



STATE WATER PROJECT CONTRACT EXTENSION PROJECT

Meeting Summary

State Water Project Contract Extension Project

November 14, 2013 10:00 AM – 3:00 PM

Meeting Attendance List

<p><u>California Department of Water Resources</u> <u>Lead Negotiators</u></p> <ul style="list-style-type: none"> • Steve Cohen, California Department of Water Resources • Rob Cooke, California Department of Water Resources • Perla Netto-Brown, California Department of Water Resources • Vera Sandronsky, California Department of Water Resources • Carl Torgersen, California Department of Water Resources • Ralph Torres (by phone), California Department of Water Resources 	<ul style="list-style-type: none"> • Lynn Hurley, Santa Clara Valley Water District • Mark Gilkey (by phone), Tulare Lake Basin Water Storage District; Kings County • Steve Wickstrum (by phone), Ventura County Flood Control District
<p><u>State Water Project Contractor Lead</u> <u>Negotiators</u></p> <ul style="list-style-type: none"> • Dan Flory, Antelope Valley – East Kern Water Agency • Mike Wallace, Alameda County Flood Control Water Conservation District, Zone 7 • Valerie Pryor, Castaic Lake Water Agency • Mark Krause (by phone), Desert Water Agency • Tom Glover, Dudley Ridge Water District • Curtis Creel, Kern County Water Agency • Kathy Cortner, Mojave Water Agency • Steve Arakawa, MWD of Southern California • Deven Upadhyay, MWD of Southern California • Bob Perreault, Plumas County Flood Control & Water Conservation District • Jeff Davis, San Geronio Pass Water Agency • Ray Stokes, Santa Barbara County/ Central Coast Water Authority 	<p><u>California Department of Water Resources</u> <u>Staff</u></p> <ul style="list-style-type: none"> • Ted Alvarez, California Department of Water Resources • Cathy Crothers, California Department of Water Resources • Terri Ely, California Department of Water Resources • Avery Estrada, California Department of Water Resources • Scott Jercich, California Department of Water Resources • Spencer Kenner, California Department of Water Resources • Kathie Kishaba, California Department of Water Resources • Philip LeCocq, California Department of Water Resources • Mehdi Mizani, California Department of Water Resources • Dave Paulson, California Department of Water Resources • Nancy Quan, California Department of Water Resources • Lisa Toms, California Department of Water Resources • Dena Uding, California Department of Water Resources • Pedro Villalobos, California Department of Water Resources

<p><u>DWR Consultants for Contract Extension</u></p> <ul style="list-style-type: none"> • Tom Berliner, Consultant • Erick Cooke, Environmental Science Associates (by phone) • Barbara McDonnell, MWH Global (by phone) <p><u>State Water Project Contractors, and SWC, Inc.</u></p> <ul style="list-style-type: none"> • Josh Nelson, Best, Best & Krieger LLP/Crestline-Lake Arrowhead Water Agency • Robert Cheng (by phone), Coachella Valley Water District • Don Marquez, Kern County Water Agency • Amelia Minaberrigarai (by phone), Kern County Water Agency • Jaime Dalida, MWD of Southern California • Kevin Donhoff, MWD of Southern California • David Reukema, MWD of Southern California • Leah Wills (by phone), Plumas County Flood Control and Water Conservation District • Chantal Ouellet (by phone), Tulare Lake Basin Water Storage District • Dana Jacobson, Santa Clara Valley Water District • Theresa Lightle, State Water Contractors, Inc. 	<ul style="list-style-type: none"> • Stephanie Morris, State Water Contractors, Inc. • Stan Powell, State Water Contractors, Inc. • Julie Ramsay, State Water Contractors, Inc. <p><u>Public</u></p> <ul style="list-style-type: none"> • John Brady, Central Coast Water Authority • Debbie Espe, San Diego County Water Authority • Anton Favorini-Csobra, Legislative Analyst Office • Dan McDaniell (by phone), Central Delta Water Agency • Doug Montague, Montague, DeRose and Associates • Thomas Rinn (by phone), Waterworks Consulting <p><u>Facilitation Team</u></p> <ul style="list-style-type: none"> • Alex Braunstein, Kearns & West • Mike Harty, Kearns & West • Kelsey Rugani, Kearns & West • Anna West, Kearns & West
---	--

I. Welcome/Introductions

There were roundtable introductions of the negotiation teams and staff attending in person and by phone. Members of the public were given the opportunity to introduce themselves.

II. Meeting Overview

Anna West, Kearns & 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.

Anna then reviewed the October 23, 2013 negotiation session summary and asked if there were any further edits to the meeting summary. The group finalized the October 23 Meeting Summary which will be posted on the website.

III. Objectives Discussion

Perla Netto-Brown, DWR, provided a presentation on the accounts established under the Burns-Porter Act and how the existing accounts and movement of money will work with the following accounts: General Operating Account (GOA), Systems Support Account (SSA) and Systems Revenue Account (SRA).

When the Burns-Porter Act was approved by voters in 1960, it created the California Water Resources Development Bond Fund which includes the Systems Revenue Account, the Davis-Grunsky program, the Replacements Account, the General Operating Account (GOA) and the Capital Facilities Account. Each of these accounts is a specific account at the State Controller's Office.

The Systems Revenue Account is the primary operating account for the State Water Project, and sources of revenues include payments from the SWP Contractors, including transportation charges and Delta Water charges, federal revenues, on-aqueduct power sales, interest income, and miscellaneous revenues. Systems Revenue Account expenses include Bond principal and interest payments, rate management credits, recreation costs, suspended costs, among other uses. DWR proposes that the Systems Revenue Account 51(e) funds will go towards increasing the GOA, and establishing the SRA and SSA accounts.

DWR proposes that 51(e) revenues will be used to increase the GOA to \$150 million, establish the SSA up to \$60 million, and then a certain percentage of the revenues will go towards building the SRA, which, in turn, establishes a consistent replenishment funding stream for the SSA.

In DWR's proposal, the Director will maintain discretion over all 51(e) revenues, and 51(e) revenues not otherwise needed in the GOA, SRA or SSA would remain in the Systems Revenue Account, allowing maximum cash flow flexibility. By contrast, Perla explained that the Contractors' proposal does not include 51(e) revenues staying in the Systems Revenue Account. The Contractors propose that 51(e) revenues be transferred into the SRA and then transferred amongst the other accounts (GOA and SSA), as needed. Perla shared that any expenditure from these accounts or any reimbursement of the Systems Revenue Account will require a claims process to take place through the State Controller's Office. These processes can take approximately seven business days, making the movement of funds between the accounts not very fluid.

Ray Stokes, Central Coast Water Authority, asked to clarify whether maintaining 51(e) revenues in the Systems Revenue Account would affect the purposes of the other three accounts, wanting to make sure that the SSA will only be used for costs non-reimbursable by the Contractors. Perla replied that each account has a specific purpose and expenditures will be taken out of the appropriate accounts. To transfer money out of the SSA, DWR will have to complete a process with the State Controller's Office, as Perla shared in her presentation.

Ray suggested that, from the standpoint of the Contractors, having 51(e) revenues remaining in the Systems Revenue Account compromises the visibility and accountability of those funds and increases the likelihood for errors. Perla explained that historically, DWR has retained those revenues in the Systems Revenue Account and it has helped DWR with cash flow. She explained that this structure provides the maximum flexibility for the Director. Perla said that DWR will report on the use of these funds to maintain visibility and accountability. Ray responded that since most transactions go through Systems Revenue, the funds could be co-mingled and that reporting will be difficult. Perla explained that it is valid to have these funds in the Systems Revenue Account. She acknowledged that revenues are not

completely nailed down year-to-year because it is based on projections. Ray raised the concern that he did not want to see cash which may or may not be accurate based on projected revenues be depleted. This is why he suggested that it's clearer if the funds are transferred and tracked in the other three accounts.

Perla suggested that all reporting would be reconcilable to the State Controller's office and with SAP. She clarified that SWPAO prepares reports to determine what money is available for rate management credits based on the Systems Revenue Account. This is reviewed with the Audit-Finance Committee. She addressed that the PMIA payments are based on actual expenditures. And she stated that there is also the Systems Revenues Account cash flow report which identifies sources and uses. She stated that if additional reports are needed they can be developed. Deven Upadhyay, Metropolitan Water District of Southern California, asked if the SSA and SRA will be considered subfunds under the Burns-Porter Act Bond Fund or separate accounts. Perla said that each fund under the Bond Fund is considered a subfund that also functions separately. Deven asked how DWR will make sure that 51(e) revenues are not going towards recreational costs that are non-reimbursable by the Contractors. Perla answered that DWR would consider all funding sources for a particular cost and will prioritize them. Currently, DWR has Davis-Dolwig funds for recreational costs as well as the Capital Facilities Account. After the Contract Amendment is signed, DWR will also be able to utilize the SSA. This prioritization process would need to be defined; something the SWRDS Finance Committee could establish. Carl Torgersen, DWR, added that the Finance Committee Charter could include that 51(e) revenue related decisions will occur in consultation with the Contractors.

DWR and the Contractors continued to discuss the visibility of 51(e) revenues in Systems Revenue. Perla said that DWR can identify 51(e) revenues after determining rate management credits. Ray suggested that looking at the cash balance is not accurate because that is not revenues and the cash balance does not determine rate management credits. Ray also asked why DWR would need a GOA if there are available funds in the Systems Revenue Account. Perla cited her previous statement that each account has different purposes and uses. She explained that the GOA is for dire, emergency situations only. Steve Cohen, DWR, added that how each fund is proposed currently, there is a limited purpose to each account. The SSA, for example, is a new account with a cap that will address the concern about paying for non-water supply costs post 2035. Ray said that the Contractors are not proposing any limitations to the funds and that the Director will have as much discretion in the future as he or she does currently.

Kathy Cortner, Mojave Water Agency, asked if the SSA and SRA would be added under the Bond Fund and Perla affirmed this.

Curtis Creel, Kern County Water Agency, asked if the Burns-Porter Act specifically stated that a Systems Revenue Account be established. Steve answered that it was not specifically stated in the Act, but it is the way DWR chose to implement the policy. Vera Sandronsky clarified that the Systems Revenue Account is supported by the statute and is in good practice. Perla added that DWR has requirements for a specific flow of funds. Curtis suggested that the Systems Revenue Account is one way to implement the policy, but it is not the only way. Carl clarified that it is not the only way, but the Department believes it's the best way to go.

Deven stated that DWR entered into the Contract Extension process with the need to have revenues for non-reimbursable costs. Through the SSA and SRA structure, the Contractors have provided DWR with a solution and the Contractors now want a guarantee that non-reimbursable costs will not be brought to them again. Carl understood the concern about having this structure work post-2035, but suggested

that no one can provide a guarantee. Carl asked how having three accounts rather than four provides more certainty. Deven replied that having all 51(e) revenues split between the GOA, SSA, and SRA gives the Contractors assurance that the funds are being reinvested into the State Water Project.

Perla suggested this process will entail a higher level of cash management by the Department. She suggested they may want to bring in experts. The amount of money needed in the SRA will change over time. She suggested that the Department hears what the Contractors are looking for; that the objectives on transparency and reporting she believes can be accomplished, and it may require additional reports developed through this process.

Ray asked if DWR would be opposed to establishing a fourth account. There would be the GOA, SSA, SRA and then an account for the remaining 51(e) revenues. Jeff Davis noted that this discussion has been helpful to clarify the Contractors' vision and understand DWR's. It's a great conversation that needs to happen.

IV. Objectives Discussion Continued

Carl Torgersen suggested that the Department and the Director will want complete visibility and accounting for 51(e) revenues. Given this, he asked if there is something that can be established by the Finance Committee that satisfies both the Contractors and the Department on this topic.

Carl also raised the concern Deven Upadhyay raised on the Contractors wanting assurance that enough money is raised to be sure that the Contractors are not paying for non-reimbursable project expenses. He asked if this could also be addressed through the Finance Committee. The Finance Committee could monitor this and it could be included in the roles and responsibilities of the Committee. Ray suggested this is a good transition to what the Contractors want to address about the Finance Committee.

Curtis Creel walked through the Finance Committee charter provided by the Contractors, adjusting some of the wording of the draft and providing additional context to clarify the intent::

- On page 1, the fifth sentence should read: "Working with the CFM, the SWRDS Finance Committee will develop or enhance recommendations on the financial policy guidelines and administrative measures required to provide comprehensive financial management of SWRDS." The Contractors did not originally include that the Committee will make recommendations on financial policy guidelines instead of developing or enhancing the guidelines themselves.
- On page 1, number 4 should read: "While the DWR Director has discretion to move money between the GOA, SSA, and SRA accounts, the Director must provide advance written notice of those actions to the Committee." The original sentence stated that the Director would provide written notices for review by the Committee.
- The Contractors believe the Chief Financial Manager would be at the executive appointment level and that it is very important to have one person who can speak about all financial aspects of the SWP.
- On the four key elements on page 1, he clarified that the charter would be modified with the mutual consent of DWR and the Contractors.
- The Contractors would identify five delegates and two alternates even though all Contractors would have the opportunity to participate. The Department would also have five delegates and two alternates. The Committee will be co-chaired by one SWP Contractor and one DWR staff member.

- The purpose of the Committee is to provide financial direction, maintain transparency and accountability, and promote consistent and uniform decision making by establishing financial policy guidelines, procedures and protocols.
- The Committee is a forum which is really a process not just periodic meetings of 10 people. It's focused on policy development and interactions. The spirit is true partnership.
- The Committee would assist in developing policies.

Carl stated that there can be many interpretations of some of the terms used within the charter. The concept and set up of the Committee is good. The difference between policy and process is very important and both terms need to be defined. DWR envisions the Committee discussing processes rather than discussing specific numbers. DWR currently has project managers, project officers and program managers. He explained that it will take some analysis to determine how the CFM will work in DWR's existing structure. Curtis replied that the Committee process will include interaction with the CFM who the Contractors envision establishing various financial procedures. The Committee will discuss each procedure and make recommendations to the Director.

Carl asked if the Committee would approve account caps and if the Committee cannot agree, the decision will be made by the Director. Curtis said yes, but that is contingent on whether 51(e) revenues remain in the Systems Revenue Account.

Carl shared that his vision of the Committee includes three roles:

- Approving the work plan already underway on financial enhancements and reports;
- Reviewing processes associated with financial management and making recommendations, if needed and;
- Being notified when the GOA, SSA, and/or SRA are increased.

There was also a discussion of the Chief Financial Manager (CFM). Carl suggested that the process begins with creating the project manager position overseeing the financial enhancements project and includes determining the best fit for the CFM. Tom Glover, Dudley Ridge Water District, shared that DWR has been successful when it brings a business owner in to manage a project, and that business owner/process owner moves forward as the project lead. Anna tested to see if there is alignment on the following points:

- The business owner is the owner of the process and project lead;
- The goal is to establish a single point of accountability and authority, ultimately the CFM, who has complete authority to manage SWRDS finances, including the ability to compel all divisions with SWRDS related work to provide relevant information and correct variances.

There appeared to be alignment on these points.

Steve Cohen explained that the Department believes that the charter should be a separate document, not included in the Contract Amendments. Then there would be briefer points about the Finance Committee in the Contract Amendments. He suggested that the charter, as a separate document, can be more easily amended over time to adapt to the evolution of the Committee. Anna asked if there is alignment on this concept and Deven suggested he needs to think about it.

There was discussion about what issues would come to the Committee. Ray suggested that more financial policy level issues should be discussed. For instance, Ray explained that a technical committee may discuss an item and it may be appropriate to bring topics to this Finance Committee. There was also a discussion of whether both the Finance Committee and Business Committee are necessary. Carl suggested that there needs to be an overall review of the Committee structures. The next step in the process is for DWR to edit the Contractors' Charter in track changes and discuss changes at the next negotiation meeting.

V. Next Steps

Anna reviewed agreed to actions listed below.

VI. Public Comment

Anna asked if anyone wanted to provide public comment. No one volunteered.

VII. Adjourn

The meeting was adjourned.

Action Items		Responsibility Due Date
1.	October 23 Negotiation Session Meeting Summary to be finalized and posted on the website.	K&W ASAP
2.	DWR to edit the SWP Contractors' Finance Committee Draft Charter.	DWR 11/18
3.	November 14 Negotiation Session Meeting Summary to be prepared.	K&W ASAP
4.	K&W to distribute meeting invitations for the tentative December, January and February meeting dates. These dates are 12/17, 1/8, 1/22, 1/29, 2/12, and 2/26.	K&W ASAP