

**SAN GORGONIO PASS WATER AGENCY**  
**1210 Beaumont Avenue, Beaumont, CA**  
**Board of Directors Meeting**  
**Agenda**  
**July 18, 2016 at 7:00 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 Regular Board Meeting, July 5, 2016\* (Page 2)
- B. Approval of the Minutes of the Engineering Workshop, July 11, 2016\* (Page 6)

**5. Reports (Discussion and Possible Action)**

- A. General Manager's Report
  - 1. Operations Report
  - 2. Update on Ferc 344 – Whitewater Flume
  - 3. General Agency Updates
- B. General Counsel Report
- C. Directors' Reports

**6. New Business (Discussion and Possible Action)**

- A. Consideration of Resolution No. 2016-02 Setting the Appropriation Limit for Fiscal Year 2016-2017\* (Page 8)
- B. Consideration of Engaging Auditor for Fiscal Year 2015-2016\* (Page 11)
- C. Consideration of Appointment of Sites Project Agreement Committee Member\* (Page 19)
- D. Consideration of Resolution 2016-03 Rescinding Resolution 2015-04 and Halting all Efforts to Reduce the Size of the Board\* (Page 21)
- E. Consideration of Termination of Letter Agreement for Legislative Services\* (Page 28)

**7. Topics for Future Agendas**

**8. Announcements**

- A. Finance and Budget Workshop, July 25, 2016 at 4:00 p.m.
- B. San Gorgonio Pass Regional Water Alliance, July 27, 2016
  - 1. Regular Meeting at 5:00 p.m. – Banning City Hall Conference Room
- C. Regular Board Meeting, August 1, 2016 at 7:00 p.m.

**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, 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](http://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 accommodation.

**SAN GORGONIO PASS WATER AGENCY**  
**1210 Beaumont Avenue, Beaumont, California 92223**  
**Minutes of the**  
**Board of Directors Meeting**  
**July 5, 2016**

**Directors Present:** John Jeter, President  
Bill Dickson, Vice President  
Mary Ann Melleby, Treasurer  
Blair Ball, Director  
Ron Duncan, Director  
David Fenn, Director  
Leonard Stephenson, Director

**Staff Present:** Jeff Davis, General Manager  
Jeff Ferré, General Counsel  
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 7:00 p.m., July 5, 2016 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:** *President Jeter asked if there were any adjustments to the agenda.* There being none the agenda was adopted as published.
3. **Public Comment:** *President Jeter asked if there were any members of the public that wished to make a public comment on items that are within the jurisdiction of the Agency.* Eric Fraser (General Manager BCVWD) stated that he wished to speak during items 6A and 6B. There were no other members of the public that wished to comment at this time.
4. **Consent Calendar:**
  - A. Approval of the Minutes of the Regular Board Meeting, June 20, 2016
  - B. Approval of the Minutes of the Finance and Budget Workshop, June 27, 2016
  - C. Approval of the Finance and Budget Workshop Report, June 27, 2016
  - D. Approval of the Recommendations made at the Board Finance and Budget Workshop, as set forth in the Finance and Budget Report, June 27, 2016

Director Duncan made a motion, seconded by Director Stephenson, to adopt the consent calendar as presented. President Jeter requested a vote. Motion passed 7-0.

## 5. Reports:

### A. General Manager's Report:

**(1) Operations Report:** General Manager Davis reported on the following: **A.** The Agency delivered a total of approximately 1207 acre-feet for the month of June. Pumping is continuing 24 hours a day, seven days a week. **B.** A shutdown will take place at Crafton Hills Pump Station later this month in order to implement the startup testing of the pumps. **C.** Hardware and software changes have been at Noble Creek upgrading the connection to deliver more water.

**(2) General Agency Updates:** **1) SGPWA's UWMP:** Scheduling update: UWMP to be completed in October. **2) Delta Compliance Committee Meeting:** The SWC staff has worked with DWR to form a new Delta Compliance Committee to review all Delta regulatory efforts related to SWP operations. **3) State of the Water Supply Update:** A second annual water supply event will take place late August/early September. **4) DWR Statement of Charges:** A review of the Statement of Charges will take place at the July 25<sup>th</sup> Finance and Budget workshop. General Manager Davis provided a summary of the charges.

**B. General Counsel Report:** General Counsel Jeff Ferré reported on the SWRCB proposed regulations that will be issued regarding new fees for its operations. Fees will be implemented to both water retailers and water wholesalers.

**C. Directors Reports:** **1) Director Melleby** stated that she attended the SGPRWA meeting on June 27<sup>th</sup>; a report will be given during item 6C. **2) Director Melleby** informed the Board that on June 30<sup>th</sup> a new California Water Fix Fast Facts was released. The Fast Facts provide important updated information on the benefits and cost of the proposed project. To view go to [www.californiawaterfix.com](http://www.californiawaterfix.com). **3) Little Hoover Commission:** On Thursday, August 25, the Little Hoover Commission will conduct a hearing on special districts in the State Capitol; the last hearing took place in May of 2000. Director Melleby stated that the commission investigates state government operations and promotes efficiency, economy, and improved services through reports, recommendations, and legislative proposal.

## 6. New Business: (Discussion and Possible Action)

**A. Consideration of General Fund Budget for Fiscal Year 2016-2017:** A staff report and financial materials were included in the agenda packet. General Manager Davis stated that this item was discussed during the Finance and Budget workshop on June 27<sup>th</sup>. He reviewed the final changes with the Board. The total proposed expenditures are \$6.62 million. Total revenues, including the transfer from reserves, are \$6.667 million. The Budget as proposed is balanced, with a net balance of \$45,450. Eric Fraser (General Manager, BCVWD) voiced his concerns pertaining to the cost of a Programmatic EIR vs. a regular one. He also had issues pertaining to the study to identify new sources of water, including specific pricing. He also commented on the capacity in the Foothill pipeline. General Manager Davis responded to Mr. Fraser's concerns. After discussion, Director Stephenson made a motion, seconded by Director Melleby, approving the proposed General Fund Budget for Fiscal Year 2016-2017 of \$6,620,550, including withdrawal of \$300,000 from the new Water Reserve to fund Phase 1 studies for the Sites Reservoir project. *Motion passed 7-0.*

**B. Consideration to Contract with Provost & Pritchard to Perform Study Identifying New Sources of Water:** A staff report and a proposal to provide consulting services from Provost & Pritchard were included in the agenda package. The purpose of this proposed action is to contract with Provost & Prichard to perform an updated study for long-term water rights opportunities available in 2016. (The last study was performed in 2013). General Manager Davis provided an accounting of past studies that identified new sources of water. General Manager Davis provided background information and qualifications of Provost & Pritchard. After discussion, Director Stephenson made a motion, seconded by Director Duncan, authorizing the General Manager to enter into an agreement with Provost & Pritchard. *Motion passed 7-0.*

**C. Discussion Regarding Potential Participation in Integrated Regional Water Management Plan (requested by Director Melleby):** Director Melleby provided a PowerPoint presentation pertaining to the OWOW model 2.0 Plan. She explained the need of creating an IRWMP, stating that this would allow SGPRWA's retailers that are not part of any other IRWMP the ability to apply for grants to bring in outside funding into the area. The purpose of today's discussion is to determine if the Agency is willing to commit funds to implement an IRWMP. The first phase is to hire a consultant to write a proposal, at a cost of approximately \$60,000. General Manager Davis stated that if an IRWMP is formed for the portion of the Agency's service areas that is not within the Santa Ana Watershed it would give the Agency and water retailers the ability to obtain outside grant funding for future projects for said service areas. After discussion, Director Melleby made a motion, seconded by Director Dickson, directing staff to inform the Alliance that the Agency is interested in pursuing this matter further in concept and to bring back any formal funding commitment to the Board for consideration. *Motion passed 7-0.*

**D. Discussion of Director Division Boundaries (requested by Director Fenn):** President Jeter referred this discussion to Director Fenn. Director Fenn stated that this item is for discussion only and that it ties into item 6E. Director Fenn questioned how often the division boundaries can be changed. General Manager Davis stated that it could be changed as often as the Board wished, however in the past the Agency has taken this item under review once the U.S. Census population data is available. Director Fenn reviewed the Board's representation for the Agency's boundaries. He suggested that the Board consider the boundaries from time-to-time given that there is new growth within the area continuously. He stated that one of the water districts within the boundaries felt that there would be no representation for its area should the board be reduced from seven to five members. Director Fenn stated that representation as it currently stands is balanced. General Counsel Ferre stated that changing the boundaries is a vast undertaking and that the Agency would have to comply with legal requirements. He reiterated that the U.S. Census provides the most accurate data; however, that does not mean that the boundaries could not be changed by the Board at any given time.

**E. Discussion of Reduction in Board Size (requested by Director Duncan):** President Jeter referred this discussion to Director Duncan. Director Duncan stated that a number of people (general public and water retailers) have approached him questioning why the Board is reducing its board members from seven to five. He stated that the Board did so because of the financial savings. After speaking to the individuals he was told that they did not feel that the financial component should overtake the representation aspect and that they were against the decision to reduce the board.

Director Duncan provided a financial accounting of what has been spent on hiring a lobbyist to reduce the board size and potential future costs. He also provided financial accounting of the stipend for two at-large directors and election costs. He stated that the Agency has since implemented cost reductions and has a better investment portfolio. These two components help with the cost for retaining the two at-large positions. The main reason for bringing this discussion to the board is that he does not feel comfortable reducing the board size after speaking to his constituents. Directors Stephenson, Fenn, Dickson and President Jeter provided their input on why the board size should not be reduced. Director Ball provided in detail why the Board should continue on the path of reducing the board size. Director Melleby was also in favor of continuing with the process of reducing the board size. After discussion, it was recommended to place on the July 18<sup>th</sup> Board agenda an item to reconsider the resolution reducing the board from seven to five, and a separate item to terminate or suspend the lobbyist services. General Counsel Ferre will report back to the Board on the process of placing this item on the ballot, should the Board decide to go this path.

7. **Topics for Future Agendas:** In addition to the requested items in 6E Director Fenn requested a review of the Director's stipend meeting attendance; specifically what types of meetings constitute compensation. This item will be discussed at the next Finance and Budget workshop.
8. **Announcements:** *President Jeter reviewed the following announcements:*
  - A. Engineering/Allocation Workshop, July 11, 2016 at 4:00 p.m.
  - B. Regular Board Meeting, July 18, 2016 at 7:00 p.m.
  - C. Finance and Budget Workshop, July 25, 2016 at 4:00 pm
9. **Adjournment:** *President Jeter adjourned the meeting at 9:02 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**  
**July 11, 2016**

**Directors Present:** John Jeter, President  
Blair Ball, Director  
Bill Dickson, Vice President  
Ron Duncan, Director  
David Fenn, Director  
Mary Ann Melleby, Director  
Leonard Stephenson, Director

**Staff Present:** Jeff Davis, General Manager  
Jeff Ferre, General Counsel  
Cheryle Rasmussen, Executive Assistant  
Dan Flory, Provost & Pritchard, Agency Consultant

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 4:00 p.m., July 11, 2016 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.
2. **Public Comment.** No member of the public wished to speak at this time.
3. **Follow-up Presentation on Allocation of Agency Water by Dan Flory.** General Manager Davis reminded the Board and the public that this was a follow-up to the Agency's allocation workshop in May, and that Mr. Flory would present a summary of his findings on allocation of water. He then introduced Mr. Flory of Provost & Pritchard. Mr. Flory presented a slide show, copies of which were available to the public, summarizing his analysis of the allocation issue as it relates to the Agency. He concluded that the Agency must procure additional water rights for the region and that the Agency's existing policies regarding allocation of water are based on sound principles and do not need to be changed, but that the Board may want to consider different allocation principles for new water procured in the future. The Board asked Mr. Flory to respond directly to questions from the previous allocation workshop. Mr. Davis replied that he felt that the presentation did respond generally to comments from the May workshop, but that if the Board wished, Mr. Flory could produce a written report that would respond directly to questions as well as produce more detail on his analysis. The Board requested that this be produced. General Manager

Davis indicated that Mr. Flory would write a report and present it at a future workshop. The report will be made available to the public prior to the workshop.

**4. Announcements:**

- A. Regular Board Meeting, July 18, 2016 at 7:00 pm.
- B. Finance and Budget Workshop, July 25, 2016 at 4:00 p.m.
- C. San Gorgonio Pass Regional Water Alliance, July 27, 2016
  - 1. Regular Meeting at 5:00 pm—Banning City Hall Conference Room.

**5. Adjournment:** Chairman Dickson adjourned the meeting at 5:10 p.m.

*DRAFT - SUBJECT TO BOARD APPROVAL*

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Jeffrey W. Davis, Secretary to the Board

## MEMORANDUM

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**TO:** Board of Directors

**FROM:** General Manager

**RE:** Appropriations Limit for FY 2016-2017

**DATE:** July 5, 2016

**Detailed Report:**

Each year, the Agency, along with all other public agencies in California, is required by the California Constitution to set an appropriations limit. The limit is calculated based on a formula, and is not related to the Agency's budget for the year. For this fiscal year, the formula amount is \$55,656,726. The Agency's debt service and general fund budgets combined will be less than half this amount—in the vicinity of \$26 million.

The attached resolution is a routine action that the Board is required to take each year. By law, the appropriations limit must be posted in a public place for at least 15 days prior to the Board adopting the resolution. The information has been posted for more than 15 days on the bulletin board outside the administration building, clearly visible to the public.

**Recommendation:**

Staff recommends that the Board adopt Resolution 2016-02 in accordance with California law.





**SAN GORGONIO PASS WATER AGENCY  
 APPROPRIATIONS LIMIT  
 FISCAL YEAR 2016-17**

FY 2015-2016 APPROPRIATIONS LIMIT			52,163,023
	<u>Percent</u>	<u>Ratio</u>	
FY 2016-2017 ADJUSTMENT FOR PERCENTAGE CHANGES IN:			
CALIFORNIA PER CAPITA PERSONAL INCOME	5.37	1.0537	
POPULATION PERCENT CHANGE 2015 - 2016	1.26	1.0126	
PERCENT CHANGE AS A FACTOR			<u>106.6977%</u>
FY 2016-2017 APPROPRIATIONS LIMIT			<u><u>55,656,726</u></u>

THE ABOVE APPROPRIATION LIMITS WERE CALCULATED IN ACCORDANCE WITH PROPOSITION III WHICH AMENDED ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION.

Posted 6-8-16

**RESOLUTION NO. 2016-02**

**RESOLUTION OF THE BOARD OF DIRECTORS OF  
THE SAN GORGONIO PASS WATER AGENCY ESTABLISHING THE  
APPROPRIATIONS LIMIT FOR FISCAL YEAR 2016-2017**

**WHEREAS,** Article XIII B of the California Constitution places an annual limitation upon appropriations from proceeds of taxes by each local government of the State of California; and

**WHEREAS,** Section 7910 of the California Government Code implements Article XIII B of the California Constitution by requiring each local jurisdiction to establish, by resolution, its appropriations limit for each fiscal year, and to make the documentation used in determining the appropriations limit available to the public fifteen days prior to adoption of the resolution establishing the appropriations limit; and

**WHEREAS,** The San Gorgonio Pass Water Agency has documented its calculations of the Agency's appropriations limit for Fiscal Year 2016-17, and notice of said calculations has been posted on the Agency's outside Bulletin Board (said notice being visible from the public walkway in front of the Agency's building) and the calculations have been made available to the public at least fifteen days prior to the adoption of this resolution;

**NOW, THEREFORE, BE IT RESOLVED,** by the Board of Directors of the San Gorgonio Pass Water Agency as follows:

1. The appropriation limit applicable to this Agency pursuant to Article XIII B of the California Constitution for Fiscal Year 2015-2016 is hereby established and determined to be in the sum of \$55,656,726.
2. A copy of the documentation used in the determination of the 2016-2017 appropriations limit shall be affixed hereto and shall be available for public inspection.
3. Pursuant to Section 7910 of the California Government Code, any judicial action or proceeding to attach, review, set aside, void or annul the establishment of the Fiscal Year 2016-2017 appropriations limit as set forth herein must be commenced within forty-five days of the adoption of this resolution.

Resolution No. 2016-02 was adopted by the following roll call vote:

Ayes:

Noes:

Abstain:

Absent:

I hereby certify that the foregoing is a true and correct copy of Resolution No. 2016-02 adopted by the Board of Directors of San Gorgonio Pass Water Agency at its meeting on July 5, 2016.

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Jeffrey W. Davis, Secretary to the Board

## MEMORANDUM

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**TO:** Board of Directors

**FROM:** General Manager

**RE:** Engagement of Auditor for FY 2015-2016

**DATE:** July 18, 2016

### **Summary:**

Each year the Agency hires an accounting firm to audit its books. With our fiscal year ending last month, it is time to engage our auditor for this year. Staff recommends retaining the accounting firm of Ahern Adcock Devlin, who performed the Agency's audit the last four years.

### **Background:**

By California law, public agencies (with a few exceptions) must be audited every year. Each year, the Agency begins its audit in August and it is typically completed in October. A final report is made to the Board at that time.

### **Detailed Report:**

One of the key responsibilities of the Board of Directors is to ensure that all Agency expenditures are in line with adopted policies, that adequate policies exist to cover the collection, management, and expenditure of tax funds, and that all funds are properly accounted for. Thus, the auditor is hired by the Board and reports directly to the Board. Staff works with the auditor during the audit to provide information and answer questions, but the ultimate authority for all Agency financial activities is the Board of Directors.

### **Fiscal Impact:**

It is anticipated that the cost of this year's audit will be slightly more than last year's audit (approximately \$22,000). This is included in the Agency's general fund budget.

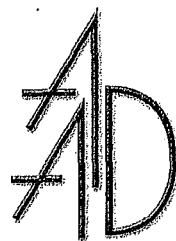
### **Recommendation:**

Staff recommends that the Board of Directors authorize the President to sign the engagement letter with Ahern Adcock Devlin, thus engaging that firm to perform the fiscal year 2015-2016 Agency audit.

Shannon M. Carlson, CPA  
Linda S. Devlin, CPA  
Andrew Steinke, CPA

Of Counsel  
Michael R. Adcock, CPA  
Thomas E. Ahern, CPA

A California Limited Liability Partnership  
Certified Public Accountants



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June 22, 2016

To the Board of Directors  
Attn: Mr. Thomas W. Todd, Jr., Finance Manager  
San Geronio Pass Water Agency  
1210 Beaumont Avenue  
Beaumont, CA 92223

We are pleased to confirm our understanding of the services we are to provide San Geronio Pass Water Agency (the "Agency") for the year ended June 30, 2016. We will audit the financial statements of the business-type activities, including the related notes to the financial statements, which comprise the basic financial statements of the Agency as of and for the year ended June 30, 2016. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Agency's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Agency's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by United States of America generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited: Management's Discussion and Analysis, and the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Plan Contributions Contained in Supplementary Information – Unaudited.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information:

- 1) Organizational information
- 2) Schedule of officers, directors, and management
- 3) Schedule of insurance coverage

### **Audit Objective**

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with United States of America generally accepted accounting principles.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. We will issue a written report upon completion of our audit of the Agency's financial statements. Our report will be addressed to Board of Directors of the Agency. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add emphasis-of-matter or other-matter paragraphs. If our opinion on the financial statements is other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or may withdraw from this engagement.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Agency or to acts by management or employees acting on behalf of the Agency.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with United States of America generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from the Agency's attorneys as part of the engagement, and they may bill the Agency for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the Agency and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

#### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Agency's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

#### **Other Services**

We will also assist in preparing the financial statements of the Agency in conformity with United States of America generally accepted accounting principles based on information provided by you. We will perform the service in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedures or take any action that could be construed as assuming management responsibilities.

#### **Management Responsibilities**

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with United States of America generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with United States of America generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

#### **Engagement Administration, Fees, and Other**

We understand that management will prepare schedules requested by us and will also prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

Linda S. Devlin, CPA is the engagement partner and is responsible for supervising the engagement and authorizing the signing of the reports. We expect to begin our audit On September 19, 2016 and anticipate issuing our report by November 7, 2016, provided that we receive pension information timely from CalPers. **These dates will not be met if we do not receive all of the documentation we request prior to the inception of the audit or if management delays our start date.** We will inform management of any changes in dates as the audit progresses if we do not have the necessary information at the onset of the engagement.



Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for results. Management is also responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

It is our policy to keep workpapers related to this engagement for ten years. It is management's responsibility to retain and protect the Agency's original records for possible future use, including potential examination by any government or regulatory agencies.

Our fee for this work will be at a discount of our regular hourly rates for the individuals involved, plus direct out-of-pocket expenses. Payments for services are due when rendered and interim billings may be submitted as work progresses and expenses are incurred. Invoices for our services are generally sent out on a monthly basis. We estimate that our fee for the service described above for the year ended June 30, 2016 will approximate \$21,170 for the audit and out-of-pocket expenses will be billed separately. Our fee for the year ended June 30, 2016 was adjusted to the 2015 Consumer Price Index for All Urban Consumers for the Los Angeles/Riverside/Orange County areas. The fee estimate is based on anticipated cooperation from the Agency's personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate before we incur the additional costs.

In addition, you further agree that in the event our firm or any of its employees or agents is called as a witness or requested to provide any information whether oral, written, or electronic in any judicial, quasi-judicial, or administrative hearing or trial regarding information or communications that you have provided to this firm, or any documents and workpapers prepared by Ahern Adcock Devlin LLP in accordance with the terms of this agreement, you agree to pay any and all reasonable expenses including fees and costs for our time, as well as any legal or other fees that we incur as a result of such appearance or production of documents.

Billings become delinquent if not paid within 30 days of the invoice date. A late charge of 1.0 percent per month will be added to delinquent account balances. Furthermore, if billings are past due in excess of 60 days, we reserve the right to stop all work until the Agency's account is brought current, or withdraw from this engagement. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. The Agency will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket cost through the date of termination.

Board of Directors  
San Geronio Pass Water Agency  
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In the event of a dispute over fees for our engagement, we mutually agree to try in good faith to resolve the dispute through mediation by selecting a third-party to help us reach an agreement. If we are unable to resolve the fee dispute through mediation, client and accountant agree to submit to a resolution by arbitration in accordance with the rules of the American Arbitration Association. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that in the event of a dispute over fees, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

We appreciate the opportunity to be of service to the Agency and believe this letter accurately summarizes the significant terms of our engagement. If any member of the board or management has any questions, please let us know. If the forgoing is accepted, please sign this letter in the space provided and return it to us.

Very truly yours,

Ahern • Adcock • Devlin LLP  
Certified Public Accountants



By: Linda S. Devlin, CPA

**APPROVED:**

By: \_\_\_\_\_

Date: \_\_\_\_\_

## MEMORANDUM

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**TO:** Board of Directors

**FROM:** General Manager

**RE:** Sites Project Agreement Committee Member

**DATE:** July 18, 2016

### **Summary:**

Last month, the Board voted to participate in Phase 1 of the Sites Reservoir. Part of the application process for participation is to name a director and alternate for the Sites Project Agreement Committee. These must be appointed by governing Boards. The purpose of this proposed Board action is to appoint these two positions.

### **Background:**

Staff has previously described the Sites Reservoir project and the potential advantages to prospective participants. Water agencies who participate in Phase 1 will also participate in the Project Agreement Committee, which will make the technical decisions related to the project. Each participant will be entitled to one director and one alternate for this committee.

### **Detailed Report:**

The Agency has a small staff, and meetings of the Project Agreement Committee will take place in Northern California. It would be difficult for staff to cover all of these meetings, and there is only one staff member—the General Manager—who has the technical education to participate at a reasonable level. Thus the Board will have to appoint an outside person as one of the two appointees.

It is not known at this time how often this committee will meet. Once a month is a reasonable assumption. More frequent meetings may be important occasionally. Since the meetings are likely to be held in the Sites vicinity, it is reasonable to assume that one full day of staff time would be required for each meeting attended (including travel time).

Staff feels that Dale Melville, a principal with Provost and Pritchard Engineers and the author of the Agency's study on new water supplies, would be an outstanding alternate to the General Manager on this committee. He is located in the Central Valley, is very familiar with the project, and is familiar with the planning and design of water projects, including dams and appurtenant facilities.

**Fiscal Impact:**

There could be a small financial impact over time if the alternate director attends frequent meetings of the Committee, as the Agency would pay him for his time on an hourly basis. However this is not expected to be a large amount of money, and would be easily covered in the Agency's engineering budget.

**Relationship to Strategic Plan:**

As indicated in June, participation in Sites Reservoir is directly in line with the Agency's strategic plan.

**Recommendation:**

Staff recommends that the Board appoint the General Manager as Director of the Sites Reservoir Project Agreement Committee, and Dale Melville of Provost and Pritchard as the alternate. If approved, these names would be included in the Agency's Proposal to Participate form.

## **MEMORANDUM**

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**TO:** Board of Directors

**FROM:** Agency Staff

**RE:** Consideration and possible action to adopt Resolution No. 2016-03 which would rescind Resolution No. 2015-04, thereby withdrawing support for a reduction in Board members.

**DATE:** July 18, 2016

### **Summary:**

The Board adopted Resolution 2015-04 on July 6, 2015, which provides that it is the desire of the Board to reduce its size from seven (7) to five (5) members and directs the General Manager to ask the legislature to revise the Agency's Act to reflect a reduction in the size of the Board.

Director Ball drafted the Board Memorandum which provided the background and recommendation, as well as a draft of Resolution No. 2015-04. A copy of both documents is included in this agenda package.

At the November 2, 2015 Board meeting, there was a discussion regarding whether to continue to pursue reduction of the Board size. After consideration of the matter, the Board decided to continue to pursue reduction of the Board size.

Since adoption of Resolution 2015-04, Board members, Staff and the Agency's lobbyist have engaged in numerous efforts to pursue passage by the legislature of the revision to the Agency's Act. Senator Mike Morrell agreed to introduce a bill to reduce the Board size and then did not do so.

To date, such efforts have not been successful. In addition, competing bills submitted by other agencies, and three (3) letters in opposition to the bill, have been generated. As a result, Senator

Morrell's office communicated that so long as there is opposition, the bill will not be introduced.

The Board has discussed whether it wishes to continue to pursue a reduction in Board size due to a number of factors including, but not limited to, financial considerations (cost of lobbying services to continue this effort), points raised in the opposition letters (which center on the amount of representation that constituents have on a Board of 5 versus 7 members); and the obstacles to getting this bill passed in the legislature.

**Recommendation:**

It is recommended that the Board consider whether to continue to pursue legislation to reduce the size of the Board from seven (7) members to five (5).

**Alternatives:**

1. If the Board wishes to continue to pursue the Agency bill, no action is necessary since Resolution 2015-04 is still in effect, which calls for efforts to reduce the Board size.
2. If the Board wishes to stop pursuing a reduction in Board size and wishes to keep the size of the Board at seven (7) members, then the Board needs to adopt Resolution 2016 – 03, which would rescind Resolution 2015-04.

## RESOLUTION NO. 2016-03

### A RESOLUTION OF THE SAN GORGONIO PASS WATER AGENCY RESCINDING RESOLUTION NO. 2015-04, CEASING EFFORTS TO REDUCE THE SIZE OF THE BOARD, AND KEEPING THE BOARD SIZE AT SEVEN MEMBERS

WHEREAS, the San Gorgonio Pass Water Agency ("Agency") is a state water contractor formed under special act legislation set forth in the Water Code Uncodified Acts, Act 1100 ("Act").

WHEREAS, the Section 3 of the Act provides that the Agency shall be divided into five (5) divisions. One Director shall be elected for each division by the voters thereof, and two (2) Directors at large shall be elected by the voters of the Agency as a whole. Each Director elected for a division is called a "Divisional Director," and each of the two (2) Directors elected for the Agency at large are called a "Director At Large;" and

WHEREAS, on July 6, 2015, the Board adopted Resolution 2015-04 which provides that it is the desire of the Board to reduce its size from seven (7) to five (5) members by removing the two (2) Director At Large positions. Resolution 2015-04 also directs the General Manager to ask the legislature to revise the Act to reflect said reduction in the size of the Board; and

WHEREAS, since adoption of Resolution 2015-04, Board members, Staff and the Agency's lobbyist have engaged in numerous efforts to pursue passage by the legislature of said revision to the Act. A bill was not introduced in the State Senate to provide for the reduction in the Board size; and

WHEREAS, such efforts have not been successful due to a number of factors including, by way of example only, submission of competing bills, submission to the State Senator of three (3) letters in opposition to the Agency's bill, and the resulting difficulty in pursuing this type of legislation where there is any such opposition. Addressing such issues has also required a substantial investment of Agency time and resources; and

WHEREAS, due to the factors set forth above, the Board desires to adopt this Resolution in order to rescind Resolution 2015-04 and thereby cease efforts to reduce the Board size and keep the Board size at seven (7) members comprised of five (5) Divisional Directors and two (2) Directors At Large.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY AS FOLLOWS:

1. Incorporation Of Recitals The Recitals set forth above are incorporated herein and made an operative part of this Resolution.
2. Rescission Of Resolution 2015-04 Resolution 2015-04 is hereby rescinded. As of the effective date of this Resolution 2016-03, the provisions of Resolution 2015-04 shall be of no further force or effect.

3. Cessation Of Efforts To Pursue Reduction Of Board Size As of the effective date of this Resolution, there will be no need, nor authorization, to continue to pursue legislation to reduce the Board size.

4. Keeping Current Board Size As of the effective date of this Resolution, the size of the Board will be kept at seven (7) members comprised of five (5) Divisional Directors and two (2) Directors At Large.

5. Effective Date - The President of the Board shall sign this Resolution and the Secretary of the Board shall attest thereto, and this Resolution shall be in full force and effect immediately upon adoption.

6. Severability - If any section, subsection, clause or phrase in this Resolution is for any reason held invalid, the validity of the remainder of this Resolution shall not be affected thereby. The Board hereby declares that it would have passed this Resolution 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 AND APPROVED** this 18th day of July, 2016.

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President, Board of Directors  
San Gorgonio Pass Water Agency

ATTEST:

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Secretary, Board of Directors



## **BOARD MEMORANDUM**

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**TO:** Board of Directors

**FROM:** Director Blair Ball

**RE:** Reduction in Number of Board Members

**DATE:** July 6, 2015

In late 2011 and early 2012, the SGPWA Board of Directors took up the question as to whether they should downsize from a seven member board to a five member board. In several meetings it was unanimous to direct staff to proceed with the process of becoming a five member board. In fact on Dec 19, 2011 resolution 2011-07 was passed directing staff to begin the legislative process to downsize to a five member board by eliminating the two at large director seats as of December 2014. However, two months later on February 21, 2012 the matter came before the board again under an "old business" agenda item and the board rescinded their prior decision. As a concerned taxpayer, I spoke at that meeting in favor of the board to continue the process to retire the two at large seats.

I believe the time has come to reconsider this item and would ask the board to vote in favor of downsizing to a five member board by retiring the two at large director seats. I believe the timing is right for several reasons.

Perhaps for the first time in the Agency's history, the two at large director seats will be up for election at the same time, namely November 2016. One at large seat is up for election due to its normal four year election cycle and the second at large seat will be up for election due to the death of the director voted into that seat and the upcoming appointee's need to run for election at the next available election. Again, both of these occur in November 2016. It is anticipated that the two at large directors would continue their duties on the Pass Agency board until sometime in the fourth quarter 2016. Staff reports that there is a series of events that need to occur via state legislation in order for this reduction to occur and starting the process now should afford us the time necessary for this to take place. Additionally, the timing is right to downsize now so all candidates for the vacant at large director seat will understand that this seat will terminate in late 2016, and therefore some may not wish to continue to be a candidate.

The cost savings to the taxpayers with two fewer directors will be more than \$425,000.00 over the next ten years. This is according to a staff generated report using actual expenditures from fiscal year 2013-2014 for two directors. This does not include the cost of elections for two at large positions which are more costly than division elections. Additionally a 29% savings of an unknown amount

in staff time and materials will result as it pertains to two less directors. The total for the three items mentioned would allow a savings to the Agency taxpayers of nearly \$500,000.00 over ten years.

To my knowledge no other city council, water district, or other government entity in the Pass area has a seven member board. All are five member elected boards that appear, at least, to be able to run the people's business in a normal fashion.

I understand that this has been or can be perceived to be a sensitive matter as it will eliminate two director's positions and there is emotion attached to this. That is one reason for the board to act now. There is no emotion attached to the one seat as it is currently vacant and the incoming appointee will understand that the seat is open for a defined period of time and will end. The other at large seat will run its full four year course as was anticipated in the 2012 election. There has never been a guarantee that a board member continues beyond the four year election cycle. That decision is left to the citizens through their vote. In fact each elected official has no guarantee of a four year directorship as we are all subject to recall if the citizens desire.

Maintaining a seven member board simply because it was created that way historically is not a sound reason to continue to do so. It will be more efficient to have a five member board compared with a seven member board.

Therefore, my motion is that this board approve this resolution of the San Geronio Pass Water Agency to eliminate the two at large director positions by December 2016 and direct staff and legal counsel to effect that change through the proper legislative actions.

Thank you,

Director Ball

## RESOLUTION NO. 2015-04

### A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY

#### SUPPORTING A REDUCTION IN BOARD MEMBERS

**WHEREAS**, the original San Gorgonio Pass Water Agency Act called for a seven member elected board of directors, two of which would be elected at-large; and

**WHEREAS**, the Board of Directors has operated with seven board members for fifty years; and

**WHEREAS**, the Board of Directors recognizes that more government does not necessarily mean better government; and

**WHEREAS**, the taxpayers and ratepayers of the Agency deserve a governance structure that is less costly than the current structure with seven elected directors but that still provides ample representation; and

**WHEREAS**, the California legislature has the power to pass legislation reducing the number of elected board members from seven to five; and

**WHEREAS**, such a reduction would lower the cost of local government without reducing the quality of that government.

**NOW THEREFORE BE IT RESOLVED** by the Board of Directors of the San Gorgonio Pass Water Agency that it is the desire of this Board to reduce its size from seven to five members by December 2016.

**BE IT FURTHER RESOLVED** that the Agency directs its General Manager to ask the legislature to revise the San Gorgonio Pass Water Agency Act to reflect this desire.

Adopted this 6<sup>th</sup> day of July, 2015 by the following vote:

AYES: Stephenson, Ball, Melleby, Duncan, Dickson and Jeter

NOES:

ABSTAIN:

ABSENT:

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John Jeter, President

## MEMORANDUM

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**TO:** Board of Directors

**FROM:** Agency Staff

**RE:** Consideration and possible action to terminate the Letter Agreement For Legislative Services

**DATE:** July 18, 2016

### **Summary:**

The Board adopted Resolution 2015-04 which provides that it is the desire of the Board to reduce its size from seven to five members and directs the General Manager to ask the legislature to revise the Agency's Act to reflect a reduction in the size of the Board. The Agency retained BBK's Director of Governmental Affairs, Syrus Devers, to guide the applicable language through the legislature.

Efforts were made at the end of the previous legislative session to see if the language could be added into an existing bill in order to expedite the process. Such efforts were not successful due to the difficulty of inserting language into last minute bills.

Subsequently, at no charge, Mr. Devers took the following actions: (a) scheduled and attended meetings between local legislators and Agency representatives; and (b) maintained communication with legislators' offices in the State Capitol.

On February 16, 2016, the Board took action to authorize BB&K, through Syrus Devers, to continue to provide state legislative services. Mr. Devers was hired to help establish the necessary relationships and tell the Agency story to legislators in order to pursue passage of the Agency's bill. As a result of such outreach, and the efforts of Board members including, but not limited to, Director Ball, Senator Morrell agreed to introduce a bill to reduce the Board size.

Subsequently, three letters were sent to Senator Morrell's office opposing the reduction in the number of Board members. Senator Morrell's office then communicated that so long as there is opposition, the bill will not be introduced.

Concerns have been raised regarding the ongoing monthly cost of legislative services taking into account the obstacles described above. There have also been Board discussions regarding whether the Board wishes to continue to pursue a reduction in Board size. Potential Board action on that question is also on the agenda for this July 18 Board meeting.

**Recommendation:**

It is recommended that the Board consider the need for legislative advocacy services in relation to, and also separate from, the Board size issue. This item has been placed on the agenda so that the Board can decide the extent to which the cost for legislative advocacy services should, or should not, be a factor in deciding whether to continue to pursue a reduction in Board size.

Such services are provided based on a monthly fee and a Letter Agreement confirms such details. The fee is \$5,000 per month. Services include the following: (1) monitoring and tracking legislation; (2) advocating on behalf of the Agency; (3) providing briefings as requested by the Agency; and (4) developing strategic relationships.

**Alternatives:**

The alternatives available to the Board include the following:

1. Take action to terminate the Letter Agreement For Legislative Services with BBK, which provides for legislative advocacy services on a monthly fee basis. The Letter Agreement is separate from the ongoing agreement with BBK for general counsel services. The Board can decide in the future to resume such services upon approval of a new Letter Agreement.
2. Take no action in which case the Letter Agreement For Legislative Services shall remain in effect.