ROLL CALL – CALL MEETING TO ORDER

PLEDGE OF ALLEGIANCE – Vice President Dunford

ITEMS TO BE ADDED TO THE AGENDA
(Government Code Section 54954.2)

ORAL COMMUNICATIONS
Opportunity for members of the public to address the Board (Government Code Section 54954.3) Individuals may address the Board regarding items not appearing on the posted agenda, which are within the subject matter jurisdiction of the Board, at any time. Comments and inquiries pertaining to items listed on the agenda will be received during the deliberation of the agenda item. Speakers are asked to state their name, address, and topic, and to observe a time limit of three (3) minutes each. Members of the public desiring to address the Board are asked to complete a speaker’s card, available at the table near the entrance and present it to the Board Secretary prior to the start of the meeting.

PRESENTATIONS AND AWARDS

1. Introduction of SFID Employee of the Year, Rene Heraz
2. Introduction of New Engineering Services Manager, Rania Amen
3. Letter from City of Poway (page 4)

ACTION AGENDA
The following items on the Action Agenda call for discussion and action by the Board of Directors. All items are placed on the Agenda so that the Board may discuss and take action on the item if the Board is so inclined.

CONSENT ITEMS
The following listed items on the consent calendar are routine matters and there will be no discussion unless the Board of Directors removes an item. Items removed by the Board or public will be heard following approval of the remaining items on the Consent Calendar.

4. Approval of Minutes - December 19, 2019 Regular Board Meeting (added 1/13/20 - pages 131-136)

5. Receive and File Monthly Finance Reports (pages 6-14)
   a. Budget Performance
   b. Disbursements
   c. Monthly Investment Transaction Report
6. Quarterly Treasurer’s Investment Report (pages 15-33)

7. Quarterly Board Expenses Report (page 34)

ACTION AND DISCUSSION ITEMS


9. Adopt Resolution No. 20-01, Modifying the District’s Rates for Potable and Recycled Service Charges (pages 74-84)

10. Annual District Investment Policy Review and Update (pages 85-94)

11. Adopt Resolution No. 20-02, Amending Article 13 of the District’s Administrative Code for Compliance with Senate Bill 998 – Discontinuation of Residential Water Service (pages 95-126)

DIRECTORS’ COMMENTS

Director’s comments are comments by Directors concerning District business, which may be of interest to the Board. They are placed on the Agenda to enable the individual Board members to convey information to the Board and the public. No action is to be taken on comments made by the Board members.

12. Directors’ Comments (verbal)

13. Directors’ Reports on Conferences, Activities, and Events (verbal reports)

REPORTS

The following reports are placed on the Agenda to provide information to the Board and the public. There is no action called for on these items. The Board may engage in discussion of any report upon which specific subject matter is identified in the Agenda, but may not take any action other than to place the matter on a future Agenda.

14. Operations Reports (pages 127-130)
   a. R.E. Badger Filtration Plant Report
   b. Water Resources Report

15. San Diego County Water Authority Board Meeting Report –No meeting held

16. Committee Reports – No meetings held

17. General Manager’s Report (verbal)

18. General Counsel’s Comments (verbal)

INFORMATION ITEMS – None

CLOSED SESSION

At any time during the Regular Session, the Board may adjourn to Closed Session to consider litigation, or discuss with Legal Counsel matters within the Attorney/Client Privilege, subject to the appropriate disclosures. Discussion of litigation is within the Attorney/Client Privilege and may be held in Closed Session. (Pursuant to Government Code Section 54956.9)
19. Conference with Legal Counsel- Existing Litigation
   Pursuant to Government Code Section 54956.9 (d)(1)
   Rancho Santa Fe Association v Santa Fe Irrigation District
   Case No. 37-2018-00064214-CU-MC-NC

20. Conference with Legal Counsel – Existing Litigation
   Pursuant to Government Code Section 54956.9 (d)(1)
   Rancho Del Lago Homeowners’ Association v Santa Fe Irrigation District, San
   Dieguito Water District, County of San Diego, San Diego County Flood Control
   District
   Case No. 37-2019-00047074-CU-OR-NC

21. Conference with Legal Counsel- Anticipated Litigation
   Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of
   Government Code Section 54956.9
   One (1) potential case

22. Conference with Legal Counsel- Anticipated Litigation
   Initiation of litigation pursuant to paragraph (4) of subdivision (d) of
   Government Code Section 54956.9
   One (1) potential case

ADJOURNMENT

Any writings or documents provided to a majority of the Board of Directors for any item on this agenda will be
made available for public inspection in the District Office located at 5920 Linea del Cielo, Rancho Santa Fe,
CA during normal business hours.

Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the Board
meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to
the meeting so the necessary arrangements can be made.
January 9, 2020

Albert C. Lau, General Manager
Santa Fe Irrigation District
P.O. Box 409
Rancho Santa Fe, CA 92067

Dear General Manager Lau,

As a water agency, safe and reliable drinking water is what we strive to provide to our residents every day. When our Poway water system became compromised just after Thanksgiving 2019, the safety of our residents was our number one concern. In an abundance of caution, the City of Poway ordered a precautionary boil water advisory.

The advisory affected everyone and everything in Poway and we were eager to resolve the issue quickly. To ensure the safety of our drinking water, the City of Poway had to accomplish multiple tasks that were both critically time sensitive and time intensive. That’s when we put out the call for outside assistance.

As the announcement went out to water agencies throughout the County of San Diego, the first call we received was from the Santa Fe Irrigation District. Your staff was immediately ready to help. Your high-caliber staff – Chris Bozir, Lamont Foster, John Frost, Nick Isabell, Luis Martinez and Jeff Nightingale -- quickly helped us accomplish the tasks of flushing our distribution system and gathering water samples for lab testing.

Your assistance didn’t stop there. On Saturday, December 7, we found ourselves in need of additional dechlorinating supplies. Within an hour of calling your staff we had what was needed to complete our system flushing tasks. Your agency went above and beyond to help us, and our success in ending the precautionary boil water advisory is because of the support you provided.

On behalf of the City of Poway, I would like to convey our gratitude for the assistance you and your staff provided to us. To show our appreciation, we would like to attend your January Board of Directors meeting to express our thanks in person.

And, if in the future you need of any assistance we can provide, please give me a call at (858) 668-4501.

Sincerely,

Chris Hazeltine
City Manager
ITEM 4

DECEMBER 19, 2019 BOARD MEETING MINUTES

THE MINUTES WERE NOT AVAILABLE AT THE TIME THE AGENDA MATERIALS WERE POSTED.

THE MINUTES WILL BE PROVIDED UNDER SEPARATE COVER PRIOR TO THE BOARD MEETING.

The Minutes may be found beginning on page 131 of this packet. (1/12/2020)
SFID Budget to Actual Performance Report
FY 2020 Cumulative Revenue
As of December 31, 2019

Potable Water Sales

Recycled Water Sales

Base Meter Fees

Property Taxes

Interest Income

Total Revenue

Figures shown are preliminary and subject to review, reconciliation, accrual, and audit.

Board of Directors
January 16, 2020
SFID Budget to Actual Performance Report
FY 2020 Cumulative Expenses (excluding depreciation expense & debt service)
As of December 31, 2019

Imported Water Costs

Salaries & Benefits

Local Water Costs

Other Operating Costs

Recycled Water Costs

Total Operating Expenses

Figures shown are preliminary and subject to review, reconciliation, accrual, and audit.
Operating Expenses by Department

Operations & Maintenance

Engineering

Administration

Filtration Plant

Figures shown are preliminary and subject to review, reconciliation, accrual, and audit.
SFID Budget to Actual Performance Report
FY 2020 Capital Projects & Acquisitions
As of December 31, 2019

Current Year Capital Project Expenditures

Current Year Multi-Year Cumulative Capital Expenditures by Project

Project Legend

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**TOTAL DISBURSEMENTS**

$ 549,896.98
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TOTAL JOINT FACILITIES DISBURSEMENTS $ 217,537.38
Investment Transaction Report for December 2019

The following is a list of the month’s investment activity

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<th>Security/Investment Pool</th>
<th>Settlement Date</th>
<th>Activity</th>
<th>Yield to Maturity</th>
<th>Maturity Date</th>
<th>Principal Amount</th>
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<td>LAIF</td>
<td>12/20/19</td>
<td></td>
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<td>LAIF</td>
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<td>$750,000</td>
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<td></td>
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<td><strong>$1,750,000</strong></td>
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Investment Funds*

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<th>As of 11/30/19</th>
<th>As of 12/31/19</th>
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<tr>
<td>Local Agency Investment Fund (LAIF)</td>
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<td>25,226,080</td>
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<tr>
<td>San Diego County Treasurer’s Pool</td>
<td>4,398,062</td>
<td>4,398,062**</td>
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<tr>
<td>California Asset Management Program (CAMP)</td>
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<td>704,877</td>
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<td><strong>Total</strong></td>
<td><strong>$28,577,942</strong></td>
<td><strong>$30,329,019</strong></td>
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Distribution of Investments as of December 31, 2019

**LAIF 83.2%**

**SD County Pool 14.5%**

**CAMP 2.3%**

*May include accrued interest not available currently for withdrawal

**12/31/19 balance not available at time of publication
The Santa Fe Irrigation District’s (“District”) investments are currently held in three separate investment pools that meet or exceed state and the District’s Investment Policy (“Policy”) guidelines, are professionally managed at little cost, and are liquid enough to provide any immediate cash needs while balancing investment returns. Appendix A to this report outlines the District investment(s) summary and performance detail.

These investment pools, their respective ratings and liquidity are as follows:

1. The State of California Local Agency Investment Fund (LAIF). LAIF has not requested a rating from a credit agency. District funds are available to us in one working day by electronic transfer. Disclosure associated with LAIF transactions and additional detail are outlined in Appendix B.

2. The California Asset Management Program (CAMP). The pool is rated AAAm* by Standard & Poor's. District funds are available to us in one working day by electronic transfer. Disclosure associated with CAMP transactions and additional detail are outlined in Appendix C.

3. The San Diego County Pooled Money Fund (SDCPMF). The pool is rated AAAf / S1* by Fitch Ratings. District funds are available to us in two working days by electronic transfer. Disclosure associated with LAIF transactions and additional detail are outlined in Appendix D.

There is a five-year quarterly summary of the District’s investment portfolio included as Appendix E. Though the District does not currently have any direct investments, staff will continue to review the District’s Policy, investments, and objectives in direct consultation with the Board of Directors.

Albert C. Lau, P.E., General Manager

* AAA is the highest rating given to investments by Standard & Poor's and represents 'extremely strong protection against losses from credit defaults' (S1 = AAA short term investment). The 'f' subscript identifies a fixed-income fund and the 'm' subscript identifies a money market fund.
APPENDIX A
### Santa Fe Irrigation District
**Quarterly Treasurer's Report**
**December 31, 2019**

#### Cash & Cash Equivalents at Reporting Date

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<th></th>
<th>Settlement Date</th>
<th>Date of Maturity</th>
<th>Current Rating</th>
<th>Par Value</th>
<th>Book Value</th>
<th>Market Value ¹</th>
<th>Coupon Rate</th>
<th>Yield to Maturity</th>
<th>% of Market Value</th>
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<td>25,267,522</td>
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<td>83.1%</td>
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<tr>
<td>California Asset Management Program (CAMP)</td>
<td>AAAm</td>
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<td></td>
<td>704,877</td>
<td>704,877</td>
<td>1.770%</td>
<td>2.3%</td>
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<tr>
<td>San Diego Co Pooled Money Fund (SDCPMF)</td>
<td>AAAf/S1</td>
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<td></td>
<td>4,415,806</td>
<td>4,439,166</td>
<td>2.174%</td>
<td>14.6%</td>
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<tr>
<td><strong>Total Cash &amp; Equivalents</strong></td>
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<td>$30,346,763</td>
<td>$30,411,564</td>
<td>2.056%</td>
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<td>100.0%</td>
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</table>

#### Total Funds

|                           |                |                  |                | $30,346,763| $30,411,564 | 2.056%         | 2           |                  | 100.0%           |

**Weighted Average Final Maturity**

- 216 days

#### Securities Matured/Called/Sold During the Quarter:

- None.

#### Securities Purchased During the Quarter:

- None.

#### Current Securities Holdings At Reporting Date

<p>| | | | | | | | | | |</p>
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<th></th>
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<th></th>
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</tr>
</thead>
</table>

1 Source of data for LAIF, CAMP, & County Pool are based on most recent data available from those organizations.

2 Weighted average yield. LAIF annualized monthly yield, CAMP annualized 7 day yield, and County Pool annualized monthly book value yield.
SANTA FE IRRIGATION DISTRICT

TREASURER
P.O. BOX 409
RANCHO SANTA FE, CA  92067

Account Number: 90-37-017

December 2019 Statement

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**Account Summary**

- Total Deposit: 1,750,000.00
- Beginning Balance: 23,476,080.35
- Total Withdrawal: 0.00
- Ending Balance: 25,226,080.35
**PMIA Performance Report**

<table>
<thead>
<tr>
<th>Date</th>
<th>Daily Yield*</th>
<th>Quarter to Date Yield</th>
<th>Average Maturity (in days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/30/19</td>
<td>2.07</td>
<td>2.15</td>
<td>218</td>
</tr>
<tr>
<td>12/01/19</td>
<td>2.07</td>
<td>2.15</td>
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</tr>
<tr>
<td>12/02/19</td>
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<td>12/03/19</td>
<td>2.07</td>
<td>2.14</td>
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<tr>
<td>12/04/19</td>
<td>2.07</td>
<td>2.14</td>
<td>218</td>
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<td>12/16/19</td>
<td>2.04</td>
<td>2.13</td>
<td>226</td>
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<tr>
<td>12/17/19</td>
<td>2.04</td>
<td>2.13</td>
<td>226</td>
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<tr>
<td>12/18/19</td>
<td>2.04</td>
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<td>12/19/19</td>
<td>2.04</td>
<td>2.13</td>
<td>226</td>
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<tr>
<td>12/20/19</td>
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<td>12/22/19</td>
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<td>2.12</td>
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<td>12/23/19</td>
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<td>2.03</td>
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<td>12/28/19</td>
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<td>2.12</td>
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<td>12/29/19</td>
<td>2.03</td>
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<td>227</td>
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<tr>
<td>12/30/19</td>
<td>2.03</td>
<td>2.11</td>
<td>224</td>
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</tbody>
</table>

*Daily yield does not reflect capital gains or losses

**LAIF Performance Report**

Quarter Ending 09/30/19

- Apportionment Rate: 2.45
- Earnings Ratio: \( .00006701807521016 \)
- Fair Value Factor: 1.001642817
- Daily: 2.25%
- Quarter to Date: 2.34%
- Average Life: 185

**PMIA Average Monthly Effective Yields**

- Dec 2019: 2.043
- Nov 2019: 2.103
- Oct 2019: 2.190

**Pooled Money Investment Account Portfolio Composition**

11/30/19

$86.9 billion

- Treasuries 55.63%
- Agencies 14.01%
- Certificates of Deposit/Bank Notes 16.86%
- Time Deposits 5.51%
- Commercial Paper 7.27%
- Loans 0.70%

Percentages may not total 100% due to rounding

Notes: The apportionment rate includes interest earned on the CalPERS Supplemental Pension Payment pursuant to Government Code 20825 (c)(1) and interest earned on the Wildfire Fund loan pursuant to Public Utility Code 3288 (a).

Based on data available as of 01/08/2020
SANTA FE IRRIGATION DISTRICT

Customer Service
PO Box 11813
Harrisburg, PA 17108-1813

ACCOUNT STATEMENT
For the Month Ending
December 31, 2019

Contents
Cover/Disclosures
Summary Statement
Individual Accounts

Accounts included in Statement
607-00 GENERAL FUND

Important Messages
CAMP will be closed on 01/01/2020 for New Year's Day.
CAMP will be closed on 01/20/2020 for Martin Luther King Jr Day.

Online Access www.camponline.com
Customer Service 1-800-729-7665

Board of Directors
January 16, 2020

Agenda page 22
Important Disclosures

This statement is for general information purposes only and is not intended to provide specific advice or recommendations. PFM Asset Management LLC ("PFM") is an investment advisor registered with the Securities and Exchange Commission, and is required to maintain a written disclosure statement of our background and business experience. If you would like to receive a copy of our current disclosure statement, please contact Service Operations at the address below.

Proxy Voting PFM does not normally receive proxies to vote on behalf of its clients. However, it does on occasion receive consent requests. In the event a consent request is received the portfolio manager contacts the client and then proceeds according to their instructions. PFM’s Proxy Voting Policy is available upon request by contacting Service Operations at the address below.

Questions About an Account PFM’s monthly statement is intended to detail our investment advisory activity as well as the activity of any accounts held by clients in pools that are managed by PFM. The custodian bank maintains the control of assets and executes (i.e., settles) all investment transactions. The custodian statement is the official record of security and cash holdings and transactions. PFM recognizes that clients may use these reports to facilitate record keeping and that the custodian bank statement and the PFM statement should be reconciled and differences resolved. Many custodians use a settlement date basis which may result in the need to reconcile due to a timing difference.

Account Control PFM does not have the authority to withdraw funds from or deposit funds to the custodian. Our clients retain responsibility for their internal accounting policies; implementing and enforcing internal controls and generating ledger entries or otherwise recording transactions.

Market Value Generally, PFM’s market prices are derived from closing bid prices as of the last business day of the month as supplied by ICE Data Services or Bloomberg. Where prices are not available from generally recognized sources the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. Non-negotiable FDIC-insured bank certificates of deposit are priced at par. Although PFM believes the prices to be reliable, the values of the securities do not always represent the prices at which the securities could have been bought or sold. Explanation of the valuation methods for money market and TERM funds is contained in the appropriate fund information statement.

Amortized Cost The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straightline basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.

Tax Reporting Cost data and realized gains / losses are provided for informational purposes only. Please review for accuracy and consult your tax advisor to determine the tax consequences of your security transactions. PFM does not report such information to the IRS or other taxing authorities and is not responsible for the accuracy of such information that may be required to be reported to federal, state or other taxing authorities.

Financial Situation In order to better serve you, PFM should be promptly notified of any material change in your investment objective or financial situation.

Callable Securities Securities subject to redemption prior to maturity may be redeemed in whole or in part before maturity, which could affect the yield represented.

Portfolio The securities in this portfolio, including shares of mutual funds, are not guaranteed or otherwise protected by PFM, the FDIC (except for certain non-negotiable certificates of deposit) or any government agency. Investment in securities involves risks, including the possible loss of the amount invested. Actual settlement values, accrued interest, and amortized cost amounts may vary for securities subject to an adjustable interest rate or subject to principal paydowns. Any changes to the values shown may be reflected within the next monthly statement’s beginning values.

Rating Information provided for ratings is based upon a good faith inquiry of selected sources, but its accuracy and completeness cannot be guaranteed. Shares of some money market and TERM funds are marketed through representatives of PFM’s wholly owned subsidiary, PFM Fund Distributors, Inc. PFM Fund Distributors, Inc. is registered with the SEC as a broker/dealer and is a member of the Financial Industry Regulatory Authority (“FINRA”) and the Municipal Securities Rulemaking Board (“MSRB”). You may reach the FINRA by calling the FINRA Regulatory Public Disclosure Hotline at 1-888-289-9999 or at the FINRA Regulation Internet website address www.nasd.com. A brochure describing the FINRA Regulation Public Disclosure Program is also available from the FINRA upon request.

Key Terms and Definitions

Dividends on money market funds consist of interest earned, plus any discount ratably amortized to the date of maturity, plus all realized gains and losses on the sale of securities prior to maturity, less ratable amortization of any premium and all accrued expenses to the fund. Dividends are accrued daily and may be paid either monthly or quarterly. The monthly earnings on this statement represent the estimated dividend accrued for the month for any program that distributes earnings on a quarterly basis. There is no guarantee that the estimated amount will be paid on the actual distribution date.

Current Yield is the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical fund account with a balance of one share over the seven-day base period including the statement date, expressed as a percentage of the value of one share (normally $1.00 per share) at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. The yield quoted should not be considered a representation of the yield of the fund in the future, since the yield is not fixed.

Average maturity represents the average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. The stated maturity date of mortgage backed or callable securities are used in this statement. However the actual maturity of these securities could vary depending on the level or prepayments on the underlying mortgages or whether a callable security has or is still able to be called.

Monthly distribution yield represents the net change in the value of one share (normally $1.00 per share) resulting from all dividends declared during the month by a fund expressed as a percentage of the value of one share at the beginning of the month. This resulting net change is then annualized by multiplying it by 365 and dividing it by the number of calendar days in the month.

YTM at Cost The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis.

YTM at Market The yield to maturity at market is the rate of return, based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.

Managed Account A portfolio of investments managed discretely by PFM according to the client’s specific investment policy and requirements. The investments are directly owned by the client and held by the client’s custodian.

Unsettled Trade A trade which has been executed however the final consummation of the security transaction and payment has not yet taken place.

Please review the detail pages of this statement carefully. If you think your statement is wrong, missing account information, or if you need more information about a transaction, please contact PFM within 60 days of receipt. If you have other concerns or questions regarding your account you should contact a member of your client management team or PFM Service Operations at the address below.

PFM Asset Management LLC
Attn: Service Operations
213 Market Street
Harrisburg, PA 17101

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Board of Directors
January 16, 2020
# Account Statement - Transaction Summary

**For the Month Ending December 31, 2019**

**SANTA FE IRRIGATION DISTRICT - GENERAL FUND - 607-00**

<table>
<thead>
<tr>
<th><strong>CAMP Pool</strong></th>
<th><strong>December 31, 2019</strong></th>
<th><strong>November 30, 2019</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Market Value</td>
<td>703,800.26</td>
<td>703,800.26</td>
</tr>
<tr>
<td>Purchases</td>
<td>1,076.24</td>
<td>0.00</td>
</tr>
<tr>
<td>Redemptions</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Unsettled Trades</td>
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</tr>
<tr>
<td>Change in Value</td>
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</tr>
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<td><strong>Closing Market Value</strong></td>
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<td><strong>$703,800.26</strong></td>
</tr>
<tr>
<td>Cash Dividends and Income</td>
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<td>0.00</td>
</tr>
</tbody>
</table>

**Asset Summary**

**CAMP Pool**

<table>
<thead>
<tr>
<th><strong>December 31, 2019</strong></th>
<th><strong>November 30, 2019</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td><strong>$704,876.50</strong></td>
</tr>
</tbody>
</table>

**Asset Allocation**

- CAMP Pool
  - 100.00%

---

**PFM Asset Management LLC**

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Board of Directors
January 16, 2020
## Account Statement

**SANTA FE IRRIGATION DISTRICT - GENERAL FUND - 607-00**

<table>
<thead>
<tr>
<th>Trade Date</th>
<th>Settlement Date</th>
<th>Transaction Description</th>
<th>Share or Unit Price</th>
<th>Dollar Amount of Transaction</th>
<th>Total Shares Owned</th>
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<tbody>
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<td>12/31/19</td>
<td>01/02/20</td>
<td>Accrual Income Div Reinvestment - Distributions</td>
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<td>1,076.24</td>
<td>704,876.50</td>
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**Closing Balance**

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<th></th>
<th>Month of December</th>
<th>Fiscal YTD January-December</th>
<th></th>
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<tr>
<td>Opening Balance</td>
<td>703,800.26</td>
<td>688,607.02</td>
<td>Closing Balance</td>
<td>704,876.50</td>
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<tr>
<td>Purchases</td>
<td>1,076.24</td>
<td>16,269.48</td>
<td>Average Monthly Balance</td>
<td>703,834.98</td>
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<td>Redemptions (Excl. Checks)</td>
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<td>0.00</td>
<td>Monthly Distribution Yield</td>
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<td>Check Disbursements</td>
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<tr>
<td>Closing Balance</td>
<td>704,876.50</td>
<td>704,876.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Dividends and Income</td>
<td>1,076.24</td>
<td>16,269.48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Total Fund Net Assets\(^1\) $5,587,403,232

Current 7-Day Yield\(^2\) 1.77%

S&P Rating\(^3\) AAAm

Weighted Average Maturity 48 Days

Net Asset Value per Share $1.00

Portfolio Sector Composition

- Repurchase Agreements 19.48%
- Commercial Paper 22.98%
- U.S. Treasuries 14.81%
- Negotiable Certificates of Deposit 29.64%
- Corporate Notes 13.09%

Percentages may not total to 100% due to rounding.

Portfolio Credit Quality Distribution**

- A+ 14.81%
- A- 3.47%
- AA+ 1.00%
- AA- 2.52%
- A 4.02%
- A- 1.94%

** Ratings by Standard & Poor's.
Percentages may not total 100% due to rounding.

1. **Total fund net assets, portfolio holdings valued at amortized cost, trade date based.**

2. **As of December 31, 2019, the current seven-day yield of the CAMP Cash Reserve Portfolio may, from time to time, be quoted in reports, literature and advertisements published by the Trust. The current seven-day yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a balance of one share (normally $1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is not indicative of future results and yields may vary.**

3. **Standard & Poor's fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor's rating criteria, the AAAm rating signifies excellent safety of investment principal and a superior capacity to maintain a $1.00 per share net asset value. However, it should be understood that the rating is not a “market” rating nor a recommendation to buy, hold or sell the securities. For a full description on rating methodology, visit Standard & Poor's website (http://www.standardandpoors.com/en_US/web/guest/home).**

This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Trust's investment objectives, risks, charges and expenses before investing in the Trust. This and other information about the Trust is available in the Trust’s current Information Statement, which should be read carefully before investing. A copy of the Trust’s Information Statement may be obtained by calling 1-800-729-7665 or is available on the Trust's website at www.camponline.com. While the Trust seeks to maintain a stable net asset value of $1.00 per share, it is possible to lose money investing in the Trust. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Trust are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.
### Trial Balance - Total Currency

**Ledger:** COSD  
**FUND:** 44063 SANTA FE IRRIGATION DIST INVESTMENT  
**Balance Type:** Year to Date  
**Currency:** USD  
**Period:** DEC-19

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<tr>
<th>ACCOUNT</th>
<th>Description</th>
<th>Beginning Balance</th>
<th>Debits</th>
<th>Credits</th>
<th>Ending Balance</th>
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<tr>
<td>10100</td>
<td>CASH IN TREASURY</td>
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<td>4,415,805.87</td>
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<tr>
<td>10750</td>
<td>DUE FROM / DUE TO - INTEREST AP</td>
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<td>45,769.95</td>
<td>72,199.40</td>
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<tr>
<td>10755</td>
<td>DUE FROM / DUE TO - INT APPRTNM</td>
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<td>21,093.21</td>
<td>0.00</td>
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<tr>
<td>34100</td>
<td>FUND BALANCE AVAILABLE - ACTUAL</td>
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<td>0.00</td>
<td>0.00</td>
<td>(4,391,129.13)</td>
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<tr>
<td>44105</td>
<td>INTEREST ON DEPOSITS&amp;INV</td>
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<td>24,676.74</td>
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<tr>
<td>80468</td>
<td>INTEREST RECEIPTS</td>
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<td>0.00</td>
<td>24,676.74</td>
<td>(24,676.74)</td>
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**Report Date:** 08-JAN-2020 06:21  
**Page:** 1 of 1
### SUMMARY PORTFOLIO STATISTICS

County of San Diego Pooled Money Fund
As of November 30, 2019

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Par Value</th>
<th>Book Value</th>
<th>Market Value</th>
<th>% of Portfolio</th>
<th>Market Price</th>
<th>WAM</th>
<th>YTM</th>
<th>Accrued Interest</th>
<th>Unrealized Gain/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Backed Securities</td>
<td>827,482,711</td>
<td>827,549,915</td>
<td>833,329,560</td>
<td>8.98</td>
<td>100.707</td>
<td>1167</td>
<td>2.38</td>
<td>1,214,401</td>
<td>5,779,646</td>
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<td>Commercial Paper</td>
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<td>1,449,475,804</td>
<td>1,449,601,900</td>
<td>15.72</td>
<td>99.289</td>
<td>138</td>
<td>1.94</td>
<td>-</td>
<td>126,096</td>
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<tr>
<td>Federal Agency Securities</td>
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<td>2,359,243,740</td>
<td>2,365,925,261</td>
<td>25.59</td>
<td>100.549</td>
<td>1010</td>
<td>1.95</td>
<td>12,003,084</td>
<td>6,681,520</td>
</tr>
<tr>
<td>Medium-Term Notes</td>
<td>895,881,000</td>
<td>896,936,787</td>
<td>902,866,657</td>
<td>9.73</td>
<td>100.780</td>
<td>708</td>
<td>2.44</td>
<td>5,914,294</td>
<td>5,929,869</td>
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<tr>
<td>Municipal Bonds</td>
<td>76,535,000</td>
<td>77,081,820</td>
<td>76,996,549</td>
<td>0.84</td>
<td>100.612</td>
<td>1157</td>
<td>1.90</td>
<td>12,003,084</td>
<td>6,681,520</td>
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<tr>
<td>Negotiable CDs</td>
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<td>1,676,000,067</td>
<td>1,677,565,140</td>
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<td>2.27</td>
<td>17,172,687</td>
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<td>1,056,710,124</td>
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<td>1376</td>
<td>2.26</td>
<td>4,736,053</td>
<td>11,459,055</td>
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<td>U.S. Treasuries</td>
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<td>486,413,700</td>
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<td>100.301</td>
<td>878</td>
<td>1.65</td>
<td>2,168,737</td>
<td>1,766,936</td>
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<tr>
<td>Money Market Funds</td>
<td>392,900,000</td>
<td>392,900,000</td>
<td>392,900,000</td>
<td>4.26</td>
<td>100.000</td>
<td>1</td>
<td>1.57</td>
<td>434,456</td>
<td>-</td>
</tr>
<tr>
<td>Bank Deposit</td>
<td>1,338,779</td>
<td>1,338,779</td>
<td>1,338,779</td>
<td>0.01</td>
<td>100.000</td>
<td>1</td>
<td>1.50</td>
<td>1,005</td>
<td>-</td>
</tr>
<tr>
<td>Sweep Fund</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>0.11</td>
<td>100.000</td>
<td>1</td>
<td>1.13</td>
<td>4,153</td>
<td>-</td>
</tr>
<tr>
<td>Totals for November 2019</td>
<td>9,217,920,490</td>
<td>9,220,424,747</td>
<td>9,253,647,670</td>
<td>100.00</td>
<td>100.396</td>
<td>692</td>
<td>2.10</td>
<td>43,797,419</td>
<td>33,222,924</td>
</tr>
<tr>
<td>Totals for October 2019</td>
<td>9,007,564,661</td>
<td>9,010,927,015</td>
<td>9,054,664,921</td>
<td>100.00</td>
<td>100.529</td>
<td>697</td>
<td>2.14</td>
<td>39,498,468</td>
<td>43,737,907</td>
</tr>
<tr>
<td>Change from Prior Month</td>
<td>210,355,829</td>
<td>209,497,732</td>
<td>198,982,749</td>
<td>(0.133)</td>
<td>(5)</td>
<td>-0.04</td>
<td>4,298,951</td>
<td>(10,514,983)</td>
<td></td>
</tr>
<tr>
<td>Portfolio Effective Duration</td>
<td></td>
<td></td>
<td></td>
<td>1.25 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Return Information**

<table>
<thead>
<tr>
<th>Return Information</th>
<th>Monthly Return</th>
<th>Annualized</th>
<th>Fiscal Year To Date Return</th>
<th>Annualized</th>
<th>Calendar Year To Date Return</th>
<th>Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book Value</td>
<td>0.179%</td>
<td>2.174%</td>
<td>0.939%</td>
<td>2.239%</td>
<td>2.154%</td>
<td>2.354%</td>
</tr>
</tbody>
</table>

**Notes**

Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the maturity date.

Weighted Average Maturity (WAM) is average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

Yields for the portfolio are aggregated based on the book value of each security.

Monthly Investment Returns are reported gross of fees. Administration fees since fiscal year 17-18 have averaged approximately 7 basis points per annum.

**All Investments held during the month of November 2019 were in compliance with the Investment Policy dated January 1, 2019.**

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**Board of Directors**

January 16, 2020
INVESTMENT FUND OVERVIEW
As of November 30, 2019

Asset Allocation

- Supranational Securities: 11.34%
- Federal Agency Securities: 25.59%
- Asset Backed Securities: 8.98%
- Money Market Funds: 4.26%
- Medium-Term Notes: 9.73%
- Commercial Paper: 15.72%
- Municipal Bonds: 0.84%
- Sweep Fund: 0.11%
- Bank Deposit: 0.01%
- U.S. Treasuries: 5.26%

*Totals may not add to 100% due to rounding

Credit Quality

- AAA: 55.42%
- F1+: 21.85%
- F1: 12.17%
- AA+: 2.72%
- AA: 4.54%
- A+: 2.49%
- A: 0.52%

As of November 30, 2019

Board of Directors
January 16, 2020
### Santa Fe Irrigation District
Board of Directors Expenses
Paid During the Period October 1, 2019 to December 31, 2019 and Fiscal Year-to-Date

<table>
<thead>
<tr>
<th>Name</th>
<th>Per Diem Payments</th>
<th>Mileage &amp; Parking</th>
<th>Travel &amp; Meetings</th>
<th>Total</th>
<th>For July 1st to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunford</td>
<td>900.00</td>
<td>0.00</td>
<td>0.00</td>
<td>900.00</td>
<td>2,250.00</td>
</tr>
<tr>
<td>Hogan</td>
<td>1,200.00</td>
<td>46.40</td>
<td>0.00</td>
<td>1,246.40</td>
<td>2,337.00</td>
</tr>
<tr>
<td>King</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Menshek</td>
<td>1,500.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1,500.00</td>
<td>2,250.00</td>
</tr>
<tr>
<td>Petree</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

| Total    | $3,600.00         | $46.40            | $0.00             | $3,646.40|

<table>
<thead>
<tr>
<th>Compensated Days of Service *</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Period</td>
</tr>
<tr>
<td>Board</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

| Total    | $6,837.00 |

* Compensated days of service may represent multiple meetings per day.
DATE: January 16, 2020
TO: Board of Directors
FROM: General Manager
SUBJECT: Public Hearing on the 2020 Water Rate Proposal

BACKGROUND:

The purpose of this Public Hearing of the Board of Directors of the Santa Fe Irrigation District (District) is to receive and consider public comments regarding a proposed adjustments to and increases in the District’s water rates and charges. The proposal is for the establishment of water rates and charges for a three-year period (“Rate Proposal”).

The Board of Directors set the time and place of this Public Hearing at the November 21, 2019 Board meeting. Setting the time and place of the Public Hearing set in motion the public noticing process and the 45-day period for affected property owners and tenants who are directly liable for the payment of water service charges (i.e., customers of record who are not property owners) to submit written protest to the proposed rate adjustments and increases. Any interested persons may appear at the Public Hearing and/or file written comments with the General Manager of the District during the public review period prior to the Public Hearing. A majority protest of the proposed rates would require approximately 3,250 valid protests. Upon conclusion of the Public Hearing, the Board will have the opportunity to consider adopting, revising, or rejecting the rate proposal.

A notice containing the date, time, and location of the public hearing and an explanation of proposed rate increases and the basis upon which the rates and charges were calculated was mailed by the District to customers and the record owners of property upon which the charges are proposed to be imposed within the District service area in accordance with the procedural requirements of California Constitution article XIII D, section 6 (commonly referred to as Proposition 218). In addition, the notice of the public hearing was posted on the District’s website at www.sfidwater.org.

PUBLIC HEARING

At the Public Hearing, the Board of Directors may receive public testimony regarding the proposed water rate adjustments and increases. In addition, the Board of Directors will consider staff, independent consultant and legal counsel reports.

The Final *November 2019 Cost of Service Rate Study* (Study) developed by Carollo Engineers provides the background and basis for the proposed adjustments to and increases in the District’s water rates may be reviewed at the link below. The Study has been available for public review at
the District office and posted on the District web site during the public review period:


Additionally, District Counsel, Best Best & Krieger have provided a memorandum entitled “Structuring the Santa Fe Irrigation District’s Water Rates Under Current Law” that provides a background on the legal basis for the proposed rate structure.

After receiving public comment, the Board of Directors will close the Public Hearing, will determine if there is a majority protest to the proposed rates and charges, and may consider action on the proposed water rates and charges during the regular meeting immediately following this Public Hearing.

Attachment A: Best Best & Krieger Memorandum

Prepared by: Seth Gates, Administrative Services Manager
Approved by: Albert C. Lau, P.E., General Manager
Memorandum

To: Santa Fe Irrigation District Board of Directors
From: Best Best & Krieger LLP
Date: January 16, 2020
Re: Structuring the Santa Fe Irrigation District’s Water Rates Under Current Law

I. INTRODUCTION

The Santa Fe Irrigation District (the “District”) is holding a public hearing to consider adopting a revised rate structure for its potable and water service charges. The revised rate structure will result in an “increase” under article XIII D, section 6 of the California constitution, as the term “increase” is defined under Government Code section 53750(h).

This memorandum provides an overview of the statutory and regulatory water resource management requirements applicable to the District, and provides an overview of the constitutional and statutory provisions, and related court decisions, governing water rate setting generally in California. This memorandum, commencing on page 26, also analyzes how the District’s proposed water rates have been structured to comply with these constitutional, statutory, and regulatory requirements, and the court cases in interpreting them. This memorandum also addresses certain legal issues raised by certain customers and customer representatives regarding the District’s proposed rates.

II. THE CURRENT CONSTITUTIONAL, STATUTORY AND REGULATORY REQUIREMENTS APPLICABLE TO WATER RESOURCE MANAGEMENT

A. THE RECENT DROUGHT

From 2012 to 2016, California endured its worst drought on record; drier than any four-year period in the last 450 years. (Assem. Floor Analysis 2017-2018 Leg.-2917, at 4 (Cal. 2018).) On January 17, 2014, Governor Jerry Brown issued a drought state of emergency proclamation in response to the multi-year drought, record-low water levels in California’s rivers and reservoirs, as well as an abnormally small snowpack. On April 25, 2014, and April 1, 2015, Governor Brown issued subsequent emergency proclamations calling for the implementation of water reduction plans to reduce potable water usage and the adoption of emergency regulations by the California State Water Resources Control Board (“State Board”) relating to water conservation. Based on Governor Brown’s mandate, the State Board approved regulations assigning mandatory water conservation standards ranging from 4 percent to 36 percent to individual water agencies based on their per capita water use in 2014.

According to data released in November 2014 by the State Board, the District’s customers used more water than those in any other part of California. Customers used an average of 584 gallons a day in September of that year, nearly five times the average for coastal watersheds.
Southern California. (See Ian Lovett, Where Grass is Greener, a Push to Share Drought’s Burden, N.Y. Times, Nov. 29, 2014, at A22.) As a consequence, under the drought regulation established by the State Board, the District was ordered to reduce its per capita water consumption by 36 percent.

On November 15, 2015, Governor Brown extended these conservation measures until October 31, 2016. With California still experiencing severe drought conditions despite recent rains, on February 2, 2016, the State Board adopted an extended and revised emergency regulation to ensure that urban water conservation continued in 2016. The regulation extended restrictions on urban water use through October 2016 while providing urban water suppliers more flexibility in meeting their conservation requirements. It also directed its staff to report back on additional flexibility once more complete water supply information was known in April 2016.

Recognizing persistent yet less severe drought conditions throughout California, on May 18, 2016, the State Board adopted an emergency water conservation regulation that replaced the prior emergency regulation. The May 2016 regulation that was in effect from June 2016 through January 2017 required locally developed conservation standards based upon each agency’s specific circumstances. It replaced the prior percentage reduction-based water conservation standard with a localized “stress test” approach. On February 8, 2017, the State Board extended this emergency regulation.

During this period, the District took actions to reduce water consumption by adopting mandatory water use restrictions that reduced the amount of water that customers could use during a billing period. Its customers responded to these conservation mandates by decreasing the peak month demand from the summer 2014 to the summer 2015 by at least 36 percent. These mandatory water use restrictions were, in part, undertaken with an understanding of its water supply portfolio. Specifically, the District purchases imported water from the San Diego County Water Authority. The San Diego County Water Authority has secured imported water supplies from the Colorado River through a long-term (45 to 75 years) water conservation and transfer agreement with the Imperial Irrigation District, but also purchases a substantial portion of its water supplies from the Metropolitan Water District of Southern California. The Metropolitan Water District of Southern California imports water from two sources: the Colorado River via the Colorado River Aqueduct and the Sacramento-San Joaquin Delta via the over 400-mile California Aqueduct. The District also jointly retains water rights to the surface water stored in Lake Hodges with the City of San Diego and San Dieguito Water District.¹

¹ The Lake Hodges Dam was constructed and completed in 1918, which expanded the Lake Hodges reservoir’s capacity. The dam was designed by John S. Eastwood, funded by the Santa Fe Railroad Company and constructed by the Bent Brothers. The City of San Diego purchased the Lake in 1925 and currently manages the watershed and recreational activities associated with Lake Hodges. The Lake Hodges reservoir capacity is 30,251 acre feet, and has 1,234 surface acres when full. Its maximum water depth is 115 feet and has 27 shoreline miles. The water from Lake Hodges can be directly supplied to the R. E. Badger Filtration Plant through the Cielo Pump Station or gravity fed to San Dieguito Reservoir through a recently constructed pipeline.
On April 17, 2017, Governor Brown issued Executive Order No. B-40-17, lifting the drought emergency in California counties except in Fresno, Kings, Tulare and Tuolumne, where emergency drinking water projects continue to address diminished groundwater supplies. The order also retains the prohibition on wasteful water use practices and advances measures to continue to make conservation a way of life. The order also rescinds the two emergency proclamations from January 2014 and April 2014, and the four drought-related executive orders issued in 2014 and 2015.

While there has been some rebound in District customer usage since the mandatory water use restrictions were lifted, there have been, and there are anticipated to be, permanent reductions in water demand throughout the District. For example, in calendar years 2016 and 2017 the peak month demand increased by 34 percent; however, this peak month demand is still 15 percent below the peak month demand of calendar year 2014. These reductions are due to several factors, including: the District’s and the San Diego County Water Authority’s water conservation rebate and education programs; current and future State, regional, and local water conservation regulations; the removal of turf and the installation of low-water use landscaping and irrigation systems; the future use of advanced meter infrastructure; and, as explained below, the District’s water rate structure.

The most recent drought and the lack of precipitation in San Diego County during the 2018 water year (October 1, 2017 to September 30, 2018) are the latest examples of the difficulty local public agencies and the District face in providing reliable water supply to their communities. Although rainfall in San Diego County exceeded historical averages in 2019, weather scientists predict that abrupt shifts in weather patterns, such as droughts followed by heavy rainfall, are expected to rise with global climate change. The implementation of permanent and effective water resource management practices, both in drought and non-drought years, is therefore critical to the long-term sustainable use of water in California and in the District.

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2 However, rainfall during the San Diego County 2018 water year totaled slightly more than three inches at San Diego International Airport, the county’s precipitation measurement site. This is 67 percent lower than usual and the county’s second-lowest annual rainfall total since 1850. (CBS News, *San Diego expected to have enough water for 2019* (October 15, 2018), as of December 14, 2018, available at http://www.cbs8.com/story/39290157/san-diego-expected-to-have-enough-water-for-2019.) The Colorado River, one of the sources of water that the District purchases from the San Diego County Water Authority, has also experienced an almost two-decade drought. “Since 2000, the Colorado River Basin (Basin) has been experiencing a historic, extended drought that has impacted regional water supply and other resources, such as hydropower, recreation, and ecologic services. During this time, the Basin has experienced its lowest 16-year period of inflow in over 100 years of record keeping, and reservoir storage in the Colorado River system has declined from nearly full to about half of capacity.” (*Drought in the Colorado River Basin*, U.S. Dep’t of Interior, as of December 14, 2018, available at https://www.doi.gov/water/owdi.cr.drought/en/.)

3 Rainfall during the San Diego County 2019 year totaled approximately 12.93 inches, which exceed normal rainfall by 25%. (San Diego County Water Authority, http://sdcwa.org/annual/rainfall-lindbergh-field). 

4 Robbins, Jim *Climate Whiplash: Wild Swings in Extreme Weather Are on the Rise.*

5 The effects of climate change are also anticipated to adversely affect water resources throughout the State and necessitate more effective water resource management practices.
In evaluating solutions to manage water supplies, many water providers have found that allocating the cost of water service by using a single unit price neither adequately discourages unreasonable use and consequently does not encourage conservation, nor fairly apportions the cost of the service attributable to higher volume users. (See the discussion below under the heading “Reconciling The Court Decisions – What Are The Marginal Costs Of Providing Water Service?”.)

Rather, these water providers have concluded that one of the most effective water resource management tools is a tiered water rate structure. Tiered rate structures impose progressively higher rates for water service as the relative level of consumption increases. They are designed to allocate a greater share of the costs of providing service to those whose water

California’s climate is highly variable, with frequent droughts and floods. Climate models predict significant changes: warmer temperatures; shorter, more intense wet seasons; and more volatile precipitation—with wetter wet years and drier dry years.

Warming is already a reality. California’s four warmest years on record have all occurred since 2014. Warming has complex and interrelated effects: it reduces the share of precipitation falling as snow, causes earlier snowpack melting and increased winter runoff, raises water temperatures, and amplifies the severity of droughts and floods. Sea level has been rising, increasing pressure on coastal flood defenses. This and larger freshwater floods threaten fragile levees in the Sacramento–San Joaquin Delta, an important water supply hub.

California is a national leader in addressing greenhouse gas emissions that contribute to climate change. However, water policies for adapting to a changing climate are still in early development. California’s “water grid”—the linked network of storage and conveyance systems that connects most water use in the state—was designed for 20th-century conditions. Climate pressures will make it harder to simultaneously store water for droughts, manage flood risk, and protect freshwater ecosystems. Making this system more climate-ready is a major challenge that will require a concerted effort on multiple fronts, involving all levels of government and the private sector.

(Public Policy Institute of Calif., Climate Change and Water, December 2018, as of December 14, 2018 available at http://www.ppic.org/wp-content/uploads/californias-water-climate-change-and-water-november-2018.pdf (emphasis added). See also Calif. Dep’t of Water Resources, Climate Change Basics, as of December 14, 2018, available at https://water.ca.gov/Water-Basics/Climate-Change-Basics (“Climate change is impacting California’s water resources, as evidenced by changes in snowpack, sea level, and river flows. As we seek to adapt to and mitigate the impacts of climate change, responsible management of California’s water resources is essential for the long-term health of our state.”).)

usage creates greater demands and burdens on a local agency’s water system, sources of supply, and other water resources, and therefore generates additional costs to a local agency for providing water service. Tiered rates also have the incidental effect of encouraging conservation by sending a price signal to water users that if they use more water they will have to pay more.7

In 2018 the District engaged Carollo to perform an independent cost of service and water rate study that evaluates the infrastructure, programs, and operations and maintenance costs of the District’s water services, and the rates necessary to recover and proportionately allocate the costs of those services among the District’s customers for the ensuing three years. Carollo’s analysis was memorialized in the “Santa Fe Irrigation District Water Rate Study Cost of Service Rate Design Report,” dated October 2018 (the “2018 Study”). A copy of the Study was included with District’s Board of Director’s agenda for December 20, 2018, SFID Board Agenda Item 7. As set forth in the Study, additional revenue from the District’s water service charges was required to recover its costs of providing water service. At the December 20, 2018 meeting, the District’s Board determined not to adopt the rates proposed in the 2018 Study, and to instead explore different alternative rate structures and strategies. Based on updated water use information, feedback from the Board and from members of the public, Carollo conducted a new analysis with the goal of proposing a new rate structure. The new rate structure is planned for consideration at the January 16, 2020 meeting of the Board.

The District’s current rate structure has two components—a Meter Fixed Charge and a Commodity Charge. Based on its analysis and changes in water demand within the District, as well as feedback from the Board of Directors and members of the public, Carollo recommends the District retain the two rate components, but to restructure its rates for the Commodity Charge. The restructured Commodity Charge includes six customer classes – Single Family Residential, Multifamily Residential, Nonresidential/CII, Agricultural/Irrigation, Private Fire (i.e. customers who have private fire suppression systems), and Recycled Water. The rates for Single Family Residential customers are broken into five tiers.8 Tier widths are based on total water usage in the billing period, and the widths for tiers 3, 4, and 5 are dependent upon the size of the meter serving the property.9 Uniform rates are proposed for the Commodity Charge for all other water customers.10

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7 Referred to as price elasticity, consumers respond to this price signal by reducing their consumption. (See American Water Works Ass’n, Principles of Water Rates, Fees, and Charges — Manual of Water Supply Practices M1, p. 215 (6th ed. 2012).)
8 The current rate structure for the Commodity Charge has four tiers.
9 This rate structure is commonly referred to as a meter overlay rate structure, and is based on establishing tier widths by meter size where meter sizes have a consistent relationship or homogenous usage pattern. American Water Works Ass’n, Principles of Water Rates, Fees, and Charges — Manual of Water Supply Practices M1, p. 115 (6th ed. 2012.).
10 A uniform rate for the Commodity Charge means that a single charge is imposed per unit of volume of all water used.
As set forth in the Study, the proposed rates for the Meter Fixed Charge for all customers are established on the basis of the size of the meter (in inches). The Commodity Charge is a variable charge imposed per unit of delivered water, with one unit equal to one hundred cubic feet (HCF), or 748 gallons. The Commodity Charge is comprised of five tiers for Single Family Residential customers, and is uniform for all other customers. As explained in more detail later in this memorandum, the Meter Fixed Charge is designed to recover a portion of the District’s fixed costs and the Commodity Charge is designed to recover the remaining portion of the District’s fixed costs and its variable costs of providing water service.

B. CALIFORNIA CONSTITUTION ARTICLE X, SECTION 2 — THE WASTE, UNREASONABLE USE AND UNREASONABLE METHOD OF USE OF WATER SHALL BE PREVENTED — AND OTHER WATER CONSERVATION MEASURES AND REQUIREMENTS IMPACTING WATER RATES

To begin, it is important to understand that the California Constitution and the California Water Code provide the framework within which public agencies may establish and enforce water conservation measures and are charged with the responsibility of managing water resources. Article X, section 2 (“Article X”) was added to the California Constitution in 1928 as former article XIV, section 3. Article X requires that the water resources of the state “shall be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented.” Article X further provides that the practice of water conservation “is to be exercised with a view to the reasonable and beneficial use” of water and that the right to water does not “extend to the waste or unreasonable use” of water. (Cal. Const. art. X, § 2.)

This constitutional mandate reflects the overriding statewide concern to responsibly and reasonably conserve and manage this vital public resource. “[A]ll water use is now governed by California Constitution article X, section 2, and accordingly, all use of water in this state must conform to the standard of reasonable use.” (Wright v. Goleta Water Dist., 174 Cal. App. 3d 74, 87 (1985).) As the California Supreme Court recognized shortly after the enactment of former California Constitution article XIV, section 3, “[t]he present and future well-being and prosperity of the state depend upon the conservation of its life-giving waters … . The conservation of other natural resources is of importance, but the conservation of the waters of the state is of

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11 “What is a beneficial use at one time may, because of changed conditions, become waste of water at a later time.” (Tulare Dist. v. Lindsay-Strathmore Dist. (1935) 3 Cal. 2d 489, 525.) “The scope and technical complexity of issues concerning water resource management are unequalled by virtually any other type of activity presented to the courts. What constitutes reasonable water use is dependent upon not only the entire circumstances presented but varies as the current situation changes. . . .” “[W]hat is reasonable use of water depends on the circumstances of each case, such inquiry cannot be resolved in vacuo from statewide considerations of transcendental importance.” (U.S. v. State Water Res. Control Bd., 182 Cal. App. 3d 82129-130 (1986) (quoting Environmental Defense Fund, Inc. v. E. Bay Mun. Util. Dist., 26 Cal. 3d, 183, 194 (1980)).)
transcendent importance. Its waters are the very lifeblood of its existence.” (Gin S. Chow v. City of Santa Barbara, 217 Cal. 673, 701—702 (1933).)

Faced with the basic human necessity for water and its relative scarcity, the State Legislature has enacted legislation to promote the policy of Article X, conservation, water use efficiency, and equity among all State residents. In furtherance of Article X, the legislature adopted California Water Code section 100 which restates the proposition that it is the policy of the state of California that the waste or unreasonable use of water shall be prevented and the water of this state shall be conserved in the interest of the people and for the public welfare.\(^{12}\)

After California began to emerge from an earlier major water shortage in November 2009, a bipartisan package of five bills addressing California’s mounting water crisis emerged from the Legislature’s 2009 Extraordinary Session. Among those signed into law was Senate Bill 7X7 (2009-2010 7th Ex. Sess.) (“SB 7”). SB 7 proposed to protect water supplies by mandating a statewide twenty percent reduction in urban per capita water use by 2020. The state was required to make incremental progress toward achieving this goal by reducing per capita water use by at least ten percent by 2015, and both urban water suppliers and agricultural water suppliers were required to develop plans for reducing water use.

Urban retail water suppliers were required to formulate water demand reduction targets and to reduce per capita water\(^{13}\) use within their service area by ten percent by 2015 and are required to reduce their per capita water use by an additional ten percent by 2020 (the “20x2020 goal”).\(^{14}\) Urban retail water suppliers were also required to report their interim and overall water use targets in their Urban Water Management Plan (“UWMP”) due first in July 1, 2011, and their progress toward reaching their targets in their 2015 UWMP. (Cal. Water Code §§ 10608(g), 12 (See also Cal. Water Code § 106 (declares that it is the established policy of the State that the use of water for domestic purposes, i.e., indoor public health and safety, is the highest use of water and the next highest use is irrigation, i.e., for agricultural purpose, not landscape purposes).) “Domestic purposes” refers to the ordinary demands and requirements of consumers for human consumption, cooking and sanitation. (See id. at §§ 106.3, 350; Deetz v. Carter, 232 Cal. App. 2d. 851, 854 (1965); see, also, Cal. Water Code § 71640 (restrictions on water use for any purpose other than household uses which a municipal water district deems to be nonessential); 520-529.7 (requires the installation of water meters and recognizes that water metering and volumetric pricing are among the most efficient conservation tools); 370 (authorizes allocation-based water rate structures as an effective means by which waste or unreasonable use of water can be prevented in furtherance of Article X); § 1009 (may require, as a condition of new service, that reasonable water-saving devices and water reclamation devices be installed to reduce water use); § 10631(f)(1)(K) (urban water management plans should include a description of a public agency’s water demand management measures that are or are planned to be implemented, including water conservation pricing); § 78500.2(a), (c), & (d) (enacted pursuant to Proposition 204 in November 1996, it acknowledges that the limited water resources of this state must be protected and conserved and that water conservation is essential to the state’s long-term economic and environmental sustainability).)

\(^{13}\) When calculating per capita values, an urban retail water supplier is required to determine population using federal, state and local population reports and projections as applicable. (Cal. Water Code § 10608.20(f).)

\(^{14}\) There are several alternatives for urban water suppliers to accomplish their water use targets. For example, urban water suppliers may elect to determine and report progress toward achieving their targets on an individual or regional basis, or on a fiscal or calendar-year basis. (Id. at §§ 10608.20(a), 10608.24.)

60027.0003032609773.3

Agenda page 43

Board of Directors
January 16, 2020
The District is subject to the Urban Water Management Planning Act,\textsuperscript{15} AB 1420,\textsuperscript{16} and SB 7 requirements and completed its 2015 UWMP in accordance with these requirements.

Urban water agencies will face an increasingly expansive set of water conservation laws and regulations developed in response to Executive Order B-37-16 to address drought preparedness and long-term water conservation. As described below, the regulations continue to prohibit wasteful water practices, establish new standards for residential water use efficiency, and impose reporting requirements on urban retail water suppliers.

In May 2018, the Governor signed two bills consistent with Executive Order B-37-16’s Making Water Conservation a California Way of Life: Assembly Bill 1668 (Friedman) and Senate Bill 606 (Hertzberg), which require the State Water Board, in coordination with the Department of Water Resources, to establish long-term urban water use efficiency standards by June 30, 2022. The standards would include components for indoor residential water use, outdoor residential water use, water losses, and other uses. The bills establish a standard of 55 gallons per person per day for indoor residential water use through January 1, 2025. After that date, the amount of water that may be used will be incrementally reduced to 50 gallons per person per day beginning January 2030. For the development of outdoor residential use standards, the bills require the Department of Water Resources to conduct studies of landscaping and climate throughout the State and then provide the resulting data and recommended standards to the State Water Board by October 1, 2021.

Under the bills, the Department of Water Resources is required to recommend to the State Water Board performance measures for commercial, industrial and institutional water users, following solicitation of broad public participation from stakeholders. Based on this input, the State Water Board is required to adopt performance measures by June 30, 2022. The bills also require urban water suppliers to conduct drought risk assessments evaluating water shortage risks for a drought lasting the subsequent five consecutive years, and to adopt water shortage contingency plans. Retail agencies will have discretion over how to meet the objectives, and they will bear the burden if they do not meet the state targets. Starting in 2027, fines may be imposed on local water suppliers for failure to comply with State Water Board’s adopted long-term standards.

To comply with the water conservation mandates and measures outlined above, a public agency which supplies water may adopt at any time, by ordinance or resolution, a water conservation program and implement restrictions and regulations to enforce such program. As part of a water conservation program, a water purveyor may provide incentives through rate structure design. (Cal. Water Code § 375.) Article X and resulting legislative enactments

\textsuperscript{15} (Id. at § 10610 et seq.)
\textsuperscript{16} (Id. at § 10631.5 et seq. (governing water demand management practices).)
designed to achieve its purposes have historically played an important role in structuring water rates to encourage conservation in California.

1. **Tiered Rates are not a Special Tax — *Brydon v. East Bay Municipal Utility District***

The decision in *Brydon v. East Bay Municipal Utility District*, 24 Cal. App. 4th 178 (1994), is illustrative of how courts have historically addressed the Constitutional prohibition on the waste, unreasonable use, and unreasonable method of use of water, and statutory water conservation mandates in the context of water rate structure design. Water conservation through rate structure design has been expressly authorized by the State Legislature since 1993. (Cal. Water Code § 375(b).)¹⁷ A tiered water rate structure designed to encourage conservation was first challenged in *Brydon*, a case determined prior to the adoption of Proposition 218 (Article XIII D, section 6) discussed below. In *Brydon*, the utility district declared a water shortage emergency in conformance with the provisions of California Water Code section 350 and adopted a drought management program that included the establishment of a revenue neutral inclining block rate structure. Inclining block rates impose higher rates per unit of water as the level of consumption increases. The rate structure was challenged as an invalid special tax in violation of California Constitution, article XIII A, section 4 (“Article XIII A”) absent a two-thirds voter approval. Article XIII A was added to the California Constitution by Proposition 13 in 1978.

Proposition 13 was intended to provide taxpayer relief by limiting the property tax rate and requiring voter approval of “special taxes” imposed by cities, counties, and special districts. To implement the authorizations granted to public agencies in Article XIII A, the legislature enacted California Government Code sections 50075 and 50076. California Government Code section 50075 provides that it is the intent of the legislature to provide all public agencies with the authority to impose special taxes pursuant to the provisions of Article XIII A. California Government Code section 50076 then excludes from the definition of special tax “any fee which does not exceed the reasonable cost of providing the service or regulatory activity for which the fee is charged and which is not levied for general revenue purposes.”

The *Brydon* court found that the rate structure was reasonably designed in response to the constitutionally mandated water resource conservation requirements of Article X. The court also recognized that Water Code section 375 permits the adoption and enforcement of water conservation programs to achieve these requirements and specifically permits the enactment of ordinances to encourage water conservation through rate structure design. (*Brydon*, 24 Cal. App. 4th at 193, 195.) The court deemed it appropriate through rates to shift the costs of environmental degradation from the general public to those most responsible. The court noted

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¹⁷ In an uncodified portion of the bill adopting Water Code section 375, the Legislature specifically acknowledged that conservation is an important part of the State’s water policy and that water conservation pricing is a best management practice. (Stats. 1993, c. 313, § 1 (A.B. 1712).)
that the district’s rate structure reasonably reflected “the fact that it is the profligate usage of water which compels the initiation of regulated conservation measures” and that intuitively it is apparent that “such measures are necessitated predominately by those citizens least inclined toward conservation.” (Id. at 193.) Thus, from the court’s view “it is reasonable to allocate costs based on the premise that the more unreasonable the water use, ‘the greater the regulatory job of the district.’” (Id. (citations omitted).)

Stated another way, tiered water rates reasonably reflect the proportionate cost of providing water service attributable to those parcels which use the most water and place the greatest demands on a water system and its resources. “To the extent that certain customers overutilize the resource, they contribute *disproportionately* to the necessity for conservation, and the requirement that the District acquire new sources for the supply of domestic water.” (Id. at 202 (emphasis added) (citation omitted).)

In conclusion, the *Brydon* court found nothing in Article XIII A to suggest that it was intended to subvert Article X, “which *mandates* water conservation and precludes ‘the waste or unreasonable use or unreasonable method of use of water,’” or that it was intended “to accomplish the essential destruction of the rate setting structure of public utilities, nor the evisceration of the constitutional mandates compelling water conservation.” (Id. at 194-195 (emphasis added).) Although *Brydon* addressed the competing concerns of Article X with those of Article XIII A, the court’s conclusion and analysis is equally applicable to the competing concerns of Article X and California Constitution article XIII D, section 6(b) discussed below.

**C. PROPOSITION 218 — ESTABLISHES SUBSTANTIVE LIMITATIONS ON WATER SERVICE FEES AND CHARGES**

In November 1996, California voters approved Proposition 218,¹⁸ which amended the California Constitution by, among other things, adding article XIII D (“Article XIII D”). Article XIII D, section 6 added a new category of fees and charges, referred to as property-related fees and charges, and placed substantive limitations on the use of the revenue collected from such fees and charges and on the amount of the fees or charges that may be imposed on each parcel. Additionally, it established procedural requirements for imposing new, or increasing existing, property-related fees and charges. Water service fees and charges have been determined to be property-related fees within the meaning of Article XIII D and therefore are subject to the substantive limitations and procedural requirements related thereto. (*Richmond v. Shasta Cmty. Services Dist.*, 32 Cal. 4th 409 (2004); *Bighorn-Desert View Water Agency v. Virjil*, 39 Cal. 4th 205 (2006)).

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¹⁸ Water Code section 78500.2—adopted by Proposition 204 on the same ballot as Proposition 218 and by a larger number of votes—acknowledges that the limited water resources of this State must be protected and conserved, and that water conservation is essential to the State’s long-term economic and environmental sustainability.
For purposes of tiered rates for water service fees and charges, the following substantive limitations are implicated:

- revenues derived from the fee must not exceed the funds required to provide the property-related service;

- the amount of a fee imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel; and

- the fee may not be imposed for a service, unless the service is actually used by, or immediately available to, the owner of the property subject to the fee. A fee based on potential or future use of a service is not permitted, and stand-by charges must be classified as assessments subject to the ballot protest and proportionality requirements for assessments.

(Cal. Const. art. XIII D, §§ 6(b)(1), (3), & (4).)

Article XIII D, section 6, also placed the burden on the local agency imposing a property-related fee or charge to demonstrate compliance with these substantive provisions. (Cal. Const. art. XIII D, § 6(b)(5).) Prior to the adoption of Proposition 218, courts gave great deference to the determinations of the legislative bodies that approved property-related fees, such as water service fees. In *Brydon v. East Bay Municipal Water District*, 24 Cal.App.4th 178, 196 (1994) the court articulated this standard of review, stating: “Given the quasi-legislative nature of [a local agency’s] enactment of the rate structure design, review is appropriate only by means of ordinary mandate [Citations] where the court ‘is limited to a determination of whether District’s actions were arbitrary, capricious or entirely lacking in evidentiary support …. [Citations.]’” (*Brydon*, 24 Cal. 4th at 196.)

In *City of Palmdale v. Palmdale Water District*, 198 Cal. App. 4th 926 (2011), however, an appellate court determined that with the adoption of Proposition 218, the validity of property-related fees has become a constitutional question which the courts are obligated to enforce. Consequently, courts should exercise their independent judgment in reviewing local agency decisions on property-related fee matters. (*Palmdale*, 198 Cal. App. 4th at 933.) The exercise of this independent judgment has led to disparate judicial analyses of what the substantive provisions of Article XIII D, section 6 mean when allocating the costs of providing water service. These cases are instructive in demonstrating what actions the District must take to

19 In applying its independent judgment to determine if the water service fees complied with the substantive limitations of Article XIII D, section 6(b), the *Palmdale* court relied on the decision of the California Supreme Court in *Silicon Valley Taxpayers Ass’n v. Santa Clara Open Space Auth.*, 44 Cal. 4th 431 (2008).
ensure that the proposed water service fees and charges and rate structure for its water service
fees and charges comply with the substantive provisions of Article XIII D, section 6(b).

1. **California Case Law**

(a) **Article XIII D, section 6(b) may be Harmonized with Article X to Establish Tiered Rates — City of Palmdale v. Palmdale Water District**

In 2008 the State Legislature adopted Assembly Bill 2882, which authorized allocation-
based conservation water pricing as an alternative means for public agencies to structure their
water rates. (Cal. Water Code §§ 370-374.) Invoking Article X, the Legislature expressly made
findings that “[t]he use of allocation-based conservation water pricing by entities that sell and
distribute water is one effective means by which waste or unreasonable use of water can be
prevented and water can be saved in the interest of the people and for the public welfare, within
the contemplation of Section 2 of Article X of the California Constitution.” (Id. at § 370(a).) It
further found that this method of rate structure design is “an alternative method” for structuring
water rates and that nothing in these provisions of the Water Code “is intended to limit, or
dictate, the design of rate structures that public entities may use to promote conservation by
water users.” (Id. at § 370(d) (emphasis added).) Rather, the authority granted in the Water
Code “is in addition to any other authority that a public entity has to use rate structure design to
foster the conservation of water.” (Id. at § 374(b).)

Water service rates using this optional pricing methodology must meet four criteria.

(1) The agency’s billing must be based on metered water use.

(2) The agency must establish a “basic use allocation” for each
customer account. This basic use allocation is generally referred to
as a “water budget.” For each billing period, a water budget
allocates to a customer a reasonable amount of efficient indoor and
outdoor water use based on the customer’s particular
circumstances. Factors to be considered in establishing such an
allocation include, but are not limited to, the number of occupants,
the type or classification of use of the property, the size of the lot
or irrigated area, and local climate data for the billing period.

(3) A “basic charge” is established as a component of the rate structure
and is imposed for all water used within a customer’s water
budget. The basic charge is a volumetric unit charge for the cost of

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20 The District is not proposing to adopt allocation-based conservation pricing.
water service other than fixed costs that are generally recovered through meter charges or other fixed charges.

(4) A “conservation charge” is imposed on all increments of water use in excess of the water budget to encourage water conservation and to pay the costs of conservation measures and overuse. The conservation charge is a volumetric charge designed to encourage water conservation and recover the costs of conservation measures and overuse. The increments may be fixed or may be determined on a percentage or any other basis, but should be structured in an ascending relationship to encourage water conservation and discourage inefficient use of water.

(Id. at § 372.)

In Palmdale, the Palmdale Water District adopted an allocation-based water rate structure pursuant to California Water Code section 370 et seq. The rates were comprised of two components—a fixed monthly charge based on the size of the customer’s water meter and a per unit commodity charge for the amount of water used. The commodity charge had five tiers. If a customer stayed within his or her water budget, the commodity charge would be billed at the rates established within the first tier. The tier 1 rate was the same for all customer classifications. Depending on how much a customer exceeded his or her water budget, he or she would be billed at the rates in the next tiers, but the incremental rate increase depended on the customer’s classification. In particular, irrigation customers had less leeway to increase usage without progressing to another tier. For example, irrigation customers would be subject to tier 2 rates if they exceeded their water budget by up to ten percent, whereas residential customers would not be subject to the tier 2 rate until they exceeded their water budget by up to 25 percent and commercial customers by up to 30 percent.\(^2\) The City of Palmdale, an irrigation customer, challenged the rates, claiming irrigation customer rates exceeded the proportional cost of providing water service in violation of Article XIII D, section 6(b). The court of appeal agreed. (Id. at 930.)

The district argued that the rates were designed to encourage conservation in compliance with both Article X and Article XIII D, section 6. The court recognized that Article X may be harmonized with Article XIII D, section 6(b) to allow for budget based and tiered water rates that promote water conservation, provided conservation is attained in a manner that “shall not exceed

\(^2\) The differences in the rates within each tier were significant. The tier 1 rate was established at $0.64 per unit; the tier 2 rate was established at $2.50 per unit; the tier 3 rate was established at $3.20 per unit; the tier 4 rate was established at $4.16 per unit; and the tier 5 rate was established at $5.03 per unit. (Palmdale, 198 Cal. App. 4th at 930.)
the proportional cost of the service attributable to the parcel.”  (*Palmdale*, 198 Cal. App. 4th at 936.)

When interpreting provisions of the state constitution, the courts aim “to determine and effectuate the intent of those who enacted the constitutional provisions at issue.”  (*Bighorn*, 39 Cal. 4th at 212, quoting *Richmond v. Shasta Community Services Dist.*, 32 Cal. 4th 409, 418 (2004).)  The principles of constitutional interpretation are similar to those governing statutory construction which require that the plain meaning of the words used, *as well as those not used*, is to be reviewed and given deference.  (*See Delaney v. Superior Court*, 50 Cal. 3d 785 (1990); *Penner v. County of Santa Barbara*, 37 Cal. App. 4th 1672, 1677 (1995).)  If the language is clear and unambiguous, the plain meaning governs.  (*People v. Lopez*, (2003) 31 Cal. 4th. 1051, 1056 (2003).)  But if the language is ambiguous, the courts will consider extrinsic evidence in determining voter intent, including the Legislative Analyst’s analysis and ballot arguments for and against the initiative.  (*People v. Canty*, 32 Cal. 4th 1266, 1281 (2004); *People v. Rizo*, 22 Cal. 4th 681, 685 (2000).)

This case in effect recognizes that if the proponents of Proposition 218 had intended to eviscerate the constitutional mandates of water conservation through rate structure design, they would have done so explicitly in the ballot proposition.  There is nothing, however, in Proposition 218 to suggest the voters intended to do so.  (*See Citizens Ass’n of Sunset Beach v. Orange County Local Agency Formation Comm’n*, 209 Cal. App. 4th 1182, 1186, 1191 (2012) (In reviewing the question of whether Proposition 218’s election requirements apply to an island annexation under the Cortese-Knox Hertzberg Local Government Reorganization Act of 2000, the court held that “there is much in the very structure of Proposition 218 that, if it had been intended to apply to annexations, should have been there, but isn’t.  Just as the silence of a dog trained to bark at intruders suggests the absence of intruders, this silence speaks loudly.  It is indicative of voter intent to affect annexation law.”).)

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22 California courts have long recognized that when two constitutional provisions appear to compete, their terms must be harmonized to effectuate their purposes.

> [C]onstitutional provisions must not be examined in isolation but rather in view of other provisions in the Constitution which bear on the same subject so that respective provisions can be harmonized (1) to avoid conflict, (2) to give effect to the scheme as a whole and (3) to avoid an implied repeal or partial repeal of a constitutional provision.

Applying its independent judgment, the Palmdale court found the district made no showing that its cost of delivering water service to irrigation customers is proportionately higher than its cost of delivering water service to residential and commercial customers and, therefore, irrigation customers should not be subject to tiers 2 through 5 sooner than other customer classes. According to the record, the court found that the efficient use of water, in keeping with the policy of water conservation, is already built into the customer’s water budget allocation (the tier 1 rate). (Id. at 937.) Consequently, the court concluded that the tier 2 and above rates imposed on irrigation customers exceeded the proportional cost of providing the water service. (Id. at 937-938.) This case emphasizes the importance of ensuring that there is a good administrative record to justify that the rates adopted for water service fees comply with the substantive provisions of Article XIII D, section 6(b), but it did not provide any guidance on what “proportional to the cost of the service attributable to a parcel” means. That issue was addressed in Griffith v. Pajaro Valley Water Management Agency, 220 Cal. App. 4th 586 (2013).

(b) Proportionality is Determined at the Customer Class Level — Griffith v. Pajaro Valley Water Management Agency

The Pajaro Valley Water Management Agency (“Agency”) was created to manage the water resources of the Pajaro Valley Groundwater Basin which has been subject to chronic overdraft and saltwater intrusion, particularly near the coast. The Agency was authorized to levy groundwater augmentation charges on the extraction of groundwater for the purposes of paying the costs of purchasing, capturing, storing, and distributing supplemental water for use within the Agency’s boundaries. To protect the groundwater basin, the Agency implemented a program to deliver supplemental water to some coastal well users and develop other supplemental water projects. The cost of the program was to be shared by all properties served by a well within the boundaries of the Agency upon which a groundwater augmentation charge was imposed.23

Inland landowners challenged the groundwater augmentation charges under Article XIII D, section 6(b). The first challenge was that the charge was not a charge for water service and therefore required voter approval.24 The court, however, held that the augmentation charge did not differ materially from a charge on delivered water. (Griffith, 220 Cal. App. 4th at 595, disapproved by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017) (holding groundwater pumping charges are not property-related service fees subject to Article XIII D, section 6).)

23 The theory for sharing the cost among all well users is that “‘even those taking water from [inland] wells benefit from the delivery of water to [coastal users], as that reduces the amount of groundwater those [coastal users] will extract [from their own wells], thereby keeping water in [all] wells from becoming too salty,’” (Griffith, 220 Cal. App. 4th 586, 590-591 disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017) (holding groundwater pumping charges are not property-related service fees subject to Article XIII D, section 6)).

24 Water, sewer, and solid waste disposal service fees are required to comply with a notice and majority protest hearing. All other property-related fees must comply with an additional voter approval process, which Article XIII D, section 6(c) refers to as an “election.” The election is held only if, after mailing notice and conducting the majority protest hearing, there is not a majority protest.
Referencing the Proposition 218 Omnibus Implementation Act (Government Code section 53750 et seq.), the court acknowledged that “water service” means more than just supplying water; it includes managing and ensuring an ongoing, potable supply of water for all users, including the development and use of recycled water and other alternative supplies. *Id.*

The plaintiffs asserted, among other substantive challenges, that the amount imposed on their property was disproportionate to the cost of the service provided because they do not use any of the services for which the groundwater augmentation charges are imposed. Namely, they do not receive any supplemental water. Rejecting this argument, the court stated that plaintiffs’ argument overlooks the fact that “‘the management of the water resources . . . for agricultural, municipal, industrial, and other beneficial uses is in the public interest . . .’ and [the Agency] was created to manage the resources ‘for the common benefit of all water users.’” (*Id.* at 600, *disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191 (2017)). The court therefore found that the groundwater augmentation charges did not exceed the proportionate cost of providing the service because all groundwater users benefit from the Agency’s groundwater management activities, not just the coastal landowners receiving supplemental water. (*Id.* at 600, 602, *disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191 (2017)). The court’s ruling supports the practice of many public agencies that require property owners who receive the benefits of a property-related service to share in a portion of the costs of that service.

The plaintiffs claimed that the groundwater augmentation charges were being used to fund a service that is not immediately available to property owners because the ordinance adopting the charge provided that the charge will be used to identify and determine future supplemental water projects. (*Id.* at 601, *disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191 (2017)). The court dismissed this argument and held that identifying and determining the future needs of the Agency is part of the Agency’s present-day services. The costs of planning for such future needs therefore may be recovered from charges imposed on current users. (*Id.* at 602, *disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191 (2017)).

The plaintiffs also challenged the method by which the Agency determined the amount of the charges, claiming that the resulting charges violated the proportionality requirements of Article XIII D, section 6(b). The Agency used a “revenue-requirements” method for determining its rates whereby it: (1) calculated its total costs of the chargeable activities; (2) subtracted all other sources of revenue other than the augmentation charges; and (3) apportioned the remaining revenue requirement among the augmentation charge customer classes. (*Id.* at 600, *disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist.*, 3 Cal. 5th 1191 (2017)). The court acknowledged that this method for allocating costs is

25 The California Supreme Court in *Hansen v. City of San Buenaventura*, 42 Cal.3d 1172, 1181 (1986) described this process as follows:
consistent with industry standards established by the American Water Works Association’s
water purveyors. This aspect of the decision provides support for the proposition that the general
principles and methodologies established in the M1 Manual for structuring rates for water
service fees comply with the proportionality requirements of Article XIII D, section 6(b).

In addressing this claim, the court provided substantial guidance on how rates may be
designed to comply with the proportionality requirements of Article XIII D, section 6(b). The
court found that Article XIII D, section 6(b) does not require that property-related fees be
calculated on a parcel-by-parcel or on an individual basis; rather, the court determined that
grouping similar users together (i.e., calculating fees on a class-by-class basis) is a reasonable
method of allocating the costs of service. In reaching this conclusion, the court recognized:

Apportionment is not a determination that lends itself to precise
calculation…. “The question of proportionality is not measured on
an individual basis. Rather, it is measured collectively,
considering all rate payors.” Given that Proposition 218 prescribes
no particular method for apportioning a fee or charge other than
the amount shall not exceed the proportional cost of the service
attributable to the parcel, [the Agency’s] method of grouping
similar users together for the same . . . rate and charging the users
according to usage is a reasonable way to apportion the cost of
service. That there may be other methods favored by plaintiffs
does not render [the Agency’s] method
unconstitutional. Proposition 218 does not require a more finely
calibrated apportion.

Revenue requirements are allocated to various classes [of customers] based on
each group’s proportionate use of the system, including use of physical plant
facilities and consumption of water, among other elements. A preliminary step
in determining revenue requirements is the establishment of appropriate classes
among which costs will be allocated. The next step is to calculate the costs
which properly should be assessed each group. For this analysis, two alternative
methods exist: the cash basis and the utility basis. Very generally, the cash
method sets revenue requirements based on actual operating and maintenance
expenses plus allowable charges for system replacement, debt principal
repayment, and other capital costs. The utility method also considers actual
operating and maintenance expenses, but instead of looking to cash expenses
such as system replacement and debt principal repayment, the method focuses
on depreciation attributable to outside use and on rate of return on investment.
(Id. at 601, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017) (emphasis added) (citations omitted); see also Paland v. Brooktrails Township Cnty. Serv. Dist. Bd. of Dir. 179 Cal.App.4th 1358, 1370 (2009) (court refused to look at individual property owner activity to determine whether service was “immediately available” as required for a fee pursuant to California Constitution article XIII D, § 6(b)(4)); M1 Manual at p. 75 (6th ed. 2012) (In allocating costs, the M1 Manual notes: “The ideal solution to developing rates for water utility customers is to assign cost responsibility to each individual customer served and to develop rates to derive that cost. Unfortunately, it is neither economically practical nor often possible to determine the cost responsibility and applicable rates for each customer served. However, the cost of providing water service can reasonably be determined for groups or classes of customers that have similar water-use characteristics and for special customers having unusual water-use or service requirements.”).) Thus, the court’s reasoning supports the assertion that as long as the costs of providing a property-related service are reasonably allocated across customer classes, the fee complies with the proportionality requirements of Article XIII D, section 6(b). A similar conclusion was reached in Morgan v. Imperial Irrigation District, 223 Cal. App. 4th 892 (2014) (“Morgan”).

(c) The Data Determining Rates does not have to be Perfect — Morgan v. Imperial Irrigation District

In Morgan, the district engaged a rate consultant to prepare a cost of service study for its water service fees. The rates were challenged, in part, on the basis that the fees failed to comply with the proportionality requirements of Article XIII D, section 6(b). The court began its analysis by recognizing that the rate study followed commonly accepted professional standards developed by the American Water Works Association, including consideration of the character of the district and its customers. (Morgan, 223 Cal. App. 4th at 899.)

While some of the district’s costs are shared by all users of the water system, the study demonstrated that some types of services require extra costs to be incurred to provide them. The study therefore “allocated those costs only to the corresponding more expensive services.” (Id.) By way of example, the court referenced the differences in costs associated with repairing and maintaining smaller pipes that serve small parcel accounts versus larger pipes serving larger parcel accounts. “Similarly, the study took into account that municipal and industrial users create special costs so their charges are higher per acre-foot than agricultural users.” (Id. at 899-900 (emphasis added).)

The rate structure included a volumetric charge. Among the substantive challenges asserted, the plaintiffs argued that the district’s proposed rates were not proportionate to the cost of service because in calculating the volumetric charge the rate consultant had used flawed volumetric data. The district presented evidence at trial that district staff estimated the annual amount of water used by certain customers. The trial court rejected the plaintiff’s substantive challenge and found that the cost of service study was very thorough and not defective. Thus,
based in part on the district’s reliance on the study, the trial court concluded that the district satisfied the substantive requirements of Article XIII D, section 6(b). \textit{(Id. at 915-916.)}

On appeal, the plaintiffs argued the applicable standard of review requires the district to prove to the appellate court’s satisfaction that the district’s rates are constitutional. The court of appeal rejected this argument, noting that the plaintiffs were challenging the sufficiency of the evidence presented at trial. As such, the court must review the trial court’s resolution of the factual conflicts under the substantial evidence standard. If there is substantial evidence in favor of the respondent, no matter how slight it might appear in comparison to the contradictory evidence, the judgment must be upheld. \textit{(Id. at 916-917.)}

The court of appeal found that the plaintiffs failed to articulate why the evidence was insufficient. Rather, they merely cited to evidence they believed showed the district’s data was inadequate. To resolve the plaintiff’s challenge to the rates would require the court of appeal to reweigh the evidence and independently resolve issues of disputed facts already decided by the trial court. The court found that this was not its role under the substantial evidence standard of review. Further, the court held that it was satisfied that there was substantial evidence to support the trial court’s factual determination that the district complied with the substantive requirements of Article XIII D, section 6(b) through its reliance on the cost of service study. In addition, the court noted that while the district’s water measurement system was not perfect: “section 6 does not require perfection.” \textit{(Id. at 915-918; see also, Howard Jarvis Taxpayers Ass’n v. City of Roseville, 97 Cal. App. 4th 637, 647-648 (2002) (“a fee or charge must reasonably represent the cost of service”); Moore v. City of Lemon Grove, 237 Cal. App. 4th 363, 368 (2015) (courts afford agencies a reasonable degree of flexibility in apportioning costs); San Diego County Water Auth. v. Metro. Water Dist. of S. Calif., 12 Cal. App. 5th 1124, 1149 (2017) (Holding that, in the context of determining whether wheeling charges imposed by the Metropolitan Water District of Southern California complied with California Constitution article XIII C, section 1(e), “the courts do not weigh competing methodologies to determine the best water rates. We determine only whether substantial evidence supports the fair compensation determination made by the rate-setting agency.”)).}

The next case to examine what proportionality means in allocating the costs of service under Article XIII D, section 6(b) was the Capistrano Taxpayers Association \textit{v. City of San Juan Capistrano}, 235 Cal. App. 4th 1493 (2015) (“Capistrano”) decision.

\textbf{(d) Tiered Rates are Compatible with Article XIII D, section 6(b) — Capistrano Taxpayers Association \textit{v. City of San Juan Capistrano}}

At issue in the \textit{Capistrano} case were the requirements set forth in Article XIII D, section 6(b)(1), (3) and (4). The City of San Juan Capistrano adopted an allocation-based water rate structure in August 2012. The rate structure consisted of four water usage budgets for each customer class. The four budgets were then used as the basis for four distinct tiers of pricing.
The city was also in the process of constructing a recycled water treatment plant and related facilities, which were funded in part through its potable water service fees. \(\text{(Id. at 235 Cal. App. 4th at 1501-1502.)}\)

The Capistrano Taxpayers Association sued, claiming that the city’s rates exceeded the cost of providing the service and were not proportional to the cost of providing service attributable to parcels in violation of Article XIII D, section 6(b)(1) and (3). They also claimed that because certain potable water customers do not and never will be able to receive recycled water, by charging them for the cost of constructing the recycled water facilities, they were being charged a fee for a service that is not “immediately available” to them in violation of Article XIII D, section 6(b)(4).

On appeal, the court held that the city’s rates were not proportional to the cost of service because the city did not calculate the marginal (i.e., incremental) cost of providing water at the level of use represented by each tier. Specifically, the court criticized the city for not correlating its rates within each tier to the prices of water used within each tier.\(^{26}\) \(\text{(Id. at 1499.)}\)

In interpreting the provisions of Article XIII D, section 6(b)(3), the court noted that “[i]f the phrase ‘proportional cost of service attributable to the parcel’ is to mean anything, it has to be that article XIII D, section 6, subdivision (b)(3) assumes that there really is an ascertainable cost of service that can be attributed to a specific—hence that little word ‘the’—parcel.” \(\text{(Id. at 1505.)}\)

The court later clarified that this does not mean that a utility must calculate the rate for one property and then calculate another rate for a property across the street. \(\text{(Id. at 1514.)}\)

Significantly, as noted below the court acknowledged multiple times in its opinion that tiered rates are “consonant” with and “not incompatible” with Article XIII D, section 6(b), provided the rates reasonably reflect the cost of service attributable each parcel.

- “While tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with article XIII D, section 6, subdivision (b)(3). . ., the tiers must still correspond to the actual cost of providing service at a given level of usage.” \(\text{(Id. at 1497-1498.)}\)

- “As we will say numerous times in this opinion, tiered water rate structures and Proposition 218 are thoroughly compatible ‘so long as’—and that phrase is drawn directly from Palmdale—those rates reasonably reflect the cost of service attributable to each parcel.” \(\text{(Id. at 1499 n. 6.)}\)

\(^{26}\) “[T]he difference between tier 1 and tier 2 [was] a tidy one-third extra, the difference between tier 2 and 3 [was] a similarly exact one-half extra, and the difference between tier 3 and tier 4 [was] precisely five-sixths extra.” This fractional precision, the court found to suggest that city did not attempt to correlate its rates with cost of service. \(\text{Id. at 1504-1505.}\)
• “[T]here is nothing at all in subdivision (b)(3) or elsewhere in Proposition 218 that prevents water agencies from passing on the incrementally higher costs of expensive water to incrementally higher users. That would seem like a good idea.” (Id. at 1516.)

• “[W]e see nothing in article XIII D, section 6, subdivision (b)(3) that is incompatible with water agencies passing on the true, marginal cost of water to those consumers whose extra use of water forces water agencies to incur higher costs to supply that extra water. Precedent and common sense both support such an approach.” (Id.)

In this instance, however, the court concluded that the administrative record justifying the city’s rates did not contain any breakdown as to the relative cost of each source of supply\(^\text{27}\) and therefore did not justify an ascertainable cost attributable to specific parcels. (Id. at 1499.) For example, the court noted that there was nothing in the record to explain why the city could not calculate the costs of service at given usage levels that require it to tap into more expensive water supplies, and then bill its users in the higher tiers accordingly. (Id. at 1516.) The court stated that in calculating the rates for each tier, the city had to do more than merely balance its total costs of service with its total revenues—that is already covered in subdivision (b)(1). To comply with subdivision (b)(3), [the city] also had to correlate its tiered prices with the actual cost of providing water at those tiered levels. Since [the city] did not try to calculate the actual costs of service for the various tiers, the trial court’s ruling on tiered pricing must be upheld simply on the basis of the constitutional text. (Id. at 1506.)

The court rejected reliance on Article X to promote water conservation as the sole basis for establishing tiers, holding the city had to show that the various usage tiers corresponded with its actual costs of delivering water in those increments. Looking to the origins of Article X, the court took a narrow interpretation of this constitutional provision, concluding that its purpose when approved by the voters was to prevent the waste of water by letting it flow “unused, unrestricted, and undiminished to the sea.” (Id. at 1510.) Moreover, the court dismissed the opinion of the Court of Appeal in Brydon regarding the import of Article X and tiered rate structures, concluding that case was decided prior to the adoption of Proposition 218 and has no application to post-Proposition 218 cases. Id. at 1512-1513.

\(\text{27}\)The city obtains its water from five sources of supply, including a groundwater recovery plant, five local groundwater wells, imported water, recycled water, and another retail water agency. Id. at 1500.
But in holding reliance on Article X could not serve as the sole basis for establishing tiers, the court also recognized that conservation may have some bearing on setting rates so long as the structure is also consistent with Article XIII D, section 6(b)’s cost-of-service and proportionality requirements. Taking conservation needs into account is consistent with the principle that when two constitutional provisions compete, their terms must be harmonized to effectuate their purposes. Indeed, there are a multitude of legislative enactments that have interpreted Article X to be a mandate to conserve the water resources of this State and recognized tiered rates as an effective means of complying with this mandate. As noted earlier, the Legislature has expressly recognized “allocation-based conservation water pricing” as a permissible demand management tool for attaining State water use goals. (See Cal. Water Code §§ 370 et seq., 10631 (f)(1)(K), 10730.2(d).)  

Finally, the appellate court sided with the city that Article XIII D, section 6(b) does allow local agencies to pass on to customers the capital costs of improvements to provide additional water supplies, including building a water recycling plant. Capistrano, 235 Cal. App. 4th at 1502. The court noted that like the supplemental water in Griffith, nonpotable water for some customers frees up potable water for others. (Capistrano, 235 Cal. App. 4th at 1502 (recycled water is “part of a holistic distribution system that does not distinguish between potable and nonpotable water.”).) Thus, a local agency may, through a capital-intensive program, develop “what is effectively new water, such as recycling or desalination, and pass the costs of developing that new water to those customers whose marginal or incremental extra usage requires such new water to be produced.” (Id. at 1503.)

The court, however, went on to question whether residential ratepayers with very low water consumption “should be required to pay for recycling facilities that would not be necessary but for above-average consumption.” (Id. (emphasis added).) The court specifically recognized the “Proposition 218 protects lower-than-average users from having to pay rates that are above

28 Determinations of the Legislature are of great significance.

Where a constitutional provision may well have either of two meanings, it is a fundamental rule of constitutional construction that, if the legislature has by statute adopted one, its actions in this respect is well nigh, if not completely, controlling. When the legislature has once construed the constitution, for the courts then to place a different construction upon it means that they must declare void the action of the legislature. It is no small matter for one branch of the government to annul the formal exercise by another and coordinate branch of power committed to the latter, and the courts should not and must not annul, as contrary to the constitution, a statute passed by the legislature, unless it can be said of the statute that it positively and certainly is opposed to the constitution. This is elementary. But plainly this cannot be said of a statute which merely adopts one of two reasonable and possible constructions of the constitution. (San Francisco v. Indus. Accident Comm’n, (1920) 183 Cal. 273, 279 (1920); accord Woodcock v. Dick, 36 Cal.2d 146, 148-149 (1950); Methodist Hosp. of Sacramento v. Saylor, 5 Cal.3d 685, 692 (1971).)
the cost of service for them because those rates cover capital investments their levels of consumption do not make necessary.” (Id. (citing Palmdale, 198 Cal. App. 4th at 937-938; Brydon, 24 Cal. App. 4th at 202).) As discussed below, this concept includes not only constructing facilities to provide alternative sources of water supply to meet above-average water demand, but sizing, constructing, operating, and maintaining facilities to ensure there is sufficient capacity in a water utility’s system and acquiring more expensive sources of supply to meet above-average water demand.

The court further noted that capital improvements entail a longer timeframe than a residential customer’s normal one-month bulling cycle, and that the calculation of the true cost of water can be, given capital improvements, quite long. (Id. at 1503; see also Howard Jarvis Taxpayers Ass’n v. City of Roseville, 97 Cal. App. 4th 637, 647-648 (2002) (“[W]hat it costs to provide [water] services includes all the required costs of providing service, short-term and long-term, including operation, maintenance, financial, and capital expenditures. The key is that the revenues derived from the fee or charge are required to provide the service, and may be used only for the service.”) (emphasis added).)

2. Reconciling the Court Decisions – What Are the Marginal Costs of Providing Water Service?

As is evident from the cases discussed above, the courts have interpreted the substantive provisions of Article XIII D, section 6 and the import of Article X on water rates differently and the analysis in each of these cases turns in large part on the specific facts at issue. However, there are some helpful take-aways (listed below) from all of the cases that the District has considered in structuring its water rates and determining how to allocate its costs of service.

• “Water service” means more than just supplying water; it includes managing and ensuring an ongoing, potable supply of water for all users, including the development and use of recycled water and other alternative supplies, the purchase of more expensive sources of supply, and water conservation and efficiency programs. (Griffith, 220 Cal. App. 4th at 595, 600, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017); Capistrano, 235 Cal. App. 4th at 1501-1503, 1510, 1516; see Brydon, 24 Cal. App. 4th at 193-194, 201-202; Cal. Gov’t Code § 53750(n).)

• The cost of water service includes planning for and constructing capital facilities of a water system, including capital facilities that may be constructed over a multi-year period and debt service incurred to construct the facilities. (Griffith, 220 Cal. App. 4th at 598, 601, disapproved on other ground by City of San
The cost of water service includes all the required costs of providing service, short-term and long-term, including the costs of operating, maintaining, financing, producing, storing, supplying, treating, or distributing water from any source. (Griffith, 220 Cal. App. 4th at 595, 600, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017); Capistrano, 235 Cal. App. 4th at 1502-1503; Howard Jarvis Taxpayers Ass’n v. City of Roseville, 97 Cal. App. 4th 637, 647-648 (2002); Cal. Gov’t Code § 53750(n.).)

Some water users create special capital, operations and maintenance costs and may be charged a correspondingly higher rate for their water to recover these costs. (Morgan, 223 Cal. App. 4th at 892, 899-900, 908-909; Capistrano, 235 Cal. App. 4th at 1503, 1511; Brydon, 24 Cal. App. 4th at 193, 202.)

Local agencies may use the M1 Manual to assist them in developing their water rates, including using the revenue requirements methodology, but they must still ascertain what the cost of service is. (Griffith, 220 Cal. App. 4th at 600, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017); Morgan, 223 Cal. App. 4th at 899-900; Capistrano, 235 Cal. App. 4th at 1514.)

Local agencies may pass on the incrementally higher costs of more expensive water to those who use more. (Brydon, 24 Cal. App. 4th at 193, 202; Capistrano, 235 Cal. App. 4th at 1511, 1516.)

Based on the forgoing court decisions, the determination of what the marginal costs of providing water service are and how they are quantified and allocated will be different for each local agency, but generally they may include, where applicable, the incremental costs associated with: (1) specific sources of supply; (2) water conservation and efficiency programs; and (3) system capacity/peaking factors. Below is a summary of these cost components.

**Sources of Supply.** Certain sources of water may cost more to purchase, produce, treat, deliver, and/or supply. By way of example, local water captured and stored may cost a local agency significantly less than imported water purchased from a wholesale water provider. Additionally, because of the higher demands of some customers, a local agency may need to permanently acquire or develop alternative sources of supply, such as
purchasing groundwater rights, developing recycled water from wastewater effluent, capturing and reusing storm water, desalinating seawater or brackish groundwater, and developing previously unused local groundwater supplies. Although these supplies may also provide resiliency benefits, absent the demands of higher volume water users, reliance on these more expensive supplies might be reduced or unnecessary.

**Water Conservation and Efficiency Programs.** High water use drives the cost of extraordinary water conservation and efficiency programs needed to encourage customers to reduce consumption, manage a local agency’s water supplies, and comply with State mandated conservation regulations and reporting requirements. These costs may include, for example, personnel and other costs of operating the programs and complying with the State mandated regulations and reporting requirements, turf and appliance rebates, and education programs. While all customers may benefit from these programs, high volume users drive the need for such programs and benefit both directly (e.g., they may receive a rebate) and indirectly (e.g., conservation frees up additional potable water for their higher volume usage).

**System Capacity/Peaking Factors.** System capacity is the water system’s ability to supply water to all delivery points at the time when demanded. The time of greatest demand is known as “peak demand.” A cost of service study will analyze both the average quantity of water consumed and the peak rate at which it is consumed. Agencies must construct and size infrastructure to deliver water at peak times. These facilities may include, for example, conveyance, treatment, and storage facilities. The incremental costs associated with creating this excess, peak capacity (“peaking costs”) include designing (i.e., sizing), constructing, and operating and maintaining facilities. These costs may be appropriately allocated to those water users who place greater demands and burdens on a water system. Article XIII D, section 6 protects lower-than-average users from having to pay rates that are above the cost of service for them because those rates cover costs their levels of consumption do not make necessary.

As discussed in the next section of this memorandum, the incremental costs of purchasing more costly imported treated water, providing the District’s water conservation and efficiency programs, and sizing the water system to meet the demands of higher volume water users had a significant impact on how costs were allocated in the proposed water rates and charges.

## III. PROPOSED DISTRICT WATER RATES

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29 While the capacity built to serve peak demands is unused much of the time, most notably during winter months when outdoor landscaping needs are diminished, it must be available for peak periods and must always be maintained.
The District’s water rates were structured with the forgoing constitutional and statutory mandates in mind, as well as the various court decisions interpreting them. To begin the process of structuring its water rates, the District engaged Carollo, an independent rate consultant, to analyze the District’s costs of providing water service and recommend, with input and policy direction from the District Board of Directors, a rate structure that fairly and appropriately allocates the costs of providing water to District customers and complies with Article XIII D, section 6(b). To this end, Carollo and the District outlined a set of policy objectives for arriving at a rate structure recommendation. The objectives were that the rates must be:

- based on a detailed cost of service analysis of each potable and recycled water system;
- developed in accordance with relevant legal and industry guidelines;
- equitable across customer classes and users;
- simultaneously easy for customers to understand, and for District staff to administer;
- built with financial resiliency and stability in mind, and assist in the promotion of conservation; and
- affordable for a typical District customer.

(Study, p. ES-1.)

Throughout this process, the District was also committed to providing its customers and stakeholders publicly accessible, factual information to assist the public in understanding the District’s operations and rate setting process. In the interest of transparency, the Board held numerous public meetings at which rates were discussed and the public had opportunities to comment. Additionally, the Board held four separate rate workshops between March and September of 2019, culminating with a public meeting on November 21, 2019 to discuss the Study and the proposed Proposition 218 notice. The purpose of these meetings and workshops was to identify water rate setting practices and organizational financial strategies, to review the purpose of determining the District’s costs of providing water service, the legal aspects of rate setting pursuant to Article XIII D, section 6, and the current financial status of the District, and to allow members of the public to provide input. For the four workshops, the Board modified its standard protocol for public comments by:

- permitting up to two individuals to yield time to a third individual who would then be granted up to ten minutes for public comment (as opposed to the standard three minutes per person);
- permitting a person making an organized group presentation up to twenty minutes for public comment; and
- providing all speakers an additional period of time to provide additional public comment following the presentation made by District staff.

Outside of public comments made at workshops, no formal presentations were made by members of the public under this authorization.
The Board modified its standard public comment protocol for these workshops to ensure that its customers and stakeholders were provided with additional time to share with the Board their important perspectives, but also to permit its customers and stakeholders an opportunity to react to and provide their perspectives on the formal District staff presentations and recommendations made at the workshops.

Additionally, on June 28, 2019, the District’s General Manager and the independent consultant from Carollo hired to conduct the Study met with the general manager of the Rancho Santa Fe Association and the Rancho Santa Fe Association’s hired expert to for almost three hours to discuss the rates in detail, and to hear feedback and thoughts from representatives of the Rancho Santa Fe Association.

At the conclusion of the cost of service analysis, Carollo determined that rate adjustments and increases are necessary to:

- recover current and long-term projected costs of operating and maintaining the water and recycled water systems;
- fund capital infrastructure improvements needed to repair and update the District’s aging infrastructure;
- maintain the operational and financial stability of the District;
- comply with State mandated drinking water regulatory requirements;
- meet and comply with annual debt service requirements;
- avoid operational deficits and depletion of reserves; and
- address changes in customer demands and other circumstances that impact the District’s costs of providing water service.

(Id. at pp. ES-1 – ES-3, 2-1 – 2-3, 3-1 – 3—15.)

Carollo used the M1 Manual in developing the District’s water rates. (Id. at pp. ES-1.) As recognized by the courts, the M1 Manual establishes commonly accepted professional standards for cost of service studies, but in all instances the resultant rates must comply with the substantive requirements of Article XIII D, section 6(b). (See Griffith, 220 Cal. App. 4th at 600, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017); Morgan, 223 Cal. App. 4th at 899-900.) In this instance, Carollo made modifications to the M1 ratemaking principles where it deemed appropriate to comply with the provisions of Article XIII D, section 6(b) given the District’s particular circumstances. (Study, pp. ES-1.)

Underlying the Study are complex and interlocking spreadsheets that were developed by Carollo and used to apportion the costs of service and calculate the rates to be imposed. These spreadsheets, set forth in appendices to the Study and in a computer rate model prepared for the District, include, among other things, financial data and assumptions, and projected revenues,
costs and expenses. Following the ratemaking principles of the M1 Manual, the Study followed four basic steps in developing the District’s rates: (1) analyze current and projected utility customer demand by customer class (Chapter 2 of the Study); (2) determine the utility’s revenue requirements to meet operations and maintenance costs, debt service, and capital investment costs (Chapter 3 of the Study); (3) perform a cost of service analysis that equitably and proportionately allocates the revenue requirements among the customer classes (Chapter 4 of the Study); and (4) design a rate structure (including a formula for adjusting the rates during periods water shortages) to collect the target revenue requirements of each customer class and proportionately allocate the costs of service on a parcel basis within each customer class (Chapter 5 of the Study). Each of the steps, the M1 Manual’s general principles of rate structure design, and how they were used in developing the District’s rates within each step in compliance with Article XIII D, section 6(b) are described below.

A. **STEP 1 — CUSTOMER PROFILE AND DEMAND**

As noted earlier, the District is unique in that its per capita water use is significantly higher than other communities in California. However, the most recent multi-year drought, permanent conservation measures undertaken by customers, and current and future conservation regulations have impacted and will continue to impact customer demand within the District. The Study recognized the impact of these matters on water demand within the District for fiscal years ending 2015 through 2019. (*Id.* at pp. 2-2—2.3, Table 2-3.)

The Study examined the number of accounts and historical usage data as a basis for projecting the number of future accounts and demand. These projections are critical to estimating the future revenue requirements and revenues of the District. (*See Capistrano*, 235 Cal. App. 4th at 1503 (“Government Code section 53756 contemplates timeframes for water rates that can be as much as five years.”).) For the Study period, it was assumed that there will be no growth in customer accounts because of the lack of infill opportunities and state of build-out in the District, and projected some rebound in water demand. (*Study, pp. 2-2—2-4, Table 2-4.*) The Study recognized that water demand varies among certain customer classes, that the vast majority of the customers are residential customers, and that the highest water demand is from single-family residential customers. (*Id.* at pp. 2-1, 4-14, Table 2-1, Table 4-7.)

B. **STEP 2 — REVENUE REQUIREMENTS**

In establishing cost-based water rates, it is important to understand that a cost-of-service methodology does not prescribe a single approach. Rather, as the First Edition of the M1 Manual noted, “the (M1 Manual) is aimed at outlining the basic elements involved in water rates and suggesting alternative rules of procedure for formulating rates, thus permitting the exercise of judgment and preference to meet local conditions and requirements.” (M1 Manual, p. 5 (6th edition 2012) (quoting M1 Manual (1st ed. 1954) (emphasis added); *see also Griffith*, 220 Cal. App. 4th at 600-601 (apportionment is not a determination that lends itself to precise calculation;
Proposition 218 prescribes no particular method for apportioning a fee; that there may be other methods favored by plaintiff’s does not render defendant’s method unconstitutional); San Diego County Water Auth. v. Metro. Water Dist. of S. Calif., 12 Cal. App. 5th 1124, 1149 (2017) (Holding that, in the context of determining whether wheeling charges imposed by the Metropolitan Water District of Southern California complied with California Constitution article XIII C, section 1(e), “the courts do not weigh competing methodologies to determine the best water rates. We determine only whether substantial evidence supports the fair compensation determination made by the rate-setting agency.”); Plastic Pipe & Fittings Ass’n v. Calif. Bldg. Standards Comm., 124 Cal. App. 4th 1390, 1406 (2004) (“A court reviewing a quasi-legislative act cannot reweigh the evidence or substitute its own judgment for that of the agency.”).

According to the M1 Manual, a critical initial step in the ratemaking analysis is to determine the adequate and appropriate funding of a utility. This is referred to as the “revenue requirements” analysis. (M1 Manual, 9 (6th edition 2012).) This analysis considers the short-term and long-term service objectives of the utility over a given planning horizon, including capital facilities, system operations and maintenance, annual debt service, and offsetting revenues to determine the adequacy of a utility’s existing rates to recover its costs. (See id. at pp. 4-6 (6th edition 2012) for an overview of the generally accepted rate-setting methodology; Griffith, 220 Cal. App. 4th at 600, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017).) In short, the revenue requirements analysis for a utility is designed to meet the first condition of Article XIII D, section 6(b) that total revenues from a fee shall not exceed the funds required to provide the service. (See Capistrano, 235 Cal. App. 4th at 1506; Griffith, 220 Cal. App. 4th at 601, disapproved on other ground by City of San Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017); Hansen, 42 Cal.3d 1172, 1181 (1986) (describing the revenue requirements analysis).)

Using the District’s approved budget, financial reports, operating data, and capital improvement plan, the Study determined the revenue requirements for the water utility for fiscal year ending 2020 and projected future revenue requirements for later fiscal years. Approximately 44 percent of the District’s annual budget for fiscal year ending 2020 is related to its water supply portfolio. Consequently, the District’s costs related to water are of particular importance to the revenue requirement analysis. As outlined Table 3.1 of the Study, the District has three sources of potable water: (1) local water delivered from Lake Hodges; (2) treated imported water purchased from the San Diego County Water Authority; and (3) imported raw (i.e., untreated) water purchased from the San Diego County Water Authority. Each of these sources of supply has a different cost and each differs in terms of its total availability, with local water being the least expensive and the least available. (Study, pp. 3-2 – 3-6.) For the fiscal year ending in 2020, the budgeted cost for local water was $138,000, compared to $8,457,112 for

31 “For [fiscal year ending] 2020, the budgeted local raw water supply form Lake Hodges is approximately $36 per [acre foot], compared with the [calendar year] 2019 [San Diego County Water Authority] raw water rate of $1,009 per [acre foot].” (Study, p. 4-4.)

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imported water (not including San Diego County Water Authority fixed charges). The District also purchases recycled water from the San Elijo Joint Powers Authority.

The availability of local water supply from Lake Hodges varies annually; however, over the last sixteen years the median amount of water delivered from Lake Hodges has been approximately 3,200 acre per year. Based on the annual average production of 2,686 acre feet of Lake Hodges water from 2013 to 2019, however, Carollo conservatively projected that 2,500 acre feet of local water would be available annually to the District during the Study period. (Id. at pp. 3-2 – 3-4; see also Morgan, 223 Cal. App. 4th at 915-918 (Article XIII D, section 6 does not require perfection); Howard Jarvis Taxpayers Ass’n v. City of Roseville, 97 Cal. App. 4th 637, 647-648 (2002) (“a fee or charge must reasonably represent the cost of service”); Moore v. City of Lemon Grove, 237 Cal. App. 4th 363, 368 (2015) (courts afford agencies a reasonable degree of flexibility in apportioning costs).)

Based on historic projected demands from fiscal years ending 2002 through 2018, the District estimated that it would need to purchase approximately 250 acre feet per year of imported treated water. The remaining potable water demand within the District during the Study period would be fulfilled with imported raw (i.e., untreated) water. (Study, pp. 3-3 – 3-4.) Carollo projected that the District would deliver approximately 599 acre feet of recycled water in fiscal year ending 2020, with minimal growth for each of the remaining years of the Study period. (Id. at p. 3-4.) The projected costs of the various sources of supply are shown in Tables 3.3 through 3.6 of the Study, with local water from Lake Hodges being the least expensive water.

A summary of the District’s budgeted and projected costs, current rate revenues, offsetting revenues, net revenue requirements, and assumptions associated with certain projected increases in costs are summarized in Chapter 3 of the Study.

C. STEP 3 — COST OF SERVICE ANALYSIS — ALLOCATING REVENUE REQUIREMENTS TO COST COMPONENTS AND DISTRIBUTING COSTS TO CUSTOMER CLASSES

After determining a utility’s revenue requirements, a utility’s next step is determining the cost of service. This step identifies the annual revenue requirements and allocates the costs projected to be incurred by the utility function or activity it supports.32 As explained in the M1 Manual,

[a] utility function refers to the type of operational activity with which a particular cost is identified… . The costs incurred in a water utility are generally responsive to the specific service requirements or cost drivers imposed on the system by its customers. Each of the various water utility facilities are designed

32 (See August 2018 PowerPoint, at Slides 9-17.)
and sized to meet one or more of these cost drivers, and the capital costs incurred in the construction/installation of these facilities as well as the [operations and maintenance] expenses incurred in running the system are, in turn, linked to these service requirements.

(M1 Manual at pp. 60-61 (6th edition 2012).)

The Study used the base-extra capacity method for allocating the projected costs of the District. The base-extra capacity method recognizes that customer’s costs of service depend on the total volume of water used and also on the rate of use, or peak-demand requirements. Under this methodology, the District’s annual cost of service was allocated into two broad cost components: 1) base demand, which includes costs related to the basic level of service to each customer to meet average day demand, and which costs benefit customers uniformly and do not vary based on peak or usage, and 2) extra capacity demand. Extra capacity demand includes two cost components: 1) max day, which allocates costs to provide maximum day (or peak day) level of service to each customer, and 2) max hour, which includes costs to provide a maximum or peak hour level of service to each customer. Additional costs are allocated to a customer category, which includes costs for customer service and billing and does not vary based on water usage, and direct fire protection. (Study, pp. ES-2; 4-2 – 4-4; see M1 Manual, pp. 59-65 (explaining the allocation of functionalized costs and the base-extra capacity method of allocating costs of service).)

In the Study, Carollo determined average day demand by diving the total annual usage in million gallons by 365 days. The assumed max day and max hour peaking factors of 2.0 and 3.0, respectively, are based on the May 16, 2016 Dexter Wilson memorandum, District Hydraulic Model Confirmation Memo #2 – Peaking Factors. (Study, App. B, pg. 4.)

Carollo reviewed the District’s fixed asset registry, assigned all or a portion of the costs of each asset to one or more of the cost categories, then allocated the functionalized costs to the base and peak cost causation components. (Id. at pp. 4-3—4-10, Table 4-1 through Table 4-3.) Table 4.4 of the Study summarizes the results of this analysis. (Study, p. 4-10.)

Next, the Study identified the various customer classes served by the District (e.g., single-family residential, multi-family residential, commercial, industrial, institutional, and governmental customers, and irrigation/commercial agriculture, private fire protection, and recycled water customers) and allocated the functionalized costs to the customer classes by determining the characteristics of those classes and the contribution of each to incurred costs such as peaking factors or different delivery costs, service characteristics, and demand patterns. (See Griffith, 220 Cal. App. 4th at 601, disapproved on other ground by City of San

33 “Customer classes” refers to the grouping of customers into homogenous groups that have similar water-use characteristics or have unusual or unique water-use service requirements. (M1Manual, p. 75 (6th ed.).)
Buenaventura v. United Water Conservation Dist., 3 Cal. 5th 1191 (2017) (parcel-by-parcel analysis is not required; “[g]iven that Proposition 218 prescribes no particular method for apportioning a fee or charge other than that the amount shall not exceed the proportional cost of the a service attributable to the parcel, defendant’s method of grouping similar users together for the same … rate and charging users according to usage is a reasonable way to apportion the cost of service);” Calif. Farm Bureau Fed’n v. State Water Res. Control Bd., 51 Cal. 4th 421, 438 (2011) (“The question of proportionality [under Proposition 13] is not measured on an individual basis. Rather it is measured collectively, considering all rate payors.”).) The summary of this allocation is included in Table 4-5 through Table 4-8 of the Study. (Id. at p. 4-12.)

In the next step of the analysis—rate design—the impact that these matters have on system operations determines how the costs are allocated among the customer classes and customers within each customer class. (Id. at p. 4-15.)

D. STEP 4 — RATE DESIGN

Rate design is the final part of the M1 Manual’s rate-making procedure and generally uses the revenue requirements and cost of service analysis to determine appropriate rates for proportionately allocating such costs among the customer classes and customers within each customer class. (See M1 Manual at p. 91 (6th ed. 2012).) Rate design is both discretionary and quasi-legislative. (See Pac. Tel. & Telegraph Co. v. Pub. Util. Comm’n (1965) 62 Cal.2d 634, 655; Brydon, 24 Cal. App. 4th at 196 (ratemaking is quasi-legislative); see, e.g., Cal. Water Code section 370(c) (“The Legislature does not intend to limit the discretion of public entities to evaluate and select among different methods for conserving water or to create a presumption that the election to not use a particular method is a waste or unreasonable use of water by the public entity.”); San Diego County Water Auth. v. Metro. Water Dist. of S. Calif., 12 Cal. App. 5th 1124, 1149 (2017) (Holding that, in the context of determining whether wheeling charges imposed by the Metropolitan Water District of Southern California complied with California Constitution article XIII C, section 1(e), “the courts do not weigh competing methodologies to determine the best water rates. We determine only whether substantial evidence supports the fair compensation determination made by the rate-setting agency.”); Plastic Pipe & Fittings Ass’n v. Calif. Bldg. Standards Comm., 124 Cal. App. 4th 1390, 1406 (2004) (“A court reviewing a quasi-legislative act cannot reweigh the evidence or substitute its own judgment for that of the agency.”).) Moreover, nothing in either Article XIII D, section 6, the authorizing statutes of the District, or any other provisions of State law dictates that any particular rate-setting methodology be used. When Article XIII D refers to establishing rates that are proportional to the cost of providing service attributable to a parcel, without specifying who should make that attribution or how, it preserves the legislative discretion afforded by earlier law to public agencies to determine how to allocate its sources of water supply and costs of service, provided they act reasonably, comply with the Constitution, State statutory law, and the court decisions interpreting them.
1. **Meter Fixed Charge Rates**

Most water rate structures include a fixed component (sometimes referred to as a base, meter, service, or readiness-to-serve charge) and a volumetric component (sometimes referred to as a commodity or a volume charge). The fixed component of the rate structure is generally based on the size (in inches) of the water meter serving a property and is calculated to recover a portion of an agency’s fixed costs of providing water—e.g., personnel, billings and collection, and other similar costs—and a portion of the fixed costs related to system capacity. The District’s proposed water rates are similarly structured with a fixed Meter Fixed Charge and a variable Commodity Charge.

The proposed rates for the Meter Fixed Charge for Single Family Residential, Multifamily Residential, and Nonresidential/CII customers have five cost components. Four components are charged per meter equivalent unit or MEU (the “capacity components”), meaning that larger meters pay a higher portion of the costs, including Local Distribution, Meters and Services, SDCWA Infrastructure Access Charge (IAC), and Fire Protection. (Study, p. 5-2.) The fifth component, Billing and Collecting, is a flat charge per bill regardless of meter size or customer class, meaning that each customer account is allocated an equal amount of the Billing and Collecting component. The amount represents the costs the District incurs to maintain an account regardless of the capacity of the service. To determine the rate for this component, Carollo divided total Billing and Collecting costs by the total number of bills (bi-monthly for potable water single-family, multi-family, non-residential, and irrigation/commercial agriculture customers, and monthly for recycled water customers). (Study, pp. 5-2 – 5-3.)

The Meter Fixed Charge for Agricultural/Irrigation customers contains the same cost components as described in the preceding paragraph, except for the Fire Protection component, because Agricultural/Irrigation customers do not have fire flow requirements. (Id. at p. 5-4.) The Meter Fixed Charge for private fire protection customers only has the customer capacity component because all private fire line accounts also have a potable water account and the other Meter Fixed Charge components are recovered through the potable water Meter Fixed Charge on the same bill. A private fire line customer therefore already pays for his or her proportionate share of the Billing and Collecting costs through his or her potable water Meter Fixed Charge. (Id. at pp. 4-11, 5-5.) The Meter Fixed Charge for Recycled Water customers includes a portion of the Meters and Services and Administration costs, as well as a portion of the Billing and Collecting costs. (Id. at p. 5-6, Table 5-13.)

The capacity components of the Meter Fixed Charge for all customers are based on the size of the water meter serving a property because larger meters have the potential to demand more capacity, or said differently, exert more peaking characteristics compared to smaller meters. See M1 Manual at pp. 7879 (6th ed. 2012). Meter size is used as a proxy for the estimated demand that each customer can place on the water system. A significant portion of the District’s operating and capital costs are related to meeting such capacity requirements and maintaining the readiness to serve each connection upon demand. Utilities invest in facilities to
provide capacity, and these costs must be recovered regardless of the amount of water used during a given period. (See Paland v. Brooktrails Township Cmty Servs. Dist., 179 Cal. App. 4th 1358, 1370-1371 (2009).)

The potential capacity demanded (peaking) is proportional to the potential flow through each meter size as established by American Water Works Association hydraulic capacity ratios. (Study, pp. 2-2.) The ratios shown in Table 5-5 of the Study are the ratio of the potential flow through each meter size compared to the flow through a standard 5/8-inch meter. For example, column 2 of Table 5.5 shows that the flow through a 1 1/2-inch meter is three times that of a 5/8-inch meter and therefore the meter capacity-based components of the Meter Fixed Charge are three times those of the 5/8-inch meter. The Meter Fixed Charge schedules are the same for all potable water single-family, multi-family, and non-residential/CII customers. Separate Meter Fixed Charge schedules apply for irrigation/commercial agriculture customers, private fire customers, and recycled water customers. (Id. at pp. 5-2—5-7, Tables 5-5 through 5-13.)

2. Potable Water Commodity Charge Rates

As approved in 2015, the current rate structure for the District’s Commodity Charge has four tiers and each of the customer classes are subject to different rates. For the proposed rates of the Commodity Charge, Carollo recommended that the District move to a five-tier rate structure for Single Family Residential, and impose a uniform rate for the remaining customer classes. The recommended changes are based on the District’s water supply portfolio, the variation in demand of Single Family Residential customers, and the rates charged to those customers. (Study, p. 5-7.) These revisions enable the District to proportionately allocate a greater share of the costs of providing water service to those who place proportionately greater demands on its water system and sources of supply, incidentally promote conservation, and comply with State constitutional mandates and court decisions governing water service fees and charges.

Carollo recommends that the division (i.e., “breakpoint”) between the tier 1 water usage and the tier 2 water usage be established based on the availability of local water, with a meter overlay applying to tiers three through five. A meter overlay refers to a rate structure in which the tier width is determined, at least in part, based on the size of the meter serving the property. A meter overlay rater structure takes into account the variation in demand of Single Family Residential customers, as well as the unique demands placed on the water system by larger meter sizes, peaking, and the respective amounts that varying meter sizes pay into the water system resulting from capacity charges and higher Meter Fixed Charges. Specifically, the meter overlay structure allows customers to use increased capacity that they have paid into the system, without paying a premium in the Commodity Charge. The meter overlay concept calibrates the commodity charge rate structure so that usage in higher tiers is increasingly comprised of peak usage for all tiers. (Study, pp. 5-6 – 5-9.)
Tier 1 applies to water use up to 10 HCF for all meter sizes. Tier 1 has a high probability of being supplied by Lake Hodges based on historical records showing that local water yield was less than 1,000 AF only once in the last 10 years. In such year, proportionate allocation would result in approximately 10HCF bimonthly per Single Family Residential Account.

Tier 2 applies to water use up to 32 HCF for all meter sizes. Tier 2 is calculated to include remaining assumed supply from Lake Hodges, plus treated water from SDCWA that is purchased when the REB Plant is down for maintenance. Historical records show that average local water yield between 2013 and 2019 was 2,686, so a conservative estimate of 2,500 AF from Lake Hodges was used to calculate allocation to Tier 2.

Tier 3 usage is tied to average day demand for 5/8-inch and 3/4-inch meter sizes, Tier 4 usage is tied to max day demand, and Tier 5 usage exceeds max day demand. Customers with such water meters are allocated up to 41 HCF in Tier 3 and up to 87 HCF in Tier 4, and that amount is escalated using meter ratios for larger meter sizes. Usage in Tiers 3 through 5 is assumed to be supplied from untreated imported water. (Study, pp. 5-8 – 5-17; Table 5-15.)

Overall, the Study considers two key metrics for calculating the tier widths and rates. The first metric is based on the availability of the District’s sources of supplies. As noted earlier, Carollo has estimated that 2,500 acre feet per year of local water will be available and has assumed up to 500 acre feet per year of imported treated water will be available for purchase. Together, the local and imported treated water will provide 3,000 acre feet per year to the District, or 32 HCF when spread across each Single Family Residential account. This breakpoint allows all Single Family Residential water customers to have the use of the least expensive local water.

The second metric is based on customer demand profiles and their impact on sizing the District’s water system. The breakpoint defines the operational ranges of demand based on actual customer demand. Specifically, Tier 3 is tied to average day demand, and Tier 4 is tied to max day demand. Transmission mains, pump stations, storage reservoirs, and distribution mains are designed for peak demands. If customer demands remain low, these facilities would be much smaller and less costly to operate, maintain, and replace.

To calculate the rate, for the Commodity Charge, Carollo determined the unit cost for each system component and then layered these unit costs to develop a fully loaded rate for each tier. (Study, p. 5-9.) Specifically, Carollo looked to water supply costs, base costs, max day extra capacity costs, max hour extra capacity costs, water conservation costs, and usage-based SDCWA fixed costs. (Study, p.5-9.) This unit cost layering is shown in Figure 5-1 of the Study. (Id.)

Tier 1 cost components include a proportional share of local water supply, base costs, max day and max hour extra capacity costs. Tier 2 includes a blended water supply cost component which includes allocated amounts of local water and imported treated water, as well
as base costs, max day and hour extra capacity costs, water conservation costs (set at $0.00), and SDCWA fixed charges associated with imported water usage. Tier 3 includes a blended water supply cost which includes a portion of treated water, and of untreated imported water, as well as base costs, max day and hour extra capacity costs, water conservation costs, and SDCWA fixed charges. Tiers 4 and 5 include untreated imported supply costs, base supply costs, max day and hour extra capacity costs, water conservation costs, and SDCWA fixed charges. Each cost component is allocated proportionately to each tier to represent the cost of providing water service within each tier, and such allocations are developed throughout the Study and described in Tables 5-17 through 5-31. (Study, pp. 5-9 – 5-17.)

For the remaining potable water customer classes, a uniform rate is developed based on allocation of water supply costs, as well as unique customer characteristics associated with such customers. (Study, pp. 5-17 – 5-31.)

3. **Recycled Water Commodity Rates**

Carollo allocated recycled water costs based on the contractual costs of the recycled water system and recommends a uniform rate for these customers. The uniform rate is determined by dividing this customer class’s proportionate share of the revenue requirement by the class’s projected total annual demand. (Id. at p. 5-30, Table 5-59.)

E. **STEP 5 — DEMAND MANAGEMENT RATES**

A substantial portion of the District’s costs to operate and maintain the water system are fixed, meaning the majority of costs remain the same regardless of how much water is used by customers. Over the last several years the District has experienced declines and changes in water demand resulting from the drought and state-mandated water use reductions, and, therefore, reductions in water revenues. Carollo studied the effects of the reduction in water use on projected revenues during certain water shortage demand reduction levels.

To help mitigate future losses in revenue from reduced sales and ensure that the District is able to continue to provide safe drinking water to our customers, Carollo recommends that the District authorize adjustments to the rates of the potable water Commodity Charge (“Demand Reduction Rate Adjustments”) during District declared water shortage levels or state mandated reductions in the level of potable water usage due to a water shortage or other natural disaster or event that requires reductions in water usage. (Id. at p.5-31.) Under its proposal, the rates for the Commodity Charge then in effect will be adjusted in accordance with the District’s projected losses of full cost recovery revenues due to the implementation of any applicable water use demand reduction level. (Id.)

The Demand Management Rates adjusts the rates for the Commodity Charge to account for the District’s specific water shortage conditions or mandated reduction levels. The methodology for calculating the Demand Reduction Rates (i.e., determine the revenue risk
during the particular reduction level by the projected demand reduction in one hundred cubic feet during the demand reduction level) is outlined on pages 5-31—5-50, and Tables 5.61-5.97 of the Study.

IV. CONCLUSION

We hope this information has been helpful to you in navigating the rate setting process. As is evident from the cases discussed above, the courts have interpreted the substantive provisions of Article XIII D, section 6 on water rates differently and there may be new cases that cannot be anticipated at this time that provide further clarification on rate setting. The Study has attempted to allocate the costs of providing water service in a manner that the court decisions have currently concluded are appropriate costs of service, and where they are in agreement on how to allocate those costs.

[END OF MEMORANDUM]
DATE: January 16, 2020

TO: Board of Directors

FROM: General Manager

SUBJECT: Adopt Resolution No. 20-01, Modifying the District’s Rates for Potable and Recycled Service Charges

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors:

1. Adopt Resolution No. 20-01, Modifying the District’s Rates for Potable and Recycled Water Service Charges; and
2. Discuss and take other action as appropriate.

DISCUSSION:

The District is proposing to adjust the potable water rate structure and rates for is water service fees effective February 1, 2020. This proposal is the culmination of four public workshops that were held during 2019. These workshops and other notable dates included the following discussion and outcome(s):

- March 21, 2019: Discussion on efforts to review additional rate structure options and process for cost-of-service after Board did not adopt previous proposal on December 20, 2018.
- April 30, 2019: Discussion on alternative cost allocation strategies in accordance with American Water Works Association M1 manual (i.e. base-extra capacity methodology).
- July 31, 2019: Update on base-extra capacity methodology outcomes and alternative of allocation of local water / varying availability.
- September 19, 2019: Consideration of five (5) different single-family residential rate structure options (4 tier, 4 tier with meter overlay, 5 tier, 5 tier with meter overlay, uniform rate) and overview of additional customer classes. Selection of 5 tier meter overlay rate structure for single-family residential and uniform rates for other customer classes. Overview of District revenue requirement of 3% per year for three years.

The Board selected the five-tier single-family residential rate structure with meter overlay that will replace the District’s volumetric rate structure of four-tiers, while maintaining the unitary rate structure for all other customer classes. Additionally, these proposed rate adjustments are estimated to increase overall potable rate revenue from combined volumetric and fixed charges by an amount sufficient to recover its projected costs of providing water services and allow continued District operations, investment in the capital infrastructure, and pass through wholesale water rate increases from the San Diego County Water Authority (SDCWA) and Metropolitan Water District.
(MWD). This action will also allow annual adjustments to the potable rates up to 3% on January 1, 2021 & 2022, exclusive of additional charges for the direct pass-through for all charges imposed by the SDCWA and MWD. Staff will return to the Board in the second quarter in FY 2021 and FY 2022 to discuss the justification for any proposed rate adjustment in potable water rates, up to the authorized 3.0% each January 1st. This action will authorize SDCWA and MWD pass-through increases for four additional years through and including January 1, 2024. This action will also authorize five years pass through of annual increases in recycled water rates to offset wholesale recycled water charges imposed on the District by the San Elijo Joint Powers Authority (each July 1st); increase in fire protection service charges; and to authorize potable water demand reduction rates to ensure the financial stability of the District during times of mandatory restrictions.

The Board of Directors will hold a Public Hearing and receive public comment on these proposals. Staff is recommending that the Board adopt Resolution No. 20-01 (Attachment A) as presented, modifying the District’s rates for potable, recycled, and fire service charges. Exhibit A of the attached Resolution includes the recommended charges and rates proposed to become effective February 1, 2020, January 1, 2021, and January 1, 2022.

FISCAL IMPACT:

Adoption of Resolution No. 20-01 as presented will result in increased District potable water revenue in each calendar year for reasons previously outlined in this memo. The cumulative increase in revenues from potable water rates and fixed charges is projected to total approximately $1.6 million during fiscal years 2020, 2021 and 2022.

Attachment A: Resolution No. 20-01

Prepared by: Seth Gates, Administrative Services Manager
Approved by: Albert C. Lau, P.E., General Manager
RESOLUTION NO. 20-01
RESOLUTION OF THE BOARD OF DIRECTORS OF
SANTA FE IRRIGATION DISTRICT
MODIFYING THE DISTRICT’S RATES FOR POTABLE AND
RECYCLED SERVICE CHARGES

RECITALS

WHEREAS, Santa Fe Irrigation District (“District”) is an irrigation district operating under the Irrigation District Law, commencing with section 20500 of the California Water Code; and

WHEREAS, the District is the water purveyor within its service area; and

WHEREAS, as a consequence of anticipated increases in the cost of providing potable and recycled water services, the District engaged an independent financial consultant to perform a comprehensive cost of service water rate study (the “Study”) that evaluated the service and infrastructure needs, programs, and operation and maintenance costs of the District’s potable and recycled water systems. Based on this Study, the District determined that the existing potable water system service charges and recycled water system service charges are and will be insufficient to cover (1) current and projected operations and maintenance costs for the potable water system and recycled water system and (2) the capital infrastructure improvements needed to repair and update the District’s potable water system and recycled water system, and that rate increases are therefore necessary in the amounts and on the effective dates set forth in Exhibit “A” hereto; and

WHEREAS, the proposed rate structure for the District’s potable water services charges includes four customer classes: Single Family Residential, Multifamily Residential, Nonresidential/CII, and Agricultural/Irrigation, and the rate structure is composed of two components: (1) a fixed bi-monthly service charge (the “Potable Water Meter Fixed Charge”); and (2) a variable water usage charge (the “Commodity Charge”); and

WHEREAS, the rates for the Potable Water Meter Fixed Charge are determined on the basis of the size of the water meter serving the property; and

WHEREAS, for Single Family Residential customers, the potable water Commodity Charge is comprised of tiers that impose a higher rate per unit of water as the level of consumption increases, with tier widths being established based on the size of the meter serving the property; and

WHEREAS, the District also imposes a private fire fixed charge on certain potable water customers who have private fire suppression systems (the "Private Fire Protection Fixed Meter Charge”); and

WHEREAS, the rate structure for the District’s recycled water service charges is composed of two components: (1) a fixed monthly recycled water service charge (the “Recycled Water Fixed Meter Charge”); and (2) a variable recycled water usage charge (the “Recycled Water Commodity Charge”); and

ATTACHMENT "A"
WHEREAS, the rates for the Recycled Water Fixed Charge are determined on the basis of the size of the water meter serving the property; and

WHEREAS, the recycled water customer class is charged a uniform rate for the Recycled Water Commodity Charge; and

WHEREAS, the District purchases its potable water from the San Diego County Water Authority (“SDCWA”), and SDCWA in turn purchases a substantial portion of its water supplies from the Metropolitan Water District of Southern California (“MWD”); and

WHEREAS, SDCWA imposes wholesale commodity charges on the District (the “SDCWA Commodity Charge”) for potable water the District purchases, and also imposes the following fixed charges on the District: (1) an Infrastructure Access Charge (“IAC”); (2) a Supply Reliability Charge (“SRC”); (3) a Customer Service Charge (“CSC”); and (4) an Emergency Storage Charge (“ESC”) (collectively the “SDCWA Fixed Charges”). MWD imposes two fixed charges on the District: a Readiness to Serve Charge (“RTS Charge”) and a Capacity Charge (collectively the “MWD Fixed Charges”). Each of these fixed charges, except the IAC, are passed through to District customers and recovered through the rates of the District’s Potable Water Commodity Charge (collectively, together with the SDCWA Commodity Charge, the “Commodity Pass Through Charges”). The IAC is passed through to District customers and recovered through the rates of the District’s bi-monthly Potable Water Meter Fixed Charge (together with any other charge that MWD and/or SDCWA may charge the District in the future, the “Fixed Pass Through Charges”); and

WHEREAS, the District purchases recycled water from the San Elsie Joint Powers Authority (“SEJPA”), which imposes a commodity charge on the District for recycled water it purchases (the “SEJPA Commodity Charge”), and anticipates that the cost of recycled water will increase in the future; and

WHEREAS, the SEJPA Commodity Charge is passed through to District customers and recovered through the rates of the District’s Recycled Water Commodity Charge; and

WHEREAS, in addition to the increased cost in wholesale water and recycled water, the District has experienced and anticipates future increases in the costs to operate and maintain the water system and recycled water system and to provide ongoing repairs, replacements, and upgrades to the water system and recycled water system; and

WHEREAS, commencing February 1, 2020, and at any time through and including January 1, 2024, in order to keep pace with projected cost increases by SDCWA and MWD, the District has also determined to automatically pass through to customers any future increases in the rates for the Commodity Pass Through Charges or the Fixed Pass Through Charges, provided, however, that: (1) any increases in the rates of the bi-monthly potable water Commodity Charge as a result of an increase in the Commodity Pass Through Charges shall not exceed 5% per year; (2) any increases in the rates of the Potable Water Meter Fixed Charge as a result of an increase in the Fixed Pass Through Charges shall not exceed 5% per year; and (3) in no event shall any such increases passed through to customers result in rates that exceed the District’s cost of providing water service; and

WHEREAS, in addition, commencing July 1, 2020 and each July 1 thereafter through and including July 1, 2024, in order to keep pace with SEJPA cost increases, the District has determined
to pass through to recycled water customers any future rate increases imposed on the District by the SEJPA for the cost of purchased recycled water (the “SEJPA Pass Through” and, together with the Commodity Pass Through Charges and the Fixed Pass Through Charges, the “Pass Throughs”). Any such increases will only impact the rates of the Recycled Water Commodity Charge, shall not cause the Recycled Water Commodity Charge to increase by more than 7% per year, and in no event shall any such increase passed through to recycled water customers result in rates that exceed the District’s costs of providing recycled water service; and

WHEREAS, the District is subject to substantial losses of revenue due to periods of extended water use reductions or shortages, and the majority of the District’s costs are fixed; and

WHEREAS, the District has determined to authorize adjustments to the rates of the potable water Commodity Charge (“Demand Reduction Rate Adjustments”) during declared water shortage stages or state mandated reductions in the level of potable water usage; and

WHEREAS, in accordance with California Constitution article XIII D, section 6, and the Proposition 218 Omnibus Implementation Act (California Government Code section 53750 et seq.) (the “Law”) the Board of Directors determined to conduct a public hearing to consider the adoption of modifications to the District’s potable and recycled water service charges as described herein; and

WHEREAS, the Board of Directors directed the District Secretary to provide notice of the public hearing and the proposed modifications to and increases in the District’s potable and recycled water service charges as required by the Law; and

WHEREAS, the District provided the notice of a public hearing and the proposed modifications and increases in accordance with the Law; and

WHEREAS, the District Secretary was further authorized and directed to make available for public inspection, prior to the public hearing, the Study establishing the basis for which the rates and charges provided in this Resolution are imposed, and such data has been made available and considered by the Board of Directors and is a part of the administrative record of the District; and

WHEREAS, the Board of Directors conducted a public hearing at a regular meeting on January 16, 2020, and at the public hearing the Board of Directors of the District heard all oral testimony, and considered all written materials and written protests concerning the adoption and imposition of the proposed rate adjustments and increases to the rates for the potable and recycled water service charges and authorization for Pass Throughs and Demand Reduction Rate Adjustments, and at the close of the public hearing the District did not receive written protests against the establishment and imposition of the proposed rate increases and adjustments to the rates for the potable and recycled water service charges, the Pass Throughs, and the Demand Reduction Rate Adjustments from a majority of the property owners or tenants directly liable for the payment of the potable and recycled water service charges.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the District as follows:
Section 1: The matters set forth in the Recitals to this Resolution are true and correct statements and are made legislative findings and determinations of the Board of Directors, and by this reference made an operative part of this Resolution.

Section 2: In accordance with the California Environmental Quality Act (CEQA) and the CEQA Guidelines, District staff has determined that the increases in potable and recycled water service charges are exempt from CEQA pursuant to Section 15378 and Section 15273 of the CEQA Guidelines and Public Resources Code section 21080(b)(8) because: (i) the increased charges are for the purpose of meeting operational and maintenance expenses of the aforementioned services; and (ii) the charges constitute the creation of a funding mechanism/other governmental fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. The documents and materials that constitute the record of proceedings on which these findings have been based are located at 5920 Linea del Cielo, Rancho Santa Fe, CA 92067. The custodian for these records is the Secretary of the District.

Section 3: The Board of Directors finds that the revenues derived from the potable and recycled water service charges, Pass Throughs, and Demand Reduction Rate Adjustments established by this Resolution: (1) do not exceed the funds required to provide potable and recycled water services; (2) shall not be used for any other purpose than that for which the rates and charges are imposed; (3) do not exceed the proportional cost of the service attributable to each potable and recycled water customer; (4) provide services which are immediately available to the customer; and (5) are not levied for general governmental purposes.

Section 4: The Board of Directors finds that the rate increases and adjustments to the rates for the potable and recycled water service charges as described in Exhibit “A,” attached hereto and by this reference incorporated herein, the Pass Throughs, and Demand Reduction Rate Adjustments will result in revenue to the District to cover the costs of potable and recycled water services.

Section 5: The Board of Directors of the District has evaluated and hereby approves the rates for the potable and recycled water service charges as set forth in the Service Charges and Water Rates Exhibit “A.” The rates shall be in effect for services provided on and after February 1, 2020, and shall be similarly imposed and increased each January 1 thereafter, through and including January 1, 2022, at the rates and in the amounts set forth in Exhibit “A.”

Section 6: The Administrative Code of the District shall be amended as follows: replace the existing Service Charges and Water Rates Exhibit “A” of the Administrative Code with the updated Service Charges and Water Rates Exhibit “A” attached hereto.

Section 7: (a) The Board of Directors hereby authorizes the General Manager to implement increases, as necessary, to the rates for the Potable Water Meter Fixed Charge and the Potable Water Commodity Charge components of the
potable water service charges then currently in effect due to any increases in the Commodity Pass Through Charges or Fixed Pass Through Charges commencing February 1, 2020, and at any time through and including January 1, 2024.

(b) The Board of Directors further authorizes the General Manager to implement increases, as necessary, to the rates of the Recycled Water Commodity Charge then currently in effect due to any SEJPA Pass Through commencing July 1, 2020, and each July 1 thereafter through and including July 1, 2024.

(c) Provided, however, that:

(1) any increases in the rates of the bi-monthly Potable Water Commodity Charge as a result of an increase in the Commodity Pass Through Charges shall not exceed 5% per year;

(2) any increase to the rates of the bi-monthly Potable Water Meter Fixed Charge as a result of an increase in the Fixed Pass Through Charges shall not exceed 5% per year;

(3) any increase to the rates of the Recycled Water Commodity Charge due to a SEJPA Pass Through shall not exceed 7% per year; and

(4) in no event shall such rates be increased by more than the cost of providing water or recycled water service.

(d) Provided further that prior to implementing any future increases in the rates of the potable or recycled water service charges due to a Pass Through, the District shall provide written notice of any such increase to its customers not less than 30 days prior to the effective date of any increase.

Section 8: The Board of Directors approves the use and implementation of Demand Reduction Rate Adjustments during declared water shortage stages or state mandated reductions in the level of potable water usage. The Demand Reduction Rate Adjustments for the potable water Commodity Charge may be implemented, as necessary, with formal Board adoption, depending on the level of potable water use cutbacks required, to ensure that the District recovers sufficient revenues to meet its expenses. If implemented, the rates for the Commodity Charge then in effect may be increased in accordance with the District’s projected losses in revenues due to the implementation of applicable water use reduction levels, but in no event may any such rate increases due to the implementation of Demand Reduction Rate Adjustments exceed the percentage increases and maximum adjustments to the rates of the potable Commodity Charge shown in Exhibit “A” attached hereto. Prior to implementing any increases in the rates for the potable Commodity Charge due to Demand Reduction Rate Adjustments, the District shall provide written
notice of any such increases to its customers not less than 30 days prior to the effective date of the increases.

Section 9: The Board of Directors hereby authorizes and directs the General Manager of the District to collect the potable and recycled water service charges at the rates, in the amounts, and on the effective dates set forth in Exhibit “A” and to take all actions necessary to effectuate and implement the rates for such charges, any Pass Throughs, and any Demand Reduction Rate Adjustments as set forth and approved herein.

Section 10: If any section, subsection, subdivision, sentence, clause, or phrase in this Resolution or any part thereof is for any reason held to be unconstitutional or invalid, or ineffective by any court of competent jurisdiction, such decision shall not affect the validity or effectiveness of the remaining portions of this Resolution or any part thereof. The Board of Directors hereby declares that it would have adopted each section irrespective of the fact that any one or more subsections, subdivisions, sentences, clauses, or phrases be declared unconstitutional, invalid, or ineffective.

Section 11: All resolutions or administrative actions by the Board of Directors, or parts thereof that are inconsistent with any provision of this Resolution are hereby superseded only to the extent of such inconsistency

Section 12: This Resolution shall become effective immediately upon its adoption.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the Board of Directors of the Santa Fe Irrigation District held on the 16th day of January, 2020, by the following vote, to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

_____________________________
Michael T. Hogan, President

ATTEST

_________________________
Albert C. Lau, P.E., Secretary/Treasurer

Seal:
# EXHIBIT “A”
SCHEDULES OF POTABLE AND RECYCLED WATER RATES AND CHARGES

## Fixed Charges

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<th>Meter Size</th>
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<th>January 1, 2022</th>
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<td>$82.85</td>
<td>$85.69</td>
<td>$88.64</td>
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<td>1&quot;</td>
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<tr>
<td>2&quot;</td>
<td>418.69</td>
<td>433.08</td>
<td>448.00</td>
</tr>
<tr>
<td>3&quot;</td>
<td>770.51</td>
<td>797.00</td>
<td>824.46</td>
</tr>
<tr>
<td>4&quot;</td>
<td>1,314.24</td>
<td>1,359.43</td>
<td>1,406.27</td>
</tr>
<tr>
<td>6&quot;</td>
<td>2,401.69</td>
<td>2,484.28</td>
<td>2,569.88</td>
</tr>
<tr>
<td>8&quot;</td>
<td>4,160.81</td>
<td>4,303.90</td>
<td>4,452.20</td>
</tr>
<tr>
<td>10&quot;</td>
<td>6,239.77</td>
<td>6,454.36</td>
<td>6,676.76</td>
</tr>
</tbody>
</table>

**Notes**

1. The rates for the bi-monthly Meter Fixed Charges are subject to annual adjustments for increases in the rates of the Fixed Pass Through Charges imposed on the District by SDCWA or MWD. The rates that may be implemented on January 1, 2021 and January 1, 2022 do not include any projected increases in the rates of the Fixed Pass Through Charges that may be imposed on the District. Such increases will be passed through directly as they are adopted by SDCWA or MWD.

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>February 1, 2020</th>
<th>January 1, 2021</th>
<th>January 1, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/4&quot;</td>
<td>$9.90</td>
<td>$10.22</td>
<td>$10.55</td>
</tr>
<tr>
<td>1&quot;</td>
<td>15.84</td>
<td>16.34</td>
<td>16.87</td>
</tr>
<tr>
<td>1½&quot;</td>
<td>29.69</td>
<td>30.64</td>
<td>31.63</td>
</tr>
<tr>
<td>2&quot;</td>
<td>51.46</td>
<td>53.10</td>
<td>54.82</td>
</tr>
</tbody>
</table>

**Notes**

1. See Note 1 in previous table regarding annual adjustments for increases of the Fixed Pass Through Charges.

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>February 1, 2020</th>
<th>January 1, 2021</th>
<th>January 1, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8&quot;, 3/4&quot;</td>
<td>$74.42</td>
<td>$76.94</td>
<td>$79.57</td>
</tr>
<tr>
<td>1&quot;</td>
<td>117.34</td>
<td>121.32</td>
<td>125.47</td>
</tr>
<tr>
<td>1½&quot;</td>
<td>217.48</td>
<td>224.86</td>
<td>232.55</td>
</tr>
<tr>
<td>2&quot;</td>
<td>374.85</td>
<td>387.58</td>
<td>400.83</td>
</tr>
<tr>
<td>3&quot;</td>
<td>689.58</td>
<td>713.00</td>
<td>737.39</td>
</tr>
<tr>
<td>4&quot;</td>
<td>1,175.99</td>
<td>1,215.93</td>
<td>1,257.52</td>
</tr>
<tr>
<td>6&quot;</td>
<td>2,148.79</td>
<td>2,221.78</td>
<td>2,297.78</td>
</tr>
<tr>
<td>8&quot;</td>
<td>3,722.45</td>
<td>3,848.90</td>
<td>3,980.56</td>
</tr>
<tr>
<td>10&quot;</td>
<td>5,582.23</td>
<td>5,771.86</td>
<td>5,969.30</td>
</tr>
</tbody>
</table>

**Notes**

1. See Note 1 in previous table regarding annual adjustments for increases of the Fixed Pass Through Charges.
### Monthly Recycled Water Fixed Charge ($/Bill)

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>February 1, 2020</th>
<th>July 1, 2021</th>
<th>July 1, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8&quot;, 3/4&quot;</td>
<td>$38.30</td>
<td>$39.59</td>
<td>$40.80</td>
</tr>
<tr>
<td>1&quot;</td>
<td>59.55</td>
<td>61.56</td>
<td>63.43</td>
</tr>
<tr>
<td>1½&quot;</td>
<td>109.12</td>
<td>112.81</td>
<td>116.23</td>
</tr>
<tr>
<td>2&quot;</td>
<td>187.03</td>
<td>193.35</td>
<td>199.21</td>
</tr>
<tr>
<td>3&quot;</td>
<td>342.83</td>
<td>354.42</td>
<td>365.17</td>
</tr>
<tr>
<td>4&quot;</td>
<td>583.62</td>
<td>603.36</td>
<td>621.65</td>
</tr>
<tr>
<td>6&quot;</td>
<td>1,065.20</td>
<td>1,101.23</td>
<td>1,134.62</td>
</tr>
<tr>
<td>8&quot;</td>
<td>1,844.22</td>
<td>1,906.60</td>
<td>1,964.42</td>
</tr>
<tr>
<td>10&quot;</td>
<td>2,764.88</td>
<td>2,858.41</td>
<td>2,945.09</td>
</tr>
</tbody>
</table>

### Commodity Charges

#### Single-Family Residential Tier Breakpoints

<table>
<thead>
<tr>
<th>Tier</th>
<th>5/8&quot;, 3/4&quot;</th>
<th>1&quot;</th>
<th>1½&quot;</th>
<th>2&quot; and larger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>10 HCF</td>
<td>10 HCF</td>
<td>10 HCF</td>
<td>10 HCF</td>
</tr>
<tr>
<td>Tier 2</td>
<td>32 HCF</td>
<td>32 HCF</td>
<td>32 HCF</td>
<td>32 HCF</td>
</tr>
<tr>
<td>Tier 3</td>
<td>41 HCF</td>
<td>66 HCF</td>
<td>123 HCF</td>
<td>214 HCF</td>
</tr>
<tr>
<td>Tier 4</td>
<td>87 HCF</td>
<td>140 HCF</td>
<td>261 HCF</td>
<td>453 HCF</td>
</tr>
<tr>
<td>Tier 5</td>
<td>&gt; 87 HCF</td>
<td>&gt; 140 HCF</td>
<td>&gt; 261 HCF</td>
<td>&gt; 453 HCF</td>
</tr>
</tbody>
</table>

#### Commodity Charges (All Customer Classes) ($/HCF)

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>February 1, 2020</th>
<th>Effective Dates</th>
<th>January 1, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family Residential</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 (0 – 10 HCF)</td>
<td>$2.48</td>
<td>$2.57</td>
<td>$2.67</td>
</tr>
<tr>
<td>Tier 2 (11 – 32 HCF)</td>
<td>3.35</td>
<td>3.46</td>
<td>3.57</td>
</tr>
<tr>
<td>Tier 3 (Varies)</td>
<td>4.90</td>
<td>5.03</td>
<td>5.17</td>
</tr>
<tr>
<td>Tier 4 (Varies)</td>
<td>5.32</td>
<td>5.47</td>
<td>5.62</td>
</tr>
<tr>
<td>Tier 5 (Varies)</td>
<td>6.42</td>
<td>6.60</td>
<td>6.79</td>
</tr>
<tr>
<td>Multifamily Residential</td>
<td>$5.19</td>
<td>$5.34</td>
<td>$5.50</td>
</tr>
<tr>
<td>Nonresidential / CII</td>
<td>4.85</td>
<td>4.99</td>
<td>5.13</td>
</tr>
<tr>
<td>Agricultural / Irrigation</td>
<td>6.11</td>
<td>6.29</td>
<td>6.47</td>
</tr>
<tr>
<td>Private Fire</td>
<td>6.06</td>
<td>6.22</td>
<td>6.39</td>
</tr>
</tbody>
</table>

#### Customer Class Effective Dates (Recycled Water)

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>February 1, 2020</th>
<th>July 1, 2020</th>
<th>July 1, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycled Water</td>
<td>$3.63</td>
<td>$3.77</td>
<td>$3.77</td>
</tr>
</tbody>
</table>

**Notes**

1. The potable water Commodity Charge rates are subject to the Demand Reduction Rate Adjustments and annual adjustments for any increases in the rates of the Commodity Pass Through Charges imposed on the District by the SDCWA and/or MWD. The rates for the potable water Commodity Charge that may be implemented on January 1, 2021 and January 1, 2022 do not include any projected increases in the rates of the Commodity Pass Through Charges that may be imposed on the District by SDCWA or MWD. Such increases will be passed through directly as they are adopted by SDCWA and/or MWD.

2. The rates for the recycled water Commodity Charge are subject to annual adjustments for any increases in the rates of purchased recycled water imposed on the District by the San Elijo Joint Powers Authority.
### Maximum Demand Reduction Rate Adjustments - $/HCF

**For Potable Water Commodity Charges**

<table>
<thead>
<tr>
<th>Demand Reduction Rates (Single Family Residential) ($/HCF)</th>
<th>Percentage Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5%</td>
</tr>
<tr>
<td><strong>February 1, 2020</strong></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>$2.61</td>
</tr>
<tr>
<td>Tier 2</td>
<td>3.46</td>
</tr>
<tr>
<td>Tier 3</td>
<td>5.03</td>
</tr>
<tr>
<td>Tier 4</td>
<td>5.48</td>
</tr>
<tr>
<td>Tier 5</td>
<td>6.64</td>
</tr>
<tr>
<td><strong>January 1, 2021</strong></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>$2.70</td>
</tr>
<tr>
<td>Tier 2</td>
<td>3.58</td>
</tr>
<tr>
<td>Tier 3</td>
<td>5.17</td>
</tr>
<tr>
<td>Tier 4</td>
<td>5.63</td>
</tr>
<tr>
<td>Tier 5</td>
<td>6.83</td>
</tr>
<tr>
<td><strong>January 1, 2022</strong></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>$2.80</td>
</tr>
<tr>
<td>Tier 2</td>
<td>3.70</td>
</tr>
<tr>
<td>Tier 3</td>
<td>5.31</td>
</tr>
<tr>
<td>Tier 4</td>
<td>5.79</td>
</tr>
<tr>
<td>Tier 5</td>
<td>7.02</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demand Reduction Rates (All Other Classes) ($/HCF)</th>
<th>Percentage Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5%</td>
</tr>
<tr>
<td><strong>February 1, 2020</strong></td>
<td></td>
</tr>
<tr>
<td>Multi-Family</td>
<td>$5.36</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>5.00</td>
</tr>
<tr>
<td>Irrigation / Ag</td>
<td>6.33</td>
</tr>
<tr>
<td>Private Fire</td>
<td>6.23</td>
</tr>
<tr>
<td><strong>January 1, 2021</strong></td>
<td></td>
</tr>
<tr>
<td>Multi-Family</td>
<td>$5.52</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>5.15</td>
</tr>
<tr>
<td>Irrigation / Ag</td>
<td>6.52</td>
</tr>
<tr>
<td>Private Fire</td>
<td>6.40</td>
</tr>
<tr>
<td><strong>January 1, 2022</strong></td>
<td></td>
</tr>
<tr>
<td>Multi-Family</td>
<td>$5.68</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>5.30</td>
</tr>
<tr>
<td>Irrigation / Ag</td>
<td>6.71</td>
</tr>
<tr>
<td>Private Fire</td>
<td>6.58</td>
</tr>
</tbody>
</table>
DATE: January 16, 2020

TO: Board of Directors

FROM: General Manager

SUBJECT: Annual District Investment Policy Review and Update

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors:

1. Approve the Policy as presented; and

2. Discuss and take other action as appropriate.

DISCUSSION:

Annually, the Board of Directors is required to review and approve the District’s Investment Policy (Policy) in accordance with Government Code §53600. The Policy is reviewed by District staff and the office of the General Counsel to assure compliance with any changes in investment regulations. General Counsel has performed its review and made no revisions. There were no statutory changes that necessitated any policy changes.

COMMITTEE ACTION:

This item was not considered at the Committee level.

FISCAL IMPACT:

There is no fiscal impact resulting from the review of this item.

Attachment A: Investment Policy

Prepared by: Seth Gates, Administrative Services Manager
Approved by: Albert C. Lau, P. E., General Manager
The Santa Fe Irrigation District (the “District”) provides water and related services to residential and commercial customers in the Rancho Santa Fe, Fairbanks Ranch and Solana Beach areas of San Diego County, California. The District is governed by a five-member board of directors (the “Board”) elected by the District’s water users.

The Board has adopted this Investment Policy (the “Policy”) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the District. All District funds will be invested in accordance with the Policy and with applicable sections of the California Government Code.

This Policy was originally endorsed and adopted by the Board of Directors of the Santa Fe Irrigation District on February 19, 2009. It replaces any previous investment policy or investment procedures of the District.

**SCOPE**

The provisions of this Policy shall apply to all financial assets of the District.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the investment portfolio. Interest earnings shall be distributed to the individual funds on a monthly basis.

**OBJECTIVES**

The principal investment objectives of the District are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market value rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Conformance with all applicable California statutes and Federal regulations.

**DELEGATION OF AUTHORITY**

The management responsibility for the District’s investment program is delegated for a one-year period by the Board to the Treasurer who shall assume full responsibility until the delegation of authority is revoked or expired pursuant to California Government Code Section 53607. Oversight is provided by the Santa Fe Irrigation District Finance Committee. The District’s General Manager serves as the Treasurer. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. Authority may be delegated to other staff members provided the Treasurer exercises prudence in a selection of these staff members and imposes suitable safeguards to prevent abuse in the exercise of discretion. The Treasurer shall remain
responsible for any investment decisions made by these staff members. The Treasurer shall maintain a list of every staff member who was delegated such authority, and his or her responsibilities with respect to investment decisions.

The Treasurer shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the District's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the District.

The District may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the District's financial resources.

PRUDENCE

The standard of prudence to be used for managing the District's investments shall be California Government Code Section 53600.3, the prudent investor standard which states, “When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section, and considering individual investments as part of an overall strategy, investments may be acquired by law.”

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally without risk and that the investment activities of the District are a matter of public record. Accordingly, the District recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the District.

The Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Board and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Treasurer any financial interests they have in financial institutions that conduct business with the District and they shall subordinate their personal investment transactions to those of the District. The Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203. Other designated employees and consultants shall file a Statement of Economic Interests each year pursuant to the District's Conflict of Interest Code.
AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the District shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. However, pursuant to California Government Code Section 5903(e), if prior to issuing any bonds, the legislative body determines that the interest payable on the bonds to be issued by the state or local government will be subject to federal income taxation under the law, proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds.

Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted.

The District has further restricted the eligible types of securities and transactions as follows:

1. **United States Treasury** bills, notes, bonds, or certificates of indebtedness with a final maturity not exceeding five years from the date of purchase.

2. **Federal Agency** debentures and mortgage-backed securities with a final maturity not exceeding five years from the date of purchase issued by the Government National Mortgage Association (GNMA).

3. **Federal Instrumentality** (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of purchase, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).

4. Obligations of the State of California and any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or local agency, or by a department, board, agency, or authority of the state or local agency, rated at least AA or A-1+ by Standard & Poor’s, Aa2 or P-1 by Moody’s or AA or F-1+ by Fitch, with a final maturity not exceeding five years from the date of purchase. On the date of purchase, no more than 20% of the District’s portfolio may be invested in such obligations.

5. **Other States’ Registered treasury notes or bonds**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a state or by a department, board, agency, or authority of the state, rated at least AA or A-1+ by Standard & Poor’s, Aa2 or P-1 by Moody’s or AA or F-1+ by Fitch, with a final maturity not exceeding five years from the date of purchase. On the date of purchase, no more than 20% of the District’s portfolio may be invested in such obligations.

6. **Repurchase Agreements** with a final termination date not exceeding one year collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items 1, 2 and 3 above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the District’s approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including
accrued interest of 102% of the dollar value of the transaction and shall be adjusted no less than quarterly. Collateral shall be held in the District's custodian bank, as safekeeping agent, the investments and repurchase agreements shall be in compliance if the value of the underlying securities is brought up to 102% no later than the next business day.

Repurchase Agreements shall be entered into only with dealers who have executed a District approved Master Repurchase Agreement with the District and who are recognized as Primary Dealers with the Federal Reserve Bank of New York. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Treasurer shall maintain a copy of the District's approved Master Repurchase Agreement along with a list of the broker/dealers who have executed a Master Repurchase Agreement with the District.

7. **Prime Commercial Paper** with a maturity not exceeding 270 days. Maximum portfolio exposure is limited to 25% in the aggregate and 10% of the outstanding paper of a single issuer. Investment is limited to commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall either be organized and operating in the United States as a general corporation with total assets in excess of five hundred million dollars ($ 500,000,000), a debt other than commercial paper, if any, that is rated in a rating category of "A" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO) OR the entity shall be organized within the United States as a special purpose corporation, trust, or limited liability company, with program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond and commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

8. **Eligible Bankers Acceptances** with a maturity not exceeding 180 days from the date of purchase, issued by a FDIC insured state or national bank with combined capital and surplus of at least $250 million, and whose senior long-term debt is rated at least A by Standard and Poor's, A2 by Moody's or A by Fitch at the time of purchase. No more than 10% of the District’s total portfolio may be invested in bank’s acceptances of any one issuer, and the aggregate investment in bank’s acceptances shall not exceed 15% of the District’s total portfolio.

9. **Medium-Term Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of purchase, and rated in a rating category of “A” or its equivalent or better by Standard & Poor's, Moody's or Fitch. The aggregate investment in medium-term notes shall not exceed 20% of the District’s total portfolio.

10. **State of California’s Local Agency Investment Fund (LAIF)**, pursuant to California Government Code Section 16429.1. The aggregate investment in LAIF shall not exceed $65,000,000.
11. San Diego County Treasurer’s Pooled Money Fund, pursuant to California Government Code Section 53684. The aggregate investment in this pool shall not exceed 20% of the total portfolio or $5 million, whichever is greater.

12. California Asset Management Program (CAMP), pursuant to California Government Code Section 53601(p). The aggregate investment in this pool shall not exceed 20% of the total portfolio or $5 million, whichever is greater.

13. Money Market Funds registered under the Investment Company Act of 1940 that (1) are “no-load” (meaning no commission or fee shall be charged on purchases or sales of shares); (2) strive to maintain a net asset value per share of $1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes; (4) have a rating of at least two of the following: AAAm by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch; and (5) retain an investment advisor registered or exempt from registration with the SEC with no less than five years' experience managing money market funds with assets under management in excess of $500,000,000. No more than 10% of the District's total portfolio may be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the total portfolio.

14. Unauthorized investments are defined in Section 53601.6 of the California Government Code, which disallows the following investments: inverse floaters, range notes, or mortgage derived interest-only strips. In addition, and more generally, investments are further restricted as follows:

No investment will be made that has either (1) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (2) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.

No investment will be made that could cause the portfolio to be leveraged.

It is the intent of the District that the foregoing list of authorized securities is strictly interpreted. Any deviation from this list must be preapproved by the Treasurer in writing.

**PORTFOLIO MATURITIES AND LIQUIDITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The District will not invest in securities maturing more than five years from the date of purchase, unless the Board has granted authority to make such an investment at least three months prior to the date of investment. The weighted average final maturity of the District's portfolio shall at no time exceed three years.

**SELECTION OF BROKER/DEALERS**

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the District to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:
1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or
2. be a State member of a national or state chartered bank, or
3. be a primary or regional dealer qualified under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Treasurer on the basis of their expertise in public cash management and their ability to provide services for the District's account.

Each authorized broker/dealer shall be required to submit and annually update a District approved Broker/Dealer Information Request form that includes the firm's most recent financial statements. The Treasurer shall maintain a list of the broker/dealers that have been approved by the District, along with each firm's most recent broker/dealer Information Request form. Broker/Dealers shall attest in writing that they have received and reviewed a copy of this Policy.

The District may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 6 of the Authorized Securities and Transactions section of this Policy.

**COMPETITIVE TRANSACTIONS**

Where applicable, each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the District is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

**SELECTION OF BANKS**

The Treasurer shall maintain a list of FDIC insured banks approved to provide depository and other banking services for the District. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC coverage in accordance with California Government Code Section 53652.

The Treasurer shall utilize Highline Banking Data Services to perform credit analyses on banks seeking authorization. The analysis shall include a composite rating, and individual ratings of liquidity, asset quality, profitability and capital adequacy. Semi-annually, the Treasurer shall review the most recent credit rating analysis reports performed for each approved bank. Banks, that in the judgment of the Treasurer no longer offer adequate safety to the District, shall be removed from the District's list of authorized banks.

**SAFEKEEPING AND CUSTODY**

The Treasurer shall select one or more banks to provide safekeeping and custodial services for the District, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by the District shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. To be eligible, a bank shall have an
average Highline Banking Data Services Rating of 20 or better on a scale of zero to 99 with 99 being the highest quality for the four most recent reporting quarters before the time of selection.

Custodian banks will be selected on the basis of their ability to provide services for the District's account and the competitive pricing of their safekeeping related services.

The Treasurer shall maintain a file of the credit rating analysis reports performed for each approved bank. Credit analysis shall be performed on a semi-annual basis.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. It is the intent of the District that all securities be perfected in the name of the District. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except negotiable Certificates of Deposit, Money Market Funds and Local Government Investment Pools, purchased by the District will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a District approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fedwire-able book entry securities owned by the District shall be evidenced by a safekeeping receipt or a customer confirmation issued to the District by the custodian bank stating that the securities are held in the Federal Reserve system in a customer account for the custodian bank which will name the District as “customer.”

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the District as “customer.”

All non-book entry (physical delivery) securities shall be held by the custodian bank’s correspondent bank and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the correspondent bank for the District as “customer.”

PORTFOLIO PERFORMANCE

The investment and cash management portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the District’s investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio’s actual weighted average effective maturity. When comparing the performance of the District’s portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

On a quarterly basis, the Treasurer shall submit to the Board a report of the investment earnings and performance results of the District’s investment portfolio. The report shall include the following information:
1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the District;
2. A description of the funds, investments and programs (including lending programs) managed by contracted parties;
3. A market value as of the date of the report and the source of the valuation;
4. A statement of compliance with the investment policy or an explanation for non-compliance; and
5. A statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why money is or will not be available as provided for in the statutory law governing the reporting requirements.

At least annually, the Treasurer shall present to the Board a review of the investment portfolio’s adherence to appropriate risk levels and a comparison between the total portfolio return and the established investment goals, objectives and benchmarks.

POLICY REVISIONS

This Investment Policy shall be presented annually by the Treasurer to the Board for review pursuant to Section 53646(a)(2) of the California Government Code. This Policy may be amended by the Board as conditions warrant.
California Government Code Section 53601 limits all investment maturities to five years from date of purchase, unless the Board, at least three months prior to the investment, has granted authority to exceed the five year limit, either specifically or as part of an investment program. Instances where the law further limits investments, either by type or length of time, have been noted accordingly.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Code</th>
<th>Limitations in Addition to 5-year Maximum</th>
<th>District Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasuries</td>
<td>53601(b)</td>
<td></td>
<td>5-year maximum</td>
</tr>
<tr>
<td>Federal Agencies</td>
<td>53601(b)</td>
<td></td>
<td>5-yr max, GNMA only</td>
</tr>
<tr>
<td>Federal Instrumentalities</td>
<td>53601(b)</td>
<td></td>
<td>5-yr max; FHLB, FNMA, FFCB &amp; FHLMC only</td>
</tr>
<tr>
<td>State &amp; Local Agencies:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District's own bonds</td>
<td>53601(a)</td>
<td>20% of portfolio, 5-yr max, AA rate</td>
<td></td>
</tr>
<tr>
<td>California Instruments</td>
<td>53601(c)</td>
<td>20% of portfolio, 5-yr max, AA or A-1+ rate</td>
<td></td>
</tr>
<tr>
<td>Other States' Instruments</td>
<td>53601(d)</td>
<td>20% of portfolio, 5-yr max, AA or P-1 rate</td>
<td></td>
</tr>
<tr>
<td>Other Local Agencies</td>
<td>53601(e)</td>
<td>20% of portfolio, 5-yr max, AA or F-1+ rate</td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>53601(j)</td>
<td>One year or less in any security allowed for purchase for one year or less; for reverse repurchase agreements, only up to 20% of portfolio may be invested</td>
<td>Market value 102% of transaction, 1-yr max to termination, collateralized by Federal securities</td>
</tr>
<tr>
<td>Prime Commercial Paper</td>
<td>53601(h)</td>
<td>25% of portfolio, 10% per issuer; 270-day term</td>
<td>25% of portfolio, 10% per issuer; 270-day max; A or A-1 rate; US only</td>
</tr>
<tr>
<td>Bankers' Acceptances</td>
<td>53601(g)</td>
<td>40% of portfolio; 180 days maximum; no more than 30% in any one bank</td>
<td>15% of portfolio; 180-day max; A or A2 rate</td>
</tr>
<tr>
<td>Certificate of Deposits (CDs):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiable</td>
<td>53601(i)</td>
<td>30% of portfolio</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Medium-Term Notes</td>
<td>53601(k)</td>
<td>30% of portfolio; 5-yr max; A rate</td>
<td>20% of portfolio; 5-yr max; AA- or Aa3 rate</td>
</tr>
<tr>
<td>Designated Mutual Funds</td>
<td>53601(l)</td>
<td>20% of portfolio; 10% in any one mutual fund</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Secured Notes, etc</td>
<td>53601(m)</td>
<td>Depends on security</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Mortgage-Backed Securities/Collateralized Mtg Obligations</td>
<td>53601(o)</td>
<td>20% of funds; 5-yr max; AA rate</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Futures</td>
<td>53601.1</td>
<td></td>
<td>Not allowed</td>
</tr>
<tr>
<td>LAIF</td>
<td>16429.1</td>
<td>Currently $65,000,000 maximum</td>
<td>$65,000,000</td>
</tr>
<tr>
<td>California Asset Management Program</td>
<td>53601(m)</td>
<td>20% of portfolio or $5 million, whichever is greater</td>
<td>20% of portfolio or $5 million, whichever is greater</td>
</tr>
<tr>
<td>SD County Treasurer's Pooled Money Fund</td>
<td>53684</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>53601(l)</td>
<td>20% of portfolio</td>
<td>20% of portfolio, 10% any one issuer; no-load; AAA or AAA/V1+ rate</td>
</tr>
</tbody>
</table>
DATE: January 16, 2020

TO: Board of Directors

FROM: General Manager

SUBJECT: Adopt Resolution No. 20-02, Amending Article 13 of the District’s Administrative Code for Compliance with Senate Bill 998 – Discontinuation of Residential Water Service

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors:

1. Adopt Resolution 20-02 amending the District’s Administrative Code for compliance with Senate Bill 998;

2. Approve Policy on Discontinuation of Residential Water Service;

3. Discuss and take other action as appropriate.

BACKGROUND:

Senate Bill 998 (SB998) was proposed by Senator Bill Dodd and approved by the Governor in recognition of the importance of water to health and safety, with the intent to minimize the number of Californians who lose access to water service due to inability to pay. SB998 requires additional notification procedures combined with a revised timeline prior to any water shutoff for single and multi-family residential customers. Additional provisions are also mandated for disadvantaged customers among other mandatory administrative requirements to be implemented by February 1, 2020. A summary of the main requirements of SB998 and Staff proposals for compliance are as follows. Staff has worked with District counsel to revise the Administrative Code to capture these and other requirements as outlined in the redline version of the Administrative Code included as Attachment A to this report and the SB998 required Policy on Discontinuation of Residential Water Service in Attachment C.

Shut Off Timeline

Current
The current District timeline for a customer to have service disconnected for non-payment is approximately 39 days from the bill date. A bill is due 20 days after the bill date, and a written bill reminder is mailed to the customer at that time. If no payment has been received for 15 days thereafter, a 10% penalty is charged and the District calls the customer to notify them of their past due status and to contact the District to avoid any additional charges. Approximately two days after this call is made, a door hanger notifying the customer that service will be shut off in 48 hours is delivered to the address and a $43 fee is applied to their account. Finally, the customer will be shut off for non-payment and a $48 charge will be applied to their account at the expiration of this 48 hour period. This current timeline is summarized as follows:
Proposed
SB998 requires a 60 day period from the date the bill becomes delinquent / past due to customer shut off. To comply with these requirements, Staff is proposing to extend the period from the bill date until shut off to 67 days (from the current 39 days). Effective February 1, 2020, customer bills will be due 7 days after issuance to ensure that the District can properly manage the amount of time a customer can continue to incur charges prior to shut off. However, no penalty would be incurred by the customer until 35 days after the bill date – the same as the current timeline. This due date is different than the current timeline of 20 days, which will necessitate a modification of the customer bill to avoid confusion. The current customer bill shows bill date and the due date, shown as follows:

<table>
<thead>
<tr>
<th>BILL DATE</th>
<th>DUE DATE &amp; NOTICE SENT</th>
<th>CALL &amp; 10% PENALTY</th>
<th>TAG ISSUED</th>
<th>SHUT OFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 DAYS</td>
<td>15 DAYS</td>
<td>~ 2 DAYS</td>
<td>2 DAYS</td>
<td></td>
</tr>
</tbody>
</table>

The due date is the current 20 day timeline; however, with the reduction to 7 days, the bills will be modified to notify the customer of when the penalty date is, as follows:

Account Statement
ACCOUNT INFORMATION
ACCOUNT:
SERVICE ADDRESS:
SERVICE PERIOD: 10/2/2019 to 12/2/2019
BILLING DATE: 12/2/2019
DUE DATE: 12/21/2019

A written notice to the customer that payment has not yet been received will be sent 15 days prior to the penalty date to ensure that sufficient time is given to avoid any additional charges – which is the same notification period in the current timeline. To comply with additional requirements of SB998, a call to the customer will be placed at the penalty date, as is current, and a door hanger placed at the property 10 days prior to shut off. The revised timeline is as summarized as follows, showing the required 60 day period:
Payment Assistance

SB998 requires that the District offer all customers a deferral or payment plan to avoid discontinuance of residential service. The District currently offers customers this option when they should contact customer service about their inability to pay their current amount due; however, this will now be memorialized in the District’s Administrative Code. Additionally, SB998 requires customers who declare that they are below 200% of the current federal poverty level and / or have a member of the household who are currently enrolled in certain benefit programs (i.e. CalFresh, MediCal, SNAP, etc.) to have one late fee waived 12 month period. However, Staff is proposing to offer this to all customers, as is current practice, and be memorialized in the Administrative Code.

Customer Notification(s)

Additional provisions of SB998 include requirements for notification of customers to avoid potential shut offs. The current District notification protocol timelines and content will be modified to comply with these provisions. Some changes that are required to be implemented include:

- A 7 day written notification for single family residential customers prior to shut off and 10 day for multi-family. For consistency and ease of management, all customers will have a 10 day written notification.

- Posting the shut off policy on the District’s web site, informing customers on how to obtain the shut off policy on phone calls, and a copy of the policy on written communications prior to shut off. This policy (a condensed version of the proposed Administrative Code changes) must include a plan for deferred or reduced payments; alternative payment schedules; a formal mechanism for a customer to contest or appeal a bill; and the telephone number for a customer to contact to discuss options for averting discontinuation of residential service for nonpayment.

Other Customer Classes

Of the District’s approximate 6,500 customers, nearly 91% are single or multi-family residential and would be subject to SB998 provisions. For the additional 9% of customers (excluding temporary meters and recycled water customers), Staff is proposing to have the same provisions apply to them for ease of management, customer service staff time, and the inability for the District’s billing system to handle multiple shut off time frames.
COMMITTEE ACTION:
This item was not reviewed at the Committee level.

FISCAL IMPACT:
Though no direct fiscal impact to the District is anticipated. The increased length of time mandated prior to customer shut off may cause a rise in accounts receivable during the first year of implementation.

Attachment A: District Administrative Code, Article 13 (Redlined Version)
Attachment B: Resolution 20-02 Revising Administrative Code Article 13 w/Exhibit A
Attachment C: Residential Discontinuation Policy

Prepared by: Seth M. Gates, Administrative Services Manager
Approved by: Albert C. Lau, P.E., General Manager
ARTICLE 13. - BILLING PROCEDURES

SEC. 13.1   BILLS AND PAYMENTS
Meters for potable water will be read by Santa Fe Irrigation District (the District) bi-monthly. This will be done approximately the same day each month. Bills are due and payable when mailed and are delinquent if not paid within 20-7 days from the date of mailing.

Bills can be paid in person at the District office or by mail. District field and service personnel are not authorized to receive payments for water bills.

Sec. 13.1.1 Payment Options
The District accepts payments by cash, check or through the District’s customer online portal. Credit card payments may be made through the Official Payments Corporation. District’s customer online portal may incur a fee based on the amount of the transaction.

SEC. 13.2   BILLING DISPUTE
Any customer desiring to initiate a complaint or request an investigation concerning services or charges shown on this bill must do so within 5 days of receipt of the bill. For purposes of this section, a bill is deemed received 5 days after mailing. Any such complaint or request must be in writing and filed with the Administrative Manager. The review will include consideration of whether the customer may receive an extension, amortization, or other payment arrangement. If the customer is dissatisfied with the decision of the Administrative Manager, the customer shall have the right to appeal the decision to the District’s Board of Directors by filing a written appeal within 7 days of the decision of the Administrative Manager. The District Secretary will set the matter to be heard at an upcoming Board meeting and mail the customer notice of the time and place of the meeting at least 10 days before the meeting. The decision of the Board is final. The District will not discontinue residential water service for nonpayment while a bill is subject to a timely dispute, complaint, or appeal.

SEC. 13.3   FINANCIAL ASSISTANCE
The District offers customers the option of installment payments or a 30 day deferral on one bill every 12-month period. Information may be obtained by telephone at the District office at (858) 756-2424, weekdays between the hours of 7:30 a.m. to 4:00 p.m. except on the alternating Fridays the office is closed. The District will not discontinue residential water service for nonpayment while the customer is complying with an installment payment plan or deferral. However, if a customer does not comply with the terms of the installment payment plan or deferral or pay current residential service charges, the District will post a final notice of intent to disconnect service in a prominent and conspicuous location at the service address at least five (5) business days before discontinuation of service. The final notice will not entitle the customer to any investigation or review by the District.

The District shall waive one delinquency penalty every 12 month period for any residential customer upon request.
Information on procedures to obtain financial assistance or to make arrangements for installment
SEC. 13.4  ESTIMATED BILLINGS
Should any meter in service fail to register, or should the District be unable to read the meter for reasons beyond the control of the District, the amount of water used shall be estimated by the District by comparing it to the same billing period in previous years.

SEC. 13.5  BILLING ADJUSTMENT
The District reserves the right to adjust a bill to correct any error that may be found. If the error is in favor of the customer, a refund or credit shall be given to the customer. If the error is in favor of the District, the customer shall be billed for the deficiency. No adjustment shall be made for an error that occurred for more than 18 months before the adjustment unless expressly approved by the Board.

SEC. 13.6  CHECKS RETURNED - NOT SUFFICIENT FUNDS
A service charge shall be imposed and added to the amount due the District for any check that is not honored for any reason by the customer’s bank.

SEC. 13.7  COLLECTION PROCEDURES

Sec. 13.7.1  Single Family Residence/No Change of Tenant or Ownership
Bills for water service are delinquent if not paid within seven (7) days from the date of mailing and water service will be terminated no less than 60 days after bills become delinquent. A penalty equivalent to 10% of the original bill will be assessed if not paid within 35 days of the date of mailing. The District shall send a customer a notice by first-class mail that the bill has become delinquent and a penalty equivalent to 10% of the original bill will be assessed at least ten (10) days prior to the penalty being assessed. At least 17 working days prior to the termination of service, the District shall make a reasonable, good faith effort to contact an adult person residing at the property by telephone or in person. A discontinuance notice, charged to the customer at the District’s current door hanger fee rate, will also be placed on the property at least ten (10) days prior to the termination of service. A shut off fee will be added after the expiration of these ten (10) days, in addition to the 10% penalty and door hanger fee, whether or not service is discontinued. If the total bill is $25.00 or less, there will be no steps taken for collection at this time.

In addition, if the owner, manager, or operator of the property is the customer of record or if the customer of record’s mailing address is not the same as the service address, the District will also send a notice to the tenants living at the service address at least ten (10) days before discontinuation of water service.

Bills for water service are delinquent if not paid within 20 days from the date of mailing. At the end of 20 days the District shall send a customer a notice by first class mail that water service shall be discontinued unless the bill is paid in full within 15 days from the date of mailing. If it remains unpaid at the end of 15 days, a penalty equivalent to 10% of the original bill will be assessed. At least 2 working days prior to the termination of service, the District shall make a
reasonable, good faith effort to contact an adult person residing at the property by telephone or in
person. A discontinuance notice will also be placed on the property 48 hours prior to the
termination of service. A service charge will be added after the expiration of 48 hours, in addition
to the 10% penalty, whether or not service is discontinued. If the total bill is $25.00 or less, there
will be no steps taken for collection at this time.

Sec. 13.7.2 Multi Unit Services

Bills for water service are delinquent if not paid within seven (7) days from the date of mailing
and water service will be terminated no less than 60 days after bills become delinquent. A penalty
equivalent to 10% of the original bill will be assessed if not paid within 35 days of the date of
mailing. The District will send the person or persons of record responsible for the payment of the
account a notice by first-class mail that the bill has become delinquent and a penalty equivalent
to 10% of the original bill will be assessed at least ten (10) days prior to the penalty being assessed.
At least 17 working days prior to the termination of service, the District shall make a reasonable,
good faith effort to contact the customer of record or an adult person at the customer’s address by
telephone or in person. At least ten (10) days prior to the termination of service a “Notice
of Intent to Disconnect Water Service” will be placed on bulletin board areas where most residents
would see it, i.e., recreation rooms, mail rooms, in apartment buildings or mobile home parks. In
the case of duplexes serviced by one meter, both sides will receive notice.

The procedures in this section apply to master-metered properties and individually metered
service in a multi-unit residential structure, mobile home park, or farm labor camp where the
owner, manager or operator is the customer of record.

Bills for water service are delinquent if not paid within 20 days from the date of mailing. At the
end of 20 days, the District will send a reminder to the person or persons of record responsible
for the payment of the account. At the same time, a “Notice of Intent to Disconnect Water
Service” will be placed on bulletin board areas where most residents would see it, i.e., recreation
rooms, mail rooms, in apartment buildings or mobile home parks. In the case of duplexes serviced
by one meter, both sides will receive notice.

For termination service to a master meter or to individually metered service in a multiunit
residential structure, mobile home park, or farm labor camp where the owner, manager, or farm
labor employer is listed by the District as a customer of record, Government Code Section 60371
requires the following:

a) Notice. District must make “every good faith effort to inform the actual users” when the
account is in arrears and service will be terminated.

b) Time for Notice. Notice must be given at least 10 days before termination.

c) Actual users have the right to become customers of the District without paying the
delinquent amount. New customer must agree to terms and conditions of service. One or
more actual users may agree to assume responsibility for the entire account.

Sec. 13.7.3 Procedures for Tenants to Become Customers on Delinquent
Accounts

If a tenant of any residential property is not a customer of the District and billing for the property becomes delinquent, the tenant may become a customer of the District and not be responsible for the delinquent amount with verification that the delinquent account customer is or was the landlord, manager, or agent of the property. Verification may include a lease or rental agreement, rent receipts, a government document indicating that the resident is renting the property, or information disclosed pursuant to Section 1962 of the Civil Code. The District will make service available to the tenants if each tenant agrees to the terms and conditions of service. Alternatively, if one or more of the tenants are willing and able to assume responsibility for all subsequent charges to the account to the satisfaction of the District, or if there is a physical means legally available to the District of selectively discontinuing service to those tenants who have not met the District’s terms and conditions of service, the District will make service available to the tenants who have met those terms and conditions.

Sec. 13.7.4 Discontinuation of Service for Vulnerable Peoples

The District shall not discontinue residential service for nonpayment for any customer that meets all of the following conditions:

a) The customer, or tenant of the customer, shall submit certification from a primary care provider (internist, general practitioner, obstetrician-gynecologist, pediatrician, family practice physician, nonphysician medical practitioner, or any primary care clinic, rural health clinic, community clinic or hospital outpatient clinic currently enrolled in the Medi-Cal program, which agrees to provide case management to Medi-Cal beneficiaries) that discontinuation of service will be life threatening or pose a serious threat to the health and safety of a resident of the premises;

b) The customer declares that the household annual income is no more than 200 percent of the federal poverty level or provides current documentation that any member of the household is a recipient of: CalWORKs; CalFresh; general assistance; Medi-Cal; Supplemental Security Income / State Supplementary Payment Program; or California Special Supplemental Nutrition Program for Woman, Infants, and Children; and

c) The customer is willing to agree to installment payments with respect to the past-due charges.

For any customers who meet all of the above conditions, the District will offer an installment payment plan for the past due charges. The customer is responsible for demonstrating that the conditions above have been met.

Any customer that does not comply with the terms of the installment payment plan or pay current residential service charges for 60 days or more will be subject to discontinuation of water service. The District will post a final notice of intent to disconnect service in a prominent and conspicuous location at the service address at least five (5) business days before discontinuation of service. The final notice will not entitle the customer to any investigation or review by the District.

Service shall not be discontinued while the District works to confirm that the conditions of this
SEC. 13.8  CHARGES TO REINSTATE TERMINATED SERVICES
The following conditions apply to the preceding Single Family Residence and Multi Unit Services. Service that has been terminated for non-payment will be reinstated upon the payment of all sums owed the District. When one parcel or contiguous parcels are served by more than one meter which are billed to the same customer, and both are delinquent at the same time, only one service fee will be charged if full payment of all charges are made at one time. If the charges are not paid for all meters at one time, a service fee will be charged for each meter.

SEC. 13.9  TIME TO RESTORE SERVICE
Water service will be turned on only between the hours of 8:00 a.m. and 5:00 p.m. on business days of the District. Service may be turned on after hours if the customer agrees to pay all charges by noon of the next working day and if during the preceding 12-month period the customer has not been notified of the intention of the District to terminate service.

SEC. 13.10  DAMAGE TO DISTRICT FACILITIES
If a customer breaks or damages any locking devices or equipment to turn on his/her water service after it has been turned off for non-payment, the District will remove the water meter. The meter will not be replaced until all water charges, penalties, fees and cost of damage to the equipment are paid plus $100.00 to cover the expense of removing the meter to terminate service.

SEC. 13.11  FINAL BILL - CHANGE OF TENANT/NO CHANGE OF OWNERSHIP
A final bill will be sent to the tenant. At that time a copy of the final bill will be sent to the legal owner with a letter notifying the owner of the bills. Final bills are due 14 days from mailing date and if unpaid the owner will then be notified that payment is past due. If the final bill is unpaid 40 days after mailing to the owner a 10% penalty will be added. The bill, plus a processing fee, will be added to the next tax assessment roll and shall become a lien on the property of the owner.

SEC. 13.12  FINAL BILL - CHANGE OF PROPERTY OWNERSHIP
The final bill will be sent to the former owner. The final bill is due and payable 14 days from the date of mailing. If the final bill is unpaid 14 days after mailing, a 10% penalty will be added. This bill, plus a processing fee, will be added to the next tax assessment roll and shall become a lien on other property within San Diego County owned by the former owner.

SEC. 13.13  BANKRUPTCY OF CUSTOMER
Pursuant to the Bankruptcy Act (P.L. 95-598), the District shall not alter, refuse or discontinue service to, or discriminate against, a customer or a trustee of a customer, solely on the basis that a debt owed by the customer to the District for service rendered before the order for relief was not paid when due. It shall be the responsibility of the customer to supply the District with a copy of any applicable order for relief. The District shall discontinue service if neither the customer,
nor the trustee, within 20 days after the date of the order for relief, furnishes adequate assurance of payment in the form of a deposit for service after such date. As used herein “adequate assurance of payment” shall mean a cash deposit in an amount equal to the highest of the last six billings rendered to the customer’s property, or for the customer’s property, if the customer has not occupied the property for that period of time, prior to the order for relief. As used herein, “order for relief” shall have the same meaning as given to it in the Bankruptcy Act. The commencement of a voluntary case under the Bankruptcy Act shall constitute an order for relief. Service may be discontinued in accordance with the rules of the District upon nonpayment for service rendered after the order of relief.

SEC. 13.14_IDENTITY THEFT PREVENTION POLICY

Sec.13.14.1 Purpose

The Fair and Accurate Credit Transaction Act of 2003 (“FACTA”), section 114, as implemented by the Red Flag Rules, 16 C.F.R. § 681.2, issued by the Federal Trade Commission, along with other federal agencies, requires creditors of customer accounts to implement an Identity Theft Prevention Policy. Pursuant to the regulations, the Santa Fe Irrigation District (“District”) is a creditor because it provides services to customers prior to receipt of payment through customer accounts, including utility service accounts, which are maintained primarily for personal, family, or household purposes and involve multiple payments or transactions, and for which there is a reasonably foreseeable risk of identity theft. Therefore, the District is required to implement an Identity Theft Prevention Policy.

The purpose of this Identity Theft Prevention Policy (“Policy”) is to detect, prevent, and mitigate identity theft in connection with all customer accounts, taking into consideration the level of risk for identity theft given the District’s scope of services provided and the types of accounts. This Policy is created to identify patterns, practices, and specific activities that indicate the possible existence of identity theft, hereinafter referred to as “Red Flags.” The Policy sets forth the procedures for detecting Red Flags and responding to Red Flags when discovered.

Sec. 13.14.2 Definitions

“Customer account” shall mean a utility service account or other account provided by the District that constitutes a “covered account” under the Red Flag Rules.

“Identity theft” shall mean a fraud committed or attempted using the personal identifying information of another person without his/her authority.

“Personal identifying information” shall mean information that may be used to identify a specific person, including, but not limited to, a social security number, date of birth, government issued driver’s license or identification number, government passport number, unique biometric data such as fingerprints or physical appearance, any unique electronic identification number, telephone number or address.

“Red Flag” shall mean a pattern, practice or specific activity that indicates the possible existence of identity theft as defined in the Red Flag Rules, and as specifically enumerated in Section V.
Sec. 13.14.3 Designation of Authority
The Board of Directors of the District designates to the General Manager or his designee the authority to develop, oversee, implement, and administer the Policy.

As part of the General Manager or his designee’s oversight responsibilities for the Policy, the General Manager or his designee is required to review and approve all material changes to the Policy as necessary to address changing identity theft risks. The General Manager or his designee is also responsible for reviewing reports prepared by the District’s staff regarding the District’s compliance with FACTA and the Red Flag Rules requiring the implementation of an Identity Theft Prevention Policy.

Sec. 13.14.3.1 Compliance Reports to be Prepared By District Staff
The General Manager or his designee will designate the District staff involved with the implementation of the Program to prepare reports regarding the District’s compliance with FACTA and the Red Flag Rules requiring the implementation of an Identity Theft Prevention Policy. The reports should address material matters related to the Program, such as the following:

a) The effectiveness of the District’s policies and procedures to address the risk of identity theft in connection with opening customer accounts, as well as with existing accounts. This includes identifying any issues related to identifying, detecting to the General Manager or his designee and responding to Red Flags;

b) Third-party service provider arrangements;

c) Significant incidents of identity theft or Red Flag detection, and the District’s responses to those incidents;

d) Recommendations for material changes to the program to ensure that customer accounts are adequately protected from the risk of identity theft.

The reports should be prepared at least annually for review by the General Manager or his designee and/or the Board of Directors of the District.

Sec. 13.14.3.2 Red Flags Identified by the District
In identifying the Red Flags applicable to the District’s customer accounts, the District considered the following risk factors:

a) The types of accounts the District maintains;

b) The methods the District provides to open customer accounts;

c) The methods the District provides to access to customers’ accounts;

d) The District’s previous experiences with identity theft in connection with the customer accounts.
The Red Flags identified in this Policy have been incorporated from sources, which include supervisory guidance, past incidents of identity theft, and changes in methods of identity theft risk.
The District’s Identified Red Flags are as Follows:

1. **Suspicious Documents:**
   - Documents used for identification purposes appear to have been altered or forged.
   - The photograph or physical description on the identification documents do not match the appearance of the person presenting the identification.
   - Other information in identification documents does not match the information provided by the individual presenting the identification documents.
   - Other information in the identification documents does not match the information on file with the District.
   - The application to open the account appears to have been forged, altered, or gives the appearance of having been destroyed and reassembled.

2. **Suspicious Personal Identifying Information:**
   - Personal identifying information is inconsistent with other personal identifying information provided by the customer, such as a date of birth that does not correlate.
   - Personal identifying information provided is associated with known fraudulent activity, as indicated by internal or third-party sources, such as the address or phone number on an application was previously provided on another fraudulent application.
   - Personal identifying information is of a type commonly associated with fraudulent activity, as indicated by internal or third-party sources, such as a fictitious address, or an invalid phone number.
   - The address or telephone number provided is the same as other individuals attempting to open an account or existing customers.
   - The individual opening the account cannot provide all of the required personal identifying information for an application.
   - Personal identifying information is inconsistent with the information provided by the customer on file with the District.
   - Where challenge questions are used by the District to verify the identity of an individual, the individual claiming to be the customer cannot answer challenge questions correctly.
3. **Unusual Use of or Other Suspicious Activity Related to a Customer Account:**

- Shortly after receiving a notice of change of address for the account, the District receives a request to add another name to the account.
- A new account is used in a manner commonly associated with known patterns of fraud, such as a first payment is made, and then no subsequent payments are made.
- An inactive account becomes active.
- Mail sent to the customer is returned repeatedly.
- The District is notified that a customer is not receiving his/her paper account statements.
- The District is notified of unauthorized transactions on a customer’s account.

4. **Notice of Possible Identity Theft:**

- The District is notified by a customer of possible identity theft in connection with his/her account.
- The District is notified by a victim of identity theft of possible identity theft in connection with a customer account.
- The District is notified by law enforcement of possible identity theft in connection with a customer account.
- The District is notified by others of possible identity theft in connection with a customer account.

**Sec. 13.14.3.3 Procedures for Detecting Red Flags**

The following procedures are being implemented by the District to detect the Red Flags identified with opening of accounts and existing accounts identified above:

a) Obtain personal identifying information of an individual to verify his/her identity prior to opening an account.

b) Authenticate the identity of customers when they are requesting information about their accounts.

c) Authenticate the identity of customers when they are requesting to make any changes to their accounts.

Members of the District’s staff will be assigned and trained to detect Red Flags.
In addition, the District may employ the services of a third party service provider and/or utilize computer software programs to assist in detecting Red Flags.

**Sec. 13.14.3.4 Procedures for Responding To Red Flags**

In order to prevent and mitigate identity theft, and after taking into consideration the risks of identity theft applicable to the customer accounts, the District implements the following procedures to respond to all Red Flags that are discovered. One or more of these procedures will be used each time a Red Flag is detected:

a) Monitor accounts for evidence of identity theft.

b) Change or add a password, security code, or other device that provides access to the account.

c) Reopen an account with a new account number

d) Close an existing account.

e) Not open a new account.

f) Not attempt to collect on an account.

g) Notify law enforcement.

h) Determine that no response is warranted given the particular circumstances.

i) Ask the customer to appear in person with government issued identification.

j) Do not provide account information to anyone other than the account holder, or other individual authorized by the account holder.

k) Update all account information.

l) Deactivate payment method, such as a credit card registered for online payment.

m) Connect or disconnect service.

n) Initiate an investigation.

In addition to any of the actions above, the General Manager or his designee will be notified of any Red Flags discovered.

**Sec. 13.14.3.5 Training of Staff**

The District staff that will be directly involved with opening customers’ account or servicing customer accounts in a manner that would place them in a position to detect Red Flags, or allow them access to customers’ private information shall be trained to detect Red Flags and appropriately respond when Red Flags are discovered. The District’s staff participation is crucial to the effective implementation of this Policy.
The General Manager or his designee will oversee all staff training to ensure that training is adequate to ensure effective implementation of the Policy.

**Sec. 13.14.3.6 Oversight of Third-Party Service Provider Involved with Customer Accounts**

If, the District employs a third-party service provider to perform any activity in connection with a customer account, the General Manager or his designee is responsible for ensuring that the activity is conducted in compliance with reasonable policies and procedures to detect, prevent and mitigate the risk of identity theft. This may be achieved by requiring that a third-party service provider has policies and procedures to detect the Red Flags identified by the District, and also requiring the third-party service provider to review the District’s Policy and agree to report any Red Flags to the General Manager or his designee.

**Sec. 13.14.3.7 Use of a Third Party Service Provider to Assist in the Implementation of the Program**

The District may hire a third-party service provider in order to implement this Policy. The third-party service provider may provide services such as the implementation and administration of computer software programs that detect Red Flags. If a third-party service provider is used to assist in the detection of Red Flags, the third-party service provider is required to immediately notify the General Manager or his designee if any Red Flags are discovered.

The General Manager or his designee is responsible for overseeing any third-party service provider in an appropriate and effective manner. The General Manager’s or his designee’s oversight shall include periodic meetings and/or receipt and review of periodic reports from the third-party service provider regarding what services are being provided, any Red Flags that have been detected, and any possible modifications to the services provided to increase the effectiveness.

**Sec. 13.14.3.8 Periodic Identification of Customer Accounts**

The General Manager or his designee will periodically review the types of accounts it maintains for customers to determine which are “covered accounts” under the Red Flag Rules, and therefore are subject to this Policy.

**Sec. 13.14.3.9 Periodic Update of the Policy**

This Program shall be updated periodically to ensure that the identified Red Flags, the procedures to detect Red Flags, and the responses to the Red Flags when discovered adequately protect customers from identity theft. The updating of the Policy should take into consideration any changes in the customers’ level of risk of identity theft by looking at the following factors:

a) The District’s recent experiences with identity theft in connection with the customer accounts.

b) Changes in methods of identity theft.
c) Changes in methods of detecting, preventing and mitigating identity theft.

d) Changes in the types of customer accounts offered.

e) Changes in arrangements with any third-party service providers involved in the implementation of the Program.

The General Manager or his designee may recommend modifications to the Policy. However, any modification to the Program may not be implemented unless first approved by the Board of Directors of the District.

SEC. 13.15 EXHIBITS
Miscellaneous Fees and Charges
RESOLUTION OF THE BOARD OF DIRECTORS
OF SANTA FE IRRIGATION DISTRICT
ADOPTING AMENDMENTS TO THE DISTRICT
ADMINISTRATIVE CODE – ARTICLE 13

WHEREAS, the Santa Fe Irrigation District (“District”) is an irrigation district organized and existing pursuant to the Irrigation District Law, commencing with Section 20500 of the California Water Code; and

WHEREAS, pursuant to Water Code section 22075, the District may do any act necessary to furnish sufficient water in the District for any beneficial use; and

WHEREAS, to facilitate the District’s ability to furnish sufficient water for beneficial use, the District has, from time to time, adopted rules and regulations regarding the operation and administration of the District; and

WHEREAS, the District has compiled the rules and regulations in an Administrative Code; and

WHEREAS, the District has revised the Administrative Code on numerous occasions; and

WHEREAS, the District has reviewed and desires to revise certain Articles of the Administrative Code, as indicated in Exhibit “A”, attached hereto.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Santa Fe Irrigation District as follows:

1. The matters set forth in the recitals to this Resolution are true and correct statements.

2. The amendment of the Administrative Code is not subject to the California Environmental Quality Act.

3. The Santa Fe Irrigation District Administrative Code, Article 13 is amended as set forth in Exhibit “A”, attached hereto and incorporated herein.

4. This Resolution shall take effect immediately.

PASSED, ADOPTED, AND APPROVED at a regular meeting of the Board of Directors of the Santa Fe Irrigation District held on the 16th day of January 2020, by the following vote, to wit:
ARTICLE 13. - BILLING PROCEDURES

SEC. 13.1 BILLS AND PAYMENTS
Meters for potable water will be read by Santa Fe Irrigation District (the District) bi-monthly. This will be done approximately the same day each month. Bills are due and payable when mailed and are delinquent if not paid within 7 days from the date of mailing.

Bills can be paid in person at the District office or by mail. District field and service personnel are not authorized to receive payments for water bills.

Sec. 13.1.1 Payment Options
The District accepts payments by cash, check or through the District’s customer online portal. Credit card payments made through the District’s customer online portal may incur a fee based on the amount of the transaction.

SEC. 13.2 BILLING DISPUTE
Any customer desiring to initiate a complaint or request an investigation concerning services or charges shown on a bill must do so within 5 days of receipt of the bill. For purposes of this section, a bill is deemed received 5 days after mailing. Any such complaint or request must be in writing and filed with the Administrative Manager. The review will include consideration of whether the customer may receive an extension, amortization, or other payment arrangement. If the customer is dissatisfied with the decision of the Administrative Manager, the customer shall have the right to appeal the decision to the District’s Board of Directors by filing a written appeal within 7 days of the decision of the Administrative Manager. The District Secretary will set the matter to be heard at an upcoming Board meeting and mail the customer notice of the time and place of the meeting at least 10 days before the meeting. The decision of the Board is final. The District will not discontinue residential water service for nonpayment while a bill is subject to a timely dispute, complaint, or appeal.

SEC. 13.3 FINANCIAL ASSISTANCE
The District offers customers the option of installment payments or a 30 day deferral on one bill every 12-month period. Information may be obtained by telephone at the District office at (858) 756-2424, weekdays between the hours of 7:30 a.m. to 4:00 p.m. except on the alternating Fridays the office is closed. The District will not discontinue residential water service for nonpayment while the customer is complying with an installment payment plan or deferral. However, if a customer does not comply with the terms of the installment payment plan or deferral or pay current residential service charges, the District will post a final notice of intent to disconnect service in a prominent and conspicuous location at the service address at least five (5) business days before discontinuation of service. The final notice will not entitle the customer to any investigation or review by the District.

The District shall waive one delinquency penalty every 12 month period for any residential customer upon request.
SEC. 13.4 ESTIMATED BILLINGS
Should any meter in service fail to register, or should the District be unable to read the meter for reasons beyond the control of the District, the amount of water used shall be estimated by the District by comparing it to the same billing period in previous years.

SEC. 13.5 BILLING ADJUSTMENT
The District reserves the right to adjust a bill to correct any error that may be found. If the error is in favor of the customer, a refund or credit shall be given to the customer. If the error is in favor of the District, the customer shall be billed for the deficiency. No adjustment shall be made for an error that occurred for more than 18 months before the adjustment unless expressly approved by the Board.

SEC. 13.6 CHECKS RETURNED - NOT SUFFICIENT FUNDS
A service charge shall be imposed and added to the amount due the District for any check that is not honored for any reason by the customer’s bank.

SEC. 13.7 DISCONTINUATION OF RESIDENTIAL SERVICE FOR NONPAYMENT

Sec. 13.7.1 Single Family Residence/ Ownership or Tenant
Bills for water service are delinquent if not paid within seven (7) days from the date of mailing and water service will be terminated no less than 60 days after bills become delinquent. A penalty equivalent to 10% of the original bill will be assessed if not paid within 35 days of the date of mailing. The District shall send a customer a notice by first-class mail that the bill has become delinquent and a penalty equivalent to 10% of the original bill will be assessed at least ten (10) days prior to the penalty being assessed. At least 17 working days prior to the termination of service, the District shall make a reasonable, good faith effort to contact an adult person residing at the property by telephone or in person. A discontinuance notice, charged to the customer at the District’s current door hanger fee rate, will also be placed on the property at least ten (10) days prior to the termination of service. A shut off fee will be added after the expiration of these ten (10) days, in addition to the 10% penalty and door hanger fee, whether or not service is discontinued. If the total bill is $25.00 or less, there will be no steps taken for collection at this time.

In addition, if the owner, manager, or operator of the property is the customer of record or if the customer of record’s mailing address is not the same as the service address, the District will also send a notice to the tenants living at the service address at least ten (10) days before discontinuation of water service.

Sec. 13.7.2 Multi Unit Residential Services
Bills for water service are delinquent if not paid within seven (7) days from the date of mailing and water service will be terminated no less than 60 days after bills become delinquent. A penalty equivalent to 10% of the original bill will be assessed if not paid within 35 days of the date of mailing. The District will send the person or persons of record responsible for the payment of the account a notice by first-class mail that the bill has become delinquent and a penalty equivalent
to 10% of the original bill will be assessed at least ten (10) days prior to the penalty being assessed. At least 17 working days prior to the termination of service, the District shall make a reasonable, good faith effort to contact the customer of record or an adult person at the customer’s address by telephone or in person. At least ten (10) days prior to the termination of service a “Notice of Intent to Disconnect Water Service” will be placed on bulletin board areas where most residents would see it, i.e., recreation rooms, mail rooms, in apartment buildings or mobile home parks. In the case of duplexes serviced by one meter, both sides will receive notice.

The procedures in this section apply to master-metered properties and individually metered service in a multi-unit residential structure, mobile home park, or farm labor camp where the owner, manager or operator is the customer of record.

Sec. 13.7.3 Procedures for Tenants to Become Customers on Delinquent Accounts

If a tenant of any residential property is not a customer of the District and billing for the property becomes delinquent, the tenant may become a customer of the District and not be responsible for the delinquent amount with verification that the delinquent account customer is or was the landlord, manager, or agent of the property. Verification may include a lease or rental agreement, rent receipts, a government document indicating that the resident is renting the property, or information disclosed pursuant to Section 1962 of the Civil Code. The District will make service available to the tenants if each tenant agrees to the terms and conditions of service. Alternatively, if one or more of the tenants are willing and able to assume responsibility for all subsequent charges to the account to the satisfaction of the District, or if there is a physical means legally available to the District of selectively discontinuing service to those tenants who have not met the District’s terms and conditions of service, the District will make service available to the tenants who have met those terms and conditions.

Sec. 13.7.4 Discontinuation of Service for Vulnerable Peoples

The District shall not discontinue residential service for nonpayment for any customer that meets all of the following conditions:

a) The customer, or tenant of the customer, shall submit certification from a primary care provider (internist, general practitioner, obstetrician-gynecologist, pediatrician, family practice physician, nonphysician medical practitioner, or any primary care clinic, rural health clinic, community clinic or hospital outpatient clinic currently enrolled in the Medi-Cal program, which agrees to provide case management to Medi-Cal beneficiaries) that discontinuation of service will be life threatening or pose a serious threat to the health and safety of a resident of the premises;

b) The customer declares that the household annual income is no more than 200 percent of the federal poverty level or provides current documentation that any member of the household is a recipient of: CalWORKs; CalFresh; general assistance; Medi-Cal; Supplemental Security Income / State Supplementary Payment Program; or California Special Supplemental Nutrition Program for Woman, Infants, and Children; and

c) The customer is willing to agree to installment payments with respect to the past-due charges.

For any customers who meet all of the above conditions, the District will offer an installment
payment plan for the past due charges. The customer is responsible for demonstrating that the conditions above have been met.

Any customer that does not comply with the terms of the installment payment plan or pay current residential service charges for 60 days or more will be subject to discontinuation of water service. The District will post a final notice of intent to disconnect service in a prominent and conspicuous location at the service address at least five (5) business days before discontinuation of service. The final notice will not entitle the customer to any investigation or review by the District.

Service shall not be discontinued while the District works to confirm that the conditions of this section have been met.

SEC. 13.8 CHARGES TO REINSTATE TERMINATED SERVICES
The following conditions apply to the preceding Single Family Residence and Multi Unit Services. Service that has been terminated for non-payment will be reinstated upon the payment of all sums owed the District. When one parcel or contiguous parcels are served by more than one meter which are billed to the same customer, and both are delinquent at the same time, only one service fee will be charged if full payment of all charges are made at one time. If the charges are not paid for all meters at one time, a service fee will be charged for each meter.

SEC. 13.9 TIME TO RESTORE SERVICE
Water service will be turned on only between the hours of 7:30 a.m. and 4:30 p.m. on business days of the District. Service may be turned on after hours if the customer agrees to pay all charges by noon of the next working day and if during the preceding 12-month period the customer has not been notified of the intention of the District to terminate service.

SEC. 13.10 DAMAGE TO DISTRICT FACILITIES
If a customer breaks or damages any locking devices or equipment to turn on his/her water service after it has been turned off for non-payment, the District will remove the water meter. The meter will not be replaced until all water charges, penalties, fees and cost of damage to the equipment are paid plus $100.00 to cover the expense of removing the meter to terminate service.

SEC. 13.11 FINAL BILL - CHANGE OF TENANT/NO CHANGE OF OWNERSHIP
A final bill will be sent to the tenant. At that time a copy of the final bill will be sent to the legal owner with a letter notifying the owner of the bills. Final bills are due 14 days from mailing date and if unpaid the owner will then be notified that payment is past due. If the final bill is unpaid 40 days after mailing to the owner a 10% penalty will be added. The bill, plus a processing fee, will be added to the next tax assessment roll and shall become a lien on the property of the owner.
SEC. 13.12   FINAL BILL - CHANGE OF PROPERTY OWNERSHIP
The final bill will be sent to the former owner. The final bill is due and payable 14 days from the date of mailing. If the final bill is unpaid 14 days after mailing, a 10% penalty will be added. This bill, plus a processing fee, will be added to the next tax assessment roll and shall become a lien on other property within San Diego County owned by the former owner.

SEC. 13.13   BANKRUPTCY OF CUSTOMER
Pursuant to the Bankruptcy Act (P.L. 95-598), the District shall not alter, refuse or discontinue service to, or discriminate against, a customer or a trustee of a customer, solely on the basis that a debt owed by the customer to the District for service rendered before the order for relief was not paid when due. It shall be the responsibility of the customer to supply the District with a copy of any applicable order for relief. The District shall discontinue service if neither the customer, nor the trustee, within 20 days after the date of the order for relief, furnishes adequate assurance of payment in the form of a deposit for service after such date. As used herein “adequate assurance of payment” shall mean a cash deposit in an amount equal to the highest of the last six billings rendered to the customer’s property, or for the customer’s property, if the customer has not occupied the property for that period of time, prior to the order for relief. As used herein, “order for relief” shall have the same meaning as given to it in the Bankruptcy Act. The commencement of a voluntary case under the Bankruptcy Act shall constitute an order for relief. Service may be discontinued in accordance with the rules of the District upon nonpayment for service rendered after the order of relief.

SEC. 13.14   IDENTITY THEFT PREVENTION POLICY

Sec.3.14.1   Purpose
The Fair and Accurate Credit Transaction Act of 2003 (“FACTA”), section 114, as implemented by the Red Flag Rules, 16 C.F.R. § 681.2, issued by the Federal Trade Commission, along with other federal agencies, requires creditors of customer accounts to implement an Identity Theft Prevention Policy. Pursuant to the regulations, the Santa Fe Irrigation District (“District”) is a creditor because it provides services to customers prior to receipt of payment through customer accounts, including utility service accounts, which are maintained primarily for personal, family, or household purposes and involve multiple payments or transactions, and for which there is a reasonably foreseeable risk of identity theft. Therefore, the District is required to implement an Identity Theft Prevention Policy.

The purpose of this Identify Theft Prevention Policy (“Policy”) is to detect, prevent, and mitigate identity theft in connection with all customer accounts, taking into consideration the level of risk for identity theft given the District’s scope of services provided and the types of accounts. This Policy is created to identify patterns, practices, and specific activities that indicate the possible existence of identity theft, hereinafter referred to as “Red Flags.” The Policy sets forth the procedures for detecting Red Flags and responding to Red Flags when discovered.

Sec. 13.14.2   Definitions
“Customer account” shall mean a utility service account or other account provided by the District
that constitutes a “covered account” under the Red Flag Rules.

“Identity theft” shall mean a fraud committed or attempted using the personal identifying information of another person without his/her authority.

“Personal identifying information” shall mean information that may be used to identify a specific person, including, but not limited to, a social security number, date of birth, government issued driver’s license or identification number, government passport number, unique biometric data such as fingerprints or physical appearance, any unique electronic identification number, telephone number or address.

“Red Flag” shall mean a pattern, practice or specific activity that indicates the possible existence of identity theft as defined in the Red Flag Rules, and as specifically enumerated in Section V.

Sec. 13.14.3 Designation of Authority
The Board of Directors of the District designates to the General Manager or his designee the authority to develop, oversee, implement, and administer the Policy.

As part of the General Manager or his designee’s oversight responsibilities for the Policy, the General Manager or his designee is required to review and approve all material changes to the Policy as necessary to address changing identity theft risks. The General Manager or his designee is also responsible for reviewing reports prepared by the District’s staff regarding the District’s compliance with FACTA and the Red Flag Rules requiring the implementation of an Identity Theft Prevention Policy.

Sec. 13.14.3.1 Compliance Reports to be Prepared By District Staff
The General Manager or his designee will designate the District staff involved with the implementation of the Program to prepare reports regarding the District’s compliance with FACTA and the Red Flag Rules requiring the implementation of an Identity Theft Prevention Policy. The reports should address material matters related to the Program, such as the following:

a) The effectiveness of the District’s policies and procedures to address the risk of identity theft in connection with opening customer accounts, as well as with existing accounts. This includes identifying any issues related to identifying, detecting to the General Manager or his designee and responding to Red Flags;

b) Third-party service provider arrangements;

c) Significant incidents of identity theft or Red Flag detection, and the District’s responses to those incidents;

d) Recommendations for material changes to the program to ensure that customer accounts are adequately protected from the risk of identity theft.

The reports should be prepared at least annually for review by the General Manager or his designee and/or the Board of Directors of the District.
Sec. 13.14.3.2 Red Flags Identified by the District

In identifying the Red Flags applicable to the District’s customer accounts, the District considered the following risk factors:

a) The types of accounts the District maintains;

b) The methods the District provides to open customer accounts;

c) The methods the District provides to access to customers’ accounts;

d) The District’s previous experiences with identity theft in connection with the customer accounts.

The Red Flags identified in this Policy have been incorporated from sources, which include supervisory guidance, past incidents of identity theft, and changes in methods of identity theft risk.
The District’s Identified Red Flags are as Follows:

1. **Suspicious Documents:**
   - Documents used for identification purposes appear to have been altered or forged.
   - The photograph or physical description on the identification documents do not match the appearance of the person presenting the identification.
   - Other information in identification documents does not match the information provided by the individual presenting the identification documents.
   - Other information in the identification documents does not match the information on file with the District.
   - The application to open the account appears to have been forged, altered, or gives the appearance of having been destroyed and reassembled.

2. **Suspicious Personal Identifying Information:**
   - Personal identifying information is inconsistent with other personal identifying information provided by the customer, such as a date of birth that does not correlate.
   - Personal identifying information provided is associated with known fraudulent activity, as indicated by internal or third-party sources, such as the address or phone number on an application was previously provided on another fraudulent application.
   - Personal identifying information is of a type commonly associated with fraudulent activity, as indicated by internal or third-party sources, such as a fictitious address, or an invalid phone number.
   - The address or telephone number provided is the same as other individuals attempting to open an account or existing customers.
   - The individual opening the account cannot provide all of the required personal identifying information for an application.
   - Personal identifying information is inconsistent with the information provided by the customer on file with the District.
   - Where challenge questions are used by the District to verify the identity of an individual, the individual claiming to be the customer cannot answer challenge questions correctly.
3. *Unusual Use of or Other Suspicious Activity Related to a Customer Account:*

- Shortly after receiving a notice of change of address for the account, the District receives a request to add another name to the account.
- A new account is used in a manner commonly associated with known patterns of fraud, such as a first payment is made, and then no subsequent payments are made.
- An inactive account becomes active.
- Mail sent to the customer is returned repeatedly.
- The District is notified that a customer is not receiving his/her paper account statements.
- The District is notified of unauthorized transactions on a customer’s account.

4. *Notice of Possible Identity Theft:*

- The District is notified by a customer of possible identity theft in connection with his/her account.
- The District is notified by a victim of identity theft of possible identity theft in connection with a customer account.
- The District is notified by law enforcement of possible identity theft in connection with a customer account.
- The District is notified by others of possible identity theft in connection with a customer account.

**Sec. 13.14.3.3 Procedures for Detecting Red Flags**

The following procedures are being implemented by the District to detect the Red Flags identified with opening of accounts and existing accounts identified above:

a) Obtain personal identifying information of an individual to verify his/her identity prior to opening an account.

b) Authenticate the identity of customers when they are requesting information about their accounts.

c) Authenticate the identity of customers when they are requesting to make any changes to their accounts.

Members of the District’s staff will be assigned and trained to detect Red Flags.
In addition, the District may employ the services of a third party service provider and/or utilize computer software programs to assist in detecting Red Flags.

Sec. 13.14.3.4 Procedures for Responding To Red Flags

In order to prevent and mitigate identity theft, and after taking into consideration the risks of identity theft applicable to the customer accounts, the District implements the following procedures to respond to all Red Flags that are discovered. One or more of these procedures will be used each time a Red Flag is detected:

a) Monitor accounts for evidence of identity theft.

b) Change or add a password, security code, or other device that provides access to the account.

c) Reopen an account with a new account number

d) Close an existing account.

e) Not open a new account.

f) Not attempt to collect on an account.

g) Notify law enforcement.

h) Determine that no response is warranted given the particular circumstances.

i) Ask the customer to appear in person with government issued identification.

j) Do not provide account information to anyone other than the account holder, or other individual authorized by the account holder.

k) Update all account information.

l) Deactivate payment method, such as a credit card registered for online payment.

m) Connect or disconnect service.

n) Initiate an investigation.

In addition to any of the actions above, the General Manager or his designee will be notified of any Red Flags discovered.

Sec. 13.14.3.5 Training of Staff

The District staff that will be directly involved with opening customers’ account or servicing customer accounts in a manner that would place them in a position to detect Red Flags, or allow them access to customers’ private information shall be trained to detect Red Flags and appropriately respond when Red Flags are discovered. The District’s staff participation is crucial to the effective implementation of this Policy.
The General Manager or his designee will oversee all staff training to ensure that training is adequate to ensure effective implementation of the Policy.

**Sec. 13.14.3.6 Oversight of Third-Party Service Provider Involved with Customer Accounts**

If, the District employs a third-party service provider to perform any activity in connection with a customer account, the General Manager or his designee is responsible for ensuring that the activity is conducted in compliance with reasonable policies and procedures to detect, prevent and mitigate the risk of identity theft. This may be achieved by requiring that a third-party service provider has policies and procedures to detect the Red Flags identified by the District, and also requiring the third-party service provider to review the District’s Policy and agree to report any Red Flags to the General Manager or his designee.

**Sec. 13.14.3.7 Use of a Third Party Service Provider to Assist in the Implementation of the Program**

The District may hire a third-party service provider in order to implement this Policy. The third-party service provider may provide services such as the implementation and administration of computer software programs that detect Red Flags. If a third-party service provider is used to assist in the detection of Red Flags, the third-party service provider is required to immediately notify the General Manager or his designee if any Red Flags are discovered.

The General Manager or his designee is responsible for overseeing any third-party service provider in an appropriate and effective manner. The General Manager’s or his designee’s oversight shall include periodic meetings and/or receipt and review of periodic reports from the third-party service provider regarding what services are being provided, any Red Flags that have been detected, and any possible modifications to the services provided to increase the effectiveness.

**Sec. 13.14.3.8 Periodic Identification of Customer Accounts**

The General Manager or his designee will periodically review the types of accounts it maintains for customers to determine which are “covered accounts” under the Red Flag Rules, and therefore are subject to this Policy.

**Sec. 13.14.3.9 Periodic Update of the Policy**

This Program shall be updated periodically to ensure that the identified Red Flags, the procedures to detect Red Flags, and the responses to the Red Flags when discovered adequately protect customers from identity theft. The updating of the Policy should take into consideration any changes in the customers’ level of risk of identity theft by looking at the following factors:

a) The District’s recent experiences with identity theft in connection with the customer accounts.

b) Changes in methods of identity theft.
c) Changes in methods of detecting, preventing and mitigating identity theft.

d) Changes in the types of customer accounts offered.

e) Changes in arrangements with any third-party service providers involved in the implementation of the Program.

The General Manager or his designee may recommend modifications to the Policy. However, any modification to the Program may not be implemented unless first approved by the Board of Directors of the District.

SEC. 13.15 EXHIBITS
Miscellaneous Fees and Charges
Billing Disputes and Appeals

Any customer desiring to initiate a complaint or request an investigation concerning services or charges shown on a bill must do so within 5 days of receipt of the bill. For purposes of this section, a bill is deemed received 5 days after mailing. Any such complaint or request must be in writing and filed with the Administrative Manager through mail to PO Box 409, Rancho Santa Fe, CA 92067 or at the District Office located at 5920 Linea Del Cielo, Rancho Santa Fe, CA 92067. If the customer is dissatisfied with the decision of the Administrative Manager, the customer has the right to appeal the decision to the District’s Board of Directors by filing a written appeal within 7 days of the decision of the Administrative Manager.

Financial Assistance

The District offers customers the option of installment payments or a 30 day deferral on one bill every 12-month period. In addition, the District will offer an installment payment plan to a customer who is experiencing a medical and financial hardship and meets the requirements in the District’s Administrative Code.

The District shall waive one late fee every 12 month period for any residential customer that declares that the household annual income is no more than 200 percent of the federal poverty level or provides current documentation that a member of the household is a recipient of: CalWORKs; CalFresh; general assistance; Medi-Cal; Supplemental Security Income / State Supplementary Payment Program; or California Special Supplemental Nutrition Program for Woman, Infants, and Children.

District Contact Information

To discuss options for averting discontinuation of residential service for nonpayment, please contact the District office at (858) 756-2424, weekdays between the hours of 7:30 a.m. to 4:00 p.m. except on the alternating Fridays the office is closed.
Treated Water Deliveries and Local Water Supplies:
During December 2019, REB treated 663.4 Acre Feet (AF) or 216.1 million gallons (MG) of drinking water for the Santa Fe Irrigation District (SFID) and San Dieguito Water District (SDWD) customers.

Peak daily flows treated at the plant reached 8.0 million gallons per day (MGD). SFID received 48.3% (314.2 AF) of the monthly plant production and SDWD received 51.7% (336.5 AF).

<table>
<thead>
<tr>
<th>2019 to 2020 Fiscal Year REB Production Totals - (SFID and SDWD)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REB Water Deliveries to Districts Thru January 1, 2020</strong></td>
</tr>
<tr>
<td>Total Deliveries (AF)</td>
</tr>
<tr>
<td>SFID 62.9%</td>
</tr>
<tr>
<td>SDWD 37.1%</td>
</tr>
<tr>
<td>SFID 5,399.7 AF</td>
</tr>
<tr>
<td>SDWD 3,182.2 AF</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total FY Water Treated By Source:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flow (AF)</td>
</tr>
<tr>
<td>SDCWA Raw - State Project/Colorado</td>
</tr>
<tr>
<td>5,398.6</td>
</tr>
<tr>
<td>Local Water (LH and SDR)</td>
</tr>
<tr>
<td>3,183.3</td>
</tr>
<tr>
<td>SDCWA Treated (Skinner/Twin Oaks/Desal)</td>
</tr>
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<td>0.0</td>
</tr>
</tbody>
</table>

End of the Month Local Water Balances and Monthly Water Transfers Out of San Diego County Water Authority’s Emergency Storage Project (ESP)

<table>
<thead>
<tr>
<th>End of the Month Balances Thru December 1, 2019</th>
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</thead>
<tbody>
<tr>
<td>Olivenhain Reservoir</td>
</tr>
<tr>
<td>Lake Hodges</td>
</tr>
<tr>
<td>SFID and SDWD Combined Storage</td>
</tr>
<tr>
<td>0 AF</td>
</tr>
<tr>
<td>2,000.22 AF</td>
</tr>
<tr>
<td>SFID Storage</td>
</tr>
<tr>
<td>0 AF</td>
</tr>
<tr>
<td>1,146.72 AF</td>
</tr>
<tr>
<td>City of San Diego</td>
</tr>
<tr>
<td>0 AF</td>
</tr>
<tr>
<td>1,944.93 AF</td>
</tr>
<tr>
<td>San Diego County Water Authority</td>
</tr>
<tr>
<td>20,820 AF</td>
</tr>
<tr>
<td>9,011.1 AF</td>
</tr>
</tbody>
</table>
Treated Water Quality:
SFID and SDWD had no water quality complaint calls during December 2019. All treated water supplied to SFID and SDWD customers, during December 2019, complied with state and federal drinking water standards.

Routine Plant Maintenance/Plant Off-line:
During the last week in January and first week in February 2020, the R. E. Badger Filtration Plant will be removed from service due to the SDCWA fifteen day shut down on Pipeline 5 which is the Plant’s raw water aqueduct connection. Plant staff will use this opportunity for routine cleaning, inspection and maintenance activities. During this time, customers of SFID and SDWD will receive treated water purchased from the SDCWA.

Submitted By: Elijah Standing Warrior, Chief Plant Operator
Reviewed By: Timothy Bailey, Water Treatment Plant Manager
Approved By: Albert C. Lau, P.E., General Manager
Figure 1 is a cumulative FY 2020 source water detail in acre feet. Fiscal year to date, Imported Raw Water accounts for 63% of the District’s total water supply. Local Water accounts for 31% of the District’s total water supply, and Recycled Water accounts for the remaining 6%.

Figure 2 provides a monthly detail of FY 2020 source water in acre feet. The total District water deliveries for the month of December 2019 were 313.8 Acre Feet (AF). The District’s residential gallons-per-capita-per-day (r-gpcd) for the month was 143.8.
Staff has been monitoring the potable water demands of the District and comparing them to previous years, including the District’s goal of 11,486 AF by the year 2020 (20 x 2020 goal). The 20 x 2020 Water Conservation Plan sets forth a statewide road map to maximize the state’s urban water efficiency and conservation opportunities to achieve a 20 percent reduction in per capita urban water use statewide by 2020. Figure 3 below illustrates the District’s potable water demands for fiscal years 2007, 2018, 2019 and 2020.

- Fiscal Year 2007: Highest Potable Water Demands Recorded by SFID
- Fiscal Year 2018: Potable Water Demands Two Years Ago
- Fiscal Year 2019: Previous Fiscal Year Potable Water Demands
- Fiscal Year 2020: Current Fiscal Year Potable Water Demands
ROLL CALL - CALL MEETING TO ORDER

President Hogan called the meeting to order at 8:30 a.m.

BOARD MEMBERS PRESENT: President Michael Hogan and Directors Marlene King and Andy Menshek

BOARD MEMBERS ABSENT: Vice President Kenneth Dunford and Director David Petree*

*Director Petree arrived at 8:35 a.m.

STAFF AND OTHERS PRESENT: General Manager Albert Lau, Executive Assistant Kim Johnson, Administrative Services Manager Seth Gates, Engineering Services Manager Bill Hunter, Distribution System Manager Chris Bozir, Water Treatment Plant Manager Tim Bailey, Associate Civil Engineer Marissa Potter, Public Communications Officer Mary Montgomery, General Counsel Paula de Sousa, Best Best & Krieger, and members of the public were present. Also present was Ken Pun, the Pun Group.

PLEDGE OF ALLEGIANCE

President Hogan led the Pledge of Allegiance.

ITEMS TO BE ADDED TO THE AGENDA – None

President Hogan reported Closed Session Items 18, 19, and 20 would be considered immediately following Item 1, and Item 21 would not be considered by the Board. He also reported the San Diego County Water Authority has a Special Board meeting beginning at 9:00 a.m. today and he needs to leave as soon as the Closed Session items have been discussed.
ORAL COMMUNICATIONS

Chuck Badger commented that while the efforts to work with the San Diego County Water Authority are appreciated, the District’s ag program fees are unsatisfactory. He also compared the ag rate offered by Olivenhain Municipal Water District and noted that the OMWD staff works to help ag customers, while SFID has an adversarial position.

*Director Petree arrived at 8:35 a.m.*

Ben Benumof reported that the RSFA is concerned that Vice President Kenneth Dunford is no longer living in the community, does not intend to continue living in the community, and states it is fundamentally unfair to have Director Dunford vote on water rates on January 16, 2020. He added that dialog is sought with the District prior to the January 16, 2020 meeting.

President Hogan commented that the annual fee charged to ag customers is included on the Fees and Charges Schedule in the District Administrative Code and will be reviewed in the future.

PRESENTATIONS AND AWARDS

1. Adopt Resolution No. 19-13, Recognizing, Honoring, and Commending William G. Hunter, Engineering Services Manager, for Outstanding Service to the Santa Fe Irrigation District

   GM Lau introduced Mr. Hunter, provided comments on Mr. Hunter’s long and remarkable service to the District. President Hogan also made comments about his long relationship with Mr. Hunter and thanked him for his dedication and service.

   Director Menshek commented he felt Mr. Hunter is a stellar individual and thanked him for his service, most recently as Interim General Manager during the recruitment process.

   Director King commented that she observed his interaction with employees on several occasions and felt he “provided wonderful glue” for the organization and it is clear to her that the affection the employees have for him.

   Director Petree commented that Mr. Hunter’s presentations were always well done and it has been a pleasure working with him.

   GM Lau introduced Rania Amen who was selected as the new Engineering Services Manager and she will start on January 6, 2020.

   A motion was made by President Hogan and seconded by Director Mensheek to adopt Resolution No. 19-13, Recognizing, Honoring, and Commending William G. Hunter, Engineering Services Manager, for Outstanding Service to the Santa Fe Irrigation District. Roll call vote was taken as follows:
Ayes: King, Menshek, Petree, and Hogan
Noes: None
Abstain: None
Absent: Dunford

ITEMS TAKEN OUT OF ORDER
CLOSED SESSION

18. Conference with Legal Counsel- Existing Litigation
   Pursuant to Government Code Section 54956.9 (d)(1)
   Rancho Santa Fe Association v Santa Fe Irrigation District
   Case No. 37-2018-00064214-CU-MC-NC

19. Conference with Legal Counsel – Existing Litigation
   Pursuant to Government Code Section 54956.9 (d)(1)
   Rancho Del Lago Homeowners’ Association v Santa Fe Irrigation District, San Dieguito
   Water District, County of San Diego, San Diego County Flood Control District
   Case No. 37-2019-00047074-CU-OR-NC

20. Conference with Legal Counsel- Anticipated Litigation
   Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of
   Government Code Section 54956.9
   One (1) potential case

President Hogan adjourned into Closed Session at 8:51 a.m.
President Hogan reconvened into Open Session at 9:08 a.m. and reported no reportable
actions were taken in Closed Session.

ACTION AGENDA
CONSENT ITEMS

2. Approval of Minutes - November 21, 2019 Regular Board Meeting
3. Receive and File Monthly Finance Reports
   a. Budget Performance
   b. Disbursements
   c. Monthly Investment Transaction Report
4. Cast District Vote for 2019 LAFCO Special Districts Advisory Committee
5. Authorize the General Manager to Execute Professional Services Agreement with Kleinfelder
   Inc. for Structural Concrete Condition Assessment for the R.E. Badger Filters and
   Sedimentation Basins Concrete Repair Project J-2051
6. Approve Budget Amendment and Authorize the General Manager to Execute a Purchase
   Contract for Valve Maintenance Flat Bed Truck & Associated Valve Maintenance Machine
7. Actions related to the Construction of the Automated Metering Program Phase 5 (Project J-
   2000)
   a. Authorize the General Manager to Execute Construction Contract for the Automated
      Metering Program Phase 5 Project J-2000 with Aqua Metric; and
b. Adopt Resolution No. 19-14, Finding the Automated Metering Program Phase 5 Project Categorically Exempt under the California Environmental Quality Act and Approving the Project; and
c. Authorize the General Manager to Execute a Purchase Order with Armorcast Products Company for new meter box lids to accommodate the Automated Metering Program Phase 5 Project J-2000

President Hogan requested to consider Item 4 separately from the Consent Calendar.

Upon a motion by Director King and second by Director Menshek, the Board unanimously adopted the Consent Calendar as amended.

4. Cast District Vote for 2019 LAFCO Special Districts Advisory Committee

President Hogan recommended casting the District vote for the recommended candidates with the exception of Mark Robak; thereby, voting for 7 candidates instead of 8.

Upon a motion by President Hogan and second by Director Menshek, the Board voted 4-0 to cast the District vote for the recommended candidates except Mr. Robak.

*President Hogan left the meeting at 9:10 a.m.*

GC de Sousa directed the Board to appoint an acting President in Mr. Hogan’s absence. Upon a motion by Director Menshek and second by Director Petree, the Board voted 3-0 to appoint Director King as acting President for the remainder of the meeting. (Dunford and Hogan absent)

**ACTION AND DISCUSSION ITEMS**


ASM Gates introduced the item and discussed the competitive process which resulted in the Pun Group’s selection as the new District auditors. Mr. Gates introduced Ken Pun, the Pun Group, who utilized a PowerPoint presentation to report the findings in the audit which provided the District with an unmodified (clean) opinion on the financial statements.

After discussion, a motion was made by Director Menshek, seconded by Director Petree, to accept the FY2019 CAFR. Motion passed 3-0 (Dunford and Hogan absent).

9. Receive and File FY2019 Reserve Fund Balance Reconciliation

ASM Gates introduced the item and responded to questions from the Board. He reported that staff will return to the Administrative and Finance Committee, then the Board, with recommended revisions to the Reserve Fund Policies in the first quarter of 2020.

Upon a motion by Director King and second by Director Menshek, the Board voted 3-0 to receive the FY2019 Reserve Fund Balance Reconciliation. (Dunford and Hogan absent)
DIRECTORS’ COMMENTS

10. Directors’ Comments

Director King discussed ag rate customers and irrigation rate customers and what she believes to be inequities in their treatment compared to recycled water customers, which are restricted to the District’s western service area. Ms. King commented on the District pass throughs of the recycled water costs from the San Elijo Joint Powers Authority, limiting the District revenue to meter fees only. She feels the District is responsive to recycled water customers but not the ag customers.

Director King also commented on rate increases she calculated to be 14-16% based upon 50 hcf and feels the proposed reduction is correcting prior inaccuracies. She requests the ag customers, irrigation customers, and recycled water customers be treated with equal consideration when the fee schedule is reviewed and she supports reducing or eliminating the annual fee charged to ag customers.

11. Directors’ Reports on Conferences, Activities, and Events - None

REPORTS

12. Operations Reports
   a. R.E. Badger Filtration Plant Report
   b. Water Resources Report

These reports were for the Board’s information only. No action was requested or required of the Board. Director King noted an inaccuracy between the narrative on the Water Resources Report versus the pie chart. GM Lau responded that it would be reviewed by staff and revised as necessary.

13. San Diego County Water Authority Board Meeting Report – President Hogan

The written report was included with the agenda materials.

14. Committee Reports

The Committee Reports were included with the agenda materials.

15. General Manager’s Report – GM Lau reported on the following

- He wished everyone Happy Holidays.
- He reported that discussions continue with all parties regarding the status of Lake Hodges and that the City of San Diego moved 1500 AF to Olivenhain storage to manage
the Lake level as required by the Department of Safety of Dams. He noted that the
current Operations Plan is working well.
- The District has assisted the City of Poway during their boil water event and the City of
Poway City Manager expressed their appreciation.

16. General Counsel’s Comments – None

INFORMATION ITEMS - None

CLOSED SESSION

17. Conference with Legal Counsel- Existing Litigation
Pursuant to Government Code Section 54956.9 (d)(1)
Rancho Santa Fe Association v Santa Fe Irrigation District
Case No. 37-2018-00064214-CU-MC-NC

18. Conference with Legal Counsel – Existing Litigation
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19. Conference with Legal Counsel- Anticipated Litigation
Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of
Government Code Section 54956.9
One (1) potential case

20. Conference with Legal Counsel- Anticipated Litigation
Initiation of litigation pursuant to paragraph (4) of subdivision (d) of
Government Code Section 54956.9
One (1) potential case

Items considered out of order. Please see minutes on Page 3.

ADJOURNMENT

Acting President King adjourned the meeting at 10:08 a.m.

__________________________        ____________________________
Michael T. Hogan           Albert C. Lau
Board President        Board Secretary/Treasurer
Dir. King’s Remarks at January 16, 2020 SFID Public Hearing on Rate Increases

The following remarks are made to further the long range interests of the District.

Transparency and the Prop. 218 Notice:

SFID’s Transparency statement on our website is as follows: “Santa Fe Irrigation District strives for transparency and accountability. SFID is committed to providing our customers and stakeholders publicly accessible, factual information that assists our stakeholders and members of the public in understanding how the District operates”.

I want to reiterate and increase emphasis on remarks I made at the November 2019 BOD meeting. Following the direction of President Hogan at our October 2019 Board meeting – that the proposed Prop 218 notice would be deliberately given to the Board members a week prior so that Board members could forward comments and concerns to staff prior to the November Board meeting - I gave staff a thoughtfully considered two page memo of corrections/suggestions and general comments on the draft Prop. 218 notice. Staff declined to follow any of my comments and suggestions, save for deigning to incorporate the three typos I brought to their attention.

- Staff specifically refused to add current rates to the rate charts, stating “…the proposition 218 notice was a work product of legal counsel. The 218 notice was also developed to be as layperson descriptive, but also include what is necessary from a legal/administrative record perspective. I’m sure you understand / can appreciate counsel’s concerns about litigation and need to make sure we have a thorough record.”

- Board members have a fiduciary responsibility to our customers. I take my fiduciary responsibility seriously. I did not cede the fiduciary responsibility I have to our customers to the law firm of Best, Best & Krieger.

- In preparing these remarks, I Googled “California Prop. 218 Notice”. I read through the Prop. 218 notices of the first ten water purveyors. All ten Prop. 218 notices clearly printed current rates alongside the proposed rate increases. Every. Single. Agency. Only Your agency refused to print current rates to assist our customers in comparing proposed rate structures to evaluate whether they might wish to file written protests and/or attend today’s hearing.

- The last page of the Prop. 218 notice stated one could go onto the SFID website to “…view dates/times for public workshops to learn more about this proposal and answer any questions.” There was ample space on the Prop 218 notice to conveniently print the dates/times/locations of these public workshops. (Those of you with good memories might recall that 2016’s Prop. 218 notice clearly stated the dates/times/location of three Workshops.)

SFID sent out a News Flash on December 5, 2019 stating “…will conduct a series of informational public meetings to discuss proposed water rate adjustments.” The December 5th email blast – sent only to email subscribers - announced two meetings, 5 and 6 days hence. (I happened to notice the posting of the two meetings, only to discover that the dates and days were incorrect.) One meeting resulted in two customers in attendance; the other had four customers. The website later posted a message that customers should continue to check in on the website for future meetings…as if our customers have nothing better to do than click onto the SFID website in the event staff was sufficiently organized to post future meeting dates. This is an unacceptable way to “strive for transparency and accountability”. A fact-sheet and a video were posted last Monday, 37 days after our customers received their 218 notice in the mail.

- SFID must strive to do better. We need to “walk the talk”. Future Prop. 218 notices need to provide an easy to understand discussion of current rates and proposed rates, and easy-to-understand rationale for requested rate increases. SFID must not repeat this inadequate communication with our customers under the guise of “counsel’s concerns about litigation…”

SFID set in motion the Prop. 218 process because the District’s Cost of Service Study states additional revenue is needed to fund District operations for years 2020 through 2022.
Question: what are the odds this rate proposal will actually yield the required additional revenue? The rate formula states there is a 50/50 chance each year the required 2500 AF of rainfall will fully fund the Tier 2 lowered rates. The formula also requires 500AF of pre-treated water when the treatment plant is down for repairs. Last year 57AF, not 500AF of treated water were used. Two years ago, 300AF of treated water were used; not 500AF.

The previous Prop. 218 notice in 2016 stated a revenue requirement of 9%, three years in a row, was needed to build up reserves to fund needed infrastructure improvements. Not only did revenues not rise as the Prop 218 notice said they would, reserve funds did not even stay level. Reserve funds have declined to such a degree since 2016 that this Cost of Service study before us states we need 3% revenue increases, three years in a row, to “prevent further significant declines in end of year reserve fund balances.” The COSS states “...with 3 percent revenue increases each year, this metric COULD begin to stabilize” days of cash on hand. Could. Not Will.

Rate Equity: To my mind, at the heart of the difficulties this District is and has encountered with rate design is what to do with our rights to Lake Hodges water. This current rate study is based on having 2500AF of Hodges water. The actual value of that water is $2,559,150. (That is the difference of the price to purchase and treat 2500 AF of imported water vs. the cost to treat local water at the Badger treatment plant.) Out of a yearly budget of $43,082,199, this “local water asset” of $2,559,150. – 6% of total budget - is the vexing issue.

I have stated at several Board meetings I fully support a low, “local water asset value” price for Tier 1 for Single Family Residence customers to cover their indoor usage. (The 2010 census data states persons/household in Solana Beach is 2.39; in Rancho Santa Fe, 2.61; and in Fairbanks Ranch, 2.86. The current proposed Tier 1 consumption value of 0 – 10 hcf is lower than the AB1668 requirement of 55 gpd. Solana Beach census data would indicate 0 – 11hcf is appropriate, with Rancho Santa Fe at 0-12hcf and Fairbanks Ranch at 0-13hcf. The proposed Tier 1 “local water asset value” is $830,008. The issue then is how to equitably distribute the remaining “local water asset value” of $1,729,142.

**I offer the following comments and concerns about rate design and rate equity:**

I do not agree with how Tier 2 is priced and designed. As Tier 2 is currently designed, easily a third of all single family residences have both their indoor AND all of their outdoor irrigation needs met by our local water asset. Those customers pay a significantly smaller percentage of District overhead costs because their properties are regular sized city lots. I do not agree that customers with regular sized city lots should pay a significantly smaller percentage of District overhead simply because the properties in the rural, hotter, Eastern service area are larger. This gets to the heart of what is “reasonable” water use. Just because a western division lot is generally smaller, therefore requiring less outdoor irrigation, that customer’s outdoor irrigation needs are no more “reasonable” than a customer in the eastern division who has a higher evaportranspiration rate and larger property size. The issue is whether both property owners are using water efficiently.

Best, Best & Krieger’s 37 page “Memo” to this rate hearing makes frequent reference that tiered rates provide price signals that result in conservation of water. My review of the last decade of water sales does not reveal any clear nexus between decreased water sales and increased tiered water rates. One can see a nexus between high rainfall years and decreased sales – a clear indication our customers have embraced water conservation by shutting off outdoor irrigation during high rainfall winters. Even during the most recent drought, with 2016 yielding only 811 AF of local water, MET and SDCWA provided District customers with all requested supply. The District is not in search of ever more expensive sources of water to fill customer demand. The District’s proposed water rates give the most modest of nods to conservation program spend. A careful review of the District’s budget can only draw the conclusion that if the customers this five-tier rate system is purportedly designed to discourage from using water, were to actually substantially reduce their water usage...who, then, would pay for the overhead? The city-sized lots in the western service area?

This District’s customer profile; property size profile; and meter size inventory is unusual...it is not the average meter size inventory that I understand the American Water Works Association M1 manual was based upon. Olivenhain Water District’s customer profile has 80% of their entire meter inventory in meters ¾” or smaller. San Dieguito Water District’s customer profile has 80% of their entire meter inventory in meters 5/8” or ¾”. Santa Fe Irrigation’s customer profile has only 49% of our entire meter inventory in meters ¾” or smaller. 49%, not 80%.

I am concerned about the proposed rates’ peaking factors being the American Water Works Association M1 manual fallback ratios of 1 times average day; 2 times maximum day; and 3 times maximum hour. The rate study references the 2016 Dexter Wilson Peaking Factors Memo #2. That memo makes numerous references to
"estimated" flow, "assumed delivery rate" from Larrick Reservoir. It references the 202 Zone peak hour factor of 3.38. Zone 202 covers all District customers west of Hwy 101 and an area of customers behind the Del Mar Fairgrounds. How is it equitable for customers with city-sized lots west of Hwy 101 to have all their water needs met with the cheapest local water when those customers' peak hour factor is 3.38? The Dexter memo had a most interesting sentence: "Assumed deliveries from Larrick Reservoir were added to the peak hour demand to estimate true deliveries to customers during the peak hour." Estimate true deliveries? LOTS of assumptions and estimates.

A reasonable person must question the new Tier 5 rate, adding an additional $1.10 to the overhead large property customers pay in tiers 3 and 4, ostensibly because that money is needed to maintain pipe diameter and pump size for their demand placed on the system. Badger was sized decades ago when District sales were upwards of 14,000 AF. Would prudent engineers design Badger and all our pumps and pipelines today to the same size given our 30% drop in demand?

I am particularly concerned with the newly proposed Tier 5, which only affects Single Family Residences, and is projected to apply to 30% of every SFR hcf sold: 18% of 5/8" & 3/4" meter hcf; 31% of every 1" meter hcf; 36% of every 1 1/2" meter hcf and 51% of every 2" and larger meter hcf. 61.6% of the extra-capacity allocation falls on those Tier 5 bills. By comparison, Olivenhain Municipal Water District, which adopted a new COSS last fall, designed their SFR Tier 4, their highest tier, to capture the top 10% of high volume customer bills.

Finally, I continue to be troubled by the proposed Agriculture/Irrigation rate, an increase of 16% over the current rate, and I am particularly troubled comparing SFID's proposed Irrigation rate to many local agencies' irrigation rates. The RSFA golf course is our District's top customer. Lomas Santa Fe Golf Course is our second highest use customer. The Lomas Executive Course is our third highest use customer. RSFA golf course has reduced its water use by 30% in the past 11 years; Lomas County Club reduced its water use by 27% in the last 11 years. The Executive course water usage has remained stable. These two largest golf clubs are clearly doing exactly what this District asks... investing in water efficient controllers and sprinklers. I am unaware if Lomas has removed turf, but anyone driving by the RSFA golf course clearly can see how the Association has reduced turf and changed its landscape design.

Our two largest customers have clearly invested additional dollars to significantly reduce their water usage, yet this District proposes to increase their rates 16% this year. Our sister agency, San Dieguito Water District's landscaping rate is the same rate as their Tier 3 domestic customers' rate. (Those accounts have four tiers.) Neighboring Olivenhain Water District has a two tier irrigation rate, 5.20/hcf for base and 5.57 if over base. Olivenhain establishes a Winter and Summer Allotment, based on meter size. For example, a 4" irrigation meter is expected to use a Winter Tier allotment of 600 hcf/month for December – May, while their Summer allotment for months June – November, is 3500 hcf/month. Helix Water District creates a water budget for their irrigation customers... no other customers have water budgets. Helix's irrigation rate acknowledges that irrigation customers' water needs vary greatly between winter and summer. Olivenhain and Helix are examples of Districts who appreciate, understand, and work cooperatively with their irrigation customers. The more I study SFID's proposed Ag./Irrigation rate, the more I am unable to get the word, "punitive", off my mind.

I began these lengthy remarks by stating they are made to further the long range interests of the District. I believe correcting the deficiencies of this year's Prop. 218 notice process can easily be achieved. The Board must exercise its fiduciary responsibility and direct staff to produce the next Prop. 218 notice in a manner that is comprehensive but easy to understand with current and proposed rates. It is a relatively simple exercise to review numerous Prop. 218 notices to determine where SFID's current notice fell short. I suggest checking out Long Beach Water's website. Long Beach Water's motto is: Exceptional Water; Exceptional Service. Long Beach Water really walks the talk and then some. They're fabulous!

So I’ve circled back to the question of how to equitably distribute the "local water asset value". As previously stated, local water amounts to 6% of this year's budget; excluding the proposed allotment to Tier 1 SFR rates, how to distribute the remaining 4% of this year's budget. This 6% or 4%, depending on your point of view, has resulted in our largest customers filing suit against this District. This District has had rights to Lake Hodges water for many decades. This District has had a uniform water rate, a two tier water rate, a three-tier water rate, but it was not until the 2016 rate proposal was being devised and eventually adopted were strong concerns clearly stated, over and over and over again, followed eventually by litigation. As I have stated before, I could easily support a two tier rate structure for domestic customers: Tier 1 0-12 at lowest local water cost rate for all domestic accounts, with the remaining local water asset value evenly distributed amongst all hcf's sold across all customer classes in the District.