

SAN GORGONIO PASS WATER AGENCY

1210 Beaumont Ave, Beaumont, CA 92223

Board Finance & Budget Workshop

Agenda

April 24, 2017, at 4:00 p.m.

1. Call to Order, Flag Salute

2. Adoption and Adjustment of Agenda

3. Public Comment

Members of the public may address the Board at this time concerning items not on the agenda. To comment on specific agenda items, please complete a speaker's request form and hand it to the Board secretary.

4. New Business (Discussion and possible recommendations for action at a future regular Board meeting)

- A. Ratification of Paid Invoices and Monthly Payroll for March, 2017 by Reviewing Check History Reports in Detail*
- B. Review of Pending Legal Invoices*
- C. Review of March, 2017 Bank Reconciliation*
- D. Review of Budget Report for March, 2017*
- E. Review of Cash Reconciliation Report for March 31, 2017*
- F. Review of Investment Report for March 31, 2017*
- G. Review of Reserve Allocation Report for March 31, 2017*
- H. Update on Flume Expenses*
- I. Review of Taussig Nexus Study and Cost Recovery Data*

5. Announcements

- A. San Gorgonio Pass Regional Water Alliance, April 26, 2017
 - 1. IRWMP at 4:30 pm – Banning City Council Chambers
 - 2. Regular Meeting at 5:30 pm – Banning City Council Chambers
- B. Regular Board Meeting, May 1, 2017, 7:00 pm
- C. Engineering Workshop, May 8, 2017, 4:00 pm

6. 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 Ave., Beaumont, CA 92223 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, during regular business hours. When practical, these public records will also be available on the Agency's Internet website, accessible at <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. 1 / 5 0 request for a disability-related modification or accommodation.

San Gorgonio Pass Water Agency
Check History Report
March 1 through March 31, 2017

ACCOUNTS PAYABLE

Date	Number	Name	Amount
03/06/2017	118356	ACWA JPIA	2,416.00
03/06/2017	118357	BEAUMONT-CHERRY VALLEY WATER DISTRICT	428.10
03/06/2017	118358	BDL ALARMS, INC.	78.00
03/06/2017	118359	BEST BEST & KRIEGER	26,134.89
03/06/2017	118360	BEAUMONT HOME CENTER	130.30
03/06/2017	118361	CALPERS RETIREMENT	4,443.93
03/06/2017	118362	ROY McDONALD	1,225.00
03/06/2017	118363	OAK VALLEY PHOTOGRAPHY	312.80
03/06/2017	118364	SITES PROJECT JPA	360,677.00
03/06/2017	118365	UNDERGROUND SERVICE ALERT	7.50
03/06/2017	118366	UNLIMITED SERVICES BUILDING MAINT.	295.00
03/06/2017	118367	VALLEY OFFICE EQUIPMENT, INC.	216.36
03/06/2017	118368	VISIONARY LOGICS	3,642.00
03/06/2017	118369	WASTE MANAGEMENT INLAND EMPIRE	94.80
03/13/2017	118370	ACWA BENEFITS	748.93
03/13/2017	118371	ALBERT WEBB ASSOCIATES	345.00
03/13/2017	118372	BLAIR M. BALL	1,056.72
03/13/2017	118373	JEFFREY W. DAVIS	544.26
03/13/2017	118374	FRONTIER COMMUNICATIONS	1,201.68
03/13/2017	118375	GOPHER PATROL	48.00
03/13/2017	118376	KENNEDY JENKS CONSULTANTS	1,118.00
03/13/2017	118377	SOUTHERN CALIFORNIA GAS	167.95
03/13/2017	118378	MICHAEL D. THOMPSON	124.40
03/13/2017	118379	WELLS FARGO REMITTANCE CENTER	3,288.24
03/16/2017	118380	CALPERS RETIREMENT	4,617.46
03/16/2017	118381	CALPERS 457-SIP	1,150.00
03/20/2017	118382	INCONTACT, INC.	91.24
03/20/2017	118383	MATTHEW PISTILLI LANDSCAPE SERVICES	325.00
03/20/2017	118384	PROVOST & PRITCHARD	200.00
03/20/2017	118385	THE RECORD-GAZETTE	399.00
03/20/2017	118386	THOMAS W. TODD, JR.	1,013.71
03/20/2017	118387	WATER RESOURCES CONSULTING	3,029.67
03/27/2017	118388	AT&T MOBILITY	260.41
03/27/2017	118389	I. E. RESOURCE CONSERVATION DISTRICT	1,000.00
03/27/2017	118390	MACRO COMMUNICATIONS	225.00
03/27/2017	118391	CHERYLE M. RASMUSSEN	262.47
03/27/2017	118392	SOUTHERN CALIFORNIA EDISON	131.80
03/27/2017	118393	VALLEY OFFICE EQUIPMENT, INC.	208.11
03/30/2017	118394	CALPERS RETIREMENT	4,554.06
03/30/2017	118395	CALPERS 457-SIP	1,150.00
03/30/2017	118396	STANDARD INSURANCE COMPANY	418.18
03/16/2017	521725	ELECTRONIC FEDERAL TAX PAYMENT SYSTEM	6,042.25
03/16/2017	522469	EMPLOYMENT DEVELOPMENT DEPARTMENT	1,036.37
03/30/2017	566509	ELECTRONIC FEDERAL TAX PAYMENT SYSTEM	7,209.90
03/30/2017	568148	EMPLOYMENT DEVELOPMENT DEPARTMENT	1,002.14
03/30/2017	599959	ELECTRONIC FEDERAL TAX PAYMENT SYSTEM	18.34
03/02/2017	900133	LEONARD C. STEPHENSON	233.58

San Geronio Pass Water Agency
Check History Report
March 1 through March 31, 2017

ACCOUNTS PAYABLE (CON'T)

<u>Date</u>	<u>Number</u>	<u>Name</u>	<u>Amount</u>
03/15/2017	900134	DEPARTMENT OF WATER RESOURCES	323,482.00
03/31/2017	900135	DEPARTMENT OF WATER RESOURCES	4,873,457.00
TOTAL ACCOUNTS PAYABLE CHECKS			5,640,262.55

PAYROLL

<u>Date</u>	<u>Number</u>	<u>Name</u>	<u>Amount</u>
03/14/2017	801343	JEFFREY W. DAVIS	4,428.03
03/14/2017	801344	KENNETH M. FALLS	2,982.23
03/14/2017	801345	CHERYLE M. RASMUSSEN	2,117.51
03/14/2017	801346	THOMAS W. TODD, JR.	3,366.77
03/29/2017	801347	BLAIR M. BALL	1,167.90
03/29/2017	801348	DAVID J. CASTALDO	1,167.90
03/29/2017	801349	JEFFREY W. DAVIS	4,428.03
03/29/2017	801350	RONALD A. DUNCAN	1,167.90
03/29/2017	801351	KENNETH M. FALLS	2,755.43
03/29/2017	801352	DAVID L. FENN	934.32
03/29/2017	801353	STEPHEN J. LEHTONEN	934.32
03/29/2017	801354	CHERYLE M. RASMUSSEN	2,117.51
03/29/2017	801355	LEONARD C. STEPHENSON	1,167.90
03/29/2017	801356	MICHAEL D. THOMPSON	1,167.90
03/29/2017	801357	THOMAS W. TODD, JR.	3,466.67
TOTAL PAYROLL			33,370.32
TOTAL DISBURSEMENTS FOR MARCH, 2017			5,673,632.87

SAN GORGONIO PASS WATER AGENCY

**LEGAL INVOICES
ACCOUNTS PAYABLE INVOICE LISTING**

<u>VENDOR</u>	<u>INVOICE NBR</u>	<u>COMMENT</u>	<u>AMOUNT</u>
BEST, BEST & KRIEGER	170331	LEGAL SERVICES MAR17	20,809.32

TOTAL PENDING INVOICES FOR MARCH 2017

20,809.32

**SAN GORGONIO PASS WATER AGENCY
BANK RECONCILIATION
March 31, 2017**

BALANCE PER BANK AT 03/31/2017 - CHECKING ACCOUNT 365,879.39

LESS OUTSTANDING CHECKS

<u>CHECK NUMBER</u>	<u>AMOUNT</u>	<u>CHECK NUMBER</u>	<u>AMOUNT</u>
118372	1,056.72	118394	4,554.06
118389	1,000.00	118395	1,150.00
		118396	418.18
	<u>2,056.72</u>		<u>6,122.24</u>

TOTAL OUTSTANDING CHECKS (8,178.96)

BALANCE PER GENERAL LEDGER 357,700.43

BALANCE PER GENERAL LEDGER AT 02/28/2017 215,016.16

CASH RECEIPTS FOR MARCH 166,434.19

CASH DISBURSEMENTS FOR MARCH

ACCOUNTS PAYABLE - CHECK HISTORY REPORT (5,640,262.55)

NET PAYROLL FOR MARCH (33,370.32) (5,673,632.87)

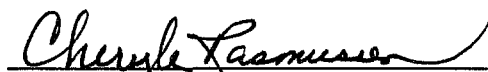
BANK CHARGES (117.05)

TRANSFER FROM LAIF 5,000,000.00

TRANSFER FROM WELLS FARGO 650,000.00

BALANCE PER GENERAL LEDGER AT 03/31/2017 357,700.43

REPORT PREPARED BY:



 Cheryl Rasmussen

**SAN GORGONIO PASS WATER AGENCY
DEPOSIT RECAP
FOR THE MONTH OF MARCH 2017**

DATE	RECEIVED FROM	DESCRIPTION	AMOUNT	TOTAL DEPOSIT AMOUNT
DEPOSIT TO CHECKING ACCOUNT				
3/21/17	RIVERSIDE COUNTY	PROPERTY TAXES	43,742.33	43,742.33
3/21/17	RIVERSIDE COUNTY	PROPERTY TAXES	4,731.86	4,731.86
3/21/17	RIVERSIDE COUNTY	PROPERTY TAXES	1,223.57	1,223.57
3/21/17	BCVWD	WATER SALES	82,420.00	82,420.00
3/24/17	YVWD	WATER SALES	11,300.13	11,300.13
3/28/17	TVI	CD - BOND INTEREST	23,016.30	23,016.30
TOTAL FOR MARCH 2017			166,434.19	166,434.19

**SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2016-17
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

FOR THE FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - INCOME					Compare: 25%
INCOME					
WATER SALES	3,993,000		3,993,000	2,935,745.06	26.48%
TAX REVENUE	2,240,000		2,240,000	1,366,428.94	39.00%
INTEREST	64,000		64,000	89,574.63	-39.96%
CAPACITY FEE	0		0	0.00	0.00%
GRANTS	0		0	0.00	0.00%
OTHER (REIMBURSEMENTS, TRANSFERS)	69,000		69,000	45,682.37	33.79%
TOTAL GENERAL FUND INCOME	6,366,000	0	6,366,000	4,437,431.00	30.29%
GENERAL FUND - EXPENSES					
COMMODITY PURCHASE					
PURCHASED WATER	3,875,000		3,875,000	2,081,946.30	46.27%
TOTAL COMMODITY PURCHASE	3,875,000	0	3,875,000	2,081,946.30	46.27%
SALARIES AND EMPLOYEE BENEFITS					
SALARIES	431,000		431,000	323,474.86	24.95%
PAYROLL TAXES	39,000		39,000	26,827.15	31.21%
RETIREMENT	108,000		108,000	86,147.21	20.23%
OTHER POST-EMPLOYMENT BENEFITS (OPEB)	23,000		23,000	16,951.17	26.30%
HEALTH INSURANCE	52,000		52,000	40,371.55	22.36%
DENTAL INSURANCE	4,500		4,500	3,575.20	20.55%
LIFE INSURANCE	1,100		1,100	1,030.38	6.33%
DISABILITY INSURANCE	4,500		4,500	3,334.30	25.90%
WORKERS COMP INSURANCE	3,700		3,700	1,739.00	53.00%
SGPWA STAFF MISC. MEDICAL	10,000		10,000	5,261.40	47.39%
EMPLOYEE EDUCATION	1,000		1,000	0.00	100.00%
TOTAL SALARIES AND EMPLOYEE BENEFITS	677,800	0	677,800	508,712.22	24.95%

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**SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2016-17
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FOR THE FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017					
	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - EXPENSES					Compare: 25%
ADMINISTRATIVE & PROFESSIONAL					
DIRECTOR EXPENDITURES					
DIRECTORS FEES	105,000		105,000	74,498.56	29.05%
DIRECTORS TRAVEL & EDUCATION	20,000		20,000	4,346.60	78.27%
DIRECTORS MISC. MEDICAL	32,000		32,000	11,505.79	64.04%
OFFICE EXPENDITURES					
OFFICE EXPENSE	18,000		18,000	17,015.67	5.47%
POSTAGE	1,000		1,000	530.05	47.00%
TELEPHONE	10,000		10,000	7,842.91	21.57%
UTILITIES	5,000		5,000	3,346.56	33.07%
SERVICE EXPENDITURES					
COMPUTER, WEB SITE AND PHONE SUPPORT	9,000		9,000	2,791.93	68.98%
GENERAL MANAGER & STAFF TRAVEL	20,000		20,000	14,734.82	26.33%
INSURANCE & BONDS	23,000		23,000	22,108.00	3.88%
ACCOUNTING & AUDITING	22,000		22,000	21,301.17	3.18%
STATE WATER CONTRACT AUDIT	5,000		5,000	5,012.00	-0.24%
DUES & ASSESSMENTS	29,000		29,000	29,902.50	-3.11%
SPONSORSHIPS	8,000		8,000	1,000.00	87.50%
OUTSIDE PROFESSIONAL SERVICES	650		650	650.00	0.00%
BANK CHARGES	1,600		1,600	1,032.08	35.50%
MISCELLANEOUS EXPENSES	1,000		1,000	6.78	99.32%
MAINTENANCE & EQUIPMENT EXPENDITURES					
TOOLS PURCHASE & MAINTENANCE	3,500		3,500	28.38	99.19%
VEHICLE REPAIR & MAINTENANCE	9,000		9,000	4,525.09	49.72%
MAINTENANCE & REPAIRS - BUILDING	11,000		11,000	11,542.01	-4.93%
MAINTENANCE & REPAIRS - FIELD	6,500		6,500	2,827.27	56.50%
CONTRACT OPERATIONS AND MAINTENANCE	150,000		150,000	65,837.80	56.11%
COUNTY EXPENDITURES					
LAFCO COST SHARE	5,000		5,000	4,440.49	11.19%
ELECTION EXPENSE	175,000		175,000	0.00	100.00%
TAX COLLECTION CHARGES	9,500		9,500	7,655.16	19.42%
TOTAL ADMINISTRATIVE & PROFESSIONAL	679,750	0	679,750	314,481.62	53.74%

**SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2016-17
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

FOR THE FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - EXPENSES					Compare: 25%
GENERAL ENGINEERING					
RECHARGE					
B.A.R.F. DESIGN + CONSTRUCTION			CAPITAL EXPENDITURE		
B.A.R.F. ENVIRONMENTAL MITIGATION			CAPITAL EXPENDITURE		
FERC/FLUME					
FLUME SUPPORT	40,000		40,000	33,419.58	16.45%
NEW WATER					
PROGRAMATIC EIR	75,000		75,000	0.00	100.00%
UPDATED STUDY ON AVAILABLE SOURCES	45,000		45,000	21,661.45	51.86%
SITES RESERVOIR	300,000		300,000	360,677.00	-20.23%
BCVWD CONNECTION					
ENGINEERING	30,000		30,000	5,200.00	82.67%
CEQA	15,000		15,000	1,147.60	92.35%
INTEGRATED REGIONAL WATER MANAGEMENT PLAN (IRWMP)	5,000		5,000	0.00	100.00%
SGMA SUPPORT	15,000		15,000	0.00	100.00%
STUDIES					
USGS	100,000		100,000	101,829.04	-1.83%
WATER RATE NEXUS STUDY	50,000		50,000	0.00	100.00%
WATER RATE FINANCIAL MODELING	30,000		30,000	6,887.50	77.04%
CAPACITY FEE NEXUS STUDY UPDATE	0		0	0.00	0.00%
SUPPORT - CAPACITY FEE & AGREEMENTS	0		0	0.00	0.00%
UPDATED UWMP	10,000		10,000	39,751.89	-297.52%
OTHER PROJECTS					
BASIN MONITORING TASK FORCE	21,000		21,000	20,180.00	3.90%
BUNKER HILL CONJUNCTIVE USE PROJECT	20,000		20,000	0.00	100.00%
GENERAL AGENCY - CEQA AND GIS SERVICES	35,000		35,000	34,416.53	1.67%
TOTAL GENERAL ENGINEERING	791,000	0	791,000	625,170.59	20.96%

**SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2016-17
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

FOR THE FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017					
	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - EXPENSES					Compare: 25%
LEGAL SERVICES					
LEGAL SERVICES - GENERAL	175,000		175,000	157,070.04	10.25%
TOTAL LEGAL SERVICES	175,000	0	175,000	157,070.04	10.25%
CONSERVATION & EDUCATION					
SCHOOL EDUCATION PROGRAMS	10,000		10,000	1,000.00	90.00%
ADULT EDUCATION PROGRAMS	5,000		5,000	0.00	100.00%
OTHER CONSERVATION, EDUCATION AND P. R.	20,000	15,000	35,000	21,263.87	39.25%
TOTAL CONSERVATION & EDUCATION	35,000	15,000	50,000	22,263.87	55.47%
GENERAL FUND CAPITAL EXPENDITURES					
BUILDING	15,000		15,000	0.00	100.00%
FURNITURE & OFFICE EQUIPMENT	5,000		5,000	0.00	100.00%
OTHER EQUIPMENT	0		0	0.00	0.00%
TRANSPORTATION EQUIPMENT	37,000		37,000	0.00	100.00%
MT. VIEW TURNOUT + B.A.R.F. CONSTRUCTION	0		0	31,125.01	
SBVMWD PIPELINE CAPACITY PURCHASE	330,000		330,000	0.00	100.00%
TOTAL GENERAL FUND CAPITAL EXPENDITURES	387,000	0	387,000	31,125.01	91.96%
TRANSFERS TO OTHER FUNDS	0	0	0	0.00	
TOTAL GENERAL FUND EXPENSES	6,620,550	15,000	6,635,550	3,740,769.65	43.63%
TRANSFERS FROM RESERVES	300,000		300,000		
TOTAL TRANSFERS FROM RESERVES	300,000	0	300,000	0	
GENERAL FUND NET INCOME YEAR TO DATE	45,450	-15,000	30,450	696,661.35	

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**SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2016-17
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

FOR THE FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
DEBT SERVICE FUND - INCOME					Compare: 25%
INCOME					
TAX REVENUE	19,350,000		19,350,000	11,484,800.15	40.65%
INTEREST	170,000		170,000	235,457.16	-38.50%
GRANTS	0		0	0.00	0.00%
DWR CREDITS - BOND COVER, OTHER	3,170,000		3,170,000	1,852,756.66	41.55%
TOTAL DEBT SERVICE FUND INCOME	22,690,000	0	22,690,000	13,573,013.97	40.18%
DEBT SERVICE FUND - EXPENSES					
EXPENSES					
SALARIES	52,000		52,000	40,564.84	21.99%
PAYROLL TAXES	4,000		4,000	3,103.15	22.42%
BENEFITS	28,000		28,000	20,336.31	27.37%
SWC CONTRACTOR DUES	33,000		33,000	40,558.00	-22.90%
STATE WATER CONTRACT PAYMENTS	18,600,000		18,600,000	17,196,493.00	7.55%
PURCHASED WATER	5,000		5,000	427.00	91.46%
STATE WATER PROJECT LEGAL SERVICES	0		0	0.00	0.00%
USGS	0		0	0.00	0.00%
CONTRACT OPERATIONS AND MAINTENANCE	120,000		120,000	86,436.92	27.97%
SWP ENGINEERING	30,000		30,000	93,717.31	-212.39%
DEBT SERVICE UTILITIES	10,000		10,000	7,625.81	23.74%
TAX COLLECTION CHARGES	60,000		60,000	43,406.19	27.66%
TOTAL DEBT SERVICE FUND EXPENSES	18,942,000	0	18,942,000	17,532,668.53	7.44%
TRANSFERS FROM RESERVES			0	0.00	
DEBT SERVICE NET INCOME YEAR TO DATE	3,748,000	0	3,748,000	-3,959,654.56	

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**SAN GORGONIO PASS WATER AGENCY
CASH RECONCILIATION REPORT
FY 2016-17
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

DEBT SERVICE FUND - RESTRICTED

BEGINNING BALANCE - JULY 1, 2016	<u>36,816,064</u>	
RESERVE FOR STATE WATER PROJECT		
DEBT SERVICE ACTIVITY		
DEBT SERVICE DEPOSITS		
PROPERTY TAX - DEBT SERVICE DEPOSITS	11,484,800	
INTEREST INCOME	235,457	
DWR REFUNDS	1,852,757	
DEBT SERVICE DISBURSEMENTS	(17,532,669)	
ENDING RESTRICTED FUNDS BALANCE - - - MAR 31 2017	<u>32,856,409</u>	<u>32,856,409</u>

GENERAL FUND - UNRESTRICTED

BEGINNING BALANCE - JULY 1, 2016	<u>12,052,342</u>	
GENERAL FUND ACTIVITY		
GENERAL FUND DEPOSITS		
WATER SALES	2,935,745	
PROPERTY TAX - GENERAL PURPOSE DEPOSITS	1,366,429	
INTEREST INCOME	89,575	
OTHER INCOME	45,682	
CHANGE IN RECEIVABLES	558,623	
GENERAL FUND DISBURSEMENTS		
CHANGE IN LIABILITIES	(467,852)	
CHANGE IN CAPITAL ASSETS	(627,116)	
OPERATING EXPENDITURES	(3,121,375)	
ENDING UNRESTRICTED FUNDS BALANCE - - - MAR 31 2017	<u>12,832,053</u>	<u>12,832,053</u>
<u>TOTAL CASH - - - MAR 31 2017</u>		<u>45,688,463</u>

LOCATION OF CASH - - - MAR 31 2017

PETTY CASH	100
CASH IN CHECKING ACCOUNTS	357,700
WELLS FARGO MONEY MARKET SAVINGS	116,845
BANK OF HEMET LOCAL AGENCY MONEY MARKET ACCOUNT	509,625
LOCAL AGENCY INVESTMENT FUND	6,974,975
CALTRUST	19,729,217
TIME VALUE INVESTMENTS	18,000,000

<u>TOTAL - - - MAR 31 2017</u>	<u>45,688,463</u>
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**SAN GORGONIO PASS WATER AGENCY
CASH RECONCILIATION REPORT
FY 2016-17
BY QUARTER**

	SEP 30, 16	DEC 31, 16	MAR 31, 17	JUN 30, 17
<u>DEBT SERVICE FUND - RESTRICTED</u>				
BEGINNING BALANCE - JULY 1, 2016				
RESERVE FOR STATE WATER PROJECT	<u>36,816,064</u>	<u>36,816,064</u>	<u>36,816,064</u>	
DEBT SERVICE ACTIVITY				
DEBT SERVICE DEPOSITS				
PROPERTY TAX - D. S. DEPOSITS	1,149,380	5,487,206	11,484,800	
INTEREST INCOME	78,171	132,536	235,457	
DWR REFUNDS	64,097	1,837,144	1,852,757	
CHANGE IN TAXES RECVBL				
DEBT SERVICE DISBURSEMENTS	(10,043,078)	(11,156,905)	(17,532,669)	
<u>ENDING RESTRICTED FUNDS BALANCE</u>	<u><u>28,064,634</u></u>	<u><u>33,116,045</u></u>	<u><u>32,856,409</u></u>	<u><u>-</u></u>
<u>GENERAL FUND - UNRESTRICTED</u>				
BEGINNING BALANCE - JULY 1, 2016	<u>12,052,342</u>	<u>12,052,342</u>	<u>12,052,342</u>	
GENERAL FUND ACTIVITY				
GENERAL FUND DEPOSITS				
WATER SALES	753,759	1,955,663	2,935,745	
PROPERTY TAX - GENERAL DEPOSITS	183,329	795,498	1,366,429	
INTEREST INCOME	23,350	49,550	89,575	
OTHER INCOME	37,070	43,601	45,682	
CHANGE IN RECEIVABLES	575,816	515,647	558,623	
GENERAL FUND DISBURSEMENTS				
CHANGE IN LIABILITIES	(491,640)	(100,527)	(467,852)	
CHANGE IN CAPITAL ASSETS	(76,550)	(141,973)	(627,116)	
OPERATING EXPENDITURES	(844,907)	(2,321,979)	(3,121,375)	
<u>ENDING UNRESTRICTED FUNDS BALANCE</u>	<u><u>12,212,569</u></u>	<u><u>12,847,821</u></u>	<u><u>12,832,053</u></u>	<u><u>-</u></u>
<u>TOTAL CASH - END OF QUARTER</u>	<u><u>40,277,203</u></u>	<u><u>45,963,866</u></u>	<u><u>45,688,463</u></u>	<u><u>-</u></u>
<u>CASH AND INVESTMENTS</u>				
PETTY CASH	100	100	100	
CASH IN CHECKING ACCOUNTS	273,181	464,625	357,700	
WELLS FARGO MM SAVINGS	1,016,238	966,576	116,845	
BANK OF HEMET L.A.M.M.A.	509,244	509,435	509,625	
LOCAL AGENCY INVESTMENT FUND	3,349,005	6,349,005	6,974,975	
CALTRUST	17,129,435	19,674,125	19,729,217	
TIME VALUE INVESTMENTS	18,000,000	18,000,000	18,000,000	
<u>TOTAL - END OF QUARTER</u>	<u><u>40,277,203</u></u>	<u><u>45,963,866</u></u>	<u><u>45,688,463</u></u>	<u><u>-</u></u>

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**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2016-17
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

Accounting convention defines Current Assets as assets that can be liquidated within 1 year. By this definition, funds invested in Wells Fargo accounts, Bank of Hemet accounts, LAIF and CalTRUST accounts would all be considered Current Assets, or short-term investments.

The Agency categorizes its investments into three groups: Short-Term (can be liquidated or mature in 1 year); Medium-Term (mature in more than 1 year up to 5 years) and Long-Term (mature after 5 years).

For the purposes of this report, a "Hybrid" category is included for investments that can be liquidated in a year, but whose underlying securities may mature in more than one year. LAIF and CalTRUST both fall into this category.

This report includes a summary of cash and investments, and a detail of investments by category. The summary can be compared to the Cash Reconciliation Report. The balance for Time Value Investments could be different, as this report is a snapshot at a specific time of current values, whereas the Cash Reconciliation Report lists carrying values. The detail of investments may not necessarily agree with the summary of cash and investments. This report also includes charts to show graphically the different investment categories, and what they are earning.

CASH AND INVESTMENT SUMMARY

LOCATION - INSTITUTION

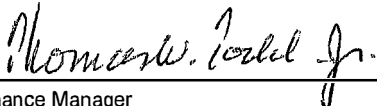
PETTY CASH	100
CASH IN CHECKING ACCOUNTS	357,700
WELLS FARGO MONEY MARKET SAVINGS	116,845
BANK OF HEMET LOCAL AGENCY MONEY MARKET ACCOUNT	509,625
LOCAL AGENCY INVESTMENT FUND	6,974,975
CALTRUST SHORT-TERM	5,051,713
CALTRUST MEDIUM-TERM	14,677,504
TIME VALUE INVESTMENTS	18,000,000
US TREASURY	-

TOTAL

45,688,463

ALL INVESTMENTS LISTED ON THE INVESTMENT REPORT AND HELD BY THE SAN GORGONIO PASS WATER AGENCY ARE IN COMPLIANCE WITH THE AGENCY'S STATEMENT OF INVESTMENT POLICY.

THE AGENCY CAN MEET ITS EXPENDITURE REQUIREMENTS FOR THE NEXT SIX MONTHS.

 4-20-17

Finance Manager Date

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**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2016-17
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**

INVESTMENT DETAIL

SHORT-TERM

INSTITUTION	Account	YIELD RATE	STATEMENT DATE	CURRENT VALUE
Wells Fargo	Money Market Savings	0.15%	3/31/17	116,845.36
Bank of Hemet	Local Agency Money Market	0.15%	3/31/17	509,625.32

HYBRID

INSTITUTION	Account	YIELD RATE	STATEMENT DATE	CURRENT VALUE
State of California	Local Agency Investment Fund	0.78%	4/18/17	6,974,974.83
CalTRUST	Short-Term	0.83%	3/31/17	5,051,713.06
CalTRUST	Medium-Term	1.07%	3/31/17	14,677,504.26

MEDIUM-TERM

BROKER: TIME VALUE INVESTMENTS BONDS

ISSUER	TYPE	PURCHASE AMOUNT	YIELD RATE	MATURITY DATE	FACE VALUE	CURRENT VALUE
FFCB	Callable*	1,976,118	0.94%	03/19/2018	2,000,000	1,994,300
FFCB	Callable*	1,995,800	0.97%	06/18/2018	2,000,000	1,988,920
FFCB	Callable*	999,200	1.12%	02/22/2019	1,000,000	994,360
FFCB	Callable*	1,001,474	1.02%	07/12/2019	1,000,000	986,900
FFCB	Callable*	1,000,770	1.38%	03/02/2020	1,000,000	986,200
FNMA	Callable*	1,050,000	1.40%	11/25/2020	1,050,000	1,024,821
	TOTAL	8,023,362	1.09%	TOTAL	8,050,000	7,975,501

* Can be redeemed before maturity date.

BROKER: TIME VALUE INVESTMENTS CDs

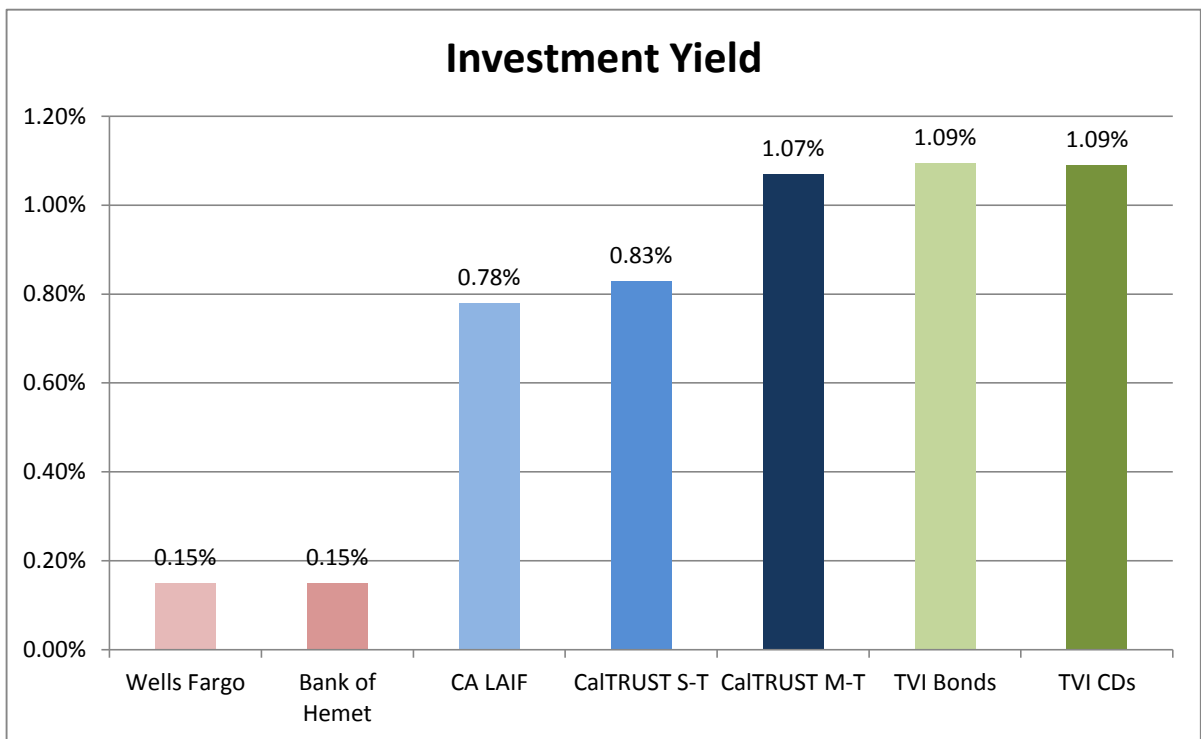
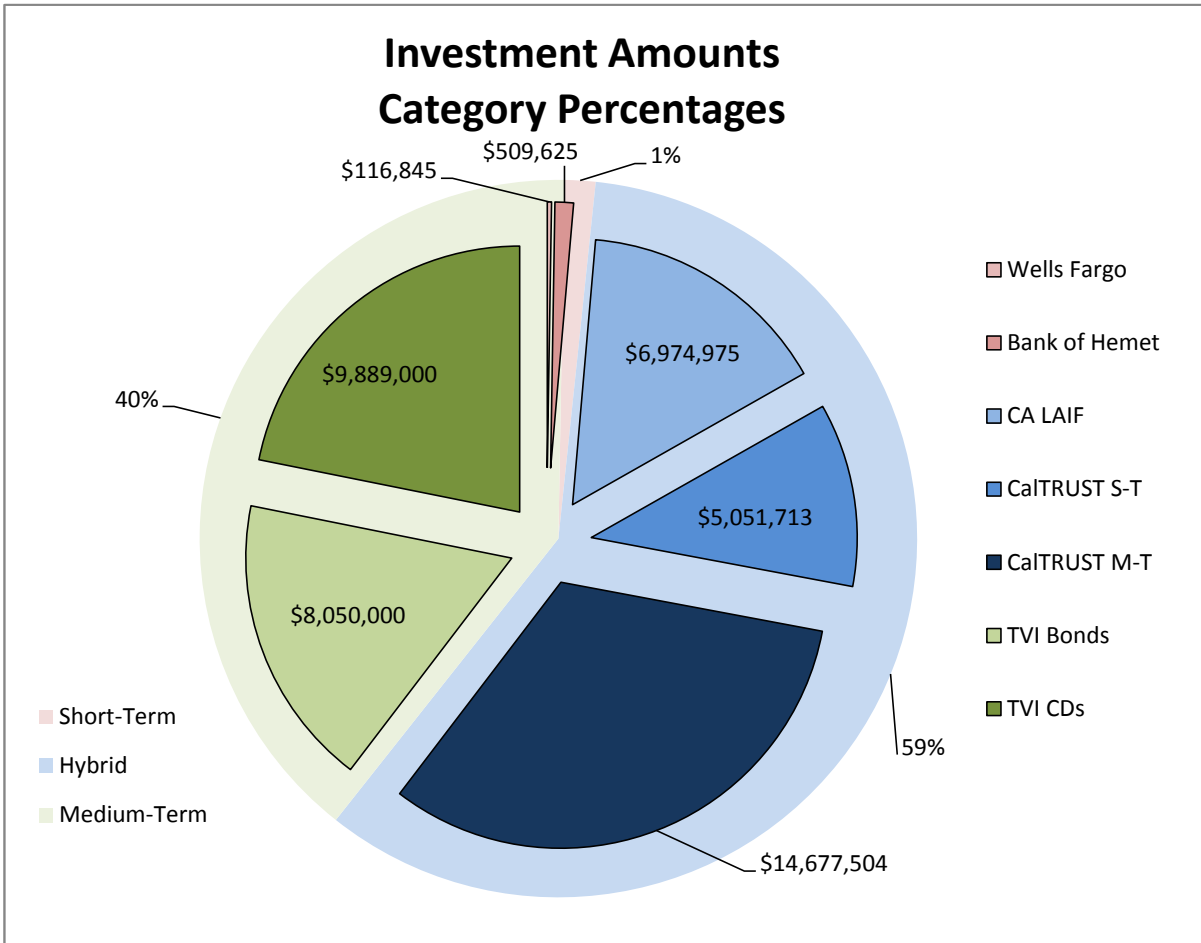
ISSUER	PURCHASE AMOUNT	YIELD RATE	MATURITY DATE	FACE VALUE	CURRENT VALUE
Various banks	9,889,000	1.09%	1-30 months	9,889,000	9,887,111.07

LONG-TERM

The Agency has no Long-Term investments at the date of this report.

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**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2016-17
FOR THE NINE MONTHS ENDING ON MARCH 31, 2017**



**SAN GORGONIO PASS WATER AGENCY
RESERVE ALLOCATION REPORT
FY 2016-17
FOR THE NINE MONTHS ENDING MARCH 31, 2017**

	JUN 30, 16	SEP 30, 16	DEC 31, 16	MAR 31, 17	JUN 30, 17
RESTRICTED					
STATE WATER CONTRACT FUND	36,816,064	28,064,634	33,116,045	32,856,409	
UNRESTRICTED					
OPERATIONS	1,500,000	1,500,000	1,500,000	1,500,000	
NEW INFRASTRUCTURE	2,818,921	3,504,184	3,372,311	3,757,563	
Additions or Adjustments	685,263	-131,873	7,045	-393,975	
Expenditures		0			
Ending Balance	3,504,184	3,372,311	3,379,356	3,363,588	0
ADDITIONAL WATER	2,500,000	2,500,000	2,500,000	2,500,000	
Adjustments from Other Sources	1,700,000	2,000,000	2,000,000	2,000,000	
Ratepayer - Balance Forward	1,126,838	1,126,838	1,126,838	1,378,976	
Ratepayer - Current Contribution		0	252,138		
Rate Stabilization - Balance Forward	413,420	413,420	413,420	539,489	
Excess Rate Stabilization - Current		0	126,069		
Expenditures		0			
Ending Balance	5,740,258	6,040,258	6,418,465	6,418,465	0
RATE STABILIZATION					
Taxpayer Contribution	0	0	0	0	
Previous Ratepayer Balance	150,000	150,000	150,000	150,000	
Ratepayer Contribution		0	126,069		
Excess Contribut.-To Addnl. Water		0	-126,069		
Expenditures		0	0	0	
Ending Balance	150,000	150,000	150,000	150,000	0
REPLACEMENTS	1,000,000	1,000,000	1,250,000	1,250,000	
UNEXPECTED LEGAL SERVICES	150,000	150,000	150,000	150,000	
TOTAL UNRESTRICTED RESERVES	12,044,442	12,212,569	12,847,821	12,832,053	0
TOTAL RESERVES	48,860,506	40,277,203	45,963,866	45,688,462	0

CASH LOCATION

Petty Cash	100	100	100	100	
Checking Accounts	73,792	273,181	464,625	357,700	
Wells Fargo M.M. Savings	865,939	1,016,238	966,576	116,845	
Local Agency M M Acct. BofH	509,052	509,244	509,435	509,625	
LAIF	12,323,141	3,349,005	6,349,005	6,974,975	
CalTRUST	17,088,482	17,129,435	19,674,125	19,729,217	
Time Value Investments	18,000,000	18,000,000	18,000,000	18,000,000	
TOTAL CASH	48,860,506	40,277,203	45,963,866	45,688,463	0

**San Gorgonio Pass Water Agency
Review of Whitewater Flume/FERC 344 Expenses
Updated April 20, 2017
Categorized Expenditures**

DRAFT

FY	Expenditure Type				Total
	Consultant	Legal	Governement	Other	
2001-02	29,610.04	89,551.65	1,345.95	4,887.12	125,394.76
2002-03	35,592.36	148,338.15	154.00	0.00	184,084.51
2003-04	23,611.25	47,662.53	0.00	0.00	71,273.78
2004-05	17,722.04	64,651.52	0.00	0.00	82,373.56
2005-06	24,081.25	73,419.04	0.00	0.00	97,500.29
2006-07	14,816.25	20,351.95	0.00	0.00	35,168.20
2007-08	32,169.45	5,933.72	114.00	0.00	38,217.17
2008-09	1,505.00	513.00	0.00	0.00	2,018.00
2009-10	281.25	0.00	0.00	0.00	281.25
2010-11	438.75	0.00	0.00	0.00	438.75
2011-12	0.00	0.00	0.00	0.00	0.00
2012-13	0.00	0.00	0.00	0.00	0.00
2013-14	0.00	0.00	0.00	0.00	0.00
2014-15	45,046.62	35,920.75	0.00	0.00	80,967.37
2015-16	89,217.87	2,270.71	0.00	0.00	91,488.58
2016-17	33,419.58	0.00	0.00	0.00	33,419.58
Totals	347,511.71	488,613.02	1,613.95	4,887.12	842,625.80

FY	Status	Date	Reimbursement		Total
			BHMWC	City of Banning	
2002-03			33,750.00	33,750.00	67,500.00
2004-05			26,000.00	26,000.00	52,000.00
2005-06			22,000.00	22,000.00	44,000.00
2006-07			27,800.00	27,800.00	55,600.00
2015-16	Received	5/6/16		20,692.71	20,692.71
2016-17	Received	1/3/17	42,975.49		42,975.49
Totals			152,525.49	130,242.71	282,768.20

FINAL DRAFT

**WATER RATE STUDY
FOR
SAN GORGONIO PASS WATER
AGENCY**

FEBRUARY 2, 2009

Public Finance
Facilities Planning
Urban Economics

Newport Beach
Riverside
Walnut Creek

FINAL DRAFT

**WATER RATE STUDY FOR
SAN GORGONIO PASS WATER AGENCY**

FEBRUARY 2, 2009

Prepared for
SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue
Beaumont, California 92223
(951) 845-2577

Prepared by
DAVID TAUSSIG & ASSOCIATES, INC.
5000 Birch Street, Suite 6000
Newport Beach, California 92660
(949) 955-1500

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I. Introduction

In September, 2008 the San Geronio Pass Water Agency (“SGPWA”), a State Water Project (“SWP”) Contractor, authorized David Taussig and Associates, Inc. (“DTA”) to prepare a comprehensive rate study for proposed wholesale water rates that SGPWA would charge to its retail water districts. This study incorporates the guidelines of American Water Works Association publication M1¹ and will determine the revenue requirements necessary to fund the appropriate SGPWA operating and Department of Water Resources (“DWR”) SWP water purchase pass through costs, dry year water purchases, reserves for new water purchases and related reserves over a five year period. Furthermore, this study will demonstrate that the proposed wholesale water rate will:

- Generate revenues that will not exceed the funds required to provide the related services
- Generate revenues that will not be used for any purpose other than that for which the rate is imposed
- Will be uniformly charged to the retail customers

SGPWA was formed pursuant to Water Code Appendix Sections 101-1 to 52 (“Act”). Section 25 of the Act provides for the charging of water rates as follows:

“The board of directors, so far as practicable, shall fix such rate or rates for water in the agency and in each improvement district therein as will result in revenues that will pay the operating expenses of the agency, and the improvement district, provide for the repairs and depreciation of works, provide a reasonable surplus for improvements, extensions and enlargements, pay the interest on bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due. Said rates for water in each improvement district may vary from the rates of the agency and from other improvement districts therein.”

SGPWA Ordinance No. 8 mandates that the Agency, at a minimum, shall establish and charge rates for:

“[T]he delivery of SGPWA Water sufficient to cover SGPWA’s variable costs (including off-aqueduct costs) for delivery of SGPWA Water, internal SGPWA costs and other amounts as determined by the SGPWA Board of Directors reasonably related to the cost of delivery.”

This study and its supporting rate model will focus upon the use of the SGPWA water rate for funding of the seven (7) cost components of SGPWA’s Cost of Delivery, which are (1) operations cost, (2) administrative overhead cost, (3) SBVMWD pass through cost, (4) DWR pass through cost, (5) dry year transfer program cost, (6) rate stabilization reserve contribution, and (7) new water purchase surplus reserve contribution. Each of these seven cost components is described in Section 25 of the Act and each is a cost of delivery of SGPWA Water, and internal SGPWA cost and/or reasonably related to the cost of delivery of SGPWA water.

¹ American Water Works Association, Principals of Water Rates, Fees, and Charges (Manual of Water Supply Practices M1), Fifth Edition

As an example, a key element in this study and its supporting rate model will be the funding of a reasonable surplus for repairs, improvements, extensions, and enlargements, principal and interest on bonded debt dedicated to the purchase of additional water to assist in offsetting the reduction in reliability of the SWP. With the amount of water deliveries from DWR uncertain from year to year, as well as drought conditions within the local watershed, it is essential that SGPWA maintain the ability to fund additional water purchases in any given year in order to maintain the high level of water reliability that the service area demands. As a result, these expenses are considered SGPWA “operating expenses” and “repairs” under Section 25 of the Act to repair the lost reliability of SWP and “costs for delivery” under SGPWA Ordinance No. 8.

II. Background

In 1961 SGPWA was formed pursuant to the Act as a result of the approval by the voters of California of the Burns-Porter Act, which authorized the financing and construction of the SWP. SGPWA entered into a contract with DWR in 1962 for Table A Amount² capacity in the SWP, which is currently 17,300 acre-ft per year (“AFY”) to bring supplemental water to the SGPWA service area³. The SWP system originates at Oroville Reservoir in Northern California and water is delivered through a series of dams, pipelines, rivers, Sacramento Delta canals, sloughs, reservoirs and pumping stations to the SGPWA turnout at Devil Canyon in San Bernardino County. From that point it is delivered by pipeline, pump stations and reservoir to the SGPWA SWP terminus at Cherry Valley, in Northern Riverside County.

The primary source of local water supply to the SGPWA service area at the present time is natural surface runoff and groundwater basins. The major groundwater basin is the Beaumont Storage Unit (“BSU”), which serves the City of Beaumont through the Beaumont-Cherry Valley Water District (“BCVWD”), the Cities of Calimesa and Yucaipa through the Yucaipa Valley Water District (“YVWD”), the City of Banning and the South Mesa Mutual Water Company (“SMMWC”). The BSU was determined by the Riverside Superior Court in 2004 to be in overdraft and a watermaster was appointed to manage the BSU through controlled overdraft (temporary surplus) through 2013.⁴

California has been experiencing recent shortages in rainfall and snowmelt, in addition to cutbacks in SWP water deliveries due to environmental court challenges. SGPWA’s current long-term reliability of water supply from the SWP is estimated to be reduced to 63%, or to about 11,000 AFY, of SGPWA’s 17,300 AFY Table A Amount.⁵ SGPWA needs to replace the reduced water supply with water supplies to repair the lost reliability of the SWP (“new water”). A small percentage of the SGPWA water rate (\$22 per acre-ft) will be allocated to provide a reasonable surplus reserve to finance the acquisition of new water to repair the lost reliability of the SGPWA SWP supplies.

A more detailed discussion is set forth in Appendix A attached hereto.

² Table A water is SGPWA’s annual entitled water amounts from DWR pursuant to Contract Between the State of California, Dept. of Water Resources and San Geronio Pass Water Agency, for a Water Supply, dated 16th day of November, 1962, and its subsequent Amendments

³ An acre-ft of water is the volume of water that will approximately cover a football field one foot deep. The average household water use in the SGPWA service area is presently calculated .63 AFY

⁴ See also, San Geronio Pass Water Agency Report on Water Conditions (Reporting Period 2006-2007), dated December 2008.

⁵ Kennedy/Jenks Consultants Memorandum, “Water Supply Reliability of the San Geronio Pass Water Agency”, dated January 2, 2009.

III. Revenues

SGPWA has four basic revenue components available to finance its Mission. These are pre-Proposition 13 ad valorem taxes, shared 1% ad valorem taxes, water rates and capacity fees. The Mission statement for SGPWA is quoted herein:

“The San Gorgonio Pass Water Agency’s mission is to import supplemental water and to protect and enhance local water supplies for use by present and future water users and to sell imported water to local water districts within the service areas of the San Gorgonio Pass Water Agency.

The San Gorgonio Pass Water Agency promotes water conservation, education and efficient use of our water resources.

The Agency’s goal is to maximize the quality, quantity and reliability of available water in the most financially responsible and environmentally sensitive manner.”

SGPWA’s three principal sources of revenue currently in place are pre-Proposition 13 ad valorem taxes, 1% revenues and water rates⁶. Pre-Proposition 13 ad valorem revenues are basically dedicated to the debt service fund for repayment of the SWP costs. The revenues received from the 1% ad valorem property taxes pay for SGPWA local operations and maintenance, a major portion of SGPWA administrative costs and a proportionate share of capital improvement costs and expected new water supply purchases. SGPWA policy dictates that the 1% revenues fund the District’s operations, except for 5% of the administrative overhead costs and 50% of the Operations Manager’s time, which are funded through the water rates. Water rates are charged to SGPWA’s retail agency customers for the purchase of imported water. See Section IV for a detailed description of the items funded through the water rates. In the near future SGPWA is planning to augment annual revenues by instituting a capacity fee that will insure that new development will pay its fair share of facility costs needed to mitigate the impacts of future growth and a proportionate share of the cost to purchase new water required to serve new growth and to maintain and repair the lost reliability of the SWP that SGPWA requires to adequately serve the needs of the area. In essence, the capacity fee will pay for new water needed for growth and a small portion of the water rate will pay for new water needed for reliability for existing users.

⁶ Ad valorem taxes were limited and 1% revenues established as a result of Proposition 13 (Jarvis Amendment to the California Constitution) adopted by the voters in 1977. Proposition 218, passed by the voters in 1996, created new procedures for adopting retail water rates. SGPWA’s water rates proposed in this study are not impacted by Proposition 218. See Appendix B for a more detailed discussion.

Relationship of Four Sources of Revenue and the Cost of Purchase of New Water

In order to carry out its Mission to import supplemental water, it is estimated SGPWA will need to import approximately of 70,000 acre-feet of imported water by the time the study area reaches build out conditions⁷. In order to provide that amount of water, SGPWA will need to build pipelines, pump stations, turnouts, reservoirs and spreading grounds and acquire new additional reliable water sources. It is estimated by reasonable engineering estimates that, in current dollar values, \$54.1⁸ million will be needed to be invested in SGPWA facilities and supplemental new water purchases over the next 5-8 years. These facilities include pipeline extensions to Banning, a new groundwater recharge facility and purchase of new water rights. These are near term facility needs and by no means represent the long term build out facility needs of SGPWA. Present planning does not require that all of the needed funds be raised at the outset, but it does require that money be raised at strategic points in advance of the time that the demand for additional supplies will be needed. The water rates proposed in this study cover the costs of maintaining and repairing lost water supply reliability of the SWP for existing users throughout the service area, while funds for pipelines and recharge facilities will be funded through other revenue sources. SGPWA intends to utilize its four basic revenue components to fund projects in a manner that meets SGPWA goals as well as the requirements of the public agency financial markets.

At this time, it is determined reasonable and prudent to acquire 10,000 acre-feet of new water supplies for reliability as the next step towards carrying out SGPWA's Mission. It is estimated by reasonable market analysis that costs to acquire such new water supplies will be in the range of approximately \$40 million for 10,000 acre-feet, depending upon a variety of market forces⁹. A portion of the water rates will be devoted to the acquisition of new water either through debt financing or direct "pay-as-you-go" purchase, or a combination of both. New water supplies required for new development will be funded through the proposed capacity fee program.

The negotiations for acquisition of new water will commence early in 2009, and the water rate with the "new water" component will enhance the opportunities for successful completion of such negotiations.

It must be pointed out that the cost of new water and the conditions of the public agency financing market may require an adjustment of the water rate "new water" component as more information becomes known. However, at this time at the beginning of the acquisition process, the "new water" component of the water rate is believed to be at a reasonable and prudent level.

This study focuses on the revenue requirements of the wholesale water rate in order to pay for the costs related to the delivery of imported water and a reasonable surplus for

⁷ Draft Supplemental Water Plan by Albert Webb and Assoc., 2008

⁸ Of the \$54.1M, \$40M is allocated to new water purchase for supply and improved reliability, \$5.5M is allocated to the over sizing of the pipeline to Banning and the remainder to a water recharge facility for the BSU.

⁹ Kennedy/Jenks Consultants Memorandum, "Probable Cost of Water Transfers", dated July 16, 2008.

needed repairs to the SWP water supply reliability by the purchase of new water necessary to insure a safe and reliable water supply to its customer retail agencies.

The initial new water purchase, estimated to cost \$40 million plus the cost of issuance of any bonded debt, will be funded by other sources of revenue in addition to a small portion of the water rate. Although it is fair for existing water users to pay for a portion of the costs of repairing the lost water reliability of the SWP through new water purchases, it is also fair for future water users to pay their fair share of a portion of such water from facility capacity fees imposed as a condition of land development. Thus existing users and future users will equitably share in the overall costs of the new water supplies. For instance, the BSU is in need of replenishment and all BSU overlayers have a significant interest in replenishment of the BSU to improve BSU long-term reliability. Thus, it is a significant advantage and benefit to the BSU rate payers to contribute to the cost of new water purchases.

In order to maintain flexibility in allocating the new water supply to all water rate payer areas within the SGPWA service area, and not just the BSU service area, the SGPWA policy is to give the highest priority to overlying areas with overdraft groundwater basins. Thus, new water purchased from water rates paid by areas overlying overdrafted groundwater basins would be given first priority to purchase new water to the extent of the contribution for replenishment purposes. If such water is not purchased, then it would be available for purchase by other user rate payers contributing to the purchase of new water. This flexibility allows water to be allocated to maximize beneficial use as dictated by local choice.

Water Rate Revenues

Annual water rate revenues are based on the volume of water sales. Water sales are limited by delivery capacity, the availability of Table A water and the availability of new water supplies. Table 1 below shows the annual revenues and expenses for a five year period beginning with fiscal year (July 1 to June 30) 2008-2009. Fiscal year 2008-2009 is used as the base year for both revenues and expenses. Water sales for the base fiscal year are expected to hold at the current estimated demand of 6,479 acre-feet. The base year water rate is determined by computing the weighted average between the existing rate (\$211 per acre-foot) and the new proposed rate (\$277 per acre-ft) to go into effect mid-FY (February 2, 2009). For example, the \$211 per acre-foot rate was and will be in effect from July 1, 2008 to February 2, 2009, or 7.07 months, or 58.93% of one year. Table 2 below shows the average rate and revenue estimate for Fiscal Year 2008-2009. The revenue from water sales for the base year is calculated by multiplying the average rate by the water sales in acre-feet:

$$\$238.11 \times 6,479 \text{ acre-feet} = \$1,542,696$$

Table 1
RATE ANALYSIS for DOWNSTREAM OF CHERRY VALLEY PUMP STATION⁸

Fiscal Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Water Sales (acre-ft)	6,479	4,000	7,000	8,000	12,000
Water Rate (\$ per acre-ft)	\$ 238.11	\$ 317.00	\$ 317.00	\$ 317.00	\$ 317.00
(annual rate increase)		33.13%	0.00%	0.00%	0.00%
REVENUE					
water sales	\$ 1,542,696	\$ 1,268,000	\$ 2,219,000	\$ 2,536,000	\$ 3,804,000
general fund revenue contribution	\$ 94,125	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 1,636,821	\$ 1,268,000	\$ 2,219,000	\$ 2,536,000	\$ 3,804,000
OPERATIONAL EXPENSES:					
SGPWA Operations ¹	\$ 66,100	\$ 68,678	\$ 68,678	\$ 68,678	\$ 68,678
SGPWA Administrative Overhead Allocation ²					
6% of Total Administrative Overhead ²	\$ 22,769	\$ 23,657	\$ 24,580	\$ 25,538	\$ 26,534
Salaries	\$ 275,000	\$ 285,725	\$ 296,868	\$ 308,446	\$ 320,476
Payroll Taxes	\$ 18,591	\$ 19,316	\$ 20,069	\$ 20,852	\$ 21,665
Workman's Comp Insurance	\$ 4,000	\$ 4,158	\$ 4,318	\$ 4,486	\$ 4,661
PERS	\$ 103,860	\$ 107,911	\$ 112,119	\$ 116,492	\$ 121,036
Health Insurance	\$ 42,840	\$ 44,511	\$ 46,247	\$ 48,050	\$ 49,924
Dental Insurance	\$ 4,561	\$ 4,739	\$ 4,924	\$ 5,116	\$ 5,315
SGPWA Staff Misc. Medical	\$ 4,203	\$ 4,367	\$ 4,537	\$ 4,714	\$ 4,898
Long Term Disability	\$ 2,328	\$ 2,419	\$ 2,513	\$ 2,611	\$ 2,713
Total Administrative Overhead	\$ 465,383	\$ 473,143	\$ 491,596	\$ 510,768	\$ 530,688
SAN BERNARDINO VALLEY MUNICIPAL PASS THROUGH ³	\$ 47,603	\$ 49,460	\$ 51,388	\$ 53,393	\$ 55,475
CALIF. DEPT. OF WATER RESOURCES PASS THROUGH ⁴ :					
Energy	\$ 1,326,853	\$ 948,514	\$ 1,659,900	\$ 1,897,029	\$ 3,130,098
Transmission	\$ 96,982	\$ 59,875	\$ 104,781	\$ 119,750	\$ 197,587
Prior Year Adjustments ⁵	\$ (36,300)	\$ -	\$ -	\$ -	\$ -
Sub Total	\$ 1,387,535	\$ 1,008,389	\$ 1,764,681	\$ 2,016,779	\$ 3,327,685
ADDITIONAL WATER - YUBA DRY YEAR TRANSFER PROGRAM ⁶					
purchase cost	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Sub Total	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
TOTAL EXPENSES	\$ 1,549,008	\$ 1,175,184	\$ 1,934,327	\$ 2,189,387	\$ 3,503,372
NET OPERATING REVENUE (total revenue minus total expenses)	\$ 87,814	\$ 92,816	\$ 284,673	\$ 346,613	\$ 300,628
Less:					
Reserve Fund contributions at \$33 per acre-ft (see breakdown below)	\$ 87,814	\$ 132,000	\$ 231,000	\$ 264,000	\$ 396,000
Net Operating Surplus (Deficit)	\$ 0	\$ (39,184)	\$ 53,673	\$ 82,613	\$ (95,372)
Transfer from Rate Stabilization Surplus Reserves		\$ 39,184			\$ 95,372
Transfer of revenue surplus to Reserves for Purchase of New Water			\$ (53,673)	\$ (82,613)	
Operating Account Balance	\$ 0	\$ -	\$ -	\$ -	\$ -
Rate Stabilization Surplus Reserves @ \$11 max per acre-ft ⁷	\$ 29,271	\$ 44,000	\$ 77,000	\$ 38,913	\$ -
Less: transfers to net operating fund	\$ -	\$ (39,184)	\$ -	\$ -	\$ (95,372)
Add: transfers from net operating income	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated	\$ 29,271	\$ 34,087	\$ 111,087	\$ 150,000	\$ 54,628
Maximum Allowable Rate Stabilization Fund Balance	\$ 150,000	\$ -	\$ -	\$ -	\$ -
Reserves for Purchase of New Water @ \$22/acre-ft ⁷	\$ 58,542	\$ 88,000	\$ 154,000	\$ 176,000	\$ 264,000
excess contributions from rate stabilization			\$ -	\$ 49,087	\$ 132,000
excess contributions from net operating surplus			\$ 53,673	\$ 82,613	\$ -
annual revenue stream	\$ 58,542	\$ 88,000	\$ 207,673	\$ 307,700	\$ 396,000
Accumulated	\$ 58,542	\$ 146,542	\$ 354,215	\$ 661,915	\$ 1,057,915

Notes:

- SGPWA operations cost funded entirely through ad valorem taxes, except for 50% of operational manager salary and benefit costs
- 5% of SGPWA administrative overhead allocated to rate related activities performed by non operations staff
- SBVMWD operational costs passed through is based on actual 12 month billing amount w/ 50% allocated to rate requirements
- DWR costs are passed through on a per acre-ft basis. The '08-'09 FY rates are \$196,729 for energy and \$14,568 for transmission. Therefore, for example, energy costs in 2008 = \$196.73/acre-ft X 6,479 acre-ft = \$1,274,607.
- SGPWA is expecting a credit of \$227,000 for '09-'10 FY. It is assumed that over the long term the DWR adjustments will average out to zero
- Rate and quantity of purchased water is depended on availability from other sources. There is no way to predict year to year so the assumption is made to assume future years purchase at the '08-'09 FY levels. Transmission costs are included in "CALIF. DWR PASS THROUGH" costs herein, "Transmission" line item
- Reserve contribution for the base year is determined by multiplying the per acre rate (\$11 or \$22) by the prorated water sales after February 2 as shown in Table 2
- Since most of the costs occur downstream of Cherry Valley Pump Station, the analysis was performed over the downstream reach. Upstream the DWR costs are approximately \$9 lower (See Section IV, subsection "Department of Water Resources Pass Through").

The rate analysis in Table 1 (Page 8) was performed on a Fiscal Year basis using actual and projected annual revenues and costs. Table 2 below shows the calculation for the average rate and estimated revenue for FY 2008-2009, based on pro-ration of the new rate of \$277 per acre-ft to be implemented on February 2, 2009.

Table 2
Average Rate and Estimated Revenue for 2008-2009

Rate (\$ per AF)	Months in effect	Percent of Fiscal Year in effect	Prorated water sales (AF)	Sales Revenue
\$211.00	7.07	58.93%	3,818	\$ 805,594
\$277.00	4.93	41.07%	2,661	\$ 737,102
\$238.11	12.00	100.00%	6,479	\$ 1,542,696

Table 3 (Page 10) shows the summary of revenues and costs for the next two fiscal years and those costs shown as dollars per acre-ft, based on projected water sales for each fiscal year.

In the past, as in the base year, revenues from water rates have not been sufficient to cover all of the related costs of delivery. Revenues from the general fund have been used to subsidize the water rate account to meet any short falls. For the base year as shown on Table 3 (Page 10), \$94,125 will be needed from general fund revenues to meet the total cost of delivery. In future years (2009-2010 to 2012-2013) the rates are set at a constant rate of \$317.00 with the intent that no subsidy from the general fund will be needed. This strategy is based on the following key factors:

1. The water rate is calculated to offset the energy cost increases from DWR, and
2. Expected growth in sales volume will result in additional revenue to meet fixed and variable cost obligations

Table 3 (Page 10) indicates that for Fiscal year 2009-2010 an increase in the water rate of 33.13% (from \$277 per acre-ft to \$317 per acre-ft) will be needed to meet costs. A large increase in DWR energy costs and low expected sales are the two primary factors in the need for the large increase. In subsequent fiscal years no increase in rates will be needed as expected increased water sales volume and assumed steady levels of DWR energy costs contribute to generally maintaining revenues at the same level of costs. The rate stabilization reserve fund will be used to mitigate years of negative cash flow, yet revenues in subsequent years are sufficient to repay the rate stabilization fund quickly.

Table 3
Revenues and Expenses in \$ per Acre-ft

Description	FY 2008-2009		FY 2009-2010	
	Amount	\$ per acre-ft	Amount	\$ per acre-ft
Water Sales (acre-ft)	6,479		4,000	
Water Rate (\$ per acre-ft)	\$ 238.11		\$ 317.00	
REVENUE				
water sales	\$ 1,542,696	\$ 238	\$ 1,268,000	\$ 317
general fund revenue contribution	\$ 94,125	\$ 15	\$ -	\$ -
Total Revenue	\$ 1,636,821	\$ 253	\$ 1,268,000	\$ 317
OPERATIONAL EXPENSES:				
SGPWA Operations	\$ 66,100	\$ 10	\$ 68,678	\$ 17
SGPWA Administrative Overhead Allocation 5% of total administrative overhead	\$ 22,769	\$ 4	\$ 23,657	\$ 6
SAN BERNARDINO VALLEY MUNICIPAL PASS THROUGH	\$ 47,603	\$ 7	\$ 49,460	\$ 12
CALIF. DEPT. OF WATER RESOURCES PASS THROUGH				
Energy	\$ 1,326,853	\$ 205	\$ 948,514	\$ 237
Transmission	\$ 96,982	\$ 15	\$ 59,875	\$ 15
Prior Year Adjustments	\$ (36,300)	\$ (6)	\$ -	\$ -
Sub Total	\$ 1,387,535	\$ 214	\$ 1,008,389	\$ 252
ADDITIONAL WATER - YUBA DRY YEAR PROGRAM				
Sub Total	\$ 25,000	\$ 4	\$ 25,000	\$ 6
Rate Stabilization Surplus Reserves @ \$11 max per acre-ft	\$ 29,271	\$ 5	\$ 44,000	\$ 11
Reserves for Purchase of New Water @ \$22/acre-ft	\$ 58,542	\$ 9	\$ 88,000	\$ 22
TOTAL EXPENSES	\$ 1,636,821	\$ 253	\$ 1,307,184	\$ 327
Net Revenue (short fall)	\$ 0	\$ 0	\$ (39,184)	\$ (10)

IV. Cost of Delivery

The common terminology for costs paid for by water rates is Cost of Service. The American Water Works Association Manual M1 broadly defines Cost of Service as:

“The operating and capital costs incurred in meeting various aspects of providing water service, such as customer billing costs, demand related costs, and variable costs.”

Costs identified in this report are related to the delivery of SGPWA water and fall well within and are consistent with the broad limitations of the M1 Manual. For the purposes of this report, the more specific term, “Cost of Delivery” will be used and means the costs related to securing water commensurate with SGPWA’s SWP Table A Amount, currently being 17,300 AFY, and any other sources of water that the SGPWA Board deems necessary and prudent.

Cost of Delivery includes operations, administrative overhead, SBVMWD pass-through, dry year transfer costs, rate stabilization surplus reserves and new water purchase surplus reserve contributions. The largest component of SGPWA annual costs is the purchase of imported water from DWR. At this time, the best information available indicates that the cost of energy to operate SWP will continue to increase in the future, primarily due to general inflation and the “green” energy requirements of AB 32, more fully discussed under the “Department of Water Resources Pass Through” section below. DWR has indicated by their annual forecast of expected energy costs that the energy cost for 2009 will rise by almost 16%. Increases thereafter are uncertain, mainly due to uncertain future weather conditions and the corresponding levels of reservoirs and hydroelectric power generation. Lower reservoir levels reduce the output of hydroelectric generators, thereby increasing the demand for more expensive fossil fuel related power. Due to these expected increases in DWR energy costs over the five year period, it will be necessary to raise water rates once in FY 2009-2010 (in addition to the February 2, 2009 increase) over the five year study period to cover the costs of delivery (see Table 1, page 8). The one-time annual increase of 33.13% (from \$277 per acre-ft to \$317 per acre-ft) in fiscal year 2009-2010 is necessary to offset both increased DWR energy rates and decreased forecasted water sales. By implementing the substantial increase in FY 2009-2010 and holding the rate constant over the next three fiscal years, it is reasonable to estimate SGPWA can most closely match revenues with expenses on both an annual basis and on a cumulative basis over the five year study period.

Use of the 2008-2009 budget is a reasonable assumption because the actual costs to date are very close to budget predictions and there are no major foreseen differences in cost assumptions for the first half of calendar year 2009. In addition to the planned increases in water rates over the next five (5) years, SGPWA is including a rate stabilization reserve. It is believed that the rate stabilization reserve will adequately fund negative net operating revenues in any given year caused by energy cost fluctuations and lower than expected revenues that occur when there is less water available to sell. The total Cost of Delivery is the aggregate of the following categories:

- SGPWA Operations Cost
- SGPWA Administrative Overhead Cost
- SBVMWD Pass Through Cost
- DWR Pass Through Cost
- Dry Year Transfer Program Cost

- Rate Stabilization Surplus Reserve Contribution
- New Water Purchase Surplus Reserve Contribution

The rate design used for this study is the uniform volume rate for wholesale service, as discussed in AWWA M1 manual¹⁰. Applying a uniform rate to the volume of water purchased is a straight forward method to calculate water rates and is consistent with the current rate structure. The wholesale water rate applicable to water sold by the Agency to retail water purveyors within the Agency's jurisdiction upstream of Cherry Valley Pump Station will be \$8 less than the rates set for water sold to retail water purveyors downstream of Cherry Valley Pump Station.¹¹ This price differential is due to DWR's lower energy and transmission costs upstream of Cherry Valley Pump Station. The SGPWA retail customers share common major goals, such as BSU replenishment and long term reliability of water sources. Therefore, other than the cost difference upstream and downstream from Cherry Valley Pump Station, there is no need to allocate costs of delivery by customer class or seasonal demands at this time.

Operational Expenses

SGPWA's operational expenses are allocated to SWP operations and maintenance costs and local operations and maintenance costs. SWP operations and maintenance costs are funded through pre-Proposition 13 ad valorem tax revenues, with the exception of 50% of the Operations Manager's salary and benefit cost. This is based on an analysis of typical duties and responsibilities of the Operations Manager with respect to the delivery and purchase of imported water from the SWP and represents a reasonable allocation of the Operations Manager's time. A recent audit of the Operations Manager's time charges over the past six months confirmed the daily duties and responsibilities of this position still result in a 50/50 ratio, within a 10% margin of error, between SWP related work activities and work activities related to local operations and maintenance. For the base year, SGPWA Finance Department estimates the salary and benefit cost to be \$132,200.

$50\% \times \$132,200 = \$66,100$ or approximately \$10 per acre-foot based on sales of 6,479 acre-feet

The other 50% of the costs of the operations manager are charged to SGPWA's share of debt service and operations of the SWP. These costs are funded from pre-Proposition 13 ad valorem tax revenues.

Budget increases in subsequent years for Operations Manager's costs are largely dependent on industry wide increases in labor costs. For subsequent years the 50% allocation of the Operations Manager's salary and benefit budget is escalated at 3.9% annually, which is based on an average of annual labor compensation increases, by percentage, over the last six (6) years, as provided by the U.S. Department of Labor (See Table 4 below).

¹⁰ American Water Works Association, Principals of Water Rates, Fees, and Charges (Manual of Water Supply Practices M1), Fifth Edition

¹¹ "2008 Transportation Variable Plant Unit Rates (Energy and Transmission)", State Water Project Analysis Office, dated February 26, 2008.

Table 4
Percent Changes In the Employment Cost Index (ECI)¹

Year	2003	2004	2005	2006	2007	2008
Percent change in Employment Cost Index	4.3	3.5	3.5	3.8	4.8	3.5
Average annual	3.9					

1. U.S. Department of Labor, Bureau of Labor Statistics, see State and Local Governments Section, "Compensation"

Administrative Overhead Allocation

SGPWA charges a portion of direct and indirect costs of administrative overhead to water rates. It is reasonable to conclude that the General Manager, Finance Manager and Administrative Assistant spend approximately 4 hours per week each related to planning, delivering and billing for imported water related services. This amounts to approximately 10% of the SGPWA salary and benefit budget on an annual basis. Table 1 (Page 8) lists the various line items that make up the salary and benefit budget for the base year. Since these percentages can fluctuate in the future due to many operational variables, it is conservative to assume a 5% allocation to insure that the proposed rate does not cover administrative costs other than those related to water delivery services. The bolded line item described as "5% of the Total Administrative Overhead" on Table 1 (Page 8) represents 5% of the total salary and benefit budget which is allocated to the water rate.

$5\% \times \$455,383 = \$22,769$ or approximately \$3.50 per acre-foot based on water sales of 6,479 acre-feet in the base year.

As with annual escalations for Operational Expenses discussed above, this Administrative Overhead component is labor intensive and therefore uses the same 3.9% escalation rate.

San Bernardino Valley Municipal Water District Pass Through

As discussed in the Background section of this report, imported SWP water is conveyed from the Devil Canyon delivery point through the East Branch Extension facilities that are owned by San Bernardino Valley Municipal Water District ("SBVMWD"), subject to SGPWA's capacity rights. SBVMWD operates and maintains these facilities and charges SGPWA for a proportionate share of its operations labor cost at a melded rate of approximately \$56 per hour, which is reflected in the costs shown on Table 1 (Page 8) for the base year. Last year's total billing from SBVMWD amounted to \$95,206. At present, 50% of this total cost is funded through general fund revenues and 50% is allocated to water rate, based on the assumption that the benefits received and the costs allocated from the delivery of SWP water through SBVMWD facilities are equally split between property tax based revenues and consumption related water rates. Therefore:

$50\% \times \$95,206 = \$47,603$, or approximately \$8 per acre-foot based on water sales of 6,479 acre-feet in the base year

As with annual escalations for Operational Expenses discussed above, this pass through component is labor intensive and will use the same 3.9% escalation.

Department of Water Resources Pass Through

Energy and Transmission Costs

The DWR water rate charged to SGPWA through the SWP Contract includes an energy component (electric power), a transmission component (non-power related operating costs) and a prior year cost recovery adjustment (see Page 13 “Prior Year Adjustment” subsection). The amount of the energy and the transmission costs that are passed on to SGPWA depend upon the location of the delivery point of the Phase I facilities. For instance, the delivery costs for 2008, in \$ per acre-foot:

Upstream of Cherry Valley Pump Station:

- Energy Cost \$196.7289
- Transmission Cost \$ 14.5680
- Total \$211.2969

Downstream of Cherry Valley Pump Station:

- Energy Cost \$204.7929
- Transmission Cost \$ 14.9687
- Total \$219.7616

Conservative unit costs for downstream of Cherry Valley Pump Station were used because most of the water demand occurs downstream of this pump station. The calendar base year costs and the subsequent year escalated costs were taken from Table 5 (Page 15), “DWR Delivery Costs” for downstream of Cherry Valley Pump Station. DWR costs are expected to jump dramatically in 2009 due to lower reservoir storage levels which results in reduced production of hydroelectric energy. DWR estimates the per mil energy rate that they will pay will jump from \$38 to \$44 in 2009, or a 15.8% increase. Increases beyond 2009 are difficult to determine as future rates will depend on climate, storage levels in reservoirs, environmental regulation and the cost of fossil fuel generated power. This study assumes the DWR estimate for 2009, i.e. energy costs will increase by 15.8%, 2010 and 2011 will hold constant and 2012 will see a 10% increase. While it is speculative at this time to expect energy costs to rise almost 16% per year for all subsequent years, holding costs constant for two years (2010 and 2011) and increasing costs by 10% in the last year (2012) is a reasonable assumption that takes into account an improvement in climate conditions and improved efficiencies in the overall SWP delivery system. This is strictly a best estimate and it must be understood that rates will need to be adjusted if actual costs produce a trend that is different from that based on these assumptions.

It is planned that transmission cost will be held constant over the five (5) year period because this number has historically held constant.

Table 5
DWR Delivery Costs

	2008	2009	2010	2011	2012
Downstream of Cherry Valley Pump Station					
Energy Cost	204.7929	237.1286	237.1286	237.1286	260.8415
Transmission Cost	14.9687	14.9687	14.9687	14.9687	16.4656
Total Cost	219.7616	252.0973	252.0973	252.0973	277.3071
				Inflation adjustment in 2012	10.00%

Prior Year Adjustment

Since DWR cannot predict exact energy costs and volume demand each budget year, DWR bills SGPWA, in addition to its periodic charges, intermittent charges to account for the exact energy cost increases within the calendar year. Also, an annual charge or credit at the end of the calendar year may be billed to cover any understating or overstating of the energy component of their rate. In 2008 an additional \$264,100 was billed to SGPWA. However, for 2009 it is expected that DWR will refund \$227,800. SGPWA's Board has acted to combine these two DWR actions into one year and apply the difference between the debit and credit (\$36,300) to the 2008-2009 rate (or approximately \$6 per acre-foot). Table 1 (Page 8) shows the prior year adjustment credit of \$36,000 in Fiscal Year 2008-2009. It is also expected that over the long run, the charges and refunds will tend to offset each other based on historical trends. For this reason it is assumed for Fiscal Year 2010-2011 and beyond the annual adjustments will be assumed to be zero.

Expected Power Cost Increases

It is expected that energy costs will increase over the long-term for at least three reasons: inflation, "green" energy legislation, and marginal cost increases. See Appendix C attached

Yuba Dry Year Transfer Program

SGPWA can purchase additional water through an agreement¹² to purchase supplemental water from Yuba County Water District at clearly defined prices. Presently this is the least expensive supplemental water available to SGPWA. There are four categories of water in the agreement; Component 1, Component 2, Component 3, and Component 4. Each category has its own specific price, in \$ per acre-ft, depending on dry, normal, wet or critical year conditions. This past year SGPWA purchased 68 acre-ft of Component 2 water and 124 acre-ft of Component 1, 3 and 4 water, for a combined annual purchase of 192 acre-ft.

Obviously it is impossible to characterize future water years in terms of "dry" vs. "wet" vs. "critical". As indicated in the Yuba agreement, each type of year has a specific water

¹² Agreement for the Supply and Conveyance of Water by the Department of Water Resources for the State of California to the Participating State Water Contractors Under the Dry Year Water Purchase Program, dated March 31, 2008

rate varying between \$25 per acre-ft in a wet year for Component 2 water to \$125 per acre-ft in a critical year for Component 3 and 4 water. For the purposes of this study it is conservatively assumed that the price of Yuba water purchased will be the critical year price of \$125 per acre-ft. Based on the recent annual purchase of 192 acre-ft, it is also assumed that SGPWA will continue to purchase approximately 200 acre-feet of additional water through the Yuba Dry Year Transfer Program as set forth in Table 1 (Page 8). The base year water cost is assumed as follows:

$\$125 \times 200 \text{ acre-feet} = \$25,000$, or \$3.86 per acre-foot based on water sales of 6,479 acre-feet

No costs are shown on the “delivery cost” line item because the delivery costs attributable to Dry Year Transfers are included in DWR pass through costs.

It is very difficult to predict, especially during these times of protracted water shortage, the levels of water purchases from this program. During wet years obviously SGPWA will not need to purchase large quantities of water. However, during critical years, SGPWA might need to purchase as much water as possible, limited by agreement to a percentage of SWP Table A water. Therefore, in the absence of any clear trends in historical data or any credible estimates, this study uses conservative assumptions as to the amount and price of expected purchases of Yuba water.

Surplus Reserves

Each year funds from net operating revenue are set aside for the purpose of

- Rate stabilization
- Purchase of new water

A total of \$33 per acre-ft of annual water sales is dedicated to fully funding the rate program, consisting of both rate stabilization and new water purchase components. The rate stabilization fund will be capped at approximately 150% of the maximum annual revenue shortfall year in the five year study. Any rate stabilization contribution over and above the cap will flow over into the reserve fund for the purchase of new water.

Rate Stabilization Surplus Reserves

In order to manage the effects of fluctuations in energy costs, delivery costs, facility maintenance costs and sales volume on the ability of SGPWA to meet expenses on an annual basis, SGPWA will implement a rate stabilization surplus reserve. In dry years the availability of water to sell is reduced, possibly resulting in various fixed costs not able to be funded through rates and water sales. A rate stabilization reserve will be used to meet the obligations in such dry years. The rate stabilization surplus reserve will be funded at the rate of \$11 per acre ft of water sales until the rate stabilization surplus reserve balance reaches a maximum of at least 150% of the revenue shortfall in the year of maximum deficit. Table 1 (Page 8) indicates that FY 2012-2013 generates a deficit of \$95,372, just under \$100,000. Therefore the maximum balance is set at \$150,000. Also, the maximum rate stabilization surplus reserve balance is projected to occur in FY 2011-2012. The contribution to the rate stabilization surplus reserve in base year 2008-2009 is

derived from contributions after the February 2, 2009 inception date (41.07% of one year) and is estimated to be:

$$\$11 \times 6,479 \text{ acre-feet} \times 41.07\% = \$29,270$$

As shown on Table 1 (page 8), for FY 2012-2013 an operating deficit of \$95,372 will be offset by a contribution from the rate stabilization surplus reserve, leaving a balance in that fund of \$54,628 to carry over into the next five year period. These balances in the rate stabilization surplus reserve provide a reasonable fund over the five year study period needed to avoid as much as practical any rate fluctuations.

Surplus Reserve for the Purchase of New Water (Repair Lost Reliability, SWP)

The rate revenue will provide a surplus reserve to accumulate for contribution together with other SGPWA funds for the future purchase of new water, the purchase of rights to new water supplies, or both. The annual fixed amount to be set aside in early years is calculated by applying a \$22 per acre-foot allocation to the annual water sales volume in acre-feet. As the maximum rate stabilization surplus reserve reaches its maximum target, the excess rate stabilization funds will flow to the surplus reserve for the purchase of new water. In addition, excess operating revenues in any fiscal year will also be transferred to the surplus reserve for the purchase of new water. As indicated in Table 1 (Page 8), beginning in year three the revenue stream for purchase of new water sharply increases. The fund contributions will vary year to year dependent on water sales and rate stabilization surplus reserve balances. The surplus reserve contribution for the purchase of new water for FY 2008-2009 is calculated as follows:

$$\$22 \text{ per acre-foot} \times 6,469 \text{ acre-ft} \times 41.07\% = \$58,540$$

Fund Balances

For each fiscal year the beginning and ending balance for the water rate operating account is shown near the bottom of Table 1 (Page 8). The starting fund balance is zero, and as mentioned in the Revenue section of this report, a contribution from the general fund account will be needed to insure that there is no shortfall in the base year. The second year the study shows again a zero ending balance as a rate increase and a contribution from the rate stabilization surplus reserve is sufficient to meet costs and require no transfers from the general fund. Subsequent years will show modest surpluses and shortfalls, with a closing balance of approximately \$50,000 in the rate stabilization fund at the end of the study period. This demonstrates that the rates proposed will be the minimum to generate revenues sufficient to meet expenses and reserve requirements over a five year period, with occasional borrowing from and repayment to the rate stabilization reserve fund to meet needs on an annual basis.

Table 1 (Page 8) also shows the accumulation of surplus reserves balances for both rate stabilization surplus reserves and surplus reserves for the purchase of new water over the five (5) year study under the line items described as "Accumulated".

V. Recommendation

In order to fund the Cost of Delivery related to imported water activities, it is recommended that a uniform water rate of \$277 per acre-foot (See Table 2, Page 9) be implemented for the service area downstream of Cherry Valley Pump Station ("CVPS"), effective February 2, 2009. The new uniform water rate for the service area upstream of CVPS will be slightly lower due to lower DWR pass through costs. In fiscal year 2009-2010 it will be necessary to increase the uniform water rate to \$317.00 per acre-foot for the service area downstream of CVPS in order to meet operational expenses, avoid subsidies from the general fund and adequately fund water rate reserves. Again, the increased rate for the service area upstream of CVPS will be slightly lower due to anticipated lower DWR pass through costs for the upstream segment. It is expected that DWR energy costs will increase over the five year study period requiring SGPWA to increase the rate to \$317.00 per acre-foot (33.13% increase over the previous year) in Fiscal Year 2009-2010. In subsequent years it is assumed that the volume of water sales will increase and the level of energy costs from DWR will hold relatively steady, resulting in no need to increase the SGPWA water rate. Of course if any of these assumptions, or any of the assumptions made with respect to the other cost components discussed in this report become significantly different from trends in actual costs incurred, the water rate level will need to be reviewed.

The proposed water rates will provide sufficient revenue to pay for the costs related to delivery of SWP water, contribute to a rate stabilization reserve of \$11 per acre-foot of water sold, and contribute to a reserve fund for a portion of the cost for the purchase of new water at the rate of \$22 per acre-foot of water sold. This fund and the expenditures that it will support will assist to provide the much needed water supply that will improve lost SWP water supply reliability, meet future increased demand from retail agencies and meet groundwater replenishment goals.

APPENDIX A Detailed Background

In 1960 the voters of the State of California approved the issuance of bonds to finance the construction of the nations largest state built water storage and delivery system. This project, referred to as the State Water Project (“SWP”), relies on 29 water contractors to fund the debt service on SWP facilities financing incurred by the Department of Water Resources (“DWR”), the State agency responsible for the construction, operation and maintenance of the SWP. SGPWA (a SWP Contractor) pays for its fair share of the debt service through ad valorem taxes. The SGPWA Board sets the ad valorem rate each year. Currently the rate is \$0.17 per \$100 of assessed valuation. This tax revenue is referred to in this report as pre-Proposition 13 ad valorem tax revenues.

In 1961 SGPWA was formed for the purpose of delivering wholesale imported SWP water to its customer water retailers for the purpose of groundwater recharge and to supplement the demands of new growth in the area. The SGPWA service area includes the communities of Banning, Beaumont, Calimesa, Cherry Valley, Poppet Flat, Morongo Indian Reservation and Cabazon. SGPWA overlies several local groundwater basins of which the Beaumont Storage Unit (“BSU”) is the major groundwater supply. The BSU provides the potable water source for most of the retail agencies within the SGPWA service area. Because the annual water demands of the growing communities increased over the years, those demands began to exceed the water supplied by local runoff, and now the BSU is currently in a managed overdraft (see “Managed Basin” below). It is now necessary to replenish the basin to not only meet the local water demands but also restore groundwater levels.

In 1962 SGPWA and DWR entered into a contract for capacity in the SWP (“SWP Contract”) whereby SGPWA would have a right to receive 15,000 acre-feet per year of imported water to 2035 and extended periods thereafter (“Table A Amount”). SGPWA would then pay its proportionate share of the SWP debt financing, operations and maintenance costs to DWR on an annual basis. Since 1962 the entitled amount has been amended several times, with the current Table A Amount of 17,300 acre-ft per year. The SWP Contract and debt financing was approved by the California voters in 1960 and, thus, is exempt from the limitations of Proposition 13 limiting the use of ad valorem taxes to pay for the SWP Contract obligations.

Water Supply

The SWP turnout that delivers water to the SGPWA service area is located at Devil Canyon, located in the hills behind California State University, San Bernardino. SGPWA owns capacity rights in the pipelines, pump stations and reservoirs (collectively known as the East Branch Extension) from this point to Garden Air Creek, on the common boundary of San Bernardino and Riverside Counties. Downstream from this point SGPWA owns 100% of capacity rights in all of the water storage and conveyance facilities in the system. Most of the cost for these facilities is financed by DWR bonds, with the debt service for SGPWA’s proportionate share repaid by SGPWA through pre-Proposition 13 ad valorem tax revenues.

Water users and retailers in the SGPWA service area primarily depend upon natural surface runoff and local groundwater basins to meet local water supply demands. The BSU is currently in overdraft, as the water demand of a growing population continues to exceed the natural recharge rate of the BSU. A local joint powers agency consisting of members dependant on

water from the BSU has been supporting the management of the BSU by a watermaster through agreements and legal proceedings (see below). SGPWA has been replenishing the BSU with imported water since 2003. Beaumont-Cherry Valley Water District (“BCVWD”) has also been replenishing the BSU with imported water purchased from SGPWA since 2006. It has been determined by SGPWA and the Watermaster that there is a need to increase the rate of replenishment of the BSU with imported water in the very near future.

Managed Basin

On February 20, 2003, the San Timoteo Watershed Management Authority, a joint powers public agency (“STWMA”), whose members are the Beaumont-Cherry Valley Water District (“BCVWD”), the City of Beaumont (“Beaumont”), the South Mesa Mutual Water Company (“SMMWC”), and the Yucaipa Valley Water District (YVWD”) filed a complaint in the Riverside Superior Court for adjudication of water rights, injunctive relief, and the imposition of a physical solution against the City of Banning (“Banning”), each of the members of STWMA, and various other alleged overlying landowners, pumpers, and appropriators within the boundaries of a certain area defined as the BSU. On February 17, 2004, a judgment pursuant to stipulation, was entered which provided, among other specifics, the BSU had a safe yield of 8,650 acre-feet per year (“AFY”), appointed a Watermaster consisting of representatives from Beaumont, Banning, BCVWD, SMMWC, and YVWD, authorized a controlled overdraft (temporary surplus) of 16,000 AFY up to 160,000 AF over a ten-year period, and required each appropriator to provide funds to enable the Watermaster to replace water pumped in excess of the safe yield of 8,650 AFY. The ten-year period for the controlled overdraft runs out in 2013.

Lost Reliability

Shortages in rainfall and snowmelt within California and the Colorado River basin, and recent cutbacks in deliveries from the SWP due to environmental court challenges, have made it increasingly difficult for water purveyors to maintain and plan for sustained and reliable water deliveries. SGPWA is continuously looking for opportunities to purchase additional water for storage and BSU replenishment in order to maintain and repair lost reliability of the SWP within its service area. The primary sources of SGPWA general fund revenue are 1% Revenue (“share of County 1% ad valorem tax revenue”) and wholesale water rates. In the near future SGPWA plans to implement a capacity fee program to insure that new development pays its fair share of capital improvements and new water purchases necessary to mitigate the impacts of growth. The SGPWA wholesale water rate must be calculated such that the expected revenues adequately and fairly recover the DWR pass through costs, proportionate SGPWA overhead costs, additional short term dry year water purchases, rate stabilization reserves and contributions to the portion of the cost of new water purchases that are necessary for repair of SWP lost water delivery reliability.

APPENDIX B Legal Limitations

Proposition 13

In 1978 the voters of the State of California passed Proposition 13 which placed a cap on ad valorem taxes of 1% of the then current assessed property value. The law further provides any new state taxes need a 2/3 vote by the legislature and any new local taxes also require a 2/3 vote of the local voters. The cap on ad valorem taxes does not apply to ad valorem taxes or special assessment to pay interest and redemption charges on any indebtedness approved by the voters prior to July 1, 1978. The Burns-Porter Act was approved by the voters in a State election in 1960, which authorized payments to the State DWR for the SWP from revenues including those derived from ad valorem taxes on real property (Goodman v. County of Riverside (1983) 140 Cal. App 3rd 900). SGPWA has been levying an ad valorem tax on real property within its boundaries since it acquired capacity in the SWP by executing the SWP Contract in 1962. The current ad valorem tax rate is \$.17 per \$100.00 of valuation to pay for the SWP Contract obligations and reserves, amounting to about \$13,000,000 per year. This source of revenue will be used to pay for Phase I and Phase II extensions of the SWP into the service area.

In addition to the ad valorem tax levy to pay for the SWP, pursuant to Proposition 13, SGPWA receives its proportionate share of the 1% on all ad valorem real property taxes levied in the County of Riverside each year. As assessed property values increase, the 1% share of revenues increases. The current amount received per year is about \$2,200,000.

Proposition 218

In 1996, Proposition 218 was adopted adding Article XIII C and D to the California Constitution dealing with the initiative process and procedures involving real property related fees and charges. While some real property fees and charges require voter approval, it is clear that water agencies are exempt from such requirement. However, water agencies that serve water to landowners are still subject to certain requirements of Proposition 218, including:

1. Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service;
2. Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee charge was imposed;
3. The amount of fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to that parcel;
4. No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question.

SGPWA only sells water to retail water purveyors and does not sell water to landowners and, therefore, under Proposition 218, does not charge a water rate as a property-related service. However, in the interest of insuring a fair and equitable rate to SGPWA retail water purveyors and to assist them in complying with Proposition 218, this study will incorporate the intent of the above mentioned requirements of Proposition 218 as an integral part of the study.

APPENDIX C

Expected DWR Energy Cost Increases

It is expected that energy costs will increase over the long-term for at least three reasons: inflation, “green” energy legislation, and marginal cost increases.

First, general inflation will raise costs as raw materials, transportation, and labor costs increase.

Second, AB 32 (cited as Section 38500 of the Health and Safety Code, “The California Global Warming Solutions Act of 2006”), passed by the legislature and signed by the governor, will require the DWR to gradually transition to “greener” energy sources over time. At this time, “greener” energy is expected to be more costly than conventional energy sources such as fossil fuels. Most green energy production is located far from the power grid, meaning that additional transmission lines will have to be constructed to allow this energy source to be widely used. With regard to energy sources¹³, i) green energy in the form of *solar* power is inefficient (silicon photovoltaic technology converts about 11% of the total solar energy reaching the panel), has a high first cost and is area or land intensive as compared to conventional sources. For instance, while photovoltaic technology is getting more affordable with time, currently installation costs range from \$4,000 to \$5,000 per kW as compared to \$450 per kW for natural gas plants. ii) DWR already maximizes its use of *hydroelectric* power, iii) a previous attempt by DWR to generate power from *geothermal* sources resulted in much higher costs for various reasons. In fact, geothermal capacity peaked in 1989 and has been on the decline since, due to plant retirement and reduced steam flow. It can be expected that expansion of capacity would require high capital costs contributing to higher overall energy rates, and iv) although power produced by older *wind* turbines is definitely not cost competitive, newer technologies show promise as a competitive option in the future. Currently wind power installation averages approximately \$1,000 per kW, significantly less than solar but greater than the \$450 per kW for natural gas power plants. Hence, the increased cost realized from installation of renewable power generation and in most cases costs related to less efficiency and reliability will result in higher energy rates from DWR.

Third, the least expensive energy sources have already been tapped. The cost of producing additional energy will increase as more costly sources, whether “green” or not, must be used. As overall energy demands in California increase, it is expected that the marginal cost of producing this additional energy will increase.

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¹³ Managing Greenhouse Gas Emissions in California, The Californian Climate Change Center at UC Berkeley, January 2006, Chapter 4, Section 2.3 “Renewable Energy”

16 July 2008

Memorandum

To: Mr. Jeff Davis, General Manager
San Geronio Pass Water Agency

From: Lynn M. Takaichi

Subject: Probable Cost of Water Transfers
K/J 0689057

Background and Objective

San Geronio Pass Water Agency (SGPWA) is one of 29 State Water Project (SWP) contractors, and was established by the State Legislature in 1961. Its mission is to import supplemental water and to protect and enhance local water supplies for use by present and future water users and to sell imported water to local water districts within the SGPWA service area. SGPWA is able to import supplemental water from whatever sources provide the highest quality at the lowest price, including the SWP as well as other potential sources. SGPWA also works with local water retailers and others to manage local and regional water resources in a sustainable manner, in an effort to end groundwater overdraft in the SGPWA service area. SGPWA's boundaries extend through the cities of Calimesa, Beaumont, and Banning and Riverside County areas from Cherry Valley to Cabazon.

SGPWA has identified the need to acquire 10,000 to 15,000 acre-feet per year (AFY) of additional imported water supplies to serve existing and projected water demands within its service area. To provide the financial capacity to execute the necessary water transfers, SGPWA desires to include appropriate costs into its fees and charges. Accordingly, the objective of this memorandum is to provide an opinion regarding the probable cost of the additional supplies.

To accomplish this objective, the comparable sales method of valuation is utilized. This method uses prior sales of water supplies having similar characteristics to the water to be acquired. However, it should be noted that the current dry conditions have created scarcity in the water market and prior sales may underestimate current and future market conditions.

Comparable Sales

Because any additional water supplies would be used primarily for existing and new municipal and industrial water demands, SGPWA desires water supplies that are long-term and reliable, or that can be made reliable through water banking. In selecting comparable sales, only water transfers in California executed by public agencies in the last three years through negotiated sales without the threat of condemnation were considered. These criteria were established to

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provide SGPWA with realistic estimates of probably costs. Unfortunately, the number of recent water transfers which meet these criteria are limited.

Three potential comparable sales were identified. The first is a transfer of 11,000 AFY of firm water from the Buena Vista Water Storage District/Rosedale-Rio Bravo Water Storage District (BV-RRB) to the Castaic Lake Water Agency (CLWA). The second is a transfer of 16,000 AFY of SWP Table A Amount from the Berrenda Mesa Water District (BMWD), a Kern County Water Agency member agency, to the Coachella Valley Water District and Desert Water Agency (CVWD/DWA). The third is the current California Department of Water Resources (DWR) Yuba River water program under the Dry Year Water Purchase Program. Unlike the other comparable sales, this program is not a long-term water transfer but can be used to increase the delivery quantity of SGPWA's current Table A Amount and to provide a long-term supply through banking. A summary of the key provisions of those water transfers are presented in Table 1.

Economic Evaluation of Comparable Sales

Based on the key provisions of the comparable water sales presented in Table 1, an economic evaluation of the probable costs of water transfers to SGPWA was performed. The probable cost does not include the cost of conveyance in the SWP facilities. These costs can vary depending on the point of delivery of the transfer and the utilization of SWP capacity by the other contractors. Because this opinion of the probable cost will be utilized for SGPWA's 2008 fees and charges, probable cost estimates are expressed in 2008 dollars. These cost estimates should be escalated for subsequent years.

- For the BV-RRB to CLWA transfer, the base rate of \$486.85/AF was escalated by a CPI increase of 3.45 percent. Accordingly, the estimated cost for 2008 is \$503.65/AF.
- For the BMWD to CVWD/DWA transfer the one-time cost of \$3,000/AF was amortized at 6 percent over 27 years (the SWP contract expires in 2035), escalated by 3.45 percent for 2008, and divided by a reliability factor of 66 percent based on the Draft State Water Project Delivery Reliability Report 2007, dated December 2007 by the California Department of Water Resources. Accordingly, the estimated cost for 2008 is \$355.96/AF. However, please note that this cost does not include the cost of banking to achieve the reliability factor of 66 percent.
- For the DWR to SWP Contractors transfer, the estimated cost is difficult to determine because quantity of water to be delivered is uncertain and variable. In addition, the cost of this transfer does not include the cost of banking to make this transfer a reliable water supply. Accordingly, the estimated cost of this transfer has not been determined.

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Opinion of Probable Cost

In developing an opinion of the probable cost of a water transfer, consideration was given to the identified comparable sales and current market conditions. As a result of these considerations, in my opinion, the probable cost of a water transfer to SGPWA excluding the cost of banking and conveyance, is \$450 to \$550/AF annually.

Kennedy/Jenks Consultants

2 January 2009

Memorandum**DRAFT**

To: Mr. Russ Behrens
McCormick, Kidman & Behrens, LLP

From: Lynn M. Takaichi

Subject: Water Supply Reliability of the San Geronio Pass Water Agency
K/J 0689057

In response to your request to evaluate the water supply reliability of the San Geronio Pass Water Agency (SGPWA), this memorandum summarizes our evaluations and the potential economic impact of restoring the reliability associated with SGPWA's water supply.

Background

SGPWA is one of 29 State Water Project (SWP) contractors, and was established by the State Legislature in 1961. Its mission is to import supplemental water and to protect and enhance local water supplies for use by present and future water users and to sell imported water to local water districts within the SGPWA service area. SGPWA currently has a SWP Table A Amount of 17,300 acre-feet per year (AFY). SGPWA is able to import supplemental water from whatever sources provide the highest quality at the lowest price, including the SWP as well as other potential sources. SGPWA also works with local water retailers and others to manage local and regional water resources in a sustainable manner, in an effort to end groundwater overdraft in the SGPWA service area. SGPWA's boundaries extend through the cities of Calimesa, Beaumont, and Banning and Riverside County areas from Cherry Valley to Cabazon.

Currently, SGPWA has only SWP water as a water supply. Accordingly, its reliability is described in the State Water Project Delivery Reliability Report 2007 (2007 Reliability Report) prepared by the California Department of Water Resources (DWR). The report is prepared every two years as required by the settlement agreement for litigation related to the Monterey Amendment of the SWP Contracts. The report estimates the SWP delivery reliability based on anticipated regulatory standards, population growth, levels of water conservation and recycling, water transfers, hydrology, and climate change.

Overview of the 2007 Reliability Report

The 2007 Reliability Report presents a statistical analysis of SWP delivery reliability. Twelve scenarios are presented. Two estimate the 2007 delivery reliability and ten estimate the 2027 delivery reliability. The two 2007 simulations of 2007 conditions represent higher and lower levels of flow targets for the Old River and Middle River established to protect the delta smelt. The ten 2027 simulations represent four climate change scenarios and a no climate change scenario under higher and lower levels of

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flow targets for the Old River and Middle River. The scenarios also reflect the pumping limitations imposed to protect the delta smelt until the recently revised biological opinion is implemented.

Recommended Delivery Reliability for Water Supply Planning

Of the ten scenarios, the delivery reliability estimate ranged from 63 to 71 percent of the SWP Table A Amount. Accordingly, it is recommended that SGPWA utilize the most conservative reliability estimate of 63 percent. This recommendation is prudent for the following reasons:

1. There is significant uncertainty in DWR's modeling analysis. This uncertainty is discussed in detail in the 2007 Reliability Report.
2. The reliability analyses are based on 2027 conditions. The modeling results for 2050 climate change emissions generally show lower delivery reliabilities (60 to 72 percent).
3. In addition to the pumping restrictions imposed to protect the delta smelt, the Fish and Game Commission imposed new rules to protect the longfin smelt. These rules are not included in the modeling scenarios and are expected to reduce delivery reliability. It should be recognized that the recently-released Biological Opinion for the Delta smelt results in 30% reductions in SWP supply on average, and under dry-year conditions, as much as 50% reductions.
4. Additional pumping limitations to protect the fall run Chinook salmon are expected. These limitations are also not included in the modeling scenarios.
5. To achieve the estimated delivery reliability, SWP contractors must take delivery of all SWP water made available through the annual allocations. When high delivery allocations are made available, SWP contractors must have sufficient users available or have banking facilities capable of receiving these allocations. Currently, SGPWA cannot receive and utilize its full SWP Table A Amount. To the extent that SGPWA cannot utilize the SWP water made available, the delivery reliability would be reduced accordingly.

Recommended Supplemental Water Requirements for Existing Water Users

SGPWA currently has a SWP Table A Amount of 17,300 AFY. Due to DWR's inability to complete all of the planned SWP facilities and pumping restrictions imposed to protect endangered species, SGPWA can now expect 63 percent of its Table A Amount on

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average. Accordingly, additional SWP supply of 10,200 AFY $[(17,300 \div 0.63) - 17,300]$ is needed to compensate for the reduction in reliability from SGPWA's Table A Amount of 17,300 AFY to its current estimated average delivery of 10,900 AFY. The additional SWP supply of 10,200 AFY is equivalent to a firm supply of 6,400 AFY.

Based on a memorandum dated 16 July 2008 from Kennedy/Jenks Consultants to SGPWA related to the probable cost of water transfers, additional water supplies are expected to cost \$450 to \$550/AF (2008 dollars) for a firm water supply. Please note that this cost estimate is based on water transfers during average conditions and costs during dry periods are expected to be higher. Assuming an average cost of \$500/AF, the anticipated cost of an additional water supply is \$3.2 million per year in 2008 dollars.