWA Board approval for selected contractor. The motion carried by the unanimous voice vote of all directors present.

8. WATER CONSERVATION INCENTIVES RESOLUTION

Amy Talbot, Senior Project Manager, said that the Water Conservation Incentives Resolution is in response to a request for support regarding the Water Conservation Incentive. The Resolution, included in the packet, is asking for energy and water rebates to be treated the same as energy incentives for tax purposes.

M/S/C Ms. Sedwick moved, with a second by Mr. Roscoe, to recommend RWA Board approval of Resolution 2017-01 a Resolution of the Regional Water Authority regarding Water Conservation Incentives. The motion carried by the unanimous voice vote of all directors present.

9. RWA JANUARY 12, 2017 BOARD MEETING

After discussion of the RWA January 12, 2017 Board meeting agenda it was decided to move agenda item 4, Executive Committee Report and Recommendations, under the Consent Calendar.

M/S/C Ms. Sedwick moved, with a second by Ms. Schmitz, to approve the agenda for the January 12, 2017 meeting of the RWA Board of Directors with the added agenda item 3b Executive Committee Report and Recommendations adding the Water Conservation Incentives Resolution item. The motion carried by the unanimous voice vote of all directors present.

10. EXECUTIVE DIRECTOR'S REPORT

Government Affairs Update – DWR is required to develop best management practices for SGMA by January 1, 2017. They released draft BMPs on five topics, and comments were due on November 28, 2016. SGA submitted comments and RWA staff also participated in development of comments from ACWA. DWR expects to release guidelines for Proposition 1 Sustainable Groundwater Management Grants in Spring of 2017 and finalize the guidelines and solicit grant applications in Summer of 2017. SGA staff will work with others in the subbasin to develop a scope for preparation of our Groundwater Sustainability Plan to be ready to seek funding. Alternatives to a GSP are due by January 1, 2017. SCGA is preparing an alternative for submission.

The state (DWR and the SWRCB) released the long awaited framework for long term water conservation on November 30, 2016. Comments will be due December 19th,

and a final will go to the Governor's office on January 10th. Staff are reviewing the framework and have convened a meeting for RWA members to provide input. In addition, staff and members, as well as attorneys from the region are developing potential statutory language that mirrors the coalition letter that was prepared to comment on the state's proposal. The coalition letter had broad support from throughout California.

Adam W. Robin, RWA's new program manager for the Legislative and Regulatory Advocacy Program began work on December 6th. In addition to immediately beginning to address some of the region's most important issues, Adam will be setting up meetings with RWA staff and managers, and attending agency board meetings over the next several months.

Water Efficiency Update – In October 2016, the region saved 30% compared to October 2013 or approximately 4.5 billion gallons, double our September 2016 savings. October storms produced four times the monthly average precipitation. The most current state savings information available is cumulative savings from June 2015 through September 2016 at 23%, less than our regional savings of 28% during the same timeframe.

The state is expected to release the Executive Order permanent regulation framework draft report November 30th, with comments due December 19th. RWA will be hosting a meeting on December 9th at 2:00 p.m. to discuss and coordinate draft report comments. State staff still plans on providing a final draft to the Governor's office on January 20th. At that time, the Administration will decide about any further changes and when to release the report publically.

The State Water Resources Control Board staff is expected to release draft text of the ongoing Emergency Regulation outlining how to extend the regulation past February 2017 in December or January with a vote on the extension by the State Water Board in early February 2017 as to not allow for a lapse in regulation.

Holiday Social – The 16th Annual RWA/SGA Holiday Social is scheduled for Thursday, December 8th at 7:00 p.m. at the North Ridge Country Club. Networking begins at 6:00.

11. DIRECTORS' COMMENTS

Mr. Roscoe announced that Sacramento Suburban Water District has one new director.

Mr. Yasutake said that after the City of Folsom elections Ernie Sheldon was reelected as a Folsom Council Member and Roger Gaylord is their new Council Member.

Ms. Schmitz reported that Sue Frost is a new Board Member for Sacramento County Water Agency. Ms. Frost has an interest in groundwater. December 13th SCWA has an informational groundwater day scheduled with the board with a presentation by each of the sub-basins.

Mr. Foster said that California American Water has acquired Geyserville Water Works adding three hundred customers to that area. The Public Utilities Commission has approved the acquisition of Meadow Brook Water Company in Merced County adding another eighteen hundred customers. They have grant funding to install meters after extending pipelines to the Oxbow Marina area. The commission is holding public hearings on their pending rate case.

Ms. Sedwick asked if RWA is intending to write comments on the long term conservation rules. Del Paso Manor Water District cannot support the document because they don't know the affect it will have on their small agency. Ms. Sedwick welcomed Adam Robin to the RWA staff. She requested a status update on the Powerhouse Science Center be presented at the March 2017 RWA Board meeting.

Chair Spencer thanked the Executive Committee for their support in 2016.

Mr. Woodling thanked Chair Spencer for serving as 2016 RWA Chair and for involving the City of Lincoln in RWA.

ADJOURNMENT

With no further business to come before the Board, Chair Short adjourned the meeting at 9:50 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Board Secretary / Treasurer

AGENDA ITEM 3b: CONSENT CALENDAR

Minutes from the November 10, 2016 RWA Regular Board Meeting

Action: Approve November 10, 2016 RWA Regular Board meeting minutes



1. CALL TO ORDER

Chair Short 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

Ron Greenwood, Carmichael Water District
Steve Nugent, Carmichael Water District
Al Dains, Citrus Heights Water District
Bob Churchill, Citrus Heights Water District
Marcus Yasutake, City of Folsom
Spencer Short, City of Lincoln
Matthew Wheeler, City of Lincoln
Kelye McKinney, City of Roseville
Jim Mulligan, City of Roseville
Jim Peifer, City of Sacramento
Beverly Sandeen, 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
Bill George, El Dorado Irrigation District
Mark Madison, Elk Grove Water District
Randy Marx, Fair Oaks Water District
Paul Schubert, Golden State Water Company
Michael Schaefer, Orange Vale Water Company
Sharon Wilcox, Orange Vale Water Company
Matt Young, Placer County Water Agency
Darlene Thiel, Rancho Murieta Community Services District
Brent Dills, Rio Linda/Elverta Community Water District
Ralph Felix, Rio Linda/Elverta Community Water District
Neil Schild, Sacramento Suburban Water District
Pam Tobin, San Juan Water District
Keith Durkin, San Juan Water District

RWA Associates

None.

RWA Affiliate Members

Jim Graydon, Brown & Caldwell, Paul Selsky, Brown & Coldwell, Mike OHagan, Forsgren Associates, Jafar Faghih, HDR, Inc., Hugh Kleia, MWH Global, Johnathan Goetz, GEI Consultants and Charles Duncan, West Yost Associates.

Staff Members

John Woodling, Rob Swartz, Dave Brent, Nancy Marrier, Amy Talbot, Cecilia Partridge and Ryan Bezerra, Legal Counsel.

Others in Attendance:

Sarah Jones, Brett Ewart, Greg Zlotnick, Joe Duran, Hilary Straus, Greg Meyer, Jim Holmes, Brett Storey, Mitch Dion and Tom Gohring.

2. PUBLIC COMMENT

Chair Short recognized Brett Storey and Jim Holmes from Placer County.

John Woodling, Executive Director, congratulated Bob Churchill on his retirement as general manager from Citrus Heights Water District. Mr. Churchill attended the very first meeting of the RWA Board and today is his last meeting

Items number 6 and 7 were moved ahead of item number 5, but will be reported in the order listed on the agenda.

3. CONSENT CALENDAR

Minutes of the September 8, 2016 RWA regular board meeting

Motion/Second/Carried (M/S/C) Ms. Tobin moved, with a second by Mr. Churchill, to approve the minutes of the September 8, 2016 RWA regular board meeting. The motion carried by the unanimous voice vote of all directors.

4. EXECUTIVE COMMITTEE REPORT AND RECOMMENDATION

- a. Information: Final minutes from the August 24, 2016 Executive Committee meeting and draft minutes from the October 26, 2016 Executive Committee meeting.
- b. Action: Approve RWA Associate Application from Placer County

M/S/C Ms. Tobin moved, with a second by Mr. Greenwood, to approve the RWA Associate Application from Placer County. The motion carried by the unanimous voice vote of all directors.

5. SUSTAINABLE GROUNDWATER MANAGEMENT ACT IMPLEMENTATION

The Sustainable Groundwater Management Act resulted from three bills passed by the California Legislature in 2014. Subsequently, the Department of Water Resources was tasked with developing emergency regulations for implementation of the Act, as well as Best Management Practices, a report identifying water available for replenishment, and an update to basin and subbasin boundaries in Bulletin 118.

RWA staff was actively engaged in the legislation, and continues to be active in all implementation activities directly, as a part of the Practitioner Advisory Panel convened by DWR, and through the ACWA Groundwater Committee.

The Act lays out a number of compliance timelines, including a deadline of June 30, 2017 for formation of local Groundwater Sustainability Agencies (GSA). RWA and its member agencies overlie a number of groundwater subbasins in the Sacramento Valley. Representatives working on GSA formation and other activities in the Cosumnes, South American, and North American subbasins presented to the RWA Board on progress and status.

Diana Langley and Stan Cleveland exited the meeting.

The panel included Brett Ewart, City of Sacramento and Chair of the Sacramento Central Groundwater Authority; Tom Gohring, Sacramento Water Forum; Kelye McKinney, City of Roseville; Brett Storey, Placer County and Rob Swartz, Sacramento Groundwater Authority. The only area that was not represented was the Sutter County portion of the North American Subbasin.

Mr. Ewart said that the boundary definition of the South American Subbasin follows the Cosumnes River, so it does not align with the administrative boundaries of the central basin. There was boundary controversy, but the decision was for the boundary to remain as it is. An application for a GSA has been submitted for the greater part of the central basin. They anticipate submitting an alternative Groundwater Sustainability Plan (GSP) with the state for their review. Budgets have increased substantially for agencies who are filing applications. The next steps after filing an alternative submittal will be a review period and then to meet with the groups involved and address their concerns. There has been interest in the structure of how the SCGA is formed.

Mark Madison noted that Mr. Ewart has been elected as Chair of the Sacramento Central Groundwater Authority for a second year. He also thanked Jonathan Getz, GEI Consultants, for his spectacular work.

Mark Madison exited the meeting.

Tom Gohring said that the Water Forum is involved in some of the negotiations in creating a GSA in the south basin. The Water Forum has been attempting to convene meetings of the entities that have either filed to become a GSA or have intentions of filing to become a GSA. It appears that the south basin may be represented by up to seven separate GSAs who have indicated they would prefer one GSP. There will be one JPA to come out of Amador County to become a GSA.

Jim Peifer exited the meeting.

Mr. Gohring noted that there are some undefined areas within the Galt Irrigation District. There is one square mile of land and an unincorporated area in the City of Galt. There have been long standing discussions about the challenges for the area including the level of management, the agricultural and residential areas and the desire to move the basin boundary.

Brent Dills exited the meeting.

Rob Swartz explained that in 1998 SGA formed as a separate JPA that managed the underlying groundwater basin. A board was assigned, including all fourteen organized water agencies, that was authorized to manage the entity. Two positions were created for independent pumpers. After complying with the DWR SGMA filing requirements, SGA received confirmation in January 2016 that it was determined to be the GSA. Once the other GSAs are formed SGA intends to begin moving forward to develop one common GSP for the entire North American Basin.

Kelye McKinney said that City of Roseville is working with Placer County, Placer County Water Agency, City of Lincoln and California American Water in implementing the West Placer Groundwater Management Plan. With the exception of Placer County, the agencies have been working under a Memorandum of Agreement for the past ten years. The agencies have been meeting to discuss SGMA implementation. There is a public outreach phase and governance aspect of the GSA formation. In their area about 90% of groundwater pumping is independent agriculture. Assistance was received from DWR in assessing the stakeholder interests on the agriculture side. A GSA website is being created that will contain messaging materials where stakeholders can sign up to receive information. Community outreach meetings are planned to educate stakeholders about SGMA and upcoming timelines. Electeds from the agencies will be meeting to discuss different governance options and hear staff recommendations to determine how to proceed. Documents and agreements will be finalized in order to file. Stakeholder outreach provided information from key agricultural users that they prefer to get their information from existing methods currently used like the Ag Commission.

Brett Storey indicated that he is also working in the western portion of Placer County that will not be covered by the West Placer Groundwater Management Plan. Their outreach program has created an ability to work together with South Sutter

Water District with a common interest. There are areas within Placer County in the South Sutter Water District that are served by Placer County Water Agency. Participation of the parties has allowed South Sutter Water District to create a GSA in their district and entering into an MOA with Placer County that protects stakeholder interests. Both parties will sign the MOA before South Sutter Water District submits their proposal in January 2017 to become a GSA.

6. WATER EFFICIENCY UPDATE

John Woodling, Executive Director, gave an overview of the current status of the state's proposal. Despite precipitation in northern California that was 400% of average for October, the statewide drought emergency continues. Monthly reporting to the State Water Resources Control Board shows that throughout the state water use continues to be significantly below 2013 levels. While the State Water Board's decision earlier this year to allow water suppliers to certify the adequacy of supplies for three more years of drought seems to have been a sound one, the Board is still planning for the possibility of a return to mandatory conservation targets in January of 2017.

In addition to the emergency conservation requirements, the Governor's Executive Order B-37-16 requires the Department of Water Resources and the State Water Board to develop a framework for permanent requirements for long-term water conservation. This will include changes to drought planning in the Urban Water Management Planning Act as well as enforceable standards and targets that go beyond the 20% by 2020 requirements of SBX7-7. RWA staff and member agencies have been involved in an Urban Advisory Group empaneled by the state to provide input to the framework. There is broad agreement among water agencies throughout the state on a number of issues, as presented in a comment letter on the process that was included in the packet. The state will release a draft report of recommendations on the framework on November 14th for a brief comment period, with a final report due by January 10, 2017. Legislation to enact parts of the recommendations is expected to be introduced early next year.

The question was asked why the comment letter did not have a more defined position. Jim Peifer, City of Sacramento, explained that it was a challenge to bring the many agencies together to agree with the content of the collation letter regarding water management. The letter represents statewide agreement and support.

The state seems to be solely focused on use of less water. Some policy considerations and objectives of conservation/efficiency measures are to meet future demands, reduce costs, environmental objectives, regulatory mandates, energy savings and water quality improvements. Conservation is when you reduce water use while efficiency is using the appropriate amount of water per purpose. There are questions about the benefits and unintended consequences for water agencies with statewide water conservation. The Executive Order B-37-16

implementation requires eliminating water waste, strengthening local drought resilience and using water more wisely. Mr. Woodling gave examples of how agencies will be able to comply with the requirements, possible adjustments and how complying with the requirements may be problematic.

Amy Talbot, Senior Project Manager, reported on the water savings that has been achieved in our region. This year the Regional Water Authority received the 2016 WaterSense Excellence Award in Education and Outreach from the United States Environmental Protection Agency.

7. ADVOCACY PROGRAM UPDATE

Dave Brent, Water Policy Advisor, gave a Legislative Summary update. The California Legislature adjourned August 31st giving the Governor until September 30th to take action on the bills that had reached his desk and officially close the 2015-2016 two-year legislative session. Of the nearly 100 bills that RWA tracked and monitored, including the 37 top priority “hot bills”, eleven were signed into law by the Governor. The remaining hot bills were either amended to issues of no concern to RWA; failed to make it out of the legislature; or were vetoed by the Governor.

Mr. Brent commented that RWA has increased our profile and presence at the table on many issues. With the leadership from John Woodling and staff, issues aren't simple but our voice is being heard.

SB 7 – Beginning January 1, 2018, this bill requires any water purveyor that delivers water service to a newly constructed multiunit residential structure or newly constructed mixed-use residential and commercial structure for which a new water connection is required to ensure each individual unit be metered or sub-metered as a pre-condition to a new water service. The developer and/or owner of the newly constructed structure is required to install, certify, maintain, test and read the sub-meters unless the water purveyor agrees otherwise.

SB 814 – This bill prohibits excessive water use by metered residential customers during specific types of drought emergencies. The specific “types of drought emergencies” for which this prohibition applies are all based on local drought conditions. The bill requires, as part of scheduled updates to Urban Water Management Plans (years ending in “0” and “5”), every urban retail water supplier, except those not fully metered, to establish a method to identify and discourage excessive water use during drought conditions. Agencies that are not yet fully metered are exempt from the above requirements until such time as they become fully metered. In lieu of the requirements, these agencies are required to prohibit certain water use practices (such as specific non-watering days, no runoff, etc.) and impose penalties for prohibited uses of water.

SB 1398 –The intent of this bill is to ensure that any known lead water pipes

are identified and replaced as promptly as possible and that appropriate action is taken on water service lines of unidentified composition to ascertain whether they contain lead so that water suppliers can manage the replacement of service lines on a schedule that is commensurate with the risks and costs involved. A system inventory and a timeline for replacement of known lead pipes must be submitted to the by July 1, 2018 the State Water Resources Control Board (SWRCB) for approval.

Of note during this legislative session were certain bills that failed to move forward. For example, at the start of the 2016 session, RWA and other water organizations geared up in anticipation that a carry-over bill from the first year of the session, SB 20 (Pavley), would be taken up as the vehicle for imposing a public goods charge. While that bill was later gutted and amended and the public goods charge discussion never materialized, the topic of a public goods charge is not dead. RWA has an adopted policy acknowledging the need for helping disadvantaged communities but opposing a PGC that would be imposed on our members' customers. It is recommended that RWA continue to keep a close eye on future legislation that would consider imposition of such a charge.

Another bill that died was a bill that would have circumvented time schedules of the Sustainable Groundwater Manager Act by imposing on counties a permitting requirement on new groundwater wells throughout the State. This issue will most likely continue to crop up in future legislative sessions as well.

As part of the 2017 Work Plan development process, we have reviewed the Policy Principles adopted by the RWA Board in 2016 and recommend those principles be maintained without amendments. The 2017 Work Plan will focus on preparing for the upcoming 2017 legislative session, continuing to expand RWA's advocacy efforts, and fostering existing and new partnerships and coalitions. As part of the preparation for the 2017 session, RWA and several member agencies will host a water quality tour with legislative staff members on November 15th.

Mr. Woodling noted that the RWA board was supportive of making the advocacy program more nimble and aggressive. Two years ago the Board approved a part time position that Dave Brent filled as a retired annuitant and took the program a long way to making it effective. The Board has now directed the position to become a full time staff program position. Through an interview process the Advocacy program will have full time staffing in December.

Staff will be reaching out to RWA members to see if other agencies are interested in joining the subscription-based program to employ the contract lobbyist. The Elk Grove Water District has agreed to become a member of the program beginning in January. In an effort to more fairly share the cost of the program, the fee structure for the LSP will be revised to a tiered rate structure consisting of three tiers with the largest members (greater than 30,000 connections) paying \$13,000 per year, medium sized agencies paying \$9,000 per year, and the smallest agencies (less

than 6,000 connections) paying \$5,000 per year. The new fee structure will not result in a fee increase for any of the member agencies.

Mr. Woodling mentioned the annual report coming out soon that will detail what RWA is doing with the advocacy program. Mr. Woodling announced that Adam W. Robin, currently with ACWA, will be the RWA Legislative and Regulatory Affairs Program Manager.

8. EXECUTIVE DIRECTOR'S REPORT

RWA Membership – The Woodland-Davis Clean Water Agency has notified staff of its intention to withdraw from RWA effective June 30, 2016.

RWA Holiday Social – The RWA annual holiday social is scheduled for Thursday, December 8, 2016 at the North Ridge Country Club. .

Financial Documents – The financial reports for the period ending September 30, 2016 were included in the packet.

9. DIRECTORS' COMMENTS

Mr. Greenwood said that he was reelected to the Carmichael Water District Board.

Mr. Churchill said that looking back in history it's interesting how RWA's collaboration has grown. RWA continues to get stronger every year and will continue to do so with the new legislative advocacy position.

Mr. Schild reported that after the Sacramento Suburban Water District (SSWD) elections he remains on as a director with Dave Jones becoming a newly elected director. He attended the American River Pipeline Conveyance Project dedication and said that it was well run and well attended.

Mr. George reported that Jim Abercrombie, El Dorado Irrigation District General Manager, had a double lung transplant and is doing well. He will be back to work full-time in January. Mr. George was not reelected as a director. He expressed his thanks for having the privilege of serving on the Executive Committee in the past.

Mr. Woodling thanked Mr. George for his commitment and drive as the El Dorado Irrigation District representative for RWA.

Ms. Tobin was reelected to the San Juan Water District Board, as was Ken Miller. ACWA Region 4 held an interesting and informative regional tour and discussion about stream restoration and the revitalization of salmon and spawning grounds.

Ms. McKinney reported on the City of Roseville's elections: Susan Rohan will be mayor; Bonnie Gore was reelected and will be Vice mayor, Pauline Roccucci has termed out, and new council members are John Alder and Scott Albert.

Sarah Jones introduced herself as the new Program Manager for Elk Grove Water District.

Chair Short congratulated Steve Nugent and Ron Greenwood on the Carmichael Creek Crossing Program completion. Mr. Short was not reelected with the City of Lincoln.

Adjournment

With no further business to come before the Board, Chair Short adjourned the meeting at 11:26 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Board Secretary / Treasurer

AGENDA ITEM 3c: 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 2017. There is one potential meeting conflict to the proposed schedule for the May 2017 meeting.

Current RWA Board Meeting Schedule	No Meeting Conflicts	Proposed 2016 RWA Board Meeting Schedule
March 9, 2017		March 9, 2017
May 11, 2017	ACWA Spring Conference	May 18, 2017
July 13, 2017		July 13, 2017
September 14, 2017		September 14, 2017
November 9, 2017		November 9, 2017

EXECUTIVE COMMITTEE RECOMMENDATION:

Action: Adopt proposed RWA Board Meetings Scheduled for 2017

AGENDA ITEM 3d: CONSENT CALENDAR

BACKGROUND:

Richardson and Company has completed the financial audit for the fiscal year that ended June 30, 2016. The Executive Committee has reviewed the full audit report that is attached.

Information Presentation: Ingrid Sheipline, Richardson & Company

EXECUTIVE COMMITTEE RECOMMENDATION:

Action: Accept the 2016 RWA Financial Audit Report

REGIONAL WATER AUTHORITY

Summary of 2015/16 Audit Results

January 12, 2017

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 21)

- \$4 million of grants receivable from State and payable to agencies
- Unrestricted net position of \$687,352 (designated by Board)

Statements of Revenues, Expenses (page 22)

- Increased subscription fees for USBR retrofit program and public outreach plan
- Increased funding from Prop 50 grant
- Net income of \$286,073 but additional net pension contribution of \$137,400 was deferred in accordance with GASB 68

Note 5, Employee Benefit Plans (page 36)

- Pension liability increased to \$346,165
- Additional pension contribution made of \$225,000, of which SGA reimbursed \$87,000
- OPEB excess funding of \$89,490 based on July 2013 valuation (July 2015 valuation effective for 2016/17 shows unfunded amount)

Note 6, Net Position Restrictions and Designations (page 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

- Pension liability, partial transfer to SGA (page 47)
- Commitment to Powerhouse (page 48)

Report on Internal Control and Compliance (pages 57 to 58)

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

Governance letter

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

Management letter

- Good internal controls
- Other recommendations:
 - Verification of information used to calculate pension liability
 - Informational item about GASB 75



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GOVERNANCE LETTER

To the Board of Directors
Regional Water Authority
Sacramento, California

We have audited the financial statements of the Regional Water Authority (the Authority) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated June 28, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the Authority. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material weaknesses in internal controls as a result of our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note A to the financial statements. The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No. 73*, which resulted in the Authority excluding employer contributions made on behalf of employees from the determination of deferred inflows and outflows related to pensions. The application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include the retirement and other postemployment benefits contributions and related liabilities and the depreciable lives and method used to depreciate capital assets. The retirement and other postemployment benefits contributions are determined by actuarial valuations. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Pension Liability: The disclosure of the pension liability in Note 5 to the financial statements discusses the pension liability that is now reflected in the Statement of Net Position and related deferred balances as well as the assumption that were used to determine the amounts, as well as other required disclosures. Two required supplementary information schedules also provide trend information on the pension obligation and contributions.

Board Designations: The disclosure of the Board designations of net position are discussed in Note 6 to the financial statements. This disclosure describes the various designations the Board has established as part of the budget process. Although there is sufficient cash balances to cover these designations, there is not sufficient unrestricted net position to cover these designations because the Authority's unrestricted net position decreased as a result of recording a pension liability to comply with GASB No. 68. As a result, the Authority no longer has an operating fund that is within the target range of four to six month of operating expenses because of this shortfall.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We had no adjustments as a result of our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions to the Pension Plan and Other Postemployment Benefits Schedule of Funding Progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Program Schedule of Revenues, Expenses and Changes in Net Position and the Schedule of Allocated Administrative Expenses, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company, LLP

November 28, 2016



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MANAGEMENT LETTER

Board of Directors
Regional Water Authority
Sacramento, California

In planning and performing our audit of the financial statements of the Regional Water Authority (the Authority) for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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.

The following item noted in our current year audit warrants consideration:

New Accounting Pronouncement

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45 and requires governments to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust, on the face of the financial statements that was previously just disclosed in the footnotes. Based on the July 2015 actuarial report, the Authority would be required to record liability of \$57,000 as a result of implementing GASB 75. However, the amounts could change by the time GASB 75 is implemented as a result of updated actuarial valuations. The accounting and financial reporting

requirements under GASB Statement No. 75 are similar to the accounting and reporting requirements implemented by the Authority for its pension plan under GASB Statement No. 68 during the year ended June 30, 2015. This new statement will result in changes to the disclosures for the Authority's OPEB plan and will be effective beginning the year ended June 30, 2018.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the audit. This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and does not affect our report dated November 28, 2016 on the financial statements of the Authority.

Richardson & Company, LLP

November 28, 2016

REGIONAL WATER AUTHORITY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

June 30, 2016 and 2015

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1 – 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 20
FINANCIAL STATEMENTS	
Statements of Net Position	21
Statements of Revenues, Expenses and Changes in Net Position	22
Statements of Cash Flows	23 – 24
Notes to Financial Statements	25 – 49
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the Proportionate Share of the Net Pension Liability	50
Schedule of Contributions to the Pension Plan	51
Schedule of Funding Progress – Other Post-Employment Benefits	52
SUPPLEMENTARY INFORMATION	
Program Schedule of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016	53
Program Schedule of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015	54
Schedule of Allocated Administrative Expenses for the year ended June 30, 2016	55
Schedule of Allocated Administrative Expenses for the year ended June 30, 2015	56
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 <i>Government Auditing Standards</i>	57 – 58



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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, 2016 and 2015, 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, 2016 and 2015 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 28, 2016 on our consideration of the Authority's internal control over financial 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 28, 2016

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, 2016 and 2015. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 21 to 49 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 25 to 49 of this report.

Condensed Financial Information

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets	\$ 6,248,543	\$ 4,653,757	\$ 2,370,389
Capital Assets	7,644	13,058	20,295
Non-Current Assets	3,191	5,927	8,662
Deferred Outflow	<u>315,907</u>	<u>123,438</u>	<u>-</u>
Total Assets	<u>\$ 6,575,285</u>	<u>\$ 4,796,180</u>	<u>\$ 2,399,346</u>
Current Liabilities	\$ 5,094,324	\$ 3,551,547	\$ 1,445,936
Non-Current Liabilities	<u>413,212</u>	<u>384,009</u>	<u>16,259</u>
Total Liabilities	<u>5,507,536</u>	<u>3,935,556</u>	<u>1,462,195</u>
Deferred Inflows	<u>75,744</u>	<u>154,692</u>	<u>22,795</u>
Net Position:			
Invested in capital assets	7,644	13,058	20,295
Restricted	297,009	328,170	343,206
Unrestricted	<u>687,352</u>	<u>364,704</u>	<u>550,855</u>
Total net position	<u>\$ 992,005</u>	<u>\$ 705,932</u>	<u>\$ 914,356</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 since SGA does not have any employees. RWA staff provides management services 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. See the Statements of Net Position for amounts due from SGA.

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.

Fiscal Year 2015 compared to Fiscal Year 2014

Total current assets have increased \$2,283,368 mainly due to grants receivables increasing by \$1,731,368. The June 30, 2015 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Drought Grant, the Proposition 84 grant, and the Sacramento County Regional Sanitation District Appliance/Toilet rebate award.

For fiscal year 2015, total cash reflects an overall increase from the previous fiscal year of \$474,704, in part due to an increase in restricted cash for subscription programs and funding for the Powerhouse Science Center water exhibit received but not yet disbursed.

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 2016, fiscal year 2015, and fiscal year 2014 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, and differences between expected and actual experience of the pension plan.

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 will reduce the pension liability during the year ending June 30, 2017 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.

Fiscal Year 2015 compared to Fiscal Year 2014

Pension contributions of \$111,678 made during the year ending June 30, 2015 which apply to the pension plan measurement date of June 30, 2015 reduced the pension liability during the year ending June 30, 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 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.

Fiscal Year 2015 compared to Fiscal Year 2014

Current liabilities in fiscal year 2015 increased by \$2,105,611 due to a large increase in grants payable of \$1,715,302 as a result of an increase in grant revenues and the timing of those payments to participants. Accounts payable increased by \$93,816 due to timing of vendor payments. Subscription program advances increased by \$273,693 reflecting fees collected for these programs.

Non-Current Liabilities

Non-current liabilities include unearned revenue, and the net pension obligation. See Note 5 for additional net pension obligation information. Noncurrent liability also consists 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 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.

Fiscal Year 2015 compared to Fiscal Year 2014

An increase in the non-current liability by \$367,750 was mainly due to recording the net pension liability of \$337,276 due to implementing GASB 68.

Deferred Inflows

Deferred inflows comprise mainly 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 2016 Compared to Fiscal Year 2015

The decrease of \$78,948 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.

Fiscal Year 2015 compared to Fiscal Year 2014

The increase of \$131,897 in deferred inflows mainly represents unamortized pension adjustments caused by timing of when they are reflected in the pension liability valuation as a result of implementing GASB 68.

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 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.

Fiscal Year 2015 compared to Fiscal Year 2014

A decrease in restricted net position is due to IRWMP spending \$7,847 on consulting expenses to update the regional water infrastructure map. Additionally, the WEP also had a \$7,189 decrease due to spending.

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 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.

Fiscal Year 2015 compared to Fiscal Year 2014

Unrestricted net position of \$364,704 reflects a decrease of \$186,151. Net position decreased by \$360,331, reflecting the implementation of GASB No. 68 and one-time restatement recording the related net pension liability as of July 1, 2014. The decrease was mainly offset by an increase of \$151,907 reflecting core program revenue exceeding expenses and using restricted net position to pay some expenses as permitted.

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

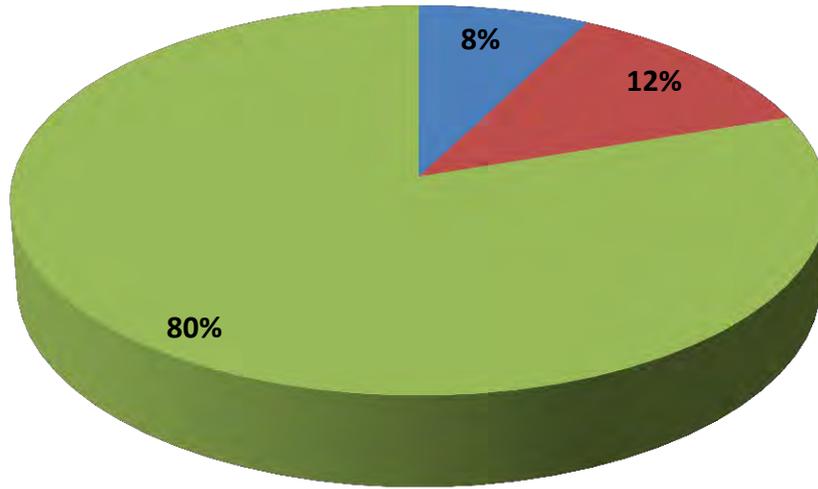
For the fiscal years ending June 30, the following condensed schedules of revenues, expenses, and changes in net position are presented:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Assessment Income	\$ 776,389	\$ 703,915	\$ 494,678
Subscription Program Fees	1,243,857	699,147	538,119
Incentives, Grants and Reimbursements	8,172,669	5,049,714	3,490,217
Other Income	6,010	5,560	18,054
Total Operating Revenues	<u>10,198,925</u>	<u>6,458,336</u>	<u>4,541,068</u>
Non-operating income	6,887	3,325	2,849
Total Revenues	<u>10,205,812</u>	<u>6,461,661</u>	<u>4,543,917</u>
Operating Expenses:			
Administrative Expenses	733,982	758,767	708,745
Core Program Expenses	31,986	57,845	23,534
Subscription Program			
Direct Expenses	990,876	453,254	430,728
Grant Awards	8,162,895	5,039,888	3,394,448
Total Operating Expenses	<u>9,919,739</u>	<u>6,309,754</u>	<u>4,557,455</u>
Increase (Decrease) in Net Position	286,073	151,907	(13,538)
Net Position, July 1, as previously reported	705,932	914,356	927,894
Restatement for change in accounting principle	-	(360,331)	-
Net Position, July 1, as restated	<u>705,932</u>	<u>554,025</u>	<u>927,894</u>
Net Position, June 30	<u>\$ 992,005</u>	<u>\$ 705,932</u>	<u>914,356</u>

Operating Revenues

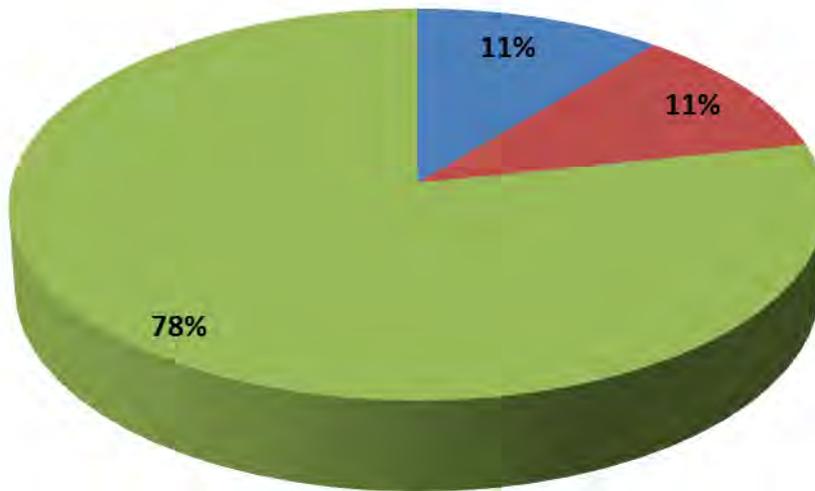
RWA's operating revenues are substantially derived from assessment fees, subscription program fees ("program fees"), and grant awards. Grants and incentives are awarded to RWA either from state, federal, or local agencies to fund water related projects and conservation, depending upon the grant program. 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.

2016

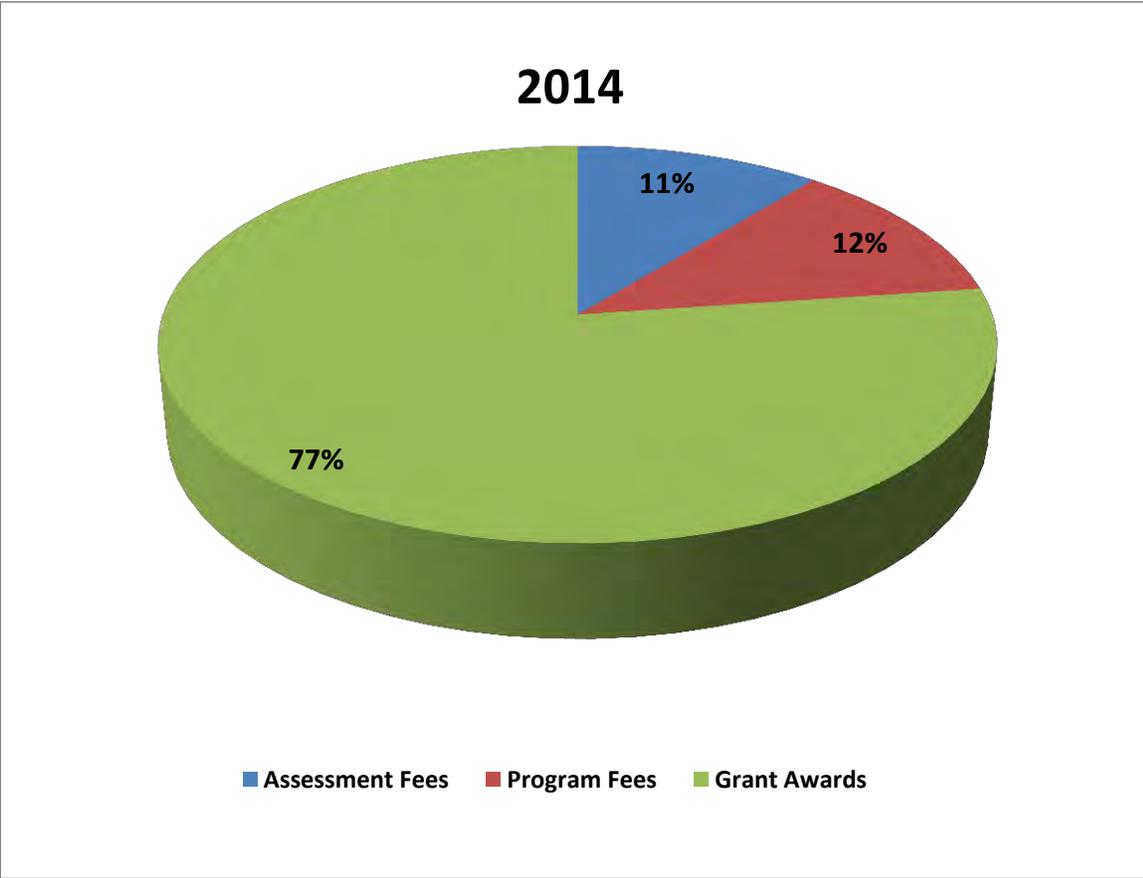


■ Assessment Fees ■ Program Fees ■ Grant Awards

2015



■ Assessment Fees ■ Program Fees ■ Grant Awards



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.

Fiscal Year 2015 compared to Fiscal Year 2014

Operating revenues totaled \$6,458,336 and was \$1,917,268 higher than in the fiscal year 2014. The increase is due to higher grant and incentive earnings, followed by an increase in assessment income and subscription program fees in the current year.

Assessment fees

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

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.

Fiscal Year 2015 compared to Fiscal Year 2014

The assessment fee income increase of \$209,237 was due to a thirty two percent assessment fee increase for the year ending June 30, 2015. The RWA Board approved the increase in RWA general fees for additional consulting expenses to help staff manage the growing regional water issues affecting its members and to help pay for the Powerhouse Science Center water exhibits.

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 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 \$544,710, 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.

Fiscal Year 2015 compared to Fiscal Year 2014

In fiscal year 2015, the program fees are derived from the labor compliance programs, WEP, Prop 50, Prop 84, USBR/CalFed programs, government relations, public relations and a 2014 drought grant application. During fiscal year 2015, subscription program fees were \$161,028 higher than in 2014. While each program contributed different fees between each year, the biggest differences were attributed to three programs:

- 1) The government relations program began in fiscal year 2015 as a subscription program. Fees of \$60,000 recognized during the year pay for the costs incurred for consulting services for this program.
- 2) The public relations program is no longer a subscription program, therefore reflecting a decrease of \$35,813 in fees from fiscal year 2014. The public relations program became a part of the core services provided by RWA.

- 3) RWA collected \$120,000 in subscription fees to apply for a 2014 drought grant award and used the fees for consulting services and staff expenses.

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.

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 \$3,122,955 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 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 is closing out the project and will apply for 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 \$1,507,650 for a total of \$1,111,642 in fiscal year 2016. The program is expected to end by June 30, 2018.

Fiscal Year 2015 compared to Fiscal Year 2014

Fiscal year 2015 included WEP grants, Prop 50, Prop 84, and 2014 Drought Prop 84 grant awards. These revenues both increased and decreased significantly by program from the previous year as follows:

- 1) WEP grants and incentives increased a net \$270,512 from the previous year due to the DWR Proposition 50 drought grant, the SRCSD appliance/toilet incentive program, and the new 2014 Integrated Regional Water Management Drought Grant funded through Proposition 84. The Prop 50 drought grant is designed to accelerate installation of 1,000 meters, provide incentives for high-efficiency washers, and to expand promotion of commercial industrial water saving devices.
- 2) The Prop 50 grant revenue decreased by \$786,001 for a total of \$189,439 in awards in fiscal year 2015.
- 3) The Prop 84 grant revenues decreased by \$455,113 for a total of \$1,404,109 in awards for fiscal year 2015.

- 4) The 2014 Drought Prop 84 recognized its first award invoice in the amount of \$2,619,292 during fiscal year 2015.

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 \$556,278, \$475,522, and \$463,957 for the years ending June 30, 2016, 2015, and 2014, respectively, are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Position. Part of SGA's reimbursement to RWA in fiscal year 2016 includes \$87,600 for SGA's estimated CalPERS' pension obligation for prior administrative staff assistance received from RWA.

Fiscal Year 2016 Compared to Fiscal Year 2015

As illustrated in the supplementary schedule of Allocated Administrative Expenses, 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.

Fiscal Year 2015 Compared to Fiscal Year 2014

Overall administrative expenses incurred by RWA increased from the previous year by a net \$50,022. Prior to allocating costs to SGA, RWA incurred an additional \$61,587 in administrative expenses, which included an additional \$12,511 in staffing costs, a decrease of \$13,461 in office expenses and \$63,612 increase in professional fees. Increases in professional fees were expected

since RWA hired a retired annuitant during the year to help with legislative issues plus the first full year of core public relations costs were incurred. Additional legal fees were also incurred due to pension plan administrative findings by CalPERS.

Core Program Expenses

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

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.

Fiscal Year 2015 Compared to Fiscal Year 2014

Total core expenses increased by \$34,311 from the previous year. During fiscal year 2015, RWA paid a total of \$50,000 to the Powerhouse science center of which \$5,000 was funded by WEP. The IRWMP costs decreased from the prior year by \$15,687.

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 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 \$71,669.
- 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.

Fiscal Year 2015 Compared to Fiscal Year 2014

The direct subscription program expenses incurred during fiscal year 2015 included labor compliance, WEP, Prop 50, the government relations program, the 2014 Drought Prop 84, USBR Programs, and the 2014 drought application costs. While the program fees were \$22,526 higher in fiscal year 2015, they varied between each program with both increases and decreases in expenses. Three programs resulted in the greatest variances:

- 1) The 2014 Drought Application represents twelve participants who applied for this Prop 84 drought grant. RWA was successful in obtaining grant funding. The grant will partially fund 17 projects by 12 different agencies that will help the region maintain water supply if drought conditions persist. The expenses pertain to the consulting costs associated with preparing the grant application and increased by \$65,505.
- 2) The government relations program incurred \$60,000 in consulting costs during the first year of partial implementation.
- 3) The Regional Tools subscription program was finalized in fiscal year 2014 and reflects a \$106,878 absence of fees in 2015.

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 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 two 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.

Fiscal Year 2015 Compared to Fiscal Year 2014

Fiscal year 2015 included WEP grants, Prop 50, Prop 84, and 2014 Drought Prop 84 grant awards and increased overall by \$1,645,440. These grant award payments both increased and decreased significantly by program from the previous year as follows:

- 1) The WEP fiscal year 2015 grant awards to participants increased by \$267,262 and include the DWR drought grant for \$172,579, the Proposition 84 grant distribution for \$49,415 and construction payments of \$373,776, \$124,427 in drought media buys, and SRCSD's incentives program for \$100,000.
- 2) Prop 50 \$25 million grant \$786,001 decrease in grant awards from the previous year matches the decrease in grant revenues.
- 3) The Prop 84 \$16 million grant is the third year of this program. There was \$1,404,109 in eligible costs that were incurred by the participants for grant reimbursement, representing a \$455,113 decline from the previous year. The grant awards decrease matches the grant revenues.
- 4) The new 2014 Drought Prop 84 grant started in fiscal year 2015 with its first invoice in the amount of \$2,619,292.

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>2016</u>	<u>2015</u>	<u>2014</u>
Furniture	\$ 14,464	\$ 14,464	\$ 14,464
Equipment	19,505	21,879	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	67,524	69,898	69,898
Less Accumulated Depreciation and Amortization	<u>(59,880)</u>	<u>(56,840)</u>	<u>(49,603)</u>
Net Capital Assets	<u>\$ 7,644</u>	<u>\$ 13,058</u>	<u>\$ 20,295</u>

Economic factors and assumptions for fiscal year June 30, 2017

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, 2017.

- 1) The fiscal year 2017 budget was approved with an 11% rate increase.
- 2) RWA will transition from a retired annuitant to a full time staff member to help manage increasing regional water issues affecting its members and provide for a more active role in advocacy. There are organizational benefits to having a permanent staff hired before the new legislative cycle begins in calendar year 2017. A new designation that was added in FY16 for the Strategic Plan fund will be used to support the transition.
- 3) Over the last year, the WEP Program Manager has been assisting with RWA core functions. Some of these activities have included State Water Resources Control Board emergency regulations, water supply data collection, the water-energy study, and developing an RWA annual report. Consequently, approximately 10% of the staffing costs associated with this position are being shifted to RWA core dues to reflect the support provided to the core program by this position.
- 4) RWA's lease will be coming up for renewal in calendar year 2018. RWA staff negotiated a very favorable lease rate at the time ACWA JPIA moved out of the building. RWA needs to plan for a significant increase (and a potential move) in the office lease in 2018.
- 5) RWA made the \$225,000 payment for the unfunded pension liability allocated by CalPERS in FY16. The SGA allocated portion and reimbursement of RWA was \$87,600 or 39%. The projections in FY17 and beyond include additional payments of the unfunded liability for RWA only.
- 6) Core expenses in excess of core revenues project a net cash inflow of approximately \$74,200 for the core program. Subscription expenses are projected to exceed revenues by approximately \$246,200. Many subscription program expenses will be funded from previously collected funds which have been set aside for this purpose.
- 7) Employees began picking up their 7% portion of the CalPERS retirement, phased in over several years. The projection includes employees picking up 2% in FY17 with an incremental increase of an additional 2% per year so that employees pay the total 7% by FY19. A future total compensation survey is expected to be conducted by FY19 which will adjust salary bands to reflect employee's full pick of the employees' share of CalPERS pension plan contributions.
- 8) The subscription-based programs continue to help pay for core program administrative activities, such as staffing and office costs. Subscription revenue and subscription cash of approximately \$278,300 are expected to contribute approximately 16% towards RWA expenses.
- 9) Budgeted subscription revenues include the WEP, the 2015 IRWM grant, the Prop 84 implementation grant, the 2014 Prop 84 drought grant, and the government relations program.
- 10) Grant award income is projected to come from the Prop 84 implementation grant and the 2014 Prop 84 drought grant.
- 11) General expenses are expected to increase 3% unless specific increases have been identified. Staffing expenses include 4.8 full-time staff persons to help support the

growing monitoring and reporting of subscription-based programs. Salary expenses are within ranges for each classification and include a 2% increase to reflect the shift towards employees picking up 2% of CalPERS. Health care is budgeted to increase by 7.5%.

12) RWA will continue to invoice SGA for management services. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2017 is \$560,300.

13) The operating fund is targeted at approximately 4 months for fiscal year 2017.

RWA has budgeted up to \$42,000 to pay additional amounts towards the unfunded pension liability as determined by CalPERS Annual Valuation report as of June 30, 2014. The funding of the pension liability is calculated independently from how the actual pension liability is recorded on the financial statements of RWA according to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”).

These significant factors above were considered in preparing the RWA’s budget for the fiscal year ending June 30, 2017.

As previously mentioned, RWA employees assist SGA with administrative services and these services are reimbursed by SGA. An audit by CalPERS of the pension plan contributions resulted in a finding that SGA should have its own pension plan for these employees who provide service to SGA. Allocated pension liabilities and assets and contributions will be allocated between RWA and SGA likely in the fiscal year ending June 30, 2017. This allocation will effectively reduce RWA’s pension liability. The reduction in liability will increase the net position of RWA, but will not increase expected cash for RWA since the pension funding of these plans has already occurred. See Note 10 Contingencies for additional details.

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, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 937,706	\$ 562,063
Restricted Cash	610,657	886,102
Grants/Incentives Receivable	4,561,792	3,016,200
Accounts Receivable	31,238	83,065
Receivable from Sacramento Groundwater Authority	87,468	91,246
Other Assets	19,682	15,081
Total Current Assets	6,248,543	4,653,757
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	3,191	5,927
Furniture and Equipment, Net	7,644	13,058
Total Non-Current Assets	10,835	18,985
Deferred Outflow - Pension	315,907	123,438
Total Assets and Deferred Outflows	\$ 6,575,285	\$ 4,796,180
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 135,958	\$ 223,407
Compensated Absences	53,500	44,050
Grants Payable	4,271,586	2,862,620
Subscription Program Advances	601,895	396,470
Unearned Revenue	31,385	25,000
Total Current Liabilities	5,094,324	3,551,547
Non-Current Liabilities		
Compensated Absences	4,016	11,023
Net Pension Obligation	346,165	337,276
Unearned Revenue	63,031	35,710
Total Non-Current Liabilities	413,212	384,009
Total Liabilities	5,507,536	3,935,556
Deferred Inflows		
Rent	11,854	17,324
Unamortized Pension Adjustments	63,890	137,368
Total Deferred Inflows	75,744	154,692
Net Position		
Net Investment in Furniture and Equipment	7,644	13,058
Restricted	297,009	328,170
Unrestricted	687,352	364,704
Total Net Position	992,005	705,932
Total Liabilities, Deferred Inflows, and Net Position	\$ 6,575,285	\$ 4,796,180

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating Revenues		
Assessment Income	\$ 776,389	\$ 703,915
Subscription Program Fees	1,243,857	699,147
Incentives, Grants, and Reimbursements	8,172,669	5,049,714
Other Income	6,010	5,560
Total Operating Revenues	10,198,925	6,458,336
Operating Expenses		
Administrative Expenses	733,982	758,767
Core Program Expenses	31,986	57,845
Subscription Program Direct Expenses	990,876	453,254
Grant Awards	8,162,895	5,039,888
Total Operating Expenses	9,919,739	6,309,754
Operating Income	279,186	148,582
Other Income		
Interest Income	6,887	3,325
Total Other Income	6,887	3,325
Net Income	286,073	151,907
Net Position, Beginning of Year	705,932	554,025
Net Position, End of Year	\$ 992,005	\$ 705,932

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS PROVIDED BY		
OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 2,311,204	\$ 1,676,993
Cash received from SGA	562,792	461,527
Cash received from grants and other sources	6,633,087	3,323,906
Cash paid to employees and related benefits and taxes	(1,199,258)	(925,464)
Cash paid to suppliers	(1,964,472)	(1,245,914)
Cash paid to subscription program participants	(6,248,876)	(2,819,533)
Net Cash Provided by Operating Activities	94,477	471,515
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	5,721	3,189
Net Cash Provided by Investing Activities	5,721	3,189
NET INCREASE IN CASH AND CASH		
EQUIVALENTS		
	100,198	474,704
CASH AND CASH EQUIVALENTS, Beginning of Year	1,448,165	973,461
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,548,363	\$ 1,448,165
RECONCILIATION OF CASH AND CASH		
EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	937,706	562,063
Restricted cash and cash equivalents	610,657	886,102
	\$ 1,548,363	\$ 1,448,165

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 279,186	\$ 148,582
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,414	7,237
Net pension expense	(257,058)	(9,125)
Change in operating assets and liabilities:		
Grants receivable	(1,545,592)	(1,731,368)
Receivable from SGA	6,514	(13,995)
Accounts receivable	51,827	(60,472)
Other assets	(3,435)	42
Accounts payable and accrued liabilities	(87,449)	93,816
Compensated absences	2,443	(7,436)
Grants payable to member agencies	1,408,966	1,715,302
Member advances payable	205,425	273,693
Deferred inflows - rent	(5,470)	(5,471)
Unearned revenue	33,706	60,710
	<u>94,477</u>	<u>471,515</u>
Net cash provided by operating activities	<u>\$ 94,477</u>	<u>\$ 471,515</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016, RWA has adopted Governmental Accounting Standards Board (GASB) Statements as follows:

- a) GASB Statement No. 82 (“GASB No. 82), Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73 which requires reporting the presentation of covered payroll in the supplementary information schedules as the payroll on which contributions to a pension plan are based versus total payroll. Additionally, employer paid member contributions are to be recognized as expense in the period in which it is assessed and categorized as salary expense.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b) GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments for the year ending June 30, 2016 prescribes the hierarchy of accounting rules for RWA to follow.
- c) GASB Statement No. 72, Fair Value Measurement and Application addresses accounting and financial reporting issues related to fair value measurements and requires additional disclosures about assets and liabilities measured at fair value. For the years ending June 30, 2016 and 2015, RWA does not have any assets or liabilities which require fair value measurement.

In June 2015, GASB issued 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows – Deferred outflows comprise of the following 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, the difference between expected and actual plan experience, changes in proportionate allocations to RWA, and differences between expected and actual pension contributions. Since the pension plan valuation measurement date of June 30, 2015 lags the fiscal year of June 30, 2016, any pension contributions made subsequent to the measurement date of June 30, 2015 will decrease the pension liability 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 (“EARLS”) which is 3.8 years for measurement dates June 30, 2015 and 2014. 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 EARLS. 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 (“changes in assumptions”) about future economic or demographic factors and reduce pension expense amortized over time using EARLS. Additionally, these pension adjustments include net differences between projected versus actual investment earnings on pension investments and are amortized over five years. 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. 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:

	2016	2015
2014 Retrofit	\$ 131,391	\$ 159,642
Prop 84 Program management	112,090	118,952
2014 Water Energy	100,000	-
Lobbying Subscription Program	77,806	70,000
2014 Drought Application	72,833	-
2014 Drought PM	59,953	-
Prop. 50 - \$25 million grant	17,439	6,850
2014 Water Smart	15,416	8,198
2014 USBR Meter	14,966	11,304
2012 USBR CalFed Meter	-	7,963
2013 USBR CalFed Meter	-	10,238
SRCS D Water Suppliers	-	3,323
	\$ 601,894	\$ 396,470
Total		

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	2016	2015
Powerhouse Science Center	\$ 88,031	\$ 60,710
Other	6,385	-
Total	\$ 94,416	\$ 60,710
Less: Current Portion		
Powerhouse Science Center	25,000	25,000
Other	6,385	-
Current Portion	31,385	25,000
Non-Current Portion	\$ 63,031	\$ 35,710

There was \$88,031 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. The balance of unearned revenue represents deposits received in advance of the regional RWA meeting for RWA’s 15 year anniversary.

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 and the IRWMP. These funds will be used first for these specific programs prior to use of unrestricted funds.

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.

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2016, the minimum assessment was \$4,800 and a maximum assessment was \$55,537, 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 \$10,500 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 2016 and 2015, 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 three 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 2016 and 2015, 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, 2016 AND 2015

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 \$556,278 and \$475,522 for the years ending June 30, 2016 and 2015, 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 shared 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 2015 have been reclassified to conform to the 2016 presentation.

NOTE 2 – CASH AND INVESTMENTS

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

	<u>2016</u>	<u>2015</u>
Deposits with financial institutions	\$ 111,816	\$ 242,339
Investments in LAIF	<u>1,436,547</u>	<u>1,205,826</u>
Total cash and investments	<u>\$ 1,548,363</u>	<u>\$ 1,448,165</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 balance available for withdrawal is based on the accounting records maintained by LAIF, which

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

are recorded on an amortized cost basis. The total fair value of all public agencies invested in LAIF at June 30, 2016 and 2015 was \$75,442,588,513 and \$69,641,162,418, 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.

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, 2016 and 2015 was approximately 167 and 239 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 93% and 83% of its cash invested in LAIF for the years ending June 30, 2016 and 2015.

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 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, 2016 and 2015, RWA's bank balance was \$2,245,715 and \$435,773, 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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

large checks due to grant activity. On June 29, 2016, RWA made a large deposit of \$2,137,318 due to receiving a large grant award for the Prop 50 grant payable to three members. Those checks were mailed on June 30, 2016. 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:

	2016	2015
Water Efficiency Program - Category 1 & 2	\$ 152,123	\$ 372,611
Prop 84 Program Management	112,090	118,952
Lobbying Subscription Program	77,806	70,000
Powerhouse Science Center	88,031	60,710
2014 Drought Application	72,833	-
2014 Drought Program Management	59,953	-
USBR CalFed Meter Programs	30,382	37,703
Prop. 50 - \$25 Million grant	17,439	6,850
2014 Retrofit	-	159,642
Integrated Regional Water Master Plan	-	56,311
SRCSD Water Suppliers	-	3,323
Total Restricted Cash	\$ 610,657	\$ 886,102

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 \$5,414 and \$7,237 for the years ending June 30, 2016 and 2015.

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

	Balance June 30, 2015	Increases	Decreases	Balance 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>

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	21,879	-	-	21,879
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	<u>69,898</u>	<u>-</u>	<u>-</u>	<u>69,898</u>
Less accumulated depreciation and amortization	<u>(49,603)</u>	<u>(7,237)</u>	<u>-</u>	<u>(56,840)</u>
Fixed Assets, Net	<u>\$ 20,295</u>	<u>\$ (7,237)</u>	<u>\$ -</u>	<u>\$ 13,058</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015. Minimum lease payments are as follows:

Year Ending June 30,		
	2017	\$ 24,967
	2018	24,967
	2019	<u>4,162</u>
Total minimum lease payments		<u>\$ 54,096</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 and \$3,023 in rental expense for the years ending June 30, 2016 and 2015, respectively.

Minimum lease payments are as follows:

Year Ending June 30,		
	2017	\$ 2,892
	2018	2,892
	2019	2,892
	2020	<u>1,928</u>
Total minimum lease payments		<u>\$ 10,604</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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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, 2016 and 2015 are summarized as follows:

	PEPRA	
	<u>Miscellaneous</u>	<u>Miscellaneous</u>
	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 2015/2016	7.00%	6.25%
Required employer contribution rates - fiscal year 2015/2016	8.844%	6.25%
Required employee contribution rates - fiscal year 2014/2015	7.00%	6.25%
Required employer contribution rates - fiscal year 2014/2015	11.840%	6.25%

In addition to the contribution rates above, starting in fiscal year 2016, RWA was required to pay \$12,529 toward the unfunded liability. RWA has not hired any new 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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2016	\$55,897	\$12,529	\$68,426	8.844%
June 30, 2015	\$70,182	\$0	\$70,182	11.840%

Additionally, RWA made a pension contribution of \$225,000 during the year ending June 30, 2016 towards payment of the unfunded liability. A portion of this payment was allocated and paid for by SGA. SGA’s net pension liability is estimated at 39% and therefore reimbursed RWA \$87,600 towards this \$225,000 payment. Since the pension liability measurement date is based upon June 30, 2015, this additional amount plus the employer contributions made during the year ending June 30, 2016 totaling \$293,426 will be reflected as deferred outflows.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2016 and 2015 , RWA reported its proportionate share of the net pension liability of \$346,165 and \$337,276, respectively. The net pension liability for June 30, 2016 and 2015 is measured as of June 30, 2015 and 2014, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and June 30, 2013 and then rolled forward to June 30, 2015 and June 30, 2014, 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.

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

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.0126180%
Proportion - June 30, 2014	<u>0.0136500%</u>
Change - Decrease	<u><u>(0.001032%)</u></u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.0136500%
Proportion - June 30, 2013	<u>0.0155500%</u>
Change - Decrease	<u>(0.001900%)</u>

For the years ending June 30, 2016 and 2015, RWA recognized pension expense of \$36,368 and \$61,057, respectively.

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

	<u>Deferred Outflows of Resources</u>	
	<u>2016</u>	<u>2015</u>
Pension contributions subsequent to measurement date	\$ 293,426	\$ 111,678
Differences between actual and expected experience	4,499	-
Differences between the employer's contribution and the employer's proportionate share of contributions	7,559	11,760
Adjustments due to differences in proportions	<u>10,423</u>	<u>-</u>
Total	<u>\$ 315,907</u>	<u>\$ 123,438</u>

The \$293,426 and \$111,678 reported as deferred outflows of resources as of June 30, 2016 and 2015 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2017 and 2016, respectively.

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

	<u>Deferred Inflows of Resources</u>	
	<u>2016</u>	<u>2015</u>
Changes in assumptions	\$ 42,556	\$ -
Net differences between projected and actual earnings on plan investments	21,334	113,340
Adjustments due to differences in proportions	<u>-</u>	<u>24,028</u>
Total	<u>\$ 63,890</u>	<u>\$ 137,368</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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 over the next four years as follows:

Year Ended	
June 30	
2016	\$ (24,937)
2017	(24,061)
2018	(19,680)
2019	27,269
	<u>\$ (41,409)</u>

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	2016	2015
Valuation Date	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2015	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increases (1)	3.30% to 14.20%	3.30% to 14.20%
Investment Rate of Return (2)	7.50%	7.50%
Mortality (3)	Derived using CalPERS' Membership Data for all Funds. Contract COLA up to 2.75% until purchasing power allowance floor on purchasing power applies; 2.75% thereafter	
Post Retirement Benefit Increase		

(1) Depending upon age, service, and type of employment

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

(3) The mortality table used was developed based on CalPERS specific data for the period of 1997 to 2007. The table includes 5 years of mortality improvements using Society of Actuaries Scale AA published by the society of actuaries for June 30, 2014 measurement date and 20 years of mortality improvements using Society of Actuaries Scale BB for June 30, 2015 measurement date. Further details can be found on the CalPERS website.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 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 changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they change their methodology.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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.

Asset Class	June 30, 2016			June 30, 2015		
	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%	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%	12.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%	11.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%	3.0%	4.50%	5.09%
Liquidity	2.00%	-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, 2016, 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	\$ 580,552
Current Discount Rate	7.65%
Net Pension Liability	\$ 346,165
1% Increase	8.65%
Net Pension Liability	\$ 152,661

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Payable to the Pension Plan – At June 30, 2016, RWA does not have an outstanding payable to the pension plan. As of June 30, 2015, RWA’s outstanding payable to the pension plan was \$4,349.

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, 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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

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:

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

(1) 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. The total ARC of \$31,505 was paid to the CERBT during the year ending June 30, 2016.

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 Retirees	Percentage of ARC Contributions
June 30, 2016	\$31,505	\$31,505	100%
June 30, 2015	\$29,114	\$29,114	100%
June 30, 2014	\$40,299	\$40,299	100%

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016	\$824,840	\$735,350	(\$89,490)	112.17%	\$646,156	-13.85%

The actuarial valuation dated July 1, 2013 includes an actuarial accrued liability of \$735,350 and a funding excess of \$89,490. 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>Restricted Net Position</u>	<u>2016</u>	<u>2015</u>
Water Efficiency Program	\$ 297,009	\$ 271,859
Integrated Regional Water Management Plan	-	56,311
Total by Contract	<u>\$ 297,009</u>	<u>\$ 328,170</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, 2016 and 2015 is sufficient to set aside the designations for budget purposes. However, the unrestricted net position as of June 30, 2016 and 2015 of \$687,352 and \$364,704 are insufficient to cover the designations as listed by \$107,563 and \$172,796, respectively.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

The designations are as follows at June 30:

<u>Board Designations</u>	<u>2016</u>	<u>2015</u>
Operating Fund	\$ 456,200	\$ 411,500
Strategic Plan Fund	200,015	-
Membership Dues	112,700	98,100
Subscription Programs	<u>26,000</u>	<u>27,900</u>
Total by Board Authorization	<u>\$ 794,915</u>	<u>\$ 537,500</u>

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, 2016, this designation is approximately 4 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, 2016, the Board also approved a strategic plan fund designed to carry out the strategic plan steps over several years.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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:

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

<u>Balance</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>\$ 22,795</u>	<u>-</u>	<u>\$ (5,471)</u>	<u>\$ 17,324</u>

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:

<u>Balance</u> <u>2015</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2016</u>	<u>Due Within One</u> <u>Year</u>	<u>Long term</u>
<u>\$ 55,073</u>	<u>\$ 51,035</u>	<u>\$(48,592)</u>	<u>\$ 57,516</u>	<u>\$ 53,500</u>	<u>\$ 4,016</u>

<u>Balance</u> <u>2014</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2015</u>	<u>Due Within One</u> <u>Year</u>	<u>Long term</u>
<u>\$ 62,509</u>	<u>\$ 45,415</u>	<u>\$(52,851)</u>	<u>\$ 55,073</u>	<u>\$ 44,050</u>	<u>\$ 11,023</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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:

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability	\$ 2,000,000	\$ 58,000,000	None
Public Officials Liability	2,000,000	58,000,000	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.

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, 2016 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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – CONTINGENCIES (CONTINUED)

incurred. This contingent grant award revenue and the related liability to program participants is estimated at \$970,800 at June 30, 2016 and is not currently reflected in the financial statements.

Pension Liability

In March 2013, RWA was selected for a routine compliance audit by CalPERS' Office of Audit Services ("OAS") to evaluate compliance with pensionable payroll reporting and member enrollment processes for the period of April 1, 2010 to March 31, 2013. Consistent with its Administrative Services Agreement with SGA, RWA reported all pensionable compensation paid to RWA employees to CalPERS. However, OAS' draft compliance audit report, dated June 12, 2013, ("Draft Report") found that the time spent by RWA employees on behalf of SGA under the direction of the SGA Executive Director was in fact time performed as common law employees of SGA rather than RWA. As such, OAS determined that RWA has been erroneously reporting RWA staff time allocated to administering SGA, and the pensionable compensation paid for such time ("SGA Time"), under RWA's contract with Cal PERS. The Draft Report concluded that in order to capture the preceding time and pensionable compensation, it would be necessary for SGA to establish a separate contract with CalPERS. RWA disagreed with OAS' finding as contrary to existing legal authority and sent response letters on July 2, 2013 and July 3, 2014. The CalPERS' Board of Administration disagreed and finalized the Draft Report on May 29, 2015 with the same finding. In order to fulfill employment obligations to existing employees and retired annuitants, the RWA and SGA boards determined that it would be in the best interests of the affected employees and retired annuitants for SGA to establish a contract with CalPERS for pension benefits. It is anticipated that, once established, the assets and liabilities associated with the SGA time will be allocated from the RWA contract to the SGA contract, resulting in a reduction in pension liability for RWA. RWA, however, has not recorded a reduction in liability for this contingency because RWA still has a contractual obligation to CalPERS for the pension liabilities until they are allocated to SGA by CalPERS. The July 1, 2014 beginning of the year adjustment due to implementing GASB No. 68 as well as the related net pension liability would have been reduced if the amounts were known. This adjustment will likely be reflected in future financial statements, once the amounts attributable to the SGA are known. The liability reduction at June 30, 2016 for the measurement date of June 30, 2015 is estimated at \$135,000, reflecting an allocation rate of 39%. The deferred inflow related to pensions is estimated at \$24,900. The deferred outflow related to pensions estimates is approximately \$123,200.

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 will be

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – CONTINGENCIES (CONTINUED)

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.

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 \$556,278 and \$475,522 for the years ending June 30, 2016 and 2015 which represents 43% and 40% of RWA's total administrative expenses, respectively. 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.

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	2016	2015
Proportion of the net pension liability	0.012618%	0.01365%
Proportionate share of the net pension liability	\$ 346,165	\$ 337,276
Covered - employee payroll for measurement period	\$ 592,756	\$ 565,797
Proportionate share of the net pension liability as a percentage of covered payroll	58.40%	59.61%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

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 two years data available.

**REGIONAL WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION**

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

	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Contractually required contribution (actuarially determined)	\$ 68,426	\$ 70,182	\$ 62,822
Contributions in relation to the actuarially determined contributions	293,426	70,182	62,822
Contribution deficiency (excess)	<u>\$ (225,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 632,144	\$ 592,756	\$ 565,797
Contributions as a percentage of covered - employee payroll	46.42%	11.84%	11.10%
Valuation Date:	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	3.32% 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 three 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, 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%
June 30, 2014	\$703,796	\$609,640	(\$94,156)	115.44%	\$574,526	-16.39%

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, 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
Operating Revenues										
Assessment Income	\$ 776,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 776,389
Subscription Program Fees	58,886	601,196	17,204	14,555	122,194	29,933	-	-	399,889	1,243,857
Incentives and Grant Revenues	-	656,502	4,716,191	1,660,980	-	1,111,642	27,354	-	-	8,172,669
Other Income	6,010	-	-	-	-	-	-	-	-	6,010
Total Operating Revenues	841,285	1,257,698	4,733,395	1,675,535	122,194	1,141,575	27,354	0	399,889	10,198,925
Operating Expenses	-	-	-	-	-	-	-	-	-	-
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
Total Operating Expenses	595,749	1,159,188	4,733,395	1,675,535	122,194	1,129,337	29,044	74,798	400,499	9,919,739
Net Operating Income	245,536	98,510	0	0	0	12,238	(1,690)	(74,798)	(610)	279,186
Other Income										
Interest Income	6,887	-	-	-	-	-	-	-	-	6,887
Net Other Income	6,887	-	-	-	-	-	-	-	-	6,887
Net Income (Loss)	\$ 252,423	\$ 98,510	\$ -	\$ -	\$ -	\$ 12,238	\$ (1,690)	\$ (74,798)	\$ (610)	286,073
Net Position, Beginning of the Year										705,932
Net Position, End of the Year										<u>\$ 992,005</u>

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, 2015

	Agency Core Program	Water Efficiency Program	2014 Drought Application	PROP 50 \$25 M Grant	PROP 84	Government Relations	2014 Drought PROP 84	USBR/CALFED Programs	TOTAL RWA
Operating Revenues									
Assessment Income	\$ 703,915	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,915
Subscription Program Fees	25,969	450,500	120,000	17,400	11,096	60,000	-	14,182	699,147
Incentives and Grant Revenues	-	836,874	-	189,439	1,404,109	-	2,619,292	-	5,049,714
Other Income	5,560	-	-	-	-	-	-	-	5,560
Total Operating Revenues	735,444	1,287,374	120,000	206,839	1,415,205	60,000	2,619,292	14,182	6,458,336
Operating Expenses									
Administrative Expenses	513,323	206,470	8,259	6,720	11,096	-	3,733	9,166	758,767
Core Program Expenses	52,845	5,000	-	-	-	-	-	-	57,845
Subscription Program Direct Expenses	25,969	256,045	87,039	10,680	-	60,000	8,505	5,016	453,254
Grant Awards	-	827,048	-	189,439	1,404,109	-	2,619,292	-	5,039,888
Total Operating Expenses	592,137	1,294,563	95,298	206,839	1,415,205	60,000	2,631,530	14,182	6,309,754
Net Operating Income	143,307	(7,189)	24,702	0	0	0	(12,238)	0	148,582
Other Income									
Interest Income	3,325	-	-	-	-	-	-	-	3,325
Net Other Income	3,325	-	-	-	-	-	-	-	3,325
Net Income (Loss)	\$ 146,632	\$ (7,189)	\$ 24,702	\$ -	\$ -	\$ -	\$ (12,238)	\$ -	151,907
Net Position, Beginning of the Year									<u>554,025</u>
Net Position, End of the Year									<u>\$ 705,932</u>

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, 2016

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, 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>

REGIONAL WATER AUTHORITY
SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDING JUNE 30, 2015

The allocation of administrative expenses for the year ending June 30, 2015 is:

	<u>Staff Expenses</u>	<u>Office Expenses</u>	<u>Professional Fees</u>	<u>Depreciation and Amortization</u>	<u>Total Administrative Expenses</u>
RWA Administrative Expenses	\$ 927,681	\$ 95,687	\$ 203,683	\$ 7,238	\$ 1,234,289
Allocated to Sacramento Groundwater Authority	(398,380)	(41,650)	(35,492)	-	(475,522)
Total RWA Administrative Expenses - Net of SGA allocation	<u>529,301</u>	<u>54,037</u>	<u>168,191</u>	<u>7,238</u>	<u>758,767</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(187,891)	(12,582)	(5,997)	-	(206,470)
2014 Drought Application	(8,259)	-	-	-	(8,259)
Proposition 50 - \$25 Million Grant	(6,720)	-	-	-	(6,720)
Prop 84 Grant	(11,096)	-	-	-	(11,096)
2014 Drought Prop 84	(3,733)	-	-	-	(3,733)
USBR/CALFED Programs	(9,166)	-	-	-	(9,166)
Total Allocated Administrative Expenses - Subscription Programs	<u>(226,865)</u>	<u>(12,582)</u>	<u>(5,997)</u>	<u>-</u>	<u>(245,444)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 302,436</u>	<u>\$ 41,455</u>	<u>\$ 162,194</u>	<u>\$ 7,238</u>	<u>\$ 513,323</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, 2016, 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 28, 2016.

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 28, 2016

Why does it take so many pages to explain a pension liability? Or, what’s important to understand about the GASB 68 Pension Plan information?

1. **What does GASB 68 mean for RWA?** – Implementing GASB 68 results in recognizing a net pension liability. This liability is an accounting liability, which is different than the funding liability. The accounting liability uses shorter time frames (five years or less) to amortize changes to the pension plan costs as a result of investment earnings, mortality, changes in proportionate liability allocations, or changes to the pension plan.

Using an analogy of a home mortgage, prior to GASB 68, RWA was only required to report the annual pension contributions (the annual “mortgage payment). Now, RWA is required to show the net pension obligation/liability (the remaining mortgage balance).

2. **What is important to understand about the pension liability and the related footnote 5?**

- a. The net pension liability at June 30, 2016 of \$346,165 is calculated by CalPERS actuaries using the measurement date of June 30, 2015¹ (see page 21 of the draft audited financial statements).
- b. The employer pension contributions made during fiscal year 2016 of \$293,426 which includes the one-time \$225,000 contribution will not reduce the pension liability until fiscal year 2017. These pension contributions are reflected in deferred outflows on page 21 (see question 5).
- c. Employer contributions of employee pension related obligations (i.e. up to 5% for RWA employees in 2016) are now classified as salary expense for accounting purposes and not considered part of the pension expense.
- d. Pension expense no longer translates into what RWA has paid towards pension contributions in any one year. It can be higher or lower than what was paid. Historically, the accounting treatment for pension expense equaled the cash paid towards the pension plan. With the implementation of GASB 68, the pension expense has been re-casted to reflect the changes in the net pension liability and to show the pension expense as it is earned, not as it is paid. The pension expense now will represent the change in the net pension liability from year to year, with some additional amortization from deferred inflows and outflows. For example in fiscal year 2016, pension expense is \$36,368 (see page 38) versus pension contributions of \$293,426.
- e. Page 41 shows the sensitivity of the pension liability if the 7.65% discount rate assumptions are changed by one percent, both positively and negatively.

¹ Using the June 30, 2015 liability data is permitted by GASB 68.

- f. Page 51 shows the schedule of contributions to the pension plan based upon the funding valuation information.
3. **Hasn't RWA been paying all of its required annual pension contributions? Why does RWA show a liability?** – RWA has been paying its annually required contributions in full each year (see page 41). The funding payment is calculated annually by CalPERS² using a different methodology than the accounting liability. The funding liability and subsequent payments uses longer time horizons (19 to 30 years) to amortize changes in the pension plan costs as a result of investment earnings, mortality, or changes to the pension plan. These longer time horizons are designed to smooth out the volatility of funding and allow agencies to better plan their required cash contributions.
 4. **Should RWA use GASB 68 to budget for future funding requirements?** – No, RWA should continue to use the annual valuation report to budget for cash flow funding requirements of the pension plan. GASB 68 is not intended to reflect the cash flow requirements of the pension plan. It is designed to measure the pension liability for accounting purposes.
 5. **RWA's statement of net position (balance sheet) now shows a deferred outflow for pension of \$315,907 (page 21) as of June 30, 2016. What is that?** – Deferred outflows of \$293,426 represent pension plan contributions made by RWA during FY16 that relate to the FY16 pension plan year. Because RWA uses the June 30, 2015 pension plan information to record pension related data in FY16, any pension plan contributions after the June 30, 2015 measurement date will be reflected in deferred outflows. Page 38 also details other items that are included in deferred outflows that will increase pension expense for a period of up to five years.
 6. **RWA's statement of net position also shows a deferred inflow of \$63,890 (page 21) for unamortized pension adjustments. What is that?** – These amounts largely represent differences between changes in pension plan assumptions and projected accounting earnings and actual earnings that have already reduced the net pension liability but have yet to be recognized as a reduction in pension expense. These amounts will be amortized as a reduction in pension expense for a period of up to five years.
 7. **What does the change in proportions mean?** – CalPERS allocates pension related liabilities, assets, gains and losses to RWA each year. Each year, RWA's proportionate share of these allocations will change as the categories of each of these values per all members grow and change based upon their individual contributions and activity relative to the total for all members. The change in proportions from year to year is the allocation

² The required contribution is part of the CalPERS Annual Valuation Report, usually issued in October or November.

percentage change from year to year. For changes in net pension liability proportions, see pages 37, 38 and 50.

AGENDA ITEM 3e: CONSENT CALENDAR

BACKGROUND:

Staff is seeking support for the implementation of the California Department of Water Resources Water Energy Grant direct installation program. This program will replace high water use fixtures (3.5 gallons per flush or more toilets, 2.5 gallons per minute or more showerheads and no threshold for faucet aerators) with WaterSense labeled high efficiency toilets (HETs), showerheads and faucet aerators. At a minimum, the program must include replacing fixtures in 2,136 residential housing units. Seventy-five percent of those housing units must be considered a Disadvantaged Community (DAC). For this grant, DAC is defined by CalEnviroScreen Version 2.0 (parcels with a score of more than 80%), which includes housing units in the following water agencies' service areas: City of Sacramento, City of West Sacramento, Sacramento Suburban Water District and California American Water. The program will focus on multifamily properties but will also be open to single family properties. This program supports the implementation of Project 7 (Regional Indoor and Outdoor Water Efficiency) of the American River Basin's Integrated Regional Water Management Program.

Funding for this program totals \$717,000 and does not require a local match. However it does require cash flow funding totaling \$500,000 from participating agencies to ensure timely contractor payments. The program is expected to start in January 2017 and end by January 2018. There is potential to expand the program with additional grant funding by 3,000 fixtures for direct install services for commercial, industrial and institutional properties. The 2017 direct install program will be a continuance of two previous RWA direct install programs launched in 2014 and 2015, which to date have installed a total of 3,800 toilets, 2,300 showerheads and 2,200 bathroom aerators in 3,100 housing units.

Selection Process

According to RWA Policy 300.2 Professional Services Selection and Contracting Services, any consulting contract exceeding \$150,000 requires a competitive selection process by issuance of a Request for Qualifications (RFQ) and approval of selected consultant by both the Executive Committee and Board of Directors. RWA staff issued a RFQ on October 24, 2016 to nine consulting firms with known experience in implementing direct install programs. The RFQ was also posted on the RWA web site and sent over the RWA list service. Proposals were due on November 18, 2016.

Proposals were received from two firms: Southwest Environmental, Inc. and Bottom Line Utility Solutions, Inc. For evaluation purposes, RWA staff developed a guidance sheet for reviewing proposals in terms of: firm profile (10 points); staff qualifications (20 points); past experience and references (20 points); and fee schedule (20 points) for a total of 70 potential points. The review panel included William Granger, City of Sacramento, Greg Bundesen, Sacramento Suburban Water District, Ryan Burnett, City of West Sacramento, Monica Garcia, RWA and Amy Talbot, RWA. Each reviewer assigned points to the above categories independently before discussing the scores at the November 29th review meeting to reach a final recommendation.

Recommendation

After review and discussion of the proposals, Southwest Environmental received the highest average score (see Table 1 for more details). Southwest Environmental demonstrated a strong project manager, substantial in the field expertise particularly in the Sacramento region and a more competitive fee schedule. The review panel recommends Southwest Environmental, Inc. to the RWA Executive Committee and Board of Directors as the selected consultant to assist RWA staff and participating water agencies with the implementation of the 2017 Direct Installation Program.

Table 1: Proposal Review Results

Firm	Response	Points Awarded
Southwest Environmental, Inc.	Submitted proposal	64.2
Bottom Line Utility Solutions, Inc.	Submitted proposal	59.0
Richard Heath and Associates, Inc.	No response	N/A
Enovative Group	No response	N/A
AM Conservation Group, Inc.	No response	N/A
Syntrol	No response	N/A
ConserVision	No response	N/A
San Jose Water Conservation	No response	N/A
Niagara Conservation	No response	N/A

EXECUTIVE COMMITTEE RECOMMENDATION:

Action: Approve contractor selection for Water Efficiency Direct Install Program

AGENDA ITEM 3f: CONSENT CALENDAR

BACKGROUND:

This resolution shows support for the equal treatment of water and energy incentives for tax purposes. Unlike energy incentives, water incentives are not specifically excluded from income under the U.S. Internal Revenue Code and therefore are taxable income to a water customer. As a result, member agencies must issue notice of miscellaneous income (Form 1099) to their customers who receive incentives in excess of \$600 a year. This discourages participation in conservation and is an unfair burden for participating customers. The resolution will support ongoing and future potential legislative efforts to rectify this issue.

EXECUTIVE COMMITTEE RECOMMENDATION:

Action: Approve Resolution No. 2017-01 a Resolution of the Regional Water Authority Regarding Water Conservation Incentives

DRAFT – RESOLUTION NO. 2017-01

A Resolution of the Regional Water Authority Regarding Water Conservation Incentives

WHEREAS, the Regional Water Authority (“Authority”) was formed to serve and represent regional water supply interests and to assist in protecting and enhancing the reliability, availability, affordability and quality of water resources; and

WHEREAS, the Authority manages a Regional Water Efficiency Program that identifies and pursues opportunities to assist in increasing water use efficiency in the region on behalf of its member agencies; and

WHEREAS, the Authority has determined that implementation of the water conservation measures benefit the region and contribute to the California Water Action Plan’s priority to “Make Conservation a California Way of Life”; and

WHEREAS, many Authority member agencies offer incentives to customers who install water conservation measures such as turf replacement programs to encourage water conservation; and

WHEREAS, these incentives are not specifically excluded from income under the U.S. Internal Revenue Code and therefore are taxable income to the recipient, even while similar rebates for energy conservation are specifically excluded from taxable income; and

WHEREAS, as a result, member agencies must issue notice of miscellaneous income (Form 1099) to their customers who receive incentives in excess of \$600 a year; and

WHEREAS, such incentives are not income and taxing these conservation-based incentives threatens to discourage participation in conservation and is unfair to millions of customers in the Sacramento region and nationwide who cooperate in such efforts.

NOW, THEREFORE, be it resolved that the Board of Directors of the Authority:

Request Congress study possible revisions to the Internal Revenue Code to exempt water conservation incentives from taxation, the same treatment currently afforded for energy efficiency and conservation measures under the tax code.

Request Congress review the U.S. Treasury Department’s endorsement of adding exemptions for water conservation measures to the tax code outlined in its 2016 recommendations to Congress, and the Congressional Joint Tax Committee’s determination that the impact on the federal budget would be “negligible.”

Recommend water conservation-related organizations consider supporting amendments to the Internal Revenue Code to make customer rebates for water conservation and exempt from taxation as income, creating tax parity between the water and energy programs.

PASSED AND ADOPTED at a meeting of the Authority held on January 12, 2017.

By: _____
Chair, Regional Water Authority

Attest: _____
Clerk, Regional Water Authority

AGENDA ITEM 4: ACWA JPIA DIRECTOR REPRESENTATION

BACKGROUND:

Bill George was appointed to act as RWAs representative on the ACWA JPIA Board of Directors. Since Mr. George is no longer a representative on the RWA Board, the Chair will appoint a successor. At the discretion of the RWA Board, John Woodling will remain in the position of alternate representative.

STAFF RECOMMENDATION:

Action: RWA Chair to appoint a new ACWA JPIA Director Representative.

AGENDA ITEM 5: REGIONAL WATER PLANNING EFFORTS UPDATE

BACKGROUND:

RWA is involved in several concurrent water supply planning efforts that are interrelated. These include:

1. Regional Water Reliability Plan (RWRP)
2. Regional Drought Contingency Plan (RDCP)
3. American River Basin Integrated Regional Water Management (ARB IRWM) Plan 2018 Update
4. American River Basin Study (ARBS)
5. Proposition 1 Disadvantaged Community Involvement Program (DCIP)

The RWRP and RDCP commenced in 2016 and are closely related in that each plan looks at vulnerabilities and mitigation actions for near-term and long-term water supply of the region's municipal water suppliers.

In 2017, three additional planning efforts will commence. The first effort will be to begin an update of the ARB IRWM Plan, which was last adopted by the RWA Board in July 2013. With the state's updated guidelines for IRWM Plans released in August 2016, staff determined that there is a need to update the IRWM Plan to be compliant with plan guidelines. To support the update, RWA applied for a planning grant from the California Department of Water Resources (DWR) in September 2016. RWA was recently notified by DWR that it is being recommended for a \$250,000 planning grant to update its IRWM Plan. Staff expects to bring the updated plan to the RWA Board for approval by July 2018. This update will enable the region to pursue Proposition 1 IRWM implementation grant opportunities in 2018.

The second planning effort beginning in 2017 is the American River Basin Study (ARBS). The ARBS will be a partnership between the United States Bureau of Reclamation and six non-federal partners (RWA, City of Folsom, City of Roseville, City of Sacramento, El Dorado County Water Agency, and Placer County Water Agency). The study will conduct a focused assessment of water supplies and demands for the ARB under future climate conditions.

For the ARBS, staff is requesting that the RWA adopt Resolution 2017-02 Authorizing the Executive Director to Execute a Memorandum of Agreement (MOA) with the Bureau of Reclamation to Participate as a Non-Federal Partner in the American River Basin Study (see enclosed resolution). The MOA defines the federal and non-federal authorities and financial obligations. Reclamation's share of funding will provide \$650,000 and the non-federal partners will provide \$2,015,000, for a total study amount of \$2,665,000. The RWA share of the non-federal partners cost share is \$274,000. There is no fiscal impact to RWA as \$250,000 of the cost share is being provided in the form of the already committed planning effort of the RWRP. The remaining \$24,000 will be in the form of staff's participation in the ARBS over the next three years.

The third planning effort to begin in 2017 is the Proposition 1 Disadvantaged Community Involvement Program (DCIP). The DCIP is a new DWR initiative to improve the involvement of disadvantaged communities in the IRWM process. To fund the program, DWR has committed 10 percent of the IRWM grant funds approved

for each funding area under Proposition 1. DWR guidelines for the program identify eligible activities for the funds and no local cost share is required. A unique aspect of the DCIP is that DWR will only issue one grant award per funding area. This requires significant coordination among the multiple regional water management groups in each funding area. In the Sacramento River Funding Area (SRFA), the Yuba County Water Agency has volunteered to be the applicant and fiscal agent for the \$3.7 million allocated to the SRFA. Staff will provide an overview of the proposal being developed for the DCIP in the SRFA. Staff is requesting that the RWA Board authorize the Executive Director to submit a letter of support to DWR for the YCWA proposal (see enclosed draft support letter).

Presentation: Rob Swartz, Manager of Technical Services

Action: Approve Resolution No. 2017-02 Authorizing the Executive Director to Execute a Memorandum of Agreement with the Bureau of Reclamation to Participate as a Non-Federal Partner in the American River Basin Study

Action: Authorize the Executive Director to Submit a Letter to DWR Supporting Yuba County Water Agency as the Applicant and Fiscal Lead for Disadvantaged Community Involvement Program Funding on behalf of the Sacramento River Funding Area

RESOLUTION 2017-02

**A Resolution of the Regional Water Authority
Authorizing the Executive Director to Execute a Memorandum of Agreement with
the Bureau of Reclamation to Participate as a Non-Federal Partner in the
American River Basin Study.**

WHEREAS, the United States Department of the Interior, Bureau of Reclamation (Reclamation) recently completed a Sacramento and San Joaquin Rivers Basin Study (SSJRBS); and

WHEREAS, the Regional Water Authority (RWA) and other non-federal partners, along with Reclamation, will develop the American River Basin Study (ARBS) to refine and update the data, tools, analyses, and adaptation strategies in the SSJRBS for local application; and

WHEREAS, the data, tools, analyses and adaptation strategies developed under the ARBS will contribute to the planning efforts of the region's water suppliers to achieve long-term water supply reliability; and

WHEREAS, the Memorandum of Agreement is in a form acceptable to RWA legal counsel.

THEREFORE, BE IT RESOLVED, that the Board of Directors of RWA Authorizes the Executive Director to Execute a Memorandum of Agreement with the United States Department of Interior, Bureau of Reclamation, to Participate as a Non-Federal Partner in the American River Basin Study.

PASSED AND ADOPTED at a meeting of the RWA Board held on January 12, 2017.

By: _____

Chair, Regional Water Authority

Attest: _____

Clerk, Regional Water Authority

DRAFT

January 12, 2017

Craig Cross
Prop 1 Disadvantaged Community Project Manager
Department of Water Resources
Division of Integrated Regional Water Management
P.O. Box 942836
Sacramento, California 94236-0001

RE: IRWM Disadvantaged Community Involvement Grant Program, Sacramento River Funding Area

Dear Mr. Cross:

The American River Basin IRWM Region's Regional Water Authority (RWA) is pleased to support the application for \$3.7M in Disadvantaged Community (DAC) Involvement Program funding for the Sacramento River Funding Area (SRFA), submitted by Yuba County Water Agency as the Single Applicant for the funding area and the Fiscal Lead.

The RWA has been actively engaged in the development of this proposal. The Phase 1 Work Plan meets the goals of DWR's Proposition 1 IRWM DAC Involvement Program, outlines a process for identification of DACs and Small Water Systems across the entire funding area (which includes 6 IRWM Regions), creates a pilot project for working with 24 small water systems that have not been previously engaged in IRWM, and defines the process for conducting the required needs assessment for the 92 known DAC Places in the SRFA. Phase 1 will also develop and implement a means of outreach to discover previously unidentified DACs, Economically Distressed Areas or Underrepresented Communities. The Phase 2 Work Plan continues the Phase 1 work across the region after the initial pilot programs, needs assessments, DAC identification and community engagement activities have been initiated.

The final project deliverables – a SRFA DAC database, Needs Assessment Reports, targeted project development support, an innovative Underrepresented Communities pilot project, creation of a Tribal Involvement Committee, and others listed in the Work Plan, will result in the SRFA IRWM DACs being well situated to begin implementation.

This funding to reach out to a range of DAC types will provide an important opportunity to engage these communities in IRWM projects and programs to improve their water quality and water supply reliability in the coming years.

Sincerely,

John Woodling
Executive Director

AGENDA ITEM 6: ELECT 2017 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

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

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.

RWA Board of Directors

2016 Chair: Vacant

2016 Vice Chair: Jim Peifer

S. Audie Foster, General Manager, California American Water

Matthew Maas, Operations Manager, California American Water

Ron Greenwood, Board Member, Carmichael Water District,

Steve Nugent, General Manager, Carmichael Water District

Al Dains, Director, Citrus Heights Water District

Raymond Riehle, Director, Citrus Heights Water District (alternate)

Hilary Straus, General Manager, Citrus Heights Water District (alternate)

Kerri Howell, Council Member, City of Folsom

Marcus Yasutake, Environmental/Water Resources Director, City of Folsom

Vacant, City of Lincoln

Matthew Wheeler, Community Development Engineer, City of Lincoln

Kelye McKinney, Assistant Environmental Utilities Director, City of Roseville

Rich Plecker, Director of Environmental Utilities, City of Roseville (alternate)

Jim Mulligan, Water Utility Manager, City of Roseville (alternate)

Rick Jennings, Council Member, City of Sacramento

Jim Peifer, Senior Engineer, City of Sacramento, **Vice Chair**

Bill Busath, Director of Utilities, City of Sacramento (alternate)

Dan Sherry, Supervising Engineer, City of Sacramento (alternate)

Randi Knott, Intergovernmental Relations Officer, City of Sacramento (alternate)

Dennis M. Rogers, Chief of Staff, City of Sacramento (alternate)

Vacant, City of West Sacramento

Quirina Orozco, Councilmember, City of West Sacramento

Stan Cleveland, Vice Mayor, City of Yuba City

Diana Langley, Public Works Director, City of Yuba City

Mike Paulucci, Utilities Deputy Director, City of Yuba City (alternate)

Ryan Saunders, Board Member, Del Paso Manor Water District

Debra Sedwick, General Manager, Del Paso Manor Water District

Michael Raffety, Director, El Dorado Irrigation District

Jim Abercrombie, General Manager, El Dorado Irrigation District

Brian Mueller, El Dorado Irrigation District (alternate)

Dale Coco, El Dorado Irrigation District (alternate)

Tom Nelson, Board Chair, Elk Grove Water District

Mark Madison, General Manager, Elk Grove Water District

Randy Marx, Board Member, Fair Oaks Water District

Tom Gray, General Manager, Fair Oaks Water District

Dave Underwood, Director, Fair Oaks Water District (alternate)

Paul Schubert, General Manager, Golden State Water Company

Ernie Gisler, Capital Program Manager, Golden State Water Company

* Names highlighted in red are Executive Committee members

<p>Michael Schaefer, Board Member, Orange Vale Water Company Sharon Wilcox, General Manager, Orange Vale Water Company</p>
<p>Robert Dugan, Board Member, Placer County Water Agency Brent Smith, Director of Technical Services, Placer County Water Agency Matt Young, Director of Customer Service, Placer County Water Agency, (alternate) Einar Maisch, General Manager, Placer County Water Agency (alternate) Mike Lee, Board Member, Placer County Water Agency (alternate)</p>
<p>Gerald (Jerry) Pasek, Board Member, Rancho Murieta Community Services District Darlene Thiel, General Manager, Rancho Murieta Community Services District</p>
<p>Mary Henrici, Board Member, Rio Linda/Elverta Community Water District Ralph Felix, General Manager, Rio Linda/Elverta Community Water District</p>
<p>Roberta MacGlashan, Board Member, Sacramento County Water Agency Kerry Schmitz, Division Chief, Water Supply, Sacramento County Water Agency</p>
<p>Rob Roscoe, General Manager, Sacramento Suburban Water District Kevin Thomas, Board Member, Sacramento Suburban Water District Neil Schild, Board Member, Sacramento Suburban Water District (alternate) Bob Wichert, Board Member, Sacramento Suburban Water District (alternate)</p>
<p>Pam Tobin, Board Member, San Juan Water District Keith Durkin, San Juan Water District (alternate) Bob Walters, Director, San Juan Water District (alternate)</p>

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 Chair and Vice-Chair of the RWA Executive Committee and RWA Board of Directors

AGENDA ITEM 8: EXECUTIVE DIRECTOR'S REPORT

JANUARY 12, 2017

TO: REGIONAL WATER AUTHORITY EXECUTIVE COMMITTEE

FROM: JOHN WOODLING

RE: EXECUTIVE DIRECTOR'S REPORT

- a. **Government Affairs Update** – The State (DWR, SWRCB and other agencies) released a draft report outlining a proposal for implementation of the Governor's Executive Order B-37-16. The report covers proposed changes to urban water management planning to better prepare for drought, as well as long term water conservation requirements for both ag and urban water use. RWA submitted comments, as did many RWA members. In addition, RWA and several members signed on to a coalition letter that included 114 water agencies and associations from throughout the State (attachment). The administration has indicated that a final report will be released around January 20, 2017. Measures are expected to be implemented through rulemaking under existing law and through legislation where new authority is required. The State Water Board will hold a workshop on January 18, 2017 to hear staff proposals for modifying the emergency water conservation regulations. The current "stress test" requirements expire at the end of February.

DWR released the best management practices required under the Sustainable Groundwater Management Act before the deadline of January 1, 2017. DWR expects to release guidelines for Proposition 1 Sustainable Groundwater Management Grants in Spring of 2017 and finalize the guidelines and solicit grant applications in Summer of 2017. SGA staff will work with others in the subbasin to develop a scope for preparation of our Groundwater Sustainability Plan to be ready to seek funding. Alternatives to a GSP were due by January 1, 2017. SCGA prepared an alternative for submission. The document is available for review on their website at scgah2o.org.

On December 2, 2016, the State Water Board emailed all drinking water systems with information regarding an upcoming statewide initiative to amend all domestic water supply permits. The proposed amendment would require systems to provide lead sampling services to K-12 schools within their service area upon request. While the permit amendments were expected to be issued to all water systems the week of December 20, in late December the Brown Administration initiated an additional review of the proposed permit amendment program with no announcement regarding a revised release date. RWA staff will continue to monitor this initiative and coordinate with ACWA and other statewide associations that are engaged on this issue.

AB 401 (Dodd, 2015) directs the SWRCB to prepare a plan for a potential Low-Income Water Rate Assistance Program and directs the State Water Board to report to the Legislature by February 1, 2018 with findings regarding the feasibility, financial stability, and desired structure for such a program, including any recommendations for legislative action. In October and November of 2016, State Water Board staff held a series of workshops around the State to solicit feedback from stakeholders. In early 2017, the State Water Board is expected to release a preliminary draft report that is based in part on the feedback received at the workshops. SWRCB staff have expressed a goal of releasing the final report well in advance of the February 2018 deadline. RWA staff will be tracking the release of the preliminary draft report and any related legislative activities.

Adam W. Robin, RWA's new program manager for the Legislative and Regulatory Advocacy Program began work on December 6th. In addition to immediately beginning to address some of the region's most important issues, Adam will be setting up meetings with RWA staff and managers, and attending agency board meetings over the next several months.

- b. Water Efficiency Update** – In October 2016, the region saved 30% compared to October 2013 or approximately 4.5 billion gallons, double our September 2016 savings. October storms produced 4 times the monthly average precipitation. The cumulative savings for calendar year 2016 is 24%. The cumulative savings for the Emergency Regulation timeframe from June 2015 through October 2016 is 28% or 73 billion gallons. The most current state savings information available is cumulative savings from June 2015 through September 2016 at 23%, less than our regional savings of 28% during the same timeframe.
- c. Grants Update** – Staff is currently managing five grants totaling \$55 million. RWA recently submitted final reports for three grants from the United States Bureau of Reclamation: 1) 2014 USBR Calfed Meter Grant, 2) 2014 USBR WaterSMART Grant, and 3) 2014 USBR Calfed Interior Retrofit Grant. In January 2017, staff will complete the final reporting requirements to close out the 2006 Department of Water Resources Prop 50 \$25 million grant award.

RWA is being recommended for a \$250,000 grant from the 2016 Integrated Regional Water Management (IRWM) Planning Grant Program funded under Proposition 1 for a 2018 American River Basin IRWM Plan update.

- d. RWA Outreach** – RWA staff attended the Association of California Water Agencies Conference in Anaheim. Mr. Woodling continues as Chair of the Groundwater Committee, whose meeting was attended by more than 170 people. Mr. Woodling was a panelist discussing SGMA at a meeting of the local chapter of the Society for the Marketing of Professional Services on November 1, 2016, and served on the advisory committee for the California Leadership Forum held December 6th.

RWA and SGA held the 16th Annual Holiday Social on December 8, 2016 at the North Ridge Country Club. RWA awarded the Distinguished Service Award to Bob Churchill, outgoing General Manager of Citrus Heights Water District and to Bill George, outgoing Board President of El Dorado Irrigation District. Debra Sedwick, General Manager of Del Paso Manor Water District was awarded the Water Statesperson of the Year Award.

The past few years have resulted in a number of new Board members from RWA member agencies. Staff is working to plan and schedule one or more Board Member Orientation presentations over the first few months of 2017.

VIA EMAIL: wue@water.ca.gov; commentletters@waterboards.ca.gov

December 19, 2016

The Honorable Felicia Marcus, Chair
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

The Honorable Mark Cowin, Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

SUBJECT: Comments on “Making Conservation a California Way of Life” November 2016 Public Review Draft

Dear Chair Marcus and Director Cowin:

The undersigned water suppliers and associations comprise designated members of the Urban Advisory Group (UAG) convened by the State to provide input on the framework for implementation of Executive Order B-37-16 (EO) and additional participants in the recent stakeholder outreach process. Many of us submitted a joint comment letter and detailed recommendations dated October 18, 2016, and we include that package with this letter, as it continues to be germane to the Public Review Draft. We would also like to draw your attention to a comment letter being submitted today from the American Water Works Association, California-Nevada Chapter, which pertains to portions of the Public Review Draft.

We would like to express our ongoing appreciation for the opportunities that the State has offered to provide input in this process. We continue to be committed to helping define a successful framework to help California prepare for and respond to future droughts, and to promote the long-term efficiency of water use. We would like to collaborate with you and your colleagues in the Brown Administration to craft a legislative package that we can all support.

While we are largely supportive of the initial recommendations in the Draft Report, we cannot support any policy that allows the State Agencies carte blanche in determining future water-use budgets, prohibitions or performance measures. We believe all new water-use target setting efforts must include a formal stakeholder involvement process, allowing for input on technical considerations and the potential for unintended consequences.

The conservation framework must take into account the One Water policy perspective, seeking a balanced and integrated approach to sustainable water management. Water sustainability and drought resilience must be measured in terms of BOTH water-use efficiency and the development of new supplies and storage.

To that end, we are concerned that the uncertainty associated with unknown future conservation regulations will serve as a significant *disincentive* for the development of new sustainable supply sources

and storage by local agencies, and we strongly believe that this would be an unwise direction for California to take. As such, several of our comments are aimed at improving incentives for new supply development while maintaining water-use efficiency principles.

Similar to the approach we took in October, we have identified the elements of the Public Review Draft that we support and which we believe will improve water management in the future, and we have provided specific feedback aimed at improving the proposal. We support the enforcement of water use efficiency targets in 2025, the transition to a five-year drought planning sequence in the Urban Water Management Plan, and the additional components proposed for the Water Shortage Contingency Plans – communication plan, specific compliance and exemption procedures, monitoring and reporting protocols and a regular review process. We also believe that providing State agencies with our annual supply and demand assessments will facilitate better understanding of hydrologic conditions throughout the state.

We have identified the following areas of continued concern, which we look forward to resolving with the Executive Order agencies in the final report (the citations in each comment refer to the relevant section(s) of the Public Review Draft).

Using Water More Wisely

Section 2.1 Emergency Conservation Regulations for 2017

- As the State Water Resources Control Board (SWRCB) considers extending the emergency regulation in January/February 2017, they must consider that many parts of the state are not experiencing emergency drought conditions due to improved hydrologic conditions, development of drought resilient supplies, or both. The SWRCB should rescind the emergency conservation regulations for those areas with adequate supplies, and focus on those communities that require assistance in meeting the water demands of their community. The SWRCB could continue its “stress test” demand reduction measures for areas in which supplies are inadequate in 2017 to meet normal demands.

Section 2.2 Permanent Prohibition of Wasteful Practices

- We request that the EO agencies include language to exempt residents from these prohibitions in the case of a public health or safety emergency and that uniform definitions of “measurable rainfall” and “street medians” be provided. We also ask that it be made clear in Section 2.2.4 that it will be the responsibility of local agencies to enforce these new regulations.

Section 2.4 Process for Determining Cost-Effectiveness of Water Conservation and Energy Efficiency

- It is stated in this section that the cost-effectiveness of potential appliance standards is based on the value of the water or energy saved, the effect on product efficacy for the consumer, and the life-cycle cost of complying with the standard to the consumer. The California Energy Commission (CEC) assesses the cost effectiveness of a proposed appliance standard by surveying and comparing the cost and operation of compliant and non-compliant appliances. Any increased costs must be offset by water and energy savings due to the increase in appliance

efficiency. We call on the CEC to include potential wastewater system impacts as a valid life-cycle cost associated with indoor appliances when conducting its cost-effectiveness analysis.

Section 3.1 New Water Use Targets

General

- Alternative Target-setting Approach (Sections 3.1.1 and 3.1.2.) We continue to request that the State include optional approaches to the strengthened standards target-setting process that build on the elements of SB x7-7, as is directed by the EO. Expansion of the State agencies' water budget based proposal to provide for alternative target-setting approaches that can be customized to unique local conditions, would be equally effective in reducing water use and would allow for alternative methods to reducing water demands that could be more cost-effective for some agencies to implement. This is particularly important for water agencies that lack resources or capacity to implement water budget programs, or for water agencies that would benefit from this additional flexibility. We also believe that a regional compliance approach should be allowed as an option.
- No Impact on Water Rights. The new water use efficiency program requirements must not adversely affect water rights or contracts held by water suppliers in California, and must explicitly recognize the ability of water suppliers to use or transfer the conserved water, pursuant to Water Code Section 1011. These provisions are already contained in Water Code Sections 10608 et seq. (SB x7-7), and must be maintained in any modifications thereto or in any new Water Code language to implement the Executive Order. We ask that language be added to the executive summary and introduction clearly stating the state's intent to preserve water rights as the elements of the Executive Order are implemented.
- Sustainable Water Management. When setting water use standards, it is imperative for the EO agencies to recognize that water conservation by itself is not going to result in a resilient supply that can manage severe shortage situations, which the state is likely to face in the future. As described in Governor Brown's California Water Action Plan, an integrated and sustainable approach must include both water use efficiency and local supply development. When considering lowering the standards on water use, the state must take into account local efforts in developing drought resilient supplies, as mentioned in section 4.2.2 of the Public Review Draft.

Indoor and Outdoor Standards

- Water Use Efficiency Standards and Reporting (Section 3.1.3.) We support the proposal to establish 55 gallons per capita per day (GPCD) as the indoor use standard and the use of MWELO standards in place when landscapes were installed as the outdoor use standard for residential properties, when using the proposed method, for determining compliance with the new efficiency targets in 2025. The landscape standard should be applied to irrigable areas of parcels. We support reporting on compliance with the 2025 targets in the 2025 Urban Water Management Plan. We do not support annual reporting on targets either before or after the

2025 Plan. Finally, while we are open to considering lower water use standards for residential customers in future years, we insist that any such consideration be inclusive of a public stakeholder process.

- Indoor Standards Workgroup (Section 3.1.3.) Similar to the Landscape Area Measurement Workgroup, which is to assist the state in developing the outdoor irrigation standard, the EO agencies should form an Indoor Standards Workgroup to assist the state in evaluating the data and research to be utilized in determining the 2025 indoor standard. As part of this effort, the EO agencies must conduct a scientific evaluation to identify potential impacts on wastewater systems and recycled water/potable reuse production before the indoor water use standard is reduced to a standard below 55 GPCD.
- Landscape Area Measurement Data (Section 3.1.3.) We request that the State provide to water suppliers either the detailed, verified landscape data for every parcel in a water agency that chooses to use the water use efficiency compliance method defined in the Public Review Draft or the funding for the agency to perform this analysis. A significant amount of data and technical assistance, as well as dedication of precious fiscal resources, will be required to implement these standards. The process and methods to obtain and disseminate the data will need to be transparent and technically sound in order to ensure credibility with the public and local decision makers.

In lieu of using state-supplied landscape data, water suppliers should be allowed to use self-supplied landscape data of equivalent or superior quality to develop targets. Additional landscape data provided by water suppliers could be used to address unique conditions in a service area such as agricultural land or to provide updated landscape area reflecting service area growth. Any landscape data provided by the water supplier would be required to incorporate landscape area assumptions and definitions consistent with those used in the state-supplied data set. We urge the State to take a deliberate and iterative approach that includes verification of accuracy by an independent third party and allows sufficient time to test the proposed standards and make refinements as necessary. In this regard, any delay in the availability of verified landscape data should be reflected in compliance deadlines for water suppliers.

- Variations (Section 3.1.3.) We request that the EO agencies develop and implement a variance process to allow for the establishment of indoor and outdoor water use standards according to a water supplier's unique conditions, such as providing more water than the average for large animals, swamp coolers, home food production, etc. We ask that the draft framework include the development of variances and a variance process through a collaborative effort with water industry stakeholders.
- Recycled Water (Section 3.1.3.) The recycling and reuse of water is considered an efficient use of supplies and therefore should be removed from the water production calculations for determining compliance with 2025 targets, consistent with SB x7-7 (as is noted on pages 3-2 and 3-3 of this report). This approach will ensure incentives for the continued development of

recycling and potable reuse projects, which are critical to a resilient and sustainable water supply future for California.

Commercial and Industrial Performance Standards

- Commercial, Industrial, and Institutional (CII) Performance Measures (Section 3.1.3.) We support the exemption of CII water uses from volumetric targets. We conceptually support the establishment of performance measures for the CII sector but recommend that a CII workgroup with representative members from a broad spectrum of industries be engaged in the establishment of performance measures rather than by dictate in this report. Participation by industry along with water supplier representatives will help ensure Performance Measures are appropriate, effective and result in efficient water use without impairing economic activity. Further, we believe the stakeholder process is essential for achieving long-term support of Conservation as a Way of Life in the CII sector. The development of Performance Measures should build on the CII taskforce report completed in 2013. We also request the language concerning audits be revised to read:

Work with willing CII customers to conduct representative water-use audits or water management plans for CII accounts over a specified size, volume, or percentage threshold or an equivalent measure determined by the CII workgroup.

Water Loss

- Water Loss Requirements (Sections 2.3.3 and 3.1.3.) The Draft describes the requirements of SB 555 and the actions planned by DWR, CPUC and the SWRCB in Section 2.3.3, including potential loss standards and enforcement tools. We do not support also including water loss requirements in overall efficiency targets, as doing so creates an unnecessary, redundant and potentially conflicting compliance requirement.
- Reporting, Compliance Assistance and Enforcement (Section 2.3.4.) We support submittal of validated water loss audit reports to the California Department of Water Resources (DWR) by October 1, 2017 as is already required by law. However, we do not support the provision to disqualify agencies that do not submit these reports by that date from eligibility for DWR grants and loans.

Implementation and Enforcement

- Legislative Role in Updates to Water Use Targets (Section 3.1.3.) Any revisions of the standards and CII performance measures beyond the 2025 compliance period must only be implemented through future legislation. The role of the Legislature in crafting and refining California's water use policies and water use efficiency standards is critical, as is the role of the Legislature in providing agency oversight and accountability.
- Enforcement Measures (Section 3.1.4.) The consequences for a water supplier that fails to meet its 2020 water use efficiency standard consist of that water supplier becoming ineligible for

State grant funding. Water Code Section 10608.56 includes additional provisions that condition the imposition of such sanctions. We believe that these sanctions provide adequate incentive for water suppliers to achieve the water use efficiency standards proposed in the Public Review Draft and that any other financial penalties or enforcement processes would be unnecessary and counterproductive.

- Timeline Feasibility (section 4.3.) The EO agencies have proposed a significant number of important tasks to be completed between 2017 and 2018. We request that the state provide additional details on specific timelines and hold a workshop to ensure the schedule is realistic by seeking input from water suppliers regarding the possible impacts/constraints on staff and budget.

Eliminating Water Waste

Section 2.2 Monthly Reporting and Permanent Prohibition of Wasteful Practices

- Existing Authority (Section 2.2.3.) The Public Review Draft notes that the EO agencies plan to implement monthly reporting requirements and permanent water use prohibitions through existing authority. We request that the State provide more detailed information about the specific statutes that provide this authority.
- Stakeholder Input (Section 2.2.3.) A stakeholder workgroup should be formed as part of the rulemaking process to ensure the reports submitted monthly serve a meaningful purpose to the state and public and that the statewide permanent prohibitions are appropriate for communities throughout the state.

Strengthening Local Drought Resilience

Section 3.2 Water Shortage Contingency Plans

- Water Shortage Contingency Plan, Recommendation **Updated Contents of the Urban Water Management Plans** (Section 3.2.3.) In order to acknowledge the benefit of developing drought resilient, hydrologically independent supplies consistent with the California Water Action Plan, we request that the following be added below 2. *Evaluation Criteria*:
 - e) *Drought resilient, hydrologically independent supplies such as potable reuse, recycled water and desalination are considered fully reliable under all historical drought hydrology and plausible climate change effects.*
- Water Shortage Contingency Plan , Recommendation , **Contents of the Water Shortage Contingency Plans** (Section 3.2.3.) This section should be clarified to acknowledge that in some cases where water suppliers have in place or may invest in drought resilient, hydrologically independent supplies, these agencies may in fact not experience shortages under drought

conditions. In light of this, we recommend the following language be added to 4. *Shortage Levels. Evaluation Criteria:*

- *Water suppliers with a substantial portfolio of drought resilient, hydrologically independent base supplies may not experience shortage conditions due to drought or climate change. Water suppliers with validated, reliable, base water supplies of this type shall only be required in WSCPs to address shortage levels up to the maximum percentage that can be feasibly caused by dry hydrologic conditions.*
- Additional Dry Year Analyses (Section 3.2.3). We do not support the State’s proposal to require “one or more <additional> dry years” to be analyzed as part of the annual water budget forecast. We would support an analysis of one additional dry year in the forecast, if conditions require a water supplier to implement its water shortage contingency plan.
- Water Shortage Contingency Plans (page 3-13). It must be made clear that should an agency implement its defined shortage response actions (SRA’s) that effectively move the agency out of a shortage condition, then there is no need for the agency to declare an emergency, or be considered to be in an emergency shortage condition by the DWR or SWRCB.
- Drought Planning for Small Water Suppliers and Rural Communities, Current Status (Section 3.3.1.) While SGMA implementation will be important to future water supplies in California, and sustainable groundwater management will be a key element of preparing for and responding to future droughts, we believe the Draft mischaracterizes the authority and responsibility of GSAs relative to Drought Planning for Small Water Suppliers and Rural Communities. We believe that drought planning for specific water systems and assurance of future water supplies is beyond the scope of SGMA, and recommends this reference (p 3-16, second column, lines 5-11) be removed from the document. While GSAs must consider the interests of all water users, they do not have an explicit obligation for water supply reliability to any user.
- Drought Planning for Small Water Suppliers and Rural Communities, Recommendations (Section 3.3.3.) We request that the framework clarify that those small water systems which have already established their own shortage plans should retain the flexibility to maintain the authority to implement their shortage plans and coordinate with their respective water wholesaler or County and not be subject to a new duplicative countywide effort.
- Drought Planning for Small Water Suppliers and Rural Communities, Recommendations (Section 3.3.3.) We support the effort to improve drought planning for small and rural water suppliers but do not recommend adding additional requirements to Groundwater Sustainability Plans without appropriate and necessary stakeholder input. We request the coordination language be revised to read:

5. *Coordination – Work with stakeholders to develop opportunities to coordinate SGMA efforts and drought planning. Evaluate options for reflecting drought planning and responses in Groundwater Sustainability Plans.*

Thank you for the opportunity to comment. We look forward to continued collaboration with staff of the State agencies to develop a framework by the January 2017 deadline that meets the objectives of the EO while preserving local water supplier authority and providing flexibility in implementation.

Sincerely,

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Marcus Yasutake
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cc:

The Honorable Frances Spivy-Weber, Vice Chair, State Water Resources Control Board
The Honorable DoreneD'Adamo, Member, State Water Resources Control Board
The Honorable Steven Moore, Member, State Water Resources Control Board
The Honorable Tam Doduc, Member, State Water Resources Control Board
Ms. Kim Craig, Deputy Cabinet Secretary, Office of Governor Edmund G. Brown Jr.
Mr. Tom Howard, Executive Director, State Water Resources Control Board
Mr. Eric Oppenheimer, Chief Deputy Director, State Water Resources Control Board
Mr. Gary B. Bardini, Deputy Director, Integrated Water Management, Department of Water Resources
Mr. Kamyar Guivetchi, Manager, Statewide Integrated Water Management, Department of Water Resources

October 18, 2016

The Honorable Mark Cowin, Director
California Department of Water Resources
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Sacramento, CA 94236-0001

The Honorable Felicia Marcus, Chair
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

SUBJECT: Comments on Current State Agency Draft Response to Executive Order B-37-16

Dear Director Cowin and Chair Marcus:

As urban retail and wholesale water suppliers serving tens of millions of Californians throughout the State, we have invested in water supplies for many years to reliably serve our residential, commercial, and industrial customers. We collectively responded to help achieve Governor Brown's goal of 25% water conservation in 2015 in response to the ongoing drought. We appreciate the State's recognition of water suppliers' past investments in water supply resiliency that resulted in the vast majority of the suppliers passing the State's "stress test," demonstrating their capacity to meet customer demand in the event of an ongoing drought.

The undersigned water suppliers and associations comprise designated members of the Urban Advisory Group (UAG) convened by the State to provide input on the framework for implementation of Executive Order B-37-16 (EO) and additional participants in the recent stakeholder outreach process. As such, we wish to express our appreciation for the extensive opportunities to understand and provide comments on the State's proposed implementation and we have provided substantial feedback. We are committed to helping define a successful framework to help California prepare for and respond to future droughts, and to improve the long-term efficiency of water use. We share the goal articulated by your staff in the UAG meetings to date of developing an implementation proposal that can be translated into a legislative package that we can all support.

The purpose of this letter is to identify the elements of the State agencies' current proposal that we support that will improve water management in the future, and to provide specific feedback to improve the proposal. We have the following areas of continued concern, which are described in more detail in Attachment 1, and which we look forward to addressing as the proposal is refined in coming weeks:

- **Five-year Drought Period.** We support the shift to planning for a five-year drought period based on historical hydrologic data, but suggest that the option remain to plan for a shorter period if it represents a more severe drought. We urge the State to continue with the current proposal with that adjustment and include that requirement as an element of the Urban Water Management Plan, rather than an annual assessment. More detailed comments on the Water Shortage

Contingency Plan proposal are included in Attachment 2 to this letter, which we anticipate are now closely aligned with the pending revisions to the staff proposal.

- **Adequate Process to Develop Standards.** We strongly urge the State to proceed with caution as it develops standards, outdoor water use standards, in particular. The State is proposing major changes in water management requirements, some of which are based on emerging methodologies. A large amount of data and technical assistance will be required to implement these standards. The process and methods to obtain and disseminate the data will need to be transparent and technically sound in order to ensure credibility with the public. We urge the State to take a deliberate and iterative approach that allows sufficient time to test the proposed standards and make refinements as necessary. Attachment 3 contains detailed comments on the standard and target-setting proposal.
- **Alternative Target-Setting Approach.** We urge the State to include additional approaches to the standards-based water budget target-setting process which build on the elements of SB x7-7, as directed by the EO. Expansion of the State agencies' proposal to provide for alternative target-setting approaches should be equally effective in reducing water use and would allow for more a cost effective means to reduce water demands. This is particularly important for water agencies that lack resources or capacity, or for water agencies that would benefit from additional flexibility. More detailed suggestions for alternative target-setting are included in Attachment 4.
- **Incentives to Support Continued Supply Investments.** We urge the State to develop and implement a framework that incorporates incentives for the development of drought resilient water supplies, including recycled water and potable reuse, desalination, storage and conjunctive use, stormwater capture, groundwater and other alternatives. Similarly, the State must ensure that the framework does not result in any adverse impacts to water rights.
- **Support for 2025 Schedule.** We support the State's proposal for full compliance of the permanent long-term water use efficiency targets in 2025, as documented in a 2026 compliance report and 2025 Urban Water Management Plan. The Urban water suppliers need adequate time to get the tools and resources in place to achieve the target. (i.e., water rate structure, water use efficiency programs, etc.)
- **Expand the Focus and the Tools.** To make conservation a way of life in California, significant and sustained behavioral changes by nearly 40 million residents will be required. Regulatory standards set on urban water suppliers alone will not be enough to achieve the desired results. We urge the State to use the proposed framework to expand its financial commitment for outreach and technical assistance for water conservation for water suppliers, as well as identifying other mechanisms at the State's disposal to effect changes by end-users of water.

Thank you for the opportunity to comment. We look forward to continued collaboration with staff of the State agencies to develop a framework by the January 2017 deadline that meets the objectives of the EO while preserving local water supplier authority and providing flexibility in implementation.

Sincerely,

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Director of State Regulatory Relations
Association of California Water Agencies

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Executive Director
Regional Water Authority

Deven Upadhyay
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Alameda County Water District

Cc:

The Honorable Frances Spivy-Weber, Vice Chair, State Water Resources Control Board
The Honorable Dorene D'Adamo, Member, State Water Resources Control Board
The Honorable Tam Doduc, Member, State Water Resources Control Board
The Honorable Steven Moore, Member, State Water Resources Control Board
Ms. Kim Craig, Deputy Cabinet Secretary, Office of Governor Edmund G. Brown Jr.
Mr. Tom Howard, Executive Director, State Water Resources Control Board
Mr. Eric Oppenheimer, Chief Deputy Director, State Water Resources Control Board
Mr. Gary B. Bardini, Deputy Director, Integrated Water Management, Department of Water Resources
Mr. Kamyar Guivetchi, Manager, Statewide Integrated Water Management, Department of Water Resources

Attachment 1

Comments on the Development of the Framework for Implementation of Executive Order B-37-16

The comments below include fundamental areas of agreement as well as a number of concerns with the current direction of the State's proposals. The comments are arranged under the topical areas defined in the Executive Order (EO): Eliminate Water Waste, Strengthen Local Drought Resilience, and Use Water More Wisely; as well as the Reporting, Compliance and Enforcement element defined by State staff. In some cases, additional detail is provided in attachments.

Eliminate Water Waste

- We support EO Directive 4 that permanently prohibits practices that waste potable water.
- We support the State's intention to continue the ongoing process for implementation of SB 555, passed in 2015, in satisfaction of this element of the EO.

Strengthen Local Drought Resilience

- We strongly support the State's stated objective to create a framework for water shortage contingency planning to be implemented by urban water suppliers that will mitigate the future need for emergency water conservation mandates from the State. Further, we support the State's proposed position that specific actions to be taken to respond to real or potential shortages should be entirely at the discretion of individual water suppliers in their own service areas.
- We support the proposal to assess the impact of a five-year drought period in the urban water management plan (UWMP) process, which will be updated every five years.
- We support an annual drought risk assessment that looks at current year supplies as the basis for making the local decision to implement demand reduction measures. These annual assessments will provide the necessary information on potential shortages to determine specifically which urban water suppliers are in a drought concern area and require technical and/or financial assistance from the State.
- We support the State addressing the needs of small water suppliers that do not meet the statutory threshold to prepare and adopt urban water management plans. The small suppliers may not have the resources to plan for, acquire and manage the necessary water supplies in their community. Indeed, some small suppliers suffered enormously in the past couple of years. It should be acknowledged that urban water agencies have had access to planning and guidance documents prepared by the State, as well as utilizing their own planning and financial resources which have resulted in urban water agencies being well prepared during this drought. We look forward to collaborating in the continued development of tools and resources for small water suppliers.
- **Attachment 2** has been provided to State staff and offers additional specific feedback on the State's proposal for Strengthening Local Drought Resilience.

Use Water More Wisely

- While we recognize that the EO calls for standards to be developed for indoor residential water use, outdoor irrigation, CII water use, and water loss, we offer additional mechanisms that fit within the methodology to set targets. Much like in SBX7-7, we believe multiple target setting mechanisms can be developed to provide flexibility to water suppliers, while meeting the goal of increased water savings beyond the 2020 requirements. We also believe the regional compliance approach allowed in SBX7-7 should be maintained as an option. **Attachment 4** provides more detail on potential compliance mechanisms.
- We appreciate the State's recognition that a standardized percentage reduction for CII water use would be potentially damaging to the State's economy. We look forward to working with the State to develop performance standards for water use for various business types in fulfillment of the EO's CII water use element.
- The proposed standards for indoor water use of 55 gallons per person per day (GPCD) and outdoor water use that is a function of landscape area and evapotranspiration are a useful starting point for discussion. However, this method requires a large amount of landscape information that will require validation and indoor standards either need to reflect the unique conditions of the community such as widespread use of swamp coolers or the age of the housing stock, or provide a variance process. We offer detailed feedback on the State's proposal in **Attachment 3**.
- The State agencies' proposal inappropriately applies outdoor standards based on the Model Water Efficient Landscape Ordinance to properties built before 1993.
- In order to develop a permanent framework that supports the state's goals for long-term water use efficiency as outlined in the EO, we recommend an iterative process that allows sufficient time to test the proposed standards for each of the sector budgets and to make refinements as necessary. The long-term water use efficiency framework should provide a broad policy outline on the approach to calculating the new water use targets and include the potential for alternative methods. The state should then allow sufficient time to pilot test the proposed target-setting methodology with water suppliers and incorporate needed refinements.
- Recycled water should also be recognized as an efficient alternative to the use of potable water. We understand that all water should be used efficiently, and the use of recycled water is already highly regulated under the Regional Water Quality Control Board National Pollutant Discharge Elimination System permits that prohibits certain practices, such as runoff or ponding. The efficient use of recycled water should not be limited. Recycled water is by its nature an efficient use of water and barriers to its use should be minimized. The state's proposal on water waste prohibitions should remain consistent with the intent of the Executive Order.
- If California is to be successful in making conservation a California way of life, a much more comprehensive set of actions must be implemented beyond establishing regulatory water use efficiency targets. The State is proposing enforceable standards applied to water suppliers as the sole mechanism by which to achieve the targets set through the process, and neglecting the opportunity to effect change with end users. We urge the State to consider other mechanisms, both incentives and disincentives, that more directly focus on specific uses and users of water including: State investment in water conservation messaging and outreach, the role of land use agencies in residential and commercial landscaping, and appropriate requirements on businesses and other water users.

- Water suppliers have identified a number of potential unintended consequences of decreasing urban water use that must be more fully evaluated prior to standard and target setting, including, reduced flows that impact the effective operation of wastewater collection and treatment systems; reduced flows that impact drinking water quality, and the higher costs of water efficiency measures that will necessitate increased water rates, further exacerbating affordability issues in urban disadvantaged communities.

Reporting, Compliance and Enforcement

- We appreciate the State's commitment to streamlining both existing and new reporting requirements to minimize the burden on water suppliers.
- The State is proposing a significant paradigm shift in water efficiency requirements from that in SBX7-7. We support the State's proposal to provide a period of five years or more for implementation of new standards and targets before enforcement action is considered. We believe the enforcement timeline must also reflect the need for the State to meet its commitments to provide necessary validated irrigable landscape data, and technical and financial assistance to reduce water loss.
- We urge the State to support collaboration of water suppliers by considering mechanisms by which compliance can be achieved regionally.

Attachment 2

Proposed Drought Planning and Response Structure

The table below identifies a framework for drought planning and response in California and identifies the roles and responsibilities of urban water suppliers and state agencies. The structure includes: Planning – the preparation of Urban Water Management Plans and their specific elements related to potential shortages; Assessment – an annual evaluation by the water supplier of demand, supplies, and potential shortages; and Response – specific actions identified to reduce demand. As the structure is in response to the directives in Executive Order B-37-16, it does not address planning for potential water shortages that result from causes other than drought. Such shortages can be readily incorporated into the structure by each urban water supplier depending on their specific conditions.

	Planning/Response Element	Urban Water Supplier	State Agencies
PLAN	Urban Water Management Plan (UWMP)	<ul style="list-style-type: none"> • Includes long-term “drought risk assessment” consistent with Water Code (WC) 10631(c), 10632(a)(2) and 10635(a): <ul style="list-style-type: none"> ○ Revise WC 10632(a)(2) to require agencies to evaluate drought lasting at least five years - suppliers will analyze supply and demand for five years from the year of the UWMP forward, assuming conditions equivalent to supplier’s five consecutive historic driest years ○ Suppliers will analyze at least five dry years, as part of the multiple dry year assessments in WC 10631(c) and 10635, assuming conditions equivalent to supplier’s five consecutive historic hydrologic driest years ○ Suppliers should be able to utilize a shorter period if it represents a more severe drought than the five-year period. 	<ul style="list-style-type: none"> • DWR prepares UWMP Guidebook. • As part of Guidebook, DWR provides guidance on characterizing the five-year drought cycle. • DWR receives and reviews UWMP for completeness and compliance with statutory requirements.
	Water Shortage Contingency Plan (WSCP) Required element of UWMP <i>This proposal focuses the drought planning aspect of WSCP. The planning for catastrophic events remains unchanged.</i>	<ul style="list-style-type: none"> • Revise WC 10632 to expand the elements of the current water shortage contingency analysis to require a water shortage contingency plan which would include: <ul style="list-style-type: none"> ○ Stages of water shortages and actions that would be taken by suppliers to address each stage. ○ Conditions which would trigger each stage of water shortage. ○ The supplier’s communications strategy to implement the plan. ○ A discussion of the supplier’s WSCP implementation 	<ul style="list-style-type: none"> • As part of UWMP Guidebook, DWR works with stakeholders to develop potential actions that will accomplish the demand reductions. <ul style="list-style-type: none"> ○ Include updated range of savings from water use restrictions and consumption reduction methods, taking into account results from implementation of long-term water use targets.

Attachment 2

		<p>authority.</p> <ul style="list-style-type: none"> ○ An assessment of the financial impacts of implementing each stage. ○ A discussion of the process the supplier will use to report to its community, its governing body and state agencies on implementation of the WSCP; ○ A discussion of customer compliance and enforcement provisions in the plan, as well as any customer exemption processes. ○ A review and improvement process for the plan. 	<ul style="list-style-type: none"> ● DWR offers technical assistance for the development of WSCPs for agencies requesting it. ● DWR reviews WSCP for completeness and compliance with statutory requirements.
ASSESS	Annual Drought Risk Assessment	<ul style="list-style-type: none"> ● Urban water suppliers will be required to prepare an annual water supply assessment (Add a new section to WC) <ul style="list-style-type: none"> ○ Prepare by May 30th of each year ○ Include projected demand and total supplies available for the upcoming year, which includes any supply augmentation. ○ If assessment shows a shortage of supply in the year analyzed, the agencies must identify the appropriate water shortage stage and associated responses to manage the shortage. ● Suppliers can submit the assessment on a regional basis, based on a region identified by water suppliers. 	<ul style="list-style-type: none"> ● As part of DWR Guidebook, DWR provides common standards on preparation of the assessments and the supply and demand documentation required to verify availability of the supply. (e.g., contracts, agreements, etc.)
RESPOND	Implement Water Shortage Contingency Plan)	<ul style="list-style-type: none"> ● Suppliers will submit their annual drought assessment to DWR by May 30th. ● Should a water supplier identify a shortage in their assessment, the supplier shall implement the relevant stage of response actions in its WSCP (including the communications, reporting, and customer compliance elements) ● In the Supplier’s SWRCB monthly report, the supplier shall provide information on implementation of its WSCP, until the hydrologic condition triggering the WSCP actions dissipates 	<ul style="list-style-type: none"> ● DWR will evaluate hydrologic conditions statewide ● From the annual drought assessments, DWR/SWRCB will know the shortage level, if any, of urban water supplier and/or region can take the following actions, if warranted: <ul style="list-style-type: none"> ○ Identify communities that are of “drought concern” ○ Provide assistance (e.g. financial, technical) to those agencies experiencing shortages in order to

Attachment 2

			<p>manage the drought.</p> <ul style="list-style-type: none">○ DWR/SWRCB monitor implementation of WSCP through monthly reporting.
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Attachment 3
Analysis of State Proposed Long Term Conservation
Target Framework
(September 20, 2016 UAG Meeting)
UPDATED – October 17, 2016

Overall Requirements	
<p>State Agency Proposal:</p> <ul style="list-style-type: none"> • State would allow suppliers to achieve the target in aggregate, and would not regulate or require targets for suppliers’ individual customer groups or classes. • The effective start date of the reporting and compliance period would be six months after the State agencies provide each urban water supplier: <ul style="list-style-type: none"> • The data base of measured irrigable area for all residential and separately metered irrigable landscape areas 	<p>Proposed Response:</p> <ul style="list-style-type: none"> • Support the proposal with the following changes: <ul style="list-style-type: none"> – Specify that for compliance purposes, suppliers would be allowed to implement any method of conservation that best meets the needs of the supplier and its customers. Suppliers will have the sole discretion to design and utilize rate structures or implement other conservation tool as the supplier deems appropriate to achieve long term conservation targets. – The state provides additional support for creating targets (See below). <p>State Agency Requirements:</p> <ul style="list-style-type: none"> • Provide a functioning data portal with downloadable reference evapotranspiration data for representative climate zones for each supplier. Provide a data base of validated aerial imagery with measured irrigable area for all residential and separately metered irrigable landscape areas correlated at the assessor parcel level. • Provide a calculated target for suppliers requesting state assistance. • Specific compliance dates included in the State’s proposal would be extended to reflect the length of any delay in providing these items.

1. Indoor Residential Water Use Standard

State Agency Proposal:

- The indoor residential water use standard is a volume of water used by each person per day. The standard is in units of gallons per capita per day (GPCD).
- The provisional standard is proposed as 55 GPCD beginning in 2018.
- Revised downward in 2018, to be achieved by 2025
- State will reevaluate standard every five years, beginning in 2025.
 - The standard will be revised downward to reflect increased usage of efficient fixtures and appliances in 2025 and 2030.

Proposed Response:

- Support the initial standard of 55 GPCD.
- Indoor target of 55 GPCD standard multiplied by the population in the year of compliance (to adjust for growth).
- Suppliers' produced Potable Reuse water is excluded from supply when calculating and reporting compliance with the total target.

State Agency Requirements:

- Develop and adopt a variance process for water agencies with a workgroup to address special conditions such as the age of the housing stock, use of swamp coolers, seasonal population, etc.
- Develop a stakeholder workgroup to consider the impact of lower indoor GPCD standards on wastewater systems and recycled water prior to revising standards starting in 2025.

2. Outdoor Water Use Standard

State Agency Proposal:

- Using the landscape area option selected by the State above, the outdoor water use budget is calculated as the sum of the individual budgets for all parcels within that landscape area, using a provisional *Evapotranspiration Adjustment Factor (ETAF)* as follows:
 1. Landscape area for parcels developed pre-2010 x 0.8 ETo;
 2. Landscape area for parcels developed between 2010 and 2015 x 0.7 ETo;
 3. Landscape area for parcels developed post 2015 x 0.55 ETo (0.45 for Commercial landscape); and
 4. Special Landscapes (parks, fields) area x 1.0 ETo.
- A pilot study will be conducted with 30 agencies.
- The outdoor standard will be revised lower based on the results of DWR’s review of existing budgets and a study of landscape irrigation use in a representative statewide sample of suppliers. Revised standards will be available from the state in 2018.
- Compliance with standards required in 2025
- Standards based on irrigable area.
- State will reevaluate every 5 years, beginning in 2025.

Proposed Response:

- Support initial proposed structure and pilot study with the following conditions:
 - Inclusion of an additional ETAF of 1.0 ETo for pre-1992 installed landscapes.
 - Standards will only be revised in 2018 if total statewide targets are not lower than the current SBX7-7 target.
 - Landscape areas irrigated with recycled water and commercial agriculture are excluded from suppliers’ outdoor water use portion of target.
- Outdoor target in the year of compliance adjusted for landscape area increases due to growth that occurred during reporting period. Target adjustment based upon supplier submitted increased landscape area and irrigation data, or percentage population increase.
- Recommend mixed use CII and outdoor water use other than irrigation (i.e. construction water) be handled separately (see below).

State Agency Requirements:

- Provide a database of third-party validated aerial imagery with measured irrigable area for all residential and separately metered irrigable landscape areas, and age of parcels correlated at the assessor parcel level.
 - Aerial imagery data shall be suitable such that it provides for the appropriate amount of irrigation for a variety of vegetation (i.e. large trees, irrigable area under native tree canopy, etc.).
- Provide a data portal that contains downloadable reference evapotranspiration data with representative climate zones for all urban water suppliers in the State.
- Provide the computation of the supplier level outdoor irrigation water target for any urban water supplier requesting State assistance due to inadequate resources.
- Provide updated aerial imagery and measured irrigable area at least by 2025 and every five years thereafter.
- Through a workgroup process, develop and adopt:
 - Standards and processes for developing the landscape area data;
 - A variance process for water agencies with special conditions of outdoor use. Special conditions could include livestock, food production, or water used for firefighting; and
 - Guidelines for calculating areas for Special Landscapes.

3. CII Water Use Performance Measures	
<p>State Agency Proposal:</p> <ul style="list-style-type: none"> • All dedicated irrigation accounts will be on a budget using outdoor standards. • Require classification using the North American Industry Classification System (NAICS) by 2021, develop benchmarks. • Require all mixed meter accounts to split off landscape greater than a size threshold to dedicated irrigation accounts (or equivalent technology) by 2021. • Audits and water management plans for reporting efficiency in CII water use. <ul style="list-style-type: none"> – Audits and plans for subset of CII customers, based on volume, percentage, or number. • CII reporting requirements. 	<p>Proposal Response:</p> <ul style="list-style-type: none"> • Support the proposal and the development of performance measures using the following process <ul style="list-style-type: none"> • Form a CII Technical Workgroup comprised of industry representatives, economic development and business community leaders, water agencies and state agencies. The Workgroup will be tasked with the following requirements: <ul style="list-style-type: none"> • Develop appropriate CII classifications. <ul style="list-style-type: none"> ○ Complete defining classifications for reporting by 2019; and ○ Support using appropriate NAICS classifications as baseline. ○ Classifications should be detailed enough to include uses of water that are not normally thought of as CII sector water (example: dust control for grading). • Develop applicable performance measures for CII classifications by 2021. In developing the performance measures, the Workgroup would gather the data deemed necessary to develop the measures, such as water use, and utilize recommendations from the <i>2013 CII Task Force Water Use Best Management Practices Report to the Legislature</i>. • Water suppliers would be required to request that representative industries in the top 5% of their CII users participate in audits and water management plans for each of the CII classifications by 2021, with State reimbursement for suppliers' costs. <ul style="list-style-type: none"> ○ Suppliers not staffed to conduct audits can request and have audits conducted directly by the State, subject to supplier review. <p>State Agency Requirements:</p> <ul style="list-style-type: none"> • Supply staff resources and funding assistance to develop classifications and performance measures for CII uses within the timelines. • Through a workgroup process, assess the feasibility criteria and cost-effectiveness of splitting mixed use meters and options, including costs, for installing equivalent technologies. Provide grant funding to split mixed use meters or to install new equivalent technology • Provide grant funding and technical support for audits and management plans.

4. Water Loss Standard	
<p>State Agency Proposal:</p> <ul style="list-style-type: none"> The standard for water system loss will be established through the SB 555 process, and will be expressed in terms of a volume per capita or volume per connection, accounting for relevant factors such as infrastructure age and condition. Will include real and apparent losses. The water system loss standard will be set by 2019, to be achieved by 2025. State will reevaluate standard every five years, beginning in 2025. 	<p>Proposal Response:</p> <p>Support the development of appropriately measured standards through the SB 555 process.</p> <ul style="list-style-type: none"> Base the target water loss standard on relevant factors identified through the SB 555 process. Water system loss standard will be for potable water systems only. <p>State Agency Requirements:</p> <ul style="list-style-type: none"> Provide financial assistance to address data gathering and water loss prevention efforts.
5. Reporting, Compliance and Enforcement	
<ul style="list-style-type: none"> Progress reports beginning in 2019 Full compliance in 2025 reporting period, as documented in 2026 compliance report and 2025 UWMP update (submitted in July 2026) <ul style="list-style-type: none"> – State Board enforcement State agencies are developing methods to encourage compliance from 2021 through 2025. 	<p>Proposal Response:</p> <ul style="list-style-type: none"> Support the proposed timeline with the requirement that all data (i.e. landscape area data, reference evapotranspiration data portal, etc.) and guidance targets dates are met, as proposed. Need more specificity on proposed State Board enforcement process. <p>State Agency Requirements:</p> <ul style="list-style-type: none"> Meet target deadlines for data and guidance as proposed.

Conceptual Approach to “Use Water More Wisely”

Executive Order

Governor Brown’s Executive Order B-37-16 #02 directs the Department of Water Resources and the State Water Resources Control Board to work together to develop new water use targets that build on the goal defined in SB x7-7 of 20% reduction in statewide water use by 2020. The Order further states that the targets will be customized to the unique conditions of each water agency, shall generate more statewide water conservation than existing requirements and will be based on strengthened standards for indoor water use, outdoor irrigation, CII uses and water loss through leaks.

Proposed Approach

- Water agencies will support a stronger statewide goal – a new water use target – that builds on and goes beyond 20% reduction statewide by 2020. The goal would be based on achieving reductions compared to the existing baselines developed pursuant to SB x7-7. Further revisions to a statewide goal would be developed after analyzing progress in 2030, and would be implemented via new legislation.
- In SBX 7-7 four methods were originally developed to provide mechanisms for water agencies to contribute to achieving the 2020 statewide goal – these methods allow for the creation of targets that are customized to the unique conditions of each water agency – allowing water agencies to select the most effective, and cost-effective means of reducing water use.
- These methods accommodate the diversity of hydrologies, individual water system and service area characteristics, sources of supply, demand patterns and investments already made by water agencies in alternative sources and demand reduction and should be maintained and each made more stringent.
- These methods will be strengthened, per the direction provided in the Executive Order. Every water agency will demonstrate that it will achieve greater reductions in water use than would otherwise be achieved under the current requirements of SB x7-7, no matter what method is chosen.
- These alternate methods do not rely solely on remote sensing data and provide the necessary flexibility to avoid the adverse unintended consequences on recycled water supplies, as well as wastewater collection systems.
- Each water agency will evaluate the four alternate methods of compliance and select the most appropriate method for their agency’s local conditions and unique circumstances.

Attachment 4

Compliance Methods

- Method 1 would be modified to reflect the EO requirement to achieve greater water savings than existing requirements. Building on the 20% reduction required in SBX7 7, Method 1 would apply enhanced numerical water use reduction targets for the years 2025 and 2030 to the existing baseline water use (for example 25% by 2025).
- Method 2 (efficiency standards for indoor and outdoor use, CII and leaks) is proposed to be modified per the language in the document entitled “Analysis of State Proposed Long Term Conservation Target Framework – Method 2”. This method requires significant time and expense to determine outdoor use standards, but may become more viable after considerable effort is invested to refine, test and validate it.
- Method 3 would be modified to include an updated regional hydrologic target, and agencies would be required to achieve a 5% reduction from this regional target by 2025. In 2025 an updated regional hydrologic target would be set and agencies would be required to meet an objective 5% reduction from this new regional target by 2030.

Regional Water Authority Status of Grant Awards

December, 2016

	Prop 50 Implementation Grant (1)	Prop 84 2011 Implementation Grant	Prop 84 Drought Grant	DWR Water Energy Grant	Prop 84 2015 Implementation Grant	Total
Awarding Agency	DWR	DWR	DWR	DWR	DWR	
Award/Effective Date	1/18/2007	8/16/2011	1/17/2014	12/22/2015	1/13/2016	
Completion Date	6/30/2016	12/31/2017	6/30/2018	12/31/2017	6/30/2018	
Grant Award Amount	\$25,000,000	\$16,030,766	\$9,765,000	\$2,500,000	\$1,757,000	\$55,052,766
Reimbursement Requests Currently Being Reviewed	\$301,999	\$2,912,775	\$196,920	\$22,516	\$0	\$3,434,210
Reimbursements Received During Previous Quarter	\$549,173	\$45,655	\$188,976	\$12,978	\$0	\$796,782
Reimbursements Paid to Date	\$24,622,372	\$4,586,129	\$4,188,000	\$27,354	\$0	\$33,423,855
Grant Award Outstanding	\$75,629	\$8,531,862	\$5,380,080	\$2,450,129	\$1,757,000	\$18,194,701

(1) Grant is in process of being closed out with DWR. Final reporting and invoicing will be completed in January 2017.

AGENDA ITEM 9: DIRECTORS' COMMENTS