

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA
Board of Directors Meeting
Agenda
June 15, 2015 at 1:30 p.m.

1. Call to Order, Flag Salute and Roll Call

2. Adoption and Adjustment of Agenda

3. Public Comment

Members of the public may address the Board at this time concerning items relating to any matter within the Agency's jurisdiction. To comment on specific agenda items, please complete a speaker's request form and hand it to the board secretary.

4. Consent Calendar:

If any board member requests that an item be removed from the Consent Calendar, it will be removed so that it may be acted upon separately.

- A. Approval of the Minutes of the Regular Board Meeting, June 1, 2015*(Page 2)
- B. Approval of the Minutes of the Engineering Workshop, June 8, 2015*(Page 7)

5. Reports (Discussion and Possible Action)

- A. General Manager's Report
 - 1. Operations Report
 - 2. General Agency Updates
- B. General Counsel Report
- C. Directors' Reports

6. New Business (Discussion and Possible Action)

- A. Consideration of Contracting with EY to provide DWR Audit for Independent Audit Association* (Page 9)
- B. Consideration of Resolution No. 2015-03 in Support of Candidacy of Mary Ann Melleby for ACWA Region 9 Board of Directors* (Page 38)
- C. Consideration of Appointment of Jeff Ferré as Agency General Counsel* (Page 40)
- D. Status Report on SWRDS Finance Committee* (Page 42)
- E. Review of San Gorgonio Pass Regional Water Alliance Website

7. Topics for Future Agendas

8. Announcements

- A. Finance and Budget Workshop, June 22, 2015 at 1:30 p.m.
- B. San Gorgonio Pass Regional Water Alliance, June 24, 2015
 - 1. Administrative Committee at 3:30 p.m. – Banning City Council Chambers
 - 2. Technical Committee at 4:30 p.m. – Banning City Hall Conference Room
 - 3. Regular Board Meeting at 6:00 p.m. – Banning City Council Chambers
- C. SGPWA – State of the Regional Water Supply, June 26, 2015
 - 7:30 a.m. - Continental Breakfast
 - 8:00 a.m. - Program
 - Holiday Inn - 1864 Oak Valley Village Circle, Beaumont

9. Adjournment

***Information included in Agenda Packet**

(1) Materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the Agency's office at 1210 Beaumont Avenue, Beaumont during normal business hours. (2) Pursuant to Government Code section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than ~~seventy-two~~ (72) hours prior to the meeting will be available for public inspection at the Agency's office, located at 1210 Beaumont Avenue, Beaumont, California 92223, 1 / 4 5 business hours. When practical, these public records will also be made available on the Agency's Internet Web site, accessible at: www.sgpwa.com (3) Any person with a disability who requires accommodation in order to participate in this meeting should telephone the Agency (951 845-2577) at least 48 hours prior to the meeting in order to make a request for a disability-related modification or accommodation.

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, California 92223
Minutes of the
Board of Directors Meeting
June 1, 2015

Teleconference Location: 10213 Overland Trail
Cherry Valley, CA 92223

Directors Present: John Jeter, President
Bill Dickson, Vice President
Mary Ann Melleby, Treasurer
Blair Ball, Director
Ron Duncan, Director (Arrived at 1:35 pm)
Ray Morris, Director (via teleconference)

Directors Absent: Leonard Stephenson, Director

Staff Present: Jeff Davis, General Manager
Jeff Ferré, General Counsel
Tom Todd, Finance Manager
Cheryle Rasmussen, Executive Assistant

1. **Call to Order, Flag Salute and Roll Call:** The meeting of the San Gorgonio Pass Water Agency Board of Directors was called to order by Board President John Jeter at 1:30 p.m., June 1, 2015 in the Agency Boardroom at 1210 Beaumont Avenue, Beaumont, California. Director Dickson led the Pledge of Allegiance to the flag. A quorum was present.
2. **Statement Regarding Teleconferencing:** General Counsel Jeff Ferré made the following statement: "This Board meeting is conducted pursuant to California Government Code Section 54953, in that one member of the Board will be participating in this Board meeting by speaker phone. In accordance with the Brown Act, the teleconference location has been identified in the notice and agenda for this meeting. I will now ask the Board Secretary to conduct roll call, after which I will confirm certain matters for the record".
3. **Roll Call:**

<u>Roll Call:</u>	<i>Present</i>	<i>Absent</i>
Director Stephenson	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Director Ball	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Morris	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Melleby	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Duncan	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Dickson	<input checked="" type="checkbox"/>	<input type="checkbox"/>
President Jeter	<input checked="" type="checkbox"/>	<input type="checkbox"/>

4. **Procedures for holding Meeting at the Teleconference Location:** General Counsel Ferré confirmed with Director Morris that he in fact was able to hear the proceedings; that he had a copy of the June 1, 2015 Board Meeting Agenda; that the agenda was posted at his location, and that the location was accessible to the public. Director Morris responded in the affirmative to all such questions. General Counsel Ferré asked the attending board members if they had any questions. There being none General Counsel Ferré turned the meeting over to President Jeter.
5. **Adoption and Adjustment of the Agenda:** *President Jeter asked if there were any adjustments to the agenda.* There being none the agenda was adopted as presented.
6. **Public Comment:** *President Jeter asked the members of the public for comments.* No members of the public requested to speak at this time.
7. **Consent Calendar:**
 - A. Approval of the Minutes of the Regular Board Meeting, May 4, 2015
 - B. Approval of the Minutes of the Engineering Workshop, May 11, 2015
 - C. Approval of the Minutes of the Finance and Budget Workshop, May 26, 2015
 - D. Approval of the Finance and Budget Workshop Report, May 26, 2015

Director Dickson moved, seconded by Director Melleby, to approve the consent calendar as presented with the noted abstentions.

President Jeter requested a roll call:

<u>Roll Call:</u>	Aye	Noes	Absent	Abstain
Director Stephenson	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Ball	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	7A & 7B			7C & 7D
Director Morris	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Melleby	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	7B,7C, 7D			7A
Director Duncan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Dickson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
President Jeter	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Motion carried 6-0 with Director Stephenson absent.

8. **Reports:**
 - A. **General Manager's Report:**
 - (1) **Operations Report:** General Manager Davis reported on the following: (a) **SWP Water Deliveries:** The Agency delivered a total of 566 acre-feet to the Noble Creek connection, for the month of May. Current operations consist of one 10-hour shift per day. (b) **Cherry Valley Pump Station (CVPS):** Last week there was a minor communication problem at CVPS for a couple of days and has since been resolved.

(c) Media Reports: Recent news articles concerning the current El Niño weather pattern have indicated that California may see a wet year for 2015/2016, however El Niños have been known to not have much of an impact during the rainy season.

(2) General Agency Updates:

(a) ACT - SBVMWD: General Manager Davis reported that he attended SBVMWD's news conference that was held at its headquarters this morning. The event was to rollout SBVMWD's ACT (Achieving Conservation Together) program. The district showcased a pyramid stack of 15 55-gallon drums to illustrate the amount of water an average family of four uses every day. The intent is meant to show all water users that we need to work together to meet the state's emergency requirements during the unprecedented drought.

(b) Water Restrictions: Today marks the official start date of monitoring water cutbacks as ordered by Gov. Jerry Brown.

(c) Speaking Engagements: General Manger Davis spoke at numerous venues in the past two weeks, all of which focused on the current drought. He was also on the water panel for the 2015 San Geronio Pass Summit that was hosted by Riverside County Supervisor Marion Ashley on May 14th.

(d) Turf Removal Programs: Metropolitan Water District of Southern California is spending an additional \$350 million of its reserves for turf removal. Met's residential customers may apply to receive \$2 per square foot, up to a maximum of \$6,000 per property. Currently there are no funding opportunities within the pass area for turf removal. The Agency is waiting for a Proposal Solicitation Package (PSP) to be released in order to apply for Prop 1 grant funding that has been set aside for water programs and projects.

(e) Delta Water Rights: Farmers with senior riparian rights in the Sacramento-San Joaquin River Delta are proposing to voluntarily reduce their water usage by 25 percent in exchange for assurances of no further limit on diversions.

f) AB 654: General Manager Davis stated that discussion took place at the May 4th Board meeting on this item, whereby General Manager Doug Headrick (SBVMWD) introduced AB 654 to ensure that property tax revenues formerly passed through RDAs will be distributed in the ways that California voters decided upon. General Manager Davis provided a status report of the bill; ultimately the bill was included in the budget trailer bills and is almost certain to pass which would help revenues next year and in succeeding years. It is unclear at this time how much of a positive fiscal impact it will have on the Agency.

(g) State of the Regional Water Supply: This event that is being hosted by SGPWA will take place Friday, June 26th at 8:00 a.m. (continental breakfast – 7:30 a.m.) at the Holiday Inn at Oak Valley. Information will be sent to the local chambers and invitations will be sent out to public officials. In addition, CV Strategies is in charge of submitting ads to the local newspapers. Director Duncan requested that an electronic version of the ad be sent directly to the Banning Chamber for posting to its website.

(g) Inland Empire Resource Conservation District Update: The Agency funded a total of 56 water conservation programs for grades K-6 located in Beaumont, Banning, and Cabazon schools, with a total of 1626 students in attendance through May.

B. General Counsel Report: General Counsel Ferré reported to the Board on the following: **The Clean Water Act:** Last week the EPA came out with the new regulations on the Clean Water Act. The Clean Water Ace ensures that waters protected under the Clean Water Act are more precisely defined, more predictably determined, and easier for businesses and industry to understand. BB&K attorneys are looking into the new regulation. General Counsel Ferré will continue to keep the board updated on this issue.

C. Directors Reports: (1) Director Melleby reported on the following meetings. a) BCVWD Board meeting on May 13th. b) San Gorgonio Pass Summit on May 14th, which was hosted by Riverside County Supervisor Marion Ashley c) SGPRWA meetings that were held on May 27th. d) Director Melleby announced that the city of Banning adopted new water use restrictions. A town hall meeting will take place at Sun Lakes on June 4th on the new restrictions. **(2) Director Dickson** reported that he attended BCVWD Board meeting, the YVWD Finance and Budget workshop and the City of Beaumont's State of the City Address. **(3) Director Duncan** stated that he concurred with the report given by Director Melleby on the SGP Summit. **(4) Director Ball** reported that he also attended the City of Beaumont's State of the City Address.

9. New Business: (Discussion and Possible Action)

A. Consideration of Adoption of Updated CEQA Guidelines: A copy of the staff report and a memorandum from Best Best & Krieger pertaining to the 2015 Summary of Changes to Local CEQA Guidelines were included in the agenda packet. General Manager Davis stated that Resolution No. 2015-02 was not included in the agenda packet; however, each board member has been provided with a copy of the resolution for today's meeting; copies are also available to the public. General Manager Davis provided background information on CEQA guidelines. He turned the discussion over to General Counsel Ferré to update the board on the revisions. General Counsel Ferré stated that BB&K does the CEQA Guidelines update for all its clients. The CEQA Guidelines are an update based on the state's guidelines; included are formats for negative declarations, exemptions, and items of that nature. Because there were a number of changes this year, not necessarily relative to this Agency, General Counsel Ferré recommended that the Board approve Resolution 2015-02, which would adopt the local CEQA Guidelines as the Agency's own. Director Dickson made a motion, seconded by Director Melleby, approving Resolution No. 2015-02, a Resolution of the San Gorgonio Pass Water Agency amending and adopting local guidelines for implementing the California Environmental Quality Act – (Public Resources Code §§ 21000 ET SEQ). Director Melleby questioned the intent of the provisions to the tribes. General Counsel Ferré stated that it was an effort to provide consultation to the Tribe pertaining to discoveries that may impact tribal history and/or artifacts.

<u>Roll Call:</u>	<i>Aye</i>	<i>Noes</i>	<i>Absent</i>	<i>Abstain</i>
Director Stephenson	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Director Ball	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Morris	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Melleby	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Duncan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Dickson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
President Jeter	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Motion carried 6-0 with Director Stephenson absent.

B. Consideration of ACWA Region 9 Board Nomination: A staff report and ACWA materials pertaining to AWCA's 2016/2017 Board nominations were included in the agenda packet. General Manager Davis stated that ACWA is requesting nominations by

June 20th for the 2016/2017 term for ACWA Region 9 Board. He asked if the Board wishes to nominate one of its own board members. Director Dickson and Director Duncan nominated Director Melleby. Director Melleby accepted the nomination. General Manager Davis will present a resolution officially naming Director Melleby as a nominee at the next board meeting.

C. Overview of State Budget Trailer Bills Related to Drought Response: A staff report and material related to the drought budget trailer bills were included in the agenda packet. General Manager Davis reviewed the list of trailer bills with the board for informational purposes. He stated that all of these bills are located on the Department of Finance's website, which will give the viewer the latest up-to-date information. Director Ball inquired when the bills would go into effect. General Manager Davis stated that assuming these bills pass they would go into effect July 1, 2015.

D. Presentation on State Water Contractors Objectives: A PowerPoint presentation on the SWC FY 2014-15 Accomplishments and FY 2015-16 Draft Objectives was provided in the agenda packet. General Manager Davis reviewed with the Board which entities encompass the SWC Inc., of which the Agency is a member. General Manager Davis attends the SWC Inc. Board meetings in Sacramento on a monthly basis. Staff members are also active on the Energy Committee and the Finance and Audit Committee. He reviewed with the Board the 2014-2015 accomplishments and the 2015-16 draft objectives. Director Melleby inquired the status of the state water contract extension between DWR and SWP contractors. General Manager Davis responded that an "Agreement in Principal" was signed and has been turned over to attorneys for contract language. This item will likely be presented to the Board for review in detail in 2016.

10. Topics for Future Agendas: Director Melleby stated that she would like to provide a presentation on the SGPRWA website. President Jeter requested information on desalination and environmental impacts. There were no other topics for future agendas given at this time.

11. Announcements: *President Jeter reviewed the following announcements:*

- A. Engineering Workshop, June 8, 2015 at 1:30 p.m.
- B. Regular Board Meeting, June 15, 2015 at 1:30 p.m.
- C. Finance and Budget Workshop, June 22, 2015 at 1:30 p.m.

12. Adjournment: *President Jeter adjourned the meeting at 2:35 p.m.*

DRAFT – SUBJECT TO BOARD APPROVAL
Jeffrey W. Davis, Secretary of the Board

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA 92223
Minutes of the
Board of Directors Engineering Workshop
June 8, 2015

Directors Present: John Jeter, President
Blair Ball, Director (arrived 1:37 pm)
Bill Dickson, Vice President
Ron Duncan, Director
Mary Ann Melleby, Director
Leonard Stephenson, Director

Director Absent: Ray Morris, Director

Staff Present: Jeff Davis, General Manager

1. Call to Order, Flag Salute and Roll Call. The Engineering workshop of the San Gorgonio Pass Water Agency Board of Directors was called to order by President John Jeter at 1:30 p.m., June 8, 2015 in the Agency Board room at 1210 Beaumont Avenue, Beaumont, California. Director Dickson led the Pledge of Allegiance to the flag. A quorum was present. General Manager Davis noted that, even though the agenda indicates that this meeting will be held via teleconference at a remote location, that will not occur today. President Jeter turned the meeting over to Vice President Dickson, Chair of the Engineering Committee.

2. Public Comment. No member of the public wished to speak at this time.

3. Discussion of State Water Project Draft Delivery Capability Report. A copy of the draft report was included in the agenda package. General Manager Davis presented a Power Point summarizing the report, in particular the assumptions made, the scenarios modeled, and the results. He noted that, under all hydrologic conditions considered, there is very little change in the results from the 2013 report, known at that time as the SWP Delivery Reliability Report. He noted for the Board that five scenarios were considered in the report, only one of which includes the twin tunnels under the Delta.

4. Further Discussion of Sustainable Groundwater Management Act. General Manager Davis presented two Power Points, both of which were presented at the recent ACWA conference. Each summarized a different aspect of the Sustainable Groundwater Management Act (SGMA). One noted that it will make land use planning and water supply planning more complicated, and the other noted that it is in local water agencies' best interests to form Groundwater Sustainability Agencies with their neighbors or on their own, as opposed to

having the State do it for them. The presentation noted that SGMA provides tools for local water agencies and land use planning agencies, but that it is up to those agencies to use them correctly.

5. Announcements:

- A. Regular Board of Directors Meeting, June 15, 2015 at 1:30 pm.
- B. Finance and Budget Workshop, June 22, 2015 at 1:30 pm.
- C. San Gorgonio Pass Regional Water Alliance – Technical Committee Meeting, June 24, 2015 at 4:30 pm – Banning City Hall Conference Room
- D. San Gorgonio Pass Regional Water Alliance Meeting, June 24, 2015 at 6:00 pm – Banning City Council Chambers.
- E. SGPWA—State of the Regional Water Supply, June 26, 2015
7:30 am—Continental Breakfast
8:00 am—Program
Holiday Inn – 1864 Oak Valley Village Circle, Beaumont

6. Adjournment: Chairman Dickson adjourned the meeting at 2:25 p.m.

DRAFT – SUBJECT TO BOARD APPROVAL

Jeffrey W. Davis, Secretary to the Board

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Contracting for Auditing Services on Behalf of the State Water Contractors

DATE: June 15, 2015

Summary:

Each year the State Water Contractors hire an auditing firm to perform audits of DWR (not the formal audit that we perform on our own books). EY has performed this work for several years in a row. The same firm has been selected to perform the work again this year. The Agency's share of this cost will range from \$4,866 to \$6,083, unless the Agency wishes EY to perform additional tasks at our request. This is slightly more than last year.

Background:

As detailed in the attached letter, EY performs an auditing function but does not perform an actual audit on DWR. The purpose of this work is to ensure that DWR is making efficient use of the Contractors' funds. The scope of work is described in detail in the attached memo from the Independent Audit Association and the EY contract. The cost of performing this work is shared by the Contractors based on Table A allocations, with the exception of the Metropolitan Water District of Southern California, which performs its own audit of DWR.

Detailed Report:

The Contractors, through the Independent Audit Association, of which the Agency is a member, develop the scope of the audit annually. The scope of this year's audit is similar to last year's. The purpose of the audit is to determine if DWR's business practices are acceptable and reasonable. This is not an audit in the traditional sense of ensuring that all funds are accounted for.

The auditing work is important for the Contractors so that we may be assured that DWR is using our funds efficiently and that funds paid to DWR from the Contractors do not end up in the state general fund.

Last year, the Agency budgeted \$5,000 for this audit. Our actual costs were about \$4,700.

Fiscal Impact:

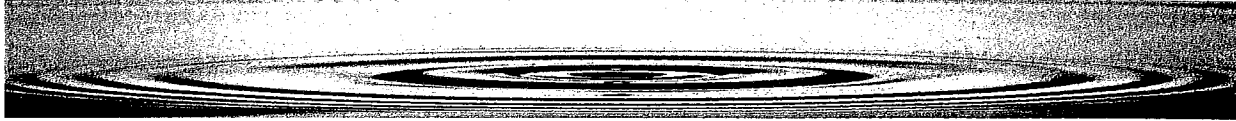
This year (FY 15-16), the Agency has budgeted \$5,000 for this work from the General Fund. Correspondence from EY indicates that actual costs will range from \$4,866 to \$6,083, but are likely to be on the lower end of this range. Because this is budgeted, there is no appreciable fiscal impact of approving this contract.

Relationship to Strategic Plan:

The DWR audit enables the Agency to be more certain that its payments to Sacramento truly reflect actual DWR costs and are not likely to increase unexpectedly. Thus, this proposed action comes under the fourth goal of the strategic plan, development of a regional financing plan.

Recommendation:

Staff recommends that the Board approve contracting with EY to provide this work, and authorize the General Manager to sign the attached letter.



MEMORANDUM

Date: April 29, 2015
To: Members of the Independent Audit Association (IAA)
From: Tamara Baptista, IAA Secretary
Subject: Ernst and Young 2015/2016 State Water Project Professional Services Contract
– Recommended Approval and Execution

Enclosed is the 2015/2016 Statement of Work (SOW) which includes the State Water Project procedures to be performed in relation to the Department of Water Resources' (DWR) Statement of Charges. In 2012, IAA Members approved the Master Services Agreement (MSA) with Ernst and Young which spans a period of 5 years, although, may be extended if mutually agreed upon. This is the fourth year of the MSA.

Each year the IAA coordinates with Ernst and Young to develop a SOW for professional services to be provided in that year per the MSA. The SOW is included by reference in the MSA, but it does not constitute an amendment to the MSA. To provide a more efficient annual approval process only the SOW will be addressed for approval each year.

The Exhibit B budget limit is only billed by Ernst and Young if additional work is reviewed and approved by the IAA and remains at \$50,000. Exhibit C allows individual IAA Members to request Ernst and Young to undertake additional services beyond those included in Exhibit A of the SOW.

The IAA team has reviewed Ernst and Young's proposed procedures and recommends that IAA Members approve and execute the 2015/2016 SOW. If you have any questions, please contact me at (925) 454-5011 or tbaptista@zone7water.com.

Sincerely,

Tamara Baptista

Tamara Baptista
Zone 7 Water Agency

CC: Joe Pirnik, EY



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May 29, 2015

Mr. Jeff Davis
San Geronio Pass Water Agency
1210 Beaumont Ave.
Beaumont, California 92223

Dear Mr. Davis:

In coordination with the Independent Audit Association (IAA), we have developed the Statement of Work (SOW) for the 2015-2016 Procedures to be performed related to the 2016 Statement of Charges. This SOW is pursuant to the Master Services Agreement (MSA) by and between EY and San Geronio Pass Water Agency dated July 27, 2012, which describes the annual approval process of each SOW performed under the MSA.

Enclosed are two copies of our SOW, one for your records and another to be signed and returned to EY in the self-addressed, stamped return envelope provided. We have also enclosed your copy of the support letter from Tamara Baptista, IAA Secretary, recommending the approval of the SOW by San Geronio Pass Water Agency.

If you have any questions about the enclosed SOW, please feel free to call me at (916) 218-1960.

Very truly yours,

Joe Pirnik
Executive Director

Enclosures



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Statement of Work

This Statement of Work with the attached Exhibits, dated May 29, 2015 (this SOW) is made by Ernst & Young LLP (“we” or “EY”) and San Geronio Pass Water Agency on behalf of itself (“you” or “Client”), pursuant to the Master Services Agreement, dated July 27, 2012 (MSA), between EY and San Geronio Pass Water Agency (the Agency).

The additional terms and conditions of this SOW shall apply only to the Services covered by this SOW and not to Services covered by any other Statement of Work pursuant to the MSA. Capitalized terms used, but not otherwise defined, in this SOW shall have the meanings in the MSA, and references in the Agreement to “you” or “Client” shall be deemed references to you.

Scope of services

This SOW sets forth the terms and conditions on which EY will perform certain professional services as described in Exhibit A (the Services) for Agency, a member of the State Water Contractors Independent Audit Association (IAA), for the twelve months ending June 30, 2016. With the exception of paragraph 25 of the MSA, which is replaced in its entirety by the following:

Unless prohibited by applicable law, we may provide Client Information to other EY Firms (which are listed at www.ey.com) and EY Persons, as well as external third parties providing services on our or their behalf, who may collect, use, transfer, store or otherwise process (collectively, “Process”) it in various jurisdictions in which they operate in order to facilitate performance of the Services, to comply with regulatory requirements, to check conflicts, to provide financial accounting and other administrative support services or for quality and risk management purposes. We shall be responsible to you for maintaining the confidentiality of Client Information, regardless of where or by whom such information is processed on our behalf.

Any changes to the above scope of work will be agreed upon in writing and signed by both parties and will amend this original SOW.

The Services are advisory in nature and will not constitute an audit performed in accordance with Generally Accepted Accounting Principles. EY will perform the Services in accordance with the Statement of Standards for Consulting Services (CS100) of the American Institute for Certified Public Accountants (AICPA). As part of your review of the terms of this Agreement, please refer to the enclosed letter from Ms. Tamara Baptista of the IAA Audit Contract Negotiating Committee dated April 29, 2015.

Your specific obligations

You will not, and you will not permit others to, quote or refer to the Reports, any portion, summary or abstract thereof, or to EY or any other EY Firm, in any document filed or distributed in connection with (i) a purchase or sale of securities to which the United States or state securities laws (Securities Laws) are applicable, or (ii)



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periodic reporting obligations under Securities Laws. You will not contend that any provisions of Securities Laws could invalidate any provision of this agreement.

We also draw your attention to the reservations set out in paragraph 5 of the General Terms and Conditions of the MSA, as well as your management responsibilities under paragraph 6, your obligations under paragraphs 11 and 12, and your representation, as of the date hereof, under paragraph 26 thereof.

Specific additional terms and conditions

The Services are advisory in nature. EY will not render an assurance report or opinion under the Agreement, nor will the Services constitute an audit, review, examination, or other form of attestation as those terms are defined by the American Institute of Certified Public Accountants. None of the Services or any Reports will constitute any legal opinion or advice. We will not conduct a review to detect fraud or illegal acts.

Notwithstanding anything to the contrary in the Agreement or this SOW, we do not assume any responsibility for any third-party products, programs or services, their performance or compliance with your specifications or otherwise.

We will base any comments or recommendations as to the functional or technical capabilities of any products in use or being considered by you solely on information provided by your vendors, directly or through you. We are not responsible for the completeness or accuracy of any such information or for confirming any of it.

Where our written consent under the MSA is required for you to disclose to a third party any of our Reports (other than Tax Advice), we will also require that third party to execute a letter substantially in the form of Exhibit D to this SOW. To the extent the Agency is permitted to disclose any written Report as set forth herein, it shall disclose such Report only in the original, complete and unaltered form provided by EY, with all restrictive legends and other agreements intact.

Unless prohibited by applicable law, we may provide Client Information to other EY firms, EY Persons and external third parties, who may collect, use, transfer, store or otherwise process such information in various jurisdictions in which they operate in order to provide support services to any EY Firm and/or assist in the performance of the Services.

After the Services under this SOW have been completed, we may disclose or present to prospective clients, or otherwise in our marketing materials, that we have performed the Services for you, and we may use your name solely for that purpose, in accordance with applicable professional obligations. In addition, we may use your name, trademark, service mark and logo as reasonably necessary to perform the Services and in correspondence, including proposals, from us to you.

You shall not, while we are performing the Services hereunder and for a period of 12 months after they are completed, solicit for employment, or hire, any EY personnel involved in the performance of the Services, provided, that you may generally advertise available positions and hire EY personnel who either respond to



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such advertisements or who come to you on their own initiative without direct or indirect encouragement from you.

The Agency shall, among other responsibilities with respect to the Services, (i) make all management decisions and perform all management functions, including applying independent business judgment to EY work products, making implementation decisions and determining further courses of action in connection with any Services; (ii) assign a competent employee within senior management to make all management decisions with respect to the Services, oversee the Services and evaluate their adequacy and results; and (iii) accept responsibility for the implementation of the results or recommendations contained in the Reports or otherwise in connection with the Services. The Agency hereby confirms that management of the Agency accepts responsibility for the sufficiency of the Services. In performing the Services neither EY nor EY's partners or employees will act as an employee of the Agency.

The Agency represents and warrants to EY that the Agency's execution and delivery of this Agreement has been authorized by all requisite corporate or other applicable entity action and the person signing this Agreement is expressly authorized to execute it on behalf of, and to bind, the Agency.

The performance of the Services and the parties' obligations in connection therewith are subject to the additional terms and conditions set forth in the MSA.

It is understood that the Agency is not bound by our findings in any controversy or disagreement between the Agency and the Department of Water Resources should the Agency disagree with our findings.

We would also request that, if any IAA member discovers discrepancies in billings or other financial statements relative to their State Water Project costs, in addition to your working with the Department to correct the error, please notify EY for potential future inclusion as part of their procedures related to all IAA members.

Fees and billing

The General Terms and Conditions of the Agreement address our fees and expenses generally.

The total fees for these Services to be rendered to the Agency, as well as an allocation of the total fees for each member agency of the IAA, appear in Exhibits A and B attached (no procedures or fees have been allocated to Exhibit B in this contract). Our total fees pursuant to Exhibit A to be charged to all members of the IAA entering into agreements with us shall not exceed \$466,000 for the twelve months ending June 30, 2016. This agreement will not be effective unless, in addition to the Agency, a sufficient number of other IAA agencies enter into agreements with us for such Services whose combined allocated fee would represent not less than 80% of \$466,000 based on the 100% participation fee allocation (see column 2 at A-4). If all agencies who are presently participating in the Services rendered by our firm enter into agreements with us for this twelve-month period, the maximum fees for our Services to your Agency will not exceed \$4,866 for Exhibit A. However, if not all of the participating agencies enter into agreements with us for services during the twelve-month period ending June 30, 2016, the maximum fees to your Agency will vary between the above-mentioned amount and



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\$6,083, which represents the maximum fees should sufficient agencies enter into agreements with us with a combined allocated fee of not less than 80%, as stated above.

In addition to the maximum fees under Exhibit A, maximum fees under Exhibit B shall not exceed a total of \$50,000 or \$522 for the Agency unless agreed to by the IAA. As noted above, no procedures have been allocated to Exhibit B. Prior to any expenditures under Exhibit B, said work must be specifically requested in writing in advance of any work being performed. Areas of potential focus for Exhibit B projects could include procedures agreed to by EY and the IAA in advance related to one or more of the items identified in Exhibit A. In prior years Exhibit B special projects have included projects such as assessing implementation and billing issues relating to the new SAP-based Cost Allocation and Repayment Analysis System (CARA), and studies to evaluate a pay-as-you-go system for funding conservation related operating costs incurred by the Department.

We have also included Exhibit C as part of this contract, which provides the opportunity for individual Contractors to enter into separate agreements for additional services with EY. There are currently no fees related to Exhibit C included herein.

The results of our procedures will include a presentation of our findings, observations and recommendations to be held in Sacramento, California for any interested Contractors. Any presentations requested at individual Contractor locations will be negotiated with the individual Contractor under Exhibit C and will be paid for by that Contractor.

Invoices for time and expenses will be billed monthly and are due upon receipt.



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In witness whereof, the parties have executed this SOW as of the date set forth above.

San Geronio Pass Water Agency

Ernst & Young, LLP

Representative

Representative

Signature

Signature

Printed Name

Joe Pirnik
Printed Name

Title

Executive Director
Title

Address

Ernst & Young LLP
Suite 300
2901 Douglas Boulevard
Roseville, CA 95661
Address

Date

May 29, 2015
Date

EXHIBIT A

I. SCOPE OF ENGAGEMENT

A-1 EY will work with the IAA, the State Water Contractors (SWC) Audit/Finance Committee, and any subcommittees thereof, and the Department of Water Resources (the Department) during the twelve months ending June 30, 2016 relating to matters currently being discussed between the SWC and the Department.

EY's Services to be rendered as described in this Exhibit shall be determined by the IAA at its discretion. These Services shall include:

1. Completion of the 2015/2016 procedures as outlined further below
2. Participation in all meetings of the SWC Audit/Finance Committee, which is a basic forum for communications between the State Water Project Contractors and the Department's staff on financial and accounting matters.
3. Cooperation with any subcommittees of the IAA assigned to study and resolve specific problem areas.
4. Review of reports and other documents prepared by the Department and disseminated at these meetings.
5. Provide an annual report setting forth the findings, comments, and recommendations related to our Services.

Report definitions

The assessment of Risk of Future Occurrence, included in the findings summary tables in the report, provides the IAA with a meaningful measurement of the likelihood of similar findings in subsequent years if this issue is not addressed by the appropriate parties. This assessment of Risk of Future Occurrence is based on knowledge obtained during discussions with Department of Water Resources personnel and performance of procedures under this Exhibit A. Below are the definitions used in the report of findings and recommendations for the twelve months ending June 30, 2016 and we concur with these definitions.

Risk of Future Occurrence:

- A. High – it is highly likely (or probable) that the error or process failure will be repeated
- B. Medium – it is more likely than not that the error or process failure will be repeated
- C. Low – it is possible that the error or process failure will be repeated

During the twelve months ending June 30, 2016, the Services will include the following procedures.

2015/2016 Procedures

The procedures for the fiscal year ended June 30, 2016 were designed using estimated budgeted hours of 3,000. We will perform all procedures included in items 1-6 below. We will perform the procedures in items 7-8 if time permits. As a part of these procedures, we will regularly meet with the IAA to discuss the progress under this engagement. We will also submit the Report to each agency setting forth the findings, observations, and recommendations related to our Services.

The following items represent the risks, risk factors, and procedures requested and determined by the Independent Audit Association (IAA) for the State Water Contractors (the Contractors) to be performed for the 2016 Statement of Charges (SOC) engagement:

Primary Procedures (Items 1-6)

1. Alpha Allocation Cycles

Risk:

- Incorrect Contractor charged and/or incorrect allocation of costs between Contractors.

Risk Factors:

- Potential for outdated alpha allocation cycles and/or project activities have changed.
- Project Managers possible lack of understanding of alpha allocation cycle when choosing how project costs will be allocated.
- Lack of communication between Project Managers and SWPAO.
- Current changes/updates that are being made by the Department.

Areas of Focus:

- Examine all cost centers from SAP to determine which cost centers represent alpha cost centers.
- Select alpha cost centers with the largest total annual costs for testing.
- Review costs being posted to selected alpha cost centers for reasonableness based on activities charged to the alpha cost center through examination of invoices posted and discussions with the project managers, as necessary.
- Review the current year alpha standardization activity performed by the Department.

2. Delta Water Charge

Risk:

- Costs or credits in the Delta Water Charge may be inappropriate, incomplete or miscalculated.

Risk Factors:

- Calculation of the Delta Water Charge is a manual process.
- Reclassifications that occur can lead to double counting of costs.
- Charge represents large portion of costs.
- Charges highly impacted by future estimates which are subjective and judgmental.
- Misallocation of costs/credits between the Delta Water Charge and the Variable OMP&R.

Areas of Focus:

- Recalculate the Delta Water Charge used in the Statement of Charges.
- For prior year actual costs included in the calculation, compare costs in SAP to the Department's calculation and investigate variances over \$100K.
- Obtain an understanding of future estimates included in the calculation and perform appropriate procedures to test the reasonableness of such estimates.
- Test the Hyatt-Thermalito credit to the Delta Water Charge to ensure it is appropriate.

3. System Power Costs – Variable Transportation

Risk:

- Incorrect Contractor charged and/or incorrect allocation of costs between Contractors.

Risk Factors:

- Calculation of power allocation factors is a manual process.
- Contractors' total water deliveries, which are the basis of power usage, are preliminary amounts.
- Invoices are improperly allocated to system power costs.
- Lack of controls in reconciling information to SAP.
- Prior/current year costs are not "settled" until current/subsequent year(s).

Areas of Focus:

- Vouch power costs and power revenues from SAP greater than \$500K and test the appropriate classification of costs.
- Reconcile the 2014 PALPOC to UCABS (SAP). Recalculate appropriate inputs to the 2014 PALPOC (e.g., VORG credits, direct-to-plant transmission, etc.).
- Recalculate the 2014 calendar year power allocation factors used in UCABS (SAP) to allocate net power costs.
- Recalculate the billed amounts for the transportation variable cost components for 2014 for the five Contractors selected (to be provided by the IAA).

4. Statement of Charges (SOC) Testing

Risk:

- Incorrect amounts billed to Contractors for each component by the Department.

Risk Factor:

- Statement of Charges do not reflect amounts billed by the Department causing incorrect billings during the charge year.

Areas of Focus:

- Determine that all SOC amounts are internally consistent and agree to the Bulletin 132-15 for five Contractors selected for testing (to be provided by the IAA).
- Agree the debt service amounts in the SOC Attachments to the appropriate debt service schedule.
- Test the BDCP charges added to the Contractors' minimum components.
- Comparison of the current year SOC Attachments to the prior year SOC Attachments.
- Reasonableness of manual adjustments.
- Testing appropriateness of actual costs charged to various areas of the project.
- Test factors for distributing reach capital and minimum costs amount Contractors.

5. Debt Service Procedures

Risk:

- Incorrect bond debt service charged to the Contractors.

Risk Factor:

- Amount billed could be different than amount due for principal and interest.
- WSRB Surcharge calculation is a manual process.

Areas of Focus:

- Reconcile any new bond offerings to the Debt Service Schedules
- Review the reconciliation of bond debt service costs
- Obtain the 2015 WSRB rebill and 2016 WSRB calculations and review that calculations were performed in accordance with the agreed upon method between the Contractors and the Department.

6. Transportation Minimum Future Estimates

Risk:

- Incorrect amounts charged to Contractors for transportation minimum costs based on estimates.

Risk Factor:

- Budgeted amounts may differ materially from the costs actually charged.
- Estimated amounts may not reflect updates of State Water Project facility changes.

Areas of Focus:

- Gain an understanding from the Department of the new process for calculating the transportation minimum future estimates.
- Obtain support for the transportation minimum future estimates and reconcile support to the SOC.
- Recalculate the transportation minimum component using the future estimates tested.
- Test the future estimates by agreeing the estimates to supporting schedules, budgets, etc.
- Obtain support for any extraordinary projects included in the future estimates and assess their appropriateness.
- Understand the Department's method for incorporating identified variances in prior period's budget vs. actual costs into the current year estimates.