

1. CALL TO ORDER

Chair Yasutake called the meeting of the Executive Committee to order at 8:00 a.m. Individuals in attendance are listed below:

Executive Committee Members

Ron Greenwood, Carmichael Water District
Marcus Yasutake, City of Folsom
Jim Peifer, City of Sacramento
Debra Sedwick, Del Paso Manor
Paul Schubert, Golden State Water Company
Robert Dugan, Placer County Water Agency
Dan York, Sacramento Suburban Water District
Pam Tobin, San Juan Water District

Staff Members

John Woodling, Adam W. Robin, Nancy Marrier, Amy Talbot, Cecilia Partridge, Monica Garcia, Nicole Krotoski and Ryan Bezerra, legal counsel.

Others in Attendance

Charles Duncan

2. PUBLIC COMMENT

None.

3. CONSENT CALENDAR

The minutes from the Executive Committee meeting held January 24, 2018.

Motion/Second/Carried (M/S/C) Mr. Dugan moved, with a second by Ms. Tobin, to approve the minutes from the January 24, 2018 Executive Committee meeting. The motion carried by the unanimous voice vote of all directors present.

4. DEVELOPMENT OF FISCAL YEAR 2018 – 2019 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 2018-2019 budget (“FY19 Budget”) at the January 24, 2018 EC meeting. The EC was presented with a list of

the significant decisions that impacted the development of the budget objectives and outcomes, which then drives fees and expenses.

John Woodling, Executive Director, gave a PowerPoint presentation with an overview of the budget elements impacting the FY19 budget.

Final Phase of Strategic Plan Implementation

The Strategic Plan Fund began in FY16 and helped to pay for the implementation of the strategic plan in FY17 and FY18. FY18 represents the first full year of execution of the advocacy element of the strategic plan, including a full year of staffing costs. With the final strategic plan implementation, the FY19 proposed budget reflects a shift of the contract advocacy costs from a subscription program to core program. Initial funding of these costs is anticipated to be from the remaining strategic plan fund and the remaining subscription designation for FY19. For FY20, these costs will also be paid from the strategic fund and then the balance will be paid for by core dues. The advocacy costs will be paid for from the following sources:

	FY19	FY20	FY21
Remaining Subscription designation FY18 (\$100,800)	\$100,800	\$ -	\$ -
Estimated Strategic Fund Designation from FY18 (\$109,700)	\$ 19,200	\$90,500	\$ -
Core Dues	\$ -	\$29,500	\$120,000

Operating Fund Changes

RWA follows Policy 500.1 the Financial Designation and Reserve Policy. According to the existing policy, the minimum target balance of the operating fund should be four months to fund budgeted operating expenses with a maximum of six months. A portion of the operating expenses are paid for by SGA, yet RWA has been including these reimbursed expenses as part of the overall operating fund calculation. Since SGA also maintains an operating fund for expenses incurred, including the reimbursed expenses in RWA's operating fund calculation effectively double counted the cash flow needed for these expenses. The proposed budget now deducts estimated SGA reimbursements in determining the target operating fund balance. The change in calculation results in a lower required operating fund for RWA. It also results in a lower required fee increase in FY19 and future periods.

Water Efficiency Program ("WEP") Cost Shift

For the last few years, the water efficiency manager has been assisting with RWA core functions. Mr. Woodling emphasized that the water efficiency program is the only subscription program of RWA that is designed to fund a full-time staff position.

Because the WEP manager also assists with RWA core functions, since FY17, RWA has been shifting 10% per year of the WEP manager and related office costs to the RWA core program, increasing it by 10% per year. The FY19 budget includes a 30% shift of these costs paid for by the core dues. This shift does increase core dues over time. The savings by WEP can be used on WEP public outreach costs or may result in future cost savings to WEP related fees charged to participants.

Unfunded Pension Liability

In keeping with RWA's policy 500.15, the EC was provided the information regarding unfunded pension liability balances. Mr. Woodling indicated that the proposed budget reflects paying the unfunded pension liability over a four year period which is slightly faster than had been previously budgeted in FY18.

OPEB Funding

Mr. Woodling stated that RWA needs to have an actuarial report prepared to determine the OPEB contributions for FY19. The proposed FY19 budget assumes an increase in payment (from FY18 \$56,400 payment to \$83,000) to reflect the new legislative staff position plus potential cost increases for reducing the discount rate for the updated report. The current discount rate used in the July 1, 2015 report used a 7.0% discount rate. RWA will continue to fund both the explicit and implicit contributions of the OPEB plan. RWA will have an actuarial study completed this calendar year that will provide updated funding data.

Additional Cost Drivers

Mr. Woodling also discussed additional FY19 expenses affecting the budget. RWA negotiated a new lease agreement, and while favorable, still reflects a cost increase from the previous lease. The FY19 budget reflects human resource consulting support to update human resource manuals as well as other human resource needs. The budget also includes consulting costs to support additional education and informational forums. He also mentioned that legal fees have also increased associated with advocacy but members may be experiencing savings from these costs since now RWA is centralizing this work.

Mr. Woodling expressed good news that the overall fee increase for members and associates for FY19 is expected to be 4%. He indicated that most members who paid for the water advocacy subscription costs would actually experience an overall cost savings. Also, FY19 is the last year of the Powerhouse Science Center collection.

For FY20, the current projection for fee increases is 15% and for FY21 is 22%. The driver of these cost increases are largely due from the strategic plan implementation, although there are other costs that increase with time.

Additional information from the budget staff report

The following excerpts from the executive committee staff report for the budget are included for background information.

Summary Budget Overview

Revenues

- 1) A total 4% increase on general and associate membership fees is proposed. A 10% increase was forecast in the previous year for FY19. The increase is needed to fully implement the strategic plan including consulting services, plus continuing to pay sums towards the unfunded pension liability. Additionally, core revenues are now projected to cover 30% of the WEP manager costs and related office expenses. For most participants who helped fund the advocacy work through a subscription program, the fees in FY19 will be lower than the combined general dues plus subscription fees paid in FY18.
- 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 approximately 13% 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 years of collection of funds with FY19 as the final year, to be paid to PSC over 15 years.
- 6) Other revenues represent interest income and holiday social revenues.

Expenses

- 1) The core program budgets for all staffing positions
- 2) Shared staffing costs are allocated 50/50 to SGA and RWA. The Legislative Program Manager is fully funded by RWA; the Water Efficiency Program Manager is funded 30% by RWA and 70% by WEP; and the Project Research Assistant is funded 80% by WEP and 20% by 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 the FY18 total compensation survey and reflect a possible 4% increase for merit plus 3% COLA and a 5% increase in out years. Beginning in FY19, staff will pay the full 7% employee share of their pension contributions.
- 4) Benefit costs also include projected increases for OPEB and health care, and a reduction of the employer pick up of the employee portion of PERS retirement benefits, so that the employees are paying their entire 7% of their employee portion starting in July 2019.
- 5) RWA continues to plan for additional CalPERS pension payments for the unfunded liability. The additional payment is higher than previously projected in the FY18 cycle since the time horizon for payment is now slightly accelerated at four years which follows policy 500.15.

- 6) Office cost increases are based upon estimated increases in FY19. For FY20 and beyond, these costs are estimated at 3% annual increases unless specific increases have been identified.
- 7) Professional fees includes higher audit, accounting and actuarial analysis fees due to the reporting requirement for GASB 68 and implementation of GASB 75, increased public relations, human resources assistance, increase legal costs associated with advocacy, IRWM consulting costs, water advocacy consulting fees and \$20,000 for unexpected items.
- 8) Other includes office equipment purchases.
- 9) Core project expenses include costs associated with the Powerhouse Science Center partnership.

Revenues net of Expenses

- 1) Core expenses in excess of core revenues project a net cash outflow of approximately \$7,100 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 \$242,700. Of the \$242,700, \$200,000 represents a return of subscription funds to participants. 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 increase in cash out flow of approximately \$249,800.

Designations

- 1) The operating fund is targeted at six months for FYE 18-19 (using the new method of subtracting estimated SGA reimbursements), which falls within the policy guideline of four to six months.
- 2) The Strategic Plan Fund represents resources being set aside to fully implement the strategic plan. The FY18 budget used a portion of this fund to pay for the new legislative program manager. In FY19, the remaining funds from the lobbyist subscription program will be moved to the RWA core program and pay for the water advocacy. A portion of the cost will also come from the strategic plan fund. In FY20, the remaining strategic fund will help pay for the water advocacy.
- 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 FY18 to Proposed FY19 by subtotal for the core program reflects the overall net cash outflow of approximately \$7,100 and the effect on each type of designation.
- 5) The designations for the subscription program reflect a decrease of approximately \$242,700 over subscription based expenses. Of the \$242,700, the water energy grant is expecting to return \$200,000. 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 13% for FY19. Adopting the fiscal year 2018-2019 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 2014 drought grant management and grant revenue, 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) An additional \$18,700 equaling an additional 10% of salary and administrative expenses for WEP reflects a shift of salary and administrative expenses to the core RWA budget. For the FY19 budget, a total of 30% of expenses, or approximately \$50,000, will be paid for by RWA core dues.
- 5) The subscription restrictions reflect the available funds for these programs. The use of these designations projected in FY19 is reflected in the changes in the individual restrictions.

Outlook for FY 2020 and FY 2021

In looking out to the future, RWA can anticipate a potential 15% increase in dues in FY20 in order to meet increased expenses related to the water advocacy consulting, 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 40% by core dues. In FY21, RWA is currently projecting a 22% increase that largely reflects when RWA core dues pay the full cost of the government consulting costs. FY20 and beyond does reflect increased budgeted 5% salary costs. Future projections assume RWA and SGA share staffing and administrative costs and subscription based programs will contribute approximately 10% 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 or recruitment of new members. Any membership changes would have a significant impact on rate increases in the future.

The projected timeline is to present a draft budget to the RWA Full Board at the March 8, 2018 meeting for possible adoption. If the budget is not adopted by the board at the March meeting it will be brought back to the Executive Committee in March and April and presented to the RWA Full Board at the May 3, 2018 meeting for adoption.

For FY18, expected overall expenses of \$1,818,200 exceed the budgeted overall expenses of \$1,813,500 by \$4,700. In FY17, RWA did not make the \$25,000 Powerhouse payment and delayed it to FY18. While RWA did maintain the Powerhouse payment in a designated account and has the funds to pay it, it increases the overall expenses and cashflow for FY18. RWA's budget policy 500.11 specifies that the EC must explicitly approve if overall anticipated budgeted costs exceed the original budget.

M/S/C Ms. Tobin moved, with a second by Mr. Dugan, to recommend RWA Board Approval of 2018–2019 Budget. The motion carried by the unanimous voice vote of all directors present.

M/S/C Ms. Sedwick moved, with a second by Mr. Peifer, to approve FY18 additional budget expense of approximately \$4,700 to reflect expected expenses of \$1,818,200 compared to the approved budget of \$1,813,500. The motion carried by the unanimous voice vote of all directors present.

5. POLICY 500.1 FINANCIAL DESIGNATION/RESERVE POLICY

A draft of the revised Policy 500.1 was included in the packet. In addition to some editorial changes, the significant changes to this policy include the following:

Calculating the Operating Fund Target Balance

In determining the minimum and maximum operating fund balance, RWA has used the budgeted operating expenses. Since SGA reimburses RWA for a portion of shared common costs, and SGA also carries an operating reserve, including these shared costs as part of the calculation for operating fund target balance results in a higher than needed balance. For example, in FY17, SGA reimbursed RWA for \$476,712 in common operating expenses. When projecting these expenses, RWA's operating fund needed a minimum of \$158,900 in the operating fund to pay for these costs. Since RWA can expect repayment of these common operating costs in a timely manner, including these common operating costs as part of the operating fund balance calculation inflates the cash flow requirement.

Additionally, non-recurring costs have historically been excluded from calculating the operating fund target balance in previous budgets. The policy now reflects the practice of excluding these costs.

Retirement Benefits Fund

The rationale section was streamlined and simplified. Additionally, the policy was modified to remove SGA's reference to reimbursements since SGA has its own pension plan and pays for pension plan services directly.

M/S/C Ms. Tobin moved, with a second by Mr. Greenwood, to recommend RWA Board Approval of Policy 500.1 Revisions. The motion carried by the unanimous voice vote of all directors present.

6. MARCH 8, 2018 RWA BOARD MEETING AGENDA

Through discussion it was suggested that changes be made to the order of agenda items for the March 8, 2018 RWA Board meeting.

M/S/C Mr. Dugan moved, with a second by Mr. Schubert, to approve the March 8, 2018 proposed RWA Board meeting agenda with the suggested changes. The motion carried by the unanimous voice vote of all directors present.

7. EXECUTIVE DIRECTOR'S REPORT

Water Efficiency Update – The second of five 2018 snow surveys was conducted on February 1st. The survey showed below average results both locally at Phillips Station and statewide with snow water equivalents of 2.6 inches or 14% of average for this date and 4.9 inches or 27% of average, respectively. There is discussion among state agencies, the media, and other stakeholders about the possibility of the state returning to drought conditions in 2018. However, it is too early to make definitive conclusions.

Mandatory reporting (production, R-GPCD, water waste violations, etc.) to the State Water Resources Control Board (SWRCB) officially expired in November 2017 along with the associated Executive Order. Most water agencies in the state and the region are continuing to report. RWA is also still collecting similar monthly data and would like to continue to collect this information in the future regardless of the state's actions. RWA uses the collected data to inform a number of projects including the Reliability Plan, grant applications, and water efficiency related metrics like GPCD. To make future reporting more efficient, RWA is considering modernizing data collection efforts with an online platform similar to what the SWRCB used during the drought.

To assist with the evaluation of AB 1668 and SB 606, several water agencies expressed a desire to purchase imagery for their service areas. Imagery provides data on landscape material type, irrigation, and impervious/pervious designation to help estimate landscape irrigation budgets like those associated with the proposed legislation. RWA researched several options for a regional purchase of imagery for all RWA water agencies. The most cost effective option was to partner with the Sacramento Area Council of Governments (SACOG) and join their existing effort. The goal is to obtain comprehensive, consistent imagery for the entire region to evaluate regulation proposals and provide local imagery files to each RWA water agency for additional planning and infrastructure maintenance purposes. As part of the partnership, SACOG has offered RWA access to all imagery under their

current contract for our use. The imagery for both the SACOG and additional RWA areas will be 3 inch aerial imagery, which will provide enough detail to identify impervious and pervious land area for residential and commercial parcels at minimum.

There are two additional costs associated with the Imagery Project. The first is ground control or the process of matching the digital imagery to static locations on the ground to ensure imagery data accuracy. Ground control for the RWA 3 inch imagery areas will be performed by SACOG's imagery vendor, Sanborn, Inc. The second additional cost is a 5% SACOG administration fee to add RWA to their existing contract. RWA will cover both of these additional costs as well as a portion of the infrared cost.

All imagery (3 inch and infrared) is scheduled to be collected by Sanborn, Inc., between February and April 2018 with delivery expected in September 2018. Due to the timing of infrared imagery collection, distinguishing between irrigated and non-irrigated land area may be less precise due to potential supplemental irrigation from winter storms. To address this concern, RWA may also use National Agriculture Imagery Project (NAIP) imagery (includes infrared), which is scheduled to be collected in summer 2018 at the peak of irrigation season. Altogether the 3 inch, infrared, and NAIP imagery should provide a solid base to perform a wide range of analysis related to the proposed legislation.

Legislative & Regulatory Advocacy Update – The 2018 Legislative Year is well underway, with the deadline for introducing new bills passing on February 16. The RWA Lobbyist Subscription Program will meet on February 28 to review recently-introduced legislation and develop recommendations for any new bill positions for the Executive Committee's consideration. RWA staff continues to engage legislative offices and stakeholders on a variety of two-year bills including long-term water use efficiency legislation (AB 1668/SB 606) and the water tax (SB 623). A significant development related to the water tax proposal was the February 1 release of the Brown Administration's budget trailer bill language to create a "Safe and Affordable Drinking Water Fund." The budget trailer bill closely mirrors the policy framework in SB 623 and includes an identical proposal for per-connection taxes to be collected by water systems. With the release of the budget trailer bill, RWA staff and other parties with an interest in the water tax will now engage in both the policy and budget committees of the Legislature.

Adam W. Robin, Legislative and Regulatory Affairs Project Manager, gave an update on the revisions to the proposed Permanent Prohibitions on Waste and Unreasonable Use of Water regulations by the State Water Resources Control Board. The Water Board was scheduled to consider adoption of the proposed prohibitions on February 20 but deferred taking action at that time. An idea is that there is an alternative pathway through the water code that wouldn't have the potential water rights implications that the Waste and Unreasonable Use approach might have. It may be a month or two before they take action, to allow the regulations to come into force in July. RWA staff prepared and submitted comments in response to the revised regulations on February 12 that emphasized the effectiveness of locally-driven approaches to advancing water use efficiency and provided specific comments on the revised prohibitions.

Subcommittee Update – RWA will convene a symposium on Thursday, March 15, 2018 regarding the timely legislative and regulatory issues of water affordability and safe drinking water for disadvantaged communities. The event will feature a broad discussion with panels made up of representatives on all sides of the issue.

The next informational event planned by the subcommittee may be a workshop in association with either an RWA or SGA board meeting. The workshop would have a presentation by the State Board Drinking Water Program with information for a better understanding of the process for setting a flow standard. The workshop would include the Board's status of the lead sampling in schools and any issues that are coming up. Agencies would have a chance to present their status of the lead sampling in schools.

RWA Outreach – RWA recently completed the first in what will be a bi-monthly update of activities. The update is a summary of RWA activities and would be of interest to agency board members. The document is suitable for inclusion in board and council agendas, and is available at <http://rwah2o.org/regional-water-authority-update-for-february-2018/>.

Ryan Bezerra, legal counsel, gave an update on the Water Fix. Everyone is waiting for word from the State Water Board as to what the next steps are. Tomorrow morning will begin part two of the hearing without any direction as to what is expected. It is anticipated that DWR will present their witnesses with interesting cross examinations. There was discussion and agreement that the process and desired outcome are confusing. The webcast is available on the State Water Board website for those interested in watching the February 22nd hearing.

8. DIRECTORS' COMMENTS

Mr. Dugan said that he sits on the American River Authority which is the JPA that was created for the purpose of preparing, developing, building and ultimately managing the water of what would have been the Auburn Dam years ago. There have been steps taken with the American River Authority to decommission the authority because it is no longer a viable feasible project. There is group of engineers that were part of the former effort that are attempting to revive a new JPA to build an Auburn Dam. The Placer County communities that would be directly affected have adopted a resolution in opposition. The environmental community has agreed not to pursue wild and scenic status as a mechanism to stop the dam process. As we look at the American River, Sacramento River and interconnectivities we are working towards more reasonable and feasible possibilities.

Mr. Dugan agreed to give a brief update report at the next RWA Board meeting on what transpired at the annual American River Authority meeting.

Ms. Sedwick reported that last year Del Paso Manor Water District had a defeat on a Proposition 218 process. The District is going through the process again. Tomorrow night is the first community meeting where the numbers will be

presented to the board members at the same time that the rate payers receive them. It is expected that the board will hear comments from the public and then give direction to the consultant. There is opposition and if the District receives 50% protest they may be in a position to consider some type of consolidation. The public feedback appears to be positive and favors remaining as an independent district.

Mr. Woodling said that he appreciates the Executive Committee's understanding of the budget and for the vision of where RWA is going.

ADJOURNMENT

With no further business to come before the Executive Committee, Chair Yasutake adjourned the meeting at 9:04 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Board Secretary / Treasurer