

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA
Board of Directors Meeting
Agenda
June 16, 2014 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 2, 2014* (Page 2)
- B. Approval of the Minutes of the Engineering Workshop, June 9, 2014*(Page 5)

5. Reports (Discussion and Possible Action)

- A. General Manager's Report
 - 1. Operations Report
 - 2. Construction Update
 - 3. General Agency Updates
- B. Directors' Reports

6. New Business (Discussion and Possible Action)

- A. Consideration of Adopting Ordinance 9 – Policy on SGPWA Water Service* (Page 7)
- B. Consideration of State Water Project Audit Contract* (Page 14)
- C. Consideration of Candidate for LAFCO Special District Board Member Election* (Page 41)
- D. Consideration of Audit Engagement Letter* (Page 46)
- E. Consideration of Water Bond Letter of Support* (Page 54)

7. Topics for Future Agendas

8. Announcements

- A. Finance and Budget Workshop, June 23, 2014 at 1:30 p.m.
- B. San Gorgonio Pass Regional Water Alliance – Technical Committee Meeting, June 25, 2014 at 4:00 p.m. – Banning City Hall Conference Room
- C. San Gorgonio Pass Regional Water Alliance Meeting June 25, 2014 at 6:00 p.m. – Banning City Council Chambers
- D. Capacity Fee Workshop, **Thursday**, June 26, 2014 at 6:30 p.m.
- E. The office will be **closed Friday**, July 4, 2014 in observance of Independence Day
- F. Regular Board Meeting, July 7, 2014 at 1:30 p.m.

9. Closed Session (1 Item)

- A. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION – Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Section 54956.9 (one potential case)

10. 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, during regular 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 GORONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, California 92223
Minutes of the
Board of Directors Meeting
June 2, 2014

Directors Present: John Jeter, President
Bill Dickson, Vice President
Ron Duncan, Director
Mary Ann Melleby, Director
Ray Morris, Director
Barbara Voigt, Director

Director Absent: Ted Haring, Director

Staff Present: Jeff Davis, General Manager
Thomas 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 2, 2014 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. **Adoption and Adjustment of the Agenda:** The agenda was adopted as presented.
3. **Public Comment:** No members of the public requested to speak at this time.
4. **Consent Calendar:**
 - A. Approval of the Minutes of the Regular Board Meeting, May 19, 2014
 - B. Approval of the Minutes of the Finance and Budget Workshop, May 27, 2014
 - C. Approval of the Finance and Budget Workshop Report, May 27, 2014

The Board requested to act upon each item separately as some of the board members were not present for the May 19, 2014 Board meeting and the May 27, 2014 Finance and Budget workshop. Director Dickson moved, seconded by Director Duncan, to approve item 4a as presented. Motion passed 5-0, with Director Voigt abstaining and Director Haring absent. Director Dickson moved, seconded by Director Duncan, to approve item 4b as presented. Motion passed 5-0, with Director Melleby abstaining and Director Haring absent. Director Dickson moved, seconded by Director Duncan, to approve item 4c as presented. Motion passed 5-0, with Director Melleby abstaining and Director Haring absent.

5. 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 382 acre-feet to Beaumont Cherry Valley Water District ponds for the month of May. **(b) Operations and Maintenance Manager Ken Falls** is working a split schedule between the Agency and EBX 2. During the course of the

week he is working two 12 hour days at Greenspot Pumping Station and two 8-hour days for the Agency, with one day off.

(2) General Agency Updates: (a) Beaumont Avenue Recharge Facility Pipeline Project: In preparation for the construction of the pipeline staff has executed the following:

- Rented two digital signs which are positioned on the Northside and Southside of Beaumont Avenue, thereby alerting motorists, residents and business owners of the approaching temporary closure.
- General Manager Davis, along with Pro-Craft Contractor Travis Burton, attended a CVAN meeting that was held on May 22nd. Attendees were informed of the purpose of the project and construction timeline.
- The Agency's website under the heading "What's Happening" contains the pipeline construction current status, and will be updated accordingly; the website also has a detailed detour map.

In addition, staff will be distributing a detailed letter of the project and the construction timeline to homes and businesses on the route, as well as submitting a press release to the Record Gazette and Banning-Beaumont Patch. **(b) SWP Table A Water Allocation:** DWR informed SWC that they can take up to 20% of their 5% of SWP Table A water before September 1st. **(c) San Geronio Pass Regional Water Alliance:** SGPRWA is forming subcommittees that will focus on conservation, messaging and water recycling. **(d) BDCP Draft Implementing Agreement:** The Draft Implementing Agreement for the BDCP was released by the Natural Resources Agency. This agreement provides expectations, assurances and protections, and sets forth remedies and recourse should any party to the BDCP fail to perform its obligations. The agreement represents considerable work and a major milestone in the process. Contractors worked diligently providing input into the draft agreement. **(e)** The Agency's board room will be utilized as a Primary Election Precinct on Tuesday, June 3rd.

B. Directors Report: 1) **Director Melleby** reported that she attended the Beaumont State of the City luncheon on May 22nd. 2) **Director Voigt** reported that she and General Manager Davis attended the Yucaipa Valley Water District Board meeting on May 27th.

6. New Business: (Discussion and Possible Action)

A. Discussion Regarding Special Workshop on Capacity Fee: A staff report was included in the agenda packet. David Taussig & Associates has been hired to prepare a capacity fee nexus study. General Manager Davis proposed that the Board set a Special Capacity Fee workshop to be scheduled sometime during the second-half of June 2014, thereby allowing stakeholders to provide their input. Director Voigt stated that workshop should be held in the evening, around 6:30 p.m. General Manager Davis stated that he would contact the consultant to inquiry if the date and time is doable. After discussion, Director Voigt made a motion, seconded by Director Duncan, authorizing staff to schedule a Special Capacity Fee workshop for the evening of June 26th. Motion carried unopposed 6 – 0, with Director Haring absent.

B. Presentation on State Water Contractors Goals and Achievements: A copy of the SWC 2013-14 Accomplishments and 2014-15 Objectives was included in the agenda

packet. General Manager Davis provided an overview of the major accomplishments and revised objectives for the four major groups as follows:

- 💧 Business Practices
- 💧 Energy Resources
- 💧 Infrastructure Reliability
- 💧 Water Supply

7. **Topics for Future Agendas:** President Jeter requested topics for future agendas. No topics were requested for future agendas.

8. **Announcements:** *President Jeter reviewed the following announcements:*
 - A. Beaumont Basin Watermaster Meeting, June 4, 2014 at 10:00 a.m.
- Beaumont Cherry Valley Water District Board Room
 - B. Engineering Workshop, June 9, 2014 at 1:30 p.m.
 - C. Regular Board Meeting, June 16, 2014 at 1:30 p.m.
 - D. Finance and Budget Workshop, June 23, 2014 at 1:30 p.m.

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

Draft – Subject to Board Approval

Jeffrey W. Davis, Secretary of the Board

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SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA 92223
Minutes of the
Board of Directors Engineering Workshop
June 9, 2014

Directors Present: John Jeter, President
Bill Dickson, Vice President
Ron Duncan, Director
Ted Haring, Director
Mary Ann Melleby, Director
Ray Morris, Director
Barbara Voigt, 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 9, 2014 in the Agency conference room at 1210 Beaumont Avenue, Beaumont, California. President Jeter led the Pledge of Allegiance to the flag. A quorum was present.

2. Public Comment: John Halliwill asked if the Agency had enacted any water conservation regulatory actions and also asked if the Beaumont Basin water levels have reached their 2004 levels, and if not, why not. Director Melleby responded that the Agency has passed a resolution urging enhanced water conservation in the Agency's service area, as requested by the Governor. General Manager Davis added that the Agency's ability in this regard is somewhat limited by the San Gorgonio Pass Water Agency Act. General Manager Davis replied that he would answer Mr. Halliwill's other question at another time. President Jeter then turned the meeting over to Bill Dickson, Chair of the Engineering Committee.

3. Discussion on Draft Urban Water Management Plan Amendment: A copy of the draft amendment was included in the agenda package. General Manager Davis reviewed the reasons for producing an amendment at this time: To determine where the Agency stands from a water supply standpoint with more recent data, including the Beaumont Cherry Valley UWMP published in 2013; also to set a baseline for current water demand and housing to serve as a basis for the Agency's proposed capacity fee. He noted that the Agency, in accordance with law, must produce a new urban water management plan in 2015. He then reviewed the amendment. The most important information in the amendment, he noted, was that the projected demands on the Agency in 2035 are 35% lower than in the 2010 UWMP. At the same time, projected demands on the Agency in 2015 and 2020 are considerably higher. He informed the Board

that the most likely reason for this is the lack of any recycled water systems online at this point. He noted that the Agency's 2010 urban water management plan projected that Beaumont Cherry Valley Water District would be using approximately 3700 acre-feet of recycled water in 2015 and the City of Banning would be using 1200 acre-feet of recycled water in 2015. Without that 5000 acre-feet of recycled water, demand on the Agency is now projected to be higher than was thought in 2010. He noted that this amendment shows the Agency running out of water in 2020 or 2021, as opposed to the 2010 plan, which showed the Agency running out of water in approximately 2022. He indicated that this shows that the Agency needs to find a new water source well before 2020, which the Agency was already planning on doing. After discussion, Director Duncan moved, seconded by Director Voigt, that the amendment be brought to the Board for formal approval in accordance with the water code. The motion passed unanimously with all directors voting.

4. Announcements:

- A. Regular Board Meeting, June 16, 2014 at 1:30 pm.
- B. Finance and Budget Workshop, June 23, 2014 at 1:30 p.m.
- C. San Gorgonio Pass Regional Water Alliance – Technical Committee Meeting-- June 25, 2014 at 4:00 p.m. – Banning City Hall Conference Room.
- D. San Gorgonio Pass Regional Water Alliance Meeting—June 25, 2014 at 6:00 p.m. – Banning City Council Chambers.

5. Adjournment: Chairman Dickson adjourned the meeting at 2:00 p.m.

DRAFT – SUBJECT TO BOARD APPROVAL

Jeffrey W. Davis, Secretary to the Board

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Ordinance on Ordering of Water From Agency

DATE: June 16, 2014

Summary:

Over the past several months, the Board has discussed adopting a series of policies governing water service. One of those was a policy revising how the Agency requires its customers to order water on an annual basis. The Board approved this policy in concept at an Engineering workshop on February 10. The Board subsequently directed staff to bring this policy to the Board in the form of an ordinance. The purpose of this proposed Board action is to adopt a new ordinance revising the Agency's rules and regulations regarding water delivery with regard to ordering of water.

Background:

The Agency has grown over the past ten years. In 2004, the Agency had no customers. Over the past three years, until this year's drought, the Agency filled its 16 cfs capacity in the East Branch Extension and delivered more than 10,000 acre-feet each year. During this period of rapid growth, it has become obvious that the Agency needs to update its policy to meet current conditions.

One of these is a policy regarding how entities that want to purchase water from the Agency place their orders. While the Agency's Ordinance 8 includes such a policy, it needs updating especially to address very dry years and very wet years. Hence the discussion at several Engineering workshops about how this existing policy could be changed to make it more useful.

Detailed Report:

The Agency must order water each year from the Department of Water Resources. It must complete the order by October 1 for the succeeding year. The Agency has historically put this order together based on reasonable estimates because Agency customers were purchasing very little water from the Agency.

In 2012, in an effort to be more responsive to the Agency's customers, staff asked retail water agencies (including those who were currently purchasing water and those who were not) to complete an order form for SWP in 2013 for incorporation into the Agency's SWP order. This was discussed in detail at a meeting of the managers and a follow-up email was sent to those managers who did not attend the meeting. The result was that very few retail agencies responded (one responded on time, one responded late, and one responded in a manner inconsistent with the request; this order was finally changed after staff discussed the issue with that particular manager). No others responded.

It is important to get input from those entities who want to purchase water from the Agency in order to complete the DWR order and be responsive to customers. The policy discussions centered on prioritizing water in the event of a water shortage. The process of ordering must be consistent with and be able to implement the water shortage policy that was also discussed at length and that will be brought to the Board for approval in the near future.

The proposed policy, as recommended by the Board in February, requests that each entity that wishes to purchase water from the Agency complete an order form by September 1 of the previous year. That order should include requests for direct delivery water, replenishment water to meet current demands, and replenishment water in excess of current demands. These various categories represent priorities of water in the proposed water shortage policy.

The policy, as recommended by the Board, requires the General Manager to review the order to ensure that it is consistent with current needs so that the Agency can be fair to all those entities who would purchase water. The policy allows the General Manager to revise the order if he feels that it is unfair to other potential

purchasers. In the event the General Manager revises the number, the policy allows the purchaser to appeal to the Board, who has the final authority over all Agency water.

Staff has worked closely with the General Counsel on finalizing the language of the ordinance to ensure that it is consistent with the SGPWA Act and other appropriate legal standards.

Fiscal Impact:

There is no appreciable fiscal impact inherent in this action. It should not materially impact how much water is delivered by the Agency or how much revenue is received from these deliveries.

Relationship to Strategic Plan:

Staff, in conjunction with the strategic plan ad hoc committee, added adoption of a series of policies governing water delivery to the goals of the strategic plan. Adoption of this ordinance is consistent with that goal.

Recommendation:

Staff recommends that the Board approve Ordinance 9 revising the process by which Agency water is ordered.

**SAN GORGONIO PASS WATER AGENCY
ORDINANCE NO. 9**

**AN ORDINANCE ESTABLISHING AND AMENDING
RULES AND REGULATIONS FOR THE ORDERING OF
WATER**

WHEREAS, the San Gorgonio Pass Water Agency (“Agency”) is a State Water Project (“SWP”) Contractor authorized to acquire waterworks, waters, and/or water rights, including but not limited to, water from the State of California from the SWP, and to provide, sell, and deliver that water under the control of the Agency to cities, agencies, districts, persons, corporations or other entities within the Agency. The Agency is a wholesale water agency organized and operating under the Chapter 101 of the San Gorgonio Pass Water Agency Law set forth in the Water Code Appendix; and

WHEREAS, the Agency is required to order SWP water from the California Department of Water Resources. In order to maximize the utility of these annual orders, and in order to plan deliveries of water during all hydrologic conditions, the Agency needs to have an estimate from each purchaser as to the amount of water needed each year; and

WHEREAS, the Board of Directors previously adopted Ordinance No. 8 which established the “Rules And Regulations For SGPWA Water Service.” The Board desires to adopt this Ordinance No. 9 in order to establish and amend the procedures for submitting and approving annual water orders as said policies are set forth in Article IV of the Rules And Regulations For SGPWA Water Service.

BE IT ORDAINED BY THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY AS FOLLOWS:

Section 1 All of the foregoing Recitals are true and correct and the Board so finds and determines. The Recitals set forth above are incorporated herein and made an operative part of this Ordinance.

Section 2 ARTICLE IV, DELIVERY, Section 4.02 Need Forecasting Procedures of the Rules And Regulations For SGPWA Water Service, is hereby replaced, in its entirety, with the following:

1. Submittal Of SWP Orders to Meet Projected Demands. On or before September 1 of each year, each Purchaser shall submit a projection of its purchases of SGPWA Water for the next calendar year (“SWP Order”) based on its projected demand for SGPWA Water. Such SWP Orders shall be submitted on a Water Order Form which shall be provided by the Agency and which shall be subject to revision from time to time. Each Purchaser shall differentiate between Direct Deliveries and Replenishment Deliveries. “Direct Deliveries” shall be defined as deliveries directly to the connection or other facilities of the Purchaser for immediate domestic, industrial, agricultural recreational and municipal purposes within the Purchaser’s service area and shall not include any groundwater replenishment. “Replenishment Deliveries” shall be defined as deliveries to a

groundwater recharge facility that will not be used until pumped from the groundwater basin. Replenishment Deliveries to meet projected demands shall be defined as that volume of deliveries that would meet projected water demands for SGPWA water for groundwater replenishment for the calendar year ordered such that there would be no change in groundwater storage.

2. Submittal Of SWP Orders For Additional Purchases. The SWP Order may also include a projection of additional purchases of SGPWA Water which would be over and above the water needed to meet the projected demands for the applicable calendar year. It is expected that such water, if purchased, would be added to storage in the region, as it would not be needed to meet projected water demands for the applicable year. “Additional Purchases” shall be defined as deliveries for groundwater replenishment by spreading or injecting.

3. Substantiation Of SWP Orders. Purchasers will be required to substantiate their SWP Orders by reference to documentation and information as may be required by the Agency including, for example and not by way of limitation, an Urban Water Management Plan, prior year purchases, recent development, and other factors relating to short-term water demand projections. In regard to SWP Orders for Direct Deliveries, the documentation/information shall include an approximation of the projected water purchases by month, which shall be delineated on the Water Order Form. Completed and approved Order Forms will be used to help determine deliveries of SGPWA Water in drought years when orders exceed the available supply and in relatively wet years when supply exceeds the quantity of SGPWA Water ordered.

4. No Guarantee. Submittal of SWP Orders does not guarantee water deliveries in any year nor in any amount. SGPWA Water will be delivered to Purchasers only to the extent it is available from the SWP or from such other Agency sources which may be available in any given year, as said additional sources may be determined in the Agency’s discretion.

5. Failure To Submit A SWP Order. The Agency requires SWP Orders by September 1 of each year in order to complete the process for submitting the Agency’s orders to the California Department of Water Resources by October 1. Therefore, if a Purchaser does not submit a SWP Order on or before September 1 in any given year, the General Manager shall have the authority to complete an Order Form for that Purchaser based on the best available knowledge of that Purchaser’s projected demands for the applicable year, as determined in the General Manager’s discretion.

6. Approval Of SWP Orders. The General Manager will either approve the SWP Order as submitted or will revise it based on best available information, as determined in the General Manager’s discretion.

7. Sale And Delivery. All sales and deliveries of SGPWA Water under a SWP Order shall be subject to the ability of the Agency to sell and deliver such water under operating conditions and constraints determined by the General Manager and subject to the

provisions of this Ordinance. In addition, all billings and payments for such water shall be in accordance with the same manner as other water delivered by the Agency.

8. Use of SGPWA Water Within Agency Service Area. Pursuant to the San Geronio Pass Water Agency Act, SGPWA Water is not to be used for the direct or indirect benefit of areas outside the service area boundaries of the Agency. Therefore, the amount of SGPWA Water served by the Agency's facilities that shall be made available to any Purchaser shall be limited to an amount equal to that required for uses within that portion of the Agency's service area lying within, or served by or through, such Purchaser.

9. Dispute Resolution. The General Manager shall notify a Purchaser on or before September 15 of each year if he/she has revised a SWP Order. If a Purchaser disputes a SWP Order which has been revised by the General Manager, the Purchaser may appeal to the Agency Board of Directors, who will make the final determination regarding the amount of the disputed SWP Order. A Purchaser shall submit any such notice of appeal to the General Manager on or before September 30 and the Board shall then hear the appeal and make a determination on or before October 31 at a regular or special Board meeting. At such an appeal, the General Manager will make a presentation regarding the basis for his/her determination on the SWP Order and the Purchaser will have the opportunity to make a presentation regarding its position on the SWP Order at issue.

Section 3 All ordinances, resolutions, minute orders, or administrative actions by the Board of Directors, or parts thereof, that are inconsistent with any provision of this Ordinance No. 9 are hereby superseded only to the extent of such inconsistency. Except as specifically set forth in this Ordinance No. 9 in regard to the replacement of **Section 4.02 Need Forecasting Procedures**, all other provisions of the Rules And Regulations For SGPWA Water Service, as adopted by way of Ordinance No. 8, shall remain in full force and effect.

Section 4 The Board finds that the revision of procedures for the submittal and consideration of SWP Orders constitutes general policy and procedure making and also constitutes organizational or administrative activities that will not result in direct or indirect physical changes in the environment. Based on this finding, the Board determines that submittal and consideration of SWP Orders, by way of adoption of this Ordinance No. 9, are exempt from the requirements of the California Environmental Quality Act pursuant to section 15378(b)(2) and (5) of the State CEQA Guidelines.

Section 5 The President of the Board of Directors shall sign this Ordinance No. 9 and the Secretary of the Board of Directors shall attest thereto, and this Ordinance No. 9 shall be in full force and effect immediately upon adoption. Within 10 days after adoption of this Ordinance No. 9, a copy of this Ordinance shall be published one time in a newspaper of general circulation with the names of the Directors voting for and against this Ordinance.

Section 6 If any section, subsection, clause or phrase in this Ordinance is for any reason held invalid, the validity of the remainder of this Ordinance shall not be affected thereby. The Board hereby declares that it would have passed this Ordinance and each section,

subsection, sentence, clause, or phrase thereof, irrespective of the fact that one or more sections, subsections, sentences, clauses or phrases or the application thereof be held invalid.

ADOPTED this ____ day of 2014, by the Board of Directors of the San Gorgonio Pass Water Agency.

SAN GORGONIO PASS WATER AGENCY

John Jeter
President of the Board of Directors

ATTEST:

Jeffrey Davis
Secretary of the Board of Directors

MEMORANDUM

TO: Board of Directors

FROM: General Manager

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

DATE: June 16, 2014

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). Ernst and Young has performed this work for several years in a row. The same firm (with a new name; it is currently known as EY) has been selected to perform the work again this year. The Agency's share of this cost will range from \$4,699 to \$5,874, unless the Agency wishes EY to perform additional tasks at our request. This is slightly more than last year (by less than \$100).

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 essentially the same as 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 \$5,300 for this audit. Our actual costs were about \$4,200.

Fiscal Impact:

This year (FY 14-15), the Agency has budgeted \$5,000 for this work from the General Fund. Correspondence from EY indicates that actual costs will range from \$4,699 to \$5,874, 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.



Building a better
working world

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May 30, 2014

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 2014-2015 Procedures to be performed related to the 2015 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 Dana Jacobson, 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
Senior Manager

Enclosures

INDEPENDENT AUDIT ASSOCIATION

MEMORANDUM

Date: April 29, 2014
To: Members of the Independent Audit Association (IAA)
From: Dana Jacobson
Subject: Ernst and Young 2014/2015 State Water Project Audit Contract – Recommended Approval and Execution

Enclosed is the 2014/2015 Statement of Work (SOW) that includes the procedures to be performed related to the 2015 Statement of Charges. In 2012 individual IAA Members approved a Master Services Agreement (MSA) with Ernst and Young. As per the MSA, each year the IAA will coordinate with Ernst and Young to develop a SOW for audit services to be provided in that year. The SOW is included by reference in the MSA, but it does not constitute an amendment to it. Only the SOW will be approved each year. This arrangement was designed to provide a more efficient annual approval process for subsequent SOWs.

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

The IAA has reviewed Ernst and Young's proposed audit procedures and recommends that IAA Members approve and execute the 2014/2015 SOW. If you have any questions please contact me by telephone at (408) 630-2932 or by email at djacobson@valleywater.org.

Sincerely,



Dana Jacobson, IAA secretary
Santa Clara Valley Water District
CC: Joe Pirnik, EY

Statement of Work

This Statement of Work with the attached Exhibits, dated May 30, 2014 (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 Agreement, dated May 30, 2014 (the Agreement), between EY and San Geronio Pass Water Agency (the Agency).

Except as otherwise set forth in this SOW, this SOW incorporates by reference, and is deemed to be a part of, the Agreement. 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 Master Services Agreement (MSA) by and between EY and the Agency dated July 27, 2012. 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, 2015. With the exception of paragraph 25, 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 Mr. Dana Jacobson of the IAA Audit Contract Negotiating Committee dated April 29, 2014.

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) 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 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