



## STATE WATER PROJECT CONTRACT EXTENSION PROJECT

### **Draft Meeting Summary and Action Items**

State Water Project Contract Extension Project

September 4, 2013 10:00 AM – 3:00 PM

### **Draft Meeting Attendance List**

<p><u>California Department of Water Resources</u>  <u>Lead Negotiators</u></p> <ul style="list-style-type: none"> <li>• Steve Cohen, California Department of Water Resources</li> <li>• Rob Cooke, California Department of Water Resources</li> <li>• Perla Netto-Brown, California Department of Water Resources</li> <li>• Vera Sandronsky, California Department of Water Resources</li> <li>• Carl Torgersen, California Department of Water Resources</li> <li>• Ralph Torres, California Department of Water Resources</li> </ul> <p><u>State Water Project Contractor Lead</u>  <u>Negotiators</u></p> <ul style="list-style-type: none"> <li>• Mike Wallace, Alameda County Flood Control Water Conservation District, Zone 7</li> <li>• Dan Flory, Antelope Valley-Eastern Kern Water Agency</li> <li>• Paul Gosselin, Butte County</li> <li>• Valerie Pryor, Castaic Lake Water Agency</li> <li>• Mark Krause, Desert Water Agency</li> <li>• Tom Glover, Dudley Ridge Water District</li> <li>• Curtis Creel, Kern County Water Agency</li> <li>• Kathy Cortner, Mojave Water Agency</li> <li>• Steve Arakawa, MWD of Southern California</li> <li>• Deven Upadhyay, MWD of Southern California</li> <li>• Phillip Miller, Napa County Flood Control and Water Resources</li> <li>• Bob Perreault, Plumas County Flood Control &amp; Water Conservation District</li> </ul>	<ul style="list-style-type: none"> <li>• Douglas Headrick, San Bernadino Valley Municipal Water District</li> <li>• Jeff Davis, San Geronio Pass Water Agency</li> <li>• Lynn Hurley, Santa Clara Valley Water District</li> <li>• David Okita, Solano County Water Agency</li> <li>• Mark Gilkey, Tulare Lake Water Storage District and County of Kings</li> <li>• Steve Wickstrum (by phone), Ventura County Flood Control District</li> </ul> <p><u>California Department of Water Resources</u>  <u>Staff</u></p> <ul style="list-style-type: none"> <li>• Derrick Adachi, California Department of Water Resources</li> <li>• Ted Alvarez, California Department of Water Resources</li> <li>• Mark Andersen, California Department of Water Resources</li> <li>• Mike Cunnagin, California Department of Water Resources</li> <li>• Terri Ely, California Department of Water Resources</li> <li>• Karen Enstrom, California Department of Water Resources</li> <li>• Paul Helliker, California Department of Water Resources</li> <li>• Spencer Kenner, California Department of Water Resources</li> <li>• Philip LeCocq, California Department of Water Resources</li> <li>• Jeremiah McNeil, California Department of Water Resources</li> </ul>
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<ul style="list-style-type: none"> <li>• Nancy Quan, California Department of Water Resources</li> <li>• Dave Paulson, California Department of Water Resources</li> <li>• David Sandino, California Department of Water Resources</li> <li>• Rita Sanko, California Department of Water Resources</li> <li>• Daniel Teixeira, California Department of Water Resources</li> <li>• Lisa Toms, California Department of Water Resources</li> <li>• Dena Uding, California Department of Water Resources</li> <li>• Pedro Villalobos, California Department of Water Resources</li> </ul>	<ul style="list-style-type: none"> <li>• Matt Naftaly (by phone), Santa Barbara County Flood Control and Water Conservation District</li> <li>• Dana Jacobson, Santa Clara Valley Water District</li> <li>• Theresa Lightle, State Water Contractors, Inc.</li> <li>• Stan Powell, State Water Contractors, Inc.</li> <li>• Julie Ramsay, State Water Contractors, Inc.</li> <li>• Cliff Schulz, State Water Contractors Inc.</li> <li>• Linda Standlee, State Water Contractors, Inc.</li> <li>• Chantal Ouellet, Tulare Lake Basin Water Storage District</li> </ul>
<p><u>State Water Project Contractors and SWC, Inc.</u></p>	<p><u>DWR Consultants for Contract Extension</u></p>
<ul style="list-style-type: none"> <li>• Amparo Flores, Alameda County Flood Control Water Conservation District, Zone 7</li> <li>• Josh Nelson, Best, Best &amp; Krieger LLP/Crestline Lake Water Agency</li> <li>• Vicki Newlin (by phone), Butte County</li> <li>• Dan Masnada (by phone), Castaic Lake Water Agency</li> <li>• Gary Bucher (by phone), Kern County Water Agency</li> <li>• Jason Gianquinto, Kern County Water Agency</li> <li>• Don Marquez, Kern County Water Agency</li> <li>• Amelia Minaberrigarai, Kern County Water Agency</li> <li>• Milly Chennell, Kern County Water Agency</li> <li>• Holly Melton, Kern County Water Agency</li> <li>• Ted Page, Kern County Water Agency</li> <li>• Jaime Dalida, MWD of Southern California</li> <li>• Kevin Donhoff, MWD of Southern California</li> <li>• David Reukema, MWD of Southern California</li> <li>• John Schlotterbeck (by phone), MWD of Southern California</li> <li>• John Pernula (by phone), Palmdale Water</li> </ul>	<ul style="list-style-type: none"> <li>• Erick Cooke, Environmental Science Associates</li> <li>• Barbara McDonnell, MWH Global</li> <li>• Cathy McEfee, Environmental Science Associates</li> </ul> <p><u>Public</u></p> <ul style="list-style-type: none"> <li>• Debbie Espe (by phone), San Diego County Water Agency</li> <li>• Anton Favorini-Csorba, Legislative Analysts Office</li> <li>• Robert Kunde (by phone), Wheeler Ridge-Maricopa Water Storage District</li> <li>• Doug Montague, Montague, DeRose &amp; Associates</li> <li>• Patrick Porgans, Porgans &amp; Associates, Inc.</li> <li>• Thomas Rinn (by phone), Waterworks Consulting</li> <li>• Patricia Schifferle, Planning &amp; Conservation League</li> <li>• Dave Zezluak, California Department of Fish and Wildlife</li> </ul> <p><u>Facilitation Team</u></p> <ul style="list-style-type: none"> <li>• Alex Braunstein, Kearns &amp; West</li> <li>• Mike Harty, Kearns &amp; West</li> <li>• Kelsey Rugani, Kearns &amp; West</li> <li>• Anna West, Kearns &amp; West</li> </ul>

Agency • Leah Wills, Plumas County Flood Control and Water Conservation District	
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I. Welcome/Introductions

There were roundtable introductions of the negotiation teams and staff. Members of the public were given the opportunity to introduce themselves.

II. Meeting Overview

Anna West reviewed the Meeting Ground Rules emphasizing respect and listening. She also reviewed the process for public comment at the end of the meeting. Anna outlined the negotiation session agenda and stated that DWR would present on Financial Management Enhancements and its latest Counter-Proposal.

Anna then reviewed the action list from the August 7, 2013 negotiation session. The group finalized the August 7 Meeting Summary which will be posted on the website.

III. DWR Presentation on Financial Management Enhancements

Carl Torgersen, DWR, presented on SWRDS Financial Management Enhancements, and DWR's current vision for how the DWR Counter Proposal aligns with SWP Contractors Third Offer. Carl stated that there are three major sections and welcomed questions throughout. Carl also stated that subject matter experts were present, to help answer questions, as necessary (see enclosed PowerPoint presentation).

Carl reviewed ongoing efforts including the Program Management and Control Committee (PMCC), Water Resources Engineering Memorandum (WREM) No. 65a practices, and the SWP Program Control Project, aspects of which will inform financial enhancements going forward. Carl reviewed the projected financial management schedule and examples of project charters and resource agreements. Carl suggested that project tools used for the Delta Compliance Program (DCP) and elsewhere provide a model for financial enhancements going forward and he provided an overview of DCP project management tools.

Curtis Creel, Kern County, asked if the component statements could be linked to the Statement of Charges. Mike Cunnagin, DWR, responded probably not because component statements are a budgetary document and the Statement of Charges is on a cash basis.

Deven Upadhyay, Metropolitan Water District, asked DWR to describe the scope of the process, what parts of DWR will be affected by the proposed changes. Carl Torgersen responded that the goal is to have divisions of DWR that have charges to the State Water Project included; the goal is a global process, not just O&M.

Deven asked whether DWR tracks variances in State Water Project revenues and costs; is it possible to anticipate the need for reserves in the course of a year? Carl responded that it's not available now, but it's something DWR would like to develop.

David Okita, Solano County, asked for an explanation of current Contractor involvement. Carl stated that DWR reviews all O&M projects with the Contractors line-by-line, as well as Bulletin 132.

Dave Paulson, DWR, added that in the last four years DWR started providing Contractors a view of what programs are included in the statement of charges. DWR now provides a preview in February, in advance of July, and the Department is planning to change this to the November/December timeframe, continuing to implement an early daylighting concept. He explained that the Department is also clarifying what charges are capitalized and which are minimum.

Paul Gosselin, Butte County, stated that DWR may need to consider how to receive feedback, given that two contractors are not part of the SWP Contractors Inc. Carl conveyed that he expects all 29 Contractors to participate.

Kathy Cortner, Mojave Water Agency, commented that DWR has focused its presentation on short-term projects; she asked about plans to forecast long-term revenue needs. Carl conveyed that these long-term tools don't exist yet, but are in the plans going forward.

Carl Torgersen emphasized that the projects listed in current activities are analogous to the SWP Contractors Work Plan. The expected outcome is coordinated budgeting and planning, enhanced management, enhanced transparency, and the Capital Asset Investment Plan.

Deven Upadhyay asked what the Program component statements look like and what percentage of the costs that are paid for by SWP Contractors would be covered by these practices? Mike Cunnagin, DWR, responded that the program component statements lay out the need for the program, establish goals and objectives, resources, budget, manpower over time, to carry out the work. Mike explained that pretty much all of the costs charged to the Contractors will be part of this program.

Jeff Davis, San Geronio Pass Water Agency, suggested that all the SWP Contractors would applaud these steps, but that we're talking about a quantum leap in the amount of money in reserves, and typically that comes with more control. Carl Torgersen responded that going forward DWR is moving towards more transparency and more accountability.

Deven Upadhyay, Metropolitan Water District, complemented the examples presented by DWR and asked how broadly the tools and management concepts presented would be applied. Additionally, Deven asked if SWP Contractors would be able to compare the information being tracked with the statement of charges projected for a given year.

Carl Torgersen responded that the ultimate tool will be able to roll up to the highest level. We are very far along on the Delta Compliance Program (DCP), as a tool and a pilot project that will allow real time tracking for all projects and programs. This is what is envisioned for all SWP charges.

Answering questions on timing for implementation, Mike Cunnagin, DWR, stated that the Delta Compliance Program project and dashboard is a lot more than what DWR currently does for the Program Control Project. Full implementation for the State Water Project would take approximately five years. In the meantime, there will be quarterly and bi-annual reporting, but not yet in a database with every project listed (as is the case with DCP).

Kathy Cortner stated that one of the challenges for SWP Contractors is explaining major variances to their respective boards. For example at Mojave, we had a 30 percent variance from a projected bill to an actual bill. Can you explain how these new tools will provide better information for Contractors?

Carl reviewed the Financial Management Vision and plans for the SWRDS Financial Management Steering Committee. This is not going to be a Committee that would look at line items, but it will develop policy, minimize or explain variances, and issue collaborative recommendations to the Executive. The vision is that the Executive would be actively involved. If the Deputy Directors and senior levels from each of the contractors are involved in this committee the process from Committee recommendations to Director adoption should be smooth.

Deven asked how Carl's vision and plan works organizationally? Will there be a single point of contact on financial matters? Carl acknowledged the concern with developing a single point at DWR in terms of financial accountability, transparency, and responsibility, given some constraints. He suggested a CFO position is something DWR would like to look at, both for oversight and customer service to the Contractors.

Paul Gosselin, Butte County, asked how often the project dashboard is updated (weekly, monthly?) and whether it is tied to expenditures. Additionally, will there be a read-only version available for the Contractors? Carl Torgersen responded that the vision is to tie this product to the SAP system for close to real-time data. Producing reports for SWP Contractors would be something the Department could agree with.

Deven Upadhyay asked where Fiscal Services fits in the diagram of DWR's Financial Management vision. Deven also asked how items that are not fully SWP funded, but a percentage funded by the SWP would be addressed.

Carl responded that DWR's presentation is meant to address all SWRDS costs. As far as Fiscal Services, one of the next phases of the program control or financial management project is to determine the best way to move forward, part of the results of implementation of the plan. In the example of WECC compliance, or electrical grid reliability, one of the things DWR did was to establish a formal project to meet WECC requirements, and then implemented a Gap analysis approach. The Department envisions something similar here.

Carl emphasized that the project schedule is projected, because as we get further into this, we may identify other items the Department needs or the Contractors could use.

Deven Upadhyay asked what DWR's current thinking was on interaction with the Financial Steering Committee when developing budgets. Carl responded that DWR is proposing to initiate

discussions on the charter of the financial committee. It's important that DWR and SWP Contractors agree on what the Committee does.

Curtis Creel requested a short caucus to digest the information shared.

IV. DWR Review of its Counter-Proposal section by section.

Carl Torgersen reviewed the Counter-Proposal section by section.

Objective 1-DWR believes the term of contract should wait until agreements are reached on Objectives 2 and 3.

Objective 2a: DWR believes reserves should be tied to the number of days, rather than a flat fixed amount; we also believe that there should be some mechanism for determining whether the GOA should go up or down, based on some algorithm.

2.2 DWR agrees on moving forward with financial enhancements, but the Department does not want to link this to the reserves level. Items may change and that would require amending the contracts; we don't believe that level of detail is appropriate.

2.3 David Okita asked if it is DWR's position that any cash available after rate management would go to the GOA. Is that how it would be built up?

Steve Cohen stated yes, although it's at the discretion of the director: he or she would determine the level that would go to the GOA and/or other purposes.

Curtis Creel stated that on funding SSA second and SRA third (2.5) he thought that Article 51(3) revenues go into the SRA, generate additional investment income and then go to SSA. Steve stated that the concept is to build in the flexibility for the Director to take the investment earnings and place them where it would be most beneficial among these three funds.

2.6-GOA to use in the event of an emergency

Kathy Cortner asked why DWR needs the flexibility to draw on the GOA, SRA, and SSA to cover any emergency. Carl Torgersen stated that the flexibility is needed while building up the accounts short-term. Perla Netto-Brown, added that the emergency uses of the GOA would not be intended to draw down the account long-term, but would be replenished later.

There was discussion on use of the GOA for emergencies. It was clarified that emergencies are times it's very urgent to address a matter. For example, for Thermalito there was an emergency need (24-48 hours) to address the fire. In these situations, the GOA would be used (there isn't time to sort through different funds) after which, if there were non-SWRDS charges, it would be replenished from other sources.

Subsequent projects, like clean-up for Thermalito, would not be an emergency and appropriate funding sources (GOA or SSA for non-SWP purposes) would be used. Steve Cohen clarified that

if the GOA was used for a short-term emergency for non-SWP purposes, it would be replenished. The intent is not to deplete the GOA.

It was noted that it would be helpful to define an emergency.

2.7 a. Steve Cohen explained that after 2035, with no rate management, we will still have supplemental billing with a proposed cap with a water supply purpose. This is to address funding needs that arise outside of the normal course of billing. Kathy Cortner expressed the concern that an emergency or crisis could also include a division that doesn't communicate costs. Deven Upadhyay asked what the guidelines are for when you would pull from the GOA vs. do a supplemental bill. Steve Cohen responded that to the extent to which we would now require funds immediately, as with CAL ISO, that might be an example where we need to pull money out of the GOA. Then the next question is whether that is a substantial enough amount that we would need to issue a supplemental or revised bill.

Paul Gosselin asked, if post-emergency, would DWR consult the financial oversight committee on how to replenish funds? Steve Cohen responded that DWR would need the flexibility to act in an emergency, but after the fact, at a high policy level, yes, the Department would consult within the Committee.

Carl Torgersen affirmed that DWR would consult the Finance Committee, and something can be included in the charter on providing such recommendations. We believe that Committee should be established as soon as is realistic. The Department also believes that some of the additional information planned is aligned with what the Contractors are looking for. We feel that the timeline for these products should be determined by the Finance Steering Committee, and tied to the existing projects that we have.

Deven suggested that on Page 3, line 36, and later lines, it's unclear whether these comments pertain to the current organization, or the organization in the future. Carl responded that they apply to the current organization and that DWR feels that this is something that needs a lot of analysis for the future.

Deven asked whether DWR believes its current leaders have authority for what is proposed, clarifying that the question is in the context of a proposal where SWP Contractors proposed a CEO who does have authority over all budgets.

Carl responded yes, with the caveat that the authority is delegated by the Director. Carl suggested that the Contractors' Third Offer effectively proposes reorganization, and there are a lot of organizational constraints with state service. There are items in the SWP Contractors proposal that the Department may not be able to do statutorily.

Carl covered 2.8, including the Financial Steering Committee, types of reports, and other items. He explained that he does not envision this level of detail in the actual Contract Amendments. David agreed stating that the Contractors think this information would be useful, but it may not be appropriate for the Contract Amendments. Mike Cunnagin, DWR offered that the items

listed there are certainly the sorts of things the Department plans to be doing and this corresponds with DWR's goals.

Kathy Cortner suggested that Contractors are accustomed to working with budgets, balancing managing cost containment and maintaining a system, subject to an approval process. Carl Torgersen suggested that better financial management will lead to better long-term planning, and what Kathy describes is DWR's vision.

Kathy asked if the 10-year plan and the associated revenue requirements would be at the discretion of the Director, but with input from the Finance Committee. Carl affirmed this would be the approach.

Dan Flory asked how DWR and SWP Contractors will memorialize the Finance Steering Committee and where the charter ultimately fits. Carl acknowledged that where the charter ultimately resides hasn't been thought through. Anna West asked if the main concepts would be in the Contract Amendment, but not the actual charter. Carl stated that it was a possibility.

Kathy Cortner raised questions regarding how equity issues would be addressed regarding how different Contractors contribute in different proportions to 51(e) accounts. Perla Netto-Brown suggested that it was something that DWR is willing to consider.

Curtis Creel asked if the purpose of using the RAS money is to increase the GOA, and, if so, could the RAS be refunded to the Contractors once the GOA is at the desired level? Perla Netto-Brown suggested that it could be negotiated.

Deven asked whether DWR would be open to having the Committee assess whether progress has been made and then making funds available to the GOA based on progress. Carl stated that DWR sees the purpose of the Committee is to make collaborative recommendations to the Director.

Steve Cohen stated that the Monterey amendment should be left through 2035, there's a system that is now in place, and we're looking at that remaining, with a couple of exceptions, including the cap on the GOA and allowing more 51(e) revenues than currently allowed to increase the GOA up to the designated amount. After 2035, the Monterey Amendment goes away, with the exceptions of the GOA and supplemental billing.

He clarified that under the Monterey amendment, the Director makes the decisions about rate management beyond \$40.5 million. If there are additional funds needed for projects, then the Department doesn't do additional rate management. We're suggesting this approach will continue through 2035. Deven asked why DWR proposed to fund the SSA closer to 2035 and not sooner. Steve stated that the SSA concept addresses concerns over funding non-water supply purposes post-2035; prior to 2035 we project that we're going to have the funds.

On Objective 3, Carl Torgersen stated that there was a lot agreement regarding Objective 3, with the exception of re-bills and supplemental billing. Pedro Villalobos clarified that re-bill is an adjustment to a bill that has already been sent out; typically a supplemental bill is to cover an

unanticipated need. Pedro added that he believed a re-bill is not in the Contract, but we want to memorialize it in the Contract. Kathy Cortner asked if re-bills were subject to any rules. Dan Flory suggested that this is a fairly substantial change to the contracts. Perla clarified Line 31 is in relation to the GOA and emergencies or, crises, and Line 128 is linked to the current supplemental billing in Monterey and rate management. Carl Torgersen suggested that DWR and SWP Contractors could discuss the re-bill issue further.

Curtis Creel asked for clarification on the two part 80 percent requirement: was DWR proposing that both 8 of 10 affected Contractors and 80 percent of Table A Contractors need to agree? Steve confirmed that this is the intent, and explained that the Department wanted to further explore this with the Contractors. Curtis Creel responded that SWP Contractors would need to have further discussions and get back.

Carl Torgersen clarified that Objective 4 needs more discussion amongst DWR and the Contractors.

V. Next Steps

Anna reviewed the Contract Extension Process through October.

VI. Public Comment

Patrick Porgans from Porgans & Associates and Patricia Schifferle from the Planning & Conservation League provided oral comment.

VII. Adjourn

The meeting was adjourned.