REGIONAL WATER AUTHORITY
EXECUTIVE COMMITTEE AGENDA

March 22, 2017; 8:30 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:** Members of the public who wish to address the committee may do so at this time. Please keep your comments to less than three minutes.

3. **CONSENT CALENDAR**
   Minutes of the February 22, 2017 Executive Committee meeting
   Action: Approve Consent Calendar item

4. **POWERHOUSE SCIENCE CENTER UPDATE**
   Presentation: Harry Laswell, Powerhouse Science Center Executive Director

5. **UPDATE ON WATER RELIABILITY PLAN**
   Presentation: Rob Swartz, Manager of Technical Services

6. **FUNDING CalPERS PENSION LIABILITY**
   Discussion: Provide staff additional direction in regards to the approach to paying the unfunded liability

7. **LEGISLATIVE AND REGULATORY UPDATE**
   Information Presentation: Adam Robin, Legislative and Regulatory Affairs Program Manager
   Action: Adopt Bill Positions

8. **SUBCOMMITTEE UPDATES**
   Updates from Subcommittees on Conference, Membership and Office Space

9. MAY BOARD MEETING AGENDA
Discussion: John Woodling, Executive Director

10. EXECUTIVE DIRECTOR'S REPORT

11. DIRECTOR'S COMMENTS

ADJOURNMENT

Upcoming meetings:

Upcoming Executive Committee Meetings – April 26, 2017 and May 24, 2017 at 8:30 a.m. at the RWA office

Next RWA Board of Directors' Meeting – Thursday, May 18, 2017, at 9:00 a.m. in the RWA conference room, 5620 Birdcage Street, Ste. 110, Citrus Heights, CA 95610

March 22, 2017

AGENDA ITEM 3: CONSENT CALENDAR

The minutes from the Executive Committee meeting held February 22, 2017

Action: Approve Consent Calendar Item

Regional Water Authority
Executive Committee Meeting
Draft Minutes
February 22, 2017

1. CALL TO ORDER

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

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

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

Others in Attendance
Paul Heliker and Charles Duncan, Nicole Krotoski participated via conference phone.

2. PUBLIC COMMENT

None

3. CONSENT CALENDAR

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

> Motion/Second/Carried (M/S/C) Mr. Greenwood moved, with a second by Ms. McKinney, to approve the minutes from the January 25, 2017 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present. Mr. Dugan abstained.

4. DEVELOPMENT OF FY 2017 – 2018 BUDGET

Each year the RWA Executive Committee (EC) reviews and makes a recommendation for adoption of the budget by the full board. The EC discussed some strategic drivers of the proposed Fiscal Year 2017-2018 budget ("FY18 Budget") at the January 25, 2017 EC meeting. The EC was presented with a list of the significant decisions that impacted the development of the budget objectives and outcomes which drive fees and expenses. Based upon direction from the EC, staff prepared a draft budget for review at the February 22, 2017 EC meeting.

Mr. Woodling gave an overview of the fiscal year 2017-18 budget. He discussed the following:

1) Benefits of RWA membership, including regional collaboration and a successful model for grant funding.
2) Provided an overview of total grant awards per participant in comparison to dues paid by participant, noting that grant awards for most members have far exceeded dues.
3) A total10% increase on general and associate membership fees is proposed. This 10% increase was forecast in the previous year.
4) The fee increase continues to pay for the implementation phase of the strategic plan, including full year staffing of new position.
5) Discussed the continued process of the strategic plan implementation, including staffing starting in FY17, funding of the position in part by the strategic plan fund designation (which began in FY16), and eventually transitioning to dues fully paying for the plan by FY19.
6) Noted that the WEP manager continues to support RWA programs. In FY17, this position was funded 10% by core dues. The proposed budget continued increasing the core dues funding by 10% per year, with 20% funding in FY18.
7) Outlined the CalPERS pension plan unfunded liability payment made in FY2016. Additionally, discussed how the decrease in discount rate from 7.5% to 7.0% will increase the unfunded liability and thereby increase future contributions.
8) The budget assumes an increase in leasing costs in FY19 with potential moving costs in FY18 since the lease expires at the beginning of FY19.
9) Continuing to pay for the OPEB explicit and implicit subsidy as outlined in the July 1, 2015 actuary report.
10) A compensation survey will be done in FY18. Any increases due to this survey have not been factored into the budget.
11) IRWM is now being funded by core dues since the designation has been completely expended.
12) Looking at FY19, currently projecting an additional 10% increase to fully support government relations position, continue funding unfunded pension liabilities, increased leasing costs, and increasing support of WEP to 30% of WEP manager position.

Based upon the discussions above as well as historical financial information, the FY18 proposed budget was attached for review.

Ms. Tobin entered the meeting.

There was discussion about making larger pension payments in the future to avoid being underfunded. Everyone agreed that this should be part of the discussion going into the future, including exploring the concept of a one-time invoice to members for the unfunded liability portion. Staff will bring back to the EC the unfunded pension liability funding option to future meetings for additional discussion. EC agreed that in the interim, RWA should continue to make additional incremental payments towards its unfunded liability included in the proposed FY18 budget.

The following information is included in the minutes extracted from the staff report but was not explicitly discussed during the EC meeting:

Summary Budget Overview

Revenues

1) A total10% increase on general and associate membership fees is proposed. This 10% increase was forecast in the previous year. The increase is needed to fully implement the strategic plan, plus continuing to pay sums towards the unfunded pension liability. Additionally, core revenues are now projected to cover 20% of the WEP manager costs and related office expenses.
2) No increases to affiliate membership fees are planned.
3) SGA service fees represent 50% sharable costs according to the Administrative Services Agreement and exclude the Water Efficiency Program staffing, the legislative program manager, and the retired annuitants for RWA and SGA. SGA does pay for 20% of the project assistant position.
4) Subscription program revenues provide 15% of needed RWA Core revenues and reflect income earned from providing staffing and office support to subscription based programs, including the WEP.
5) Powerhouse Science Center reflects five year allocated funding with FY19 as the final year.
6) Other revenues represent interest income and holiday social revenues.

Expenses

1) The core program budgets for all staffing positions including the WEP position and new legislative program manager position. RWA Core dues are projected to pay for 20% of WEP program manager position and related office costs.
2) Shared staffing costs are allocated 50/50 to SGA and RWA which excludes the WEP program manager, legislative Program Manager, the project assistant

position. The project assistant is allocated 20% to SGA. These allocations result in 4.8 FTEs for RWA and 2.2 FTEs for SGA for a total of 7 fulltime positions.

3) Staff salaries are within ranges assigned by a 2012 total compensation survey and reflect a possible 5% increase for merit (including COLA), plus 2% to compensate for the employees paying 2% of their PERS retirement contribution. In FY18, staff will pay 6% of their PERS portion. Beginning in FY19, staff will pay the full 7% employee share.
4) The FY18 budget now includes a legislative program manager staff position for a full year.
5) Benefit costs also include projected increases for CalPERS pension payments, OPEB and health care, and a reduction of a 2% employer pick up of the employee portion of PERS retirement benefits, so that RWA is only paying 1% of the employee portion in FY18.
6) Office cost increases are based upon estimated increases in FY18. For FY19 and beyond, these costs are estimated at 3% annual increases unless specific increases have been identified, such as the office lease renewal which is budgeted for an expected increase.
7) Professional fees now include IRWM consulting costs. It also includes higher audit, accounting and actuarial analysis fees due to the new reporting requirement for GASB 68 and implementation of GASB 75, increased public relations, stable legal costs, a compensation survey, and $21,000 for unexpected items.
8) Other includes office equipment purchases and potential office move costs of $20,000.
9) Core project expenses include costs associated with the Powerhouse Science Center partnership.

Revenues net of Expenses

1) Core revenues in excess of core expenses project a net cash inflow of approximately $47,300 for the core program. The subscription based programs pay for use of staff time as well as some allocated office costs to run these programs.
2) Subscription expenses are projected to exceed revenues by approximately $572,100, largely due to the Water Energy Grant. Many subscription program expenses will be funded from previously collected funds which have been set aside for this purpose.
3) Combined core and subscription expenses versus revenues net a projected decrease in cash flow of approximately $524,800 essentially caused by the subscription program timing of cash collections versus expenses.

Designations

1) The operating fund is targeted at four months for FYE 17-18, which falls within the policy guideline of four to six months. The operating fund designation will be capped at four months, with any remaining resources funding the Strategic Plan Fund and/or not designated.

2) The Strategic Plan Fund represents resources being set aside to fully implement the strategic plan. The FY18 budget anticipates using a portion of this fund to pay for the new legislative program manager until it is depleted in FY19.
3) The Powerhouse Science Center ("PSC") designation represents the difference in collection of fees for this project versus the payments made per the contract with PSC.
4) The designations are detailed by type. The total change in cash from Projected FY17 to Proposed FY18 by subtotal for the core program reflects the overall net cash inflow of approximately $47,300 and the effect on each type of designation.
5) The designations for the subscription program reflect a decrease of approximately $572,100 over subscription based expenses, largely due to the water energy grant expected costs in FY18. These programs typically collect revenues in advance of expenses. These expenses will be funded from the corresponding program designations.

SUBSCRIPTION PROGRAMS

These subscription based programs are subject to approval by the individual participants. The revenues are included for total estimate purposes and to reflect the expected contribution towards the Core program for staffing and office costs which is budgeted at 15% for FY18. Adopting the fiscal year 2017-2018 budget does not approve the subscription based programs.

1) Subscription program revenues are projected for the Water Efficiency Program (WEP Category 1 and 2), Prop 84 grant management and grant revenue, the regional reliability plan management fees, the government relations contract lobbyist, the 2014 drought grant management and grant revenue, the 2014 Water Energy grant management and grant revenues, and the 2015 IRWM grant. The revenues include fees from participants and grant reimbursements from existing grants.
2) Subscription program expenses represent the direct consulting and third-party costs for these subscription programs. It also includes the cost of using RWA staff and allocated office costs to determine the cash flow effect on these programs. In a combined budget, the RWA staff and allocated office costs are netted out to avoid double counting of the costs since these costs are also included in the Core budget. See Summary Table – Split Program for a reconciliation of the individual budgets to the overall RWA budget per the combined Executive Summary Table.
3) The subscription based programs collect fees in advance of expenses and often straddle several years prior to completion. The funds are held in an advance restriction until the expenses are incurred. With the exception of WEP, these additional program advances are only recognized as income as the related expenses are incurred. These advances are tracked for budgeting purposes and also included on the detail program budget sheet. While WEP fees are set aside for WEP services, these fees are recognized as incurred.

4) The subscription restrictions reflect the available funds for these programs. The use of these designations projected in FY18 is reflected in the changes in the individual restrictions.

Outlook for FY 2019

In looking out to the future, RWA can anticipate another potential 10% increase in dues in FY19 in order to meet increased expenses related to new staffing, increased leasing costs, continue paying the unfunded pension plan liability and increased costs related to the change in discount rate, and continue paying for the shift of the WEP manager costs to be funded 30% by core dues. The unfunded pension plan liability cost is expected to increase due to the change in discount rate. FY19 and beyond does reflect increased budgeted 6% salary costs but does not incorporate increases that may arise due to revision of job classifications or compensation benchmark comparisons. Future projections assume RWA and SGA share staffing and administrative costs and subscription based programs will contribute 12% of revenues to pay for Core staffing and office costs.

Finally, no changes to membership are anticipated, including any decline due to agency consolidations or nonparticipation. These changes would have a significant impact on rate increases in the future.

> M/S/C Mr. Roscoe moved, with a second by Mr. Dugan to recommend RWA Board Approval of Proposed FY 2017 – 2018 Budget. The Executive Committee directed staff to have future discussion to provide options to deal with the retirement and OPEB obligations that are presently underfunded.

5. LEGISLATIVE AND REGULATORY UPDATE

Adam Robin, Legislative and Regulatory Affairs Program Manager, updated the Executive Committee on legislative and regulatory issues. There are three position recommendations from the lobbyist subscription program for approval. One position is related to long-term water use efficiency legislation in response to the Brown Administration’s draft framework to “Make Conservation a California Way of Life”, the final version of which is expected to be released soon. RWA led the development of draft legislative language that has provided the basis for the Association of California Water Agencies’ (ACWA) discussions and getting to a point where local agencies around the state can agree in principle on legislation.

To date there are ten pieces of legislation that have been introduced as spot bills with conservation as their focus. RWA worked with our lobbyist to get two of those bills introduced.

Mr. Woodling commented that our biggest issue with any legislation on this issue is for standards to be set that we can live with and to ensure that the State Water

Resources Control Board (SWRCB) doesn't get any ongoing regulatory authority to change water use targets over time.

Chair Peifer said that we need to be aligned with other water supply interests throughout the state to make certain we get something beneficial for us and that there is unanimous understanding that defines what water efficiency is. Anything that is inconsistent with the coalition comment letters submitted in response to the Administration's draft framework could be trouble.

Mr. Robin said that the SWRCB acted to add language to the resolution readopting the Emergency Urban Water Conservation Regulations. The SWRCB directed their staff to bring the item back in May for reassessment and authorized its Executive Director to modify or rescind the emergency regulation in the event that the Statewide Drought Emergency proclamation is lifted.

In 2015, ACWA working with the League of California Cities and the California State Association of Counties, undertook a comprehensive effort looking at what it would take to amend Proposition 218 of the California Constitution to address three separate but related issues. There were problems presented for funding storm water projects under Prop 218, Low Income Rate Payer Assistance Programs, and the adoption of conservation or demand based rate structures for water agencies. In 2016, Senator Hertzberg introduced Senate Bill (SB) 1298 that would have attempted to address these issues without amending the California Constitution. Senator Hertzberg is now the chair of the Senate Natural Resources and Water Committee and has an interest in continuing to work on this issue. His vehicles to attempt to try and push the issue through this year are SB 231 and Senate Constitutional Amendment (SCA) 4. The storm water issue is dealt with in SB 231, while SCA 4 would amend the California Constitution to allow local agencies to create low income rate payer assistance programs and would also create new rate structure setting authorities for local agencies. Mr. Hertzberg has approached ACWA to sponsor SCA 4. ACWA's Board of Directors and the ACWA State Legislative Committee considered this issue, and determined they would only consider sponsorship of SCA 4 if agreement could be reached with the author on a clear list of conditions.

Mr. Roscoe exited the meeting.

AB 401 (2015) requires the state to produce a report to the Legislature by February 2018 on recommendations to create a statewide low-income water rate assistance program. The report will also include an assessment of the needs and potential funding mechanisms to support operations and maintenance in disadvantaged communities that lack access to safe drinking water. The SWRCB held a workshop on the development of the report in early February. SWRCB staff have indicated they will seek to accelerate the development and release of the final report.

Under the Lead Sampling of Drinking Water in California Schools Initiative every water system in California received a permit amendment in January requiring them to provide lead sampling services to K through 12 schools upon request. Local agencies have a variety of concerns related to the permit amendment, including communication responsibilities in the event of an exceedance, the cost of sampling, and the precedent of creating a statewide program through permit amendments.

Mr. Robin provided an update on Lobbyist Subscription Program activities, membership, and recommended positions/priorities on legislation. He announced that Citrus Heights Water District has elected to join the Lobbyist Subscription Program.

It was suggested that an update be given to the full board on the current policy principles and positions related to water use efficiency. Once the bills are formally introduced staff will bring them to the Executive Committee to get position approval.

> M/S/C Mr. Greenwood moved, with a second by Ms. Tobin to adopt positions on Legislation as presented.

6. WATER FUTURE BRANDING FOR REGIONAL RELIABILITY PLAN

John Woodling, Executive Director, said that RWA and its members are undertaking a number of efforts to plan for the region's future water supply reliability, including the Regional Water Reliability Plan, development of a regional "water bank," regional water transfers, the RiverArc project, and implementation of the modified Lower American River Flow Management Standard.

To better discuss these efforts with state and federal representatives and agency staff, local elected officials and the public, the regional business community, potential partners outside the region, and others, the City of Roseville and Placer County Water Agency led efforts to develop a branding and marketing strategy for the package. RWA's public relations consultant was tasked with coordinating with the RWA member efforts.

The group held two focus groups, with influencers and the general public, to test key messages about the program as well as get feedback on potential brands. The status of the project and the "Water Future" brand were presented to the participants of the Regional Water Reliability Plan, some of whom requested that the Executive Committee discuss the branding/marketing efforts.

Ms. McKinney explained that the branding and marketing strategy effort is an attempt to support Cap-to-Cap and to share key projects within our region. There have been Water Future Branding discussions at the last two Regional Reliability Plan meetings. When we started communicating together about regional collaborative choices that benefited the Regional Reliability Plan, we received the attention of legislators and congressional representatives and the credibility of RWA increased.

After discussion on what the approval process should be when agencies use the RWA logo, it was agreed to give the Executive Director broad latitude to be able to stamp flyers and documents with the RWA logo. There may be requests to use the RWA logo; when time permits, the Executive Director might want to bring the request to the Executive Committee for approval.

7. COMPENSATION SURVEY

RWA Policy 400.2, Employee Compensation Policy, states,

The Executive Committee will generally conduct a compensation survey at least every five years to ensure that the total compensation offered by the Authority (salaries, wages, and benefits) is consistent with this Policy; provided, however that a compensation survey may be commissioned at any time if directed by the Executive Committee or if recommended by the Executive Director and approved by the Executive Committee. The Executive Committee may also use its discretion to waive or vary the five year commitment.

The last RWA compensation survey was completed in late 2012. Staff recommends undertaking a survey during 2017. Mr. Woodling recommended staff meet with Shellie Anderson, Bryce Consulting, to initiate a compensation survey.

> M/S/C Ms. McKinney moved, with a second by Ms. Tobin to direct Executive Director to undertake a Compensation Survey with the preliminary report to be completed by August 2017 and the final report completed by October 2017.

8. STRATEGIC PLAN PROGRESS DISCUSSION

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

At the January 25, 2017 Executive Committee meeting, the Executive Committee discussed the progress on strategic plan implementation as well as the approach to updating, modifying, and reprioritizing elements of the plan. Staff solicited input from the Executive Committee on the progress of the strategic plan, and will seek input on presenting progress to the full RWA Board.

John Woodling, Executive Director, presented for discussion a Strategic Plan handout including objectives, status, RWAs role and a comment section. There was discussion on reprioritizing and modifying objectives.

After discussion, it was agreed to give the full board information from the Executive Committee on the list of accomplishments and changes or reprioritization for the Strategic Plan with Executive Committee recommendations. It was suggested that the Executive Director send the RWA Strategic Plan 2013-2018+ status report to the full board requesting comments on objectives and status.

9. MARCH 9, 2017 RWA BOARD MEETING AGENDA

M/S/C Ms. Tobin moved, with a second by Mr. Greenwood to approve the March 9, 2017 proposed RWA Board Meeting Agenda reversing the order of agenda items number 4 and 6.

10. SUBCOMMITTEE REPORTS

At the January meeting of the Executive Committee, Chair Peifer appointed three subcommittees to work on specific issues. Kerry Schmitz was appointed Chair of a Conference/Education Subcommittee that also included Rob Roscoe, Pam Tobin and Kelye McKinney. Pam Tobin, Ron Greenwood, Marcus Yasutake and John Woodling were appointed to an Office Space/Lease Subcommittee to evaluate office space options for RWA when its lease on 5620 Birdcage expires in 2018. Robert Dugan was appointed Chair of a Membership Subcommittee to evaluate and help recruit potential new members.

Ms. Schmitz reported from the Conference/Education Subcommittee. The subcommittee has discussed types of events, topics, the audience, possible speakers, potential partners or partner agencies, cost of event, duration of event and timing of event to provide educational information. It was suggested that RWA partner with other agencies who could help facilitate the event. The subcommittee will bring an update back to the Executive Committee after they have reached out to other agencies and have a better idea how an event can best be achieved. Chair Peifer was asked to join this subcommittee.

Mr. Dugan said that he would like to have direction to identify how to proceed for new RWA membership. He requested that John Woodling, Rob Roscoe and Jim Peifer join his membership subcommittee effort. The subcommittee members will meet prior to the March Executive Committee meeting.

A copy of the current RWA office lease agreement was provided to the Office Space/Lease Subcommittee. The members requested information about the office space needs for the future.

11. EXECUTIVE DIRECTOR'S REPORT

Water Efficiency Update – In 2016, the region saved 25% compared to 2013 or approximately 41.6 billion gallons. The December 2016 savings were 24% compared to December 2013. The cumulative savings for the Emergency Regulation timeframe from June 2015 through December 2016 is 28% or 78.8 billion gallons. The most current state savings information available is cumulative savings from June 2015 through December 2016 at 23% (793 billion gallons).

Grants Update – Staff is currently managing four grants totaling $30 million. RWA has received confirmation from DWR that the $25 million 2006 DWR Prop 50 Implementation Grant terms have been met. DWR is in the process of releasing the final retention on the project. In February, RWA received a commitment letter from DWR for the $250K 2016 Prop 1 Integrated Regional Water Management Planning Grant award. The grant will be used to update the American River Basin IRWM Plan to meet updated standards released in 2016.

12. DIRECTORS' COMMENTS

Mr. Greenwood reported that Carmichael Water District is becoming more involved with their community joining the Kiwanis Club and being active in their Chamber. The District will be hosting an event at the Carmichael Water District office to engage K through 12 students.

Ms. McKinney has been appointed as a Planning Commissioner for the City of Lincoln while continuing her employment with the City of Roseville.

Chair Peifer reported that Mayor Steinberg has given his nod to assemble a standing committee on utilities from the city council members at the City of Sacramento.

ADJOURNMENT

With no further business to come before the Executive Committee, Chair Peifer adjourned the meeting at 11:42 a.m.

By:

____

Chairperson

Attest:

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Nancy Marrier, Board Secretary / Treasurer

March 22, 2017

AGENDA ITEM 4: POWERHOUSE SCIENCE CENTER UPDATE

BACKGROUND:

Harry Laswell, Executive Director & CEO, Powerhouse Science Center will provide a presentation on construction progress, funding details and an updated timeline for opening the Powerhouse Science Center. In 2014, RWA agreed to sponsor two exhibits, Water Detective and Open Waters, in the new Powerhouse Science Center to be located on the riverfront in downtown Sacramento. The agreement is for $500,000, paid over the next 15 years. The new Powerhouse Science Center is expected to serve over 320,000 visitors from the Sacramento region as a center for science education, exploration and promotion of the California Capital region. Sponsorship of these two exhibits will support the Water Efficiency Program's regional school education efforts.

STAFF RECOMMENDATION:

Presentation: Harry Laswell, Powerhouse Science Center Executive Director

March 22, 2017

AGENDA ITEM 5: UPDATE ON WATER RELIABILITY PLAN

BACKGROUND:

As part of development of the Regional Water Reliability Plan, four sub-regional groups met the week of March 6 to discuss potential mitigation actions to address water supply vulnerabilities. Results of these meetings will be discussed with the larger group at the next Regional Water Reliability Plan meeting on April 12th.

STAFF RECOMMENDATION:

Presentation: Rob Swartz, Manager of Technical Services

March 22, 2017

AGENDA ITEM 6: FUNDING CalPERS PENSION LIABILITY

<u>BACKGROUND</u>:

After paying RWA's side fund in FY2012, RWA began setting aside additional funds to help pay down the unfunded CalPERS pension liability in anticipation of GASB 68. While GASB 68 did not require funding of the pension liability, the RWA Board wanted to proactively pay down the unfunded liability. The eventual plan was to pay a large $225,000 lump sum payment in fiscal year 2016, and then pay additional amounts of $25,000 to $42,000 over approximately four additional years. The plan was to pay down the unfunded liability based upon the June 30, 2013 unfunded balance of approximately $337,700[1]. While a new unfunded liability can be generated every year due to investment returns not meeting the discount rate or changes to assumptions, RWA's desire was to pay the lump sum amount known at that time.

In FY 2016, RWA did pay $225,000 to CalPERS, with $87,600 of the funds coming from SGA, sharing 39% of this liability. Additionally, the FY17 budget anticipates paying an additional $42,000 from RWA and $26,900 from SGA towards the liability.

In December 2016, CalPERS announced that the discount rate used to calculate liabilities will be reduced from 7.5% to 7.0% over a three year period. Effectively, CalPERS will recast prior obligations, assuming a lower discount rate, which then creates additional unfunded historical liabilities. While CalPERS will phase in this change in discount rate over three years, there likely may be more changes in the future to the liability, either as a result of discount rate changes or changes to other assumptions. CalPERS' initial goal was to reduce the discount rate to 6.5%, but over a longer time horizon. There will likely be more downward pressure on the discount rate in the future.

The decrease in discount rate will affect both components of RWA's CalPERS payment, increasing cash requirements of each component. The normal cost (the annual required payment of pension benefits to pay for employer current obligations for current employees generated by that year's work) and the unfunded liability amortization payment (catch up payments amortized over time from liabilities that were incurred from the time prior to the current period) will both increase. RWA and SGA will always be required to pay the normal costs, even if they have overpaid the unfunded liability.

At the February 22, 2017 EC meeting, the EC directed staff to explore alternative funding scenarios. The adopted FY18 budget anticipates additional lump sum contributions of $42,000 in FY17 & FY18, while forecasting $45,000 in FY19, $50,000

[1] Based upon CalPERS June 30, 2013 annual valuation.

in FY20, $55,000 in FY21, and $60,000 in FY22 to continue paying down the estimated new unfunded liability. Adopting the FY18 budget did not approve or adopt future payments beyond FY18.

Range of future unfunded liabilities

"Traditional" Unfunded Liability

The most recent valuation report from CalPERS is June 30, 2015 which was received in the fall of 2016. This report does not factor in any anticipated changes to the discount rate as adopted by CalPERS. Additionally, it does not factor in the splitting of the assets and liabilities between RWA and SGA[2]. However, CalPERS did provide a memo in January 2017 outlining the anticipated increased annual required contributions, expressed as percentage increases to the normal costs and funding of the unfunded amortized liability (UAL). CalPERS did not indicate what the potential unfunded liability could be as that information is different for each agency, depending upon its historical funding activity.

However, the June 30, 2015 valuation report can give a glimpse of how high this liability could be if RWA/SGA used a discount rate of 6.5% versus the adopted CalPERS rate of 7.0%. At June 30, 2015, prior to any additional lump sum contribution of $225,000, the unfunded liability at 6.5% is estimated to be $725,722 versus the liability at 7.5%, which is estimated to be $385,194, or an approximate $340,500 additional liability as result of a 1% change in discount rate[3]. RWA/SGA could "estimate" the June 30, 2016 liability as follows using 6.5% as a benchmark rate:

	Unfunded Accrued Liability @ 6.5%		Unfunded Accrued Liability @ 7.5%	
As of June 30, 2015	$725,722	(a)	$385,194	(b)
Lump Sum Payment	(225,000)	(c)	(231,778)	(d)
Additional Interest	47,172	(e)	20,355	(f)
As of June 30, 2016 estimated	$547,894	(g)	$173,771	(d)
Rounded	$548,000	(g)	$174,000	

(a) Per CalPERS June 30, 2015 Valuation report, discount rate sensitivity, page 14

[2] Since SGA's contract with CalPERS begins in FY17, separately calculated liabilities between both organizations will not be actuarially available from CalPERS until sometime in FY19. RWA and SGA can estimate this split based upon CalPERS New Agency Contract Analysis – Valuation Basis: June 30, 2014 memo dated February 17, 2016 for SGA, page 2 of 5. The split of the projected unfunded amortized liability per this memo was approximately 39% to SGA and 61% to RWA.
[3] CalPERS June 30, 2015 Valuation report, page 14, discount rate sensitivity

(b) 7.5% discount rate used for valuation. Discount rate set to decrease from 7.5% to 7.0% over a three year period.
(c) Actual RWA cash payment of additional lump sum. RWA also made the required lump sum payment, but is not included here for estimation purposes.
(d) Per the CalPERS June 30, 2015 valuation report, page 8
(e) Assumes a 6.5% rate on the beginning balance, prior to lump sum payment. Lump sum payment was made towards the end of FY16.
(f) Amount is deduced based upon CalPERS providing information data points (b) and (d).
(g) The estimated June 30, 2016 liability is based upon a 6.5% discount rate and has not been actuarially calculated. The discount rate is currently set to decrease to 7.0%, so the estimated liability calculated in the table is likely higher than the actuarially determined liability will be at 7.0%.

Based upon the above analysis, RWA's & SGA's unfunded liability is likely estimated to be less than $548,000 if CalPERS maintains a 7.0% discount rate at June 30, 2016. RWA's portion is estimated at 61% while SGA's portion is estimated at 39%. However, it is important to realize that in any investment year that does not achieve a 7.0% discount rate (or 6.5% rate), a new unfunded liability is created for that particular year to make up the short fall[4]. For example, investment earnings in FY2016 achieved less than 1% earnings **and therefore there is additional unfunded liability that is currently not reflected in the above estimates**.

Hypothetical Termination Liability

The previously estimated liability makes several assumptions, but most notably assumes that RWA will continue to make ongoing future payments into the CalPERS plan for its employees as an ongoing entity. CalPERS also calculates a hypothetical termination liability, which is discounted at lower rates than the regular unfunded liabilities. The termination liability assumes that all risk of the plan will be paid for by the plan and future shortfalls cannot be collected from the employer. The June 30, 2015 valuation report lists the termination liability as follows, based upon two different discount rates:

Unfunded Liability @ 2.0%	$2,790,433
Unfunded Liability @ 3.25%	$1,917,250

This termination liability may be a more accurate basis in estimating and allocating pension plan obligations for members who no longer wish to continue participation in the organization. Certainly this termination liability would be the basis of funding if RWA chooses to no longer exist as an organization.

[4] The new unfunded liability would be amortized over a 30 year time horizon with a 5 year ramp up phase in.

Ongoing Normal Cost obligations

The ongoing normal annual PERS payments will also increase due to the change in discount rate. The normal cost represents the estimated pension obligations of current employees at the current discount rate. Even if RWA overfunds its pension obligation, resulting in a pension "asset", RWA is still required to annually fund the normal costs. These increased estimated costs are currently factored into the FY18 adopted budget based upon the January 2017 CalPERS memo.

Cons to funding more than the required amortization of unfunded liabilities

As RWA/SGA becomes more fully funded in its pension plan obligations, it will also share a larger allocation of both investment pools earnings and losses. It is also important for all members to understand that even while paying a targeted unfunded liability, the liability changes both positively and negatively from year to year. RWA/SGA will likely never have a zero unfunded pension liability.

Next Steps to consider

1) Determine if CalPERS will accept payments in excess of currently stated unfunded liabilities. For example, if RWA wanted to fund the liabilities at the 7.0% estimated level, and CalPERS was still in transition to this rate, would they accept the payments? How would those payments be treated in future valuations?
2) Find out if CalPERS can provide an additional valuation report using a 7.0% discount rate for RWA in advance of the CalPERS scheduled timing. It may not be able to provide it since RWA is part of a risk pool which is being valued at the current valuation rate.
3) Can an independent actuary calculate the 7.0% valuation and at what cost?
4) How will members react to a large lump sum requirement to then potentially have to pay another one in the future if/when CalPERS makes new assumptions?
5) How do continued annual additional lump sum payments impact rates?
6) Can SGA also make additional lump sum payments before any valuation of its liability given that the first year of valuation for SGA will be as of June 30, 2017, effectively not receiving this information until sometime in fiscal year 2019?
7) Is a change to the Joint Powers Agreement or a Board Policy needed to clarify the obligations should agencies not continue as RWA members.

STAFF RECOMMENDATION:

Discussion: Provide staff additional direction in regards to the approach to paying the unfunded liability.

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

August 2016

MISCELLANEOUS PLAN OF THE REGIONAL WATER AUTHORITY
(CalPERS ID: 6065061198)
Annual Valuation Report as of June 30, 2015

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2015 actuarial valuation report of the pension plan.

Because this plan is in a risk pool, the following valuation report has been separated into two sections:

- Section 1 contains specific information for the plan including the development of the current and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to the plan as of June 30, 2015.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov). From the home page, go to "*Forms & Publications*" and select "*View All*". In the search box, enter "*Risk Pool Report*" and from the results list download the Miscellaneous or Safety Risk Pool Actuarial Valuation Report as appropriate.

Your June 30, 2015 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your assigned CalPERS staff actuary, whose signature appears in the Actuarial Certification section on page 1, is available to discuss the report with you after August 31, 2016.

Future Employer Contribution

Fiscal Year	Employer Normal Cost Rate	+	Employer Payment of Unfunded Liability
2017-18	9.096%		$7,194
2018-19 (projected)	9.1%		$11,243

The exhibit above displays the minimum employer contributions, before any cost sharing, for Fiscal Year 2017-18 along with estimates of the contributions for Fiscal Year 2018-19. The total employer contribution is the sum of a Normal Cost Rate applied to reported payroll plus an Unfunded Liability dollar payment. The estimated contributions for Fiscal Year 2018-19 are based on a projection of the most recent information we have available, including an estimated 0.0 percent investment return for Fiscal Year 2015-16 (based on the year to date return through April 30, 2016).

For a projection of employer contributions beyond Fiscal Year 2018-19, please refer to the "Projected Employer Contributions" in the "Highlights and Executive Summary" section. This 5-year projection of future employer contributions supersedes any previous projections we have provided. The "Risk Analysis" section of the valuation report also contains estimated employer contributions in future years under a variety of investment return scenarios. Member contributions, other than cost sharing, are in addition to the above amounts. The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees.

The estimates for Fiscal Year 2018-19 also assume that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) This is an important assumption because these gains and losses do occur and can have a significant effect on required contributions. Even for the largest plans or pools, such gains and losses can impact the employer's contributions. These gains and losses cannot be predicted in advance so the projected employer contributions are estimates. The actual required employer contribution for Fiscal Year 2018-19 will be provided in next year's valuation report.

Changes since the Prior Year's Valuation

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. The policy has no impact on the current year valuation results but is expected to have an impact in future years. More details on the Risk Mitigation Policy can be found on our website.

Besides the above noted changes, there may also be changes specific to the plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their results, we ask that you wait until after August 31 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (888-**225-7377**).

Sincerely,

ALAN MILLIGAN
Chief Actuary

ACTUARIAL VALUATION
as of June 30, 2015

for the
MISCELLANEOUS PLAN
of the
REGIONAL WATER AUTHORITY
(CalPERS ID: 6065061198)

REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR
July 1, 2017 - June 30, 2018

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Section 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Specific Information for the MISCELLANEOUS PLAN of the REGIONAL WATER AUTHORITY

(CalPERS ID: 6065061198)
(Rate Plan: 1719)

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ACTUARIAL CERTIFICATION

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2015 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2015 provided by employers participating in the Miscellaneous Risk Pool to which the plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the pool actuary has certified that, in their opinion, the valuation of the risk pool containing your MISCELLANEOUS PLAN has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the risk pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for the plan, it is my opinion as the plan actuary that the side fund and other Unfunded Accrued Liability bases as of June 30, 2015 and employer contribution as of July 1, 2017, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, who is a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

MAY SHUANG YU, ASA, MAAA
Senior Pension Actuary, CalPERS
Plan Actuary

HIGHLIGHTS AND EXECUTIVE SUMMARY

- INTRODUCTION
- PURPOSE OF SECTION 1
- REQUIRED EMPLOYER CONTRIBUTION
- PLAN'S FUNDED STATUS
- PROJECTED EMPLOYER CONTRIBUTIONS
- CHANGES SINCE THE PRIOR YEAR VALUATION
- SUBSEQUENT EVENTS

Introduction

This report presents the results of the June 30, 2015 actuarial valuation of the MISCELLANEOUS PLAN of the REGIONAL WATER AUTHORITY of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the required employer contributions for Fiscal Year 2017-18.

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. The Risk Mitigation Policy does not have an impact on the current year actuarial valuation. More details on the Risk Mitigation Policy can be found on our website.

Purpose of Section 1

This Section 1 report for the MISCELLANEOUS PLAN of the REGIONAL WATER AUTHORITY of the California Public Employees' Retirement System (CalPERS) was prepared by the plan actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2015;
- Determine the required employer contribution for this plan for the fiscal year July 1, 2017 through June 30, 2018; and
- Provide actuarial information as of June 30, 2015 to the CalPERS Board of Administration and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to GASB Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available from CalPERS and details for ordering are available on our website.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 8.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1 percent plus or minus change in the discount rate.

Required Employer Contribution

Required Employer Contribution		Fiscal Year 2016-17 [1]		Fiscal Year 2017-18
Employer Normal Cost Rate		**9.055%**		**9.096%**
Plus Either				
1) Monthly Employer Dollar UAL Payment	**$**	**1,342.24**	**$**	**599.53**
Or				
2) Annual Lump Sum Prepayment Option	**$**	**15,535**	**$**	**6,939**

*The total minimum required employer contribution is the **sum** of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars). Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change. § 20572 of the Public Employees' Retirement Law assesses interest at an annual rate of 10 percent if a contracting agency fails to remit the required contributions when due.*

		Fiscal Year 2016-17 [1]		Fiscal Year 2017-18
Development of Normal Cost as a Percentage of Payroll				
Base Total Normal Cost for Formula		15.263%		15.314%
Surcharge for Class 1 Benefits[3]				
a) PRSA		0.678%		0.678%
Phase out of Normal Cost Difference[4]		0.000%		0.000%
Plan's Total Normal Cost		15.941%		15.992%
Formula's Expected Employee Contribution Rate		6.886%		6.896%
Employer Normal Cost Rate		9.055%		9.096%
Projected Payroll for the Contribution Fiscal Year	$	618,812	$	648,131
Estimated Employer Contributions Based on Projected Payroll				
Plan's Estimated Employer Normal Cost	$	56,032	$	58,954
Plan's Payment on Amortization Bases[2]		16,107		7,194
Total Employer Contribution[5]	$	72,139	$	66,148

[1] The results shown for Fiscal Year 2016-17 reflect the prior year valuation and do not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2015.

[2] See page 8 for a breakdown of the Amortization Bases.

[3] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[4] The normal cost difference is phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

[5] As a percentage of projected payroll the UAL contribution is 1.110 percent for an estimated total employer contribution rate of 10.206 percent.

Plan's Funded Status

		June 30, 2014		June 30, 2015
1. Present Value of Projected Benefits (PVB)	$	2,730,333	$	2,957,706
2. Entry Age Normal Accrued Liability (AL)		2,021,324		2,248,191
3. Plan's Market Value of Assets (MVA)		1,732,042		1,862,997
4. Unfunded Accrued Liability (UAL) [(2) - (3)]		289,282		385,194
5. Funded Ratio [(3) / (2)]		85.7%		82.9%

Projected Employer Contributions

The estimate for Fiscal Year 2018-19 is based on a projection of the most recent information we have available, including an estimated 0.0 percent investment return for Fiscal Year 2015-16 (based on year to date return through April 30, 2016).

The table below shows projected employer contributions (before cost sharing) for the next five fiscal years, ***assuming CalPERS earns 0.0 percent for Fiscal Year 2015-16 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the projection period.

	Required Contribution	Projected Future Employer Contributions				
Fiscal Year	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Normal Cost %	9.096%	9.1%	9.1%	9.1%	9.1%	9.1%
UAL $	$7,194	$11,243	$15,529	$20,062	$24,852	$28,144

Changes since the Prior Year's Valuation

Benefits

None. This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to the "Plan's Major Benefit Options" and Appendix B of Section 2 for a summary of the plan provisions used in this valuation.

Actuarial Methods and Assumptions

None.

Subsequent Events

Risk Mitigation

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. More details on the Risk Mitigation Policy can be found on our website.

ASSETS AND LIABILITIES

- **ALLOCATION OF PLAN'S SHARE OF POOL'S EXPERIENCE/ASSUMPTION CHANGE**
- **DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA**
- **SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES**
- **30-YEAR AMORTIZATION SCHEDULE AND ALTERNATIVES**
- **EMPLOYER CONTRIBUTION HISTORY**
- **FUNDING HISTORY**

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1.	Plan's Accrued Liability	$	2,248,191
2.	Projected UAL balance at 6/30/15		291,356
3.	Pool's Accrued Liability	$	13,889,938,645
4.	Sum of Pool's Individual Plan UAL Balances at 6/30/15		2,423,468,906
5.	Pool's 2014/15 Investment & Asset (Gain)/Loss		596,365,421
6.	Pool's 2014/15 Other (Gain)/Loss		(49,030,273)
7.	Plan's Share of Pool's Asset (Gain)/Loss [(1)-(2)]/[(3)-(4)] * (5)		101,774
8.	Plan's Share of Pool's Other (Gain)/Loss [(1)]/[(3)] * (6)		(7,936)
9.	Plan's New (Gain)/Loss as of 6/30/2015 [(7)+(8)]	$	93,838
10.	Increase in Pool's Accrued Liability due to Change in Assumptions		0
11.	Plan's Share of Pool's Change in Assumptions [(1)]/[(3)] * (10)	$	0

Development of the Plan's Share of Pool's Market Value of Assets

1.	Plan's Accrued Liability	$	2,248,191
2.	Plan's UAL	$	385,194
3.	Plan's Share of Pool's MVA [(1)-(2)]	$	**1,862,997**

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the valuation date and the start of the contribution fiscal year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2015.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date: Fiscal Year 2017-18.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the payment on the UAL for the fiscal year and adjusting for interest.

							Amounts for Fiscal 2017-18	
Reason for Base	Date Established	Amortization Period	Balance 6/30/15	Payment 2015-16	Balance 6/30/16	Payment 2016-17	Balance 6/30/17	Scheduled Payment for 2017-18
FRESH START	06/30/14	19	$291,356	$231,778	$72,895	$5,504	$72,655	$5,669
NON-ASSET (GAIN)/LOSS	06/30/15	30	$(7,936)	$0	$(8,531)	$0	$(9,171)	$(129)
ASSET (GAIN)/LOSS	06/30/15	30	$101,774	$0	$109,407	$0	$117,613	$1,654
TOTAL			**$385,194**	**$231,778**	**$173,771**	**$5,504**	**$181,097**	**$7,194**

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed on the previous page. These (gain)/loss bases will be amortized according to Board policy over 30 years with a 5-year ramp-up.

If the total Unfunded Liability is negative (i.e., plan has a surplus), the scheduled payment is $0, because the minimum required contribution under PEPRA must be at least equal to the normal cost.

30-Year Amortization Schedule and Alternatives

The amortization schedule on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze the current amortization schedule and illustrate the advantages of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternate "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. Note that the payments under each alternate scenario increase by 3 percent for each year into the future. The schedules do not attempt to reflect any experience after June 30, 2015 that may deviate from the actuarial assumptions. Therefore, future amortization payments displayed in the Current Amortization Schedule may not match projected amortization payments shown in connection with Projected Employer Contributions provided elsewhere in this report.

The Current Amortization Schedule typically contains individual bases that are both positive and negative. Positive bases result from plan changes, assumption changes or plan experience that result in increases to unfunded liability. Negative bases result from plan changes, assumption changes or plan experience that result in decreases to unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years such as:

- A positive total unfunded liability with a negative total payment,
- A negative total unfunded liability with a positive total payment, or
- Total payments that completely amortize the unfunded liability over a very short period of time

In any year where one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over a reasonable period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy. For purposes of this display, total payments include any negative payments. Therefore, the amount of estimated savings may be understated to the extent that negative payments appear in the current schedule.

30-Year Amortization Schedule and Alternatives

			Alternate Schedules			
	Current Amortization Schedule		25 Year Amortization		20 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2017	181,097	7,194	181,097	11,970	181,097	13,674
6/30/2018	187,220	8,981	182,269	12,329	180,502	14,084
6/30/2019	191,950	10,869	183,157	12,698	179,437	14,507
6/30/2020	195,077	12,861	183,728	13,079	177,854	14,942
6/30/2021	196,373	14,964	183,946	13,472	175,701	15,390
6/30/2022	195,586	15,413	183,774	13,876	172,922	15,852
6/30/2023	194,275	15,875	183,170	14,292	169,456	16,327
6/30/2024	192,385	16,352	182,090	14,721	165,237	16,817
6/30/2025	189,861	16,842	180,483	15,163	160,193	17,322
6/30/2026	186,638	17,347	178,299	15,618	154,248	17,841
6/30/2027	182,650	17,868	175,478	16,086	147,319	18,376
6/30/2028	177,823	18,404	171,961	16,569	139,315	18,928
6/30/2029	172,078	18,956	167,679	17,066	130,138	19,496
6/30/2030	165,330	19,525	162,561	17,578	119,685	20,080
6/30/2031	157,486	20,110	156,528	18,105	107,842	20,683
6/30/2032	148,447	20,714	149,496	18,648	94,486	21,303
6/30/2033	138,104	21,335	141,374	19,208	79,484	21,942
6/30/2034	126,342	21,975	132,062	19,784	62,695	22,601
6/30/2035	113,033	22,634	121,455	20,377	43,964	23,279
6/30/2036	98,043	13,373	109,436	20,989	23,126	23,977
6/30/2037	91,531	13,774	95,882	21,618		
6/30/2038	84,115	14,187	80,659	22,267		
6/30/2039	75,714	14,613	63,622	22,935		
6/30/2040	66,242	15,051	44,614	23,623		
6/30/2041	55,605	15,502	23,467	24,332		
6/30/2042	43,702	15,968				
6/30/2043	30,424	13,157				
6/30/2044	19,065	10,164				
6/30/2045	9,956	6,979				
6/30/2046	3,467	3,594				
Totals		**454,580**		**436,400**		**367,421**
Estimated Savings				**18,180**		**87,159**

Current CalPERS Board policy prioritizes the order for which lump sum contributions in excess of the required employer contribution shall be applied. Excess contributions shall first be applied toward payment on the plan's side fund, and any remainder shall then be applied toward the plan's share of the pool's unfunded accrued liability.

Please contact the plan actuary before making such a payment to ensure that the payment is applied correctly.

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made during a fiscal year.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment ($)
2016 - 17	9.055%	16,107
2017 - 18	9.096%	7,194

Funding History

The funding history below shows the plan's actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	$ 1,454,090	$ 1,127,264	$ 326,826	77.5%	$ 482,205
06/30/2012	1,550,702	1,140,250	410,452	73.5%	447,990
06/30/2013	1,802,935	1,465,238	337,697	81.3%	609,451
06/30/2014	2,021,324	1,732,042	289,282	85.7%	566,301
06/30/2015	2,248,191	1,862,997	385,194	82.9%	593,132

RISK ANALYSIS

- ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS
- ANALYSIS OF DISCOUNT RATE SENSITIVITY
- VOLATILITY RATIOS
- HYPOTHETICAL TERMINATION LIABILITY

Analysis of Future Investment Return Scenarios

The investment return for Fiscal Year 2015-16 was not known at the time this report was produced. The investment return in Fiscal Year 2015-16 as of April 30, 2016 is 0.0 percent before administrative expenses. For purposes of projecting future employer contributions, we are assuming a 0.0 percent investment return for Fiscal Year 2015-16.

The investment return realized during a fiscal year first affects the contribution for the fiscal year two years later. For example, the investment return for Fiscal Year 2015-16 will first be reflected in the June 30, 2016 actuarial valuation that will be used to set the Fiscal Year 2018-19 employer contributions, the Fiscal Year 2016-17 investment return will first be reflected in the June 30, 2017 actuarial valuation that will be used to set the Fiscal Year 2019-20 employer contributions, and so forth.

A sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2016-17, 2017-18, and 2018-19 on the employer contributions for fiscal years 2019-20, 2020-21, and 2021-22. The projected contributions assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is a -3.8 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 5th percentile return from July 1, 2016 through June 30, 2019.
- The second scenario is a 2.8 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 25th percentile return from July 1, 2016 through June 30, 2019.
- The third scenario is a 7.5 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 49th percentile return from July 1, 2016 through June 30, 2019.
- The fourth scenario is a 12.0 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 75th percentile return from July 1, 2016 through June 30, 2019.
- Finally, the last scenario is an 18.9 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 95th percentile return from July 1, 2016 through June 30, 2019.

The table below shows the estimated projected contributions and the estimated increases for the plan under the five different scenarios.

2016-19 Investment Return Scenario	Fiscal Year			Estimated Change Between 2018-19 and 2021-22
	2019-20	2020-21	2021-22	
(3.8%)				
Normal Cost	9.1%	9.1%	9.1%	0.0%
UAL Contribution	$18,923	$30,301	$45,461	$34,218
2.8%				
Normal Cost	9.1%	9.1%	9.1%	0.0%
UAL Contribution	$16,941	$24,414	$33,801	$22,558
7.5%				
Normal Cost	9.1%	9.1%	9.1%	0.0%
UAL Contribution	$15,529	$20,062	$24,852	$13,609
12.0%				
Normal Cost	9.3%	9.5%	9.7%	0.6%
UAL Contribution	$14,380	$16,446	$17,210	$5,967
18.9%				
Normal Cost	9.7%	10.2%	10.8%	1.7%
UAL Contribution	$12,745	$0	$0	$(11,243)

For the last two scenarios in the table above the results incorporate the impact of CalPERS Risk Mitigation Policy. A 12.0% return would result in a reduction of the discount rate by 0.05% and a return of 18.9% would reduce the discount rate by 0.15%. Reducing the discount rate increases both the plan's accrued liability and normal cost. More details about Risk Mitigation policy can be found on our website.

Analysis of Discount Rate Sensitivity

The following analysis looks at the Fiscal Year 2017-18 total normal cost rates and liabilities under two different discount rate scenarios. Shown below are the total normal cost rates assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis shows the potential plan impacts if the Public Employees' Retirement Fund (PERF) were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This analysis is intended to illustrate the long-term risk to the contribution rates.

Sensitivity Analysis			
As of June 30, 2015	**6.50% Discount Rate (-1%)**	**7.50% Discount Rate (assumed rate)**	**8.50% Discount Rate (+1%)**
Plan's Total Normal Cost	19.8%	16.0%	13.1%
Accrued Liability	$2,588,719	$2,248,191	$1,968,863
Unfunded Accrued Liability	$725,722	$385,194	$105,866

Volatility Ratios

Actuarial calculations are based on a number of assumptions about long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset-to-payroll ratio of 4. Shown below is the asset volatility ratio, a measure of the plan's current contribution volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return and changes in liability. For example, a plan with a liability-to-payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability-to-payroll ratio of 4. The liability volatility ratio is also shown in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility. The asset volatility ratio, described above, will tend to move closer to the liability volatility ratio as the plan matures.

Rate Volatility		**As of June 30, 2015**
1. Market Value of Assets	$	1,862,997
2. Payroll		593,132
3. Asset Volatility Ratio (AVR) [(1) / (2)]		3.1
4. Accrued Liability	$	2,248,191
5. Liability Volatility Ratio (LVR) [(4) / (2)]		3.8

Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2015. The plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For the hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while funding risk is limited. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 2-year period centered around the valuation date.

Market Value of Assets (MVA)	Hypothetical Termination Liability[1,2] @ 2.00%	Funded Status	Unfunded Termination Liability @ 2.00%	Hypothetical Termination Liability[1,2] @ 3.25%	Funded Status	Unfunded Termination Liability @ 3.25%
$1,862,997	$4,653,430	40.0%	$2,790,433	$3,780,147	49.3%	$1,917,150

[1] The hypothetical liabilities calculated above include a 7 percent mortality contingency load in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in Appendix A.

[2] The current discount rate assumption used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.75 percent on June 30, 2015.

In order to terminate the plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to terminate. The completed Resolution will allow the plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. CalPERS advises you to consult with the plan actuary before beginning this process.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2014	June 30, 2015
Reported Payroll	$ 566,301	$ 593,132
Projected Payroll for Contribution Purposes	$ 618,812	$ 648,131
Number of Members		
Active	6	6
Transferred	4	4
Separated	1	1
Retired	4	4

List of Class 1 Benefit Provisions

This plan has the additional Class 1 Benefit Provisions:

- Post-Retirement Survivor Allowance (PRSA)

PLAN’S MAJOR BENEFIT OPTIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

	Contract package		
Benefit Provision	Active Misc	Receiving Misc	
Benefit Formula	2.0% @ 55		
Social Security Coverage	Yes		
Full/Modified	Full		
Employee Contribution Rate	7.00%		
Final Average Compensation Period	Three Year		
Sick Leave Credit	Yes		
Non-Industrial Disability	Standard		
Industrial Disability	No		
Pre-Retirement Death Benefits			
Optional Settlement 2W	Yes		
1959 Survivor Benefit Level	No		
Special	No		
Alternate (firefighters)	No	No	
Post-Retirement Death Benefits			
Lump Sum	$500	$500	
Survivor Allowance (PRSA)	Yes	Yes	
COLA	2%	2%	

Section 2

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) in the Forms and Publications section

March 22, 2017

AGENDA ITEM 7: LEGISLATIVE AND REGULATORY UPDATE

BACKGROUND:

RWA staff will update the Executive Committee on legislative and regulatory issues including:

- Long-Term Water Use Efficiency Legislation
- Proposition 218 - SCA 4 (Hertzberg)
- SWRCB Lead Sampling of Drinking Water in California Schools Initiative

RWA staff will also provide an update on Lobbyist Subscription Program activities, membership, and recommended positions/priorities on legislation.

STAFF RECOMMENDATION:

Information Presentation: Adam Robin, Legislative and Regulatory Affairs Program Manager

Action: Adopt Bill Positions

RWA Bill Position Recommendations for 3/22/17 Executive Committee meeting

AB 313 (**Gray** D) **Water.**
Introduced: 2/6/2017
Summary:
Current law establishes the State Water Resources Control Board in the California Environmental Protection Agency consisting of 5 members appointed by the Governor, including one member required to be an attorney admitted to practice law in this state who is qualified in the fields of water supply and water rights and one registered civil engineer under the laws of this state qualified in the fields of water supply and water rights. This bill would revise the qualifications for the membership to the board by eliminating those requirements for qualification in the field of water rights.

Position: Not Yet Considered
Misc1: ACWA Watch
Notes 1: As introduced, AB 313 would:
-Revise the qualifications for membership to the SWRCB.
-Transfer authority over specific water rights matters from the SWRCB to DWR.
-Eliminate the duty of the SWRCB to take all appropriate proceedings or actions to prevent waste, unreasonable use, unreasonable method of use, or unreasonable method of diversion of water in this state.
-Establish a "Water Rights Division" within the Office of Administrative Hearings.
-Establish within the Natural Resources Agency the "State Water Project Commission," consisting of nine members appointed by the Governor and subject to confirmation by the Senate. The bill would transfer authority over and relating to the State Water Project from DWR to the Commission.
-Transfer the SWRCB's authority under SGMA to DWR.

This bill, if enacted, would bring about substantial changes--and introduce considerable uncertainties--in the administration of California's water rights system, the operations of the State Water Project, and ongoing implementation of SGMA.

RECOMMENDATION: WATCH

AB 321 (**Mathis** R) **Groundwater sustainability plans.**
Introduced: 2/7/2017
Summary:
The Sustainable Groundwater Management Act requires that all groundwater basins that are designated as basins subject to critical conditions of overdraft to be managed under a groundwater sustainability plan or coordinated groundwater sustainability plans by January 31, 2020, and requires all other groundwater basins designated as high- or medium-priority basins to be managed under a groundwater sustainability plan or coordinated groundwater sustainability plans by January 31, 2022, except as specified. This bill would require the groundwater sustainability agency to solicit the participation of farmers, ranchers, and other qualified professionals within the groundwater basin prior to and during the development and implementation of the plan.

Position: Not Yet Considered
Misc1: ACWA NOT FAVOR
Notes 1: Under SGMA, GSAs are required to "encourage the active involvement of diverse social, cultural, and economic elements of the population within the groundwater basin prior to and during the development and implementation of the groundwater sustainability plan." (Water Code sec. 10727.8(a).)

As introduced, AB 321 would specifically require GSAs to "solicit the participation of farmers, ranchers, and other qualified professionals" during GSP development and implementation. As a result, this bill may create additional planning and coordination responsibilities for GSAs. Additionally, as noted in the ACWA analysis of AB 321, "When Governor Brown signed SGMA into law in 2014, he stated that the central feature of the law is the recognition that groundwater management in California is best accomplished locally. Local agencies have the power to assess the conditions of their local groundwater basins. Local agencies also know better who to reach out to and how to encourage the involvement of local interested parties that would like to participate in the development and implementation of a GSP in the basin."

RECOMMENDATION: WATCH

AB 574 **(Quirk D) Potable reuse.**
Introduced: 2/14/2017
Summary:
Current law required the State Department of Public Health to develop and adopt uniform water recycling criteria for surface water augmentation, as defined, by December 31, 2016. Current law defined the terms "direct potable reuse," "indirect potable reuse for groundwater recharge," and "surface water augmentation" for these purposes. This bill would remove certain references to "direct potable reuse," "indirect potable reuse for groundwater recharge," and "surface water augmentation," and would instead specify the four different types of potable reuse projects as "potable reuse through groundwater augmentation," "potable reuse through reservoir augmentation," " potable reuse through raw water augmentation," and "potable reuse through treated water augmentation."

Position: Not Yet Considered
Notes 1: As introduced, AB 574 would modify definitions applied to various types of recycled water projects. This bill would also require the SWRCB to establish a framework for the regulation of potable reuse projects that includes specified elements by June 1, 2018, and require the SWRCB to adopt uniform water recycling criteria for potable reuse through raw water augmentation by December 31, 2021.

WateReuse California is the sponsor of AB 574.

RECOMMENDATION: WATCH

AB 793 **(Frazier D) Sacramento-San Joaquin Delta: financing.**
Introduced: 2/15/2017
Summary:
Would declare it to be state policy that the natural state of the Sacramento-San Joaquin Delta is recognized and defined as an integral component of California's water infrastructure. The bill would state that the maintenance and repair of the Delta are eligible for the same forms of financing as other water collection and treatment infrastructure and would specify the maintenance and repair activities that are eligible are limited to certain cleanup and abatement-related restoration and conservation activities.

Position: Not Yet Considered
Notes 1: As introduced, AB 793 would provide that "the maintenance and repair of the Delta is eligible for the same forms of financing as other water collection and treatment infrastructure." "Eligible maintenance and repair activities" would be limited to:
(1) Cleanup and abatement of toxic or hazardous waste spilled into or exposed in any way to the Delta's recognized waters or hydrology.
(2) Cleanup and abatement of marine debris, solid waste, and abandoned vessels of any kind.
(3) Habitat restoration or conservation in addition to, but not exclusive of, any other habitat conservation plan.
(4) Water quality improvement projects that protect or enhance the quality of water in the Delta for human and environmental purposes, reduce salinity, prevent seawater intrusion into the Delta, or improve freshwater flows into the Delta.
(5) Projects with a demonstrated likelihood of improving conditions of the water and ecosystems in the Delta for the benefit of humans and the environment.

RECOMMENDATION: WATCH

AB 885 **(Rubio D) Pupil health: drinking water: lead.**
Introduced: 2/16/2017
Summary:
Would require a public or private school to ensure that drinking water is provided at the school that meets the United States Environmental Protection Agency drinking water standards for lead. The bill would require a public or private school, on or before February 1, 2018, to request water quality testing, including lead testing, from the State Water Resources Control Board, and would require the state board to perform or provide for the performance of the requested testing on or before November 1, 2019.

Position: Not Yet Considered
Misc1: ACWA Watch
Notes 1: From the ACWA analysis: "As introduced, this bill would require a public or private school to ensure that drinking water provided at the school meets the [U.S. EPA] drinking water standards for

lead. The bill would require a public or private school, on or before February 1, 2018, to request water quality testing, including testing for lead, from the [SWRCB]. The bill would require the [SWRCB] to perform or provide for the performance of the requested testing on or before November 1, 2019. If this testing reveals that a school has drinking water that does not meet the U.S. EPA's drinking water standards for lead, the bill would require the school, contingent upon the school receiving a grant or other external source of funding, to replace any water pipes that are contributing to exposure to lead."

It is possible that the SWRCB's mechanism to "provide for the performance of testing" would involve the domestic water supply permit amendments issued to community water systems in January 2017.

Asm. Rubio is the author of RWA's sponsored legislation, AB 968 and AB 1654.

RECOMMENDATION: WATCH

AB 975 **(Friedman D) Natural resources: wild and scenic rivers.**
Introduced: 2/16/2017
Summary:
Current law establishes that it is the policy of the state that certain rivers that possess extraordinary scenic, recreational, fishery, or wildlife values shall be preserved in their free-flowing state, together with their immediate environments, for the benefit and enjoyment of the people of the state. This bill would revise that policy to specify that certain rivers that possess scenic, recreational, fishery, wildlife, historical, cultural, geological, ecological, hydrological, botanical, or other values shall be preserved in their free-flowing state, together with their immediate environments, for the benefit and enjoyment of the people of the state, and would revise the definition of "immediate environments," and define the term "extraordinary value" for purposes of that policy.

Position: Not Yet Considered
Notes 1: As introduced, AB 975 would expand the categories of extraordinary values identified in the California Wild and Scenic Rivers Act's legislative declaration of policy. This bill would also:
-Redefine "Immediate environments" as the corridor of land within one-quarter mile of a designated Wild and Scenic river segment. The existing definition is "land immediately adjacent to a designated segment."
-Introduce a definition of "extraordinary value" as "a natural, cultural, or similar value that is outstanding or remarkable in a local, regional, or statewide context."

The expansion of the definition of "immediate environments" from "land immediately adjacent" to a "corridor of land within a one-quarter mile" may impose new requirements or planning considerations on agencies that operate on or near designated Wild and Scenic river segments.

RECOMMENDATION: OPPOSE

AB 1323 **(Weber D) Sustainable water use and demand reduction: stakeholder workgroup.**
Introduced: 2/17/2017
Summary:
Would require the Department of Water Resources to convene a stakeholder workgroup with prescribed representatives invited to participate, including, among others, representatives of the department and the State Water Resources Control Board, no later than February 1, 2018. The bill would require the stakeholder workgroup to develop, evaluate, and recommend proposals for establishing new water use targets for urban water suppliers and to examine and report to the Governor and the Legislature by December 31, 2018, as specified.

Position: Not Yet Considered
Notes 1: AB 1323 is sponsored by the San Diego County Water Authority. RWA staff have engaged SDCWA staff regarding support/co-sponsorship of AB 968.

RECOMMENDATION: WATCH

AB 1420 **(Aguiar-Curry D) Water rights: small irrigation use: lake or streambed alteration agreements.**
Introduced: 2/17/2017
Summary:
Would require the State Water Resources Control Board to give priority to adopting, on or before June 30, 2021, except as provided, general conditions that permit a registrant to store water for small irrigation use during times of high streamflow in exchange for the registrant reducing diversions during periods of low streamflow, as specified. The bill would require that the actions of the board under these provisions be deemed an action taken for the protection of the environment for purposes of

specified California Environmental Quality Act guidelines, if those actions do not result in the relaxation of streamflow standards.

Position: Not Yet Considered
Notes 1: RECOMMENDATION: WATCH

AB 1490 (**Gray** D) **State Water Resources Control Board: school drinking water.**
Introduced: 2/17/2017
Summary:
Would require the State Water Resources Control Board, before adopting or approving a water quality control plan, water quality objectives, or a program of implementation, to evaluate impacts on primary drinking water standards and secondary drinking water standards for, and impacts on groundwater basins that provide drinking water to, impacted local education agencies located in whole or in part in a disadvantaged community. The bill, if the state board finds any defined significant effect in this evaluation, would prohibit the state board from adopting a statement of overriding consideration.

Position: Not Yet Considered
Notes 1: In addition to the provisions detailed above, AB 1490 would define "significant effect" as "a substantial or potentially substantial adverse change."

Asm. Gray has been outspoken in his criticism of Phase I of the SWRCB's Bay-Delta Water Quality Control Plan.

RECOMMENDATION: WATCH

AB 1605 (**Caballero** D) **Maximum contaminant levels: nitrate: replacement water.**
Introduced: 2/17/2017
Summary:
Would deem a person that causes or permits, or threatens to cause or permit, any waste to be discharged that contributes to the exceedance of the maximum contaminant level for nitrate in drinking water to not have caused pollution or a nuisance or to not be liable for negligence or trespass, as specified, if the person or entity takes certain actions relating to replacement water until the maximum contaminant level for nitrate is no longer exceeded.

Position: Not Yet Considered
Notes 1: As introduced, the application of the provisions of AB 1605 to any "person or entity that causes or permits, or threatens to cause or permit, any waste to be discharged that contributes to the exceedance of the maximum contaminant level for nitrate" may be overly broad.

RECOMMENDATION: WATCH

AB 1667 (**Friedman** D) **Urban water suppliers: landscape water meters.**
Introduced: 2/17/2017
Summary:
Would require an urban water supplier to install dedicated landscape water meters on commercial, institutional, industrial, and multifamily service connections that are located in its service area on or before January 1, 2020, if the property has greater than 1,000 square feet of irrigated landscape, and on or before January 1, 2025, if the property has greater than 500, but less than 1,001, square feet of irrigated landscape.

Position: Not Yet Considered
Notes 1: Full Legislative Counsel Digest: "Existing law, the Water Measurement Law, generally requires the installation of a water meter as a condition of new water service on and after January 1, 1992. The law, with certain exceptions, requires an urban water supplier to install water meters on all municipal and industrial service connections that are located in its service area on or before January 1, 2025. Existing law requires a water purveyor to require as a condition of new retail water service on and after January 1, 2008, the installation of separate water meters to measure the volume of water used exclusively for landscape purposes, as prescribed.

This bill would require an urban water supplier to install dedicated landscape water meters on commercial, institutional, industrial, and multifamily service connections that are located in its service area on or before January 1, 2020, if the property has greater than 1,000 square feet of irrigated landscape, and on or before January 1, 2025, if the property has greater than 500, but less than 1,001, square feet of irrigated landscape. The bill would require an urban water supplier to install dedicated landscape water meters on single-family residential service connections that are located in its service area on or before January 1, 2030, if the property has greater than 5,000 square feet of irrigated landscape. The bill would authorize an urban water supplier to waive these requirements for a customer that, before January 1, 2018, has installed one or more separate submeters that exclusively measure all water usage for irrigated landscape and that agrees to provide water consumption data recorded by the submeter at least annually to the urban water supplier. This bill would exempt from these requirements a service connection where a separate water meter for landscape purposes is required by existing law as a condition of new retail water service."

In conversations with the author's office, staff have indicated a willingness to discuss amendments to the milestone dates included in the bill as introduced, as well as to address issues associated with economic feasibility and cost effectiveness.

RECOMMENDATION: OPPOSE

AB 1668 **(Friedman D)** **Water conservation: guidelines.**
Introduced: 2/17/2017
Summary:
Executive Order B-37-16, among other things, requires the Department of Water Resources to work with the State Water Resources Control Board to develop new water use targets as a part of a permanent framework for urban water agencies. This bill would require the state board, on or before July 1, 2018, in consultation with the department and other appropriate state agencies, to adopt water conservation guidelines that are consistent with a specified report issued in response to Executive Order B-37-16.

Position: Not Yet Considered
Notes 1: As introduced, AB 1668 would require the SWRCB, in consultation with DWR and "other appropriate state agencies," to adopt water conservation guidelines that are consistent with the framework described in "Making Water Conservation a California Way of Life."

As of March 10, 2017, the final Administration framework has not been released. The November 2016 draft framework identifies both "directives [to be] implemented within existing authorities" and "recommendation that require new and expanded authorities to implement." It is not clear whether this bill is intended to direct agencies to adopt "conservation guidelines" consistent with the framework where they are within agencies' existing authorities, or if it is intended as a blanket grant of authority to agencies implement all elements of the framework. The term "conservation guidelines" is not used in the draft framework and is not defined by this bill.

The author's office has indicated that they will be meeting with the Administration to discuss the use of AB 1668/1669 as vehicles for the Administration's framework.

RECOMMENDATION: OPPOSE

AB 1669 **(Friedman D)** **Urban water use efficiency.**
Introduced: 2/17/2017
Summary:
Would, on or before January 1, 2019, would require the State Water Resources Control Board, in consultation with the Department of Water Resources and other appropriate state agencies, to establish and adopt a process to increase urban water use efficiency through incremental urban water use efficiency targets and in that regard to establish an urban water use efficiency target to be achieved by the state by January 1, 2025. The bill would require the state board to update its urban water use efficiency target every 5 years.

Position: Not Yet Considered
Notes 1: As introduced, AB 1669 would require the SWRCB to establish an "urban water use efficiency target" to be achieved by 2025 and grant permanent authority to the SWRCB to update its urban water use efficiency target every five years thereafter.

The author's office has indicated that they will be meeting with the Administration to discuss the use of AB 1668/1669 as vehicles for the Administration's framework.

RECOMMENDATION: OPPOSE

SB 49 **(De León D)** **California Environmental, Public Health, and Workers Defense Act of 2017.**
Introduced: 12/5/2016

Last Amended: 2/22/2017
Summary:
The Porter-Cologne Water Quality Control Act regulates the discharge of pollutants into the waters of the state. The California Safe Drinking Water Act establishes standards for drinking water and regulates drinking water systems. The California Endangered Species Act requires the Fish and Game Commission to establish a list of endangered species and a list of threatened species and generally prohibits the taking of those species. The Protect California Air Act of 2003 prohibits air quality management districts and air pollution control districts from amending or revising their new source review rules or regulations to be less stringent than those rules or regulations that existed on December 30, 2002. This bill would prohibit state or local agencies from amending or revising their rules and regulations implementing the above state laws to be less stringent than the baseline federal standards, as defined, and would require specified agencies to take prescribed actions to maintain and enforce certain requirements and standards pertaining to air, water, and protected species.

Position: Not Yet Considered
Notes 1: As amended, SB 49 would:
-Prohibit state or local agencies from amending or revising their rules and regulations implementing the above state laws to be less stringent than the baseline federal standards, defined as "the authorizations, policies, objectives, rules, requirements, and standards contained in federal laws or federal regulations implementing the federal laws in existence as of January 1, 2016, or January 1, 2017, whichever is more stringent," and would require specified agencies to take prescribed actions to maintain and enforce certain requirements and standards pertaining to air, water, and protected species.
-Authorize a person acting in the public interest to bring an action to enforce certain standards and requirements implementing the Porter-Cologne Water Quality Control Act, the California Safe Drinking Water Act, the California Endangered Species Act, and the Protect California Air Act of 2003, if specified conditions are satisfied.
-Prohibit a state agency that implements those laws from amending or revising its rules and regulations in a manner that is less stringent in its protection of workers' rights or worker safety than standards established by federal law in existence as of January 1, 2016.
-Expressly authorize a person to petition a court for a writ of mandate to compel a state or local agency to perform an act required by, or to review a state or local agency's action for compliance with, this measure.
-Require state agencies, on a semi-annual basis, to report to the Legislature on compliance with the above requirements.

This bill would create an environmental regulatory baseline defined by pre-Trump Administration federal "authorizations, policies, objectives, rules, requirements, and standards contained in federal laws or federal regulations." This bill would also create new citizen suit enforcement powers under state law.

RECOMMENDATION: WATCH

SB 146 **(Wilk R) Water resources: permit to appropriate: application procedure.**
Introduced: 1/17/2017
Last Amended: 2/17/2017
Summary:
Current law allows interested persons to file a written protest with regard to an application to appropriate water and requires the protestant to set forth the objections to the application. Current law declares that no hearing is necessary to issue a permit in connection with an unprotested application, or if the undisputed facts support the issuance of the permit and there is no disputed issue of material fact, unless the board elects to hold a hearing. This bill, if the State Water Resources Control Board has not rendered a final determination on an application for a permit to appropriate water within 25 years from the date the application was filed, would require the board to issue a notice and provide an opportunity for protests before rendering a final determination, with specified exceptions.

Position: Not Yet Considered
Misc1: ACWA OPPOSE
Notes 1: On February 17, 2017, SB 146 was gutted and amended to include identical language from the introduced version of SB 57 (which was later gutted and amended). From the ACWA analysis:

"The amended version of SB 146 is similar to AB 1986 (Wilk, 2016). SB 146 differs from AB 1986 in two aspects. First, rather than a 20-year window, this bill would provide a new notice and protest opportunity for an application that has been outstanding, without a final determination, for 25 years. Second, the bill would not require a new notice and protest opportunity if the applicant is a "public entity." However, this bill does not provide a definition for a "public entity," and presumably, if re-opening of the administrative procedures is "not required," the State Water Board would nonetheless retain the discretion to do just that.

When AB 1986 was introduced, the author's office referred to concerns about California's ongoing drought and significant changes to "the dynamics of water availability in the region" that should be taken into consideration. The author intended to "re-open the protest period and any other administrative processes, as if it were being undertaken for the first time." Like AB 1986, SB 146 could be troublesome for ACWA's members because it would provide another opportunity to protest an application merely based on the State Water Board's failure to promptly process the application. While the author has attempted to exempt water rights applications for public entities, it is unclear what is included in the definition of "public entity," and the State Water Board would still retain the discretion to re-open the administrative procedures.

Another concern is the potential impact the bill would have on currently pending applications where the protest period has lapsed and the application process takes 25 years or longer. Environmental groups may also try to delay applications past the 25-year mark so that opponents to the application would have another opportunity to protest. Re-opening administrative processes would further slow the process of approval, potentially delaying agency projects and using already scarce agency resources, including personnel and time, for an unnecessary procedural step. The bill would allow project opponents to stall an agency's application. The State Water Board already has the authority to subject water rights to specific stream conditions to protect public trust and other beneficial uses. This bill attempts to resolve a local problem on a local waterway that could have broader unintended implications in many watersheds throughout California.

This bill has unforeseen potential to hinder the administration of water rights statewide and [ACWA] believes that the author should seek to address the local concern through other means that would not harm the interests of ACWA's members."

RECOMMENDATION: OPPOSE

SB 252 **(Dodd D) Water wells.**

Introduced: 2/7/2017
Last Amended: 3/13/2017
Summary:
Current provisions of the California Constitution declare the policy that the water resources of the state be put to beneficial use to the fullest extent of which they are capable, that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of these waters is to be exercised with a view to the reasonable and beneficial use of the waters in the interest of the people and for the public welfare. Current law establishes various state water policies, including the policy that the use of water for domestic purposes is the highest use of water. This bill would require, in an action alleging liability for interference with a well used primarily for domestic use, reasonableness of each party's beneficial use of water to be determined through consideration of specified factors.

Position: Not Yet Considered
Misc1: ACWA OPPOSE
Notes 1: From the ACWA analysis: "SB 252 is similar to a previous well moratorium measure, SB 1317 (Wolk, 2016), which ACWA opposed. That measure would have prevented the construction of new wells in probationary groundwater basins. ACWA opposed SB 1317 in part because the measure was overbroad. Under SGMA, a medium or high priority groundwater basin can become a probationary basin for reasons unrelated to critical conditions of overdraft of the underlying aquifer, such as failure to properly form a GSA. SB 252 is narrower than SB 1317 because it would apply more specifically to critically overdrafted groundwater basins.

However, there are additional concerns regarding SB 252. First, the legislative findings are potentially inconsistent. Although the bill mentions that it is "not the role of the state to dictate groundwater management actions or prohibit pumping," the bill nonetheless declares that statewide action is required. Second, there are privacy issues concerning public disclosure of private well information. The bill would require a city or county overlying a critically overdrafted basin to make permit application information about a new well, such as its location, depth, and production capacity, publicly available and easily accessible over the Internet. Third, SB 252 would require a city or county to undertake an unspecified public notice and comment period before issuing any new well permit. The bill does not specify the criteria for a proper notice or a timeframe for a comment period."

RECOMMENDATION: WATCH

SB 427 **(Leyva D) Public water systems: lead user service lines.**
Introduced: 2/15/2017
Summary:
Would, by July 1, 2020, require a public water system to provide the timeline for replacement of known lead user service lines in use in its distribution system to the State Water Resources Control Board. The bill, by July 1, 2020, would require a public water system that has identified areas that may have lead user service lines in use in its distribution system to (a) provide to the state board its determination as to whether there are any lead user service lines in use in those areas of its distribution system and provide a timeline to the state board for replacement of those lead use service lines, and (b) provide findings as to whether there are any areas for which it cannot determine the content of the user service lines and a timeline for the replacement of those user service lines.

Position: Not Yet Considered
Notes 1: Sen. Leyva authored SB 1398 (2016), which requires a public water system to compile an inventory of known lead user service lines in use in its distribution system and identify areas that may have lead user service lines in use in its distribution system by July 1, 2018, and provide a timeline for replacement of known lead user service lines in the distribution system to the SWRCB. SB 1398 also requires, by July 1, 2020, a public water system with areas that may have lead user service lines in use in its distribution system to either determine the existence or absence of lead user service lines in these areas and provide that information to the board or provide a timeline for replacement of the user service lines whose content cannot be determined. RWA worked to secure amendments to SB 1398.

RECOMMENDATION: OPPOSE UNLESS AMENDED

SB 506 **(Nielsen R) Department of Fish and Wildlife: lake or streambed alteration agreements.**
Introduced: 2/16/2017
Summary:
Current law prohibits an entity from substantially diverting or obstructing the natural flow of, or substantially changing or using any material from the bed, channel, or bank of, any river, stream, or lake, or from depositing certain material where it may pass into any river, stream, or lake, without first notifying the Department of Fish and Wildlife. This bill would limit the diversions and obstructions governed by these alteration agreement requirements to the diversions and obstructions that alter the bed, channel, or bank of a river, stream, or lake. The bill would exempt routine maintenance and repair of facilities for instream agricultural diversions from the alteration agreement requirements.

Position: Not Yet Considered
Notes 1: RECOMMENDATION: WATCH

SB 564 **(McGuire D) Joint powers authorities: Water Bill Savings Act.**
Introduced: 2/17/2017
Summary:
Would enact the Water Bill Savings Act, which would authorize a joint powers authority to provide funding for a customer of a local agency or its publicly owned utility to acquire, install, or repair a water efficiency improvement on the customer’s property served by the local agency or its publicly owned utility. The bill would require the customer to repay the authority through an efficiency charge on the customer’s water bill to be established and collected by the local agency or its publicly owned utility on behalf of the authority pursuant to a servicing agreement.

Position: Not Yet Considered
Notes 1: According to the author's office: "SB 564 will allow residents to finance water efficiency improvements on their water bills. These improvements could include landscape irrigation systems, upgraded hot water systems, gray water systems, high efficiency toilets, and high efficiency dishwashers.

The Marks-Roos Local Bond Pooling Act authority allows Joint Powers Authorities (JPAs) to sell bonds backed by revenues from the agencies that make up the JPA. The JPA can then use these bonds to jump-start projects such as energy efficiency upgrades. SB 564 extends this authority to pay for the upfront costs of water efficiency upgrades.

Customers who choose to participate in the program hire a certified contractor to install the improvements, then pay for those improvements over time through a small “water efficiency charge” on their water bills. These charges are smaller than the estimated utility bill savings delivered by the project that they pay for, providing immediate cost savings to the customer.

Pay As You Save (PAYS) pilots established by the Bay Area Regional Energy Network (BayREN) have already demonstrated the potential for this water efficiency model, saving 20-33% of participating customers' water use. Building upon these successes, SB 564 would expand the scope of these efforts by allowing JPAs and local water agencies to: (1) pool revenues from water efficiency charges across multiple local agencies, thereby lowering interest rates; and (2) centralize administrative activities with the JPA in order to run the program as efficiently as possible."

RECOMMENDATION: WATCH

SB 580 **(Pan D)** **Water development projects: Sacramento-San Joaquin watersheds.**
Introduced: 2/17/2017
Summary:
Current law adopts and authorizes federally adopted and approved projects, including a project for flood control along the American and Sacramento Rivers. The projects are authorized at an estimated cost to the state of the sum that may be appropriated by the Legislature for state participation upon the recommendation and advice of the Department of Water Resources or the Central Valley Flood Protection Board. This bill would revise the authorization for the project for flood control along the American and Sacramento Rivers as further modified by a specified report adopted by Congress.

Position: Not Yet Considered
Notes 1: This bill would revise the authorization for the project for flood control along the American and Sacramento Rivers as adopted and authorized by Congress to include the River Watershed Common Features General Reevaluation Report adopted by Congress in Section 1401 of the Water Infrastructure Improvements for the Nation Act of 2016 (Public Law 114-322).

RECOMMENDATION: SUPPORT

SB 667 **(Atkins D)** **Department of Water Resources: riverine and riparian stewardship improvements.**
Introduced: 2/17/2017
Summary:
Current law authorizes the Director of Water Resources to establish a program of flood control and urban creek restoration, known as the Urban Streams Restoration Program, consisting of the development of the capability by the Department of Water Resources to respond to requests from local agencies and organizations for planning and design assistance for efficient and effective urban creek protection, restoration, and enhancement. This bill, upon an appropriation of funds from the Legislature, would require the department to establish a program to implement watershed-based riverine and riparian stewardship improvements by providing technical and financial assistance in support of projects with certain benefits.

Position: Not Yet Considered
Notes 1: As introduced, SB 667 would create a DWR program which, upon appropriation of funds from the Legislature, would seek to implement watershed-based riverine and riparian stewardship improvements by providing technical and financial assistance in support of projects that reduce flood risk, restore and enhance fish populations and habitat, improve water quality, achieve climate change benefits, and in general ensure resilient ecological function within areas that include, but are not limited to, urban or urbanizing areas of the state.

The program would consist of the following elements:
(1) Support for partnerships with local agencies, nonprofit organizations, and community groups to identify multibenefit opportunities, local needs, and watershed restoration or enhancement objectives. Partnerships shall include other state agencies as appropriate and to the degree those agencies are able to participate.
(2) Early engagement by the department in the conceptualization and design process and continued involvement through the design, construction, operation, and evaluation of a completed project.
(3) Assistance in planning the natural resource restoration, landscaping, and infrastructure elements of a project consistent with appropriate local and regional land use and resource recovery plans.
(4) Design assistance to ensure a project will protect or enhance natural river and stream process and function using the best bioengineering and ecological practices while considering low-impact development, energy and water conservation, and community access and use for local recreation, trails, and other purposes.
(5) Evaluation and assessment processes to monitor success in meeting riverine stewardship goals and community needs.
(6) Assistance, as appropriate, with project administration, including, but not limited to, communication

among partnership groups, enhancing the capacity of communities to effectively participate, and looking for and managing various funds obtained for the project.
(d) The department may provide technical assistance for the purposes of this section either directly or otherwise, including, but not limited to, by collaborating with appropriate California State University or University of California programs providing educational development and field experience for students.

RECOMMENDATION: WATCH

Total Measures: 21
Total Tracking Forms: 21

March 22, 2017

AGENDA ITEM 8: SUBCOMMITTEE UPDATES

BACKGROUND:

At the January meeting of the Executive Committee, Chair Peifer appointed three subcommittees to work on specific issues. Kerry Schmitz was appointed Chair of a Conference/Education Subcommittee that also included Rob Roscoe, Pam Tobin and Kelye McKinney. Pam Tobin, Ron Greenwood, Marcus Yasutake and John Woodling were appointed to an Office Space/Lease Subcommittee to evaluate office space options for RWA when its lease on 5620 Birdcage expires in 2018. Robert Dugan was appointed Chair of a Membership Subcommittee to evaluate and help recruit potential new members.

The subcommittees gave an update at the February Executive Committee meeting. The Conference/Education Subcommittee planned to reach out to other agencies to partner with them to help facilitate an event. Mr. Dugan with the Membership Subcommittee requested John Woodling, Rob Roscoe and Jim Peifer join his membership subcommittee effort. The Office Space/Lease Subcommittee received information on the office space requirements.

STAFF RECOMMENDATION:

Updates from Subcommittees on Conference, Membership and Office Space

March 22, 2017

AGENDA ITEM 9: MAY BOARD MEETING AGENDA

BACKGROUND:

With the passage of the FY 2018 budget at the March Board meeting, there is the opportunity to take time for a number of possible updates and presentations at the May Board Meeting. Staff will seek input from the Executive Committee on alternatives to pursue.

STAFF RECOMMENDATION:

Discussion: John Woodling, Executive Director

March 22, 2017

AGENDA ITEM 10: EXECUTIVE DIRECTOR’S REPORT

MARCH 22, 2017

TO: **REGIONAL WATER AUTHORITY EXECUTIVE COMMITTEE**

FROM: **JOHN WOODLING**

RE: **EXECUTIVE DIRECTOR'S REPORT**

a. **SGMA Update –** Five Groundwater Sustainability Agencies are expected to form to fully cover the North American Subbasin. Representatives of the entities are meeting monthly to scope the development of a single Groundwater Sustainability Plan for the subbasin. The Department of Water Resources is planning to release draft guidelines for Proposition 1 funded grants to support Sustainable Groundwater Management within the next several weeks.

b. **Strategic Communications Effort –** RWA staff and consultants are coordinating closely with a small group of RWA members that have engaged a consultant to support outreach and coalition building regarding long-term water efficiency legislation and regulatory action.

c. **Water Efficiency Update –** In January 2017, the region saved 9.6% compared to January 2013. For reference, the region saved 11.5% in 2016, 2.6% in 2015, and had an increase of 18.9% in 2014, all compared to January 2013. The format of the monthly savings summary report has been updated to align with the start of a new calendar year and the modified State Water Board timeline of June 2016 through current month to represent the implementation of the "stress test" methodology.

d. **RWA Outreach –** Mr. Woodling was a panelist at the ACWA Legislative Symposium on March 8, 2017. Mr. Woodling has been conducting one-on-one meetings with RWA members, with the goal of meeting with each member at least once annually. RWA held a Board Member Orientation session after the regular board meeting on March 9, 2017. Mr. Woodling served on a drafting group to support ACWA's development of a Board-approved Policy Statement on Bay-Delta Flow Requirements (attached). Staff participated in the Metro Chamber State Legislative Summit on May 9, 2017.

ACWA POLICY STATEMENT ON

BAY-DELTA FLOW REQUIREMENTS

COLLABORATIVE APPROACH IS KEY TO CALIFORNIA'S FUTURE

California is facing a defining moment in water policy. A staff proposal under consideration by the State Water Resources Control Board presents a decision point about the future we want for California and its communities, farms, businesses and ecosystems. The State Water Board's staff proposal to base new water quality objectives on a "percentage of unimpaired flow" would have impacts that ripple far beyond water for fish.

The proposal could lead to widespread fallowing of agricultural land, undercut the state's groundwater sustainability goals, cripple implementation of the Brown Administration's California Water Action Plan, negatively affect water reliability for much of the state's population and impact access to surface water for some disadvantaged communities that do not have safe drinking water. These effects are not in the public's interest.

Local water managers overwhelmingly believe the proposal's singular focus on "unimpaired flow" is the wrong choice for the state's future. California's urban and agricultural water managers are united in their vision for a future that includes a healthy economy as well as healthy ecosystems and fish populations. That vision is best achieved through comprehensive, collaborative approaches that include "functional" flows as well as non-flow solutions that contribute real benefits to ecosystem recovery.

On behalf of its more than 430 member public agencies serving urban and agricultural customers throughout the state, the Association of California Water Agencies (ACWA) adopts the following policy statement regarding the State Water Board's proposed approach to updating the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta.

LOCAL SUCCESS STORIES

Collaborative efforts have been successful on many rivers in the Bay-Delta watershed.

Lower Yuba River: A voluntary, collaborative settlement among Yuba County Water Agency, California Department of Fish and Wildlife, National Marine Fisheries Service, PG&E and conservation groups resolved 20 years of controversy and resulted in a continuing program to improve 24 miles of salmon and steelhead habitat while protecting water rights and the needs of local communities. State Water Board members have specifically recognized the value of the agreement, which was formally implemented in 2008.

Lower American River: A broad representation of water suppliers, environmental groups, local governments and others negotiated an historic agreement that led to a flow management standard that was successfully incorporated into a 2009 biological opinion issued by the National Marine Fisheries Service.

Feather River: Six years of negotiations among water users, fisheries agencies and environmental groups yielded a comprehensive agreement that includes a habitat improvement program with specific flow and temperature requirements to accommodate spawning salmon and steelhead. The State Water Board adopted the agreement, with some modification, in 2010 as a water quality certification under the federal Clean Water Act.

CHOOSING OUR VISION FOR CALIFORNIA'S WATER FUTURE

Since 2009, state law has required water resources to be managed in a way that achieves the coequal goals of improving water supply reliability for California and protecting, restoring and enhancing the Delta ecosystem. ACWA and its public water agency members believe that policy requires a commitment from state agencies and stakeholders to advance both water supply and environmental goals together. ACWA and its members further believe that effective implementation of the coequal goals requires transparent, collaborative processes and comprehensive solutions.

In 2014, the Brown Administration released its California Water Action Plan outlining priority actions addressing water-use efficiency, groundwater sustainability, ecological restoration, Delta conveyance solutions, water storage, safe drinking water and more. Embedded in the plan is the Brown Administration's commitment that planned actions "will move California toward more sustainable water management *by providing a more reliable water supply for our farms and communities*, restoring important wildlife habitat and species, and helping the state's water systems and environment become more resilient."

ACWA believes the policy of coequal goals and the commitment embedded in the California Water Action Plan have the potential to put California on a path that includes a vibrant agricultural and urban economy and a healthy ecosystem.

ACWA and its members believe the unimpaired flow approach proposed by State Water Board staff undercuts and threatens that potential and cannot lead us to the future we want for California. Simply put, any strategy that would result in vast amounts of agricultural land going out of production and ultimately reduce water supply reliability for the majority of Californians is irreconcilable with a policy of coequal goals and blatantly inconsistent with the water policy objectives of the Brown Administration.

ACWA strongly supports the collaborative approach called for by Governor Jerry Brown to move these important decisions out of adversarial processes and into negotiated, comprehensive agreements. The following principles can assure success in that endeavor.

A BETTER PATH TO THE FUTURE

The State Water Board is responsible for updating the Bay-Delta Plan in a manner that establishes water quality objectives that ensure the reasonable protection of all beneficial uses of water (including domestic, municipal, agricultural and industrial supply; power generation; recreation; aesthetic enjoyment; navigation; and preservation and enhancement of fish, wildlife, and other aquatic resources) while considering past, present and probable future beneficial uses, environmental characteristics, water quality conditions and economic considerations, among other things. (See California Water Code Section 13241.) It also has a responsibility to update the plan in a way that is consistent with the coequal goals and respects and implements the commitments made in the California Water Action Plan.

ACWA and its members urge the State Water Board to set aside the unimpaired flow approach and heed Governor Brown's call for negotiated agreements. ACWA believes that a successful flows policy must be consistent with the following principles:

- **Collaboration:** The governor has called for work on a comprehensive agreement on environmental flows in both the San Joaquin and Sacramento River basins. He has asked that State Water Board members and staff prioritize analysis and implementation of voluntary agreements. Further, the Brown Administration committed in the California Water Action Plan that the State Water Board and the California Natural Resources Agency will work with stakeholders to encourage negotiated implementation of protective Delta standards. ACWA strongly supports the collaborative approach called for by the governor because it is the least contentious, most effective way to achieve the coequal goals. Negotiated agreements have been demonstrably successful at achieving outcomes and widespread support for appropriate environmental flows; forced regulations have not yielded the same track record. The State Water Board should wholly embrace this approach and allow enough time for it to work.

- **Comprehensive Solutions:** A successful collaborative approach will require comprehensive solutions for both water supply and ecosystem management. Water users will need to continue and build on their commitment to integrated resources management in order to maintain reliability without undue impacts on the ecosystem. Similarly, ecosystem managers will need to focus on the entire life cycle of affected species and multiple variables, such as predation, food, and habitat availability to develop integrated management portfolios that accomplish ecosystem goals without undue impacts on water supply. Utilizing the single variable proposed in the "percentage of unimpaired flow" approach will not achieve the desired ecological outcomes and is, by far, the most destructive policy approach from the perspective of protecting and improving water supply. ACWA firmly believes the ecological outcomes can be achieved with even better results through a comprehensive approach that considers multiple solutions and benefits.

- **Science:** The State Water Board needs to incorporate the best available science to inform its work and assist with the development of voluntary settlement agreements. The unimpaired flow approach, in which flow objectives are not tied to any specific ecological outcome, fails to incorporate the best available science. As noted above, the updated plan needs to focus on the entire life cycle of affected species and multiple variables, such as predation, food, and habitat availability, and incorporate relevant current scientific information. Science alone cannot identify the best policy choice, but it can inform us about the policy tradeoffs we confront and help structure integrated solutions that provide ecosystem benefits with far less impact on water supply, the California economy and the public interest.

FUNCTIONAL FLOWS: A BETTER APPROACH

Sacramento Valley: Sacramento Valley water users and conservation partners are working together to advance a new generation of innovative projects to promote salmon recovery.

Over the past two and a half years, 12 projects have been completed through the Sacramento Valley Salmon Recovery Program to address fish passage, improve the timing of flows and increase habitat for salmon and other species. Priority projects have included removal of structural barriers to fish passage, modifying riffles, eliminating predator habitat, restoring floodplains and creating side channel spawning and rearing areas.

In addition, program partners are exploring creative ways to reconnect water with the land in floodplains and agricultural areas to enhance habitat and food production and create rearing habitat in rice fields.

While each of these collaborative projects provides independent value, implementation of the entire comprehensive suite is generating unique benefits that can significantly improve ecological outcomes for salmon in the Sacramento Valley.

Merced River: Merced Irrigation District has spent millions of dollars and decades undertaking intense and in-depth scientific research on the Merced River. This research has included analysis of flows, temperatures, biological resources and habitat. MID is poised to put this research into action through its Merced S.A.F.E. Plan (Salmon, Agriculture, Flows, and Environment) to provide certainty for both the environment and local water supply in Eastern Merced County.

The plan would provide increased flows using science to dictate the amounts and timing, restore critical sections of habitat for spawning and rearing juvenile salmon, protect local drinking water quality, upgrade an existing salmon hatchery with state-of-the-art facilities and reduce predation.

Based on in-depth science and technologically advanced computer modeling, MID seeks to take immediate action and dramatically benefit salmon on the Merced River.

- **Functional Flows:** Science shows that functional flows have very promising benefits for fish as well agricultural and urban water users. Timed and tailored for specific purposes, functional flows can benefit species in ways that unimpaired flow requirements cannot. Examples abound of collaborative, innovative projects currently underway by local water agencies and stakeholders that include functional flows and non-flow solutions that reconnect land and water to restore habitat and address the full life cycle of species needs. These efforts contribute real benefits to ecosystem recovery while maintaining water supply reliability.

- **Economic Considerations:** The State Water Board has a statutory obligation to consider economic impacts when establishing water quality objectives that reasonably protect all beneficial uses of water. Having a robust economic analysis is critical. The board also has a policy obligation under the coequal goals to ensure its actions related to a revised Bay-Delta Plan increase water supply reliability and thereby allow for a healthy, growing agricultural and urban economy in California.

- **Consistency with State Policy:** ACWA urges the State Water Board to heed the governor's direction and recognize that achieving the coequal goals will lead to a more reliable water supply and healthy ecosystem. Pursuing the coequal goals should be a guiding principle for the board's decisions related to adopting a revised Bay-Delta Plan. The State Water Board also should ensure that its decisions on the Bay-Delta Plan enable, rather than obstruct, the implementation of the California Water Action Plan.

- **Leadership:** The best policy choice will come through the give and take of the negotiating process and the enlightened leadership of the State Water Board members. Ultimately, the board must establish water quality objectives that ensure the reasonable protection of all beneficial uses of water as it implements negotiated solutions. The State Water Board should actively engage in this work and lead in a manner that is grounded in an awareness of how its actions can affect the implementation of the California Water Action Plan and the achievement of the coequal goals.

ACWA and its members have taken a strong policy position in support of comprehensive solutions such as those outlined in the California Water Action Plan. We stand ready to work with the Brown Administration to pursue the collaborative and comprehensive approaches needed to ensure a future for California that includes a vibrant agricultural and urban economy and a healthy ecosystem.

March 22, 2017

AGENDA ITEM 11: DIRECTORS' COMMENTS